

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

The Stamford Hospital
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

The Stamford Hospital
Consolidated Financial Statements
and Other Financial Information
Years Ended September 30, 2011 and 2010

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	41
Consolidating Statement of Operations	45
Consolidating Statement of Changes in Net Assets.....	47
Schedule of Net Patient Service Revenue.....	49

Report of Independent Auditors

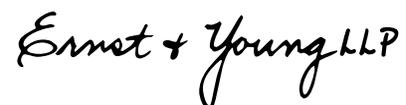
The Board of Directors
The Stamford Hospital

We have audited the accompanying consolidated balance sheets of The Stamford Hospital (the “Hospital”) as of September 30, 2011 and 2010, 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, 2011 and 2010, 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.

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

January 27, 2012

The Stamford Hospital
Consolidated Balance Sheets

	September 30	
	2011	2010
	<i>(In thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 82,011	\$ 49,254
Assets limited as to use	159	176
Short-term investments	276	188
Patient accounts receivable (less allowance for uncollectible accounts of \$18,140 and \$15,100, respectively)	62,118	51,552
Other receivables	5,763	736
Due from third parties, current portion	2,592	3,941
Other current assets	8,910	9,808
Total current assets	161,829	115,655
Assets limited as to use:		
Held by captive insurance company	25,977	24,341
Long-term investments – endowments	8,033	8,033
Due from Parent – donor-restricted	18,642	18,642
Held by trustee – construction fund	1,357	6,895
	54,009	57,911
Long-term investments	55,225	52,063
Property, plant and equipment, net	244,127	239,321
Due from Parent and affiliates	4,251	759
Other assets	2,561	2,207
Total assets	\$ 522,002	\$ 467,916

	September 30	
	2011	2010
	<i>(In thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 5,018	\$ 4,413
Accounts payable and accrued expenses	48,242	34,231
Salaries, wages and fees payable	10,173	10,547
Accrued vacation liability	16,031	15,476
Estimated third-party payor settlements, current	5,424	2,813
Estimated professional liabilities, current	4,830	6,414
Total current liabilities	<u>89,718</u>	<u>73,894</u>
Pension liability	91,954	80,178
Estimated third-party payor settlements, net of current portion	5,860	9,152
Long-term debt, net of current portion	130,025	130,114
Due to Parent – board designated	20,014	19,913
Due to Parent and affiliates	6,717	2,836
Estimated professional liabilities, net of current portion	28,965	24,157
Total liabilities	<u>373,253</u>	<u>340,244</u>
Commitments and contingencies		
Net assets:		
Unrestricted	122,054	100,144
Temporarily restricted	18,662	19,495
Permanently restricted	8,033	8,033
Total net assets	<u>148,749</u>	<u>127,672</u>
Total liabilities and net assets	<u>\$ 522,002</u>	<u>\$ 467,916</u>

See accompanying notes.

The Stamford Hospital
Consolidated Statements of Operations

	Year Ended September 30	
	2011	2010
	<i>(In thousands)</i>	
Unrestricted revenue, gains and other support:		
Net patient service revenue	\$ 484,060	\$ 436,167
Provision for bad debts	(47,360)	(43,115)
Net patient service revenue less provision for bad debts	436,700	393,052
Other revenue	21,567	19,366
Net assets released from restrictions for operations	2,397	2,980
Total unrestricted revenue, gains and other support	460,664	415,398
Expenses:		
Salaries	182,162	163,585
Employee benefits	50,466	44,482
Supplies and other expenses	161,661	146,807
Depreciation and amortization	28,352	27,392
Interest expense	5,545	4,877
Total expenses	428,186	387,143
Income from operations	32,478	28,255
Nonoperating gains and losses:		
Loss on advanced refunding	-	(1,347)
Investment returns	(1,100)	3,139
Change in net unrealized gains and losses	538	(211)
Change in fair value of derivative instrument	-	(251)
Total nonoperating gains and losses	(562)	1,330
Excess of revenue over expenses	31,916	29,585
Net assets released from restrictions used for purchases of property and equipment	1,466	720
Equity transfer from Stamford Health System	1,608	29,904
Pension-related changes other than net periodic pension cost	(13,080)	(16,571)
Increase in unrestricted net assets	\$ 21,910	\$ 43,638

See accompanying notes.

The Stamford Hospital

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2011 and 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>			
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	100,144	19,495	8,033	127,672
Excess of revenue over expenses	31,916	-	-	31,916
Pension-related changes other than net periodic pension cost	(13,080)	-	-	(13,080)
Change in net unrealized gains and losses	-	(227)	-	(227)
Contributions	-	3,087	-	3,087
Equity transfer from Stamford Health System	1,608	-	-	1,608
Investment returns	-	170	-	170
Net assets released from restrictions for operations	-	(2,397)	-	(2,397)
Net assets released from restrictions used for purchases of property and equipment	1,466	(1,466)	-	-
Increase (decrease) in net assets	<u>21,910</u>	<u>(833)</u>	<u>-</u>	<u>21,077</u>
Balance at September 30, 2011	<u>\$ 122,054</u>	<u>\$ 18,662</u>	<u>\$ 8,033</u>	<u>\$ 148,749</u>

See accompanying notes.

The Stamford Hospital

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	2010
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Change in net assets	\$ 21,077	\$ 42,968
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity transfer from Stamford Health System	(1,608)	(29,904)
Pension-related changes other than net periodic pension cost	13,080	16,571
Net realized gains and losses and change in net unrealized gains and losses	1,018	(2,612)
Loss on advanced refunding	-	1,347
Restricted contributions	(3,087)	(2,155)
Change in fair value of derivative instrument	-	251
Restricted investment returns	57	(875)
Depreciation and amortization	28,352	27,392
Amortization of deferred financing fees	220	258
Amortization of bond premium	(82)	(28)
Provision for bad debts	47,360	43,115
Changes in operating assets and liabilities:		
Patient accounts receivable	(57,926)	(43,359)
Due to/from Parent and affiliates	490	(6,840)
Accounts payable and accrued expenses	14,011	4,214
Estimated third-party payor settlements	668	563
Estimated professional liabilities	3,224	(1,897)
Net change in all other operating assets and liabilities	(6,375)	3,882
Net cash provided by operating activities	<u>60,479</u>	<u>52,891</u>
Cash flows from investing activities		
Capital expenditures, net	(29,879)	(21,182)
Net cash invested in assets limited as to use and investments	(349)	(9,879)
Net cash used in investing activities	<u>(30,228)</u>	<u>(31,061)</u>
Cash flows from financing activities		
Restricted contributions	3,087	2,155
Restricted investment returns	(57)	875
Principal payments on long-term debt	(4,576)	(117,047)
Cash paid for deferred financing fees	(48)	(2,219)
Proceeds from long-term debt	4,100	133,992
Net cash provided by financing activities	<u>2,506</u>	<u>17,756</u>
Net increase in cash and cash equivalents	32,757	39,586
Cash and cash equivalents, beginning of year	49,254	9,668
Cash and cash equivalents, end of year	<u>\$ 82,011</u>	<u>\$ 49,254</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (exclusive of amounts capitalized)	<u>\$ 6,455</u>	<u>\$ 4,461</u>
Supplemental disclosure of noncash investing and financing activities		
Capital leases incurred	<u>\$ 1,074</u>	<u>\$ 592</u>

See accompanying notes.

The Stamford Hospital

Notes to Consolidated Financial Statements (In Thousands)

September 30, 2011

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.

Stamford Health Integrated Practices, Inc. (“SHIP”) is a not-for profit corporation formed by SHS in fiscal year 2010 to provide a comprehensive network of physician practices and related management services. In May 2011, SHIP was transferred from SHS to the Hospital. Also during fiscal year 2011, SHS transferred certain of its medical practices to SHIP including, Fairfield County Surgical Specialists, a professional captive providing surgical services; Fairfield County Obstetrics and Gynecology, LLC, a professional captive providing obstetrical care; Fairfield County Primary Care, P.C., a professional captive providing primary urgent care and corporate occupational health services and the Connecticut medical practice of Premier Medical Group, P.C., a professional captive providing orthopedic and rehabilitation care.

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, Healthstar and SHIP. All significant intercompany transactions and accounts have been eliminated in consolidation.

The Stamford Hospital

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

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

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 uncollectible 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.

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, some of which are structured such that the Hospital holds limited partnership interests. Realized and unrealized gains and losses are included in determining the excess of revenue over expenses. For the years ended September 30, 2011 and 2010, the Hospital recorded (losses) gains on unrestricted alternative investments of (\$2,028) and \$2,292, respectively, which are included in investment returns in the accompanying 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 nonmarketable securities. Marketable securities which are not considered

The Stamford Hospital

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

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

alternative investments, such as equity and debt securities, and the holdings of private mutual funds are recorded at fair value as quoted by the public markets. Marketable securities are classified as trading securities.

Ordinary income and net realized gains of \$928 and \$847 for the years ended September 30, 2011 and 2010, respectively, are included in investment returns in the accompanying consolidated statements of operations. The change in net unrealized gains and losses of \$538 and (\$211) for the years ended September 30, 2011 and 2010, respectively, is recorded in the excess of revenue over expenses in the accompanying consolidated statements of operations.

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 TSH 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 TSH 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, 2011 and 2010, SHS, for the account of the Hospital, has future commitments of \$371 and \$592, 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.

The Stamford Hospital

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

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

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.

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, 2011 and 2010, the accumulated amortization for deferred financing costs was \$245 and \$61, respectively. In 2010, TSH issued

The Stamford Hospital

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

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

State of Connecticut Health and Educational Facilities Authority (“CHEFA”) Revenue Bonds, Series I Bonds (see Note 7). 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. Amortization is included in interest expense in the accompanying consolidated statements of operations.

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 nonoperating gains and losses and consist primarily of investment returns.

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.

Patient Accounts Receivable 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

The Stamford Hospital

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

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

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.

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 are 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 and SHIP are not-for-profit corporations and have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and their related income is not subject to federal or state income taxes.

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").

Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-23, *Measuring Charity Care for Disclosure*. ASU 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. TSH is evaluating the impact of ASU 2010-23 on its consolidated financial statements.

The Stamford Hospital

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

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

In August 2010, the FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (“ASU 2010-24”). Under ASU 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. TSH is evaluating the impact of ASU 2010-24 on its consolidated financial statements.

In July 2011, the FASB also issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (“ASU 2011-07”). Under ASU 2011-07, certain health care entities will be required to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance is effective for fiscal years, and interim periods, ending after December 15, 2012, with early adoption permitted. TSH elected to early adopt ASU 2011-07 and has applied its provisions to the consolidated financial statements.

Reclassifications

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

2. Community Benefit and Charity Care

The Hospital is committed to providing health care services to the community. During fiscal year 2011, the Hospital initiated a formal community health needs assessment of its service areas in partnership with the Stamford Health Department. This process includes the analysis of qualitative and quantitative data and involves interviews with social service and other community organizations to elicit their input as to community needs and opportunities for collaborative partnerships.

The Stamford Hospital

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

2. Community Benefit and Charity Care (continued)

The Hospital provides a variety of programs that benefit the community including health screenings, immunization programs, social services and support counseling for patients and families, crisis intervention, community health education, and the donation of space for use by community groups. Health education programs provided by the Hospital include smoking cessation, weight loss, stress management, and programs focused on such specific health factors or disease entities as heart disease, breast cancer, sleep disorders, arthritis, high cholesterol, cancer prevention, nutrition, stress management, circulatory problems, digestive disorders, pain management, sports injuries, and children's nutrition.

In collaboration with the Stamford Health Department, the Hospital sponsored a joint City of Stamford-wide flu campaign to reduce the number of hospitalizations and emergency department visits. The Hospital's mobile mammography program served community centers, places of employment and churches, providing on-site mammograms including free screenings for those without insurance. Kid's Fitness and Nutrition Services (KidsFANS) is a Hospital led community collaborative designed to promote smart eating, physical activity and healthy weight among our children. Over the past year, the Hospital has provided thousands of free health screenings at health fairs and events throughout the community. The Hospital's physicians and other health professionals offer services 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 \$27,000 and \$23,000 for the years ended September 30, 2011 and 2010, respectively.

The State of Connecticut distributes funds from its Uncompensated Care Pool, based on a formula that includes both 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 expense and charity care for the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Provision for bad debts – net of recoveries	\$ 47,360	\$ 43,115
Charity care	27,345	23,197
Total uncompensated care	<u>\$ 74,705</u>	<u>\$ 66,312</u>

The Stamford Hospital

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

2. Community Benefit and Charity Care (continued)

For distributions from the Uncompensated Care Pool, the Hospital recognized grant-disproportionate share income of \$5,578 and \$5,064 for the years ended September 30, 2011 and 2010, respectively, which is included in other revenue in the accompanying consolidated statements of operations.

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.

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 2008 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.

The Stamford Hospital

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

3. Net Patient Service Revenue (continued)

Gross patient charges for services at established rates before the effect of the contractual arrangements described above were \$1,459,333 and \$1,288,626 for the years ended September 30, 2011 and 2010, respectively.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

The Stamford Hospital

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

3. Net Patient Service Revenue (continued)

Patient service revenue for the year ended September 30, 2011, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows.

	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 450,179	\$ 33,881	\$ 484,060

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 be presently determined.

During the years ended September 30, 2011 and 2010, approximately \$1,137 and \$548, 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 percentages of net patient service revenue received from various third-party payors and patients were as follows for the years ended September 30, 2011 and 2010:

	2011	2010
Medicare	19%	21%
Medicaid	6	5
Managed care organizations	42	41
Other third-party payors	26	27
Self-pay	7	6
	100%	100%

The Stamford Hospital

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

3. Net Patient Service Revenue (continued)

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, 2011 and 2010, is as follows:

	2011	2010
Current portion:		
Cash and cash equivalents	\$ 159	\$ 176
Held by captive insurance company:		
Cash and cash equivalents	\$ 15,651	\$ 11,013
Mutual funds	2,699	5,661
Alternative investments – hedge funds	7,627	7,667
	\$ 25,977	\$ 24,341
Long-term investments – endowments:		
Cash and cash equivalents	\$ 720	\$ 536
Mutual funds	2,733	2,475
Alternative investments – hedge funds	3,042	3,159
Alternative investments – limited partnerships	1,285	1,346
Private mutual funds	253	517
	\$ 8,033	\$ 8,033

The Stamford Hospital

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

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

	2011	2010
Held by trustee – construction fund:		
Cash and cash equivalents	\$ 1,357	\$ 6,895

The composition of investments at September 30, 2011 and 2010, is as follows:

	2011	2010
Short-term investments:		
Mutual funds	\$ 276	\$ 188
Long-term investments:		
Cash and cash equivalents	\$ 2,133	\$ 1,452
Mutual funds	39,578	35,652
Alternative investments – hedge funds	8,977	9,408
Alternative investments – limited partnerships	3,790	4,010
Private mutual funds	747	1,541
	\$ 55,225	\$ 52,063

Total returns on investments for the years ended September 30, 2011 and 2010, consist of the following:

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Ordinary income (interest and dividends)	\$ 456	\$ 219	\$ 675	\$ 316	\$ 208	\$ 524
Net realized gains and losses	472	121	593	531	304	835
Gains and losses from alternative investments	(2,028)	(170)	(2,198)	2,292	364	2,656
Investment returns	(1,100)	170	(930)	3,139	876	4,015
Change in net unrealized gains and losses	538	(227)	311	(211)	(1)	(212)
	\$ (562)	\$ (57)	\$ (619)	\$ 2,928	\$ 875	\$ 3,803

The Stamford Hospital

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

5. Property, Plant and Equipment

Property, plant and equipment, at cost, and accumulated depreciation and amortization at September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Land	\$ 42,662	\$ 38,587
Land improvements	4,118	3,889
Buildings and improvements	175,779	166,091
Fixed equipment	118,935	117,284
Movable equipment	185,702	172,523
Leasehold improvements	7,306	6,295
	534,502	504,669
Less accumulated depreciation and amortization	313,648	285,332
	220,854	219,337
Construction in progress	23,273	19,984
	\$ 244,127	\$ 239,321

Included in property, plant and equipment are assets under capital leases of approximately \$1,666 and \$592 at September 30, 2011 and 2010, respectively, (\$1,405 for 2011 and \$525 for 2010, net of accumulated amortization).

Depreciation and amortization expense for the years ended September 30, 2011 and 2010, was \$28,352 and \$27,392, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of approximately \$194 and \$67, respectively, for the years ended September 30, 2011 and 2010. Included in property, plant and equipment at September 30, 2011 and 2010, is \$936 and \$383, respectively, of interest capitalized on construction in progress.

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. 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. In 2011 and 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

The Stamford Hospital

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

5. Property, Plant and Equipment (continued)

equity transfers of \$1,340 and \$34,871, respectively, were recorded in 2011 and 2010.

Construction in progress as of September 30, 2011 and 2010, includes approximately \$16,200 and \$13,800, respectively, spent mainly for architectural fees and other soft construction costs incurred during the planning phase of the Master Facility Plan.

In September 2010, SHS and TSH 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.

6. Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Health care services:		
Purchase of equipment	\$ 1,645	\$ 898
Patient care	15,886	17,659
Health education	1,131	938
	<u>\$ 18,662</u>	<u>\$ 19,495</u>

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 the Uniform Prudent Management of Institutional Funds Act (“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 Stamford Hospital

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

6. Net Assets (continued)

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 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 Stamford Hospital

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

6. Net Assets (continued)

The following tables set forth the changes to assets as they relate to the Hospital's endowments for the years ended September 30, 2011 and 2010:

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2010	\$ 1,423	\$ 8,033	\$ 9,456
Investment return (realized and unrealized)	(41)	–	(41)
Appropriation of endowment assets for expenditure	(517)	–	(517)
Endowment assets, September 30, 2011	\$ 865	\$ 8,033	\$ 8,898

	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

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, 2011 and 2010.

The Stamford Hospital

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

7. Long-Term Debt

Long-term debt at September 30, 2011 and 2010, consists of the following:

	September 30	
	2011	2010
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	\$ 129,661	\$ 133,965
Term promissory notes bearing interest at LIBOR plus 2.00%, maturing June 1, 2021	4,045	–
Capital lease obligations	1,312	525
City of Stamford, sewer connection fee loan, payable in annual installments through 2013 (noninterest bearing)	25	37
Total long-term debt	135,043	134,527
Less current portion	5,018	4,413
Long-term debt, excluding current portion	\$ 130,025	\$ 130,114

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, at a premium of \$1,002. As of September 30, 2011 and 2010, accumulated amortization related to the bond premium was \$110 and \$28, respectively. The Series I Bonds were used for the refunding of revenue bonds and loans outstanding as of September 30, 2009. 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 at September 30, 2010.

In May 2011, the Hospital entered into a mortgage note agreement with Stamford First Bank for \$4,100, bearing interest at LIBOR plus 2.00%. The mortgage note is payable in monthly installments and matures on June 1, 2021.

The Stamford Hospital

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

7. Long-Term Debt (continued)

At September 30, 2011 and 2010, the Hospital has a line of credit available with Wells Fargo Bank, N.A. totaling \$30,000 and \$15,000, respectively. There were no amounts outstanding on the line of credit at September 30, 2011 and 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, the Stamford First Bank mortgage note payable and the Wells Fargo Bank, N.A. line of credit.

SHS, as guarantor, must maintain certain financial ratios with respect to the Series I Bonds, the Stamford First Bank mortgage note payable and the Wells Fargo Bank, N.A. line of credit. As of September 30, 2011, SHS was in compliance with such debt covenants.

The Hospital entered into a capital lease obligation in 2011 for medical equipment. The asset value for the lease approximated \$1,074.

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	Capital Leases	Total
Fiscal year:			
2012	\$ 4,646	\$ 372	\$ 5,018
2013	4,817	401	5,218
2014	5,032	432	5,464
2015	5,259	107	5,366
2016	5,496	—	5,496
Thereafter	108,481	—	108,481
Total minimum payments	133,731	1,312	135,043
Less current portion of long-term debt	4,646	372	5,018
Long-term debt, net of current portion	<u>\$ 129,085</u>	<u>\$ 940</u>	<u>\$ 130,025</u>

The Stamford Hospital

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

8. Retirement Benefits

Defined Benefit Pension Plan

The Hospital participates in two of SHS' 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, 2011 and 2010, are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	2011		
	Plan	SERP	Total
Unrecognized prior service cost	\$ (10)	\$ —	\$ (10)
Unrecognized actuarial (loss) gain	(109,506)	39	(109,467)
	<u>\$ (109,516)</u>	<u>\$ 39</u>	<u>\$ (109,477)</u>
	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)

8. Retirement Benefits (continued)

The prior service cost and actuarial loss included in changes in unrestricted net assets at September 30, 2011, and expected to be recognized in net periodic pension cost during the year ending September 30, 2012, are as follows:

	Plan	SERP
Prior service cost	\$ (6)	\$ —
Net loss	(10,029)	—

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, 2011 and 2010, are as follows:

	Plan		SERP		Total	
	2011	2010	2011	2010	2011	2010
Benefit obligation						
Benefit obligation, beginning of year	\$ 218,720	\$ 186,735	\$ 857	\$ 778	\$ 219,577	\$ 187,513
Service cost	3,604	3,184	—	—	3,604	3,184
Interest cost	11,326	11,042	44	46	11,370	11,088
Actuarial losses	10,695	23,626	26	48	10,721	23,674
Benefits paid	(6,390)	(5,867)	(16)	(15)	(6,406)	(5,882)
Benefit obligation, end of year	237,955	218,720	911	857	238,866	219,577
Plan assets						
Fair value of plan assets, beginning of year	139,373	123,765	—	—	139,373	123,765
Actual return on plan assets	(1,100)	8,775	—	—	(1,100)	8,775
Employer contributions	15,000	12,700	16	15	15,016	12,715
Benefits paid	(6,390)	(5,867)	(16)	(15)	(6,406)	(5,882)
Fair value of plan assets, end of year	146,883	139,373	—	—	146,883	139,373
Funded status	(91,072)	(79,347)	(911)	(857)	(91,983)	(80,204)
Current portion of obligation	—	—	(29)	(26)	(29)	(26)
Noncurrent portion of obligation	(91,072)	(79,347)	(882)	(831)	(91,954)	(80,178)
Total	\$ (91,072)	\$ (79,347)	\$ (911)	\$ (857)	\$ (91,983)	\$ (80,204)

The Stamford Hospital

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

8. Retirement Benefits (continued)

The current portion of accrued retirement benefits related to the Plans is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

The weighted-average assumptions used in determining the pension and postretirement benefit obligations at September 30, 2011 and 2010, were as follows:

	Plan		SERP	
	2011	2010	2011	2010
Discount rate	5.25%	5.25%	4.79% to 5.25%	5.25%
Rate of compensation increase	3.50	3.50	–	–

Net periodic pension cost and postretirement cost for the years ended September 30, 2011 and 2010, consist of the following components:

	Plan		SERP		Total	
	2011	2010	2011	2010	2011	2010
Service cost	\$ 3,604	\$ 3,184	\$ –	\$ –	\$ 3,604	\$ 3,184
Interest cost	11,326	11,042	44	46	11,370	11,088
Expected return on plan assets	(10,427)	(9,190)	–	–	(10,427)	(9,190)
Amortization of prior service cost	7	7	–	–	7	7
Amortization of actuarial loss	9,161	7,518	–	(7)	9,161	7,511
Net periodic pension cost	\$ 13,671	\$ 12,561	\$ 44	\$ 39	\$ 13,715	\$ 12,600

Weighted-average assumptions used in determining the net periodic pension and postretirement benefit costs for the years ended September 30, 2011 and 2010, were as follows:

	Plan		SERP	
	2011	2010	2011	2010
Discount rate	5.25%	6.00%	5.25%	6.00%
Expected long-term rate of return on plan assets	7.25	7.25	–	–
Rate of compensation increase	3.50	3.50	–	–

The Stamford Hospital

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

8. Retirement Benefits (continued)

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 Plan's weighted-average asset allocation at September 30, 2011 and 2010, is as follows:

	2011	2010
Equity securities	17%	23%
Fixed income securities	27	29
Alternative investments – limited partnerships	14	12
Alternative investments – hedge funds	29	28
Cash and cash equivalents	13	8
	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.

The Stamford Hospital

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

8. Retirement Benefits (continued)

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.

Cash Flows

TSH expects to contribute approximately \$29,680 to the Plans during fiscal year 2012.

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

	<u>Plan</u>	<u>SERP</u>	<u>Total</u>
Fiscal year ending September 30:			
2012	\$ 7,167	\$ 30	\$ 7,197
2013	7,845	36	7,881
2014	8,713	40	8,753
2015	9,802	55	9,857
2016	10,750	56	10,806
2017 through 2021	68,997	372	69,369

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, 2011 and 2010, are \$5,286 and \$4,963, respectively, in pension contributions to the DC Plan.

The Stamford Hospital

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

9. 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 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. Assets of and contributions to the Trust, which are invested in cash and short-term investments, are included in the noncurrent portion of assets limited as to use in the accompanying consolidated balance sheets.

The Hospital expensed (\$188) and \$342 for professional liabilities self-insurance for the years ended September 30, 2011 and 2010, respectively. There were no claims or expenses payable from the Trust at September 30, 2011 and 2010, respectively. The undiscounted actuarially determined tail liability of \$10,071 and \$9,883 is included in the estimated professional liabilities in the accompanying consolidated balance sheets at September 30, 2011 and 2010, 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, 2011 until September 30, 2012.

The Stamford Hospital

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

9. Professional Liability Insurance (continued)

For the year ended September 30, 2011, the Hospital paid insurance premiums of \$10,013 to Healthstar, \$7,300 of which relates to the coverage under Healthstar and \$2,678 of which relates to the coverage reinsured with third-party reinsurers. Of the \$10,013 insurance premium payments, \$788 was paid by the Hospital on behalf of its affiliates.

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.

Healthstar employs the services of an actuary to estimate professional and general liabilities. As of September 30, 2011 and 2010, Healthstar's undiscounted estimated professional and general liabilities for claims and expenses are approximately \$23,724 and \$20,688, respectively. For the years ended September 30, 2011 and 2010, claims covered and expensed by Healthstar amounted to \$3,741 and \$4,392, respectively.

10. 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, 2011 and 2010, amounts due to affiliates totaled \$6,717 and \$2,836, respectively.

The Hospital leases certain real property from affiliates. Rent expense to affiliates for the years ended September 30, 2011 and 2010, is \$1,414 and \$946, respectively.

The Hospital provides professional services to its affiliates at varying amounts. Other revenues in the accompanying consolidated statements of operations include \$597 and \$869 earned from professional services provided to affiliates for the years ended September 30, 2011 and 2010, respectively. Amounts receivable from affiliates for professional services described above and other services were \$4,251 and \$759 at September 30, 2011 and 2010, respectively. During 2010, the Hospital recorded equity transfers of \$4,967 which represent amounts transferred to SHS to support ongoing operations of affiliates.

The Stamford Hospital

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

10. Related-Party Transactions (continued)

In 2011 and 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 equity transfers of \$1,340 and \$34,871, respectively, were recorded in 2011 and 2010, respectively.

Donor-restricted contributions are maintained in a pooled investment account at SHS. Amounts due from SHS for donor-restricted contributions was \$18,642 at September 30, 2011 and 2010.

Amounts due to SHS of \$20,014 and \$19,913 at September 30, 2011 and 2010, 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.

11. 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.

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

The Stamford Hospital

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

11. Commitments and Contingencies (continued)

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 2011 and 2010.

12. 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Managed care organizations	32%	31%
Medicare	14	15
Medicaid	7	5
All other insurers	16	20
Self-pay patients	31	29
	<u>100%</u>	<u>100%</u>

At September 30, 2011, 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.

The Stamford Hospital

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

13. 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, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Health care	\$ 381,452	\$ 339,291
General and administrative	46,734	47,852
	<u>\$ 428,186</u>	<u>\$ 387,143</u>

14. Fair Value of Financial Instruments

For assets and liabilities required to 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)

14. Fair Value of Financial Instruments (continued)

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.

Financial assets, including the defined benefit plan assets, carried at fair value as of September 30, 2011 and 2010, are classified in the tables below in one of the three categories described previously:

	2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 102,031	\$ —	\$ —	\$ 102,031
Mutual funds-Fixed Income	39,372	—	—	39,372
Mutual funds-Multi Industry	5,914	—	—	5,914
Private mutual funds ^(a)	—	1,000	—	1,000
Defined benefit plan assets:				
Cash and cash equivalents	19,772	—	—	19,772
Mutual funds-Fixed Income	40,730	—	—	40,730
Mutual funds- Multi Industry	24,585	—	—	24,585
Private mutual funds ^(a)	4,155	—	—	4,155
Partnerships ^(b)	—	7,364	8,623	15,987
Hedge funds ^(c)	—	41,654	—	41,654
	\$ 236,559	\$ 50,018	\$ 8,623	\$ 295,200
	2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 69,326	\$ —	\$ —	\$ 69,326
Mutual funds	43,976	—	—	43,976
Private mutual funds ^(a)	—	2,058	—	2,058
Defined benefit plan assets:				
Cash and cash equivalents	10,915	—	—	10,915
Mutual funds	60,469	—	—	60,469
Private mutual funds ^(a)	8,871	—	—	8,871
Partnerships ^(b)	—	7,438	9,196	16,634
Hedge funds ^(c)	—	39,292	3,192	42,484
	\$ 193,557	\$ 48,788	\$ 12,388	\$ 254,733

The Stamford Hospital

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

14. Fair Value of Financial Instruments (continued)

- (a) Private mutual funds pursue exposure to investment securities and provide the benefit of a diversified and active investment management strategy. The holdings can include domestic and international equity securities, fixed income securities, convertible debt, and distressed debt. The Hospital can normally redeem these investments on a monthly basis.
- (b) Partnerships are private equity investments that seek to generate acceptable returns in private companies over a given investment period. At September 30, 2011 and 2010, respectively, \$7,364 and \$7,438 of this investment has been classified in Level 2 of the fair value hierarchy as TSH determined this amount is redeemable in the near-term given its ability to redeem the investment monthly or quarterly. The Hospital considers redemptions that could occur within 120 days of its measurement date to be near-term. At September 30, 2011 and 2010, respectively, \$8,623 and \$9,196 of the investment is classified in Level 3 of the fair value hierarchy due to redemption restrictions in place given the future funding commitments of \$1,016 and \$1,448 at September 30, 2011 and 2010, respectively.
- (c) Hedge funds and funds of hedge funds pursue a variety of investment strategies. The Hospital holds multiple hedge funds and funds of hedge funds in an attempt to diversify exposures to multiple investment strategies and their respective risks, while attempting to reduce volatility. The underlying investments can include domestic and international equity securities, fixed income securities, convertible debt, distressed debt, merger arbitrage, real estate, private investments, and hedge funds (in the case of funds of funds). The redemption terms vary among funds but in most cases the Hospital can normally redeem monthly or quarterly with 30 to 120 days' notice.

The transfers out of Level 3 are due to the relief of redemption restrictions as of September 30, 2010. At September 30, 2011, the Hospital expects to be able to redeem defined benefit plan investments in hedge funds in the near-term.

The Hospital's investments in alternative investments, excluding those within the defined benefit plan, are recorded using the equity method of accounting and are not subject to the fair value hierarchy described previously.

The Stamford Hospital

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

14. 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 years ended September 30, 2011 and 2010:

	2011	2010
Fair value at September 30, 2010	\$ 12,388	\$ 8,604
Investment income, net of fees	(57)	(23)
Net realized losses	(792)	(639)
Unrealized gains relating to instruments held at reporting date	740	1,292
Purchases, sales, issuances and settlements, net	(464)	3,154
Transfers out of Level 3	(3,192)	-
Fair value at September 30, 2011	\$ 8,623	\$ 12,388

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, 2011 and 2010, are as follows:

	2011		2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt	\$ 144,664	\$ 135,043	\$ 139,860	\$ 134,527

15. Operating Leases

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

2012	\$ 6,526
2013	6,668
2014	6,749
2015	6,697
2016	6,969
Thereafter	32,843
Total minimum operating lease payments	\$ 66,452

The Stamford Hospital

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

15. Operating Leases (continued)

Total nonaffiliate rental expense charged to operations for the years ended September 30, 2011 and 2010, aggregated approximately \$5,645 and \$5,279, 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 noncancelable operating leases with various tenants. Future minimum receipts under noncancelable leases with initial or recurring terms of one year or more are as follows:

2012	\$ 2,840
2013	2,691
2014	2,371
2015	2,228
2016	1,697
Thereafter	8,707
Total minimum operating lease income	<u>\$ 20,534</u>

Total nonaffiliate rental income recorded in operations for the years ended September 30, 2011 and 2010, aggregated approximately \$2,439 and \$2,554, respectively.

16. Subsequent Events

Subsequent events have been evaluated through January 27, 2012, 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, 2011
(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 80,693	\$ —	\$ 1,318	\$ —	\$ 82,011
Assets limited as to use	159	—	—	—	159
Short-term investments	276	—	—	—	276
Patient accounts receivable, net	59,828	—	2,290	—	62,118
Other receivables	5,510	191	62	—	5,763
Due to third parties, current portion	2,592	—	—	—	2,592
Other current assets	8,851	3	56	—	8,910
Total current assets	157,909	194	3,726	—	161,829
Assets limited as to use:					
Held by captive insurance company	—	25,977	—	—	25,977
Long-term investments – endowments	8,033	—	—	—	8,033
Due from Parent – donor-restricted	18,642	—	—	—	18,642
Held by trustee – construction fund	1,357	—	—	—	1,357
	28,032	25,977	—	—	54,009
Long-term investments	35,851	31,282	—	(11,908)	55,225
Property, plant and equipment, net	242,513	—	1,614	—	244,127
Due from Parent and affiliates	11,608	—	1,119	(8,476)	4,251
Other assets	2,548	—	13	—	2,561
Total assets	\$ 478,461	\$ 57,453	\$ 6,472	\$ (20,384)	\$ 522,002

The Stamford Hospital

Consolidating Balance Sheet (continued)

September 30, 2011

(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Liabilities and net assets					
Current liabilities:					
Current portion of long-term debt	\$ 5,018	\$ —	\$ —	\$ —	\$ 5,018
Accounts payable and accrued expenses	47,334	130	778	—	48,242
Salaries, wages and fees payable	9,025	—	1,148	—	10,173
Accrued vacation liability	15,683	—	348	—	16,031
Estimated third-party payor settlements, current	5,424	—	—	—	5,424
Estimated professional liabilities, current	—	4,830	—	—	4,830
Total current liabilities	82,484	4,960	2,274	—	89,718
Pension liability	91,954	—	—	—	91,954
Estimated third-party payor settlements, net of current portion	5,860	—	—	—	5,860
Long-term debt, net of current portion	130,025	—	—	—	130,025
Due to Parent – board designated	20,014	—	—	—	20,014
Due to Parent and affiliates	2,854	50	12,289	(8,476)	6,717
Estimated professional liabilities, net of current portion	10,071	18,894	—	—	28,965
Total liabilities	343,262	23,904	14,563	(8,476)	373,253
Net assets:					
Unrestricted	108,504	33,549	(8,091)	(11,908)	122,054
Temporarily restricted	18,662	—	—	—	18,662
Permanently restricted	8,033	—	—	—	8,033
Total net assets	135,199	33,549	(8,091)	(11,908)	148,749
Total liabilities and net assets	\$ 478,461	\$ 57,453	\$ 6,472	\$ (20,384)	\$ 522,002

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	51,552	—	—	51,552
Other receivables	667	69	—	736
Due to third parties, current portion	3,941	—	—	3,941
Other current assets	9,805	3	—	9,808
Total current assets	115,583	72	—	115,655
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
	33,570	24,341	—	57,911
Long-term investments	36,046	27,925	(11,908)	52,063
Property, plant and equipment, net	239,321	—	—	239,321
Due from Parent and affiliates	2,246	—	(1,487)	759
Other assets	2,207	—	—	2,207
Total assets	\$ 428,973	\$ 52,338	\$ (13,395)	\$ 467,916

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 and accrued expenses	34,065	166	—	34,231
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
Total current liabilities	67,314	6,580	—	73,894
Pension liability	80,178	—	—	80,178
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 Statement of Operations

Year Ended September 30, 2011
(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Unrestricted revenue, gains and other support:					
Net patient service revenue	\$ 475,259	\$ —	\$ 8,801	\$ —	\$ 484,060
Provision for bad debts	(47,360)	—	—	—	(47,360)
Net patient service revenue less provision for bad debts	427,899	—	8,801	—	436,700
Other revenue	20,326	8,707	33	(7,499)	21,567
Net assets released from restrictions for operations	2,397	—	—	—	2,397
Total unrestricted revenue, gains and other support	450,622	8,707	8,834	(7,499)	460,664
Expenses:					
Salaries	172,458	—	9,464	240	182,162
Employee benefits	49,038	—	1,428	—	50,466
Supplies and other expenses	159,765	4,371	5,264	(7,739)	161,661
Depreciation and amortization	27,315	—	1,037	—	28,352
Interest expense	5,545	—	—	—	5,545
Total expenses	414,121	4,371	17,193	(7,499)	428,186
Income (loss) from operations	36,501	4,336	(8,359)	—	32,478
Nonoperating gains and losses:					
Investment returns	(316)	(784)	—	—	(1,100)
Change in net unrealized gains and losses	538	—	—	—	538
Total nonoperating gains and losses	222	(784)	—	—	(562)
Excess (deficiency) of revenue over expenses	36,723	3,552	(8,359)	—	31,916
Net assets released from restrictions used for purchases of property and equipment	1,466	—	—	—	1,466
Equity transfer from Stamford Health System	1,340	—	268	—	1,608
Pension-related changes other than net periodic pension cost	(13,080)	—	—	—	(13,080)
Increase (decrease) in unrestricted net assets	\$ 26,449	\$ 3,552	\$ (8,091)	\$ —	\$ 21,910

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	\$ 436,167	\$ —	\$ —	\$ 436,167
Provision for bad debts	(43,115)	—	—	(43,115)
Net patient service revenue less provision for bad debts	393,052	—	—	393,052
Other revenue	18,088	7,678	(6,400)	19,366
Net assets released from restrictions for operations	2,980	—	—	2,980
Total unrestricted revenue, gains and other support	414,120	7,678	(6,400)	415,398
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
Depreciation and amortization	27,392	—	—	27,392
Interest expense	4,877	—	—	4,877
Total expenses	388,566	4,977	(6,400)	387,143
Income from operations	25,554	2,701	—	28,255
Nonoperating 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 nonoperating gains and losses	(167)	1,497	—	1,330
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	\$ 39,440	\$ 4,198	\$ —	\$ 43,638

The Stamford Hospital

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2011

(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Excess (deficiency) of revenue over expenses	\$ 36,723	\$ 3,552	\$ (8,359)	\$ —	\$ 31,916
Pension-related changes other than net periodic pension cost	(13,080)	—	—	—	(13,080)
Equity transfer from Stamford Health System	1,340	—	268	—	1,608
Net assets released from restrictions used for purchases of property and equipment	1,466	—	—	—	1,466
Increase (decrease) in unrestricted net assets	26,449	3,552	(8,091)	—	21,910
Temporarily restricted net assets:					
Change in net unrealized gains and losses	(227)	—	—	—	(227)
Contributions	3,087	—	—	—	3,087
Investment returns	170	—	—	—	170
Net assets released from restrictions for operations	(2,397)	—	—	—	(2,397)
Net assets released from restrictions used for purchases of property and equipment	(1,466)	—	—	—	(1,466)
Decrease in temporarily restricted net assets	(833)	—	—	—	(833)
Increase (decrease) in net assets	25,616	3,552	(8,091)	—	21,077
Net assets, beginning of year	109,583	29,997	—	(11,908)	127,672
Net assets, end of year	\$ 135,199	\$ 33,549	\$ (8,091)	\$ (11,908)	\$ 148,749

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

Schedule of Net Patient Service Revenue

Year Ended September 30, 2011

(In Thousands)

	TSH	Healthstar	SHIP	Eliminations		TSH
	TSH	Healthstar	SHIP	Debit	Credit	Consolidated
Gross revenue from patients	\$ 1,459,333	\$ -	\$ -	\$ -	\$ -	\$ 1,459,333
Deductions:						
Contractual allowances	967,143	-	-	-	-	967,143
Charity care	27,344	-	-	-	-	27,344
Total deductions	994,487	-	-	-	-	994,487
Net physician revenue	10,413	-	8,801	-	-	19,214
Net patient service revenue	475,259	-	8,801	-	-	484,060
Provision for bad debts	(47,360)	-	-	-	-	(47,360)
Net patient service revenue less provision for bad debts	\$ 427,899	\$ -	\$ 8,801	\$ -	\$ -	\$ 436,700

The Stamford Hospital

Schedule of Net Patient Service Revenue

Year Ended September 30, 2010

(In Thousands)

	TSH	Healthstar	Eliminations		TSH
	TSH	Healthstar	Debit	Credit	Consolidated
Gross revenue from patients	\$ 1,288,626	\$ —	\$ —	\$ —	\$ 1,288,626
Deductions:					
Contractual allowances	835,675	—	—	—	835,675
Charity care	23,197	—	—	—	23,197
Total deductions	858,872	—	—	—	858,872
Net physician revenue	6,413	—	—	—	6,413
Net patient service revenue	436,167	—	—	—	436,167
Provision for bad debts	(43,115)	—	—	—	(43,115)
Net patient service revenue less provision for bad debts	\$ 393,052	\$ —	\$ —	\$ —	\$ 393,052

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