



CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Stamford Health System
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Stamford Health System

Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2010 and 2009

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Report of Independent Auditors

The Board of Directors
Stamford Health System

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

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

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

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

Ernst & Young LLP

January 26, 2011

Stamford Health System

Consolidated Balance Sheets (In Thousands)

	September 30	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 58,541	\$ 33,269
Assets limited as to use	1,874	2,100
Short-term investments	24,454	166
Patient accounts receivable (less allowance for uncollectible accounts of \$15,200 and \$15,500, respectively)	51,581	51,211
Other receivables	3,013	2,980
Pledges receivable, current portion	1,341	1,506
Inventories	4,777	5,178
Prepaid expenses	4,430	4,649
Due from third parties, current portion	3,941	2,899
Deposits – resident waiting list	610	870
Total current assets	154,562	104,828
Assets limited as to use:		
Held by captive insurance company	24,341	24,220
Capital expenditures	13,830	6,469
Held by trustee – debt service	1,699	1,699
Long-term investments – endowments	8,033	7,797
	47,903	40,185
Long-term investments	102,986	93,853
Property, plant and equipment, net	314,979	323,038
Pledges receivable, net	400	1,452
Other assets:		
Deferred financing costs, net	2,357	1,108
Other noncurrent assets	4,738	6,136
Total other assets	7,095	7,244
Total assets	\$ 627,925	\$ 570,600

	September 30	
	2010	2009
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 8,592	\$ 6,808
Accounts payable (including current portion of refundable entrance fees)	35,080	28,239
Salaries, wages and fees payable	11,036	9,545
Accrued vacation liability	15,889	15,094
Estimated third-party payor settlements, current	2,813	4,219
Estimated professional liabilities, current	6,414	6,675
Other liabilities	10,786	8,734
Total current liabilities	90,610	79,314
Pension liabilities	90,865	73,775
Estimated third-party payor settlements, net of current portion	9,152	6,141
Long-term debt, net of current portion	147,143	131,527
Deferred revenue – entrance fees	87,180	85,612
Estimated professional liabilities	24,157	25,845
Total liabilities	449,107	402,214
Commitments and contingencies		
Net assets:		
Unrestricted	148,882	137,780
Temporarily restricted	21,856	22,576
Permanently restricted	8,080	8,030
Total net assets	178,818	168,386
Total liabilities and net assets	\$ 627,925	\$ 570,600

See accompanying notes.

Stamford Health System

Consolidated Statements of Operations (In Thousands)

	Year Ended September 30	
	2010	2009
Unrestricted revenue, gains and other support:		
Net patient service revenue	\$ 429,754	\$ 416,938
Resident services	18,964	18,391
Other revenue	35,935	38,077
Net assets released from restrictions for operations	2,980	2,936
Grant – disproportionate share income	5,064	5,089
Grant income – other	891	1,069
Total unrestricted revenue, gains and other support	493,588	482,500
Expenses:		
Salaries	173,119	162,558
Employee benefits	46,639	35,830
Supplies and other expenses	170,103	171,503
Provision for bad debts	43,442	48,304
Depreciation and amortization	32,505	33,530
Interest expense	5,077	5,806
Total expenses	470,885	457,531
Income from operations	22,703	24,969
Nonoperating gains and losses:		
Loss on advanced refunding	(1,347)	–
Investment returns	6,666	(9,332)
Change in net unrealized gains and losses	(190)	6,251
Change in fair value of derivative instrument	(251)	(218)
Total nonoperating gains and losses	4,878	(3,299)
Excess of revenue over expenses	27,581	21,670
Net assets released from restrictions used for purchases of property and equipment	720	1,077
Net asset reclassification	–	(203)
Pension-related changes other than periodic pension cost	(17,199)	(46,027)
Increase (decrease) in unrestricted net assets	\$ 11,102	\$ (23,483)

See accompanying notes.

Stamford Health System

Consolidated Statements of Changes in Net Assets (In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at September 30, 2008	\$ 161,263	\$ 25,520	\$ 6,945	\$ 193,728
Excess of revenue over expenses	21,670	-	-	21,670
Pension-related changes other than net periodic pension cost	(46,027)	-	-	(46,027)
Change in net unrealized gains and losses	-	403	-	403
Contributions	-	1,937	750	2,687
Investment returns	-	(1,139)	-	(1,139)
Net assets released from restrictions for operations	-	(2,936)	-	(2,936)
Net assets released from restrictions used for purchases of property and equipment	1,077	(1,077)	-	-
Net asset reclassification	(203)	(132)	335	-
(Decrease) increase in net assets	<u>(23,483)</u>	<u>(2,944)</u>	<u>1,085</u>	<u>(25,342)</u>
Balance at September 30, 2009	137,780	22,576	8,030	168,386
Excess of revenue over expenses	27,581	-	-	27,581
Pension-related changes other than net periodic pension cost	(17,199)	-	-	(17,199)
Change in net unrealized gains and losses	-	(1)	-	(1)
Contributions	-	2,105	50	2,155
Investment returns	-	876	-	876
Net assets released from restrictions for operations	-	(2,980)	-	(2,980)
Net assets released from restrictions used for purchases of property and equipment	720	(720)	-	-
Increase (decrease) increase in net assets	<u>11,102</u>	<u>(720)</u>	<u>50</u>	<u>10,432</u>
Balance at September 30, 2010	<u>\$ 148,882</u>	<u>\$ 21,856</u>	<u>\$ 8,080</u>	<u>\$ 178,818</u>

See accompanying notes.

Stamford Health System

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 10,432	\$ (25,342)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	18,303	46,027
Net realized gains and losses and change in net unrealized gains and losses	(5,750)	3,925
Change in fair value of derivative instrument	251	218
Restricted investment returns	(875)	736
Loss on advanced refunding	1,347	
Loss on disposal of fixed assets	-	1,114
Gain on sale of fixed assets	-	(3,336)
Restricted contributions	(2,155)	(2,687)
Entrance fee amortization	(4,034)	(3,667)
Depreciation and amortization	32,505	33,530
Amortization of deferred financing costs	274	484
Net amortization of bond discount (premium)	(21)	-
Provision for bad debts	43,442	48,304
Change in:		
Patient accounts receivable	(43,812)	(48,674)
Pledges receivable	1,217	1,408
Other operating assets	950	(1,831)
Accounts payable	6,841	6,388
Other operating liabilities	3,125	(1,648)
Estimated third-party payor settlements	563	1,226
Estimated professional liabilities	(1,949)	(7,560)
Net cash provided by operating activities	60,654	48,615
Cash flows from investing activities		
Capital expenditures, net	(22,762)	(41,481)
Proceeds from sale of capital assets	-	4,600
Net cash invested in assets limited as to use and investments	(35,163)	6,398
Net cash used in investing activities	(57,925)	(30,483)
Cash flows from financing activities		
Principal payments on long-term debt	(117,862)	(34,280)
Cash paid for deferred financing fees	(2,219)	(97)
Proceeds from long-term debt	133,992	30,700
Net proceeds from entrance fees	5,602	2,408
Restricted investment returns	875	(736)
Restricted contributions	2,155	2,687
Purchase of interest rate cap	-	(554)
Net cash provided by financing activities	22,543	128
Net increase in cash and cash equivalents	25,272	18,260
Cash and cash equivalents, beginning of year	33,269	15,009
Cash and cash equivalents, end of year	\$ 58,541	\$ 33,269
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (exclusive of amounts capitalized)	\$ 4,687	\$ 6,247
Supplemental disclosure of noncash investing and financing activities		
Capital leases incurred	\$ 671	\$ 400

See accompanying notes.

Stamford Health System

Notes to Consolidated Financial Statements (In Thousands)

September 30, 2010

1. Organization and Summary of Significant Accounting Policies

Organization

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

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 and, when applicable, entities for which SHS has controlling financial interest. The consolidated financial statements include the accounts of SHS, TSH, CCRC, MHMS, SHIP, FCSS, OB/GYN, FCOB/GYN, FCPC and PMG.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients and liabilities, including estimated payables to third-party payors and

Stamford Health System

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

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

professional liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Inventories

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

Marketable Securities and Alternative Investments

Alternative investments are defined as nontraditional, not readily marketable asset classes. Alternative investments are structured as limited partnership investments or in other forms. Realized and unrealized gains and losses are included in determining the excess of revenue over expenses. For the years ended September 30, 2010 and 2009, SHS recorded gains and losses on unrestricted alternative investments of \$4,063 and (\$4,125), respectively, which is included in investment returns in the consolidated statements of operations. The alternative investments are recorded using the equity method of accounting. Individual investment holdings of such limited partnerships which hold the alternative investments may, in turn, include investments in both marketable and nonmarketable securities. Marketable securities which are not considered alternative investments, such as equity and debt securities, and the holdings of private mutual funds are recorded at the fair value as quoted by the public markets. Marketable securities are classified as trading securities.

Ordinary income and net realized gains and losses of \$2,603 and (\$5,207) for the years ended September 30, 2010 and 2009, respectively, are included in investment returns in the consolidated statements of operations. The change in net unrealized gains and losses of (\$190) and \$6,251 for the years ended September 30, 2010 and 2009, respectively, is recorded in the excess of revenue over expenses in the consolidated statements of operations.

Stamford Health System

Notes to Consolidated Financial Statements (continued)

(In Thousands)

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

Valuations of investments not readily marketable may be determined by the investment manager or general partner. “Fund of funds” investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals or other estimates that require varying degrees of judgment. The investment value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose SHS to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. While these financial instruments may contain varying degrees of risk, the risk of SHS with respect to such transactions is limited to its capital balance in each investment. Certain amounts are subject to notification to allow for divestiture while other amounts have divestiture provisions based only on termination of the fund. The financial statements of the investees are audited annually by independent auditors. At September 30, 2010 and 2009, SHS has future commitments of \$1,520 and \$1,950, respectively, to invest in alternative investments.

Investment in Joint Venture

On February 19, 2008, SHS entered into a 50% joint venture partnership with Wilton NSC, LLC (“Wilton”), a Connecticut limited liability company. The joint venture is named Stamford/NSC Management LLC (the “Company”). Wilton is the managing member of the joint venture. The Company was formed to own in partnership with physicians and act as the managing member of one or more entities that operate ambulatory surgery centers, to engage in any and all activities related or incident thereto, including without limitation the acquisition, ownership, improvement, operation, sale, lease, sublease, mortgage or other use of or dealing with real property or mixed property. At September 30, 2010 and 2009, the Company owns 52.97% of Wilton ASC, a freestanding ambulatory surgical center located in Wilton, Connecticut. SHS accounts for the ownership of the Wilton investment using the equity method of accounting and to date most of the operating activity of the Company is through the Wilton ASC investment. The investment in the joint venture is included in other noncurrent assets in the accompanying consolidated balance sheets. The initial capital contribution to the joint venture by SHS was \$3,550. During 2010, SHS received capital distributions of \$1,055 and recorded its share of the net income of \$1,005. During 2009, SHS received capital distributions of \$839 and recorded its share of the net income of \$950.

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) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

Interest Rate Cap Agreements

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

Assets Limited as to Use

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

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.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, in the case of gifts, at fair value at the date of the gift, less accumulated depreciation and amortization. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations and leasehold improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of

Stamford Health System

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

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

the equipment or leasehold improvement. Interest cost incurred on borrowed funds, net of interest earned on such funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Estimated useful lives by classification are as follows:

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

Deferred Financing Costs

Costs incurred in connection with the issuance of bonds are amortized over the lives of the bonds using the effective interest method. At September 30, 2010 and 2009, the accumulated amortization for deferred financing costs was \$69 and \$2,482, respectively. In 2010, TSH issued State of Connecticut Health and Educational Facilities Authority (“CHEFA”) Revenue Bonds, Series I Bonds (see Note 8). The CHEFA Revenue Bonds, Series F and G, were defeased and fully refunded in May 2010 and the applicable remaining bond costs of \$727 were written off during the fiscal year ended September 30, 2010. CHEFA Revenue Bonds, Series H, were defeased and fully refunded in May 2009 and the applicable remaining bond costs of \$205 were written off during the fiscal year ended September 30, 2009. Amortization is included in interest expense in the consolidated statements of operations.

Other Noncurrent Assets

Other noncurrent assets consist of initial contract acquisition costs. Initial contract acquisition costs represent costs incurred, other than advertising, in acquiring residency contracts during the development of CCRC, according to an agreement between CCRC, SHS and Marriott Senior Living Services (the former facility manager). The development costs, totaling \$4,462 are expected to be recovered through future contract revenues and are being amortized on a straight-line basis over a 12-year period. At September 30, 2010 and 2009, accumulated amortization of the contract acquisition costs was \$4,171 and \$3,783, respectively. Amortization expense is included in depreciation and amortization 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)

Deferred Revenue – Entrance Fees

Entrance fee deposits represent entrance fees paid by a prospective resident of CCRC. Prospective residents are required to pay an initial deposit equal to 10% of the total established entrance fee upon the execution of a reservation agreement. The initial 10% deposit is refundable in full, together with interest, until the execution of a continuing care contract (a “Contract”), at which time the deposit becomes nonrefundable (except as provided below). The nonrefundable portion is amortized and reported as entrance fee revenue over the estimated life of the resident or the Contract term, whichever is shorter. An additional 10% is due upon the execution of a Contract with the remaining 80% due prior to residency in the facility. The additional 10% and 80% are refundable (the “Refundable Portion”). A prospective resident has 30 days from the execution of a Contract to terminate the Contract and is entitled to a refund of all monies paid, including the initial 10% paid upon the execution of the reservation agreement, less costs incurred at the residents request plus any reasonable service charges. The liability for Contracts which are still within this 30-day period is included as entrance fee liability in the accompanying consolidated balance sheets. A Contract is terminable in the event of death, certain injury or incapacity.

The Refundable Portion of entrance fees is paid by CCRC to a resident when a Contract is terminated, without interest, no later than 60 days after the receipt of payment by CCRC of an equivalent amount (the “Primary Entrance Fee”) by another resident who is party to a Contract for the resident’s former unit. The Refundable Portion is amortized to income over the remaining useful life of the facility. The liability for amounts refundable to former tenants is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. These amounts at September 30, 2010 and 2009 were \$7,487 and \$3,175, respectively.

Interest earned on entrance fees accrues to CCRC and is included in investment income 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)

Due to the downturn in the economy, four new incentive plans are being offered to prospective residents in 2010 and 2009 as follows:

1. *The Ladder Program* – The Ladder Program provides for certain discounts off the total entrance fee for prospective residents who commit to expedite the application process so that the Contracts can be signed and total entrance fees paid within certain established time frames as follows:
 - (A) Six percent (6%) discount off the total entrance fee if the prospective resident signs the Contract within 30 days of signing the reservation agreement and pays the total entrance fee within 60 days of signing the reservation agreement, or
 - (B) Three percent (3%) discount off the total entrance fee if the prospective resident signs the Contract within 60 days of signing the reservation agreement and pays the total entrance fee within 90 days of signing the reservation agreement.
2. *Deferred Entry Fee Plan I* – Under the Deferred Entry Fee Payment Plan, payment of 90% of the total entrance fees will be deferred for up to six months, or as specified in the Contract.
3. *Deferred Entry Fee Plan II* – Under this Deferred Entry Fee Payment Plan, payment of 90% of the total entrance fees will be deferred for up to six months with the payments split in three parts. One-third is due upon signing the Contract and amendment. Another one-third of the payment is due within three months of the Contract and amendment signing. The final one-third payment is due within six months of the Contract and amendment signing.
4. *Waiver of Second Person Entrance Fee* – Effective May 1, 2010, this incentive option permanently waives the second person entrance fee for depositors who move in within sixty days of initial deposit. Residents who select this incentive are not eligible for the Ladder Program described above.

Stamford Health System

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

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

Obligation to Provide Future Services

CCRC annually calculates the present value (using a discount rate of 5.5%) of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from advance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from advance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. At September 30, 2010 and 2009, deferred revenue from advance fees exceeds the present value of the net cost of future services. Therefore, an additional liability for an obligation to provide future services and use of facilities is not required.

Temporarily and Permanently Restricted Net Assets

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

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

Consolidated Statements of Operations

For the purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are excluded from income from operations consisting primarily of the investment returns of SHS.

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

Stamford Health System

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

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

Accounts Receivable and Revenue

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

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

Revenue from resident services consists primarily of monthly resident maintenance fees earned by CCRC. Such fees are recognized as revenue in the month that CCRC is obligated to provide services to residents.

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

Stamford Health System

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

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

in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

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

Estimated Professional Liabilities

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

Income Taxes

SHS is a not-for-profit corporation and all of its not-for-profit affiliates have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Its related income is not subject to federal or state income taxes. The SHIP affiliate is a Connecticut non-profit organization and has filed an application for federal income tax exemption. The federal application is still pending approval. If approval is granted the exemption should be granted from the date of incorporation of SHIP. The for-profit affiliates of SHS include FCSS, OB/GYN, FCOB/GYN, PMG and FCPC. The related incomes of these affiliates are subject to federal and state income taxes. No significant liabilities exist as of September 30, 2010 and 2009 for applicable federal and state taxes.

Advertising Costs

SHS expenses advertising costs as incurred. For the years ended September 30, 2010 and 2009, advertising costs totaled approximately \$1,748 and \$2,133, respectively.

Stamford Health System

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

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

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”).

Reclassifications

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

2. Community Benefit and Charity Care

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

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

Stamford Health System

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

2. Community Benefit and Charity Care (continued)

community groups and organizations on health related topics, ranging from stress and pain management to heart disease and joint replacement.

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

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

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

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

3. Net Patient Service Revenue

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

Medicare – Hospitals are paid for most Medicare inpatient and outpatient services under national prospective payment systems and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current year payment rates, based on industry-wide and hospital-specific data. TSH is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of

Stamford Health System

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Net Patient Service Revenue (continued)

annual cost reports by TSH and audits thereof by the Medicare fiscal intermediary. The classification of patients of TSH under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with TSH. The Medicare cost reports of TSH have been audited and finalized by the Medicare fiscal intermediary through the year ended September 30, 2006.

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

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

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

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 presently be determined.

During the years ended September 30, 2010 and 2009, TSH recorded approximately \$548 and \$995, respectively, of previously recorded estimated third-party payor settlement liabilities that

Stamford Health System

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

3. Net Patient Service Revenue (continued)

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, 2010 and 2009:

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

CCRC provides care to patients under the Medicare program. Resident services revenue from the Medicare program accounted for approximately 27% and 29% of total CCRC revenue for each of the years ended September 30, 2010 and 2009, respectively.

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

Stamford Health System

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

4. Assets Limited as to Use and Investments

The composition of assets limited as to use at September 30, 2010 and 2009 is as follows:

	2010	2009
Current portion:		
Cash and cash equivalents	\$ 1,724	\$ 962
Government securities	150	1,138
	\$ 1,874	\$ 2,100
Held by captive insurance company:		
Cash and cash equivalents	\$ 11,013	\$ 9,298
Mutual funds	5,661	7,659
Alternative investments – hedge funds	7,667	7,263
	\$ 24,341	\$ 24,220
Capital expenditures:		
Cash and cash equivalents	\$ 13,830	\$ 6,469
Held by trustee – debt service:		
Guaranteed investment contracts	\$ 1,699	\$ 1,699
Long-term investments – endowments:		
Cash and cash equivalents	\$ 536	\$ 251
Government securities	2	3
Corporate bonds and other fixed income securities	8	9
Equity securities	–	2
Mutual funds	2,465	2,373
Alternative investments – hedge funds	3,159	3,326
Alternative investments – limited partnerships	1,346	1,327
Private mutual funds	517	506
	\$ 8,033	\$ 7,797

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, 2010 and 2009 include:

	2010	2009
Short-term investments:		
Mutual funds	\$ 24,454	\$ 166
Long-term investments:		
Cash and cash equivalents	\$ 5,191	\$ 2,627
Government securities	17	25
Corporate bonds and other fixed income securities	71	23,649
Equity securities	–	10
Mutual funds	51,436	22,312
Alternative investments – hedge funds	29,105	29,163
Alternative investments – limited partnerships	12,404	11,630
Private mutual funds	4,762	4,437
	\$ 102,986	\$ 93,853

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

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

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Ordinary income (interest and dividends)	\$ 726	\$ 208	\$ 934	\$ 844	\$ 112	\$ 956
Net realized gains and losses	1,877	305	2,182	(6,051)	(845)	(6,896)
Gains (losses) from alternative investments	4,063	363	4,426	(4,125)	(406)	(4,531)
Investment returns	6,666	876	7,542	(9,332)	(1,139)	(10,471)
Change in net unrealized gains and losses	(190)	(1)	(191)	6,251	403	6,654
	\$ 6,476	\$ 875	\$ 7,351	\$ (3,081)	\$ (736)	\$ (3,817)

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, 2010 and 2009, pledges receivable consist of the following:

	2010	2009
Amounts expected to be collected in:		
Less than one year	\$ 1,470	\$ 1,693
One to five years	400	1,510
Less:		
Reserve for uncollectible pledges	78	162
Discount on pledges	51	83
Current portion	1,341	1,506
Pledges receivable, net	\$ 400	\$ 1,452

6. Property, Plant and Equipment

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

	2010	2009
Land	\$ 49,392	\$ 45,661
Land improvements	6,250	6,346
Buildings and improvements	258,253	262,610
Fixed and major movable equipment	299,930	288,000
Leasehold improvements	10,241	10,235
	624,066	612,852
Less accumulated depreciation and amortization	329,471	304,615
	294,595	308,237
Construction in progress	20,384	14,801
	\$ 314,979	\$ 323,038

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 approximately \$989 and \$309 at September 30, 2010 and 2009, respectively, (\$775 for 2010 and \$275 for 2009, net of accumulated amortization).

Depreciation and amortization expense for the years ended September 30, 2010 and 2009 was \$32,505 and \$33,530, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of approximately \$171 and \$43 for the years ended September 30, 2010 and 2009, respectively. Included in property, plant and equipment at September 30, 2010 and 2009 is \$383 and \$687, respectively, of interest capitalized during the construction process.

During the year ended September 30, 2009, SHS disposed of certain properties consisting of both building and land improvements. These disposals resulted in net gains of approximately \$3,336 and net losses of \$1,114 for the year ended September 30, 2009 and are included within other revenue and supplies and other expenses in the consolidated statements of operations.

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

Stamford Health System

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

6. Property, Plant and Equipment (continued)

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

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

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

7. Net Assets

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

	<u>2010</u>	<u>2009</u>
Health care services:		
Purchase of equipment	\$ 3,259	\$ 3,421
Patient care	17,659	18,068
Health education	938	1,087
	<u>\$ 21,856</u>	<u>\$ 22,576</u>

Stamford Health System

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

7. Net Assets (continued)

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

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

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

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

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 sets forth the changes to assets as it relates to SHS's endowments for the year ended September 30, 2010:

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

Stamford Health System

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

7. Net Assets (continued)

The following table sets forth the changes to assets as it relates to SHS's endowments for the year ended September 30, 2009:

	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2008	\$ 2,411	\$ 6,945	\$ 9,356
Investment return (realized and unrealized)	(613)	-	(613)
Contributions	-	750	750
Appropriation of endowment assets for expenditure	(420)	-	(420)
Transfers to endowment funds	-	335	335
Endowment assets, September 30, 2009	<u>\$ 1,378</u>	<u>\$ 8,030</u>	<u>\$ 9,408</u>

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, 2010 and 2009.

Stamford Health System

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

8. Long-Term Debt

At September 30, 2010 and 2009, long-term debt consists of the following:

	2010	2009
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series I, payable in varying annual amounts with fixed interest rates varying from 3.00% to 5.25% with the final payment due in 2030	\$ 133,965	\$ —
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series F, payable in varying annual amounts with fixed interest rates varying from 4.00% to 5.25%, with the final payment due in 2011 (defeased and fully refunded in 2010)	—	7,955
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series G, payable in varying annual amounts with fixed interest rates varying from 3.00% to 5.25% with the final payment due in 2024 (defeased and fully refunded in 2010)	—	53,570
Wells Fargo Bank, N.A. line of credit bore interest at LIBOR plus 0.45% (0.70% at September 30, 2009), maturing June 2011 (paid off in 2010)	—	26,000
Wells Fargo Bank, N.A. loan bore interest at LIBOR plus 2.50% (2.75% at September 30, 2009) maturing May 2024 (paid off in 2010)	—	28,811
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Edgehill Issue, Series C, payable in varying annual amounts with variable interest rates of 0.30% and 0.27% at September 30, 2010 and 2009, respectively, with the final payment due in 2027	17,600	18,200
Term promissory note, with variable interest rates, 2.51% and 2.50% at September 30, 2010 and 2009, respectively, with the final payment due May 31, 2011	3,447	3,533
City of Stamford, sewer connection fee loan, payable in annual installments through 2013 (non-interest bearing)	37	61
Capital lease obligations	756	282
	155,805	138,412
Less unamortized bond discount	70	77
Less current portion	8,592	6,808
Total long-term debt	\$ 147,143	\$ 131,527

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

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

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

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

Stamford Health System

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

8. Long-Term Debt (continued)

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

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

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

The Hospital and CCRC entered into several capital lease obligations in 2010 for medical equipment and information technology storage devices. The asset value for the leases approximated \$671.

The Edgehill Issue, Series C bonds are secured under a mortgage which places a lien on and a security interest in the real property, buildings, equipment, furnishings, personal property and fixtures and gross receipts of Edgehill. In addition, CCRC must satisfy certain measures of financial performance, defined in the Indenture Agreement, as long as the Revenue Bonds are outstanding. CCRC was in compliance with all financial covenants related to the Revenue Bonds at September 30, 2010 and 2009. CCRC obtained a letter of credit with KBC Bank (the "KBC Letter of Credit") concurrent with the bond closing specifically related to the Revenue Bonds in the amount of \$22,346. As of September 30, 2010 and 2009, the face amount of the KBC Letter of Credit was \$17,889 and \$18,499, respectively. The KBC Letter of Credit was extended in the year ended September 30, 2005 and was due to expire on December 13, 2010. On October 1, 2010, CCRC replaced the KBC Letter of Credit with a substitute letter of credit with JP Morgan Chase (the "JP Morgan Chase Letter of Credit"). The JP Morgan Chase Letter of Credit expires on October 21, 2013.

Stamford Health System

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

8. Long-Term Debt (continued)

In 2001, MHMS entered into a term promissory note agreement with Sovereign Bank for \$4,100 with a variable interest rate on the unpaid balance. The loan was payable in monthly installments and matured May 31, 2006. Under the terms of the note, the loan was extended for an additional 60 months by paying a 1% fee of the outstanding balance. The final maturity date is May 31, 2011. The provisions of the note require MHMS to maintain a specified debt service coverage requirement on each anniversary date of the date of this note. Management believes SHS, as guarantor on the term promissory note, is in compliance with the debt service coverage requirements.

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

	Loans Payable	Capitalized Leases	Total
Fiscal year:			
2011	\$ 8,350	\$ 318	\$ 8,668
2012	5,165	173	5,338
2013	5,337	143	5,480
2014	5,664	164	5,828
2015	5,891	46	5,937
Thereafter	124,554	—	124,554
Total minimum payments	154,961	844	155,805
Less unamortized bond discount	70	—	70
Total long-term debt	154,891	844	155,735
Less current portion of long-term debt	8,362	230	8,592
	<u>\$ 146,529</u>	<u>\$ 614</u>	<u>\$ 147,143</u>

9. Retirement Benefits

Pension Plans

SHS has five retirement plans. The first plan (the “Plan”) is a defined benefit plan and covers employees and eligible employees of its affiliates who were employed as of August 1, 2002 and elected to continue earning future benefits after December 31, 2002. Benefits are based on age at retirement, years of credited service and average compensation for a specified period prior to

Stamford Health System

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

9. Retirement Benefits (continued)

retirement. The second plan is a defined contribution plan (“DC Plan”) that was established on January 1, 2003. Existing SHS employees 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 other plans are Supplementary Executive Retirement Programs (the “SERPs”) covering certain employees which provide benefits to participants without regard to statutory limitations on the maximum amount of compensation which may be taken into account by, nor the maximum benefits which may be paid from, such plans. These are nonqualified plans and are unfunded.

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

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

	September 30, 2010		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ (16)	\$ –	\$ (16)
Unrecognized actuarial loss	(96,445)	(5,497)	(101,942)
	\$ (96,461)	\$ (5,497)	\$ (101,958)
	September 30, 2009		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ (23)	\$ –	\$ (23)
Unrecognized actuarial loss	(79,922)	(4,814)	(84,736)
	\$ (79,945)	\$ (4,814)	\$ (84,759)

Stamford Health System

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

9. Retirement Benefits (continued)

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

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

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

	Plan		SERPs		Total	
	2010	2009	2010	2009	2010	2009
Benefit obligation						
Benefit obligation, beginning of year	\$ 186,735	\$ 147,222	\$10,805	\$ 9,694	\$ 197,540	\$ 156,916
Service cost	3,184	2,750	—	—	3,184	2,750
Interest cost	11,042	10,499	625	675	11,667	11,174
Actuarial losses	23,626	31,382	878	1,213	24,504	32,595
Benefits paid	(5,867)	(5,118)	(790)	(777)	(6,657)	(5,895)
Benefit obligation, end of year	218,720	186,735	11,518	10,805	230,238	197,540
Plan assets						
Fair value of plan assets, beginning of year	123,765	123,751	—	—	123,765	123,751
Actual return on plan assets	8,775	(5,868)	—	—	8,775	(5,868)
Employer contributions	12,700	11,000	790	777	13,490	11,777
Benefits paid	(5,867)	(5,118)	(790)	(777)	(6,657)	(5,895)
Fair value of plan assets, end of year	139,373	123,765	—	—	139,373	123,765
Funded status	\$ (79,347)	\$ (62,970)	\$(11,518)	\$(10,805)	\$ (90,865)	\$ (73,775)

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, 2010 and 2009 were as follows:

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

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

	Plan		SERPs		Total	
	2010	2009	2010	2009	2010	2009
Service cost	\$ 3,184	\$ 2,750	\$ –	\$ –	\$ 3,184	\$ 2,750
Interest cost	11,042	10,499	625	675	11,667	11,174
Expected return on plan assets	(9,190)	(10,109)	–	–	(9,190)	(10,109)
Amortization of prior service cost	7	7	–	–	7	7
Amortization of actuarial loss	7,518	2,418	195	120	7,713	2,538
Net periodic pension cost	<u>\$ 12,561</u>	<u>\$ 5,565</u>	<u>\$ 820</u>	<u>\$ 795</u>	<u>\$ 13,381</u>	<u>\$ 6,360</u>

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

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

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

Stamford Health System

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

9. Retirement Benefits (continued)

Plan Assets

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

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

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

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

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

Investment Strategy

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

Stamford Health System

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

9. Retirement Benefits (continued)

Cash Flows

SHS expects to contribute approximately \$15,000 to the plans during fiscal year 2011.

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

	<u>Plan</u>	<u>SERPs</u>	<u>Total</u>
Fiscal year ending September 30:			
2011	\$ 6,724	\$ 801	\$ 7,525
2012	7,637	807	8,444
2013	8,486	808	9,294
2014	9,425	807	10,232
2015	10,497	811	11,308
2016 through 2020	66,893	4,104	70,997

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

Defined Contribution Plan

On January 1, 2003, SHS established 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, 2010 and 2009 are \$4,963 and \$4,351, 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 professional liability insurance coverage through September 30, 2002. An excess coverage policy was retained through a third-party insurer for coverage in excess of the self-insured limits. This third-party insurer provides coverage limits to \$35,000 per occurrence and \$35,000 in the aggregate.

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

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

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

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

Stamford Health System

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

10. Professional Liability Insurance (continued)

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

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

Healthstar employs the services of an actuary to estimate professional and general liabilities. As of September 30, 2010 and 2009, Healthstar's undiscounted estimated professional and general liabilities for claims and expenses are approximately \$20,688 and \$22,342, respectively. For the years ended September 30, 2010 and 2009, claims covered and expensed by Healthstar amounted to \$4,392 and (\$3,848), respectively.

For the years ended September 30, 2010 and 2009, the Hospital expensed and partially funded \$4,392 and (\$3,848), respectively, for claims covered by HealthStar.

CCRC has purchased professional liability insurance with coverage on a claims-made basis up to \$1,000 per occurrence, with an aggregate limit of \$3,000. Management believes costs associated with claims incurred but not reported are not significant as of September 30, 2010 and 2009.

11. Commitments and Contingencies

Litigation

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

Stamford Health System

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

11. Commitments and Contingencies (continued)

CCRC Waiver

CCRC accepts non-contract holding patients into the long-term care center under a waiver from the State of Connecticut Department of Social Services. The waiver expires in 2012, after which date CCRC can no longer accept non-contract patients. CCRC is aware of this potential revenue loss, the amount of which could vary depending on the proportion of contract and noncontract holders receiving care from the health care center.

Collective Bargaining Agreement

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

Hospital Clinics

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

Concurrent with this agreement, the Hospital signed a five-year sublease with Optimus for the current location of the clinics at 1351 Washington Boulevard in Stamford, Connecticut. Additionally, the Hospital signed a residency training program and leased providers agreement with Optimus under which certain primary care physicians and non-physician providers employed by the Hospital are leased to Optimus and under which the Hospital operates a multiple residency training program rotation at Optimus.

Legal Settlement

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

Stamford Health System

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

11. Commitments and Contingencies (continued)

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

12. 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, 2010 and 2009:

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

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

Stamford Health System

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

13. 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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Health care and resident services	\$ 420,873	\$ 409,583
General and administrative	50,012	47,948
	<u>\$ 470,885</u>	<u>\$ 457,531</u>

14. Fair Value of Financial Instruments

As described in Note 1, on October 1, 2008, SHS adopted the methods to value its financial assets and liabilities at fair value, when applicable. 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. In order to increase consistency and comparability in fair value measurements, 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: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, 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.

Stamford Health System

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

14. Fair Value of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 90,835	\$ —	\$ —	\$ 90,835
Government securities	169	—	—	169
Corporate bonds and other fixed securities	79	—	—	79
Mutual funds	84,016	—	—	84,016
Private mutual funds	5,279	—	—	5,279
Guaranteed investment contract	—	—	1,699	1,699
Deposits – resident waiting list	610	—	—	610
Defined benefit plan assets:				
Cash and cash equivalents	10,915	—	—	10,915
Government securities	27	—	—	27
Corporate bonds and other fixed income securities	33	—	—	33
Mutual funds	60,409	—	—	60,409
Private mutual funds	8,871	—	—	8,871
Partnerships	—	7,438	9,196	16,634
Hedge funds	—	39,292	3,192	42,484
	<u>\$ 261,243</u>	<u>\$ 46,730</u>	<u>\$ 14,087</u>	<u>\$ 322,060</u>

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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)

14. 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 year ended September 30, 2010:

	<u>Hedge Funds</u>	<u>Partnerships</u>	<u>GIC</u>	<u>Total</u>
Fair value at September 30, 2009	\$ —	\$ 8,604	\$ 1,699	\$ 10,303
Investment income	—	(23)	110	87
Net realized gains and losses	—	(639)	—	(639)
Unrealized gains and losses	128	1,164	—	1,292
Purchases, sales, issuances and settlements	3,064	90	—	3,154
Withdrawals	—	—	(110)	(110)
Fair value at September 30, 2010	<u>\$ 3,192</u>	<u>\$ 9,196</u>	<u>\$ 1,699</u>	<u>\$ 14,087</u>

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

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

	<u>Fair Value</u>	<u>Carrying Value</u>
Long-term debt	\$ 162,232	\$ 155,735

Stamford Health System

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

14. Fair Value of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 52,876	\$ —	\$ —	\$ 52,876
Government securities	1,166	—	—	1,166
Corporate bonds and other fixed income securities	31,317	—	—	31,317
Mutual funds	24,851	—	—	24,851
Equity securities	12	—	—	12
Private mutual funds	—	4,943	—	4,943
Guaranteed investment contract	—	—	1,699	1,699
Interest rate cap	—	336	—	336
Deposits – resident waiting list	870	—	—	870
	<u>\$ 111,092</u>	<u>\$ 5,279</u>	<u>\$ 1,699</u>	<u>\$ 118,070</u>

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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.

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

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

	Fair Value	Carrying Value
Long-term debt	\$ 137,017	\$ 138,335

Stamford Health System

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

15. Operating Lease Obligations

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

2011	\$ 8,014
2012	7,806
2013	7,608
2014	7,345
2015	7,196
Thereafter	<u>42,582</u>
Total minimum operating lease payments	<u>\$ 80,551</u>

Total non-affiliate rental expense charged to operations for the years ended September 30, 2010 and 2009 aggregated approximately \$6,813 and \$7,203, 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 noncancellable operating leases with various tenants. Future minimum receipts under noncancellable operating leases with initial or recurring terms of one year or more are as follows:

2011	\$ 3,620
2012	3,635
2013	3,116
2014	2,676
2015	2,208
Thereafter	<u>10,404</u>
Total minimum operating lease payments	<u>\$ 25,659</u>

Total non-affiliate rental income recorded in operations for the years ended September 30, 2010 and 2009 aggregated approximately \$4,033 and \$4,408, respectively.

Stamford Health System

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

16. Subsequent Events

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

Effective October 5, 2010, SHS entered into a letter of intent with an outside party to purchase the CCRC facility. Subsequently, the letter of intent was extended until January 27, 2011 to allow the outside party to complete due diligence procedures. Management determined that the held for sale criteria were not met at September 30, 2010. Under the letter of intent, assets and liabilities to be sold include property, plant and equipment; accounts receivable; inventory included within other current assets; refundable and nonrefundable entrance fees; resident waiting list deposits and related liabilities; entrance fee liabilities and a certain portion of working capital.

Other Financial Information

Stamford Health System
 Consolidating Balance Sheet
 (In Thousands)

September 30, 2010

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance
Assets												
Current assets:												
Cash and cash equivalents	\$ 792	\$ 49,254	\$ 6,153	\$ 802	\$ 170	\$ 239	\$ 592	\$ 348	\$ 176	\$ 15	\$ -	\$ 58,541
Assets limited as to use	126	176	1,459	113	-	-	-	-	-	-	-	1,874
Short-term investments	-	188	24,266	-	-	-	-	-	-	-	-	24,454
Patient accounts receivable, net	-	50,691	890	-	-	-	-	-	-	-	-	51,581
Other receivables	56	1,597	-	45	134	340	85	546	210	-	-	3,013
Pledges receivable, current portion	372	969	-	-	-	-	-	-	-	-	-	1,341
Inventories	-	4,742	35	-	-	-	-	-	-	-	-	4,777
Prepaid expenses	26	4,097	238	22	-	-	-	37	10	-	-	4,430
Due from third parties, current portion	-	3,941	-	-	-	-	-	-	-	-	-	3,941
Deposits – resident waiting list	-	-	610	-	-	-	-	-	-	-	-	610
Total current assets	1,372	115,655	33,651	982	304	579	677	931	396	15	-	154,562
Assets limited as to use:												
Held by captive insurance company	-	24,341	-	-	-	-	-	-	-	-	-	24,341
Capital expenditures	-	6,895	6,935	-	-	-	-	-	-	-	-	13,830
Held by trustee – debt service	-	-	1,699	-	-	-	-	-	-	-	-	1,699
Due from SHS – donor restricted	-	18,642	-	-	-	-	-	-	-	-	(18,642)	-
Long-term investments – endowments	-	8,033	-	-	-	-	-	-	-	-	-	8,033
	-	57,911	8,634	-	-	-	-	-	-	-	(18,642)	47,903
Long-term investments	40,681	52,063	10,291	-	-	-	-	-	-	-	(49)	102,986
Property, plant and equipment, net	7,070	239,321	63,551	4,036	-	133	41	367	134	326	-	314,979
Pledges receivable, net	400	-	-	-	-	-	-	-	-	-	-	400
Due from TSH – board designated	19,913	-	-	-	-	-	-	-	-	-	(19,913)	-
Due from Parent and affiliates	2,235	759	-	755	-	1	-	-	143	-	(3,893)	-
Other assets:												
Deferred financing costs, net	-	2,158	194	5	-	-	-	-	-	-	-	2,357
Other non-current assets	3,811	49	291	-	-	-	504	83	-	-	-	4,738
Total other assets	3,811	2,207	485	5	-	-	504	83	-	-	-	7,095
Total assets	\$ 75,482	\$ 467,916	\$ 116,612	\$ 5,778	\$ 304	\$ 713	\$ 1,222	\$ 1,381	\$ 673	\$ 341	\$ (42,497)	\$ 627,925

Stamford Health System

Consolidating Balance Sheet (continued) (In Thousands)

September 30, 2010

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance	
Liabilities and net assets (deficiency)													
Current liabilities:													
Current portion of long-term debt	\$	–	\$ 4,413	\$ 616	\$ 3,447	\$ –	\$ –	\$ 116	\$ –	\$ –	\$ –	\$ 8,592	
Accounts payable		95	26,901	7,590	236	–	23	47	53	83	–	35,080	
Salaries, wages and fees payable		–	10,547	–	–	–	247	13	108	87	34	11,036	
Accrued vacation liability		–	15,476	–	–	–	299	7	19	88	–	15,889	
Estimated third-party payor settlements, current		–	2,813	–	–	–	–	–	–	–	–	2,813	
Estimated professional liabilities, current		–	6,414	–	–	–	–	–	–	–	–	6,414	
Other liabilities		1,701	7,304	1,607	38	70	–	66	–	–	–	10,786	
Total current liabilities		1,796	73,868	9,813	3,721	70	569	72	356	228	117	90,610	
Pension liabilities		10,661	80,204	–	–	–	–	–	–	–	–	90,865	
Estimated third-party payor settlements, net of current portion		–	9,152	–	–	–	–	–	–	–	–	9,152	
Long-term debt, net of current portion		–	130,114	16,982	–	–	–	47	–	–	–	147,143	
Due to Parent – board designated		–	19,913	–	–	–	–	–	–	–	(19,913)	–	
Due to TSH – donor restricted		18,642	–	–	–	–	–	–	–	–	(18,642)	–	
Due to Parent and affiliates		–	2,836	760	33	243	–	–	1	20	(3,893)	–	
Deferred revenue – entrance fees		–	–	87,180	–	–	–	–	–	–	–	87,180	
Estimated professional liabilities		–	24,157	–	–	–	–	–	–	–	–	24,157	
Total liabilities		31,099	340,244	114,735	3,754	313	569	72	403	229	137	(42,448)	449,107
Net assets (deficiency):													
Unrestricted		41,975	100,144	1,877	2,024	(9)	144	1,150	978	444	204	(49)	148,882
Temporarily restricted		2,361	19,495	–	–	–	–	–	–	–	–	–	21,856
Permanently restricted		47	8,033	–	–	–	–	–	–	–	–	–	8,080
Total net assets (deficiency)		44,383	127,672	1,877	2,024	(9)	144	1,150	978	444	204	(49)	178,818
Total liabilities and net assets (deficiency)	\$	75,482	\$ 467,916	\$ 116,612	\$ 5,778	\$ 304	\$ 713	\$ 1,222	\$ 1,381	\$ 673	\$ 341	\$ (42,497)	\$ 627,925

Stamford Health System
 Consolidating Balance Sheet
 (In Thousands)

September 30, 2009

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	Eliminations	Consolidated Balance
Assets											
Current assets:											
Cash and cash equivalents	\$ 635	\$ 9,668	\$ 20,497	\$ 831	\$ 22	\$ 328	\$ 181	\$ 908	\$ 199	\$ -	\$ 33,269
Assets limited as to use	131	1,243	609	117	-	-	-	-	-	-	2,100
Short-term investments	-	166	-	-	-	-	-	-	-	-	166
Patient accounts receivable, net	-	50,590	621	-	-	-	-	-	-	-	51,211
Other receivables	98	1,414	243	16	153	287	56	564	149	-	2,980
Pledges receivable, current portion	328	1,178	-	-	-	-	-	-	-	-	1,506
Inventories	-	5,144	34	-	-	-	-	-	-	-	5,178
Prepaid expenses	644	3,693	228	84	-	-	-	-	-	-	4,649
Due from third parties, current portion	-	2,899	-	-	-	-	-	-	-	-	2,899
Deposits – resident waiting list	-	-	870	-	-	-	-	-	-	-	870
Total current assets	1,836	75,995	23,102	1,048	175	615	237	1,472	348	-	104,828
Assets limited as to use:											
Held by captive insurance company	-	24,220	-	-	-	-	-	-	-	-	24,220
Capital expenditures	-	-	6,469	-	-	-	-	-	-	-	6,469
Held by trustee – debt service	-	-	1,699	-	-	-	-	-	-	-	1,699
Due from SHS – donor restricted	-	18,642	-	-	-	-	-	-	-	(18,642)	-
Long-term investments – endowments	-	7,797	-	-	-	-	-	-	-	-	7,797
	-	50,659	8,168	-	-	-	-	-	-	(18,642)	40,185
Long-term investments	38,509	45,779	9,614	-	-	-	-	-	-	(49)	93,853
Property, plant and equipment, net	42,076	210,727	65,623	3,728	-	165	25	542	152	-	323,038
Pledges receivable, net	536	916	-	-	-	-	-	-	-	-	1,452
Due from TSH – board designated	19,811	-	-	-	-	-	-	-	-	(19,811)	-
Due from Parent and affiliates	3,152	24	-	826	-	-	206	-	3	(4,211)	-
Other assets:											
Deferred financing costs, net	-	893	215	-	-	-	-	-	-	-	1,108
Other non-current assets	3,847	385	679	13	-	-	1,129	83	-	-	6,136
Total other assets	3,847	1,278	894	13	-	-	1,129	83	-	-	7,244
Total assets	\$ 109,767	\$ 385,378	\$ 107,401	\$ 5,615	\$ 175	\$ 780	\$ 1,597	\$ 2,097	\$ 503	\$ (42,713)	\$ 570,600

Stamford Health System

Consolidating Balance Sheet (continued) (In Thousands)

September 30, 2009

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	Eliminations	Consolidated Balance
Liabilities and net assets (deficiency)											
Current liabilities:											
Current portion of long-term debt	\$ -	\$ 6,003	\$ 600	\$ 85	\$ -	\$ -	\$ -	\$ 120	\$ -	\$ -	\$ 6,808
Accounts payable	-	24,296	3,589	56	58	45	47	98	50	-	28,239
Salaries, wages and fees payable	-	9,118	-	-	-	288	9	4	126	-	9,545
Accrued vacation liability	-	14,698	-	-	-	206	3	91	96	-	15,094
Estimated third-party payor settlements, current	-	4,219	-	-	-	-	-	-	-	-	4,219
Estimated professional liabilities, current	-	6,675	-	-	-	-	-	-	-	-	6,675
Other liabilities	1,734	5,702	1,126	136	-	-	-	36	-	-	8,734
Total current liabilities	1,734	70,711	5,315	277	58	539	59	349	272	-	79,314
Pension liabilities	10,027	63,748	-	-	-	-	-	-	-	-	73,775
Estimated third-party payor settlements, net of current portion	-	6,141	-	-	-	-	-	-	-	-	6,141
Long-term debt, net of current portion	-	110,395	17,523	3,447	-	-	-	162	-	-	131,527
Due to Parent – board designated	-	19,811	-	-	-	-	-	-	-	(19,811)	-
Due to TSH – donor restricted	18,642	-	-	-	-	-	-	-	-	(18,642)	-
Due to Parent and affiliates	-	4,075	24	107	-	2	1	1	1	(4,211)	-
Deferred revenue – entrance fees	-	-	85,612	-	-	-	-	-	-	-	85,612
Estimated professional liabilities	52	25,793	-	-	-	-	-	-	-	-	25,845
Total liabilities	30,455	300,674	108,474	3,831	58	541	60	512	273	(42,664)	402,214
Net assets (deficiency):											
Unrestricted	76,904	56,506	(1,073)	1,784	117	239	1,537	1,585	230	(49)	137,780
Temporarily restricted	2,361	20,215	-	-	-	-	-	-	-	-	22,576
Permanently restricted	47	7,983	-	-	-	-	-	-	-	-	8,030
Total net assets (deficiency)	79,312	84,704	(1,073)	1,784	117	239	1,537	1,585	230	(49)	168,386
Total liabilities and net assets (deficiency)	\$ 109,767	\$ 385,378	\$ 107,401	\$ 5,615	\$ 175	\$ 780	\$ 1,597	\$ 2,097	\$ 503	\$ (42,713)	\$ 570,600

Stamford Health System

Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2010

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance
Unrestricted revenue, gains and other support:												
Net patient service revenue	\$ -	\$ 429,754	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 429,754
Resident services	-	-	18,964	-	-	-	-	-	-	-	-	18,964
Other revenue	2,594	19,824	4,226	1,121	394	2,581	1,060	4,771	1,584	-	(2,220)	35,935
Net assets released from restrictions for operations	-	2,980	-	-	-	-	-	-	-	-	-	2,980
Grant – disproportionate share income	-	5,064	-	-	-	-	-	-	-	-	-	5,064
Grant income – other	-	891	-	-	-	-	-	-	-	-	-	891
Total unrestricted revenue, gains and other support	2,594	458,513	23,190	1,121	394	2,581	1,060	4,771	1,584	-	(2,220)	493,588
Expenses:												
Salaries	-	163,585	-	-	-	2,880	232	4,020	1,263	451	688	173,119
Employee benefits	780	44,482	-	-	-	543	82	398	244	110	-	46,639
Supplies and other expenses	2,477	146,807	17,708	617	636	1,057	715	1,690	897	407	(2,908)	170,103
Provision for bad debts	312	43,115	15	-	-	-	-	-	-	-	-	43,442
Depreciation and amortization	739	27,392	3,351	167	-	33	631	176	16	-	-	32,505
Interest expense	-	4,877	86	97	-	-	-	17	-	-	-	5,077
Total expenses	4,308	430,258	21,160	881	636	4,513	1,660	6,301	2,420	968	(2,220)	470,885
Income (loss) from operations	(1,714)	28,255	2,030	240	(242)	(1,932)	(600)	(1,530)	(836)	(968)	-	22,703
Nonoperating gains and losses:												
Loss on advanced refunding	-	(1,347)	-	-	-	-	-	-	-	-	-	(1,347)
Investment returns	2,753	3,139	774	-	-	-	-	-	-	-	-	6,666
Changes in net unrealized gains and losses	(125)	(211)	146	-	-	-	-	-	-	-	-	(190)
Change in fair value of derivative instrument	-	(251)	-	-	-	-	-	-	-	-	-	(251)
Total nonoperating gains and losses	2,628	1,330	920	-	-	-	-	-	-	-	-	4,878
Excess (deficiency) of revenue over expenses	914	29,585	2,950	240	(242)	(1,932)	(600)	(1,530)	(836)	(968)	-	27,581

Stamford Health System

Consolidating Statement of Operations (continued) (In Thousands)

Year Ended September 30, 2010

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

Stamford Health System

Consolidating Statement of Operations (In Thousands)

Year Ended September 30, 2009

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	Eliminations	Consolidated Balance
Unrestricted revenue, gains and other support:											
Net patient service revenue	\$ -	\$ 416,938	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 416,938
Resident services	-	-	18,391	-	-	-	-	-	-	-	18,391
Other revenue	5,687	18,944	4,183	1,206	649	2,374	1,164	4,820	1,229	(2,179)	38,077
Net assets released from restrictions for operations	-	2,936	-	-	-	-	-	-	-	-	2,936
Grant – disproportionate share income	-	5,089	-	-	-	-	-	-	-	-	5,089
Grant income – other	-	1,069	-	-	-	-	-	-	-	-	1,069
Total unrestricted revenue, gains and other support	5,687	444,976	22,574	1,206	649	2,374	1,164	4,820	1,229	(2,179)	482,500
Expenses:											
Salaries	-	154,583	-	-	-	3,502	202	3,259	1,012	-	162,558
Employee benefits	774	33,982	-	-	-	466	22	389	197	-	35,830
Supplies and other expenses	2,543	145,624	18,645	633	780	1,009	874	2,817	757	(2,179)	171,503
Provision for bad debts	300	47,935	69	-	-	-	-	-	-	-	48,304
Depreciation and amortization	744	26,955	5,441	149	-	14	132	85	10	-	33,530
Interest expense	5	5,220	422	136	-	-	-	23	-	-	5,806
Total expenses	4,366	414,299	24,577	918	780	4,991	1,230	6,573	1,976	(2,179)	457,531
Income (loss) from operations	1,321	30,677	(2,003)	288	(131)	(2,617)	(66)	(1,753)	(747)	-	24,969
Nonoperating gains and losses:											
Investment returns	(5,549)	(2,447)	(1,336)	-	-	-	-	-	-	-	(9,332)
Changes in net unrealized gains and losses	3,393	2,008	850	-	-	-	-	-	-	-	6,251
Change in fair value of derivative instrument	-	(218)	-	-	-	-	-	-	-	-	(218)
Total nonoperating gains and losses	(2,156)	(657)	(486)	-	-	-	-	-	-	-	(3,299)
(Deficiency) excess of revenue over expenses	(835)	30,020	(2,489)	288	(131)	(2,617)	(66)	(1,753)	(747)	-	21,670

Stamford Health System

Consolidating Statement of Operations (continued) (In Thousands)

Year Ended September 30, 2009

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	Eliminations	Consolidated Balance
(Deficiency) excess of revenue over expenses (continued from page 55)	\$ (835)	\$ 30,020	\$ (2,489)	\$ 288	\$ (131)	\$ (2,617)	\$ (66)	\$ (1,753)	\$ (747)	\$ -	\$ 21,670
Net assets released from restrictions used for purchases of property and equipment	-	1,077	-	-	-	-	-	-	-	-	1,077
Net asset reclassification	-	(203)	-	-	-	-	-	-	-	-	(203)
Pension-related changes other than net periodic pension cost	(1,004)	(45,023)	-	-	-	-	-	-	-	-	(46,027)
Equity transfer	35,328	(42,059)	-	-	76	2,403	-	3,338	914	-	-
Increase (decrease) in unrestricted net assets	<u>\$ 33,489</u>	<u>\$ (56,188)</u>	<u>\$ (2,489)</u>	<u>\$ 288</u>	<u>\$ (55)</u>	<u>\$ (214)</u>	<u>\$ (66)</u>	<u>\$ 1,585</u>	<u>\$ 167</u>	<u>\$ -</u>	<u>\$ (23,483)</u>

Stamford Health System

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2010

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	SHIP	Eliminations	Consolidated Balance
(Deficiency) excess of revenue over expenses	\$ 914	\$ 29,585	\$ 2,950	\$ 240	\$ (242)	\$ (1,932)	\$ (600)	\$ (1,530)	\$ (836)	\$ (968)	\$ -	\$ 27,581
Net assets released from restrictions used for purchases of property and equipment	-	720	-	-	-	-	-	-	-	-	-	720
Pension-related changes other than net periodic pension cost	(628)	(16,571)	-	-	-	-	-	-	-	-	-	(17,199)
Equity transfer	(35,215)	29,904	-	-	116	1,837	213	923	1,050	1,172	-	-
Increase (decrease) in unrestricted net assets	(34,929)	43,638	2,950	240	(126)	(95)	(387)	(607)	214	204	-	11,102
Temporarily restricted net assets:												
Contributions	-	2,105	-	-	-	-	-	-	-	-	-	2,105
Investment returns	-	876	-	-	-	-	-	-	-	-	-	876
Change in net unrealized gains and losses	-	(1)	-	-	-	-	-	-	-	-	-	(1)
Net assets released from restrictions used for purchases of property and equipment	-	(720)	-	-	-	-	-	-	-	-	-	(720)
Net assets released from restrictions for operations	-	(2,980)	-	-	-	-	-	-	-	-	-	(2,980)
Decrease in temporarily restricted net assets	-	(720)	-	-	-	-	-	-	-	-	-	(720)
Permanently restricted net assets:												
Contributions	-	50	-	-	-	-	-	-	-	-	-	50
Increase in permanently restricted net assets	-	50	-	-	-	-	-	-	-	-	-	50
Increase (decrease) in net assets	(34,929)	42,968	2,950	240	(126)	(95)	(387)	(607)	214	204	-	10,432
Net assets – beginning of year	79,312	84,704	(1,073)	1,784	117	239	1,537	1,585	230	-	(49)	168,386
Net assets (deficiency) – end of year	\$ 44,383	\$ 127,672	\$ 1,877	\$ 2,024	\$ (9)	\$ 144	\$ 1,150	\$ 978	\$ 444	\$ 204	\$ (49)	\$ 178,818

Stamford Health System

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended September 30, 2009

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Fairfield Surgical	Fairfield Primary	Premier Medical Group	Fairfield OB/GYN	Eliminations	Consolidated Balance
(Deficiency) excess of revenue over expenses	\$ (835)	\$ 30,020	\$ (2,489)	\$ 288	\$ (131)	\$ (2,617)	\$ (66)	\$ (1,753)	\$ (747)	\$ -	\$ 21,670
Net assets released from restrictions used for purchases of property and equipment	-	1,077	-	-	-	-	-	-	-	-	1,077
Net asset reclassification	-	(203)	-	-	-	-	-	-	-	-	(203)
Pension-related changes other than net periodic pension cost	(1,004)	(45,023)	-	-	-	-	-	-	-	-	(46,027)
Equity transfer	35,328	(42,059)	-	-	76	2,403	-	3,338	914	-	-
Increase (decrease) in unrestricted net assets	33,489	(56,188)	(2,489)	288	(55)	(214)	(66)	1,585	167	-	(23,483)
Temporarily restricted net assets:											
Contributions	-	1,937	-	-	-	-	-	-	-	-	1,937
Net asset reclassification	-	(132)	-	-	-	-	-	-	-	-	(132)
Investment returns	-	(1,139)	-	-	-	-	-	-	-	-	(1,139)
Change in net unrealized gains and losses	-	403	-	-	-	-	-	-	-	-	403
Net assets released from restrictions used for purchases of property and equipment	-	(1,077)	-	-	-	-	-	-	-	-	(1,077)
Net assets released from restrictions for operations	-	(2,936)	-	-	-	-	-	-	-	-	(2,936)
Decrease in temporarily restricted net assets	-	(2,944)	-	-	-	-	-	-	-	-	(2,944)
Permanently restricted net assets:											
Contributions	-	750	-	-	-	-	-	-	-	-	750
Net asset reclassification	-	335	-	-	-	-	-	-	-	-	335
Increase in permanently restricted net assets	-	1,085	-	-	-	-	-	-	-	-	1,085
Increase (decrease) in net assets	33,489	(58,047)	(2,489)	288	(55)	(214)	(66)	1,585	167	-	(25,342)
Net assets – beginning of year	45,823	142,751	1,416	1,496	172	453	1,603	-	63	(49)	193,728
Net assets (deficiency) – end of year	\$ 79,312	\$ 84,704	\$ (1,073)	\$ 1,784	\$ 117	\$ 239	\$ 1,537	\$ 1,585	\$ 230	\$ (49)	\$ 168,386

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