



CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

The Stamford Hospital
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

The Stamford Hospital
Consolidated Financial Statements
and Supplementary Information
Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
The Stamford Hospital

We have audited the accompanying consolidated balance sheets of The Stamford Hospital (the Hospital) as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Stamford Hospital at September 30, 2012 and 2011, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the accompanying consolidated financial statements, in fiscal year 2012, the Hospital changed its method of reporting estimated insurance claims receivable and estimated insurance claims liabilities with the adoption of Accounting Standards Update No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets at September 30, 2012 and 2011, the consolidating statements of operations, the consolidating statements of changes in net assets and the schedules of net patient service revenue for the years then ended are presented

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

Ernst & Young LLP

January 25, 2013

The Stamford Hospital
Consolidated Balance Sheets

	September 30	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 69,613	\$ 82,011
Assets limited as to use	159	159
Short-term investments	30,119	276
Patient accounts receivable (less allowance for uncollectible accounts of \$21,094 and \$18,140, respectively)	68,695	62,118
Other receivables	15,091	5,632
Pledges receivable	1,787	164
Due from third parties, current portion	2,554	2,592
Other current assets	10,607	8,910
Total current assets	198,625	161,862
Assets limited as to use:		
Held by captive insurance company	29,759	25,977
Long-term investments – endowments	8,033	8,033
Due from Parent – donor-restricted	18,042	18,642
Held by trustee – construction and debt service funds	243,826	1,357
	299,660	54,009
Long-term investments	60,663	55,225
Property, plant and equipment, net	257,829	244,127
Pledges receivable, net	12,948	445
Due from Parent and affiliates	4,076	4,251
Other assets	8,586	4,062
Total assets	\$ 842,387	\$ 523,981

	September 30	
	2012	2011
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 5,416	\$ 5,018
Accounts payable and accrued expenses	63,701	48,242
Salaries, wages and fees payable	12,055	10,173
Accrued vacation liability	18,570	16,031
Estimated third-party payor settlements, net of current portion	7,600	5,424
Estimated professional liabilities, current	19,824	4,830
Total current liabilities	<u>127,166</u>	<u>89,718</u>
Pension liabilities	109,174	91,954
Estimated third-party payor settlements, net of current portion	3,621	5,860
Long-term debt, net of current portion	379,180	130,025
Due to Parent – board designated	20,014	20,014
Due to Parent and affiliates	7,072	6,717
Estimated professional liabilities, net of current portion	27,782	30,944
Other long-term liabilities	9,323	–
Total liabilities	<u>683,332</u>	<u>375,232</u>
Commitments and contingencies		
Net assets:		
Unrestricted	118,936	122,054
Temporarily restricted	32,086	18,662
Permanently restricted	8,033	8,033
Total net assets	<u>159,055</u>	<u>148,749</u>
Total liabilities and net assets	<u>\$ 842,387</u>	<u>\$ 523,981</u>

See accompanying notes.

The Stamford Hospital
Consolidated Statements of Operations

	Year Ended September 30	
	2012	2011
	<i>(In Thousands)</i>	
Unrestricted revenue, gains and other support:		
Net patient service revenue	\$ 524,383	\$ 484,060
Provision for bad debts	(52,401)	(47,360)
Net patient service revenue, less provision for bad debts	471,982	436,700
Other revenue	24,072	21,567
Net assets released from restrictions for operations	1,268	2,397
Total unrestricted revenue, gains and other support	497,322	460,664
Expenses:		
Salaries	200,078	182,162
Employee benefits	52,963	50,466
Supplies and other expenses	180,746	161,661
Depreciation and amortization	26,673	28,352
Interest expense	5,641	5,545
Total expenses	466,101	428,186
Income from operations	31,221	32,478
Nonoperating gains and losses:		
Loss on lease obligation	(12,725)	-
Investment returns	3,699	(1,100)
Change in net unrealized gains and losses	(25)	538
Total nonoperating gains and losses	(9,051)	(562)
Excess of revenue over expenses	22,170	31,916
Net assets released from restrictions used for purchases of property and equipment	3,254	1,466
Pension-related changes other than net periodic pension cost	(27,878)	(13,080)
Equity transfer from Stamford Health System	(664)	1,608
(Decrease) increase in unrestricted net assets	\$ (3,118)	\$ 21,910

See accompanying notes.

The Stamford Hospital

Consolidated Statements of Changes in Net Assets (In Thousands)

Years Ended September 30, 2012 and 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at September 30, 2010	\$ 100,144	\$ 19,495	\$ 8,033	\$ 127,672
Excess of revenue over expenses	31,916	-	-	31,916
Pension-related changes other than net periodic pension cost	(13,080)	-	-	(13,080)
Equity transfer from Stamford Health System	1,608	-	-	1,608
Contributions	-	3,087	-	3,087
Change in net unrealized gains and losses	-	(227)	-	(227)
Investment returns	-	170	-	170
Net assets released from restrictions for operations	-	(2,397)	-	(2,397)
Net assets released from restrictions used for purchases of property and equipment	1,466	(1,466)	-	-
Increase (decrease) in net assets	21,910	(833)	-	21,077
Balance at September 30, 2011	122,054	18,662	8,033	148,749
Excess of revenue over expenses	22,170	-	-	22,170
Pension-related changes other than net periodic pension cost	(27,878)	-	-	(27,878)
Equity transfer from Stamford Health System	(664)	-	-	(664)
Contributions	-	16,783	-	16,783
Change in net unrealized gains and losses	-	(40)	-	(40)
Investment returns	-	1,203	-	1,203
Net assets released from restrictions for operations	-	(1,268)	-	(1,268)
Net assets released from restrictions used for purchases of property and equipment	3,254	(3,254)	-	-
(Decrease) increase in net assets	(3,118)	13,424	-	10,306
Balance at September 30, 2012	\$ 118,936	\$ 32,086	\$ 8,033	\$ 159,055

See accompanying notes.

The Stamford Hospital
Consolidated Statements of Cash Flows

	Year Ended September 30	
	2012	2011
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Change in net assets	\$ 10,306	\$ 21,077
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity transfer from Stamford Health System	664	(1,608)
Pension-related changes other than net periodic pension cost	27,878	13,080
Net realized gains and losses and change in net unrealized gains and losses	(3,210)	1,018
Loss on lease obligation	12,725	-
Restricted contributions	(16,783)	(3,087)
Restricted investment returns	(1,127)	57
Depreciation and amortization	26,673	28,352
Amortization of deferred financing fees	214	220
Amortization of bond premium	(129)	(82)
Provision for bad debts	52,401	47,360
Changes in operating assets and liabilities:		
Patient accounts receivable	(58,978)	(57,926)
Due to/from Parent and affiliates	530	490
Accounts payable and accrued expenses	15,459	14,011
Estimated third-party payor settlements	(25)	668
Estimated professional liabilities	11,832	3,224
Net change in all other operating assets and liabilities	(36,645)	(6,375)
Net cash provided by operating activities	41,785	60,479
Cash flows from investing activities		
Capital expenditures, net	(41,039)	(29,879)
Net cash invested in assets limited as to use and investments	(277,722)	(349)
Net cash used in investing activities	(318,761)	(30,228)
Cash flows from financing activities		
Restricted contributions	16,783	3,087
Restricted investment returns	1,127	(57)
Principal payments on long-term debt	(4,939)	(4,576)
Cash paid for deferred financing fees	(3,014)	(48)
Proceeds from long-term debt	254,621	4,100
Net cash provided by financing activities	264,578	2,506
Net (decrease) increase in cash and cash equivalents	(12,398)	32,757
Cash and cash equivalents, beginning of year	82,011	49,254
Cash and cash equivalents, end of year	\$ 69,613	\$ 82,011
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (exclusive of amounts capitalized)	\$ 6,343	\$ 6,455
Supplemental disclosure of noncash investing and financing activities		
Capital leases incurred	\$ -	\$ 1,074

See accompanying notes.

The Stamford Hospital

Notes to Consolidated Financial Statements (In Thousands)

September 30, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Stamford Health Integrated Practices, Inc. (SHIP) is a not-for profit corporation formed by SHS in fiscal year 2011 to provide a comprehensive network of physician practices and related management services. In May 2011, SHIP was transferred from SHS to the Hospital. During fiscal years 2012 and 2011, SHS transferred certain of its medical practices to SHIP, including Fairfield County Surgical Specialists, a professional captive providing surgical services; Fairfield County Obstetrics and Gynecology division providing obstetrical care; Fairfield County Primary Care, P.C., a professional captive providing primary urgent care and corporate occupational health services and the medical practice of Premier Medical Group, P.C., a professional captive providing orthopedic and rehabilitation care.

Consolidated Financial Statements

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

The Stamford Hospital

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

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased. The Hospital routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Such amounts exclude cash and cash equivalents included in assets limited as to use and investments.

Inventories

Inventories are included in other current assets and are recorded at the lower of cost (first-in, first-out method) or market.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts were computed using risk-free interest rates applicable to the years in which the promises were received.

The Stamford Hospital

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

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

Marketable Securities and Alternative Investments

Alternative investments are defined as nontraditional, not readily marketable asset classes, some of which are structured such that the Hospital holds limited partnership interests. Realized and unrealized gains and losses are included in determining the excess of revenue over expenses. For the years ended September 30, 2012 and 2011, the Hospital recorded gains (losses) on unrestricted alternative investments of \$1,878 and (\$2,028), 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 fair value as quoted by the public markets. Marketable securities are classified as trading securities.

Ordinary income and net realized gains of \$1,821 and \$928 for the years ended September 30, 2012 and 2011, respectively, are included in investment returns in the accompanying consolidated statements of operations. The change in net unrealized gains and losses of (\$25) and \$538 for the years ended September 30, 2012 and 2011, respectively, is recorded in the excess of revenue over expenses in the accompanying consolidated statements of operations.

Valuations of investments not readily marketable may be determined by the investment manager or general partner. "Fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The investment value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose TSH to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. While these financial instruments may contain varying degrees of risk, the risk of TSH with respect to such transactions is limited to its capital balance in each investment. Certain amounts are subject to notification to allow for divestiture, while other amounts have divestiture provisions based only on termination of the fund. The financial statements of the investees are audited annually by independent auditors. At September 30, 2012 and 2011, SHS, for the account of the Hospital, has future commitments of \$980 and \$371, respectively, to invest in alternative investments.

The Stamford Hospital

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

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

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 and debt service. Amounts to be used to fund current liabilities are reported as current assets.

Due from Parent

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

Property, Plant and Equipment

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

The Stamford Hospital

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

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

Estimated useful lives by classification are as follows:

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

Deferred Financing Costs

Costs incurred in connection with the issuance of bonds are included in other assets and amortized over the lives of the bonds using the effective interest method. At September 30, 2012 and 2011, the accumulated amortization for deferred financing costs was \$460 and \$246, respectively. In 2011, TSH issued State of Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Series I Bonds (see Note 8). In 2012, TSH issued State of Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Series J Bonds (see Note 8). Deferred financing costs incurred for the Series J Bonds was approximately \$3,014. Amortization of deferred financing cost is included in interest expense in the accompanying consolidated statements of operations.

Temporarily and Permanently Restricted Net Assets

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

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

Consolidated Statements of Operations

For the purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services, are reported as unrestricted revenue, gains and

The Stamford Hospital

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

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

other support and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses and consist primarily of investment returns and loss on lease obligation incurred during 2012 (see Note 17).

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

Patient Accounts Receivable and Net Patient Service Revenue

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

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

Charity Care

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

The Stamford Hospital

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

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

Estimated Professional Liabilities

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

The Stamford Hospital

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

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

Income Taxes

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

Healthstar has received an undertaking from the Bermuda Government exempting it from any future local income, profits and capital gains taxes until March 31, 2035. At the present time, no such taxes exist in Bermuda.

Pension Plans

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

Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-23, *Measuring Charity Care for Disclosure*, which provides amended guidance relating to measuring charity care for disclosures. The new guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. ASU No. 2010-23 became effective for the Hospital on October 1, 2011 and the new disclosure requirements are included in the accompanying consolidated financial statements.

In August 2010, the FASB also issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU No. 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities are to be presented separately on the consolidated balance sheets. ASU No. 2010-24 is effective for fiscal years beginning after December 15, 2010. In fiscal year 2012, the Hospital elected to retrospectively adopt ASU No. 2010-24 as of September 30, 2011. The adoption resulted in the

The Stamford Hospital

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

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

recording in the consolidated balance sheets of an estimated insurance recovery receivable and professional liabilities of approximately \$10,400 and \$2,000 as of September 30, 2012 and 2011, respectively. Such amounts relate to professional liability insurance coverage. The adoption of ASU No. 2010-24 did not affect the Hospital's net assets or its consolidated statements of operations.

Reclassifications

Certain reclassifications have been made to 2011 balances previously reported in order to conform to the 2012 presentation.

2. Community Benefit and Charity Care

The Hospital is committed to providing health care services to the community. During 2011 and 2012, the Hospital initiated a formal community health needs assessment of its service areas in partnership with the City of 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 City of Stamford Health Department, the Hospital sponsored a joint City of Stamford-wide flu campaign to reduce the number of hospitalizations and emergency department visits. The Hospital's mobile mammography program served community centers, places of employment and churches, providing on-site mammograms including free screenings for those without insurance. Kid's Fitness and Nutrition Services (KidsFANS) is a Hospital led community collaborative designed to promote smart eating, physical activity and health weight

The Stamford Hospital

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

2. Community Benefit and Charity Care (continued)

among 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 \$34,000 and \$27,000 for the years ended September 30, 2012 and 2011, respectively. For the years ended September 30, 2012 and 2011, the estimated cost of charity care was approximately \$11,400 and \$8,900, respectively. The estimated cost of charity care includes the direct and indirect cost of providing charity care services and is estimated by multiplying the total charges associated with the care provided by the ratio of total patient care expenses to total charges for all services rendered.

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Provision for bad debts – net of recoveries	\$ 52,401	\$ 47,360
Charity care based on charges	<u>34,808</u>	<u>27,345</u>
Total uncompensated care	<u>\$ 87,209</u>	<u>\$ 74,705</u>

For distributions from the Uncompensated Care Pool, the Hospital recognized grant-disproportionate share income of \$5,437 and \$5,578 for the years ended September 30, 2012 and 2011, respectively, which is included in other revenue in the accompanying consolidated statements of operations.

The Stamford Hospital

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

3. Net Patient Service Revenue

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

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The classification of patients of the Hospital under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Medicare cost reports of the Hospital have been audited and finalized by the Medicare fiscal intermediary through the year ended September 30, 2008.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of the Hospital for 2008 and prior have been tentatively settled. All Medicaid cost reports are subject to audit and finalization by the State of Connecticut.

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

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

The Stamford Hospital

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

3. Net Patient Service Revenue (continued)

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

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

The Stamford Hospital

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

3. Net Patient Service Revenue (continued)

Patient service revenue for the years ended September 30, 2012 and 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:

	2012		
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 482,432	\$ 41,951	\$ 524,383
	2011		
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 450,179	\$ 33,881	\$ 484,060

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

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

During the years ended September 30, 2012 and 2011, approximately \$2,948 and \$1,137, respectively, of previously recorded estimated third-party payor settlement liabilities were no longer considered necessary and were included as increases in net patient service revenue.

The Stamford Hospital

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

3. Net Patient Service Revenue (continued)

The percentages of net patient service revenue received from various third-party payors and patients were as follows for the years ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Medicare	19%	19%
Medicaid	7	6
Managed care organizations	41	42
Other third-party payors	25	26
Self-pay	8	7
	<u>100%</u>	<u>100%</u>

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

4. Assets Limited as to Use and Investments

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

The Stamford Hospital

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

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

Assets Limited as to Use

The composition of assets limited as to use (exclusive of amounts due from and held by SHS; see Note 1) at September 30, 2012 and 2011 is as follows:

	2012	2011
Current portion:		
Cash and cash equivalents	\$ 159	\$ 159
Held by captive insurance company:		
Cash and cash equivalents	\$ 10,155	\$ 15,651
Mutual funds	11,736	2,699
Alternative investments – hedge funds	7,868	7,627
	\$ 29,759	\$ 25,977
Long-term investments – endowments:		
Cash and cash equivalents	\$ 525	\$ 720
Mutual funds	3,697	2,733
Alternative investments – hedge funds	2,271	3,042
Alternative investments – limited partnerships	1,272	1,285
Private mutual funds	268	253
	\$ 8,033	\$ 8,033
Held by trustee – construction and debt service funds:		
Cash and cash equivalents	\$ 243,826	\$ 1,357

The Stamford Hospital

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

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

The composition of investments at September 30, 2012 and 2011 is as follows:

	2012	2011
Short-term investments:		
Cash and cash equivalents	\$ 30,119	\$ 276
Long-term investments:		
Cash and cash equivalents	\$ 2,333	\$ 2,133
Mutual funds	45,422	39,578
Alternative investments – hedge funds	7,691	8,977
Alternative investments – limited partnerships	4,310	3,790
Private mutual funds	907	747
	\$ 60,663	\$ 55,225

Total returns on investments for the years ended September 30, 2012 and 2011 consist of the following:

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Ordinary income (interest and dividends)	\$ 464	\$ 132	\$ 596	\$ 456	\$ 219	\$ 675
Net realized gains and losses	1,357	641	1,998	472	121	593
Gains and losses from alternative investments	1,878	430	2,308	(2,028)	(170)	(2,198)
Investment returns	3,699	1,203	4,902	(1,100)	170	(930)
Change in net unrealized gains and losses	(25)	(40)	(65)	538	(227)	311
	\$ 3,674	\$ 1,163	\$ 4,837	\$ (562)	\$ (57)	\$ (619)

The Stamford Hospital

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

5. Pledges Receivable

Pledges are recorded at the net present value determined using a discount rate commensurate with the rate on U.S. Treasury obligations whose maturities correspond to the maturities of the pledges. At September 30, 2012 and 2011, pledges receivable consist of the following:

	2012	2011
Amounts expected to be collected in:		
Less than one year	\$ 1,881	\$ 173
One to five years	14,240	478
Less:		
Reserve for uncollectible pledges	806	32
Discount on pledges	580	10
Current portion	1,787	164
Pledges receivable, net	\$ 12,948	\$ 445

6. Property, Plant and Equipment

Property, plant and equipment, at cost, and accumulated depreciation and amortization at September 30, 2012 and 2011 are summarized as follows:

	2012	2011
Land	\$ 43,483	\$ 42,662
Land improvements	4,028	4,118
Buildings and improvements	177,407	175,779
Fixed equipment	119,500	118,935
Movable equipment	195,719	185,702
Leasehold improvements	7,767	7,306
	547,904	534,502
Less accumulated depreciation and amortization	339,669	313,648
	208,235	220,854
Construction in progress	49,594	23,273
	\$ 257,829	\$ 244,127

The Stamford Hospital

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

6. Property, Plant and Equipment (continued)

Included in property, plant and equipment are assets under capital leases of approximately \$1,666 at September 30, 2012 and 2011, with accumulated amortization of approximately \$680 and \$300, respectively.

Depreciation and amortization expense for the years ended September 30, 2012 and 2011 was \$26,673 and \$28,352, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of approximately \$380 and \$194, respectively, for the years ended September 30, 2012 and 2011.

Net interest capitalized for the years ended September 30, 2012 and 2011 was approximately \$3,810 and \$936, respectively.

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. Construction in progress as of September 30, 2012 and 2011 includes approximately \$31,821 and \$18,787, respectively, spent mainly for architectural fees and other soft construction costs incurred during the planning phase and initial construction of the Master Facility Plan. As of September 30, 2012, future commitments tied to the Master Facility Plan approximated \$69,401.

7. Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Health care services:		
Purchase of equipment	\$ 15,825	\$ 1,645
Patient care	14,929	15,886
Health education	1,332	1,131
	<u>\$ 32,086</u>	<u>\$ 18,662</u>

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

The Stamford Hospital

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

7. Net Assets (continued)

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

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

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

The Stamford Hospital

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

7. Net Assets (continued)

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

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The following tables set forth the changes to assets as they relate to the Hospital's endowments for the years ended September 30, 2012 and 2011:

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2011	\$ 865	\$ 8,033	\$ 8,898
Investment return (realized and unrealized)	1,062	–	1,062
Appropriation of endowment assets for expenditure	(767)	–	(767)
Endowment assets, September 30, 2012	\$ 1,160	\$ 8,033	\$ 9,193

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

The Stamford Hospital

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

7. 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 or UPMIFA requires the Hospital to retain as a fund of perpetual duration. There were no significant deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2012 and 2011.

8. Long-Term Debt

Long-term debt at September 30, 2012 and 2011 consists of the following:

	September 30	
	2012	2011
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series I, payable in varying annual amounts with fixed interest rates varying from 3.00% to 5.00%, with the final payment due in 2030	\$ 124,385	\$ 128,770
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series J, payable in varying annual amounts with fixed interest rates varying from 3.25% to 5.125%, with the final payment due in 2042	250,000	–
Term promissory notes bearing interest at LIBOR plus 2.00%, maturing June 1, 2021	3,876	4,044
Capital lease obligations	939	1,312
City of Stamford, sewer connection fee loan, payable in annual installments through 2013 (noninterest bearing)	12	25
	379,212	134,151
Unamortized bond premium	5,384	892
	384,596	135,043
Less current portion	5,416	5,018
	\$ 379,180	\$ 130,025

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, 2012 and 2011, accumulated amortization related to the bond premium was \$190 and \$110, respectively. The Series I Bonds were used for

The Stamford Hospital

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

8. Long-Term Debt (continued)

the refunding of the State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series F and Series G Bonds, and bank loans. The proceeds were also 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 also reimbursed TSH for certain capital expenditures and certain costs of issuance of the Series I Bonds.

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series J (the Series J Bonds) were issued on June 20, 2012, in the amount of \$250,000 for a term of 30 years, at a premium of \$4,621. As of September 30, 2012, accumulated amortization related to the bond premium was \$49. The Series J Bonds proceeds will be used for financing architectural, engineering, site permitting, legal planning and construction costs relating to the Master Facility Plan. The proceeds also reimbursed TSH for certain costs of issuance of the Series J Bonds.

In May 2011, the Hospital entered into a mortgage note agreement with a bank for \$4,100, bearing interest at LIBOR plus 2.00% at September 30, 2012 and 2011. The purpose of the mortgage note was to fund the acquisition of a property in New Canaan, Connecticut. The mortgage note is payable in monthly installments and matures on June 1, 2021.

At September 30, 2012 and 2011, the Hospital has a line of credit available with a bank totaling \$30,000 and a maturity date of May 20, 2014. There were no amounts outstanding on the line of credit at September 30, 2012 and 2011. Under this line of credit, the bank issued a maximum letter of credit to the Hospital for \$4,250.

SHS is the guarantor of all obligations of the Hospital with respect to the Series I Bonds, the mortgage note payable and the line of credit.

SHS must maintain certain financial ratios with respect to the Series I and Series J Bonds, the mortgage note payable and the line of credit. As of September 30, 2012, SHS was in compliance with such debt covenants.

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

The Stamford Hospital

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

8. Long-Term Debt (continued)

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

	Loans Payable	Capital Leases	Total
Fiscal year:			
2013	\$ 5,014	\$ 402	\$ 5,416
2014	5,228	431	5,659
2015	5,456	107	5,563
2016	5,692	–	5,692
2017	7,539	–	7,539
Thereafter	354,727	–	354,727
Total minimum payments	383,656	940	384,596
Less current portion of long-term debt	5,014	402	5,416
Long-term debt, net of current portion	<u>\$ 378,642</u>	<u>\$ 538</u>	<u>\$ 379,180</u>

9. Retirement Benefits

The Hospital provides retirement benefits through several plans, including a defined benefit pension plan, supplementary executive retirement programs (SERPs) and a defined contribution pension plan.

Defined Benefit Pension Plan and SERPs

The Hospital participates in SHS's defined benefit pension plan (the Plan). The Plan covers employees and eligible employees of its affiliates who were employed as of August 1, 2002, and elected to continue earning future benefits after December 31, 2002, in the Plan. Benefits are based on age at retirement, years of credited service and average compensation for a specified period prior to retirement. The SERPs cover 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. The SERPs are nonqualified plans and are unfunded.

The Stamford Hospital

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

9. Retirement Benefits (continued)

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

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

Included in other changes in unrestricted net assets at September 30, 2012 and 2011 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	2012		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ (3)	\$ –	\$ (3)
Unrecognized actuarial (loss) gain	(137,248)	(104)	(137,352)
	\$ (137,251)	\$ (104)	\$ (137,355)

	2011		
	Plan	SERP	Total
Unrecognized prior service cost	\$ (10)	\$ –	\$ (10)
Unrecognized actuarial (loss) gain	(109,506)	39	(109,467)
	\$ (109,516)	\$ 39	\$ (109,477)

The prior service cost and actuarial loss included in changes in unrestricted net assets at September 30, 2012, and expected to be recognized in net periodic pension cost during the year ending September 30, 2013 are as follows:

	Plan	SERPs
Prior service cost	\$ (3)	\$ –
Net loss	(13,501)	–

The Stamford Hospital

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

9. Retirement Benefits (continued)

The reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plans' assets for the years ended September 30, 2012 and 2011 are as follows:

	Plan		SERPs		Total	
	2012	2011	2012	2011	2012	2011
Benefit obligation						
Benefit obligation, beginning of year	\$ 237,955	\$ 218,720	\$ 911	\$ 857	\$ 238,866	\$ 219,577
Service cost	3,425	3,604	120	–	3,545	3,604
Interest cost	12,320	11,326	49	44	12,369	11,370
Actuarial losses	41,684	10,695	136	26	41,820	10,721
Benefits paid	(6,671)	(6,390)	(23)	(16)	(6,694)	(6,406)
Benefit obligation, end of year	<u>288,713</u>	<u>237,955</u>	<u>1,193</u>	<u>911</u>	<u>289,906</u>	<u>238,866</u>
Plan assets						
Fair value of plan assets, beginning of year	146,883	139,373	–	–	146,883	139,373
Actual return on plan assets	15,242	(1,100)	–	–	15,242	(1,100)
Employer contributions	25,250	15,000	23	16	25,273	15,016
Benefits paid	(6,671)	(6,390)	(23)	(16)	(6,694)	(6,406)
Fair value of plan assets, end of year	<u>180,704</u>	<u>146,883</u>	<u>–</u>	<u>–</u>	<u>180,704</u>	<u>146,883</u>
Funded status	<u>\$(108,009)</u>	<u>\$ (91,072)</u>	<u>\$ (1,193)</u>	<u>\$ (911)</u>	<u>\$(109,202)</u>	<u>\$ (91,983)</u>
Current portion of obligation	\$ –	\$ –	\$ (28)	\$ (29)	\$ (28)	\$ (29)
Noncurrent portion of obligation	(108,009)	(91,072)	(1,165)	(882)	(109,174)	(91,954)
Total	<u>\$(108,009)</u>	<u>\$ (91,072)</u>	<u>\$ (1,193)</u>	<u>\$ (911)</u>	<u>\$(109,202)</u>	<u>\$ (91,983)</u>
Accumulated benefit obligation	<u>\$(270,394)</u>	<u>\$(220,518)</u>	<u>\$ (1,071)</u>	<u>\$ (910)</u>	<u>\$(271,465)</u>	<u>\$(221,428)</u>

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

The Stamford Hospital

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

9. Retirement Benefits (continued)

The weighted-average assumptions used in determining the pension and postretirement benefit obligations at September 30, 2012 and 2011 were as follows:

	Plan		SERPs	
	2012	2011	2012	2011
Discount rate	4.10%	5.25%	4.00%	5.25%
Rate of compensation increase	3.00	3.50	–	–

Net periodic pension cost and postretirement cost for the years ended September 30, 2012 and 2011 consist of the following components:

	Plan		SERPs		Total	
	2012	2011	2012	2011	2012	2011
Service cost	\$ 3,425	\$ 3,604	\$ 120	\$ –	\$ 3,545	\$ 3,604
Interest cost	12,320	11,326	49	44	12,369	11,370
Expected return on plan assets	(11,780)	(10,427)	–	–	(11,780)	(10,427)
Amortization of prior service cost	7	7	–	–	7	7
Amortization of actuarial loss	10,473	9,161	–	–	10,473	9,161
Net periodic pension cost	\$ 14,445	\$ 13,671	\$ 169	\$ 44	\$ 14,614	\$ 13,715

Weighted-average assumptions used in determining the net periodic pension and postretirement benefit costs for the years ended September 30, 2012 and 2011 were as follows:

	Plan		SERPs	
	2012	2011	2012	2011
Discount rate	5.25%	5.25%	5.25%	5.25%
Expected long-term rate of return on plan assets	7.25	7.25	–	–
Rate of compensation increase	3.50	3.50	–	–

The Stamford Hospital

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

9. Retirement Benefits (continued)

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

The Plan's weighted-average asset allocation at September 30, 2012 and 2011 is as follows:

	2012	2011
Equity securities	17%	17%
Fixed income securities	39	27
Alternative investments – limited partnerships	13	14
Alternative investments – hedge funds	24	29
Cash and cash equivalents	7	13
	100%	100%

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

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

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

The Stamford Hospital

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

9. Retirement Benefits (continued)

Investment Strategy

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

Cash Flows

TSH expects to contribute approximately \$15,029 to the Plans during fiscal year 2013.

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

	<u>Plan</u>	<u>SERPs</u>	<u>Total</u>
Fiscal year ending September 30:			
2013	\$ 7,772	\$ 29	\$ 7,801
2014	8,664	40	8,704
2015	9,825	55	9,880
2016	10,867	55	10,922
2017	11,731	55	11,786
2018 through 2022	75,308	400	75,708

Defined Contribution Plan

On January 1, 2003, SHS established a defined contribution plan (the DC Plan). Existing SHS employees and employees of its affiliates were given the option of foregoing future benefits under the Plan to earn future benefits in the DC Plan beginning on January 1, 2003, or continuing to earn future benefits under the Plan. The effect of the establishment of the DC Plan resulted in a curtailment for those participants that chose to forgo future benefits under the Plan. Included in employee benefit expenses in the accompanying consolidated statements of operations for the years ended September 30, 2012 and 2011, are \$5,406 and \$5,286, respectively, in pension contributions to the DC Plan.

The Stamford Hospital

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

10. Professional Liability Insurance

The Hospital self-insured a portion of its professional liability insurance coverage through September 30, 2002. An excess insurance 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 through the establishment of an irrevocable trust (the Trust) to manage the assets needed to cover the self-insured liability as well as the tail liability for claims and administrative costs. The tail liability results from events that have occurred, but have not yet been reported under the claims-made coverage. The deductible limits for the years covered under this Trust range from \$1,000 per occurrence and \$3,000 in the aggregate annually to \$3,000 per occurrence and \$9,000 in the aggregate.

Under the Trust agreement, Trust assets can only be used for payment of medical professional liability losses, related expenses and the cost of administering the Trust. Assets of and contributions to the Trust, which are invested in cash and short-term investments, are included in the noncurrent portion of assets limited as to use in the accompanying consolidated balance sheets.

The Hospital expensed \$133 and \$188 for professional liabilities self-insurance for the years ended September 30, 2012 and 2011, respectively. There were no claims or expenses payable from the Trust at September 30, 2012 and 2011, respectively. The undiscounted actuarially determined tail liability of \$10,204 and \$10,071 is included in the estimated professional liabilities in the accompanying consolidated balance sheets at September 30, 2012 and 2011, 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 net and exclusive of reinsurance \$5,000 per claim for professional liability subject to \$18,500 in the annual aggregate and \$2,000 per claim subject to \$4,000 in the annual aggregate for general liability. It also provides limits of insurance for professional and general liability of \$45,000 per claim subject to \$46,500 in the annual aggregate, in excess of the limits of insurance noted above as net of reinsurance, as well as in excess of certain underlying commercial liability insurance policies, employee benefit liability insurance coverage, and terrorism liability insurance coverage, and

The Stamford Hospital

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

10. Professional Liability Insurance (continued)

where such limits are 100% reinsured by syndicates at Lloyd's of London, with the exception of \$1,500 in aggregate limit in excess of \$45,000 applicable to professional liability, which is also retained as net and exclusive reinsurance of Healthstar. The reinsurance coverage purchased by Healthstar is maintained with third-party reinsurers and was renewed on October 1, 2012 until September 30, 2013.

For the year ended September 30, 2012, the Hospital paid insurance premiums of \$7,484 to Healthstar, \$4,684 of which relates to the coverage under Healthstar and \$2,800 of which relates to the coverage reinsured with third-party reinsurers. Of the \$7,484 insurance premium payments, \$1,124 was paid by the Hospital on behalf of its affiliates.

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 \$2,713 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.

Healthstar employs the services of an actuary to estimate professional and general liabilities. As of September 30, 2012 and 2011, Healthstar's undiscounted estimated professional and general liabilities for claims and expenses are approximately \$27,007 and \$23,724, respectively. For the years ended September 30, 2012 and 2011, claims covered and expensed by Healthstar amounted to \$4,137 and \$3,741, respectively.

As a result of the adoption of ASU No. 2010-24 in fiscal year 2012, at September 30, 2012 and 2011, the Hospital recorded an estimated insurance recovery receivable and insurance claim liability of approximately \$10,400 and \$2,000, respectively. These amounts primarily relate to professional liability claims insured with third-party reinsurers.

11. Related-Party Transactions

Amounts due to Parent and affiliates represent amounts due to related entities for expenses paid on the Hospital's behalf and are currently payable without interest. At September 30, 2012 and 2011, amounts due to affiliates totaled \$7,072 and \$6,717, respectively.

The Hospital leases certain real property from affiliates. Rent expense to affiliates for the years ended September 30, 2012 and 2011, is \$1,692 and \$1,414, respectively.

The Stamford Hospital

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

11. Related-Party Transactions (continued)

The Hospital provides professional services to its affiliates at varying amounts. Other revenue in the accompanying consolidated statements of operations include \$107 and \$243 earned from professional services provided to affiliates for the years ended September 30, 2012 and 2011, respectively. Amounts receivable from affiliates for professional services described above and other services were \$4,076 and \$4,251 at September 30, 2012 and 2011, respectively.

In 2011, the Board of Directors of SHS approved the transfer of certain properties related to the Master Facility Plan to TSH. The deeds were legally transferred from SHS to TSH and equity transfers of \$1,340 were recorded in 2011.

Donor-restricted contributions are maintained in an investment account at SHS. Amounts due from SHS for donor-restricted contributions was \$18,042 and \$18,642 at September 30, 2012 and 2011, respectively.

Amounts due to SHS of \$20,014 at September 30, 2012 and 2011 represent board designated items related to cash transfers made in the years ended September 30, 2001 through September 30, 2004, and certain investments held by the Hospital for SHS.

12. Other Revenue

Other revenue consists of the following:

	Year Ended September 30	
	2012	2011
	<i>(In Thousands)</i>	
Contributions	\$ 1,729	\$ 1,666
Rental Income	2,819	2,703
Uncompensated Care Pool	5,437	5,578
Electronic health records incentive payments	3,003	—
Grant revenue	874	752
Investment Income	1,228	1,065
Rehabilitation services	3,182	2,991
Other	5,800	6,812
	<u>\$ 24,072</u>	<u>\$ 21,567</u>

The Stamford Hospital

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

12. Other Revenue (continued)

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling approximately \$3.0 million (Medicare, \$2.1 million; Medicaid, \$0.9 million) for the year ended September 30, 2012, is included in other revenue in the accompanying 2012 consolidated statement of operations. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

13. Commitments and Contingencies

Litigation

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

The Stamford Hospital

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

14. Concentration of Credit Risk

The Hospital is located in Stamford, Connecticut. The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The proportion of net patient accounts receivable from various third-party payors and patients was as follows for the years ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Managed care organizations	32%	32%
Medicare	16	14
Medicaid	6	7
All other insurers	14	16
Self-pay patients	32	31
	<u>100%</u>	<u>100%</u>

At September 30, 2012, all of the cash and cash equivalents of the Hospital were held in custodial accounts at three financial institutions. Management believes that credit risk related to these deposits is minimal.

15. Functional Expenses

The Hospital provides general health care services to residents within its geographic area. Expenses related to provision of these services for the years ended September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Health care	\$ 401,213	\$ 381,452
General and administrative	64,888	46,734
	<u>\$ 466,101</u>	<u>\$ 428,186</u>

The Stamford Hospital

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

16. Fair Value of Financial Instruments

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

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

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

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

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

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

The Stamford Hospital

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

16. Fair Value of Financial Instruments (continued)

Financial assets, including the defined benefit plan assets, carried at fair value as of September 30, 2012 and 2011 are classified in the tables below in one of the three categories described previously:

	2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 356,730	\$ —	\$ —	\$ 356,730
Mutual funds – fixed income	53,616	—	—	53,616
Mutual funds – multi industry	7,239	—	—	7,239
Private mutual funds ^(a)	—	1,175	—	1,175
Defined benefit plan assets:				
Cash and cash equivalents	13,798	—	—	13,798
Mutual funds – fixed income	70,874	—	—	70,874
Mutual funds – multi industry	29,855	—	—	29,855
Private mutual funds ^(a)	—	4,878	—	4,878
Partnerships ^(b)	—	10,004	8,362	18,366
Hedge funds ^(c)	—	42,933	—	42,933
	\$ 532,112	\$ 58,990	\$ 8,362	\$ 599,464

	2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 102,031	\$ —	\$ —	\$ 102,031
Mutual funds – fixed income	39,372	—	—	39,372
Mutual funds – multi industry	5,914	—	—	5,914
Private mutual funds ^(a)	—	1,000	—	1,000
Defined benefit plan assets:				
Cash and cash equivalents	19,772	—	—	19,772
Mutual funds – fixed income	40,730	—	—	40,730
Mutual fund s– multi industry	24,585	—	—	24,585
Private mutual funds ^(a)	—	4,155	—	4,155
Partnerships ^(b)	—	7,364	8,623	15,987
Hedge funds ^(c)	—	41,654	—	41,654
	\$ 232,404	\$ 54,173	\$ 8,623	\$ 295,200

The Stamford Hospital

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

16. Fair Value of Financial Instruments (continued)

- (a) Private mutual funds pursue exposure to investment securities and provide the benefit of a diversified and active investment management strategy. The holdings can include domestic and international equity securities, fixed income securities, convertible debt, and distressed debt. The Hospital can normally redeem these investments on a monthly basis.
- (b) Partnerships are private equity investments that seek to generate acceptable returns in private companies over a given investment period. At September 30, 2012 and 2011, \$10,004 and \$7,364, respectively, of this investment has been classified in Level 2 of the fair value hierarchy as TSH determined this amount is redeemable in the near-term given its ability to redeem the investment monthly or quarterly. The Hospital considers redemptions that could occur within 120 days of its measurement date to be near-term. At September 30, 2012 and 2011, \$8,362 and \$8,623, respectively, 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 \$2,524 and \$1,016 at September 30, 2012 and 2011, respectively.
- (c) Hedge funds and funds of hedge funds pursue a variety of investment strategies. The Hospital holds multiple hedge funds and funds of hedge funds in an attempt to diversify exposures to multiple investment strategies and their respective risks, while attempting to reduce volatility. The underlying investments can include domestic and international equity securities, fixed income securities, convertible debt, distressed debt, merger arbitrage, real estate, private investments, and hedge funds (in the case of funds of hedge funds). The redemption terms vary among funds but, in most cases, the Hospital can normally redeem monthly or quarterly with 30 to 120 days' notice.

The transfers out of Level 3 for the year ended September 30, 2011 are due to the relief of redemption restrictions as of September 30, 2011. At September 30, 2012, the Hospital expects to be able to redeem defined benefit pension plan investments in hedge funds in the near-term.

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

The Stamford Hospital

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

16. Fair Value of Financial Instruments (continued)

The following table sets forth a summary of changes in the fair value of the Hospital's Level 3 assets for the years ended September 30, 2012 and 2011:

	2012	2011
Fair value at September 30, 2011	\$ 8,623	\$ 12,388
Investment income, net of fees	(46)	(57)
Net realized losses	(1,255)	(792)
Unrealized gains relating to instruments held at reporting date	833	740
Purchases	556	–
Contributions	377	388
Return of capital	(827)	(867)
Settlements	101	15
Transfers out of Level 3	–	(3,192)
Fair value at September 30, 2012	\$ 8,362	\$ 8,623

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, 2012 and 2011 are as follows:

	2012		2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt	\$ 410,547	\$ 384,596	\$ 144,664	\$ 135,043

The Stamford Hospital

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

17. Operating Lease Obligations

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

2013	\$ 5,799
2014	5,961
2015	5,915
2016	6,162
2017	5,885
Thereafter	<u>24,146</u>
Total minimum operating lease payments	<u>\$ 53,868</u>

Total nonaffiliate rental expense charged to operations for the years ended September 30, 2012 and 2011 aggregated approximately \$5,739 and \$5,645, respectively.

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

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

2013	\$ 2,691
2014	2,371
2015	2,228
2016	1,697
2017	1,741
Thereafter	<u>6,328</u>
Total minimum operating lease income	<u>\$ 17,056</u>

Total nonaffiliate rental income recorded in operations for the years ended September 30, 2012 and 2011 aggregated approximately \$2,534 and \$2,439, respectively.

The Stamford Hospital

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

17. Operating Lease Obligations (continued)

In March 2012, the Hospital determined that a leased building in Norwalk, Connecticut will not be put into use as originally intended and has recorded a loss on the lease obligation of approximately \$12,725. This charge represents the present value of the future lease payments and costs net of estimated rental income from subleasing the facility. As of September 30, 2012, the related liability is approximately \$12,900, \$9,300 is recorded as other long-term liabilities in the accompanying consolidated balance sheets and \$3,600 is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

18. Subsequent Events

Subsequent events have been evaluated through January 25, 2013, 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.

In September 2012, the Board of Directors approved an amendment to the defined benefit pension plan, the Stamford Health System Retirement Income Plan (the Plan), to offer certain terminated vested participants and their qualifying beneficiaries an opportunity to elect and receive a lump sum payment of their accrued and vested funded benefit under the Plan. This lump sum option is temporary and voluntary and is available to qualifying Plan participants and their beneficiaries for a period of time during the last quarter of calendar year 2012 and the first quarter of calendar year 2013. The Hospital is in the process of determining the impact of this option and will account for the settlement in fiscal year 2013.

Supplementary Information

The Stamford Hospital
Consolidating Balance Sheet

September 30, 2012
(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 68,128	\$ —	\$ 1,485	\$ —	\$ 69,613
Assets limited as to use	159	—	—	—	159
Short-term investments	30,119	—	—	—	30,119
Patient accounts receivable, net	64,792	—	3,903	—	68,695
Other receivables	6,724	8,297	70	—	15,091
Pledges receivable	1,787	—	—	—	1,787
Due from third parties, current portion	2,554	—	—	—	2,554
Other current assets	10,446	41	120	—	10,607
Total current assets	<u>184,709</u>	<u>8,338</u>	<u>5,578</u>	<u>—</u>	<u>198,625</u>
Assets limited as to use:					
Held by captive insurance company	—	29,759	—	—	29,759
Long-term investments – endowments	8,033	—	—	—	8,033
Due from Parent – donor-restricted	18,042	—	—	—	18,042
Held by trustee – construction and capitalized interest funds	243,826	—	—	—	243,826
	<u>269,901</u>	<u>29,759</u>	<u>—</u>	<u>—</u>	<u>299,660</u>
Long-term investments	39,373	33,198	—	(11,908)	60,663
Property, plant and equipment, net	255,279	—	2,550	—	257,829
Pledges receivable, net	12,948	—	—	—	12,948
Due from Parent and affiliates	29,857	—	384	(26,165)	4,076
Other assets	6,028	2,336	222	—	8,586
Total assets	<u>\$ 798,095</u>	<u>\$ 73,631</u>	<u>\$ 8,734</u>	<u>\$ (38,073)</u>	<u>\$ 842,387</u>

The Stamford Hospital

Consolidating Balance Sheet (continued)

September 30, 2012

(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Liabilities and net assets					
Current liabilities:					
Current portion of long-term debt	\$ 5,416	\$ —	\$ —	\$ —	\$ 5,416
Accounts payable and accrued expenses	61,934	92	1,675	—	63,701
Salaries, wages and fees payable	10,044	—	2,011	—	12,055
Accrued vacation liability	17,731	—	839	—	18,570
Estimated third-party payor settlements, net of current portion	7,600	—	—	—	7,600
Estimated professional liabilities, current	—	19,824	—	—	19,824
Total current liabilities	102,725	19,916	4,525	—	127,166
Pension liabilities	109,714	—	—	—	109,174
Estimated third-party payor settlements, net of current portion	3,621	—	—	—	3,621
Long-term debt, net of current portion	379,180	—	—	—	379,180
Due to Parent – board designated	20,014	—	—	—	20,014
Due to Parent and affiliates	2,839	307	30,091	(26,165)	7,072
Estimated professional liabilities, net of current portion	10,205	17,577	—	—	27,782
Other long-term liabilities	9,323	—	—	—	9,323
Total liabilities	637,081	37,800	34,616	(26,165)	683,332
Net assets:					
Unrestricted	120,895	35,831	(25,882)	(11,908)	118,936
Temporarily restricted	32,086	—	—	—	32,086
Permanently restricted	8,033	—	—	—	8,033
Total net assets	161,014	35,831	(25,882)	(11,908)	159,055
Total liabilities and net assets	\$ 798,095	\$ 73,631	\$ 8,734	\$ (38,073)	\$ 842,387

The Stamford Hospital

Consolidating Balance Sheet

September 30, 2011

(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 80,693	\$ —	\$ 1,318	\$ —	\$ 82,011
Assets limited as to use	159	—	—	—	159
Short-term investments	276	—	—	—	276
Patient accounts receivable, net	59,828	—	2,290	—	62,118
Other receivables	5,379	191	62	—	5,632
Pledges receivable	164	—	—	—	164
Due to third parties, current portion	2,592	—	—	—	2,592
Other current assets	8,851	3	56	—	8,910
Total current assets	157,942	194	3,726	—	161,862
Assets limited as to use:					
Held by captive insurance company	—	25,977	—	—	25,977
Long-term investments – endowments	8,033	—	—	—	8,033
Due from Parent – donor-restricted	18,642	—	—	—	18,642
Held by trustee – construction and debt service funds	1,357	—	—	—	1,357
	28,032	25,977	—	—	54,009
Long-term investments	35,851	31,282	—	(11,908)	55,225
Property, plant and equipment, net	242,513	—	1,614	—	244,127
Pledges receivable, net	445	—	—	—	445
Due from Parent and affiliates	11,608	—	1,119	(8,476)	4,251
Other assets	2,070	1,979	13	—	4,062
Total assets	\$ 478,461	\$ 59,432	\$ 6,472	\$ (20,384)	\$ 523,981

The Stamford Hospital

Consolidating Balance Sheet (continued)

September 30, 2011

(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Liabilities and net assets					
Current liabilities:					
Current portion of long-term debt	\$ 5,018	\$ —	\$ —	\$ —	\$ 5,018
Accounts payable and accrued expenses	47,334	130	778	—	48,242
Salaries, wages and fees payable	9,025	—	1,148	—	10,173
Accrued vacation liability	15,683	—	348	—	16,031
Estimated third-party payor settlements, net of current portion	5,424	—	—	—	5,424
Estimated professional liabilities, current	—	4,830	—	—	4,830
Total current liabilities	82,484	4,960	2,274	—	89,718
Pension liabilities	91,954	—	—	—	91,954
Estimated third-party payor settlements, net of current portion	5,860	—	—	—	5,860
Long-term debt, net of current portion	130,025	—	—	—	130,025
Due to Parent – board designated	20,014	—	—	—	20,014
Due to Parent and affiliates	2,854	50	12,289	(8,476)	6,717
Estimated professional liabilities, net of current portion	10,071	20,873	—	—	30,944
Total liabilities	343,262	25,883	14,563	(8,476)	375,232
Net assets:					
Unrestricted	108,504	33,549	(8,091)	(11,908)	122,054
Temporarily restricted	18,662	—	—	—	18,662
Permanently restricted	8,033	—	—	—	8,033
Total net assets	135,199	33,549	(8,091)	(11,908)	148,749
Total liabilities and net assets	\$ 478,461	\$ 59,432	\$ 6,472	\$ (20,384)	\$ 523,981

The Stamford Hospital
Consolidating Statement of Operations

Year Ended September 30, 2012
(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Unrestricted revenue, gains and other support:					
Net patient service revenue	\$ 504,856	\$ —	\$ 19,527	\$ —	\$ 524,383
Provision for bad debts	(51,939)	—	(462)	—	(52,401)
Net patient service revenue, less provision for bad debts	452,917	—	19,065	—	471,982
Other revenue	23,115	6,079	1,494	(6,616)	24,072
Net assets released from restrictions for operations	1,268	—	—	—	1,268
Total unrestricted revenue, gains and other support	477,300	6,079	20,559	(6,616)	497,322
Expenses:					
Salaries	176,514	—	23,319	245	200,078
Employee benefits	50,257	—	2,706	—	52,963
Supplies and other expenses	171,538	4,844	11,225	(6,861)	180,746
Depreciation and amortization	26,237	—	436	—	26,673
Interest expense	5,641	—	—	—	5,641
Total expenses	430,187	4,844	37,686	(6,616)	466,101
Income (loss) from operations	47,113	1,235	(17,127)	—	31,221
Nonoperating gains and losses:					
Loss on lease obligation	(12,725)	—	—	—	(12,725)
Investment returns	2,652	1,047	—	—	3,699
Change in net unrealized gains and losses	(25)	—	—	—	(25)
Total nonoperating gains and losses	(10,098)	1,047	—	—	(9,051)
Excess (deficiency) of revenue over expenses	37,015	2,282	(17,127)	—	22,170
Net assets released from restrictions used for purchases of property and equipment	3,254	—	—	—	3,254
Pension-related changes other than net periodic pension cost	(27,878)	—	—	—	(27,878)
Equity transfer from Stamford Health System	—	—	(664)	—	(664)
Increase (decrease) in unrestricted net assets	\$ 12,391	\$ 2,282	\$ (17,791)	\$ —	\$ (3,118)

The Stamford Hospital
Consolidating Statement of Operations

Year Ended September 30, 2011
(In Thousands)

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

The Stamford Hospital

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2012

(In Thousands)

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Excess (deficiency) of revenue over expenses	\$ 37,015	\$ 2,282	\$ (17,127)	\$ –	\$ 22,170
Pension-related changes other than net periodic pension cost	(27,878)	–	–	–	(27,878)
Equity transfer from Stamford Health System	–	–	(664)	–	(664)
Net assets released from restrictions used for purchases of property and equipment	3,254	–	–	–	3,254
Increase (decrease) in unrestricted net assets	12,391	2,282	(17,791)	–	(3,118)
Temporarily restricted net assets:					
Contributions	16,783	–	–	–	16,783
Change in net unrealized gains and losses	(40)	–	–	–	(40)
Investment returns	1,203	–	–	–	1,203
Net assets released from restrictions for operations	(1,268)	–	–	–	(1,268)
Net assets released from restrictions used for purchases of property and equipment	(3,254)	–	–	–	(3,254)
Increase in temporarily restricted net assets	13,424	–	–	–	13,424
Increase (decrease) in net assets	25,815	2,282	(17,791)	–	10,306
Net assets, beginning of year	135,199	33,549	(8,091)	(11,908)	148,749
Net assets, end of year	\$ 161,014	\$ 35,831	\$ (25,882)	\$ (11,908)	\$ 159,055

The Stamford Hospital

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2011

(In Thousands)

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

The Stamford Hospital

Schedule of Net Patient Service Revenue

Year Ended September 30, 2012

(In Thousands)

	TSH	Healthstar	SHIP	Eliminations		TSH
				Debit	Credit	Consolidated
Gross revenue from patients	\$ 1,642,590	\$ -	\$ 46,222	\$ -	\$ -	\$ 1,688,812
Deductions:						
Contractual allowances	1,102,926	-	26,695	-	-	1,129,621
Charity care	34,808	-	-	-	-	34,808
Total deductions	1,137,734	-	26,695	-	-	1,164,429
Net physician revenue	-	-	-	-	-	-
Net patient service revenue	504,856	-	19,527	-	-	524,383
Provision for bad debts	(51,939)	-	(462)	-	-	(52,401)
Net patient service revenue, less provision for bad debts	\$ 452,917	\$ -	\$ 19,065	\$ -	\$ -	\$ 471,982

The Stamford Hospital

Schedule of Net Patient Service Revenue

Year Ended September 30, 2011

(In Thousands)

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

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