

CONSOLIDATED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

Stamford Health System  
Years Ended September 30, 2011 and 2010  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Stamford Health System

Consolidated Financial Statements  
and Other Financial Information

Years Ended September 30, 2011 and 2010

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## Report of Independent Auditors

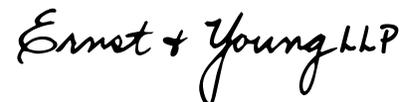
The Board of Directors  
Stamford Health System

We have audited the accompanying consolidated balance sheets of Stamford Health System (“SHS”) 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 SHS’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 SHS’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 SHS’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 Stamford Health System 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 is presented for purposes of additional analysis, and is 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

## Stamford Health System

### Consolidated Balance Sheets (In Thousands)

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 94,498	\$ 58,541
Assets limited as to use	748	1,874
Short-term investments	25,033	24,454
Patient accounts receivable (less allowance for uncollectible accounts of \$18,195 and \$15,200, respectively)	62,433	53,751
Other receivables	6,636	1,215
Due from third parties, current portion	2,592	3,941
Deposits – resident waiting list	–	610
Current assets held-for-sale	1,566	–
Other current assets	9,217	10,176
Total current assets	202,723	154,562
Assets limited as to use:		
Held by captive insurance company	25,977	24,341
Capital expenditures	8,760	13,830
Held by trustee – debt service	1,699	1,699
Long-term investments – endowments	8,080	8,080
Held-for-sale	300	–
	44,816	47,950
Long-term investments	106,144	102,939
Property, plant and equipment, net	253,583	314,979
Noncurrent assets held-for-sale	63,922	–
Other assets	6,819	7,495
Total assets	\$ 678,007	\$ 627,925

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 6,018	\$ 8,592
Accounts payable and accrued expenses	51,497	46,648
Salaries, wages and fees payable	10,176	11,036
Accrued vacation liability	16,033	15,889
Estimated third-party payor settlements, current	5,424	2,813
Estimated professional liabilities, current	4,830	6,414
Current liabilities held-for-sale	3,942	–
Total current liabilities	<u>97,920</u>	91,392
Pension liabilities	102,463	90,083
Estimated third-party payor settlements, net of current portion	5,860	9,152
Long-term debt, net of current portion	151,881	147,143
Deferred revenue – entrance fees	8,833	87,180
Estimated professional liabilities	28,965	24,157
Long-term liabilities held-for-sale	83,971	–
Total liabilities	<u>479,893</u>	449,107
Commitments and contingencies		
Net assets:		
Unrestricted	188,252	148,882
Unrestricted – held-for-sale	(19,241)	–
Total unrestricted	<u>169,011</u>	148,882
Temporarily restricted	21,023	21,856
Permanently restricted	8,080	8,080
Total net assets	<u>198,114</u>	178,818
Total liabilities and net assets	<u>\$ 678,007</u>	<u>\$ 627,925</u>

*See accompanying notes.*

## Stamford Health System

### Consolidated Statements of Operations (In Thousands)

	<b>Year Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Unrestricted revenue, gains and other support:		
Net patient service revenue	\$ 488,495	\$ 446,389
Provision for bad debts	(47,360)	(43,115)
Net patient service revenue less provision for bad debts	441,135	403,274
Resident services	–	18,964
Other revenue	23,143	25,255
Net assets released from restrictions for operations	2,397	2,980
Total unrestricted revenue, gains and other support	466,675	450,473
Expenses:		
Salaries	187,108	173,119
Employee benefits	51,863	46,639
Supplies and other expenses	164,738	170,430
Depreciation and amortization	29,299	32,505
Interest expense	5,683	5,077
Total expenses	438,691	427,770
Income from operations	27,984	22,703
Nonoperating gains and losses:		
Loss on advanced refunding	–	(1,347)
Investment returns	(2,265)	6,666
Change in net unrealized gains and losses	1,542	(190)
Change in fair value of derivative instrument	–	(251)
Total nonoperating gains and losses	(723)	4,878
Excess of revenue over expenses	27,261	27,581
Net assets released from restrictions used for purchases of property and equipment	1,466	720
Pension-related changes other than periodic pension cost	(13,674)	(17,199)
Increase in unrestricted net assets before discontinued operations	15,053	11,102
Discontinued operations	5,076	–
Increase in unrestricted net assets	\$ 20,129	\$ 11,102

*See accompanying notes.*

## Stamford Health System

### Consolidated Statements of Changes in Net Assets (In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at September 30, 2009	\$ 137,780	\$ 22,576	\$ 8,030	\$ 168,386
Excess of revenue over expenses	27,581	-	-	27,581
Pension-related changes other than net periodic pension cost	(17,199)	-	-	(17,199)
Change in net unrealized gains and losses	-	(1)	-	(1)
Contributions	-	2,105	50	2,155
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) increase in net assets	11,102	(720)	50	10,432
Balance at September 30, 2010	148,882	21,856	8,080	178,818
Excess of revenue over expenses	<b>27,261</b>	-	-	<b>27,261</b>
Pension-related changes other than net periodic pension cost	<b>(13,674)</b>	-	-	<b>(13,674)</b>
Change in net unrealized gains and losses	-	<b>(227)</b>	-	<b>(227)</b>
Contributions	-	<b>3,087</b>	-	<b>3,087</b>
Investment returns	-	<b>170</b>	-	<b>170</b>
Net assets released from restrictions for operations	-	<b>(2,397)</b>	-	<b>(2,397)</b>
Net assets released from restrictions used for purchases of property and equipment	<b>1,466</b>	<b>(1,466)</b>	-	-
Increase (decrease) in net assets before discontinued operations	<b>15,053</b>	<b>(833)</b>	-	<b>14,220</b>
Discontinued operations	<b>5,076</b>	-	-	<b>5,076</b>
Increase (decrease) increase in net assets	<b>20,129</b>	<b>(833)</b>	-	<b>19,296</b>
Balance at September 30, 2011	<b>\$ 169,011</b>	<b>\$ 21,023</b>	<b>\$ 8,080</b>	<b>\$ 198,114</b>

*See accompanying notes.*

# Stamford Health System

## Consolidated Statements of Cash Flows (In Thousands)

	<b>Year Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 19,296	\$ 10,432
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	13,674	18,303
Net realized gains and losses and change in net unrealized gains and losses	1,466	(5,750)
Change in fair value of derivative instrument	-	251
Restricted investment returns	57	(875)
Loss on advanced refunding	-	1,347
Restricted contributions	(3,087)	(2,155)
Entrance fee amortization	(4,526)	(4,034)
Depreciation and amortization	30,573	32,505
Amortization of deferred financing costs	247	274
Net amortization of bond discount (premium)	(74)	(21)
Provision for bad debts	47,360	43,115
Change in:		
Patient accounts receivable	(56,042)	(43,884)
Accounts payable and accrued expenses	4,849	8,908
Estimated third-party payor settlements	668	563
Estimated professional liabilities	3,224	(1,949)
Change in all other operating assets and liabilities	(4,118)	3,624
Net cash provided by operating activities	53,567	60,654
<b>Cash flows from investing activities</b>		
Capital expenditures, net	(30,869)	(22,762)
Net cash invested in assets limited as to use and investments	(990)	(35,163)
Net cash used in investing activities	(31,859)	(57,925)
<b>Cash flows from financing activities</b>		
Principal payments on long-term debt	(8,836)	(117,862)
Cash paid for deferred financing fees	(95)	(2,219)
Proceeds from long-term debt	10,000	133,992
Net proceeds from entrance fees	10,150	5,602
Restricted investment returns	(57)	875
Restricted contributions	3,087	2,155
Net cash provided by financing activities	14,249	22,543
Net increase in cash and cash equivalents	35,957	25,272
Cash and cash equivalents, beginning of year	58,541	33,269
Cash and cash equivalents, end of year	\$ 94,498	\$ 58,541
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest (exclusive of amounts capitalized)	\$ 6,566	\$ 4,687
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Capital leases incurred	\$ 1,074	\$ 671

*See accompanying notes.*

# Stamford Health System

## Notes to Consolidated Financial Statements (In Thousands)

September 30, 2011

### **1. Organization and Summary of Significant Accounting Policies**

#### **Organization**

Stamford Health System (“SHS”), a tax-exempt corporation, is the sole member or ultimate parent of The Stamford Hospital (“TSH” or the “Hospital”), a not-for-profit acute care hospital; Continuing Care Retirement Community of Greater Stamford, Inc. (“CCRC”), a not-for-profit sponsor which operates the Edgehill Retirement Community (“Edgehill”), a full-service retirement community, whose operations are managed by Greystone Management Services, LLC; Miller Hall Medical Suites, LLC (“MHMS”), a professional office building on the campus of TSH; Stamford OB/GYN Associates (“OB/GYN”), a professional captive formed to provide obstetrical care, Fairfield County Surgical Specialists (“FCSS”), a professional captive providing surgical services; Fairfield County Obstetrics and Gynecology, LLC (“FCOB/GYN”), a professional captive providing obstetrical care; Fairfield County Primary Care, P.C. (“FCPC”), a professional captive providing primary urgent care and corporate occupational health services and Premier Medical Group, P.C. (“PMG”), a professional captive providing orthopedic and rehabilitation care.

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, FCSS, FCOB/GYN, FCPC and the Connecticut medical practice of PMG.

Effective February 11, 2011, SHS entered into a definitive agreement with an outside party to sell the CCRC facility, along with certain other net assets of CCRC. As a result, SHS determined that the criteria for held for sale classification had been met. On November 14, 2011, SHS sold the CCRC facility and certain other net assets of CCRC to an outside party for approximately \$71,500. In accordance with the sale agreement, assets and liabilities sold included property, plant and equipment; accounts receivable, inventory; refundable entrance fees; resident waiting list deposits and related liabilities; capital lease obligations; entrance fee liabilities and a certain portion of working capital.

## Stamford Health System

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

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

A summary of the carrying value of the assets and liabilities held for sale at September 30, 2011, is as follows:

	<u>Assets</u>	<u>Liabilities</u>
Assets whose use is limited	\$ 300	\$ -
Deposit resident waiting list	475	475
Accounts receivable, net	1,056	-
Inventory	35	-
Property, plant and equipment	63,922	-
Refundable entrance fees	-	83,971
Nonrefundable entrance fees	-	3,467
	<u>\$ 65,788</u>	<u>\$ 87,913</u>

The assets and liabilities of CCRC held-for-sale are presented in the held-for-sale captions in the 2011 consolidated balance sheet. Fixed assets held-for-sale were not depreciated beginning in February 2011. The excess of revenue over expenses of CCRC is presented as discontinued operations in the consolidated statement of operations in 2011.

#### Consolidated Financial Statements

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States and include assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which SHS exercises control or has controlling financial interest.

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

# Stamford Health System

## 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 revenues 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. SHS 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 generally are recorded at the lower of cost (first-in, first-out method) or market.

#### **Marketable Securities and Alternative Investments**

Alternative investments are defined as nontraditional, not readily marketable asset classes. Alternative investments are structured as limited partnership investments 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, 2011 and 2010, SHS recorded (losses) gains on unrestricted alternative investments of (\$2,696) and \$4,063, 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 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.

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

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

Ordinary income and net realized gains and losses of \$431 and \$2,603 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 \$1,542 and (\$190) for the years ended September 30, 2011 and 2010, respectively, is recorded in the excess of revenue over expenses in the 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 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, 2011 and 2010, SHS has future commitments of \$951 and \$1,520, 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.

### **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.

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

#### 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

Included in other assets are deferred financing costs and other noncurrent investments. 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 \$247 and \$69, respectively. In 2010, TSH issued 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 fiscal year ended September 30, 2010. Amortization is included in interest expense in the accompanying consolidated statements of operations.

# Stamford Health System

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

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

#### **Equity Investment**

Included in other assets is SHS' investment in Stamford/NSC Management LLC, a joint venture with Wilton NSC, LLC. SHS accounts for this investment using the equity method of accounting. During 2011 and 2010, SHS recognized income of approximately \$696 and \$1,005, respectively, and received capital distributions of approximately \$547 and \$1,055, respectively.

#### **Initial Contract Acquisition Costs**

Initial contract acquisition costs represent costs incurred, other than advertising, in acquiring residency contracts during the development of CCRC, according to an agreement between CCRC, SHS and Marriott Senior Living Services (the former facility manager). The development costs, totaling \$4,462, which were expected to be recovered through future contract revenues were amortized on a straight-line basis over a 12-year period and are fully amortized as of September 30, 2011. At September 30, 2010, initial contract acquisition cost of \$291, which is net of accumulated amortization, is included in other assets. At September 30, 2011 and 2010, accumulated amortization of the contract acquisition costs was \$4,462 and \$4,171, respectively. Amortization expense is included in depreciation and amortization in the accompanying consolidated statements of operations.

#### **Entrance Fees**

Entrance fee deposits represent entrance fees paid by a prospective resident of CCRC. Prospective residents are required to pay an initial deposit equal to 10% of the total established entrance fee upon the execution of a reservation agreement. The initial 10% deposit is refundable in full, together with interest, until the execution of a continuing care contract (a "Contract"), at which time the deposit becomes nonrefundable (except as provided below). The nonrefundable portion is amortized and reported as entrance fee revenue over the estimated life of the resident or the Contract term, whichever is shorter. An additional 10% is due upon the execution of a Contract with the remaining 80% due prior to residency in the facility. The additional 10% and 80% are refundable (the "Refundable Portion"). A prospective resident has 30 days from the execution of a Contract to terminate the Contract and is entitled to a refund of all monies paid, including the initial 10% paid upon the execution of the reservation agreement, less costs incurred at the resident's request plus

## Stamford Health System

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

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

any reasonable service charges. The liability for Contracts which are still within this 30-day period is included as entrance fee liability in the accompanying consolidated balance sheets. A Contract is terminable in the event of death, certain injury or incapacity.

The Refundable Portion of entrance fees is paid by CCRC to a resident when a Contract is terminated, without interest, no later than 60 days after the receipt of payment by CCRC of an equivalent amount (the "Primary Entrance Fee") by another resident who is party to a Contract for the resident's former unit. The Refundable Portion is amortized to income over the remaining useful life of the facility. The liability for amounts refundable to former tenants is included in long-term liabilities held-for-sale in the accompanying consolidated balance sheets. These amounts at September 30, 2011 and 2010, were \$3,169 and \$7,487, respectively.

Interest earned on entrance fees accrues to CCRC and is included in investment income in the accompanying consolidated statements of operations.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by SHS 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 SHS 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 revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses and consist primarily of investment returns.

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

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

The consolidated statements of operations include the excess of revenue over expenses as the performance indicator. Consistent with industry practice, permanent transfers to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, 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) and discontinued operations are excluded from SHS's performance indicator.

#### **Patient Accounts Receivable and Net Patient Service Revenue**

Patient accounts receivable result from the health care and related services provided by SHS. 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.

Net patient service revenue is reported at the estimated net realizable amounts 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.

Revenue from resident services consists primarily of monthly resident maintenance fees earned by CCRC. Such fees are recognized as revenue in the month that CCRC is obligated to provide services to residents. Revenue from resident services for the year ended September 30, 2011, is included in discontinued operations in the accompanying consolidated statements of operations.

#### **Charity Care**

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

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

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

#### **Contributions**

Unconditional promises to give cash and other assets to SHS 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 as other income 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.

#### **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 liability may vary significantly from the amount provided.

#### **Income Taxes**

SHS is a not-for-profit corporation and all of its not-for-profit affiliates have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Its related income is not subject to federal or state income taxes. The for-profit affiliates of SHS include FCSS,

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

OB/GYN, FCOB/GYN, PMG and FCPC. The related incomes of these affiliates are subject to federal and state income taxes. No significant liabilities exist as of September 30, 2011 and 2010, for applicable federal and state taxes.

#### Pension Plans

The policy of SHS 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. SHS is evaluating the impact of ASU 2010-23 on its consolidated financial statements.

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. SHS 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

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

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

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. SHS 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 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

## Stamford Health System

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

#### 2. Community Benefit and Charity Care (continued)

Stamford 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>

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.

## Stamford Health System

### Notes to Consolidated Financial Statements (continued)

(In Thousands)

#### 3. Net Patient Service Revenue

SHS has agreements with third-party payors that provide for payments to TSH at amounts different from its established rates. A summary of the payment arrangements of TSH with major third-party payors follows:

*Medicare* – Hospitals are paid for most Medicare inpatient and outpatient services under national prospective payment systems and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current year payment rates, based on industry-wide and hospital-specific data. TSH is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by TSH and audits thereof by the Medicare fiscal intermediary. The classification of patients of TSH under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with TSH. The Medicare cost reports of TSH 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 on cost-based and fee schedule methodologies. TSH is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by TSH and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of TSH for 2008 and prior have been tentatively settled. All Medicaid cost reports are subject to audit and finalization by the State of Connecticut.

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

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

## Stamford Health System

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

#### **3. Net Patient Service Revenue (continued)**

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, TSH 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), TSH 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.

TSH 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, TSH 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 TSH's uninsured patients will be unable or unwilling to pay for the services provided. Thus, TSH records a significant provision for bad debts related to uninsured patients in the period the services are provided.

## Stamford Health System

### 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.

	<b>Third-Party Payors</b>	<b>Self-Pay</b>	<b>Total All Payors</b>
Patient service revenue (net of contractual allowances and discounts)	\$ 454,302	\$ 34,193	\$ 488,495

SHS 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 SHS. 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, TSH recorded approximately \$1,137 and \$548, respectively, of previously recorded estimated third-party payor settlement liabilities that were no longer considered necessary and were included as increases in net patient service revenue.

The percentages of net patient service revenue provided by TSH from various third-party payors and patients were as follows for the years ended September 30, 2011 and 2010:

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

## Stamford Health System

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

#### 3. Net Patient Service Revenue (continued)

CCRC provides care to patients under the Medicare program. Resident services revenue from the Medicare program accounted for approximately 29% and 27% of total CCRC revenue for each of the years ended September 30, 2011 and 2010, respectively.

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. SHS 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

The composition of assets limited as to use at September 30, 2011 and 2010, is as follows:

	<b>2011</b>	<b>2010</b>
Current portion:		
Cash and cash equivalents	\$ 572	\$ 1,724
Mutual funds	176	150
	\$ 748	\$ 1,874
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
Capital expenditures:		
Cash and cash equivalents	\$ 8,760	\$ 13,830
Held by trustee – debt service:		
Guaranteed investment contracts	\$ 1,699	\$ 1,699

## Stamford Health System

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

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

	2011	2010
Long-term investments – endowments:		
Cash and cash equivalents	\$ 767	\$ 583
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
	\$ 8,080	\$ 8,080

The composition of investments at September 30, 2011 and 2010, includes:

	2011	2010
Short-term investments:		
Mutual funds	\$ 25,033	\$ 24,454
Long-term investments:		
Cash and cash equivalents	\$ 7,960	\$ 5,191
Mutual funds	56,401	51,477
Alternative investments – hedge funds	27,756	29,105
Alternative investments – limited partnerships	11,718	12,404
Private mutual funds	2,309	4,762
	\$ 106,144	\$ 102,939

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

	2011			2010		
	Temporarily		Total	Temporarily		Total
	Unrestricted	Restricted		Unrestricted	Restricted	
Ordinary income						
(interest and dividends)	\$ 743	\$ 219	\$ 962	\$ 726	\$ 208	\$ 934
Net realized gains and losses	(312)	121	(191)	1,877	305	2,182
(Losses) gains from alternative investments	(2,696)	(170)	(2,866)	4,063	363	4,426
Investment returns	(2,265)	170	(2,095)	6,666	876	7,542
Change in net unrealized gains and losses	1,542	(227)	1,315	(190)	(1)	(191)
	\$ (723)	\$ (57)	\$ (780)	\$ 6,476	\$ 875	\$ 7,351

## Stamford Health System

### 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 as follows:

	2011	2010
Land	\$ 43,699	\$ 49,392
Land improvements	5,083	6,250
Buildings and improvements	191,285	258,253
Fixed and major movable equipment	308,359	299,930
Leasehold improvements	11,236	10,241
	559,662	624,066
Less accumulated depreciation and amortization	329,376	329,471
	230,286	294,595
Construction-in-progress	23,297	20,384
	\$ 253,583	\$ 314,979

Included in property, plant and equipment are assets under capital leases of approximately \$1,983 and \$989 at September 30, 2011 and 2010, respectively, (\$1,487 for 2011 and \$775 for 2010, net of accumulated amortization).

Depreciation and amortization expense for the years ended September 30, 2011 and 2010, was \$29,299 and \$32,505, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of approximately \$282 and \$171 for the years ended September 30, 2011 and 2010, respectively. Included in property, plant and equipment at September 30, 2011 and 2010, is \$936 and \$383, respectively, of interest capitalized on construction in progress.

## Stamford Health System

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

#### 5. Property, Plant and Equipment (continued)

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. 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:

	<b>2011</b>	<b>2010</b>
Health care services:		
Purchase of equipment	\$ 4,006	\$ 3,259
Patient care	15,886	17,659
Health education	1,131	938
	<u>\$ 21,023</u>	<u>\$ 21,856</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.

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

### **6. Net Assets (continued)**

SHS follows the requirements of Uniform Prudent Management Institutional Funds Act (“UPMIFA”) as they relate to its endowments. SHS’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 SHS to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SHS 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, SHS 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 SHS 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 SHS
- The investment policies of SHS

## Stamford Health System

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

#### 6. Net Assets (continued)

SHS 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 SHS 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, SHS 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). SHS 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 tables set forth the changes to assets as they relate to SHS's endowments for the years ended September 30, 2011 and 2010:

	<b>2011</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment assets, September 30, 2010	\$ 1,477	\$ 8,080	\$ 9,557
Investment return (realized and unrealized)	(55)	-	(55)
Appropriation of endowment assets for expenditure	(517)	-	(517)
Endowment assets, September 30, 2011	<u>\$ 905</u>	<u>\$ 8,080</u>	<u>\$ 8,985</u>
	<b>2010</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment assets, September 30, 2009	\$ 1,378	\$ 8,030	\$ 9,408
Investment return (realized and unrealized)	874	-	874
Contributions	-	50	50
Appropriation of endowment assets for expenditure	(775)	-	(775)
Endowment assets, September 30, 2010	<u>\$ 1,477</u>	<u>\$ 8,080</u>	<u>\$ 9,557</u>

## Stamford Health System

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

#### 6. Net Assets (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of UPMIFA requires SHS 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.

#### 7. Long-Term Debt

At September 30, 2011 and 2010, long-term debt consists of the following:

	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 5.25% with the final payment due in 2030	\$ 129,661	\$ 133,965
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Edgehill Issue, Series C, payable in varying annual amounts with variable interest rates of 0.30% and 0.27% at September 30, 2011 and 2010, respectively, with the final payment due in 2027	17,000	17,600
Term promissory note, with variable interest rates, 2.51% and 2.50% at September 30, 2011 and 2010, respectively, with the final payment due May 31, 2011	–	3,447
Term promissory notes bearing interest at LIBOR plus 2.00%, maturing June 1, 2021	9,864	–
City of Stamford, sewer connection fee loan, payable in annual installments through 2013 (non-interest bearing)	25	37
Capital lease obligations	1,412	756
	157,962	155,805
Less unamortized bond discount	63	70
Less current portion	6,018	8,592
Total long-term debt	\$ 151,881	\$ 147,143

## Stamford Health System

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **7. 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, 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.

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, the SHS was in compliance with such debt covenants.

The Hospital and CCRC entered into several capital lease obligations in 2011 and 2010 for medical equipment and information technology storage devices. At September 30, 2011 and 2010, the asset value for the leases approximated \$1,074 and \$671, respectively.

## Stamford Health System

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

#### **7. Long-Term Debt (continued)**

The Edgehill Issue, Series C bonds are secured under a mortgage which places a lien on and a security interest in the real property, buildings, equipment, furnishings, personal property and fixtures and gross receipts of Edgehill. In addition, CCRC must satisfy certain measures of financial performance, defined in the Indenture Agreement, as long as the Revenue Bonds are outstanding. CCRC was in compliance with all financial covenants related to the Revenue Bonds at September 30, 2011 and 2010. CCRC obtained a letter of credit with KBC Bank (the “KBC Letter of Credit”) concurrent with the bond closing specifically related to the Revenue Bonds in the amount of \$22,346. On October 1, 2010, CCRC replaced the KBC Letter of Credit with a substitute letter of credit with JP Morgan Chase (the “JP Morgan Chase Letter of Credit”). The JP Morgan Chase Letter of Credit expires on October 21, 2013. As of September 30, 2011 and 2010, the face amount of the JP Morgan and KBC Letters of Credit was \$17,196 and \$17,889, respectively. The KBC Letter of Credit was extended in the year ended September 30, 2005, and was due to expire on December 13, 2010.

On November 14, 2011, SHS sold the CCRC facility to an outside party for approximately \$71,500 (see Note 1). Proceeds of the sale were used to fund an escrow account set up to provide for the payment of the Series C bonds at a redemption price of 100% of the principal amount plus accrued interest, on the redemption date of January 4, 2012.

In May 2011, MHMS entered into a term mortgage note agreement with Stamford First Bank, a Division of The Bank of New Canaan for \$5,900 with a variable interest at an adjustable rate equal to two hundred (200) basis points above the current LIBOR rate. This new agreement replaces the term promissory note agreement with Sovereign Bank. The mortgage note is payable in monthly installments and matures June 1, 2021. SHS, as guarantor, must maintain certain financial ratios with respect to the term mortgage note. As of September 30, 2011, SHS was in compliance with such debt covenants.

In 2001, MHMS entered into a term promissory note agreement with Sovereign Bank for \$4,100 with a variable interest rate on the unpaid balance. The loan was payable in monthly installments and matured May 31, 2006. Under the terms of the note, the loan was extended for an additional 60 months by paying a 1% fee of the outstanding balance. The final maturity date was May 31, 2011. The promissory note was paid in full in 2011.

## Stamford Health System

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

#### 7. Long-Term Debt (continued)

Scheduled principal payments on long-term debt and capital lease obligations are as follows:

	<b>Loans Payable</b>	<b>Capital Leases</b>	<b>Total</b>
Fiscal year:			
2012	\$ 5,585	\$ 433	\$ 6,018
2013	5,757	414	6,171
2014	6,072	446	6,518
2015	6,299	119	6,418
2016	6,536	–	6,536
Thereafter	126,301	–	126,301
Total minimum payments	156,550	1,412	157,962
Less unamortized bond discount	63	–	63
Total long-term debt	156,487	1,412	157,899
Less current portion of long-term debt	5,585	433	6,018
	<u>\$ 150,902</u>	<u>\$ 979</u>	<u>\$ 151,881</u>

#### 8. Retirement Benefits

##### Defined Benefit Pension Plan

SHS has four defined benefit pension 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. Benefits are based on age at retirement, years of credited service and average compensation for a specified period prior to retirement. The other plans are Supplementary Executive Retirement Programs (the “SERPs”) covering certain employees which provide 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 plans. These are nonqualified plans and are unfunded.

## Stamford Health System

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

#### 8. Retirement Benefits (continued)

SHS 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 cost:

	<b>2011</b>		
	<b>Plan</b>	<b>SERPs</b>	<b>Total</b>
Unrecognized prior service cost	\$ (10)	\$ —	\$ (10)
Unrecognized actuarial loss	(109,506)	(6,116)	(115,622)
	\$ (109,516)	\$ (6,116)	\$ (115,632)
	<b>2010</b>		
	<b>Plan</b>	<b>SERPs</b>	<b>Total</b>
Unrecognized prior service cost	\$ (16)	\$ —	\$ (16)
Unrecognized actuarial loss	(96,445)	(5,497)	(101,942)
	\$ (96,461)	\$ (5,497)	\$ (101,958)

## Stamford Health System

### 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:

	<b>Plan</b>	<b>SERPs</b>
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:

	<b>Plan</b>		<b>SERPs</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Benefit obligation</b>						
Benefit obligation, beginning of year	<b>\$ 218,720</b>	\$ 186,735	<b>\$ 11,518</b>	\$ 10,805	<b>\$ 230,238</b>	\$ 197,540
Service cost	<b>3,604</b>	3,184	–	–	<b>3,604</b>	3,184
Interest cost	<b>11,326</b>	11,042	<b>583</b>	625	<b>11,909</b>	11,667
Actuarial losses	<b>10,695</b>	23,626	<b>862</b>	878	<b>11,557</b>	24,504
Benefits paid	<b>(6,390)</b>	(5,867)	<b>(789)</b>	(790)	<b>(7,179)</b>	(6,657)
Benefit obligation, end of year	<b>237,955</b>	218,720	<b>12,174</b>	11,518	<b>250,129</b>	230,238
<b>Plan assets</b>						
Fair value of plan assets, beginning of year	<b>139,373</b>	123,765	–	–	<b>139,373</b>	123,765
Actual return on plan assets	<b>(1,100)</b>	8,775	–	–	<b>(1,100)</b>	8,775
Employer contributions	<b>15,000</b>	12,700	<b>789</b>	790	<b>15,789</b>	13,490
Benefits paid	<b>(6,390)</b>	(5,867)	<b>(789)</b>	(790)	<b>(7,179)</b>	(6,657)
Fair value of plan assets, end of year	<b>146,883</b>	139,373	–	–	<b>146,883</b>	139,373
Funded status	<b>(91,072)</b>	(79,347)	<b>(12,174)</b>	(11,518)	<b>(103,246)</b>	(90,865)
Current portion of obligation	–	–	<b>(783)</b>	(782)	<b>(783)</b>	(782)
Noncurrent portion of obligation	<b>(91,072)</b>	(79,347)	<b>(11,391)</b>	(10,736)	<b>(102,463)</b>	(90,083)
Total	<b>\$ (91,072)</b>	\$ (79,347)	<b>\$ (12,174)</b>	\$ (11,518)	<b>\$ (103,246)</b>	\$ (90,865)

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.

## Stamford Health System

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

#### 8. Retirement Benefits (continued)

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

	Plan		SERPs	
	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		SERPs		Total	
	2011	2010	2011	2010	2011	2010
Service cost	\$ 3,604	\$ 3,184	\$ –	\$ –	\$ 3,604	\$ 3,184
Interest cost	11,326	11,042	583	625	11,909	11,667
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	242	195	9,403	7,713
Net periodic pension cost	\$ 13,671	\$ 12,561	\$ 825	\$ 820	\$ 14,496	\$ 13,381

## Stamford Health System

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

#### 8. Retirement Benefits (continued)

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

	Plan		SERPs	
	2011	2010	2011	2010
Discount rate	<b>5.25%</b>	6.00%	<b>5.25%</b>	6.00%
Expected long-term rate of return on plan assets	<b>7.25</b>	7.25	–	–
Rate of compensation increase	<b>3.50</b>	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.

#### Plan Assets

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

	2011	2010
Equity securities	<b>17%</b>	23%
Fixed income securities	<b>27</b>	29
Alternative investments – limited partnerships	<b>14</b>	12
Alternative investments – hedge funds	<b>29</b>	28
Cash and cash equivalents	<b>13</b>	8
	<b>100%</b>	100%

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

### 8. Retirement Benefits (continued)

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

	<b>Target Allocation</b>	<b>Allocation Range</b>
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.

### Cash Flows

SHS expects to contribute approximately \$30,452 to the plans during fiscal year 2012.

## Stamford Health System

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

#### 8. Retirement Benefits (continued)

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

	Plan	SERPs	Total
Fiscal year ending September 30:			
2012	\$ 7,167	\$ 803	\$ 7,970
2013	7,845	808	8,653
2014	8,713	811	9,524
2015	9,802	824	10,626
2016	10,750	821	11,571
2017 through 2021	68,997	4,236	73,233

#### Defined Contribution Plan

On January 1, 2003, SHS established the DC Plan. Existing SHS employees and employees of its affiliates were given the option of forgoing 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.

#### 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.

## Stamford Health System

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

#### **9. Professional Liability Insurance (continued)**

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 non-current 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.

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.

# Stamford Health System

## Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

### **9. Professional Liability Insurance (continued)**

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.

CCRC has purchased professional liability insurance with coverage on a claims-made basis up to \$1,000 per occurrence, with an aggregate limit of \$3,000. Management believes costs associated with claims incurred but not reported are not significant as of September 30, 2011 and 2010.

### **10. Commitments and Contingencies**

#### **Litigation**

Various investigations, lawsuits and claims arising out of the normal course of operations are pending or on appeal against SHS. 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 financial position or results of operations of SHS.

#### **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.

## Stamford Health System

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

#### 10. Commitments and Contingencies (continued)

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 2011 and 2010.

#### 11. Concentration of Credit Risk

TSH is located in Stamford, Connecticut. TSH 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 SHS were held in custodial accounts at four financial institutions. Management believes that credit risk related to these deposits is minimal.

## Stamford Health System

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

#### 12. Functional Expenses

SHS provides general health care services to residents within its geographic area. Expenses related to providing these services for the years ended September 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Health care and resident services	\$ 392,067	\$ 377,758
General and administrative	46,621	50,012
	<u>\$ 438,688</u>	<u>\$ 427,770</u>

#### 13. 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.

## Stamford Health System

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

#### 13. Fair Value of Financial Instruments (continued)

The methods described 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 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			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 128,208	\$ —	\$ —	\$ 128,208
Mutual funds-Fixed Income	72,075	—	—	72,075
Mutual funds-Multi Industry	14,892	—	—	14,892
Mutual funds-Government	75	—	—	75
Private mutual funds <sup>(a)</sup>	—	2,562	—	2,562
Guaranteed investment contract	—	—	1,699	1,699
Assets held-for-sale:				
Cash and cash equivalents	300	—	—	300
Deposits – resident waiting list	475	—	—	475
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 <sup>(a)</sup>	4,155	—	—	4,155
Partnerships <sup>(b)</sup>	—	7,364	8,623	15,987
Hedge funds <sup>(c)</sup>	—	41,654	—	41,654
	<u>\$ 305,267</u>	<u>\$ 51,580</u>	<u>\$ 10,322</u>	<u>\$ 367,169</u>

## Stamford Health System

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

#### 13. Fair Value of Financial Instruments (continued)

	2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 90,835	\$ —	\$ —	\$ 90,835
Mutual funds	84,264	—	—	84,264
Private mutual funds <sup>(a)</sup>	—	5,279	—	5,279
Guaranteed investment contract	—	—	1,699	1,699
Deposits – resident waiting list	610	—	—	610
Defined benefit plan assets:				
Cash and cash equivalents	10,915	—	—	10,915
Mutual funds	60,469	—	—	60,469
Private mutual funds <sup>(a)</sup>	8,871	—	—	8,871
Partnerships <sup>(b)</sup>	—	7,438	9,196	16,634
Hedge funds <sup>(c)</sup>	—	39,292	3,192	42,484
	\$ 255,964	\$ 52,009	\$ 14,087	\$ 322,060

(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. SHS 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 SHS determined this amount is redeemable in the near-term given its ability to redeem the investment monthly or quarterly. SHS 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.

## Stamford Health System

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

#### 13. Fair Value of Financial Instruments (continued)

(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 SHS 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.

SHS'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 following table sets forth a summary of changes in the fair value of SHS's Level 3 assets for the years ended September 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Fair value at September 30, 2010	\$ <b>14,087</b>	\$ 10,303
Investment income, net of fees	<b>(167)</b>	87
Net realized losses	<b>(792)</b>	(639)
Unrealized gains relating to instruments held at reporting date	<b>960</b>	1,292
Purchases, sales, issuances and settlements, net	<b>(574)</b>	3,044
Transfers out of Level 3	<b>(3,192)</b>	-
Fair value at September 30, 2011	<b>\$ 10,322</b>	\$ 14,087

## Stamford Health System

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

#### 13. Fair Value of Financial Instruments (continued)

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	\$ 167,420	\$ 157,899	\$ 162,232	\$ 155,735

#### 14. Operating Lease Obligations

SHS 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	\$ 8,038
2013	7,966
2014	7,716
2015	7,577
2016	7,791
Thereafter	37,032
Total minimum operating lease payments	\$ 76,120

Total nonaffiliate rental expense charged to operations for the years ended September 30, 2011 and 2010, aggregated approximately \$7,098 and \$6,813, 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.

## Stamford Health System

### Notes to Consolidated Financial Statements (continued)

(In Thousands)

#### 14. Operating Lease Obligations (continued)

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

2012	\$	3,772
2013		3,295
2014		2,849
2015		2,333
2016		1,697
Thereafter		8,706
Total minimum operating lease payments	\$	<u>22,652</u>

Total nonaffiliate rental income recorded in operations for the years ended September 30, 2011 and 2010, aggregated approximately \$3,861 and \$4,033, respectively.

#### 15. 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, except those already disclosed or noted below.

As discussed in Note 1, on November 14, 2011, SHS sold the CCRC facility and certain other net assets of CCRC to an outside party for approximately \$71,500.

## Other Financial Information

**Stamford Health System**  
**Consolidating Balance Sheet**  
*(In Thousands)*

September 30, 2011

	<b>Stamford Health System</b>	<b>The Stamford Hospital</b>	<b>Edgehill (CCRC)</b>	<b>Miller Hall Medical Suites</b>	<b>OB/GYN</b>	<b>Premier Medical Group</b>	<b>Eliminations</b>	<b>Consolidated Balance</b>
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 835	\$ 82,011	\$ 10,191	\$ 1,189	\$ 102	\$ 170	\$ –	\$ 94,498
Assets limited as to use	75	159	407	107	–	–	–	748
Short-term investments	–	276	24,757	–	–	–	–	25,033
Patient accounts receivable, net	–	62,118	(59)	–	180	194	–	62,433
Other receivables	777	5,763	6	89	–	1	–	6,636
Due from third parties, current portion	–	2,592	–	–	–	–	–	2,592
Current assets held-for-sale	–	–	1,566	–	–	–	–	1,566
Other current assets	71	8,910	209	23	–	4	–	9,217
<b>Total current assets</b>	<b>1,758</b>	<b>161,829</b>	<b>37,077</b>	<b>1,408</b>	<b>282</b>	<b>369</b>	<b>–</b>	<b>202,723</b>
Assets limited as to use:								
Held by captive insurance company	–	25,977	–	–	–	–	–	25,977
Capital expenditures	–	1,357	7,403	–	–	–	–	8,760
Held by trustee – debt service	–	–	1,699	–	–	–	–	1,699
Due from SHS – donor restricted	–	18,642	–	–	–	–	(18,642)	–
Long-term investments – endowments	47	8,033	–	–	–	–	–	8,080
Held-for-sale	–	–	300	–	–	–	–	300
	47	54,009	9,402	–	–	–	(18,642)	44,816
Long-term investments	40,718	55,225	10,250	–	–	–	(49)	106,144
Property, plant and equipment, net	5,136	244,127	–	4,217	–	103	–	253,583
Due from TSH – board designated	20,014	–	–	–	–	–	(20,014)	–
Due from Parent and affiliates	4,013	4,251	–	2,849	6	–	(11,119)	–
Noncurrent assets held-for-sale	–	–	63,922	–	–	–	–	63,922
Other assets	3,956	2,561	174	45	–	83	–	6,819
<b>Total assets</b>	<b>\$ 75,642</b>	<b>\$ 522,002</b>	<b>\$ 120,825</b>	<b>\$ 8,519</b>	<b>\$ 288</b>	<b>\$ 555</b>	<b>\$ (49,824)</b>	<b>\$ 678,007</b>

# Stamford Health System

## Consolidating Balance Sheet (continued) (In Thousands)

September 30, 2011

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Premier Medical Group	Eliminations	Consolidated Balance
<b>Liabilities and net assets (deficiency)</b>								
Current liabilities:								
Current portion of long-term debt	\$ —	\$ 5,018	\$ 713	\$ 240	\$ —	\$ 47	\$ —	\$ 6,018
Accounts payable and accrued expenses	2,889	48,242	124	126	75	41	—	51,497
Salaries, wages and fees payable	—	10,173	—	—	—	3	—	10,176
Accrued vacation liability	—	16,031	—	—	—	2	—	16,033
Estimated third-party payor settlements, current	—	5,424	—	—	—	—	—	5,424
Estimated professional liabilities, current	—	4,830	—	—	—	—	—	4,830
Current liabilities held-for-sale	—	—	3,942	—	—	—	—	3,942
<b>Total current liabilities</b>	<b>2,889</b>	<b>89,718</b>	<b>4,779</b>	<b>366</b>	<b>75</b>	<b>93</b>	<b>—</b>	<b>97,920</b>
Pension liabilities	10,509	91,954	—	—	—	—	—	102,463
Estimated third-party payor settlements, net of current portion	—	5,860	—	—	—	—	—	5,860
Long-term debt, net of current portion	—	130,025	16,276	5,580	—	—	—	151,881
Due to Parent – board designated	—	20,014	—	—	—	—	(20,014)	—
Due to TSH – donor restricted	18,642	—	—	—	—	—	(18,642)	—
Due to Parent and affiliates	3,063	6,717	13	—	467	859	(11,119)	—
Deferred revenue – entrance fees	—	—	8,833	—	—	—	—	8,833
Estimated professional liabilities	—	28,965	—	—	—	—	—	28,965
Long-term liabilities held-for-sale	—	—	83,971	—	—	—	—	83,971
<b>Total liabilities</b>	<b>35,103</b>	<b>373,253</b>	<b>113,872</b>	<b>5,946</b>	<b>542</b>	<b>952</b>	<b>(49,775)</b>	<b>479,893</b>
Net assets (deficiency):								
Unrestricted	38,131	122,054	26,194	2,573	(254)	(397)	(49)	188,252
Unrestricted – held-for-sale	—	—	(19,241)	—	—	—	—	(19,241)
<b>Total unrestricted</b>	<b>38,131</b>	<b>122,054</b>	<b>6,953</b>	<b>2,573</b>	<b>(254)</b>	<b>(397)</b>	<b>(49)</b>	<b>169,011</b>
Temporarily restricted	2,361	18,662	—	—	—	—	—	21,023
Permanently restricted	47	8,033	—	—	—	—	—	8,080
<b>Total net assets (deficiency)</b>	<b>40,539</b>	<b>148,749</b>	<b>6,953</b>	<b>2,573</b>	<b>(254)</b>	<b>(397)</b>	<b>(49)</b>	<b>198,114</b>
<b>Total liabilities and net assets (deficiency)</b>	<b>\$ 75,642</b>	<b>\$ 522,002</b>	<b>\$ 120,825</b>	<b>\$ 8,519</b>	<b>\$ 288</b>	<b>\$ 555</b>	<b>\$ (49,824)</b>	<b>\$ 678,007</b>

**Stamford Health System**  
**Consolidating Balance Sheet**  
*(In Thousands)*

September 30, 2010

	<b>Stamford Health System</b>	<b>The Stamford Hospital</b>	<b>Edgehill (CCRC)</b>	<b>Miller Hall Medical Suites</b>	<b>OB/GYN</b>	<b>Fairfield Surgical</b>	<b>Fairfield Primary</b>	<b>Premier Medical Group</b>	<b>Fairfield OB/GYN</b>	<b>SHIP</b>	<b>Eliminations</b>	<b>Consolidated Balance</b>
<b>Assets</b>												
Current assets:												
Cash and cash equivalents	\$ 792	\$ 49,254	\$ 6,153	\$ 802	\$ 170	\$ 239	\$ 592	\$ 348	\$ 176	\$ 15	\$ -	\$ 58,541
Assets limited as to use	126	176	1,459	113	-	-	-	-	-	-	-	1,874
Short-term investments	-	188	24,266	-	-	-	-	-	-	-	-	24,454
Patient accounts receivable, net	-	51,552	890	-	134	339	82	545	209	-	-	53,751
Other receivables	428	736	-	45	-	1	3	1	1	-	-	1,215
Due from third parties, current portion	-	3,941	-	-	-	-	-	-	-	-	-	3,941
Deposits – resident waiting list	-	-	610	-	-	-	-	-	-	-	-	610
Other current assets	26	9,808	273	22	-	-	-	37	10	-	-	10,176
<b>Total current assets</b>	<b>1,372</b>	<b>115,655</b>	<b>33,651</b>	<b>982</b>	<b>304</b>	<b>579</b>	<b>677</b>	<b>931</b>	<b>396</b>	<b>15</b>	<b>-</b>	<b>154,562</b>
Assets limited as to use:												
Held by captive insurance company	-	24,341	-	-	-	-	-	-	-	-	-	24,341
Capital expenditures	-	6,895	6,935	-	-	-	-	-	-	-	-	13,830
Held by trustee – debt service	-	-	1,699	-	-	-	-	-	-	-	-	1,699
Due from SHS – donor restricted	-	18,642	-	-	-	-	-	-	-	-	(18,642)	-
Long-term investments – endowments	47	8,033	-	-	-	-	-	-	-	-	-	8,080
	47	57,911	8,634	-	-	-	-	-	-	-	(18,642)	47,950
Long-term investments	40,634	52,063	10,291	-	-	-	-	-	-	-	(49)	102,939
Property, plant and equipment, net	7,070	239,321	63,551	4,036	-	133	41	367	134	326	-	314,979
Due from TSH – board designated	19,913	-	-	-	-	-	-	-	-	-	(19,913)	-
Due from Parent and affiliates	2,235	759	-	755	-	1	-	-	143	-	(3,893)	-
Other assets	4,211	2,207	485	5	-	-	504	83	-	-	-	7,495
<b>Total assets</b>	<b>\$ 75,482</b>	<b>\$ 467,916</b>	<b>\$ 116,612</b>	<b>\$ 5,778</b>	<b>\$ 304</b>	<b>\$ 713</b>	<b>\$ 1,222</b>	<b>\$ 1,381</b>	<b>\$ 673</b>	<b>\$ 341</b>	<b>\$ (42,497)</b>	<b>\$ 627,925</b>

## Stamford Health System

### Consolidating Balance Sheet (continued) (In Thousands)

September 30, 2010

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance
<b>Liabilities and net assets (deficiency)</b>												
Current liabilities:												
Current portion of long-term debt	\$ -	\$ 4,413	\$ 616	\$ 3,447	\$ -	\$ -	\$ -	\$ 116	\$ -	\$ -	\$ -	\$ 8,592
Accounts payable and accrued expenses	2,552	34,231	9,197	274	70	23	52	113	53	83	-	46,648
Salaries, wages and fees payable	-	10,547	-	-	-	247	13	108	87	34	-	11,036
Accrued vacation liability	-	15,476	-	-	-	299	7	19	88	-	-	15,889
Estimated third-party payor settlements, current	-	2,813	-	-	-	-	-	-	-	-	-	2,813
Estimated professional liabilities, current	-	6,414	-	-	-	-	-	-	-	-	-	6,414
<b>Total current liabilities</b>	<b>2,552</b>	<b>73,894</b>	<b>9,813</b>	<b>3,721</b>	<b>70</b>	<b>569</b>	<b>72</b>	<b>356</b>	<b>228</b>	<b>117</b>	<b>-</b>	<b>91,392</b>
Pension liabilities	9,905	80,178	-	-	-	-	-	-	-	-	-	90,083
Estimated third-party payor settlements, net of current portion	-	9,152	-	-	-	-	-	-	-	-	-	9,152
Long-term debt, net of current portion	-	130,114	16,982	-	-	-	-	47	-	-	-	147,143
Due to Parent – board designated	-	19,913	-	-	-	-	-	-	-	-	(19,913)	-
Due to TSH – donor restricted	18,642	-	-	-	-	-	-	-	-	-	(18,642)	-
Due to Parent and affiliates	-	2,836	760	33	243	-	-	-	1	20	(3,893)	-
Deferred revenue – entrance fees	-	-	87,180	-	-	-	-	-	-	-	-	87,180
Estimated professional liabilities	-	24,157	-	-	-	-	-	-	-	-	-	24,157
<b>Total liabilities</b>	<b>31,099</b>	<b>340,244</b>	<b>114,735</b>	<b>3,754</b>	<b>313</b>	<b>569</b>	<b>72</b>	<b>403</b>	<b>229</b>	<b>137</b>	<b>(42,448)</b>	<b>449,107</b>
Net assets (deficiency):												
Unrestricted	41,975	100,144	1,877	2,024	(9)	144	1,150	978	444	204	(49)	148,882
Temporarily restricted	2,361	19,495	-	-	-	-	-	-	-	-	-	21,856
Permanently restricted	47	8,033	-	-	-	-	-	-	-	-	-	8,080
<b>Total net assets (deficiency)</b>	<b>44,383</b>	<b>127,672</b>	<b>1,877</b>	<b>2,024</b>	<b>(9)</b>	<b>144</b>	<b>1,150</b>	<b>978</b>	<b>444</b>	<b>204</b>	<b>(49)</b>	<b>178,818</b>
<b>Total liabilities and net assets (deficiency)</b>	<b>\$ 75,482</b>	<b>\$ 467,916</b>	<b>\$ 116,612</b>	<b>\$ 5,778</b>	<b>\$ 304</b>	<b>\$ 713</b>	<b>\$ 1,222</b>	<b>\$ 1,381</b>	<b>\$ 673</b>	<b>\$ 341</b>	<b>\$ (42,497)</b>	<b>\$ 627,925</b>

## Stamford Health System

### Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2011

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	Eliminations	Consolidated Balance
Unrestricted revenue, gains and other support:											
Net patient service revenue	\$ -	\$ 484,060	\$ -	\$ -	\$ 407	\$ 1,471	\$ 238	\$ 1,480	\$ 839	\$ -	\$ 488,495
Provision for bad debts	-	(47,360)	-	-	-	-	-	-	-	-	(47,360)
Net patient service revenue less provision for bad debts	-	436,700	-	-	407	1,471	238	1,480	839	-	441,135
Other revenue	2,104	21,567	-	1,335	-	-	6	149	9	(2,027)	23,143
Net assets released from restrictions for operations	-	2,397	-	-	-	-	-	-	-	-	2,397
Total unrestricted revenue, gains and other support	2,104	460,664	-	1,335	407	1,471	244	1,629	848	(2,027)	466,675
Expenses:											
Salaries	-	182,162	-	-	-	1,718	64	1,832	754	578	187,108
Employee benefits	787	50,466	-	-	-	315	26	131	138	-	51,863
Supplies and other expenses	2,463	161,661	-	463	652	531	160	914	500	(2,606)	164,738
Depreciation and amortization	605	28,352	-	192	-	18	4	120	8	-	29,299
Interest expense	-	5,545	-	131	-	-	-	7	-	-	5,683
Total expenses	3,855	428,186	-	786	652	2,582	254	3,004	1,400	(2,028)	438,691
(Loss) income from operations	(1,751)	32,478	-	549	(245)	(1,111)	(10)	(1,375)	(552)	1	27,984

## Stamford Health System

### Consolidating Statement of Operations (continued) (In Thousands)

Year Ended September 30, 2011

	<b>Stamford Health System</b>	<b>The Stamford Hospital</b>	<b>Edgehill (CCRC)</b>	<b>Miller Hall Medical Suites</b>	<b>OB/GYN</b>	<b>Fairfield Surgical</b>	<b>Fairfield Primary</b>	<b>Premier Medical Group</b>	<b>Fairfield OB/GYN</b>	<b>Eliminations</b>	<b>Consolidated</b>
(Loss) income from operations (continued from page 51)	\$ (1,751)	\$ 32,478	\$ -	\$ 549	\$ (245)	\$ (1,111)	\$ (10)	\$ (1,375)	\$ (552)	\$ 1	\$ 27,984
Nonoperating gains and losses:											
Investment returns	(1,164)	(1,100)	-	-	-	-	-	-	-	(1)	(2,265)
Changes in net unrealized gains and losses	1,004	538	-	-	-	-	-	-	-	-	1,542
Total nonoperating gains and losses	(160)	(562)	-	-	-	-	-	-	-	(1)	(723)
(Deficiency) excess of revenue over expenses	(1,911)	31,916	-	549	(245)	(1,111)	(10)	(1,375)	(552)	-	27,261
Net assets released from restrictions used for purchases of property and equipment	-	1,466	-	-	-	-	-	-	-	-	1,466
Equity transfer	(1,543)	1,608	-	-	-	967	(1,140)	-	108	-	-
Pension-related changes other than net periodic pension cost	(594)	(13,080)	-	-	-	-	-	-	-	-	(13,674)
(Decrease) increase in unrestricted net assets before discontinued operations	(4,048)	21,910	-	549	(245)	(144)	(1,150)	(1,375)	(444)	-	15,053
Discontinued operations	-	-	5,076	-	-	-	-	-	-	-	5,076
(Decrease) increase in unrestricted net assets	\$ (4,048)	\$ 21,910	\$ 5,076	\$ 549	\$ (245)	\$ (144)	\$ (1,150)	\$ (1,375)	\$ (444)	\$ -	\$ 20,129

# Stamford Health System

## Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2010

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance
Unrestricted revenue, gains and other support:												
Net patient service revenue	\$ -	\$ 436,167	\$ -	\$ -	\$ 394	\$ 2,581	\$ 1,036	\$ 4,627	\$ 1,584	\$ -	\$ -	\$ 446,389
Provision for bad debts	-	(43,115)	-	-	-	-	-	-	-	-	-	(43,115)
Net patient service revenue less provision for bad debts	-	393,052	-	-	394	2,581	1,036	4,627	1,584	-	-	403,274
Resident services	-	-	18,964	-	-	-	-	-	-	-	-	18,964
Other revenue	2,594	19,366	4,226	1,121	-	-	24	144	-	-	(2,220)	25,255
Net assets released from restrictions for operations	-	2,980	-	-	-	-	-	-	-	-	-	2,980
Total unrestricted revenue, gains and other support	2,594	415,398	23,190	1,121	394	2,581	1,060	4,771	1,584	-	(2,220)	450,473
Expenses:												
Salaries	-	163,585	-	-	-	2,880	232	4,020	1,263	451	688	173,119
Employee benefits	780	44,482	-	-	-	543	82	398	244	110	-	46,639
Supplies and other expenses	2,789	146,807	17,723	617	636	1,057	715	1,690	897	407	(2,908)	170,430
Depreciation and amortization	739	27,392	3,351	167	-	33	631	176	16	-	-	32,505
Interest expense	-	4,877	86	97	-	-	-	17	-	-	-	5,077
Total expenses	4,308	387,143	21,160	881	636	4,513	1,660	6,301	2,420	968	(2,220)	427,770
(Loss) income from operations	(1,714)	28,255	2,030	240	(242)	(1,932)	(600)	(1,530)	(836)	(968)	-	22,703
Nonoperating gains and losses:												
Loss on advanced refunding	-	(1,347)	-	-	-	-	-	-	-	-	-	(1,347)
Investment returns	2,753	3,139	774	-	-	-	-	-	-	-	-	6,666
Changes in net unrealized gains and losses	(125)	(211)	146	-	-	-	-	-	-	-	-	(190)
Change in fair value of derivative instrument	-	(251)	-	-	-	-	-	-	-	-	-	(251)
Total nonoperating gains and losses	2,628	1,330	920	-	-	-	-	-	-	-	-	4,878
Excess (deficiency) of revenue over expenses	914	29,585	2,950	240	(242)	(1,932)	(600)	(1,530)	(836)	(968)	-	27,581

## Stamford Health System

### Consolidating Statement of Operations (continued) (In Thousands)

Year Ended September 30, 2010

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance
Excess (deficiency) of revenue over expenses (continued from page 53)	\$ 914	\$ 29,585	\$ 2,950	\$ 240	\$ (242)	\$ (1,932)	\$ (600)	\$ (1,530)	\$ (836)	\$ (968)	\$ -	\$ 27,581
Net assets released from restrictions used for purchases of property and equipment	-	720	-	-	-	-	-	-	-	-	-	720
Equity transfer	(35,215)	29,904	-	-	116	1,837	213	923	1,050	1,172	-	-
Pension-related changes other than net periodic pension cost	(628)	(16,571)	-	-	-	-	-	-	-	-	-	(17,199)
(Decrease) increase in unrestricted net assets	\$ (34,929)	\$ 43,638	\$ 2,950	\$ 240	\$ (126)	\$ (95)	\$ (387)	\$ (607)	\$ 214	\$ 204	\$ -	\$ 11,102

## Stamford Health System

### Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2011

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance
(Deficiency) excess of revenue over expenses	\$ (1,911)	\$ 31,916	\$ –	\$ 549	\$ (245)	\$ (1,111)	\$ (10)	\$ (1,375)	\$ (552)	\$ –	\$ –	\$ 27,261
Pension-related changes other than net periodic pension cost	(594)	(13,080)	–	–	–	–	–	–	–	–	–	(13,674)
Net assets released from restrictions used for purchases of property and equipment	–	1,466	–	–	–	–	–	–	–	–	–	1,466
Equity transfer	(1,339)	1,608	–	–	–	967	(1,140)	–	108	(204)	–	–
(Decrease) increase in unrestricted net assets before discontinued operations	(3,844)	21,910	–	549	(245)	(144)	(1,150)	(1,375)	(444)	(204)	–	15,053
Discontinued operations	–	–	5,076	–	–	–	–	–	–	–	–	5,076
(Decrease) increase in unrestricted net assets	(3,844)	21,910	5,076	549	(245)	(144)	(1,150)	(1,375)	(444)	(204)	–	20,129
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)
(Decrease) increase in net assets	(3,844)	21,077	5,076	549	(245)	(144)	(1,150)	(1,375)	(444)	(204)	–	19,296
Net assets – beginning of year	44,383	127,672	1,877	2,024	(9)	144	1,150	978	444	204	(49)	178,818
Net assets (deficiency) – end of year	\$ 40,539	\$ 148,749	\$ 6,953	\$ 2,573	\$ (254)	\$ –	\$ –	\$ (397)	\$ –	\$ –	\$ (49)	\$ 198,114

## Stamford Health System

### Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2010

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance
Excess (deficiency) of revenue over expenses	\$ 914	\$ 29,585	\$ 2,950	\$ 240	\$ (242)	\$ (1,932)	\$ (600)	\$ (1,530)	\$ (836)	\$ (968)	\$ -	\$ 27,581
Pension-related changes other than net periodic pension cost	(628)	(16,571)	-	-	-	-	-	-	-	-	-	(17,199)
Net assets released from restrictions used for purchases of property and equipment	-	720	-	-	-	-	-	-	-	-	-	720
Equity transfer	(35,215)	29,904	-	-	116	1,837	213	923	1,050	1,172	-	-
(Decrease) increase in unrestricted net assets	(34,929)	43,638	2,950	240	(126)	(95)	(387)	(607)	214	204	-	11,102
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 (decrease) in net assets	(34,929)	42,968	2,950	240	(126)	(95)	(387)	(607)	214	204	-	10,432
Net assets – beginning of year	79,312	84,704	(1,073)	1,784	117	239	1,537	1,585	230	-	(49)	168,386
Net assets (deficiency) – end of year	\$ 44,383	\$ 127,672	\$ 1,877	\$ 2,024	\$ (9)	\$ 144	\$ 1,150	\$ 978	\$ 444	\$ 204	\$ (49)	\$ 178,818

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