

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Stamford Health System
Years Ended September 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Stamford Health System

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2014 and 2013

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Report of Independent Auditors

The Board of Directors
Stamford Health System

We have audited the accompanying consolidated financial statements of Stamford Health System and subsidiaries (collectively referred to as the System), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stamford Health System and subsidiaries at September 30, 2014 and 2013, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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, 2014 and 2013 and the consolidating statements of operations, and changes in net assets 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

January 23, 2015

Stamford Health System
Consolidated Balance Sheets
(In Thousands)

	September 30	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 109,623	\$ 112,710
Assets limited as to use	257	543
Short-term investments	58	44
Patient accounts receivable (less allowance for uncollectible accounts of \$48,249 and \$43,428, respectively)	73,832	72,380
Other receivables	3,130	5,030
Pledges receivable	4,476	2,709
Estimated third-party payor settlements, current	2,838	3,366
Other current assets	13,029	12,592
Total current assets	207,243	209,374
Assets limited as to use:		
Held by captive insurance company	41,617	34,737
Long-term investments – endowments	8,408	8,080
Held by trustee – construction and debt service funds	77,128	167,015
	127,153	209,832
Long-term investments	243,057	224,042
Property, plant, and equipment, net	428,864	342,304
Pledges receivable, net	21,200	14,069
Other assets	13,583	14,030
Total assets	\$ 1,041,100	\$ 1,013,651

	September 30	
	2014	2013
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 5,802	\$ 5,904
Accounts payable and accrued expenses	81,388	73,886
Salaries, wages and fees payable	14,631	15,808
Accrued vacation liability	20,649	19,936
Estimated third-party payor settlements, current	6,542	6,229
Estimated professional liabilities, current	11,017	8,086
Total current liabilities	<u>140,029</u>	129,849
Pension liabilities	84,427	70,257
Estimated third-party payor settlements, net of current portion	656	1,164
Long-term debt, net of current portion	372,853	378,618
Estimated professional liabilities, net of current portion	33,959	32,792
Other long-term liabilities	129	9,826
Total liabilities	<u>632,053</u>	622,506
Commitments and contingencies		
Net assets:		
Unrestricted	339,225	340,828
Temporarily restricted	61,414	42,237
Permanently restricted	8,408	8,080
Total net assets	<u>409,047</u>	391,145
Total liabilities and net assets	<u><u>\$ 1,041,100</u></u>	<u><u>\$ 1,013,651</u></u>

See accompanying notes.

Stamford Health System

Consolidated Statements of Operations (In Thousands)

	Year Ended September 30	
	2014	2013
Unrestricted revenue, gains, and other support:		
Net patient service revenue	\$ 537,792	\$ 545,917
Provision for bad debts	(41,755)	(50,056)
Net patient service revenue, less provision for bad debts	496,037	495,861
Other revenue	24,337	20,667
Net assets released from restrictions for operations	1,495	1,454
Total unrestricted revenue, gains, and other support	521,869	517,982
Expenses:		
Salaries	230,172	222,978
Employee benefits	53,247	53,005
Pension settlement charge	–	11,856
Supplies and other expenses	198,202	192,947
Depreciation and amortization	25,518	26,020
Interest expense	6,171	6,446
Total expenses	513,310	513,252
Income from operations	8,559	4,730
Nonoperating gains and losses:		
Loss on lease obligation	(226)	(1,784)
Investment returns	7,618	9,500
Change in net unrealized gains and losses	1,586	35
Total nonoperating gains and losses	8,978	7,751
Excess of revenue over expenses	17,537	12,481
Net assets released from restrictions used for purchases of property and equipment	491	913
Pension-related changes other than net periodic pension cost	(19,631)	61,029
(Decrease) increase in unrestricted net assets	\$ (1,603)	\$ 74,423

See accompanying notes.

Stamford Health System

Consolidated Statements of Changes in Net Assets (In Thousands)

Year Ended September 30, 2014 and 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at September 30, 2012	\$ 266,405	\$ 34,447	\$ 8,080	\$ 308,932
Excess of revenue over expenses	12,481	-	-	12,481
Pension-related changes other than net periodic pension cost	61,029	-	-	61,029
Contributions	-	8,873	-	8,873
Change in net unrealized gains and losses	-	104	-	104
Investment returns	-	1,180	-	1,180
Net assets released from restrictions for operations	-	(1,454)	-	(1,454)
Net assets released from restrictions used for purchases of property and equipment	913	(913)	-	-
Increase in net assets	<u>74,423</u>	<u>7,790</u>	<u>-</u>	<u>82,213</u>
Balance at September 30, 2013	340,828	42,237	8,080	391,145
Excess of revenue over expenses	17,537	-	-	17,537
Pension-related changes other than net periodic pension cost	(19,631)	-	-	(19,631)
Contributions	-	20,012	328	20,340
Change in net unrealized gains and losses	-	214	-	214
Investment returns	-	937	-	937
Net assets released from restrictions for operations	-	(1,495)	-	(1,495)
Net assets released from restrictions used for purchases of property and equipment	491	(491)	-	-
(Decrease) increase in net assets	<u>(1,603)</u>	<u>19,177</u>	<u>328</u>	<u>17,902</u>
Balance at September 30, 2014	<u>\$ 339,225</u>	<u>\$ 61,414</u>	<u>\$ 8,408</u>	<u>\$ 409,047</u>

See accompanying notes.

Stamford Health System

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 17,902	\$ 82,213
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	19,631	(61,029)
Pension settlement charge	–	11,856
Net realized gains and losses and change in net unrealized gains and losses	(7,129)	(7,511)
Loss on lease obligation	226	1,784
Loss on disposal of fixed assets	1,787	–
Restricted contributions	(20,340)	(8,873)
Restricted investment returns	(1,151)	(1,284)
Depreciation and amortization	25,518	26,020
Amortization of deferred financing costs	303	310
Net amortization of bond premium	(271)	(274)
Provision for bad debts	41,755	50,056
Change in:		
Patient accounts receivable	(43,207)	(52,680)
Accounts payable and accrued expenses	7,502	4,993
Estimated third-party payor settlements	333	(4,640)
Estimated professional liabilities	4,098	(6,728)
Change in all other operating assets and liabilities	(23,056)	7,389
Net cash provided by operating activities	23,901	41,602
Cash flows from investing activities		
Capital expenditures, net	(113,948)	(101,804)
Net cash redeemed from assets limited as to use and investments	71,065	91,869
Net cash used in investing activities	(42,883)	(9,935)
Cash flows from financing activities		
Principal payments on long-term debt	(5,596)	(5,380)
Cash paid for deferred financing fees	–	(9)
Restricted investment returns	1,151	1,284
Restricted contributions	20,340	8,873
Net cash provided by financing activities	15,895	4,768
Net (decrease) increase in cash and cash equivalents	(3,087)	36,435
Cash and cash equivalents, beginning of year	112,710	76,275
Cash and cash equivalents, end of year	\$ 109,623	\$ 112,710
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 18,014	\$ 18,709

See accompanying notes.

Stamford Health System

Notes to Consolidated Financial Statements (In Thousands)

September 30, 2014

1. Organization and Summary of Significant Accounting Policies

Organization

Stamford Health System (SHS), a tax-exempt corporation, is the sole member or ultimate parent of The Stamford Hospital (TSH or the Hospital), a not-for-profit acute care hospital; Miller Hall Medical Suites, LLC (MHMS), a professional office building on the campus of TSH, Stamford OB/GYN Associates (OB/GYN), a professional captive formed to provide obstetrical care and Southwest Connecticut Radiology LLC (SCR), a professional captive that employed radiologists who provided radiologic services at the Hospital.

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.

On September 10, 2014, SHS invested in a new joint venture, Tully Urgent Care Center, LLC. There was no significant activity for the joint venture for the year ended September 30, 2014.

Consolidated Financial Statements

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States and include assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which SHS exercises control or has controlling financial interests. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectible accounts receivable for services to patients and the valuation of alternative investments, and liabilities, including estimated payables to third-party payors, professional liabilities, pension liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Stamford Health System

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

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

Cash and Cash Equivalents

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

Inventories

Inventories 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.

Investments

Investments consist of alternative investments and marketable securities. Alternative investments are defined as nontraditional, not readily marketable asset classes, and consist of interests in hedge funds and funds of funds, some of which are structured such that the System holds limited partnership interests, and are reported based upon net asset values derived from the application of 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.

Stamford Health System

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

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

Financial information used by the System to evaluate its alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee. 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. While these financial instruments may contain varying degrees of risk, the risk of SHS with respect to such transactions is limited to its capital balance in each investment. Certain amounts are subject to notification to allow for divestiture, while other amounts have divestiture provisions based only on termination of the fund. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the System's annual consolidated financial statement reporting. At September 30, 2014 and 2013, SHS has future commitments of \$1,615 and \$3,067, respectively, to invest in alternative investments.

Alternative investments may indirectly expose SHS to liquidity restrictions, securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. There is uncertainty in determining fair values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies and the subjective evaluation of liquidity restrictions. As a result, the values of alternative investments reported in the accompanying consolidated balance sheets might differ from the value that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonable possibility that estimates will change by material amounts in the near term.

Realized and unrealized gains and losses are included in determining the excess of revenue over expenses. For the years ended September 30, 2014 and 2013, the System recorded gains on unrestricted alternative investments of \$4,132 and \$4,713, respectively, which are included in investment returns in the accompanying consolidated statements of operations.

Stamford Health System

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

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

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. For the years ended September 30, 2014 and 2013, the System recorded ordinary income and net realized gains of \$3,486 and \$4,787, respectively.

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. Assets limited as to use required to meet current liabilities are reported as current assets.

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. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. The carrying amount of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations and leasehold improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment or leasehold improvement. Interest cost incurred on borrowed funds, net of interest earned on such funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Estimated useful lives by classification are as follows:

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

Stamford Health System

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

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

Deferred Financing Costs

Included in other assets are deferred financing costs. Costs incurred in connection with the issuance of bonds are amortized over the lives of the bonds using the effective interest method. At September 30, 2014 and 2013, the accumulated amortization for deferred financing costs was \$1,081 and \$778, respectively. In 2010, 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 \$3,022. Amortization of deferred financing costs is included in interest expense in the accompanying consolidated statements of operations.

Insurance Recoveries Receivable

The System records anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities in the accompanying consolidated balance sheets. The insurance recoveries receivable included in other assets and related insurance claims liability included in estimated professional liabilities totaled \$3,377 and \$3,990 as of September 30, 2014 and 2013, respectively.

Equity Investment

Included in other assets is SHS's investment in Stamford/NSC Management LLC, a joint venture with Wilton NSC, LLC. SHS accounts for this investment using the equity method of accounting.

During 2014 and 2013, SHS recognized income of \$736 and \$911, respectively, and received capital distributions of \$727 and \$798, respectively.

Temporarily and Permanently Restricted Net Assets

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

Stamford Health System

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

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

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

Consolidated Statements of Operations

For the purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as unrestricted revenue, gains and other support and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses and consist primarily of investment returns and loss on lease obligations (see Note 16).

The consolidated statements of operations include the excess of revenue over expenses as the performance indicator. 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 SHS's performance indicator.

Patient Accounts Receivable and Net Patient Service Revenue

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

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

Stamford Health System

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

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

Charity Care

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

Contributions

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

Temporarily restricted net assets are available for certain health care services as defined in the donor agreements. Income earned from these funds that is unrestricted is included 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 liability may vary significantly from the amount provided. Anticipated insurance recoveries are included in other assets and are presented separately from estimated professional liabilities in the accompanying consolidated balance sheets.

Stamford Health System

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

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

Income Taxes

SHS is a not-for-profit corporation and all of its not-for-profit affiliates have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Its related income is not subject to federal or state income taxes. The for-profit affiliates of SHS include OB/GYN and SCR. The related income (losses) of these affiliates are subject to federal and state income taxes. No significant liabilities exist as of September 30, 2014 and 2013 for applicable federal and state taxes.

The Hospital's wholly owned insurance company, Healthstar Indemnity Company, Ltd. (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 SHS is to fund amounts as necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

2. Community Benefit and Charity Care

The Hospital is committed to providing health care services to the community. During 2013 and 2014, 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 also administered a community survey to obtain feedback directly from the population served by the Hospital. The survey was facilitated through selected community venues.

Stamford Health System

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

2. Community Benefit and Charity Care (continued)

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

In collaboration with the 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. In addition, the Hospital works in partnership with the City of Stamford HIV prevention program and a third-party organization. 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-wide task force designed to promote physical activity and health conscious nutrition 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 \$30,000 and \$29,000 for the years ended September 30, 2014 and 2013, respectively. For the years ended September 30, 2014 and 2013, the estimated cost of charity care was \$8,800 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 Hospital total of bad debt expense and charity care for the years ended September 30, 2014 and 2013:

Stamford Health System

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

2. Community Benefit and Charity Care (continued)

	<u>2014</u>	<u>2013</u>
Provision for bad debts – net of recoveries	\$ 41,755	\$ 50,056
Charity care based on charges	30,293	28,856
Total uncompensated care	<u>\$ 72,048</u>	<u>\$ 78,912</u>

For distributions from the Uncompensated Care Pool, the Hospital received \$6,932 and \$14,607 for the years ended September 30, 2014 and 2013, respectively, which is included in net patient service revenue in the accompanying consolidated statements of operations and paid \$17,311 of tax assessments for each of the years ended September 30, 2014 and 2013.

3. Net Patient Service Revenue

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

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under national prospective payment systems and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. TSH is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by TSH and audits thereof by the Medicare fiscal intermediary. The classification of patients of TSH under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with TSH. The Medicare cost reports of TSH have been audited and finalized by the Medicare fiscal intermediary through the year ended September 30, 2011, except for the year ended December 31, 2009.

Stamford Health System

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

3. Net Patient Service Revenue (continued)

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on cost-based and fee schedule methodologies. TSH is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by TSH and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of TSH for 2012 and prior have been settled. All Medicaid cost reports are subject to audit and finalization by the State of Connecticut.

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

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

Stamford Health System

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

3. Net Patient Service Revenue (continued)

SHS's allowance for uncollectible accounts was \$48,249 and \$43,428 at September 30, 2014 and 2013, respectively.

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

Patient service revenue for the years ended September 30, 2014 and 2013, 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:

	2014	2013
Third-party payors	\$ 494,769	\$ 502,027
Self-pay	43,023	43,890
Total all payors	<u>\$ 537,792</u>	<u>\$ 545,917</u>

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

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

Stamford Health System

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

3. Net Patient Service Revenue (continued)

During the years ended September 30, 2014 and 2013, TSH recorded \$353 and \$1,285, respectively, of previously recorded estimated third-party payor settlement liabilities that were no longer considered necessary and were included as increases in net patient service revenue.

The percentages of net patient service revenue provided by TSH from various third-party payors and patients were as follows for the years ended September 30, 2014 and 2013:

	2014	2013
Medicare	19%	19%
Medicaid	9	8
Managed care organizations	41	40
Other third-party payors	25	25
Self-pay patients	6	8
	100%	100%

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

Stamford Health System

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

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 composition of assets limited as to use at September 30, 2014 and 2013 is as follows:

	2014	2013
Current portion:		
Cash and cash equivalents	\$ 257	\$ 543
 Held by captive insurance company:		
Cash and cash equivalents	\$ 10,193	\$ 6,425
Mutual funds	20,144	19,424
Alternative investments – hedge funds	11,280	8,888
	\$ 41,617	\$ 34,737
 Long-term investments – endowments:		
Cash and cash equivalents	\$ 763	\$ 284
Mutual funds	3,362	3,677
Alternative investments – hedge funds	2,488	2,389
Alternative investments – limited partnerships	1,505	1,427
Private mutual funds	290	303
	\$ 8,408	\$ 8,080
 Held by trustee – construction and debt service funds:		
Cash and cash equivalents	\$ 77,128	\$ 167,015

Stamford Health System

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

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

The composition of investments at September 30, 2014 and 2013 is as follows:

	2014	2013
Short-term investments:		
Cash and cash equivalents	\$ 58	\$ 8
Mutual funds	–	36
	\$ 58	\$ 44
Long-term investments:		
Cash and cash equivalents	\$ 19,560	\$ 5,182
Government securities	83,856	86,366
Corporate bonds	12,978	12,942
Mutual funds	72,880	72,123
Alternative investments – hedge funds	31,246	27,512
Alternative investments – limited partnerships	18,899	16,433
Private mutual funds	3,638	3,484
	\$ 243,057	\$ 224,042

Total returns on investments for the years ended September 30, 2014 and 2013 consist of the following:

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Ordinary income						
(interest and dividends)	\$ 2,075	\$ 91	\$ 2,166	\$ 2,024	\$ 113	\$ 2,137
Net realized gains and losses	1,411	377	1,788	2,763	365	3,128
Gains and losses from						
alternative investments	4,132	469	4,601	4,713	702	5,415
Investment returns	7,618	937	8,555	9,500	1,180	10,680
Change in net unrealized gains						
and losses	1,586	214	1,800	35	104	139
	\$ 9,204	\$ 1,151	\$ 10,355	\$ 9,535	\$ 1,284	\$ 10,819

Stamford Health System

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, 2014 and 2013, pledges receivable consist of the following:

	2014	2013
Amounts expected to be collected in:		
Less than one year	\$ 4,712	\$ 2,923
One to five years	23,612	15,451
Less:		
Reserve for uncollectible pledges	1,416	949
Discount on pledges	1,232	647
Current portion	4,476	2,709
Pledges receivable, net	\$ 21,200	\$ 14,069

6. Property, Plant, and Equipment

Property, plant, and equipment, at cost, and accumulated depreciation and amortization at September 30, 2014 and 2013 are as follows:

	2014	2013
Land	\$ 44,898	\$ 44,898
Land improvements	5,064	5,023
Buildings and improvements	201,552	197,360
Fixed and major movable equipment	359,117	331,698
Leasehold improvements	16,143	12,222
	626,774	591,201
Less accumulated depreciation and amortization	403,836	381,792
	222,938	209,409
Construction-in-progress	205,926	132,895
	\$ 428,864	\$ 342,304

Stamford Health System

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 \$1,666 at September 30, 2014 and 2013, with accumulated amortization of \$1,440 and \$1,060, respectively.

Depreciation and amortization expense for the years ended September 30, 2014 and 2013 was \$25,518 and \$26,020, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of \$380 for the years ended September 30, 2014 and 2013.

Net interest capitalized for the years ended September 30, 2014 and 2013 was \$11,840 and \$12,108, respectively.

In May 2009, SHS submitted an application for a certificate of need with the State of Connecticut for the Master Facility Plan of the Hospital which includes the construction of a new addition and central utility plant, modernization of the emergency department and other infrastructure improvements. The estimated project cost for the Master Facility Plan is \$450,000, consisting of construction costs and equipment. Construction in progress as of September 30, 2014 and 2013, includes, exclusive of capitalized interest, \$172,093 and \$105,000, respectively, of capitalized costs relating to the costs incurred for the planning and construction of the Master Facility Plan. As of September 30, 2014, the Hospital has entered into future commitments tied to the Master Facility Plan totaling \$186,249.

7. Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Health care services:		
Purchase of equipment	\$ 28,568	\$ 24,747
Patient care	31,386	16,106
Health education	1,460	1,384
	<u>\$ 61,414</u>	<u>\$ 42,237</u>

Stamford Health System

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

7. Net Assets (continued)

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

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

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

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

Stamford Health System

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

7. Net Assets (continued)

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

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

The following table set forth the changes to assets as they relate to SHS's endowments for the years ended September 30, 2014 and 2013:

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2013	\$ 2,030	\$ 8,080	\$ 10,110
Investment return (realized and unrealized)	1,103	–	1,103
Contributions	–	328	328
Appropriation of endowment assets for expenditure	(509)	–	(509)
Endowment assets, September 30, 2014	<u>\$ 2,624</u>	<u>\$ 8,408</u>	<u>\$ 11,032</u>
	2013		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2012	\$ 1,203	\$ 8,080	\$ 9,283
Investment return (realized and unrealized)	1,254	–	1,254
Appropriation of endowment assets for expenditure	(384)	–	(384)
Endowment assets, September 30, 2013	<u>\$ 2,073</u>	<u>\$ 8,080</u>	<u>\$ 10,153</u>

Stamford Health System

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 of UPMIFA requires SHS to retain as a fund of perpetual duration. There were no significant deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2014 and 2013.

8. Long-Term Debt

At September 30, 2014 and 2013, long-term debt consists of the following:

	September 30	
	2014	2013
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series I, payable in varying annual amounts with fixed interest rates varying from 3.75% to 5.00%, with the final payment due in 2030	\$ 115,035	\$ 119,825
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	250,000
Term promissory notes bearing interest at LIBOR plus 2.00%, maturing June 1, 2021	8,674	9,048
Capital lease obligations	107	539
	373,816	379,412
Unamortized bond premium	4,839	5,110
	378,655	384,522
Less current portion	5,802	5,904
	\$ 372,853	\$ 378,618

Stamford Health System

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

8. Long-Term Debt (continued)

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series I (the Series I Bonds) were issued on May 12, 2010, in the amount of \$132,990 for a term of 20 years, at a premium of \$1,002. As of September 30, 2014 and 2013, accumulated amortization related to the bond premium was \$341 and \$267, respectively. The Series I Bonds were used for 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 were used to 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, 2014 and 2013, accumulated amortization related to the bond premium was \$443 and \$246, respectively. 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.

Hospital gross receipts are pledged as collateral under debt arrangements relating to the Series I and 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, 2014 and 2013. 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, 2014 and 2013, the Hospital has a line of credit available with a bank totaling \$30,000 and a maturity date of May 20, 2015. There were no amounts outstanding on the line of credit at September 30, 2014 and 2013. Under this line of credit, the bank issued a maximum letter of credit to the Hospital for \$5,000.

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.

Stamford Health System

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

8. Long-Term Debt (continued)

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, 2014, SHS was in compliance with such debt covenants.

In May 2011, MHMS entered into a term mortgage note agreement with a bank for \$5,900, bearing an interest rate of LIBOR + 2.00% at September 2014 and 2013. The mortgage note is payable in monthly installments and matures on June 1, 2021. SHS, as guarantor, must maintain certain debt covenants with respect to the term mortgage note. As of September 30, 2014, SHS was in compliance with such debt covenants.

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

	Loans Payable	Capital Leases	Total
Fiscal year:			
2015	\$ 5,695	\$ 107	\$ 5,802
2016	5,933	–	5,933
2017	7,779	–	7,779
2018	8,129	–	8,129
2019	8,449	–	8,449
Thereafter	342,563	–	342,563
Total minimum payments	378,548	107	378,655
Less current portion of long-term debt	5,695	107	5,802
	\$ 372,853	\$ –	\$ 372,853

9. Retirement Benefits

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

Stamford Health System

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

9. Retirement Benefits (continued)

Defined Benefit Pension Plan and SERPs

SHS's defined benefit pension 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.

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

During 2013, certain terminated vested participants and their qualifying beneficiaries in the Plan were offered the opportunity to elect and receive a lump sum payment of their accrued and vested funded benefit under the Plan. The payments reflected a full settlement of all plan liabilities to such participants and their qualifying beneficiaries. 519 participants elected a lump sum payment, which resulted in a cash payout of \$26,900 and a corresponding reduction of liability of \$33,000. A non-cash settlement charge of \$11,856 was recorded to recognize the Plan's deferred losses attributable to the liabilities settled.

Stamford Health System

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Retirement Benefits (continued)

Included in other changes in unrestricted net assets at September 30, 2014 and 2013 are the following amounts that have not yet been recognized in net periodic pension cost:

	2014		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ —	\$ —	\$ —
Unrecognized actuarial loss	(95,730)	(7,121)	(102,851)
	<u>\$ (95,730)</u>	<u>\$ (7,121)</u>	<u>\$ (102,851)</u>
	2013		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ —	\$ —	\$ —
Unrecognized actuarial loss	(77,247)	(5,973)	(83,220)
	<u>\$ (77,247)</u>	<u>\$ (5,973)</u>	<u>\$ (83,220)</u>

The prior service cost and actuarial loss included in changes in unrestricted net assets at September 30, 2014 and expected to be recognized in net periodic pension cost during the year ending September 30, 2015 are as follows:

	Plan	SERPs
Prior service cost	\$ —	\$ —
Net loss	(8,963)	(279)

Stamford Health System

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, 2014 and 2013 are as follows:

	Plan		SERPs		Total	
	2014	2013	2014	2013	2014	2013
Benefit obligation						
Benefit obligation, beginning of year	\$ 234,082	\$ 288,713	\$ 12,351	\$ 13,231	\$ 246,433	\$ 301,944
Service cost	2,914	3,326	111	101	3,025	3,427
Interest cost	11,548	10,975	566	515	12,114	11,490
Settlements	-	(26,874)	-	-	-	(26,874)
Actuarial losses (gains)	27,402	(34,354)	1,456	(698)	28,858	(35,052)
Benefits paid	(10,988)	(7,704)	(812)	(798)	(11,800)	(8,502)
Benefit obligation, end of year	<u>264,958</u>	<u>234,082</u>	<u>13,672</u>	<u>12,351</u>	<u>278,630</u>	<u>246,433</u>
Plan assets						
Fair value of plan assets, beginning of year	175,378	180,704	-	-	175,378	180,704
Actual return on plan assets	13,991	14,252	-	-	13,991	14,252
Settlements	-	(26,874)	-	-	-	(26,874)
Employer contributions	15,000	15,000	812	798	15,812	15,798
Benefits paid	(10,988)	(7,704)	(812)	(798)	(11,800)	(8,502)
Fair value of plan assets, end of year	<u>193,381</u>	<u>175,378</u>	<u>-</u>	<u>-</u>	<u>193,381</u>	<u>175,378</u>
Funded status	<u>\$ (71,577)</u>	<u>\$ (58,704)</u>	<u>\$ (13,672)</u>	<u>\$ (12,351)</u>	<u>\$ (85,249)</u>	<u>\$ (71,055)</u>
Current portion of obligation	\$ -	\$ -	\$ (822)	\$ (798)	\$ (822)	\$ (798)
Noncurrent portion of obligation	<u>(71,577)</u>	<u>(58,704)</u>	<u>(12,850)</u>	<u>(11,553)</u>	<u>(84,427)</u>	<u>(70,257)</u>
Total	<u>\$ (71,577)</u>	<u>\$ (58,704)</u>	<u>\$ (13,672)</u>	<u>\$ (12,351)</u>	<u>\$ (85,249)</u>	<u>\$ (71,055)</u>
Accumulated benefit obligation	<u>\$ (252,945)</u>	<u>\$ (219,719)</u>	<u>\$ (13,672)</u>	<u>\$ (12,351)</u>	<u>\$ (266,617)</u>	<u>\$ (232,070)</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.

Stamford Health System

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, 2014 and 2013 were as follows:

	Plan		SERPs	
	2014	2013	2014	2013
Discount rate	4.45%	5.05%	4.35%	4.90%
Rate of compensation increase	2.50	3.00	–	–

Net periodic pension cost and postretirement cost for the years ended September 30, 2014 and 2013 consist of the following components:

	Plan		SERPs		Total	
	2014	2013	2014	2013	2014	2013
Service cost	\$ 2,914	\$ 3,326	\$ 111	\$ 101	\$ 3,025	\$ 3,427
Interest cost	11,548	10,975	566	515	12,114	11,490
Expected return on plan assets	(11,936)	(11,527)	–	–	(11,936)	(11,527)
Amortization of prior service cost	–	3	–	–	–	3
Amortization of actuarial loss	6,868	11,066	301	325	7,169	11,391
Net periodic pension cost	\$ 9,394	\$ 13,843	\$ 978	\$ 941	\$ 10,372	\$ 14,784

The weighted-average assumptions used in determining the net periodic pension and postretirement benefits costs for the years ended September 30, 2014 and 2013 were as follows:

	Plan		SERPs	
	2014	2013	2014	2013
Discount rate	5.05%	4.10%	4.90%	4.05%
Expected long-term rate of return on plan assets	6.75	6.75	–	–
Rate of compensation increase	3.00	3.00	–	–

Stamford Health System

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 actuarial loss in 2014 primarily relates to changes in the discount rate and mortality improvement scale to measure the benefit obligation, and the actuarial gain in 2013 primarily relates to changes in the discount rate used to measure the benefit obligation.

Plan Assets

The Plan's weighted-average asset allocation at September 30, 2014 and 2013 is as follows:

	2014	2013
Equity securities	25%	23%
Fixed income securities	29	30
Alternative investments – limited partnerships	19	17
Alternative investments – hedge funds	23	27
Cash and cash equivalents	4	3
	100%	100%

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

	Target Allocation	Allocation Range
Equity securities	30%	10–50%
Fixed income securities	35	15–55
Alternative investments – limited partnerships	5	0–10
Alternative investments – hedge funds	30	20–40
Cash and cash equivalents	–	0–20

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

Stamford Health System

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

9. Retirement Benefits (continued)

the above ranges, the trustee and/or the Investment Subcommittee of the Finance Committee of the Board of Directors will adjust the allocations as soon as practicable.

Investment Strategy

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

Cash Flows

SHS expects to contribute \$15,841 to the plans during fiscal year 2015.

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

	Plan	SERPs	Total
Fiscal year ending September 30:			
2015	\$ 9,649	\$ 841	\$ 10,490
2016	10,416	840	11,256
2017	11,167	837	12,004
2018	11,998	839	12,837
2019	12,891	857	13,748
2020 through 2024	77,539	4,477	82,016

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 forgoing future benefits under the Plan to earn future benefits in the DC Plan beginning on January 1, 2003, or continuing to earn future benefits under the Plan. The effect of the establishment of the DC Plan resulted in a curtailment for those participants that chose to forgo future benefits under the Plan. Included in employee benefit expenses in the accompanying consolidated statements of operations for the years ended September 30, 2014 and 2013 are \$5,974 and \$5,879, respectively, in pension contributions to the DC Plan.

Stamford Health System

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

10. Professional Liability Insurance

The Hospital self-insured a portion of its medical professional liability insurance coverage through September 30, 2002. Excess commercial insurance policies were maintained for coverage in excess of the self-insured limits. These commercial insurers provided coverage limits totaling \$35,000 per occurrence and \$35,000 in the aggregate.

For the period from October 1, 1985 to October 1, 2002, the Hospital maintained a self-insured retention for medical professional liability insurance risk internally through the establishment of an irrevocable trust (the Trust), which segregated assets needed to cover medical professional self-insured claim liability, as well as reporting endorsement (tail) liability for this exposure, and costs associated with these liabilities and the maintenance of the Trust. The tail liability results from events that have occurred, but have not yet been reported, under claims-made insurance coverage. The limits of liability coverage afforded through the self-insured retention for the years covered under the Trust range from \$1,000 per occurrence subject to \$3,000 in the annual aggregate to \$3,000 per occurrence subject to \$9,000 in the annual 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 and maintaining 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 \$460 and \$637 for medical professional liability self-insurance for the years ended September 30, 2014 and 2013, respectively. The undiscounted actuarially determined tail liability of \$11,307 and \$10,841 is included in the estimated professional liabilities in the accompanying consolidated balance sheets at September 30, 2014 and 2013, respectively.

Healthstar is responsible for the medical professional liability, as well as general liability, insurance exposures of the Hospital beginning October 1, 2002, and is fully funded by the Hospital. Since October 1, 2002, the limits of medical professional and general liability insurance coverage afforded through Healthstar have ranged, on a net of reinsurance basis, from \$5,000 per claim subject to no annual aggregate to as much as \$5,000 per claim subject to an annual aggregate of \$25,000, and have also included limits for general liability on a net retained basis of \$2,000 per claim subject to an annual aggregate of \$4,000. Healthstar retains, net and exclusive of reinsurance, a primary layer of \$5,000 per claim for professional liability subject to

Stamford Health System

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

10. Professional Liability Insurance (continued)

\$18,500 in the annual aggregate, an excess buffer layer, directly above the primary layer, of \$1,000 per claim subject to \$1,000 in the annual aggregate, and an additional layer of annual aggregate coverage of \$1,500 in excess of \$45,000 in aggregate commercial reinsurance, which lies directly above the buffer layer noted above but below the additional \$1,500 annual aggregate coverage referenced above. For general liability, Healthstar retains, net and exclusive of reinsurance, a primary layer of \$2,000 per claim subject to \$4,000 in the annual aggregate, and for employee benefits liability a primary layer of \$1,000 per claim subject to \$1,000 in the annual aggregate. A separate tower of commercial reinsurance coverage equaling \$45,000 per claim and in the annual aggregate lies above the net retained general and employee benefits liability limits of coverage noted above, as well as above scheduled underlying commercial insurance policies. Healthstar retains, net and exclusive of reinsurance, a primary layer of terrorism liability insurance coverage for limits of \$5,000 per claim and \$5,000 in the annual aggregate. Commercial excess terrorism reinsurance coverage equaling \$20,000 per claim subject to \$20,000 in the annual aggregate is purchased in excess of the net retained terrorism liability limits of coverage noted above. All commercial reinsurance afforded to Healthstar is provided by a combination of syndicates at Lloyd's of London and European reinsurers.

For the year ended September 30, 2014, the Hospital paid insurance premiums of \$10,272 to Healthstar, \$7,600 of which relates to the coverage under Healthstar and \$2,672 of which relates to the coverage reinsured with third-party reinsurers. Of the \$10,272 insurance premium payments, \$1,603 was paid by the Hospital on behalf of its affiliates.

For the year ended September 30, 2013, the Hospital paid insurance premiums of \$9,974 to Healthstar, \$7,432 of which relates to the coverage under Healthstar and \$2,542 of which relates to the coverage reinsured with third-party reinsurers. Of the \$9,974 insurance premium payments, \$1,462 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, 2014 and 2013, Healthstar's undiscounted estimated professional and general liabilities for claims and expenses are \$30,298 and \$26,047, respectively. For the years ended September 30, 2014 and 2013, claims covered and expensed by Healthstar amounted to \$1,127 and \$5,625, respectively.

Stamford Health System

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

10. Professional Liability Insurance (continued)

The Hospital recorded an estimated insurance recoveries receivable and insurance claim liability of \$3,377 and \$3,990 as of September 30, 2014 and 2013, respectively. The insurance recoveries receivable is included in other assets and the insurance claim liability is included in estimated professional liabilities in the accompanying consolidated balance sheets. These amounts primarily relate to professional liability claims insured with third-party reinsurers.

11. Other Revenue

Other revenue consists of the following:

	Year Ended September 30	
	2014	2013
Contributions	\$ 5,385	\$ 2,409
Rental income	3,493	3,630
Electronic health records incentive payments	2,483	1,961
Grant revenue	664	670
Investment income	1,238	1,430
Rehabilitation services	3,195	3,166
Other	7,879	7,401
	\$ 24,337	\$ 20,667

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

Stamford Health System

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

11. Other Revenue (continued)

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.

SHS 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 SHS 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 \$2,500 and \$2,000 for the years ended September 30, 2014 and 2013 (Medicare: \$2,100 and \$1,500 for 2014 and 2013, respectively; Medicaid: \$400 and \$500 for 2014 and 2013, respectively), is included in other revenue in the accompanying consolidated statements of operations. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, SHS's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

12. Commitments and Contingencies

Litigation

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

Stamford Health System

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

13. Concentration of Credit Risk

TSH is located in Stamford, Connecticut. TSH grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The proportion of net patient accounts receivable from various third-party payors and patients was as follows for the years ended September 30, 2014 and 2013:

	2014	2013
Managed care organizations	39%	28%
Medicare	17	16
Medicaid	7	7
All other insurers	28	19
Self-pay patients	9	30
	100%	100%

At September 30, 2014, all of the cash and cash equivalents of SHS were held in custodial accounts at three financial institutions. Management believes that credit risk related to these deposits is minimal.

14. Functional Expenses

SHS provides general health care services to residents within its geographic area. Expenses related to providing these services for the years ended September 30, 2014 and 2013 are as follows:

	2014	2013
Health care and resident services	\$ 441,299	\$ 438,555
General and administrative	72,011	74,697
	\$ 513,310	\$ 513,252

Stamford Health System

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

15. Fair Value of Financial Instruments

For assets and liabilities required to be measured at fair value, SHS 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. Fair value measurements are applied based on the unit of account from SHS's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

SHS 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: Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). 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, SHS 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 may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while SHS 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.

Stamford Health System

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

15. Fair Value of Financial Instruments (continued)

Financial assets, including the defined benefit plan assets, carried at fair value as of September 30, 2014 and 2013 are classified in the tables below in one of the three categories described previously:

	2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 217,582	\$ —	\$ —	\$ 217,582
Corporate bonds	—	12,978	—	12,978
Government securities	—	83,856	—	83,856
Mutual funds – multi industry	32,981	—	—	32,981
Mutual funds – fixed income	63,405	—	—	63,405
Private mutual funds ^(a)	—	3,928	—	3,928
Defined benefit plan assets:				
Cash and cash equivalents	11,460	—	—	11,460
Mutual funds – fixed income	43,692	—	—	43,692
Mutual funds – multi industry	42,818	—	—	42,818
Private mutual funds ^(a)	—	6,376	—	6,376
Partnerships ^(b)	—	18,976	10,734	29,710
Hedge funds ^(c)	—	59,325	—	59,325
	\$ 411,938	\$ 185,439	\$ 10,734	\$ 608,111
	2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 292,167	\$ —	\$ —	\$ 292,167
Corporate bonds	—	12,942	—	12,942
Government securities	—	86,366	—	86,366
Mutual funds – multi industry	28,923	—	—	28,923
Mutual funds – fixed income	66,337	—	—	66,337
Private mutual funds ^(a)	—	3,787	—	3,787
Defined benefit plan assets:				
Cash and cash equivalents	5,279	—	—	5,279
Mutual funds – fixed income	52,510	—	—	52,510
Mutual funds – multi industry	37,568	—	—	37,568
Private mutual funds ^(a)	—	6,143	—	6,143
Partnerships ^(b)	—	15,488	9,115	24,603
Hedge funds ^(c)	—	49,275	—	49,275
	\$ 482,784	\$ 174,001	\$ 9,115	\$ 665,900

Stamford Health System

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

15. 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. SHS can normally redeem these investments on a monthly basis.
- (b) Partnerships are private equity investments that seek to generate acceptable returns in private companies over a given investment period. At September 30, 2014 and 2013, \$18,976 and \$15,488, respectively, of this investment has been classified in Level 2 of the fair value hierarchy, as SHS determined this amount is redeemable in the near-term given its ability to redeem the investment monthly or quarterly. SHS considers redemptions that could occur within 120 days of its measurement date to be near-term. At September 30, 2014 and 2013, \$10,734 and \$9,115, 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 \$1,527 and \$4,308 at September 30, 2014 and 2013, respectively.
- (c) Hedge funds and funds of hedge funds pursue a variety of investment strategies. SHS holds multiple hedge funds and funds of hedge funds in an attempt to diversify exposures to multiple investment strategies and their respective risks, while attempting to reduce volatility. The underlying investments can include domestic and international equity securities, fixed income securities, convertible debt, distressed debt, merger arbitrage, real estate, private investments, and hedge funds (in the case of funds of funds). The redemption terms vary among funds but, in most cases, SHS can normally redeem monthly or quarterly with 30 to 120 days' notice.

At September 30, 2014, SHS expects to be able to redeem defined benefit pension plan investments in hedge funds in the near-term.

SHS'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.

Stamford Health System

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

15. Fair Value of Financial Instruments (continued)

The following table sets forth a summary of changes in the fair value of SHS's Level 3 assets for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fair value at September 30, 2013	\$ 9,115	\$ 8,362
Investment income, net of fees	(106)	(36)
Net realized losses	(1,490)	(1,237)
Unrealized gains relating to instruments held at reporting date	1,461	1,529
Purchase	–	833
Contributions	3,194	1,178
Capital calls	(1,440)	(1,514)
Fair value at September 30, 2014	<u>\$ 10,734</u>	<u>\$ 9,115</u>

The carrying values and fair values of SHS's financial instruments that are not required to be carried at fair value at September 30, 2014 and 2013, are as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Long-term debt	\$ 400,521	\$ 378,655	\$ 377,551	\$ 384,522

The fair value of long-term debt were estimated primarily based on quoted market prices for related CHEFA bonds, other valuation considerations and estimations such as discounted cash flows and are classified by SHS in Level 2 of the valuation hierarchy above.

Stamford Health System

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

16. Operating Lease Obligations

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

2015	\$ 7,740
2016	7,965
2017	7,412
2018	7,171
2019	5,299
Thereafter	<u>16,379</u>
Total minimum operating lease payments	<u>\$ 51,966</u>

Total nonaffiliate rental expense charged to operations for the years ended September 30, 2014 and 2013 aggregated \$6,986 and \$6,635, 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.

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

2015	\$ 1,758
2016	1,652
2017	1,652
2018	1,641
2019	1,648
Thereafter	<u>2,980</u>
Total minimum operating lease income	<u>\$ 11,331</u>

Total nonaffiliate rental income recorded in operations for the years ended September 30, 2014 and 2013 aggregated \$3,493 and \$3,630, respectively.

Stamford Health System

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

16. Operating Lease Obligations (continued)

In June 2014, the Hospital entered into a lease termination agreement with the landlord for a leased building in Norwalk, Connecticut. The Hospital had previously recorded losses on the lease obligation of \$14,525, \$1,800 of which was recorded in March 2013. The settlement resulted in a net gain of \$75.

In July 2014, SHIP recorded a loss on lease obligation of \$301 for a leased facility located in Norwalk, Connecticut.

As of September 30, 2014 and 2013, the related liability is \$279 and \$12,641, respectively; \$129 and \$9,826, respectively, is recorded as other long-term liabilities in the accompanying consolidated balance sheets and \$150 and \$2,815, respectively, is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

17. Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition or disclosure in the consolidated financial statements as of the balance sheet date.

For the year ended September 30, 2014, the System evaluated subsequent events through January 23, 2015, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Stamford Health System
Consolidating Balance Sheet
(In Thousands)

September 30, 2014

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
Assets							
Current assets:							
Cash and cash equivalents	\$ 3,907	\$ 104,026	\$ 1,674	\$ -	\$ 16	\$ -	\$ 109,623
Assets limited as to use	100	113	44	-	-	-	257
Short-term investments	-	58	-	-	-	-	58
Patient accounts receivable, net	-	73,832	-	-	-	-	73,832
Other receivables	706	2,390	34	-	-	-	3,130
Pledges receivable	-	4,476	-	-	-	-	4,476
Estimated third-party payor settlements, current	-	2,838	-	-	-	-	2,838
Other current assets	25	12,768	39	-	197	-	13,029
Total current assets	4,738	200,501	1,791	-	213	-	207,243
Assets limited as to use:							
Held by captive insurance company	-	41,617	-	-	-	-	41,617
Long-term investments – endowments	47	8,361	-	-	-	-	8,408
Due from SHS – donor restricted	-	17,892	-	-	-	(17,892)	-
Held by trustee – construction and debt service funds	-	77,128	-	-	-	-	77,128
	47	144,998	-	-	-	(17,892)	127,153
Long-term investments	158,071	85,035	-	-	-	(49)	243,057
Property, plant, and equipment, net	3,738	421,460	3,666	-	-	-	428,864
Pledges receivable, net	-	21,200	-	-	-	-	21,200
Due from TSH – board designated	20,014	-	-	-	-	(20,014)	-
Due from Parent and affiliates	7,662	7,443	3,579	-	-	(18,684)	-
Other assets	4,507	9,047	29	-	-	-	13,583
Total assets	\$ 198,777	\$ 889,684	\$ 9,065	\$ -	\$ 213	\$ (56,639)	\$ 1,041,100

Stamford Health System

Consolidating Balance Sheet (continued)
(In Thousands)

September 30, 2014

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
Liabilities and net assets (deficiency)							
Current liabilities:							
Current portion of long-term debt	\$ -	\$ 5,562	\$ 240	\$ -	\$ -	\$ -	\$ 5,802
Accounts payable and accrued expenses	3,111	78,165	63	-	49	-	81,388
Salaries, wages and fees payable	-	14,631	-	-	-	-	14,631
Accrued vacation liability	-	20,649	-	-	-	-	20,649
Estimated third-party payor settlements, current	-	6,542	-	-	-	-	6,542
Estimated professional liabilities, current	-	11,017	-	-	-	-	11,017
Total current liabilities	3,111	136,566	303	-	49	-	140,029
Pension liabilities	11,419	73,008	-	-	-	-	84,427
Estimated third-party payor settlements, net of current portion	-	656	-	-	-	-	656
Long-term debt, net of current portion	-	367,973	4,880	-	-	-	372,853
Due to Parent – board designated	-	20,014	-	-	-	(20,014)	-
Due to TSH – donor restricted	17,892	-	-	-	-	(17,892)	-
Due to Parent and affiliates	7,096	7,441	-	-	4,147	(18,684)	-
Estimated professional liabilities, net of current portion	-	33,959	-	-	-	-	33,959
Other long-term liabilities	-	129	-	-	-	-	129
Total liabilities	39,518	639,746	5,183	-	4,196	(56,590)	632,053
Net assets (deficiency):							
Unrestricted	156,851	182,524	3,882	-	(3,983)	(49)	339,225
Temporarily restricted	2,361	59,053	-	-	-	-	61,414
Permanently restricted	47	8,361	-	-	-	-	8,408
Total net assets (deficiency)	159,259	249,938	3,882	-	(3,983)	(49)	409,047
Total liabilities and net assets (deficiency)	\$ 198,777	\$ 889,684	\$ 9,065	\$ -	\$ 213	\$ (56,639)	\$ 1,041,100

Stamford Health System
Consolidating Balance Sheet
(In Thousands)

September 30, 2013

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
Assets							
Current assets:							
Cash and cash equivalents	\$ 3,398	\$ 107,796	\$ 1,153	\$ 206	\$ 157	\$ –	\$ 112,710
Assets limited as to use	274	163	106	–	–	–	543
Short-term investments	–	44	–	–	–	–	44
Patient accounts receivable, net	–	72,355	–	10	15	–	72,380
Other receivables	39	4,942	49	–	–	–	5,030
Pledges receivable	74	2,635	–	–	–	–	2,709
Estimated third-party payor settlements, current	–	3,366	–	–	–	–	3,366
Other current assets	110	11,859	33	–	590	–	12,592
Total current assets	3,895	203,160	1,341	216	762	–	209,374
Assets limited as to use:							
Held by captive insurance company	–	34,737	–	–	–	–	34,737
Long-term investments – endowments	47	8,033	–	–	–	–	8,080
Due from SHS – donor restricted	–	18,042	–	–	–	(18,042)	–
Held by trustee – construction and debt service funds	–	167,015	–	–	–	–	167,015
	47	227,827	–	–	–	(18,042)	209,832
Long-term investments	152,259	71,832	–	–	–	(49)	224,042
Property, plant, and equipment, net	4,296	334,153	3,855	–	–	–	342,304
Pledges receivable, net	–	14,069	–	–	–	–	14,069
Due from TSH – board designated	20,014	–	–	–	–	(20,014)	–
Due from Parent and affiliates	9,522	5,517	3,643	106	696	(19,484)	–
Other assets	4,040	9,956	34	–	–	–	14,030
Total assets	\$ 194,073	\$ 866,514	\$ 8,873	\$ 322	\$ 1,458	\$ (57,589)	\$ 1,013,651

Stamford Health System

Consolidating Balance Sheet (continued) (In Thousands)

September 30, 2013

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
Liabilities and net assets (deficiency)							
Current liabilities:							
Current portion of long-term debt	\$ —	\$ 5,664	\$ 240	\$ —	\$ —	\$ —	\$ 5,904
Accounts payable and accrued expenses	2,916	70,247	99	72	552	—	73,886
Salaries, wages and fees payable	—	15,808	—	—	—	—	15,808
Accrued vacation liability	—	19,936	—	—	—	—	19,936
Estimated third-party payor settlements, current	—	6,229	—	—	—	—	6,229
Estimated professional liabilities, current	—	8,086	—	—	—	—	8,086
Total current liabilities	2,916	125,970	339	72	552	—	129,849
Pension liabilities	10,350	59,907	—	—	—	—	70,257
Estimated third-party payor settlements, net of current portion	—	1,164	—	—	—	—	1,164
Long-term debt, net of current portion	—	373,518	5,100	—	—	—	378,618
Due to Parent – board designated	—	20,014	—	—	—	(20,014)	—
Due to TSH – donor restricted	18,042	—	—	—	—	(18,042)	—
Due to Parent and affiliates	5,428	8,308	—	1,229	4,519	(19,484)	—
Estimated professional liabilities, net of current portion	—	32,792	—	—	—	—	32,792
Other long-term liabilities	—	9,826	—	—	—	—	9,826
Total liabilities	36,736	631,499	5,439	1,301	5,071	(57,540)	622,506
Net assets (deficiency):							
Unrestricted	154,929	187,106	3,434	(979)	(3,613)	(49)	340,828
Temporarily restricted	2,361	39,876	—	—	—	—	42,237
Permanently restricted	47	8,033	—	—	—	—	8,080
Total net assets (deficiency)	157,337	235,015	3,434	(979)	(3,613)	(49)	391,145
Total liabilities and net assets (deficiency)	\$ 194,073	\$ 866,514	\$ 8,873	\$ 322	\$ 1,458	\$ (57,589)	\$ 1,013,651

Stamford Health System

Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2014

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
Unrestricted revenue, gains, and other support:							
Net patient service revenue	\$ -	\$ 537,674	\$ -	\$ 1	\$ 117	\$ -	\$ 537,792
Provision for bad debts	-	(41,768)	-	-	13	-	(41,755)
Net patient service revenue, less provision for bad debts	-	495,906	-	1	130	-	496,037
Other revenue	1,596	23,279	1,386	-	-	(1,924)	24,337
Net assets released from restrictions for operations	-	1,495	-	-	-	-	1,495
Total unrestricted revenue, gains, and other support	1,596	520,680	1,386	1	130	(1,924)	521,869
Expenses:							
Salaries	-	230,172	-	-	-	-	230,172
Employee benefits	806	52,440	-	-	1	-	53,247
Supplies and other expenses	2,112	196,932	579	4	499	(1,924)	198,202
Depreciation and amortization	319	25,004	195	-	-	-	25,518
Interest expense	-	6,007	164	-	-	-	6,171
Total expenses	3,237	510,555	938	4	500	(1,924)	513,310
(Loss) income from operations	(1,641)	10,125	448	(3)	(370)	-	8,559

Stamford Health System

Consolidating Statement of Operations (continued) (In Thousands)

Year Ended September 30, 2014

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
(Loss) income from operations (continued from page 51)	\$ (1,641)	\$ 10,125	\$ 448	\$ (3)	\$ (370)	\$ -	\$ 8,559
Nonoperating gains and losses:							
Loss on lease obligation	-	(226)	-	-	-	-	(226)
Investment returns	4,380	3,238	-	-	-	-	7,618
Change in net unrealized gains and losses	1,223	363	-	-	-	-	1,586
Total nonoperating gains and losses	<u>5,603</u>	<u>3,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,978</u>
Excess (deficiency) of revenue over expenses	3,962	13,500	448	(3)	(370)	-	17,537
Net assets released from restrictions used for purchases of property and equipment	-	491	-	-	-	-	491
Pension-related changes other than net periodic pension cost	(1,058)	(18,573)	-	-	-	-	(19,631)
Equity transfer	(982)	-	-	982	-	-	-
Increase (decrease) in unrestricted net assets	<u>\$ 1,922</u>	<u>\$ (4,582)</u>	<u>\$ 448</u>	<u>\$ 979</u>	<u>\$ (370)</u>	<u>\$ -</u>	<u>\$ (1,603)</u>

Stamford Health System

Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2013

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
Unrestricted revenue, gains, and other support:							
Net patient service revenue	\$ -	\$ 541,863	\$ -	\$ 1,799	\$ 2,255	\$ -	\$ 545,917
Provision for bad debts	-	(50,056)	-	-	-	-	(50,056)
Net patient service revenue, less provision for bad debts	-	491,807	-	1,799	2,255	-	495,861
Other revenue	1,969	19,019	1,361	123	-	(1,805)	20,667
Net assets released from restrictions for operations	-	1,454	-	-	-	-	1,454
Total unrestricted revenue, gains, and other support	1,969	512,280	1,361	1,922	2,255	(1,805)	517,982
Expenses:							
Salaries	-	220,611	-	-	2,367	-	222,978
Employee benefits	801	51,985	-	-	219	-	53,005
Pension settlement charge	-	11,856	-	-	-	-	11,856
Supplies and other expenses	2,016	190,096	529	679	1,432	(1,805)	192,947
Depreciation and amortization	379	25,439	202	-	-	-	26,020
Interest expense	-	6,274	172	-	-	-	6,446
Total expenses	3,196	506,261	903	679	4,018	(1,805)	513,252
(Loss) income from operations	(1,227)	6,019	458	1,243	(1,763)	-	4,730

Stamford Health System

Consolidating Statement of Operations (continued) (In Thousands)

Year Ended September 30, 2013

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
(Loss) income from operations (continued from page 53)	\$ (1,227)	\$ 6,019	\$ 458	\$ 1,243	\$ (1,763)	\$ -	\$ 4,730
Nonoperating gains and losses:							
Loss on lease obligation	-	(1,784)	-	-	-	-	(1,784)
Investment returns	6,768	2,732	-	-	-	-	9,500
Change in net unrealized gains and losses	(167)	202	-	-	-	-	35
Total nonoperating gains and losses	6,601	1,150	-	-	-	-	7,751
Excess (deficiency) of revenue over expenses	5,374	7,169	458	1,243	(1,763)	-	12,481
Net assets released from restrictions used for purchases of property and equipment	-	913	-	-	-	-	913
Pension-related changes other than net periodic pension cost	941	60,088	-	-	-	-	61,029
Increase (decrease) in unrestricted net assets	\$ 6,315	\$ 68,170	\$ 458	\$ 1,243	\$ (1,763)	\$ -	\$ 74,423

Stamford Health System

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2014

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
Excess (deficiency) of revenue over expenses	\$ 3,962	\$ 13,500	\$ 448	\$ (3)	\$ (370)	\$ –	\$ 17,537
Pension-related changes other than net periodic pension cost	(1,058)	(18,573)	–	–	–	–	(19,631)
Net assets released from restrictions used for purchases of property and equipment	–	491	–	–	–	–	491
Equity transfer	(982)	–	–	982	–	–	–
Increase (decrease) in unrestricted net assets	1,922	(4,582)	448	979	(370)	–	(1,603)
Temporarily restricted net assets:							
Contributions	–	20,012	–	–	–	–	20,012
Change in net unrealized gains and losses	–	214	–	–	–	–	214
Investment returns	–	937	–	–	–	–	937
Net assets released from restrictions for operations	–	(1,495)	–	–	–	–	(1,495)
Net assets released from restrictions used for purchases of property and equipment	–	(491)	–	–	–	–	(491)
Increase in temporarily restricted net assets	–	19,177	–	–	–	–	19,177
Permanently restricted net assets:							
Contributions	–	328	–	–	–	–	328
Increase in permanently restricted net assets	–	328	–	–	–	–	328
Increase (decrease) in net assets	1,922	14,923	448	979	(370)	–	17,902
Net assets (deficiency) – beginning of year	157,337	235,015	3,434	(979)	(3,613)	(49)	391,145
Net assets (deficiency) – end of year	\$ 159,259	\$ 249,938	\$ 3,882	\$ –	\$ (3,983)	\$ (49)	\$ 409,047

Stamford Health System

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2013

	Stamford Health System	The Stamford Hospital	Miller Hall Medical Suites, LLC	Stamford OB/GYN Associates	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Balance
Excess (deficiency) of revenue over expenses	\$ 5,374	\$ 7,169	\$ 458	\$ 1,243	\$ (1,763)	\$ –	\$ 12,481
Pension-related changes other than net periodic pension cost	941	60,088	–	–	–	–	61,029
Net assets released from restrictions used for purchases of property and equipment	–	913	–	–	–	–	913
Increase (decrease) in unrestricted net assets	6,315	68,170	458	1,243	(1,763)	–	74,423
Temporarily restricted net assets:							
Contributions	–	8,873	–	–	–	–	8,873
Change in net unrealized gains and losses	–	104	–	–	–	–	104
Investment returns	–	1,180	–	–	–	–	1,180
Net assets released from restrictions for operations	–	(1,454)	–	–	–	–	(1,454)
Net assets released from restrictions used for purchases of property and equipment	–	(913)	–	–	–	–	(913)
Increase in temporarily restricted net assets	–	7,790	–	–	–	–	7,790
Increase (decrease) in net assets	6,315	75,960	458	1,243	(1,763)	–	82,213
Net assets (deficiency) – beginning of year	151,022	159,055	2,976	(2,222)	(1,850)	(49)	308,932
Net assets (deficiency) – end of year	\$ 157,337	\$ 235,015	\$ 3,434	\$ (979)	\$ (3,613)	\$ (49)	\$ 391,145

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