



CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

The Stamford Hospital
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

The Stamford Hospital
Consolidated Financial Statements
and Other Financial Information
Years Ended September 30, 2010 and 2009

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Other Financial Information	
Consolidating Balance Sheet as of Years Ended September 30, 2010 and 2009	47
Consolidating Statements of Operations for the Years Ended September 30, 2010 and 2009.....	51
Consolidating Statements of Changes in Net Assets for the Years Ended September 30, 2010 and 2009.....	53
Schedules of Net Patient Service Revenue for the Years Ended September 30, 2010 and 2009.....	55

Report of Independent Auditors

The Board of Directors
The Stamford Hospital

We have audited the accompanying consolidated balance sheets of The Stamford Hospital (the “Hospital”) as of September 30, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Stamford Hospital at September 30, 2010 and 2009, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information and schedules of net patient service revenue are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

January 26, 2011

The Stamford Hospital
Consolidated Balance Sheets
(In Thousands)

	September 30	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,254	\$ 9,668
Assets limited as to use	176	1,243
Short-term investments	188	166
Patient accounts receivable (less allowance for uncollectible accounts of \$15,100 and \$15,400, respectively)	50,691	50,590
Other receivables	1,597	1,414
Pledges receivable	969	1,178
Inventories	4,742	5,144
Prepaid expenses	4,097	3,693
Due from third parties, current portion	3,941	2,899
Total current assets	115,655	75,995
Assets limited as to use:		
Held by captive insurance company	24,341	24,220
Long-term investments – endowments	8,033	7,797
Due from Parent – donor-restricted	18,642	18,642
Held by trustee – construction fund	6,895	–
	57,911	50,659
Long-term investments	52,063	45,779
Property, plant and equipment, net	239,321	210,727
Pledges receivable, net	–	916
Due from Parent and affiliates	759	24
Other assets:		
Deferred financing costs, net	2,158	893
Deposits and other noncurrent assets	49	385
Total other assets	2,207	1,278
Total assets	\$ 467,916	\$ 385,378

	September 30	
	2010	2009
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 4,413	\$ 6,003
Accounts payable	26,901	24,296
Salaries, wages and fees payable	10,547	9,118
Accrued vacation liability	15,476	14,698
Estimated third-party payor settlements, current	2,813	4,219
Estimated professional liabilities, current	6,414	6,675
Other accrued liabilities	7,304	5,702
Total current liabilities	<u>73,868</u>	<u>70,711</u>
Pension liability	80,204	63,748
Estimated third-party payor settlements, net of current portion	9,152	6,141
Long-term debt, net of current portion	130,114	110,395
Due to Parent – board designated	19,913	19,811
Due to Parent and affiliates	2,836	4,075
Estimated professional liabilities, net of current portion	24,157	25,793
Total liabilities	<u>340,244</u>	<u>300,674</u>
Commitments and contingencies		
Net assets:		
Unrestricted	100,144	56,506
Temporarily restricted	19,495	20,215
Permanently restricted	8,033	7,983
Total net assets	<u>127,672</u>	<u>84,704</u>
Total liabilities and net assets	<u><u>\$ 467,916</u></u>	<u><u>\$ 385,378</u></u>

See accompanying notes.

The Stamford Hospital
Consolidated Statements of Operations
(In Thousands)

	Year Ended September 30	
	2010	2009
Unrestricted revenue, gains and other support:		
Net patient service revenue	\$ 429,754	\$ 416,938
Other revenue	19,824	18,944
Grant – disproportionate share income	5,064	5,089
Grant income – other	891	1,069
Net assets released from restrictions for operations	2,980	2,936
Total unrestricted revenue, gains and other support	458,513	444,976
Expenses:		
Salaries	163,585	154,583
Employee benefits	44,482	33,982
Supplies and other expenses	146,807	145,624
Provision for bad debts	43,115	47,935
Depreciation and amortization	27,392	26,955
Interest expense	4,877	5,220
Total expenses	430,258	414,299
Income from operations	28,255	30,677
Non-operating gains and losses:		
Loss on advanced refunding	(1,347)	–
Investment returns	3,139	(2,447)
Change in net unrealized gains and losses	(211)	2,008
Change in fair value of derivative instrument	(251)	(218)
Total non-operating gains and losses	1,330	(657)
Excess of revenue over expenses	29,585	30,020
Net assets released from restrictions used for purchases of property and equipment	720	1,077
Net asset reclassification	–	(203)
Net equity transfer from (to) Stamford Health System	29,904	(42,059)
Pension-related changes other than net periodic pension cost	(16,571)	(45,023)
Increase (decrease) in unrestricted net assets	\$ 43,638	\$ (56,188)

See accompanying notes.

The Stamford Hospital

Consolidated Statements of Changes in Net Assets (In Thousands)

Years Ended September 30, 2010 and 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at September 30, 2008	\$ 112,694	\$ 23,159	\$ 6,898	\$ 142,751
Excess of revenue over expenses	30,020	–	–	30,020
Pension-related changes other than net periodic pension cost	(45,023)	–	–	(45,023)
Change in net unrealized gains and losses	–	403	–	403
Contributions	–	1,937	750	2,687
Equity transfer to Stamford Health System	(42,059)	–	–	(42,059)
Investment returns	–	(1,139)	–	(1,139)
Net assets released from restrictions for operations	–	(2,936)	–	(2,936)
Net assets released from restrictions used for purchases of property and equipment	1,077	(1,077)	–	–
Net asset reclassification	(203)	(132)	335	–
(Decrease) increase in net assets	<u>(56,188)</u>	<u>(2,944)</u>	<u>1,085</u>	<u>(58,047)</u>
Balance at September 30, 2009	56,506	20,215	7,983	84,704
Excess of revenue over expenses	29,585	–	–	29,585
Pension-related changes other than net periodic pension cost	(16,571)	–	–	(16,571)
Change in net unrealized gains and losses	–	(1)	–	(1)
Contributions	–	2,105	50	2,155
Equity transfer from Stamford Health System	29,904	–	–	29,904
Investment returns	–	876	–	876
Net assets released from restrictions for operations	–	(2,980)	–	(2,980)
Net assets released from restrictions used for purchases of property and equipment	720	(720)	–	–
Increase (decrease) in net assets	<u>43,638</u>	<u>(720)</u>	<u>50</u>	<u>42,968</u>
Balance at September 30, 2010	<u>\$ 100,144</u>	<u>\$ 19,495</u>	<u>\$ 8,033</u>	<u>\$ 127,672</u>

See accompanying notes.

The Stamford Hospital

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 42,968	\$ (58,047)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity transfer (from) to Stamford Health System	(29,904)	42,059
Pension-related changes other than net periodic pension cost	16,571	45,023
Net realized gains and losses and change in net unrealized gains and losses	(2,612)	803
Loss on advanced refunding	1,347	–
Restricted contributions	(2,155)	(2,687)
Loss on disposal of fixed assets	–	1,114
Change in fair value of derivative instrument	251	218
Restricted investment returns	(875)	736
Depreciation and amortization	27,392	26,955
Amortization of deferred financing fees	258	434
Amortization of bond premium	(28)	–
Provision for bad debts	43,115	47,935
Changes in operating assets and liabilities:		
Pledges receivable	1,125	982
Patient accounts receivable	(43,216)	(50,753)
Due from Parent and affiliates	(5,703)	(29,662)
Other operating assets	529	(1,281)
Other accrued liabilities	1,602	155
Accounts payable	2,605	4,000
Other operating liabilities	2,092	(2,344)
Estimated third-party payor settlements	563	1,226
Due to Parent and affiliates	(1,137)	3,405
Estimated professional liabilities	(1,897)	(7,383)
Net cash provided by operating activities	52,891	22,888
Cash flows from investing activities		
Capital expenditures, net	(21,182)	(15,551)
Net cash invested in assets limited as to use and investments	(9,879)	(3,025)
Net cash used in investing activities	(31,061)	(18,576)
Cash flows from financing activities		
Restricted contributions	2,155	2,687
Restricted investment returns	875	(736)
Principal payments on long-term debt	(117,047)	(33,476)
Cash paid for deferred financing fees	(2,219)	(97)
Purchase of derivative instrument	–	(554)
Proceeds from long-term debt	133,992	30,300
Net cash provided by (used in) financing activities	17,756	(1,876)
Net increase in cash and cash equivalents	39,586	2,436
Cash and cash equivalents, beginning of year	9,668	7,232
Cash and cash equivalents, end of year	\$ 49,254	\$ 9,668
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (exclusive of amounts capitalized)	\$ 4,461	\$ 5,615
Supplemental disclosure of noncash investing and financing activities		
Capital leases incurred	\$ 592	\$ –

See accompanying notes.

The Stamford Hospital

Notes to Consolidated Financial Statements (In Thousands)

September 30, 2010

1. Organization and Summary of Significant Accounting Policies

Organization

The Stamford Hospital (the “Hospital” or “TSH”) is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services on its main campus and outpatient urgent care, imaging and rehabilitation services on an off-campus site (the “Tully Center”). Stamford Health System (“SHS”), a tax-exempt corporation, is the sole member of the Hospital.

On November 29, 2002, the Hospital formed a wholly owned captive insurance company, Healthstar Indemnity Company, Ltd. (“Healthstar”), located in Bermuda. Healthstar was registered as a Class 1 Insurer, as defined under The Bermuda Insurance Act of 1978, effective October 9, 2003.

Consolidated Financial Statements

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. The consolidated financial statements include the accounts of the Hospital and Healthstar. All significant intercompany transactions and accounts have been eliminated.

Use of Estimates

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

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies

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. The Hospital routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Such amounts exclude cash and cash equivalents included in assets limited as to use and investments.

Inventories

Inventories are recorded at the lower of cost (first-in, first-out method) or market.

Marketable Securities and Alternative Investments

Investments represent a share of a pooled investment fund maintained by SHS. Alternative investments are defined as nontraditional, not readily marketable asset classes. Alternative investment holdings are structured as limited partnership interests or in other forms. Realized and unrealized gains and losses are included in determining the excess of revenue over expenses. For the years ended September 30, 2010 and 2009, TSH recorded gains and losses on unrestricted alternative investments of \$2,292 and (\$1,126), respectively, which is included in investment returns in the consolidated statements of operations. The alternative investments are recorded using the equity method of accounting. Individual investment holdings of such limited partnerships which hold the alternative investments may, in turn, include investments in both marketable and non-marketable securities. Marketable securities which are not considered alternative investments, such as equity and debt securities, and the holdings of private mutual funds are recorded at the fair value as quoted by the public markets. Marketable securities are classified as trading securities.

Ordinary income and net realized gains and losses of \$847 and (\$1,321) for the years ended September 30, 2010 and 2009, respectively, are included in investment returns in the consolidated statements of operations. The change in net unrealized gains and losses of (\$211) and \$2,008 for the years ended September 30, 2010 and 2009, respectively, is recorded in the excess of revenue over expenses in the consolidated statements of operations.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Valuations of investments not readily marketable may be determined by the investment manager or general partner. “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 investment value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose SHS to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. While these financial instruments may contain varying degrees of risk, the risk of SHS with respect to such transactions is limited to its capital balance in each investment. Certain amounts are subject to notification to allow for divestiture, while other amounts have divestiture provisions based only on termination of the fund. The financial statements of the investees are audited annually by independent auditors. At September 30, 2010 and 2009, SHS, for the account of the Hospital, has future commitments of \$592 and \$759, respectively, to invest in alternative investments.

Investment Returns

Unrestricted investment returns (including realized and unrealized gains and losses on marketable securities, interest and dividends and realized and unrealized gains and losses on alternative investments) are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

Interest Rate Cap Agreements

Interest rate cap agreements are reported at fair value, which incorporates an estimate for the impact of counterparty nonperformance risk. Changes in fair value of interest rate cap agreements are recorded in the excess of revenue over expenses in the consolidated statements of operations. TSH terminated its interest rate cap agreements as part of the 2010 debt refinancing (see Note 8).

Assets Limited as to Use

Assets limited as to use include amounts for professional liabilities, endowments, assets limited by donor restriction and assets held by trustee for construction. Amounts to be used to fund current liabilities are reported as current assets.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Due from Parent

Donor-restricted balances are held by SHS on behalf of the Hospital. These assets include marketable securities, corporate bonds, government obligations, alternative investments and cash.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, in the case of gifts, at fair value at the date of the gift, less accumulated depreciation and amortization. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations and leasehold improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment or leasehold improvement. Interest cost incurred on borrowed funds, net of interest earned on such funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Estimated useful lives by classification are as follows:

Land improvements	3 to 20 years
Buildings and improvements	5 to 40 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years
Leasehold improvements	3 to 15 years

Deferred Financing Costs

Costs incurred in connection with the issuance of bonds are amortized over the lives of the bonds using the effective interest method. At September 30, 2010 and 2009, the accumulated amortization for deferred financing costs was \$61 and \$2,267, respectively. In 2010, TSH issued State of Connecticut Health and Educational Facilities Authority (“CHEFA”) Revenue Bonds, Series I Bonds (see Note 8). The CHEFA Revenue Bonds, Series F and G, were defeased and fully refunded in May 2010 and the applicable remaining bond costs of \$727 were written off during the year ended September 30, 2010. CHEFA Revenue Bonds, Series H, were defeased and fully refunded in May 2009 and the applicable remaining bond costs of \$205 were written off during the year ended September 30, 2009. Amortization is included in interest expense in the consolidated statements of operations.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Hospital has been limited by donors to a specific time period or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Consolidated Statements of Operations

For the purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as unrestricted revenue, gains and other support and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses and consist primarily of the investment returns and the loss on advance refunding.

The consolidated statements of operations include the excess of revenue over expenses as the performance indicator. Consistent with industry practice, permanent transfers of assets and liabilities to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, and contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purposes of acquiring such assets) are excluded from the Hospital's performance indicator.

Accounts Receivable for Services to Patients and Net Patient Service Revenue

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

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Contributions

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value at the date the gift becomes unconditional. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Temporarily restricted net assets are available for certain health care services as defined in the donor agreements. Income earned from these funds that is unrestricted is included in investment returns in the accompanying consolidated statements of operations. Income earned from these funds that is restricted by donor or law is included as a component of temporarily restricted net assets in the accompanying consolidated statements of changes in net assets.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Estimated Professional Liabilities

Insurance reserves represent estimated unpaid losses and loss adjustment expenses. Such amounts are established using management's estimates on the basis of claims records and an independent actuarial review and include an amount for the adverse development of reported claims. Adjustments to the estimate of the liability for losses are reflected in earnings in the period in which the adjustment is determined. The insurance reserves are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liabilities may vary significantly from the amount provided.

Income Taxes

The Hospital is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and its related income is not subject to federal or state income taxes.

Advertising Costs

The Hospital expenses advertising costs as incurred. For the years ended September 30, 2010 and 2009, advertising costs totaled approximately \$1,600 and \$2,100, respectively.

Pension Plan

The policy of the Hospital is to fund amounts as necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA").

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Community Benefit and Charity Care

The Hospital is committed to providing health care services to the community. The Hospital identifies community needs in a number of ways, including through data provided by either government or nonprofit organizations, as well as through involvement in a number of organizations such as Stamford Partnership, United Way, and West Side Neighborhood Revitalization Zone. All of these efforts rely on a strong relationship management philosophy that grows and evolves over time. In Darien, for example, the Hospital helped the town assess its public health needs by sponsoring a Community Needs Assessment; when the town determined it needed a full-time health director, the Hospital helped support the position. In Stamford, the Hospital has worked closely with the health director on several initiatives, including Stamford Walks and Hands Only CPR, an outgrowth of the successful establishment of the city as a state-designated HeartSafe Community.

The Hospital provides a variety of programs that benefit the community – both prevention and wellness, as well as disease-specific. Kid’s Fitness and Nutrition Services (KidsFANS) is a Stamford Hospital led community collaborative designed to promote smart eating, physical activity and healthy weight among our children. In partnership with the Stamford Youth Foundation, the Hospital works with local schools and community centers to provide ongoing children’s fitness and nutrition programs. The Mobile Wellness Program offers mammography and bone density screenings on a state-of-the-art coach to corporations, community organizations, churches, schools and the underserved. Over the past year, the Hospital has provided thousands of free health screenings (blood pressure, cholesterol, glucose, cardiac risk assessment) at hundreds of health fairs and events throughout the community. Physicians and other health professionals also offer services at community health fairs and speak to various community groups and organizations on health related topics, ranging from stress and pain management to heart disease and joint replacement.

The Hospital maintains records to identify and monitor the level of charity care it provides. Charges foregone for these services, based on its established rates pursuant to the requirements of the State of Connecticut, were approximately \$23,000 and \$12,000 for the years ended September 30, 2010 and 2009, respectively.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Community Benefit and Charity Care (continued)

The State of Connecticut distributes funds from its Uncompensated Care Pool to the Hospital based on a formula that includes the provision for bad debts, net of recoveries, and free care, also described as charity care. The following table sets forth the total of bad debt and charity care for the years ended September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Provision for bad debts – net of recoveries	\$ 43,115	\$ 47,935
Charity care	23,197	11,910
Total	<u>\$ 66,312</u>	<u>\$ 59,845</u>

For distributions from the Uncompensated Care Pool, the Hospital recognized grant-disproportionate share income of \$5,064 and \$5,089 for the years ended September 30, 2010 and 2009, respectively.

3. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The classification of patients of the Hospital under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Medicare cost reports of the Hospital have been audited and finalized by the Medicare fiscal intermediary through the year ended September 30, 2006.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

3. Net Patient Service Revenue (continued)

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of the Hospital for 2007 and prior have been tentatively settled. All Medicaid cost reports are subject to audit and finalization by the State of Connecticut.

The Hospital also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge or day of hospitalization and discounts from established charges.

Gross patient charges for services at established rates before the effect of the contractual arrangements described above were \$1,288,626 and \$1,157,017 for the years ended September 30, 2010 and 2009, respectively.

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

There are various proposals at the Federal and state levels that could, among other things, change payment rates. The ultimate outcome of these proposals and other market changes cannot presently be determined.

During the years ended September 30, 2010 and 2009, approximately \$548 and \$995, respectively, of previously recorded estimated third-party payor settlement liabilities were no longer considered necessary and were included as increases in net patient service revenue.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

3. Net Patient Service Revenue (continued)

The percentages of net patient service revenue received from various third-party payors and patients were as follows for the years ended September 30, 2010 and 2009:

	2010	2009
Medicare	21%	20%
Medicaid	5	7
Managed care organizations	41	40
Other third-party payors	27	25
Self-pay	6	8
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and/or exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material effect on the accompanying consolidated financial statements.

4. Assets Limited as to Use and Investments

Assets limited as to use and investments are stated at fair value, except for alternative investments which are recorded using the equity method of accounting as described in Note 1.

Assets Limited as to Use

The composition of assets limited as to use (exclusive of amounts held by SHS; see Note 1) at September 30, 2010 and 2009 is as follows:

	2010	2009
Current portion:		
Cash and cash equivalents	\$ 176	\$ 260
Government securities	-	983
	\$ 176	\$ 1,243

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

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

	2010	2009
Held by captive insurance company:		
Cash and cash equivalents	\$ 11,013	\$ 9,298
Mutual funds	5,661	7,659
Alternative investments – hedge funds	7,667	7,263
	\$ 24,341	\$ 24,220
 Long-term investments – endowments:		
Cash and cash equivalents	\$ 536	\$ 251
Government securities	2	3
Corporate bonds and other fixed income securities	8	9
Equity securities	–	2
Mutual funds	2,465	2,373
Alternative investments – hedge funds	3,159	3,326
Alternative investments – limited partnerships	1,346	1,327
Private mutual funds	517	506
	\$ 8,033	\$ 7,797
 Held by trustee – construction fund:		
Cash and cash equivalents	\$ 6,895	\$ –
	\$ 6,895	\$ –

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

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

The composition of investments at September 30, 2010 and 2009 is as follows:

	2010	2009
Short-term investments:		
Mutual funds	\$ 188	\$ 166
Long-term investments:		
Cash and cash equivalents	\$ 1,452	\$ 712
Government securities	6	8
Corporate bonds and other fixed income securities	23	23,597
Equity securities	–	4
Mutual funds	35,623	7,002
Alternative investments – hedge funds	9,408	9,321
Alternative investments – limited partnerships	4,010	3,717
Private mutual funds	1,541	1,418
	\$ 52,063	\$ 45,779

The policy of the Hospital is to classify investments as current or long-term based on the intended use of such investments.

Total returns on investments for the years ended September 30, 2010 and 2009 consist of the following:

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Ordinary income (interest and dividends)	\$ 316	\$ 208	\$ 524	\$ 364	\$ 112	\$ 476
Net realized gains and losses	531	304	835	(1,685)	(845)	(2,530)
Gains and losses from alternative investments	2,292	364	2,656	(1,126)	(406)	(1,532)
Investment returns	3,139	876	4,015	(2,447)	(1,139)	(3,586)
Change in net unrealized gains and losses	(211)	(1)	(212)	2,008	403	2,411
	\$ 2,928	\$ 875	\$ 3,803	\$ (439)	\$ (736)	\$ (1,175)

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

5. Pledges Receivable

Pledges are recorded at the net present value determined using a discount rate commensurate with the rate on U.S. Treasury obligations whose maturities correspond to the maturities of the pledges. At September 30, 2010 and 2009, pledges receivable consist of the following:

	2010	2009
Amounts expected to be collected in:		
Less than one year	\$ 1,020	\$ 1,240
One to five years	-	1,010
Less:		
Reserve for uncollectible pledges	51	112
Discount on pledges	-	44
Current portion	969	1,178
Pledges receivable, net	\$ -	\$ 916

6. Property, Plant and Equipment

Property, plant and equipment, at cost, and accumulated depreciation and amortization at September 30, 2010 and 2009 are summarized as follows:

	2010	2009
Land	\$ 38,587	\$ 2,482
Land improvements	3,889	3,934
Buildings and improvements	166,091	168,748
Fixed equipment	117,284	114,040
Movable equipment	172,523	163,429
Leasehold improvements	6,295	6,295
	504,669	458,928
Less accumulated depreciation and amortization	285,332	262,993
	219,337	195,935
Construction in progress	19,984	14,792
	\$ 239,321	\$ 210,727

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Property, Plant and Equipment (continued)

Included in property, plant and equipment are assets under capital leases which approximate \$592 at September 30, 2010 (\$525, net of accumulated amortization).

Depreciation and amortization expense for the years ended September 30, 2010 and 2009 was \$27,392 and \$26,955, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of approximately \$67 for the year ended September 30, 2010. Included in property, plant and equipment at September 30, 2010 and 2009 is \$383 and \$687, respectively, of interest capitalized during the construction process.

In May 2009, SHS submitted an application for a certificate of need with the State of Connecticut for The Master Facility Plan for the Hospital which includes the construction of a new six-level addition and central utility plant, modernization of the emergency department and other infrastructure improvements. The estimated project cost is \$223,000. Properties surrounding the Hospital campus were acquired in an effort to expand the area of the Hospital and to provide property for new parking facilities which was initially financed through a line of credit (see Note 8). During 2009, the Board of Directors and management determined in consultation with their attorneys that these properties and related demolition costs would be transferred to SHS in the amount of approximately \$33,073 and included as an equity transfer in the accompanying consolidated statement of operations as there was no expectation of repayment of amounts. The purchased properties and costs to demolish existing structures are classified as land, as purchases were made with the intention of demolishing any existing structures. In 2010, the Board of Directors of SHS approved the transfer of certain properties related to the Master Facility Plan to TSH. The deeds were legally transferred from SHS to TSH and an equity transfer of \$34,871, which includes related property demolition costs, was recorded in 2010. Construction in progress as of September 30, 2010 and 2009 includes approximately \$13,800 and \$8,300, respectively, spent mainly for architectural fees and other soft construction costs incurred during the planning phase of the Master Facility Plan.

In September 2010, TSH and SHS entered into an Exchange Agreement (“EA”) with the Housing Authority of City of Stamford (“HACS”). The EA provided for the exchange of certain properties between the parties. The EA was entered into as part of the TSH Master Facility Plan. The property exchange resulted in TSH recording as land value approximately \$5,322 for the properties transferred to HACS in exchange for their property. This transaction resulted in no gain or loss being recorded.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Property, Plant and Equipment (continued)

In addition, construction in progress for the year ended September 30, 2008 included leasehold improvements related to two projects in Norwalk and Darien, Connecticut. The space leased in Norwalk was to be used for physician offices, a health and fitness institute and hospital departments providing various medical services. Leasehold improvements of approximately \$1,000 were included in construction in progress at September 30, 2008. During 2009, it was determined that this project would not proceed. Accordingly, all costs incurred to date were fully expensed and included in supplies and other expenses in the accompanying consolidated statement of operations for the year ended September 30, 2009.

The second lease in Darien is being used by the Hospital to provide physical therapy services to patients. The Hospital rents space at this location as a subtenant of SHS. A cumulative amount of \$2,549 was spent by the Hospital on behalf of SHS through the year ended September 30, 2009 on leasehold improvements at this location. In 2009, the total value of these improvements was transferred to SHS as lessor.

7. Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Health care services:		
Purchase of equipment	\$ 898	\$ 1,060
Patient care	17,659	18,068
Health education	938	1,087
	<u>\$ 19,495</u>	<u>\$ 20,215</u>

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

7. Net Assets (continued)

Temporarily restricted net assets released from restrictions for operations were for the following purposes:

	2010	2009
Cancer Care	\$ 1,374	\$ 1,050
CICC Fund	–	626
Cancer Research Fund	435	360
Ziegler Fund	194	–
Da Vinci Surgical Fund	141	–
Cancer Center	121	138
Pastoral Care	–	96
Emergency Preparedness Fund	–	77
Healthcare Career Education Fund	78	–
Cusano Leadership Fund	–	71
Lauren Leslie Fund	–	69
Jaffe Family Fund	71	–
Memorial Fund	70	–
Others	496	449
	\$ 2,980	\$ 2,936

Temporarily restricted net assets released from restrictions for purchases of property and equipment were for the following purposes:

	2010	2009
Dr. H.K. Miller Fund	\$ 282	\$ –
Laboratory Fund	233	–
Jaffe Family Fund	123	–
Cusano Leadership Fund	–	443
Cardiac Center Fund	–	214
Cancer Care	–	82
CICC Fund	–	76
Others	82	262
	\$ 720	\$ 1,077

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

7. Net Assets (continued)

Permanently restricted net assets are restricted to investments to be held in perpetuity, the income from which is expendable to support health care services.

The Hospital follows the requirements of UPMIFA as they relate to its endowments. The Hospital's endowments consist of numerous individual funds established for a variety of purposes and consist solely of donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Hospital to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Hospital has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) accumulations to the permanent endowment 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 not classified in permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Hospital and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Hospital
- The investment policies of the Hospital

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

7. Net Assets (continued)

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity. Under these policies, the endowment and manager performance are evaluated against market indices and peer groups which provide meaningful benchmarks for monitoring the investment performance.

To satisfy its long-term rate-of-return objectives, the Hospital 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 Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The following table sets forth the changes to assets as they relate to the Hospital's endowments for the year ended September 30, 2010:

	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2009	\$ 1,378	\$ 7,983	\$ 9,361
Investment return (realized and unrealized)	820	–	820
Contributions	–	50	50
Appropriation of endowment assets for expenditure	(775)	–	(775)
Endowment assets, September 30, 2010	\$ 1,423	\$ 8,033	\$ 9,456

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

7. Net Assets (continued)

The following table sets forth the changes to assets as they relate to the Hospital's endowments for the year ended September 30, 2009:

	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2008	\$ 2,411	\$ 6,898	\$ 9,309
Investment return (realized and unrealized)	(613)	–	(613)
Contributions	–	750	750
Appropriation of endowment assets for expenditure	(420)	–	(420)
Transfers to endowment funds	–	335	335
Endowment assets, September 30, 2009	\$ 1,378	\$ 7,983	\$ 9,361

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Hospital to retain as a fund of perpetual duration. There were no significant deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2010 and 2009.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Long-Term Debt

Long-term debt at September 30, 2010 and 2009 consists of the following:

	September 30	
	2010	2009
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series I, payable in varying annual amounts with fixed interest rates varying from 3.00% to 5.00%, with the final payment due in 2030	\$ 133,965	\$ –
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series F, payable in varying annual amounts with fixed interest rates varying from 4.00% to 5.25%, with the final payment due in 2011 (defeased and fully refunded in 2010)	–	7,955
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series G, payable in varying annual amounts with fixed interest rates varying from 3.00% to 5.25%, with the final payment due in 2024 (defeased and fully refunded in 2010)	–	53,570
Wells Fargo Bank, N.A. line of credit bore interest at LIBOR plus .45% (70% at September 30, 2009), maturing June 2011 (paid off in 2010)	–	26,000
Wells Fargo Bank, N.A. loan bore interest at LIBOR plus 2.50% (2.75% at September 30, 2009) maturing May 2024 (paid off in 2010)	–	28,811
Capital lease obligations	525	–
City of Stamford, sewer connection fee loan, payable in annual installments through 2013 (non-interest bearing)	37	62
Total long-term debt	134,527	116,398
Less current portion	4,413	6,003
Long-term debt, excluding current portion	\$ 130,114	\$ 110,395

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Long-Term Debt (continued)

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series I (the "Series I Bonds") were issued on May 12, 2010 in the amount of \$132,990 for a term of 20 years. They were issued at a premium of \$1,002. As of September 30, 2010, accumulated amortization related to the bond premium was \$28. The Series I Bonds were used for the refunding of a portion of the Series F Bonds, all of the outstanding Series G Bonds and the refinancing of the loans from Wells Fargo Bank, N.A. The proceeds will also be used for financing architectural, engineering, site permitting, legal and planning costs relating to the Master Facility Plan. In addition, the proceeds will finance routine capital expenditures including, but not limited to, land acquisitions, renovations, planning activities and equipment purchases. The proceeds will also reimburse TSH for certain capital expenditures and certain costs of issuance of the Series I Bonds. The advanced refunding resulted in a loss on debt extinguishment of (\$1,347).

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series F (the "Series F Bonds") were issued on October 15, 1996 in the amount of \$23,645 for a term of 15 years. The proceeds were used for a replacement power plant consisting of boilers, chillers and related equipment and instruments and for the construction of an 18,000 square foot building. Proceeds were also used for the improvement of and equipment for the Engineering, Information System, Lab and Diagnostic Radiology departments. The Series F Bonds were defeased and fully refunded in 2010 as part of the TSH refinancing that occurred in May 2010.

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series G (the "Series G Bonds") were issued on March 1, 1999 in the amount of \$67,440 for a term of 25 years. The proceeds were used for the demolition of the old St. Joseph Medical Center and the construction of a four-story Ambulatory Care Center on the Strawberry Hill campus, commonly known as the Tully Center. The proceeds were also used to defease the older Series B and Series C bonds. The Series G Bonds were defeased and fully refunded in 2010 as part of the TSH refinancing that occurred in May 2010.

The Hospital entered into a loan agreement with Wells Fargo Bank, N.A. for \$29,300 in May 2009. The proceeds of the loan were used to defease and fully refund the Series H bonds. The loan bore interest at LIBOR plus 2.50%. The amount outstanding under this loan was \$28,811 as of September 30, 2009. Amounts outstanding were paid with proceeds from the Series I Bonds in 2010. In connection with the loan, in July 2009, the Hospital entered into an interest rate cap derivative instrument. Under the interest rate cap, the Hospital's maximum

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Long-Term Debt (continued)

interest rate was 1.50% through December 31, 2009 and 2.50% from January 1, 2010 through June 30, 2012. As described in Note 1, the interest rate cap was reported at its fair value of \$336 at September 30, 2009 and was included in other non-current assets in the consolidated balance sheet. The interest rate cap derivative instrument was terminated in 2010.

The Hospital entered into a line of credit agreement with Wells Fargo Bank, N.A. dated June 2, 2008 for \$30,000. The line of credit bore interest at LIBOR plus 0.45%. Fees on the outstanding balance under the letter of credit were payable annually at 1% of total amounts outstanding. There was \$26,000 outstanding as of September 30, 2009. Amounts outstanding were paid with proceeds from the Series I Bonds in 2010. In May 2010, the Hospital amended the line of credit to reduce the maximum principal amount from \$30,000 to \$15,000. There was no amount outstanding on the line of credit at September 30, 2010. Under this line of credit, the bank issued a maximum letter of credit to the Hospital for \$4,000.

SHS is the guarantor of all obligations of the Hospital with respect to the Series I Bonds and Wells Fargo Bank, N.A. line of credit.

The Hospital entered into two capital lease obligations in 2010 for medical equipment and information technology storage devices. The asset value for the two leases approximated \$592.

Scheduled principal payments on long-term debt are as follows:

	Loans Payable	Capitalized Leases	Total
Fiscal year:			
2011	\$ 4,315	\$ 98	\$ 4,413
2012	4,477	113	4,590
2013	4,649	130	4,779
2014	4,864	150	5,014
2015	5,092	34	5,126
Thereafter	110,605	–	110,605
Total minimum payments	134,002	525	134,527
Less current portion of long-term debt	4,315	98	4,413
Long-term debt, net of current portion	<u>\$ 129,687</u>	<u>\$ 427</u>	<u>\$ 130,114</u>

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

9. Retirement Benefits

Defined Benefit Pension Plan

SHS has two defined benefit pension plans (the “Plans”). The first plan (the “Plan”) covers employees and eligible employees of its affiliates who were employed as of August 1, 2002 and elected to continue earning future benefits after December 31, 2002 in the Plan. Benefits are based on age at retirement, years of credited service and average compensation for a specified period prior to retirement. The second is a Supplementary Executive Retirement Program (the “SERP”) covering certain employees which provides benefits to participants without regard to statutory limitations on the maximum amount of compensation which may be taken into account by, nor the maximum benefits which may be paid from, such plan. The SERP is unfunded.

Information in the accompanying consolidated financial statements relates to the portion of the retirement plans of the Hospital. The measurement date is September 30.

The Hospital recognizes in its consolidated balance sheet an asset, for a defined benefit postretirement plan’s overfunded status, or a liability, for a plan’s underfunded status; measures a defined benefit postretirement plan’s assets and obligations that determine funded status as of the end of the employer’s fiscal year; and recognizes the periodic change in the funded status of a defined benefit postretirement plan as a component of changes in unrestricted net assets in the year in which the change occurs.

Included in other changes in unrestricted net assets at September 30, 2010 and 2009 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	September 30, 2010		
	Plan	SERP	Total
Unrecognized prior service cost	\$ (16)	\$ –	\$ (16)
Unrecognized actuarial (loss) gain	(96,445)	64	(96,381)
	<u>\$ (96,461)</u>	<u>\$ 64</u>	<u>\$ (96,397)</u>

The Stamford Hospital

Notes to Consolidated Financial Statements (continued)
(In Thousands)

9. Retirement Benefits (continued)

	September 30, 2009		
	Plan	SERP	Total
Unrecognized prior service cost	\$ (23)	\$ —	\$ (23)
Unrecognized actuarial (loss) gain	(79,922)	119	(79,803)
	<u>\$ (79,945)</u>	<u>\$ 119</u>	<u>\$ (79,826)</u>

The prior service cost and actuarial loss included in changes in unrestricted net assets at September 30, 2010 and expected to be recognized in net periodic pension cost during the year ending September 30, 2011 are as follows:

	Plan	SERP
Prior service cost	\$ (6)	\$ —
Net loss	(9,161)	—

The Stamford Hospital

Notes to Consolidated Financial Statements (continued)
(In Thousands)

9. Retirement Benefits (continued)

The reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the Plans' assets for the years ended September 30, 2010 and 2009 are as follows:

	Plan		SERP		Total	
	2010	2009	2010	2009	2010	2009
Benefit obligation						
Benefit obligation,						
beginning of year	\$ 186,735	\$ 147,222	\$ 778	\$ 678	\$ 187,513	\$ 147,900
Service cost	3,184	2,750	–	–	3,184	2,750
Interest cost	11,042	10,499	46	48	11,088	10,547
Actuarial losses	23,626	31,382	48	60	23,674	31,442
Benefits paid	(5,867)	(5,118)	(15)	(8)	(5,882)	(5,126)
Benefit obligation, end of year	218,720	186,735	857	778	219,577	187,513
Plan assets						
Fair value of plan assets,						
beginning of year	123,765	123,751	–	–	123,765	123,751
Actual return on plan assets	8,775	(5,868)	–	–	8,775	(5,868)
Employer contributions	12,700	11,000	15	8	12,715	11,008
Benefits paid	(5,867)	(5,118)	(15)	(8)	(5,882)	(5,126)
Fair value of plan assets,						
end of year	139,373	123,765	–	–	139,373	123,765
Funded status	\$ (79,347)	\$ (62,970)	\$ (857)	\$ (778)	\$ (80,204)	\$ (63,748)

The weighted-average assumptions used in determining the pension and postretirement benefit obligations at September 30, 2010 and 2009 were as follows:

	Plan		SERP	
	2010	2009	2010	2009
Discount rate	5.25%	6.00%	5.25%	6.00%
Rate of compensation increase	3.50%	3.50%	–	–

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

9. Retirement Benefits (continued)

Net periodic pension cost and postretirement cost for the years ended September 30, 2010 and 2009 consist of the following components:

	Plan		SERP		Total	
	2010	2009	2010	2009	2010	2009
Service cost	\$ 3,184	\$ 2,750	\$ -	\$ -	\$ 3,184	\$ 2,750
Interest cost	11,042	10,499	46	48	11,088	10,547
Expected return on plan assets	(9,190)	(10,109)	-	-	(9,190)	(10,109)
Amortization of prior service cost	7	7	-	-	7	7
Amortization of actuarial loss	7,518	2,418	(7)	(27)	7,511	2,391
Net periodic pension cost	<u>\$ 12,561</u>	<u>\$ 5,565</u>	<u>\$ 39</u>	<u>\$ 21</u>	<u>\$ 12,600</u>	<u>\$ 5,586</u>

Weighted-average assumptions used in determining the net periodic pension and postretirement benefit costs for the years ended September 30, 2010 and 2009 were as follows:

	Plan		SERP	
	2010	2009	2010	2009
Discount rate	6.00%	6.25%	6.00%	6.25%
Expected long-term rate of return on plan assets	7.25	8.00	-	-
Rate of compensation increase	3.50	3.50	-	-

The expected long-term rate of return on plan assets assumption was based on expected real rates of return, plus inflation and less anticipated expenses paid from the trust. The expected rate of return selected was consistent with the range of historical returns and target percentages for various asset classes and with the Plan's desired investment return objectives.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

9. Retirement Benefits (continued)

The Plan's weighted average asset allocation at September 30, 2010 and 2009 is as follows:

	2010	2009
Equity securities	23%	22%
Fixed income securities	29	31
Alternative investments – limited partnerships	12	12
Alternative investments – hedge funds	28	32
Cash and cash equivalents	8	3
	100%	100%

The Plan's asset allocation provides the following asset allocation ranges:

	Target Allocation	Allocation Range
Equity securities	25%	15 – 35%
Fixed income securities	40	20 – 60
Alternative investments – limited partnerships	5	0 – 10
Alternative investments – hedge funds	30	20 – 40

Ordinarily, cash flows are used to maintain allocation percentages that are close to the target allocation percentages. If cash flows are not sufficient to maintain allocation percentages within the above ranges, the trustee and/or the Investment Subcommittee of the Finance Committee of the Board of Directors will adjust the allocations as soon as practicable.

Investment Strategy

SHS invests pension fund assets with standards of prudence and care established under ERISA solely for the purposes of meeting plan participants' future benefit payments as due. The fund is diversified among asset classes, investment management organizations and styles of management in order to improve performance and lessen investment risk. Liquidity needs of the fund are reviewed at least monthly.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

9. Retirement Benefits (continued)

Cash Flows

TSH expects to contribute approximately \$15,000 to the Plans during fiscal year 2011.

Future benefit payments by the Plans, reflective of expected future service, are expected to be paid as follows:

	Plan	SERP	Total
Fiscal year ending September 30:			
2011	\$ 6,724	\$ 26	\$ 6,750
2012	7,637	31	7,668
2013	8,486	33	8,519
2014	9,425	41	9,466
2015	10,497	56	10,553
2016 through 2020	66,893	341	67,234

At September 30, 2010 and 2009, SHS, for the account of the Hospital, has future commitments of \$1,448 and \$2,050, respectively, to invest in alternative investments included in the defined benefit plan assets.

Defined Contribution Plan

On January 1, 2003, SHS established a defined contribution plan (the "DC Plan"). Existing SHS employees and employees of its affiliates were given the option of foregoing future benefits under the Plan to earn future benefits in the DC Plan beginning on January 1, 2003 or continuing to earn future benefits under the Plan. The effect of the establishment of the DC Plan resulted in a curtailment for those participants that chose to forgo future benefits under the Plan. Included in employee benefit expenses in the accompanying consolidated statements of operations for the years ended September 30, 2010 and 2009 are \$4,963 and \$4,351, respectively, in pension contributions to the DC Plan.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

10. Professional Liability Insurance

The Hospital self-insured a portion of its professional liability insurance coverage through September 30, 2002. An excess coverage policy was retained through a third-party insurer for coverage in excess of the self-insured limits. This third-party insurer provides coverage limits to \$35,000 per occurrence and \$35,000 in the aggregate.

For the period from October 1, 1985 to October 1, 2002, the Hospital retained its self-insured portion of professional liability insurance risk internally and established an irrevocable trust (the "Trust") to manage the assets needed to cover the tail liability for claims and administrative costs. The tail liability results from events that have occurred, but have not yet been reported under the claims-made coverage. The actuarially determined tail liability of \$9,883 and \$10,178 is included in the estimated professional liabilities at September 30, 2010 and 2009, respectively. The deductible limits for the years covered under this Trust range from \$1,000 per occurrence and \$3,000 in the aggregate annually to \$3,000 per occurrence and \$9,000 in the aggregate.

Under the Trust agreement, Trust assets can only be used for payment of malpractice losses, related expenses and the cost of administering the Trust. The funds held by the trustee are invested in cash and short-term investments and recorded at fair value.

Assets of, and contributions to, the Trust are included in the non-current portion of assets limited as to use and the self-insured liability is included in the estimated professional liabilities in the accompanying consolidated balance sheets. There were no claims or expenses payable from the self-insured trust at September 30, 2010 or 2009. The Hospital expensed \$(342) and \$321 for professional liabilities self-insurance for the years ended September 30, 2010 and 2009, respectively.

Healthstar is responsible for the professional liability insurance claims of the Hospital beginning October 1, 2002 and is fully funded by the Hospital. Healthstar retains \$5,000 per occurrence. Healthstar underwrites Hospital professional liability for \$5,000 per occurrence (\$18,500 aggregate), commercial liability for \$2,000 per occurrence (\$4,000 aggregate), and other commercial general liability and employee benefit and terrorism liability risks at varying levels. Effective October 1, 2005, Healthstar wrote an excess of loss policy with the limit of \$35,000 in excess of the retained limits. This coverage is fully reinsured with third-party reinsurers and was renewed on October 1, 2008.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

10. Professional Liability Insurance (continued)

For the year ended September 30, 2010, the Hospital paid insurance premiums of \$9,078 to Healthstar, \$6,400 of which relates to the coverage under Healthstar and \$2,678 of which relates to the coverage reinsured with third-party reinsurers. Of the \$9,078 insurance premium payments, \$662 was paid by the Hospital on behalf of its affiliates.

For the year ended September 30, 2009, the Hospital paid insurance premiums of \$10,454 to Healthstar, \$8,314 of which relates to the coverage under Healthstar and \$2,140 of which relates to the coverage reinsured with third-party reinsurers. Of the \$10,454 insurance premium payments, \$564 was paid by the Hospital on behalf of its affiliates.

Healthstar employs the services of an actuary to estimate professional and general liabilities. As of September 30, 2010 and 2009, Healthstar's undiscounted estimated professional and general liabilities for claims and expenses are approximately \$20,688 and \$22,290, respectively. For the years ended September 30, 2010 and 2009, claims covered and expensed by Healthstar amounted to \$4,392 and (\$3,848), respectively.

11. Related Party Transactions

Amounts due to Parent and affiliates represent amounts due to related entities for expenses paid on the Hospital's behalf and are currently payable without interest. At September 30, 2010 and 2009, amounts due to affiliates totaled \$2,836 and \$4,075, respectively.

The Hospital leases certain real property from affiliates. Rent expense to affiliates for the years ended September 30, 2010 and 2009 is \$946 and \$888, respectively.

The Hospital provides professional services to its affiliates at varying amounts. Other revenues in the accompanying consolidated statements of operations include \$869 and \$1,009 earned from professional services provided to affiliates for the years ended September 30, 2010 and 2009, respectively. Amounts receivable from affiliates for professional services described above and other services were \$712 and \$24 at September 30, 2010 and 2009, respectively. During 2010 and 2009, the Hospital recorded equity transfers of \$4,967 and \$8,986, respectively, which represent amounts transferred to SHS to support ongoing operations of affiliates.

In 2010, the Board of Directors of SHS approved the transfer of certain properties related to the Master Facility Plan to TSH. The deeds were legally transferred from SHS to TSH and an equity transfer of \$34,871, which includes related property demolition costs, was recorded in 2010.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Related Party Transactions (continued)

During 2009, the Hospital transferred properties acquired totaling approximately \$33,073 to SHS as an equity transfer as described in Note 6.

Donor-restricted contributions are maintained in a pooled investment account at SHS. Amounts due from SHS for donor-restricted contributions were \$18,642 at September 30, 2010 and 2009.

Amounts due to SHS of \$19,913 and \$19,811 at September 30, 2010 and 2009, respectively, represent board designated items related to cash transfers made in the years ended September 30, 2001 through September 30, 2004 and certain investments held by the Hospital for SHS.

12. Commitments and Contingencies

Litigation

Various investigations, lawsuits and claims arising out of the normal course of operations are pending or on appeal against the Hospital. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management that the liabilities which may arise from such actions would not materially affect the consolidated financial position or results of operations of the Hospital.

Collective Bargaining Agreement

At September 30, 2010 and 2009, approximately 3% of employees of the Hospital were covered by a collective bargaining agreement. The agreement expires on September 30, 2011.

Hospital Clinics

On May 1, 2007, the Hospital transferred the management of its outpatient primary care clinics and behavioral clinic to Optimus Health Care, Inc. (“Optimus”), a federally qualified health center that operates clinical sites in Southwestern Connecticut, including Stamford. The agreement requires the Hospital to provide Optimus with a community benefit grant to cover operating costs of running the clinics. A grant of \$2,291 is to be paid annually over five years.

Concurrent with this agreement, the Hospital signed a five-year sublease with Optimus for the current location of the clinics at 1351 Washington Boulevard in Stamford, Connecticut.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

12. Commitments and Contingencies (continued)

Additionally, the Hospital signed a residency training program and leased providers agreement with Optimus under which certain primary care physicians and non-physician providers employed by the Hospital are leased to Optimus and under which the Hospital operates a multiple residency training program rotation at Optimus.

Legal Settlement

The Connecticut Attorney General (“AG”) had been conducting an informal investigation relating to the endowment fund and other charitable gifts (collectively, the “Charitable Assets”) donated to The Rehabilitation Center of Southwestern Connecticut, Inc. (“TRC”) and its predecessor companies. TRC was an affiliated corporation of SHS through which SHS provided various physical medicine and rehabilitation (“PM&R”) programs, as well as other services. In 2004, the TRC corporate entity was merged into TSH, with TSH continuing to provide the PM&R programs.

In accordance with the resulting settlement agreement, SHS has agreed to spend \$13,100, an amount which approximated the fair value of the real property and building on Palmers Hill Road that was also donated to TRC and included in the Charitable Assets, to support various medical rehabilitation services that correspond to the charitable purposes of TRC. This money will be expended by SHS over a ten-year period and will be spent for the benefit of SHS patients. In exchange, the AG has agreed that SHS may maintain or dispose of the Palmers Hill real property and any improvements thereon in any lawful manner it deems fit. SHS met this spending requirement for 2010 and 2009.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

13. Concentration of Credit Risk

The Hospital is located in Stamford, Connecticut. The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The proportion of net patient accounts receivable from various third-party payors and patients was as follows for the years ended September 30, 2010 and 2009:

	2010	2009
Managed care organizations	31%	29%
Medicare	15	16
Medicaid	5	11
All other insurers	20	15
Self-pay patients	29	29
	100%	100%

At September 30, 2010, all of the cash and cash equivalents of the Hospital were held in custodial accounts at three financial institutions. Management believes that credit risk related to these deposits is minimal.

14. Functional Expenses

The Hospital provides general health care services to residents within its geographic area. Expenses related to provision of these services for the years ended September 30, 2010 and 2009 are as follows:

	2010	2009
Health care	\$ 382,406	\$ 368,044
General and administrative	47,852	46,255
	\$ 430,258	\$ 414,299

15. Fair Value of Financial Instruments

As described in Note 1, on October 1, 2008, the Hospital adopted the methods to value its financial assets and liabilities at fair value, when applicable. For assets and liabilities required to

The Stamford Hospital

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Fair Value of Financial Instruments (continued)

be measured at fair value, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the Hospital follows a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

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

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

15. Fair Value of Financial Instruments (continued)

Financial assets, including the defined benefit plan assets, carried at fair value as of September 30, 2010 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 69,326	\$ —	\$ —	\$ 69,326
Government securities	8	—	—	8
Corporate bonds and other fixed income securities	31	—	—	31
Mutual funds	43,937	—	—	43,937
Private mutual funds	2,058	—	—	2,058
Defined benefit plan assets:				
Cash and cash equivalents	10,915	—	—	10,915
Government securities	27	—	—	27
Corporate bonds and other fixed income securities	33	—	—	33
Mutual funds	60,409	—	—	60,409
Private mutual funds	8,871	—	—	8,871
Partnerships	—	7,438	9,196	16,634
Hedge funds	—	39,292	3,192	42,484
	<u>\$ 195,615</u>	<u>\$ 46,730</u>	<u>\$ 12,388</u>	<u>\$ 254,733</u>

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

15. Fair Value of Financial Instruments (continued)

The following table sets forth a summary of changes in the fair value of the Hospital's Level 3 assets for the year ended September 30, 2010:

	Hedge funds	Partnerships	Total
Fair value at September 30, 2009	\$ —	\$ 8,604	\$ 8,604
Investment income, net of fees	—	(23)	(23)
Net realized losses	—	(639)	(639)
Unrealized gains relating to instruments held at reporting date	128	1,164	1,292
Purchases, sales, issuances and settlements, net	3,064	90	3,154
Fair value at September 30, 2010	<u>\$ 3,192</u>	<u>\$ 9,196</u>	<u>\$ 12,388</u>

The Hospital's investments in alternative investments are recorded using the equity method of accounting and are not subject to the fair value hierarchy described above.

The carrying values and fair values of the Hospital's financial instruments that are not required to be carried at fair value at September 30, 2010 are as follows:

	<u>Fair Value</u>	<u>Carrying Value</u>
Long-term debt	\$ 139,860	\$ 134,527

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

15. Fair Value of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 20,189	\$ —	\$ —	\$ 20,189
Government securities	994	—	—	994
Corporate bonds and other fixed income securities	31,265	—	—	31,265
Mutual funds	9,541	—	—	9,541
Equity securities	6	—	—	6
Private mutual funds	—	1,924	—	1,924
Interest rate cap	—	336	—	336
	<u>\$ 61,995</u>	<u>\$ 2,260</u>	<u>\$ —</u>	<u>\$ 64,255</u>

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The Hospital's investments in alternative investments are recorded using the equity method of accounting and are not subject to the fair value hierarchy described above.

The carrying values and fair values of the Hospital's financial instruments that are not required to be carried at fair value at September 30, 2009 are as follows:

	<u>Fair Value</u>	<u>Carrying Value</u>
Long-term debt	\$ 115,003	\$ 116,398

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) (In Thousands)

16. Operating Leases

The Hospital has entered into various agreements under noncancellable operating leases. Future minimum payments under noncancellable operating leases with initial or recurring terms of one year or more are as follows:

2011	\$ 6,688
2012	6,562
2013	6,643
2014	6,724
2015	6,674
Thereafter	<u>38,558</u>
Total minimum operating lease payments	<u>\$ 71,849</u>

Total non-affiliate rental expense charged to operations for the years ended September 30, 2010 and 2009 aggregated approximately \$5,279 and \$5,219, respectively.

Certain of the leases contain escalation clauses and free rental periods which are recorded as deferred rent within accounts payable in the consolidated balance sheets and amortized in rental expense over the life of the lease.

The Hospital additionally entered into various agreements under noncancellable operating leases with various tenants. Future minimum receipts under noncancellable leases with initial or recurring terms of one year or more are as follows:

2011	\$ 2,651
2012	2,720
2013	2,569
2014	2,246
2015	2,115
Thereafter	<u>10,404</u>
Total minimum operating lease income	<u>\$ 22,705</u>

Total non-affiliate rental income recorded in operations for the years ended September 30, 2010 and 2009 aggregated approximately \$2,554 and \$2,658, respectively.

The Stamford Hospital

Notes to Consolidated Financial Statements (continued) *(In Thousands)*

17. Subsequent Events

Subsequent events have been evaluated through January 26, 2011, the date the consolidated financial statements were available to be issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Other Financial Information

The Stamford Hospital
Consolidating Balance Sheet

September 30, 2010
(In Thousands)

	TSH	Healthstar	Eliminations	TSH Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 49,254	\$ —	\$ —	\$ 49,254
Assets limited as to use	176	—	—	176
Short-term investments	188	—	—	188
Patient accounts receivable, net	50,691	—	—	50,691
Other receivables	1,528	69	—	1,597
Pledges receivable	969	—	—	969
Inventories	4,742	—	—	4,742
Prepaid expenses	4,094	3	—	4,097
Due to third parties, current portion	3,941	—	—	3,941
Total current assets	<u>115,583</u>	<u>72</u>	<u>—</u>	<u>115,655</u>
Assets limited as to use:				
Held by captive insurance company	—	24,341	—	24,341
Long-term investments – endowments	8,033	—	—	8,033
Due from Parent – donor-restricted	18,642	—	—	18,642
Held by trustee – construction fund	6,895	—	—	6,895
	<u>33,570</u>	<u>24,341</u>	<u>—</u>	<u>57,911</u>
Long-term investments	36,046	27,925	(11,908)	52,063
Property, plant and equipment, net	239,321	—	—	239,321
Pledges receivable, net	—	—	—	—
Due from Parent and affiliates	2,246	—	(1,487)	759
Other assets:				
Deferred financing costs, net	2,158	—	—	2,158
Deposits and other noncurrent assets	49	—	—	49
Total other assets	<u>2,207</u>	<u>—</u>	<u>—</u>	<u>2,207</u>
Total assets	<u>\$ 428,973</u>	<u>\$ 52,338</u>	<u>\$ (13,395)</u>	<u>\$ 467,916</u>

The Stamford Hospital

Consolidating Balance Sheet (continued)

September 30, 2010

(In Thousands)

	TSH	Healthstar	Eliminations	TSH Consolidated
Liabilities and net assets				
Current liabilities:				
Current portion of long-term debt	\$ 4,413	\$ —	\$ —	\$ 4,413
Accounts payable	26,901	—	—	26,901
Salaries, wages and fees payable	10,547	—	—	10,547
Accrued vacation liability	15,476	—	—	15,476
Estimated third-party payor settlements, current	2,813	—	—	2,813
Estimated professional liabilities, current	—	6,414	—	6,414
Other accrued liabilities	7,138	166	—	7,304
Total current liabilities	67,288	6,580	—	73,868
Pension liability	80,204	—	—	80,204
Estimated third-party payor settlements, net of current portion	9,152	—	—	9,152
Long-term debt, net of current portion	130,114	—	—	130,114
Due to Parent – board designated	19,913	—	—	19,913
Due to Parent and affiliates	2,836	1,487	(1,487)	2,836
Estimated professional liabilities, net of current portion	9,883	14,274	—	24,157
Total liabilities	319,390	22,341	(1,487)	340,244
Net assets:				
Unrestricted	82,055	29,997	(11,908)	100,144
Temporarily restricted	19,495	—	—	19,495
Permanently restricted	8,033	—	—	8,033
Total net assets	109,583	29,997	(11,908)	127,672
Total liabilities and net assets	\$ 428,973	\$ 52,338	\$ (13,395)	\$ 467,916

The Stamford Hospital
Consolidating Balance Sheet

September 30, 2009
(In Thousands)

	TSH	Healthstar	Eliminations	TSH Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,668	\$ —	\$ —	\$ 9,668
Assets limited as to use	1,243	—	—	1,243
Short-term investments	166	—	—	166
Patient accounts receivable, net	50,590	—	—	50,590
Other receivables	1,076	338	—	1,414
Pledges receivable	1,178	—	—	1,178
Inventories	5,144	—	—	5,144
Prepaid expenses	3,690	3	—	3,693
Due from third parties, current portion	2,899	—	—	2,899
Total current assets	<u>75,654</u>	<u>341</u>	<u>—</u>	<u>75,995</u>
Assets limited as to use:				
Held by captive insurance company	—	24,220	—	24,220
Long-term investments – endowments	7,797	—	—	7,797
Due from Parent – donor-restricted	18,642	—	—	18,642
	<u>26,439</u>	<u>24,220</u>	<u>—</u>	<u>50,659</u>
Long-term investments	34,115	23,572	(11,908)	45,779
Property, plant and equipment, net	210,727	—	—	210,727
Pledges receivable, net	916	—	—	916
Due from Parent and affiliates	79	—	(55)	24
Other assets:				
Deferred financing costs, net	893	—	—	893
Deposits and other noncurrent assets	385	—	—	385
Total other assets	<u>1,278</u>	<u>—</u>	<u>—</u>	<u>1,278</u>
Total assets	<u>\$ 349,208</u>	<u>\$ 48,133</u>	<u>\$ (11,963)</u>	<u>\$ 385,378</u>

The Stamford Hospital

Consolidating Balance Sheet (continued)

September 30, 2009

(In Thousands)

	TSH	Healthstar	Eliminations	TSH Consolidated
Liabilities and net assets				
Current liabilities:				
Current portion of long-term debt	\$ 6,003	\$ —	\$ —	\$ 6,003
Accounts payable	24,296	—	—	24,296
Salaries, wages and fees payable	9,118	—	—	9,118
Accrued vacation liability	14,698	—	—	14,698
Estimated third-party payor settlements, current	4,219	—	—	4,219
Estimated professional liabilities, current	—	6,675	—	6,675
Other accrued liabilities	5,666	36	—	5,702
Total current liabilities	64,000	6,711	—	70,711
Pension liability	63,748	—	—	63,748
Estimated third-party payor settlements, net of current portion	6,141	—	—	6,141
Long-term debt, net of current portion	110,395	—	—	110,395
Due to Parent – board designated	19,811	—	—	19,811
Due to Parent and affiliates	4,075	55	(55)	4,075
Estimated professional liabilities, net of current portion	10,225	15,568	—	25,793
Total liabilities	278,395	22,334	(55)	300,674
Net assets:				
Unrestricted	42,615	25,799	(11,908)	56,506
Temporarily restricted	20,215	—	—	20,215
Permanently restricted	7,983	—	—	7,983
Total net assets	70,813	25,799	(11,908)	84,704
Total liabilities and net assets	\$ 349,208	\$ 48,133	\$ (11,963)	\$ 385,378

The Stamford Hospital
Consolidating Statement of Operations

Year Ended September 30, 2010
(In Thousands)

	TSH	Healthstar	Eliminations	TSH Consolidated
Unrestricted revenue, gains and other support:				
Net patient service revenue	\$ 429,754	\$ —	\$ —	\$ 429,754
Other revenue	18,546	7,678	(6,400)	19,824
Grant – disproportionate share income	5,064	—	—	5,064
Grant income – other	891	—	—	891
Net assets released from restrictions for operations	2,980	—	—	2,980
Total unrestricted revenue, gains and other support	<u>457,235</u>	<u>7,678</u>	<u>(6,400)</u>	<u>458,513</u>
Expenses:				
Salaries	163,365	—	220	163,585
Employee benefits	44,482	—	—	44,482
Supplies and other expenses	148,450	4,977	(6,620)	146,807
Provision for bad debts	43,115	—	—	43,115
Depreciation and amortization	27,392	—	—	27,392
Interest expense	4,877	—	—	4,877
Total expenses	<u>431,681</u>	<u>4,977</u>	<u>(6,400)</u>	<u>430,258</u>
Income from operations	25,554	2,701	—	28,255
Non-operating gains and losses:				
Loss on advance refunding	(1,347)	—	—	(1,347)
Investment returns	1,642	1,497	—	3,139
Change in net unrealized gains and losses	(211)	—	—	(211)
Change in fair value of derivative instrument	(251)	—	—	(251)
Total non-operating gains and losses	<u>(167)</u>	<u>1,497</u>	<u>—</u>	<u>1,330</u>
Excess of revenue over expenses	25,387	4,198	—	29,585
Net assets released from restrictions used for purchases of property and equipment	720	—	—	720
Equity transfer from Stamford Health System	29,904	—	—	29,904
Pension-related changes other than net periodic pension cost	(16,571)	—	—	(16,571)
Increase in unrestricted net assets	<u>\$ 39,440</u>	<u>\$ 4,198</u>	<u>\$ —</u>	<u>\$ 43,638</u>

The Stamford Hospital
Consolidating Statement of Operations

Year Ended September 30, 2009
(In Thousands)

	TSH	Healthstar	Eliminations	TSH Consolidated
Unrestricted revenue, gains and other support:				
Net patient service revenue	\$ 416,938	\$ —	\$ —	\$ 416,938
Other revenue	18,167	8,606	(7,829)	18,944
Grant – disproportionate share income	5,089	—	—	5,089
Grant income – other	1,069	—	—	1,069
Net assets released from restrictions for operations	2,936	—	—	2,936
Total unrestricted revenue, gains and other support	<u>444,199</u>	<u>8,606</u>	<u>(7,829)</u>	<u>444,976</u>
Expenses:				
Salaries	154,503	—	80	154,583
Employee benefits	33,982	—	—	33,982
Supplies and other expenses	156,925	(3,392)	(7,909)	145,624
Provision for bad debts	47,935	—	—	47,935
Depreciation and amortization	26,955	—	—	26,955
Interest expense	5,220	—	—	5,220
Total expenses	<u>425,520</u>	<u>(3,392)</u>	<u>(7,829)</u>	<u>414,299</u>
Income from operations	18,679	11,998	—	30,677
Non-operating gains and losses:				
Investment returns	(2,778)	331	—	(2,447)
Change in net unrealized gains and losses	2,008	—	—	2,008
Change in fair value of derivative instrument	(218)	—	—	(218)
Total non-operating gains and losses	<u>(988)</u>	<u>331</u>	<u>—</u>	<u>(657)</u>
Excess of revenue over expenses	17,691	12,329	—	30,020
Net assets released from restrictions used for purchases of property and equipment	1,077	—	—	1,077
Net asset reclassification	(203)	—	—	(203)
Equity transfer to Stamford Health System	(42,059)	—	—	(42,059)
Pension-related changes other than net periodic pension cost	(45,023)	—	—	(45,023)
(Decrease) increase in unrestricted net assets	<u>\$ (68,517)</u>	<u>\$ 12,329</u>	<u>\$ —</u>	<u>\$ (56,188)</u>

The Stamford Hospital

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2010

(In Thousands)

	TSH	Healthstar	Eliminations	TSH Consolidated
Excess of revenue over expenses	\$ 25,387	\$ 4,198	\$ –	\$ 29,585
Pension-related changes other than net periodic pension cost	(16,571)	–	–	(16,571)
Equity transfer from Stamford Health System	29,904	–	–	29,904
Net assets released from restrictions used for purchases of property and equipment	720	–	–	720
Increase in unrestricted net assets	39,440	4,198	–	43,638
Temporarily restricted net assets:				
Change in net unrealized gains and losses	(1)	–	–	(1)
Contributions	2,105	–	–	2,105
Investment returns	876	–	–	876
Net assets released from restrictions for operations	(2,980)	–	–	(2,980)
Net assets released from restrictions used for purchases of property and equipment	(720)	–	–	(720)
Decrease in temporarily restricted net assets	(720)	–	–	(720)
Permanently restricted net assets:				
Contributions	50	–	–	50
Increase in permanently restricted net assets	50	–	–	50
Increase in net assets	38,770	4,198	–	42,968
Net assets, beginning of year	70,813	25,799	(11,908)	84,704
Net assets, end of year	\$ 109,583	\$ 29,997	\$ (11,908)	\$ 127,672

The Stamford Hospital

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2009

(In Thousands)

	TSH	Healthstar	Eliminations	TSH Consolidated
Excess of revenue over expenses	\$ 17,691	\$ 12,329	\$ —	\$ 30,020
Pension-related changes other than net periodic pension cost	(45,023)	—	—	(45,023)
Equity transfer to Stamford Health System	(42,059)	—	—	(42,059)
Net assets released from restrictions used for purchases of property and equipment	1,077	—	—	1,077
Net asset reclassification	(203)	—	—	(203)
(Decrease) increase in unrestricted net assets	(68,517)	12,329	—	(56,188)
Temporarily restricted net assets:				
Change in net unrealized gains and losses	403	—	—	403
Contributions	1,937	—	—	1,937
Investment returns	(1,139)	—	—	(1,139)
Net assets released from restrictions for operations	(2,936)	—	—	(2,936)
Net assets released from restriction used for purchases of property and equipment	(1,077)	—	—	(1,077)
Net asset reclassification	(132)	—	—	(132)
Decrease in temporarily restricted net assets	(2,944)	—	—	(2,944)
Permanently restricted net assets:				
Contributions	750	—	—	750
Net asset reclassification	335	—	—	335
Increase in permanently restricted net assets	1,085	—	—	1,085
(Decrease) increase in net assets	(70,376)	12,329	—	(58,047)
Net assets, beginning of year	141,189	13,470	(11,908)	142,751
Net assets, end of year	\$ 70,813	\$ 25,799	\$ (11,908)	\$ 84,704

The Stamford Hospital

Schedule of Net Patient Service Revenue

Year Ended September 30, 2010

(In Thousands)

	TSH	Healthstar	Eliminations		TSH Consolidated
			Debit	Credit	
Gross revenue from patients	\$ 1,288,626	\$ -	\$ -	\$ -	\$ 1,288,626
Deductions:					
Contractual allowances	835,675	-	-	-	835,675
Charity care	23,197	-	-	-	23,197
	858,872	-	-	-	858,872
	<u>\$ 429,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 429,754</u>

The Stamford Hospital

Schedule of Net Patient Service Revenue

Year Ended September 30, 2009

(In Thousands)

	TSH	Healthstar	Eliminations		TSH Consolidated
			Debit	Credit	
Gross revenue from patients	\$ 1,157,017	\$ -	\$ -	\$ -	\$ 1,157,017
Deductions:					
Contractual allowances	728,169	-	-	-	728,169
Charity care	11,910	-	-	-	11,910
	<u>740,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>740,079</u>
	<u>\$ 416,938</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,938</u>

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