

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Stamford Health System Years Ended September 30, 2012 and 2011 With Report of Independent Auditors

Ernst & Young LLP



Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors Stamford Health System

We have audited the accompanying consolidated balance sheets of Stamford Health System (SHS) as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of 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, 2012 and 2011, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets at September 30, 2012 and 2011, the consolidating statements of operations and changes in net assets for the years then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare

the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

January 25, 2013

Consolidated Balance Sheets (In Thousands)

	September 30				
		2012		2011	
Assets					
Current assets:					
Cash and cash equivalents	\$	76,275	\$	94,498	
Assets limited as to use		640		748	
Short-term investments		119,215		25,033	
Patient accounts receivable (less allowance for uncollectible					
accounts of \$21,094 and \$18,195, respectively)		69,756		62,433	
Other receivables		15,281		5,831	
Pledges receivable		1,861		838	
Due from third parties, current portion		2,554		2,592	
Other current assets		10,743		9,217	
Current assets held-for-sale		_		1,566	
Total current assets		296,325		202,756	
Assets limited as to use:					
Held by captive insurance company		29,759		25,977	
Long-term investments – endowments		8,080		8,080	
Held by trustee – construction and debt service funds		243,826		10,459	
Held-for-sale		_		300	
		281,665		44,816	
Long-term investments		117,299		106,144	
Property, plant and equipment, net		266,520		253,583	
Pledges receivable, net		12,948		445	
Other assets		12,573		8,320	
Noncurrent assets held-for-sale		_		63,922	
Total assets	\$	987,330	\$	679,986	

	September 30			
		2012		2011
Liabilities and net assets				
Current liabilities:				
Current portion of long-term debt	\$	5,656	\$	6,018
Accounts payable and accrued expenses		68,893		51,497
Salaries, wages and fees payable		12,161		10,176
Accrued vacation liability		18,570		16,033
Estimated third-party payor settlements, current		7,600		5,424
Estimated professional liabilities, current		19,824		4,830
Current liabilities held-for-sale		_		3,942
Total current liabilities		132,704		97,920
Pension liabilities		120,448		102,463
Estimated third-party payor settlements, net of current portion		3,621		5,860
Long-term debt, net of current portion		384,520		151,881
Deferred revenue – entrance fees		_		8,833
Estimated professional liabilities, net of current portion		27,782		30,944
Other long-term liabilities		9,323		_
Long-term liabilities held-for-sale		_		83,971
Total liabilities		678,398		481,872
Commitments and contingencies				
Net assets:				
Unrestricted		266,405		188,252
Unrestricted – held-for-sale		_		(19,241)
Total unrestricted		266,405		169,011
Temporarily restricted		34,447		21,023
Permanently restricted		8,080		8,080
Total net assets		308,932		198,114
Total liabilities and net assets	\$	987,330	\$	679,986

Consolidated Statements of Operations (In Thousands)

	Year Ended September 30 2012 2011			
Unrestricted revenue, gains and other support: Net patient service revenue Provision for bad debts	\$ 528,744 \$ (52,587)	S 488,495 (47,360)		
Net patient service revenue, less provision for bad debts Other revenue	476,157 25,773	441,135 23,143		
Net assets released from restrictions for operations	1,268	2,397		
Total unrestricted revenue, gains and other support	503,198	466,675		
Expenses:				
Salaries	204,462	187,108		
Employee benefits	54,094	51,863		
Supplies and other expenses	184,555	164,738		
Depreciation and amortization	27,388	29,299		
Interest expense	5,821	5,683		
Total expenses	476,320	438,691		
Income from operations	26,878	27,984		
Nonoperating gains and losses:				
Loss on lease obligation	(12,725)	_		
Investment returns	10,403	(2,265)		
Change in net unrealized gains and losses	155	1,542		
Total nonoperating gains and losses	(2,167)	(723)		
Excess of revenue over expenses	24,711	27,261		
Net assets released from restrictions used for purchases				
of property and equipment	3,254	1,466		
Pension-related changes other than net periodic pension cost	(28,617)	(13,674)		
(Decrease) increase in unrestricted net assets before				
discontinued operations	(652)	15,053		
Discontinued operations	98,046	5,076		
Increase in unrestricted net assets	\$ 97,394 \$	5 20,129		

Consolidated Statements of Changes in Net Assets (In Thousands)

Year Ended September 30, 2012 and 2011

	Un	restricted		emporarily Restricted		rmanently estricted		Total
Balance at September 30, 2010	\$	148,882	\$	21,856	\$	8,080	\$	178,818
Excess of revenue over expenses	7	27,261	*		4	_	*	27,261
Pension-related changes other than net		,						,
periodic pension cost		(13,674)		_		_		(13,674)
Contributions				3,087		_		3,087
Change in net unrealized gains and losses		_		(227)		_		(227)
Investment returns		_		170		_		170
Net assets released from restrictions								
for operations		_		(2,397)		_		(2,397)
Net assets released from restrictions used								
for purchases of property and equipment		1,466		(1,466)		_		
Increase (decrease) in net assets before								
discontinued operations		15,053		(833)		_		14,220
Discontinued operations		5,076				_		5,076
Increase (decrease) in net assets		20,129		(833)		_		19,296
Balance at September 30, 2011		169,011		21,023		8,080		198,114
Excess of revenue over expenses		24,711		_		_		24,711
Pension-related changes other than net								
periodic pension cost		(28,617)		_		_		(28,617)
Contributions		_		16,783		_		16,783
Change in net unrealized gains and losses		_		(40)		_		(40)
Investment returns		_		1,203		_		1,203
Net assets released from restrictions								
for operations		_		(1,268)		-		(1,268)
Net assets released from restrictions used								
for purchases of property and equipment		3,254		(3,254)				
(Decrease) increase in net assets before								
discontinued operations		(652)		13,424		_		12,772
Discontinued operations		98,046						98,046
Increase in net assets		97,394		13,424		_		110,818
Balance at September 30, 2012	\$	266,405	\$	34,447	\$	8,080	\$	308,932

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended 2012	ember 30 2011	
Cash flows from operating activities			_
Change in net assets	\$ 110,818	\$	19,296
Adjustments to reconcile change in net assets to net cash provided			
by operating activities:			
Pension-related changes other than net periodic pension cost	28,617		13,674
Net realized gains and losses and change in net unrealized gains and losses	(8,519)		1,466
Restricted investment returns	(1,163)		57
Loss on lease obligation	12,725		_
Gain on sale of discontinued operations	(96,447)		_
Restricted contributions	(16,783)		(3,087)
Entrance fee amortization	(519)		(4,526)
Depreciation and amortization	27,388		30,573
Amortization of deferred financing costs	220		247
Net amortization of bond discount (premium)	(65)		(74)
Provision for bad debts	52,587		47,360
Change in:	32,307		17,500
Patient accounts receivable	(59,910)		(56,042)
Accounts payable and accrued expenses	17,396		4,849
Estimated third-party payor settlements	(25)		668
Estimated professional liabilities	11,832		3,224
Change in all other operating assets and liabilities	(38,516)		(4,118)
Net cash provided by operating activities	 39,636		53,567
The easil provided by operating activities	37,030		33,307
Cash flows from investing activities			
Capital expenditures, net	(40,250)		(30,869)
Proceeds from sale of discontinued operations	68,676		_
Net cash invested in assets limited as to use and investments	(333,559)		(990)
Net cash used in investing activities	(305,133)		(31,859)
Cash flows from financing activities			
Principal payments on long-term debt	(22,279)		(8,836)
Cash paid for deferred financing fees	(3,014)		(95)
Proceeds from long-term debt	254,621		10,000
Net proceeds from entrance fees	254,021		10,150
Restricted investment returns	1,163		(57)
Restricted contributions	16,783		3,087
Net cash provided by financing activities	 247,274		14,249
Net (decrease) increase in cash and cash equivalents	(18,223)		35,957
Cash and cash equivalents, beginning of year	94,498		58,541
Cash and cash equivalents, end of year	\$ 76,275	\$	94,498
Supplemental disclosure of cash flow information			
Cash paid during the year for interest (exclusive of amounts capitalized)	\$ 6,454	\$	6,566
Supplemental disclosure of noncash investing and financing activities			
Capital leases incurred	\$ 	\$	1,074

Notes to Consolidated Financial Statements (In Thousands)

September 30, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

Stamford Health System (SHS), a tax-exempt corporation, is the sole member or ultimate parent of The Stamford Hospital (TSH or the Hospital), a not-for-profit acute care hospital; Miller Hall Medical Suites, LLC (MHMS), a professional office building on the campus of TSH and Stamford OB/GYN Associates (OB/GYN), a professional captive formed to provide obstetrical care. In December 2011, SHS formed Southwest Connecticut Radiology LLC (SCR), a professional captive that employs radiologists who provide radiologic services at the Hospital.

Stamford Health Integrated Practices, Inc. (SHIP) is a not-for profit corporation formed by SHS in fiscal year 2011 to provide a comprehensive network of physician practices and related management services. In May 2011, SHIP was transferred from SHS to the Hospital. Also during fiscal years 2012 and 2011, SHS transferred certain of its medical practices to SHIP, including Fairfield County Surgical Specialists (FCSS), a professional captive providing surgical services; Fairfield County Obstetrics and Gynecology division (FCOB/GYN), 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.

On November 14, 2011, SHS sold the Continuing Care Retirement Community of Greater Stamford, Inc. (CCRC), a not-for-profit sponsor who operated the Edgehill Retirement Community (Edgehill), a full-service retirement community. The sale included the CCRC facility and certain other net assets of CCRC to an outside party. As a result, SHS's consolidated financial statements reflect CCRC as discontinued operations for all periods presented (see Note 12).

Consolidated Financial Statements

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Inventories

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

Pledges Receivable

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

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

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

Marketable Securities and Alternative Investments

Alternative investments are defined as nontraditional, not readily marketable asset classes, some of which are structured such that SHS holds limited partnership interests. Realized and unrealized gains and losses are included in determining the excess of revenue over expenses. For the years ended September 30, 2012 and 2011, SHS recorded gains (losses) on unrestricted alternative investments of \$3,999 and (\$2,696), respectively, which are included in investment returns in the accompanying consolidated statements of operations. The alternative investments are recorded using the equity method of accounting. Individual investment holdings of such limited partnerships which hold the alternative investments may, in turn, include investments in both marketable and nonmarketable securities. Marketable securities which are not considered alternative investments, such as equity and debt securities, and the holdings of private mutual funds are recorded at the fair value as quoted by the public markets. Marketable securities are classified as trading securities.

Ordinary income and net realized gains and losses of \$6,404 and \$431 for the years ended September 30, 2012 and 2011, respectively, are included in investment returns in the accompanying consolidated statements of operations. The change in net unrealized gains and losses of \$155 and \$1,542 for the years ended September 30, 2012 and 2011, respectively, is recorded in the excess of revenue over expenses in the consolidated statements of operations.

Valuations of investments not readily marketable may be determined by the investment manager or general partner. "Fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals or other estimates that require varying degrees of judgment. The investment value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose SHS to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. While these financial instruments may contain varying degrees of risk, the risk of SHS with respect to such transactions is limited to its capital balance in each investment. Certain amounts are subject to notification to allow for divestiture, while other amounts have divestiture provisions based only on termination of the fund. The financial statements of the investees are audited annually by independent auditors. At September 30, 2012 and 2011, SHS has future commitments of \$2,507 and \$951, respectively, to invest in alternative investments.

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

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

Investment Returns

Unrestricted investment returns (including realized and unrealized gains and losses on marketable securities, interest and dividends and realized and unrealized gains and losses on alternative investments) are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

Assets Limited as to Use

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

Property, Plant and Equipment

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

Estimated useful lives by classification are as follows:

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

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

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

Deferred Financing Costs

Included in other assets are deferred financing costs and other noncurrent investments. Costs incurred in connection with the issuance of bonds are amortized over the lives of the bonds using the effective interest method. At September 30, 2012 and 2011, the accumulated amortization for deferred financing costs was \$468 and \$248, respectively. In 2011, TSH issued State of Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Series I Bonds (see Note 8). In 2012, TSH issued State of Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Series J Bonds (see Note 8). Deferred financing costs incurred for the Series J Bonds was approximately \$3,014. Amortization of deferred financing cost is included in interest expense in the accompanying consolidated statements of operations.

Equity Investment

Included in other assets is SHS's investment in Stamford/NSC Management LLC, a joint venture with Wilton NSC, LLC. SHS accounts for this investment using the equity method of accounting. During 2012 and 2011, SHS recognized income of approximately \$703 and \$696, respectively, and received capital distributions of approximately \$717 and \$547, respectively.

Temporarily and Permanently Restricted Net Assets

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

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

Consolidated Statements of Operations

For the purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as unrestricted revenue, gains and other support and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses and consist primarily of investment returns and loss on lease obligation incurred during 2012 (see Note 17).

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

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

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

Patient Accounts Receivable and Net Patient Service Revenue

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

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

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

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

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

that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

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

Estimated Professional Liabilities

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

Income Taxes

SHS is a not-for-profit corporation and all of its not-for-profit affiliates have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Its related income is not subject to federal or state income taxes. The for-profit affiliates of SHS include FCSS, OB/GYN, PMG, FCPC and SCR. The related income (losses) of these affiliates are subject to federal and state income taxes. No significant liabilities exist as of September 30, 2012 and 2011 for applicable federal and state taxes.

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

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

The Hospital's wholly owned insurance company, Healthstar Indemnity Company, Ltd. (Healthstar) has received an undertaking from the Bermuda Government, exempting it from any future local income, profits and capital gains taxes until March 31, 2035. At the present time, no such taxes exist in Bermuda

Pension Plans

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

Recent Accounting Pronouncements

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

In August 2010, the FASB also issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU No. 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities are to be presented separately on the consolidated balance sheets. ASU No. 2010-24 is effective for fiscal years beginning after December 15, 2010. In fiscal year 2012, SHS elected to retrospectively adopt ASU No. 2010-24 as of September 30, 2011. The adoption resulted in the recording in the consolidated balance sheets of an estimated insurance recovery receivable and professional liabilities of approximately \$10,400 and \$2,000 as of September 30, 2012 and 2011, respectively. Such amounts relate to professional liability insurance coverage. The adoption of ASU No. 2010-24 did not affect SHS's net assets or its consolidated statements of operations.

Reclassifications

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

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

2. Community Benefit and Charity Care

The Hospital is committed to providing health care services to the community. During 2011 and 2012, the Hospital initiated a formal community health needs assessment of its service areas in partnership with the City of Stamford Health Department. This process includes the analysis of qualitative and quantitative data and involves interviews with social service and other community organizations to elicit their input as to community needs and opportunities for collaborative partnerships.

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

In collaboration with the City of Stamford Health Department, the Hospital sponsored a joint City of Stamford-wide flu campaign to reduce the number of hospitalizations and emergency department visits. The Hospital's mobile mammography program served community centers, places of employment and churches, providing on-site mammograms including free screenings for those without insurance. Kid's Fitness and Nutrition Services (KidsFANS) is a Stamford Hospital led community collaborative designed to promote smart eating, physical activity and healthy weight among children. Over the past year, the Hospital has provided thousands of free health screenings at health fairs and events throughout the community. The Hospital's physicians and other health professionals offer services and speak to various community groups and organizations on health related topics, ranging from stress and pain management to heart disease and joint replacement.

The Hospital maintains records to identify and monitor the level of charity care it provides. Charges foregone for these services, based on its established rates pursuant to the requirements of the State of Connecticut, were approximately \$34,000 and \$27,000 for the years ended September 30, 2012 and 2011, respectively. For the years ended September 30, 2012 and 2011, the estimated cost of charity care was approximately \$11,400 and \$8,900, respectively. The estimated cost of charity care includes the direct and indirect cost of providing charity care services and is estimated by multiplying the total charges associated with the care provided by the ratio of total patient care expenses to total charges for all services rendered.

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

2. Community Benefit and Charity Care (continued)

The State of Connecticut distributes funds from its Uncompensated Care Pool, based on a formula that includes both the provision for bad debts, net of recoveries, and free care, also described as charity care. The following table sets forth the total of bad debt expense and charity care for the years ended September 30, 2012 and 2011:

	 2012	2011
Provision for bad debts – net of recoveries Charity care based on charges	\$ 52,587 34,808	\$ 47,360 27,345
Total uncompensated care	\$ 87,395	\$ 74,705

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

3. Net Patient Service Revenue

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

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

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid

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

3. Net Patient Service Revenue (continued)

program beneficiaries are reimbursed on cost-based and fee schedule methodologies. TSH is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by TSH and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of TSH for 2008 and prior have been tentatively settled. All Medicaid cost reports are subject to audit and finalization by the State of Connecticut.

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

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

TSH recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, TSH recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of TSH's uninsured

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

3. Net Patient Service Revenue (continued)

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

Patient service revenue for the years ended September 30, 2012 and 2011, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows:

		2012	
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 486,444	\$ 42,300	\$ 528,744
		2011	
	Third-Party	,	Total All
	Payors	Self-Pay	Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 454,302	\$ 34,193	\$ 488,495

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

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

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

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

3. Net Patient Service Revenue (continued)

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, 2012 and 2011:

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

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

4. Assets Limited as to Use and Investments

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

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

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

The composition of assets limited as to use at September 30, 2012 and 2011 is as follows:

		2012	2011
Current portion:			
Cash and cash equivalents	\$	640	\$ 572
Mutual funds		_	176
	\$	640	\$ 748
Held by captive insurance company:			
Cash and cash equivalents	\$	10,155	\$ 15,651
Mutual funds		11,736	2,699
Alternative investments – hedge funds		7,868	7,627
	\$	29,759	\$ 25,977
Long-term investments – endowments: Cash and cash equivalents Mutual funds Alternative investments – hedge funds Alternative investments – limited partnerships Private mutual funds	\$	572 3,697 2,271 1,272 268 8,080	\$ 767 2,733 3,042 1,285 253 8,080
Held by trustee – construction and debt service funds: Cash and cash equivalents Guaranteed investment contracts	\$:	243,826	\$ 8,760 1,699
	\$	243,826	\$ 10,459

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

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

The composition of investments at September 30, 2012 and 2011 includes:

	 2012	2011
Short-term investments:		
Cash and cash equivalents	\$ 30,119	\$ _
Mutual funds	89,096	25,033
	\$ 119,215	\$ 25,033
Long-term investments: Cash and cash equivalents Mutual funds Alternative investments – hedge funds Alternative investments – limited partnerships Private mutual funds	\$ 7,627 70,700 23,220 13,012 2,740	\$ 7,960 56,401 27,756 11,718 2,309
	 117,299	\$ 106,144

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

				2012					2011		
			Tei	mporarily		Temporarily					
	Un	restricted	R	estricted	Total	Un	restricted	R	estricted	7	Total
Ordinary income											
(interest and dividends)	\$	2,038	\$	132	\$ 2,170	\$	743	\$	219	\$	962
Net realized gains and losses		4,366		641	5,007		(312)		121		(191)
Gains and losses from											
alternative investments		3,999		430	4,429	(2	2,696)		(170)	(2	2,866)
Investment returns		10,403		1,203	11,606	(2	2,265)		170	(2	2,095)
Change in net unrealized											
gains and losses		155		(40)	115		1,542		(227)	1	,315
	\$	10,558	\$:	1,163	\$ 11,721	\$	(723)	\$	(57)	\$	(780)

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

5. Pledges Receivable

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

	2012		2011
Amounts expected to be collected in:	e 2.021	ď	923
Less than one year One to five years	\$ 2,031 14,240	\$	923 478
Less:			
Reserve for uncollectible pledges	844		70
Discount on pledges	618		48
Current portion	1,861		838
Pledges receivable, net	\$ 12,948	\$	445

6. Property, Plant and Equipment

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

	2012	2011
Land	\$ 44,520	\$ 43,699
Land improvements	4,991	5,083
Buildings and improvements	192,832	191,285
Fixed and major movable equipment	318,679	308,359
Leasehold improvements	11,677	11,236
	572,699	559,662
Less accumulated depreciation and amortization	355,813	329,376
	216,886	230,286
Construction-in-progress	49,634	23,297
	\$ 266,520	\$ 253,583

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

6. Property, Plant and Equipment (continued)

Included in property, plant and equipment are assets under capital leases of approximately \$1,983 at September 30, 2012 and 2011, respectively, with accumulated amortization of approximately \$956 and \$536, respectively.

Depreciation and amortization expense for the years ended September 30, 2012 and 2011 was \$27,388 and \$29,299, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of approximately \$420 and \$321 for the years ended September 30, 2012 and 2011 respectively.

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

In May 2009, SHS submitted an application for a certificate of need with the State of Connecticut for the Master Facility Plan for the Hospital which includes the construction of a new six-level addition and central utility plant, modernization of the emergency department and other infrastructure improvements. Construction in progress as of September 30, 2012 and 2011 includes approximately \$31,821 and \$18,787, respectively, spent mainly for architectural fees and other soft construction costs incurred during the planning phase and initial construction of the Master Facility Plan. As of September 30, 2012, future commitments tied to the Master Facility Plan approximated \$69,401.

7. Net Assets

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

	2012	2011
Health care services:		
Purchase of equipment	\$ 18,186	\$ 4,006
Patient care	14,929	15,886
Health education	1,332	1,131
	\$ 34,447	\$ 21,023

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

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

7. Net Assets (continued)

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

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

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

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.

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

7. Net Assets (continued)

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

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

	2012					
	Temporarily Restricted			manently estricted		Total
Endowment assets, September 30, 2011 Investment return (realized and unrealized) Appropriation of endowment assets	\$	905 1,065	\$	8,080 -	\$	8,985 1,065
for expenditure		(767)		_		(767)
Endowment assets, September 30, 2012	\$	1,203	\$	8,080	\$	9,283
				2011		
	Tei	mporarily	Pei	manently		
		estricted		<u>estricted</u>		Total
Endowment assets, September 30, 2010 Investment return (realized and unrealized) Appropriation of endowment assets				·	\$	9,557 (55)
Investment return (realized and unrealized) Appropriation of endowment assets	R	estricted 1,477	R	estricted	\$	9,557
Investment return (realized and unrealized)	R	1,477 (55)	R	estricted	\$	9,557 (55)

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

7. Net Assets (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of UPMIFA requires SHS to retain as a fund of perpetual duration. There were no significant deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2012 and 2011.

8. Long-Term Debt

At September 30, 2012 and 2011, long-term debt consists of the following:

		2012		2011
State of Connecticut Health and Educational Facilities				
Authority Revenue Bonds, Series I, payable in varying				
annual amounts with fixed interest rates varying from 3.00% to 5.25%, with the final payment due in 2030	\$	124,385	\$	128,770
State of Connecticut Health and Educational Facilities	Ф	124,505	Ψ	126,770
Authority Revenue Bonds, Series J, payable in varying				
annual amounts with fixed interest rates of 3.25% to				
5.125%, with the final payment due in 2042		250,000		_
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% at September 30, 2011, final payment made in November 2011				17,000
Term promissory notes bearing interest at LIBOR plus		_		17,000
2.00%, maturing June 1, 2021		9,456		9,863
City of Stamford, sewer connection fee loan, payable in		7,150		7,003
annual installments through 2013 (non-interest bearing)		12		25
Capital lease obligations		939		1,412
		384,792		157,070
Unamortized bond premium		5,384		892
Unamortized bond discount		_		(63)
		390,176		157,899
Less current portion		5,656	Φ.	6,018
	\$	384,520	\$	151,881

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, 2011, in the amount of \$132,990 for a term of 20 years, at a premium of \$1,002. As of September 30, 2012 and 2011, accumulated amortization related to the bond premium was \$190 and \$110, respectively. The Series I Bonds were used for the refunding of the State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series F and Series G Bonds, and bank loans. The proceeds were also 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 State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series J (the Series J Bonds) were issued on June 20, 2012, in the amount of \$250,000 for a term of 30 years, at a premium of \$4,621. As of September 30, 2012, accumulated amortization related to the bond premium was \$49. The Series J Bonds proceeds will be used for financing architectural, engineering, site permitting, legal planning and construction costs relating to the Master Facility Plan. The proceeds will also reimburse TSH for certain costs of issuance of the Series J Bonds.

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

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

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

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

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

8. Long-Term Debt (continued)

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

The Edgehill Issue, Series C bonds were secured under a mortgage which placed 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 had to satisfy certain measures of financial performance, defined in the Indenture Agreement, as long as the Revenue Bonds were outstanding. CCRC was in compliance with all financial covenants related to the Revenue Bonds at September 30, 2011. CCRC obtained a letter of credit with KBC Bank (the KBC Letter of Credit) concurrent with the bond closing specifically related to the Revenue Bonds in the amount of \$22,346. On October 1, 2011, 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 Letter of Credit was terminated due to the sale of CCRC as noted below.

On November 14, 2011, SHS sold the CCRC facility to an outside party (see Note 1 and 12). Proceeds of the sale were used for the payment of the Series C bonds at a redemption price of 100% of the principal amount plus accrued interest, on the redemption date of January 4, 2012.

In May 2011, MHMS entered into a term mortgage note agreement with a bank for \$5,900, bearing an interest rate of LIBOR + 2.00%. This new agreement replaces the term promissory note agreement. The mortgage note is payable in monthly installments and matures June 1, 2021. SHS, as guarantor, must maintain certain debt covenants with respect to the term mortgage note. As of September 30, 2012, SHS was in compliance with such debt covenants.

In 2001, MHMS entered into a term promissory note agreement with a 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 promissory note was paid in full in May 2011.

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

8. Long-Term Debt (continued)

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

	Loans Payable		apital eases	Total
Fiscal year:	-	J		
2013	\$	5,254	\$ 402	\$ 5,656
2014		5,469	431	5,900
2015		5,695	107	5,802
2016		5,932	_	5,932
2017		7,779	_	7,779
Thereafter		359,107	_	359,107
Total minimum payments		389,236	940	390,176
Less current portion of long-term debt		5,254	402	5,656
	\$	383,982	\$ 538	\$ 384,520

9. Retirement Benefits

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

Defined Benefit Pension Plan and SERPs

SHS's defined benefit pension plan (the Plan) covers employees and eligible employees of its affiliates who were employed as of August 1, 2002, and elected to continue earning future benefits after December 31, 2002. Benefits are based on age at retirement, years of credited service and average compensation for a specified period prior to retirement. The SERPs cover certain employees which provide benefits to participants without regard to statutory limitations on the maximum amount of compensation which may be taken into account by, nor the maximum benefits which may be paid from, such plans. The SERPs are nonqualified plans and are unfunded

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

9. Retirement Benefits (continued)

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

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

2012							
Plan	SERPs	Total					
\$ (3) (137,248)	\$ - (6,998)	\$ (3) (144,246)					
\$ (137,251)	\$ (6,998)	\$ (144,249)					
	2011						
Plan	SERPs	Total					
\$ (10) (109,506)	\$ – (6,116)	\$ (10) (115,622)					
	() /						
	\$ (3) (137,248) \$ (137,251) Plan \$ (10)	Plan SERPs \$ (3) \$ - (137,248) (6,998) \$ (137,251) \$ (6,998) Plan SERPs \$ (10) \$ -					

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

	Plan		SERPS
Prior service cost	\$ (3	\$	_
Net loss	(13,778)	_

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

9. Retirement Benefits (continued)

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

	Plan				SE		Total			
		2012	2011		2012	2011	2012			2011
Benefit obligation										
Benefit obligation,										
beginning of year	\$		\$ 218,720		,	\$ 11,518	\$	250,129	\$	230,238
Service cost		3,425	3,604		120	_		3,545		3,604
Interest cost		12,320	11,326		574	583		12,894		11,909
Actuarial losses		41,684	10,695		1,159	862		42,843		11,557
Benefits paid		(6,671)	(6,390)	(796)	(789)		(7,467)		(7,179)
Benefit obligation,										
end of year		288,713	237,955		13,231	12,174		301,944		250,129
Plan assets										
Fair value of plan assets,										
beginning of year		146,883	139,373		_	_		146,883		139,373
Actual return on plan assets		15,242	(1,100		_	_		15,242		(1,100)
Employer contributions		25,250	15,000	/	796	789		26,046		15,789
Benefits paid		(6,671)	(6,390		(796)	(789)		(7,467)		(7,179)
Fair value of plan assets,			` '							
end of year		180,704	146,883		_	_		180,704		146,883
Funded status	\$	(108,009)	(91,072) \$	(13,231)	\$ (12,174)	\$	(121,240)	\$	(103,246)
Current portion of										
obligation	\$	_	©	\$	(792)	\$ (783)	Φ	(792)	¢	(783)
	Ф	_	5 –	Þ	(192)	\$ (703)	Ф	(192)	Ф	(763)
Noncurrent portion of		(100 000)	(01.072	`	(12.420)	(11.201)		(120, 440)		(102.462)
obligation	Φ.	(108,009)	(91,072		(12,439)	(11,391)	Φ	(120,448)	Φ	(102,463)
Total	\$	(108,009)	\$ (91,072) \$	(13,231)	\$ (12,174)	3	(121,240)	\$	(103,246)
A 1 11 C										
Accumulated benefit	•	(2=0 20 t)	Φ (22 0 51 0	٠.	(12.100)	A (10.154)	•	(202 40.6)	Ф	(222 (22)
obligation	\$	(270,394)	\$(220,518) \$	(13,102)	\$ (12,174)	\$	(283,496)	\$	(232,692)

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

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

9. Retirement Benefits (continued)

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

	Pl	an	SERPs		
	2012	2011	2012	2011	
				4.79% to	
Discount rate	4.10%	5.25%	4.00%	5.25%	
Rate of compensation increase	3.00	3.50	_	_	

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

	Plan			SE	RPs		To	otal
	2012	2011		2012	Ź	2011	2012	2011
Service cost Interest cost Expected return on plan assets	\$ 3,425 12,320 (11,780)	\$ 3,604 11,326 (10,427)	\$	120 575	\$	583 -	\$ 3,545 12,895 (11,780)	\$ 3,604 11,909 (10,427)
Amortization of prior service cost Amortization of actuarial loss	7 10,479	7 9,161		- 277		_ 242	7 10,756	7 9,403
Net periodic pension cost	\$ 14,451	\$ 13,671	\$	972	\$	825	\$ 15,423	\$ 14,496

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

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

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

9. Retirement Benefits (continued)

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

Plan Assets

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

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

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

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

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

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

9. Retirement Benefits (continued)

Investment Strategy

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

Cash Flows

SHS expects to contribute approximately \$15,802 to the plans during fiscal year 2013.

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

	Plan		S	SERPs		Total
Fiscal year ending September 30:						
2013	\$	7,772	\$	802	\$	8,574
2014		8,664		811		9,475
2015		9,825		823		10,648
2016		10,867		820		11,687
2017		11,731		815		12,546
2018 through 2022		75,308		4,290		79,598

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, 2012 and 2011 are \$5,406 and \$5,286, respectively, in pension contributions to the DC Plan

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

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

The Hospital expensed \$133 and \$188 for professional liabilities self-insurance for the years ended September 30, 2012 and 2011, respectively. There were no claims or expenses payable from the Trust at September 30, 2012 and 2011, respectively. The undiscounted actuarially determined tail liability of \$10,204 and \$10,071 is included in the estimated professional liabilities in the accompanying consolidated balance sheets at September 30, 2012 and 2011, respectively.

Healthstar is responsible for the professional liability insurance claims of the Hospital beginning October 1, 2002, and is fully funded by the Hospital. Healthstar retains net and exclusive of reinsurance \$5,000 per claim for professional liability subject to \$18,500 in the annual aggregate and \$2,000 per claim subject to \$4,000 in the annual aggregate for general liability. It also provides limits of insurance for professional and general liability of \$45,000 per claim subject to \$46,500 in the annual aggregate, in excess of the limits of insurance noted above as net of reinsurance, as well as in excess of certain underlying commercial liability insurance policies, employee benefit liability insurance coverage, and terrorism liability insurance coverage, and where such limits are 100% reinsured by syndicates at Lloyd's of London, with the exception of \$1,500 in aggregate limit in excess of \$45,000 applicable to professional liability, which is also

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

10. Professional Liability Insurance (continued)

retained as net and exclusive reinsurance of Healthstar. The reinsurance coverage purchased by Healthstar is maintained with third-party reinsurers and was renewed on October 1, 2012 until September 30, 2013.

For the year ended September 30, 2012, the Hospital paid insurance premiums of \$7,483 to Healthstar, \$4,684 of which relates to the coverage under Healthstar and \$2,800 of which relates to the coverage reinsured with third-party reinsurers. Of the \$7,483 insurance premium payments, \$1,124 was paid by the Hospital on behalf of its affiliates.

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

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

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

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

11. Other Revenue

Other revenue consists of the following:

	Year Ended September 30				
		2012		2011	
	(In Thousands)				
Contributions	\$	1,729	\$	1,667	
Rental income		3,834		3,861	
Uncompensated care pool		5,437		5,578	
Electronic health records incentive payments		3,003			
Grant revenue		874 752			
Investment income		1,237 1,066			
Rehabilitation services		3,182 2,991			
Other		6,477 7,228			
	\$	25,773	\$	23,143	

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

SHS uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling approximately \$3.0 million (Medicare, \$2.1 million; Medicaid, \$0.9 million) for the year ended September 30, 2012 is included in other revenue in the accompanying 2012

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

11. Other Revenue (continued)

consolidated statement of operations. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, SHS's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

12. Discontinued Operations

On November 14, 2011, SHS sold the CCRC facility to an outside party and, as a result of the sale, SHS's consolidated financial statements reflect CCRC as discontinued operations for all periods presented. Total carrying value of the net assets sold was approximately (\$20,857).

The carrying values of the major classes of assets and liabilities sold are as follows:

		Assets	Li	abilities	N	Vet Book Value
Patient accounts receivable	•	1 204	•		¢	1 204
	\$	1,294	\$	_	\$	1,294
Property, plant and equipment, net		63,922		_		63,922
Other assets		36				36
Entrance fee deposit		502		502		_
Waiting list deposit		450		450		_
Deferred revenue refundable entrance fees		_		86,056		(86,056)
Lease obligation		_		53		(53)
Carrying value	\$	66,204	\$	87,061	\$	(20,857)

A gain on the sale of approximately \$96,400 is included in discontinued operations for the year ended September 30, 2012 in the accompanying consolidated statement of operations. The recorded gain on the sale of CCRC is calculated as follows:

Purchase price	\$ 71,500
Adjustment to purchase price for working capital and capital expenditures	(2,824)
Consideration received	68,676
Less: carrying value of assets and liabilities sold	(20,857)
Less: adjustment to other assets and liabilities	(8,326)
Less: costs to sell	1,412
Gain on sale of CCRC	\$ 96,447

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

12. Discontinued Operations (continued)

The operating results of CCRC for the year ended September 30, 2012, which are presented as discontinued operations, are as follows:

	 2012	2011
Net revenues from discontinued operations	\$ 3,244	\$ 24,281
Excess of revenues over expenses from discontinued		
operations	\$ 1,599	\$ 5,076

Proceeds from the sale of CCRC were used for the redemption of the State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Edgehill Issue, Series C outstanding principal amount of approximately \$17,000 (see Note 8).

13. 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.

14. 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, 2012 and 2011:

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

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

14. Concentration of Credit Risk (continued)

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

15. 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, 2012 and 2011, are as follows:

	2012	2011
Health care and resident services General and administrative	\$ 411,333 64,987	\$ 392,067 46,624
	\$ 476,320	\$ 438,691

16. Fair Value of Financial Instruments

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

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

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

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

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

16. Fair Value of Financial Instruments (continued)

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

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

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

	2012				
	Level 1	Level 1 Level 2 Level 3		Total	
Cash and cash equivalents	\$369,214	\$ -	\$ -	\$369,214	
Mutual funds – fixed income	157,084	_	_	157,084	
Mutual funds – multi industry	18,070	_	_	18,070	
Mutual funds – Government	75	_	_	75	
Private mutual funds ^(a)	_	3,008	_	3,008	
Defined benefit plan assets:					
Cash and cash equivalents	13,798	_	_	13,798	
Mutual funds – fixed income	70,874	_	_	70,874	
Mutual funds – multi industry	29,855	_	_	29,855	
Private mutual funds ^(a)	_	4,878	_	4,878	
Partnerships ^(b)	_	10,004	8,362	18,366	
Hedge funds ^(c)	_	42,933	_	42,933	
	\$658,970	\$ 60,823	\$ 8,362	\$ 728,155	

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

16. Fair Value of Financial Instruments (continued)

	2011				
	Level 1	Level 2	Level 3	Total	
	Ф. 120.200	Ф	Φ	Ф 120 200	
Cash and cash equivalents	\$ 128,208	\$ -	\$ -	\$ 128,208	
Mutual funds – fixed income	72,075	_	_	72,075	
Mutual funds – multi industry	14,892	_	_	14,892	
Mutual funds – Government	75	_	_	75	
Private mutual funds ^(a)	_	2,562	_	2,562	
Guaranteed investment contract	_	_	1,699	1,699	
Assets held-for-sale:					
Cash and cash equivalents	300	_	_	300	
Deposits – resident waiting list	475	_	_	475	
Defined benefit plan assets:					
Cash and cash equivalents	19,772	_	_	19,772	
Mutual funds – fixed income	40,730	_	_	40,730	
Mutual funds – multi industry	24,585	_	_	24,585	
Private mutual funds ^(a)		4,155		4,155	
Partnerships ^(b)	_	7,364	8,623	15,987	
Hedge funds ^(c)		41,654	-	41,654	
	\$ 301,112	\$ 55,735	\$10,322	\$367,169	

- (a) Private mutual funds pursue exposure to investment securities and provide the benefit of a diversified and active investment management strategy. The holdings can include domestic and international equity securities, fixed income securities, convertible debt, and distressed debt. SHS can normally redeem these investments on a monthly basis.
- (b) Partnerships are private equity investments that seek to generate acceptable returns in private companies over a given investment period. At September 30, 2012 and 2011, \$10,004 and \$7,364, respectively, of this investment has been classified in Level 2 of the fair value hierarchy, as SHS determined this amount is redeemable in the near-term given its ability to redeem the investment monthly or quarterly. SHS considers redemptions that could occur within 120 days of its measurement date to be near-term. At September 30, 2012 and 2011, \$8,362 and \$8,623, respectively, of the investment is classified in Level 3 of the fair value hierarchy due to redemption restrictions in place given the future funding commitments of \$2,524 and \$1,016 at September 30, 2012 and 2011, respectively.

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

16. Fair Value of Financial Instruments (continued)

(c) Hedge funds and funds of hedge funds pursue a variety of investment strategies. The Hospital holds multiple hedge funds and funds of hedge funds in an attempt to diversify exposures to multiple investment strategies and their respective risks, while attempting to reduce volatility. The underlying investments can include domestic and international equity securities, fixed income securities, convertible debt, distressed debt, merger arbitrage, real estate, private investments, and hedge funds (in the case of funds of funds). The redemption terms vary among funds but, in most cases, SHS can normally redeem monthly or quarterly with 30 to 120 days' notice.

The transfers out of Level 3 are due to the relief of redemption restrictions as of September 30, 2011 and 2010. At September 30, 2012, the Hospital expects to be able to redeem defined benefit plan investments in hedge funds in the near-term.

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

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

	 2012	20	011
Fair value at September 30, 2011	\$ 10,322	\$ 14	1,087
Investment income, net of fees	(46)		(167)
Net realized losses	(1,255)		(792)
Unrealized gains relating to instruments held	, ,		, ,
at reporting date	833		960
Purchase	556		_
Contributions	377		388
Capital calls	(827)		(867)
Settlements	101		(95)
Transfers out of Level 3	(1,699)	(3	3,192)
Fair value at September 30, 2012	\$ 8,362	\$ 10),322

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

16. Fair Value of Financial Instruments (continued)

The carrying values and fair values of the Hospital's financial instruments that are not required to be carried at fair value at September 30, 2012 and 2011 are as follows:

	20	12	20	11
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt	\$ 416,127	\$ 390,176	\$ 167,420	\$ 157,899

17. Operating Lease Obligations

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

2013	\$ 7,427
2014	7,268
2015	7,145
2016	7,346
2017	6,787
Thereafter	 27,933
Total minimum operating lease payments	\$ 63,906

Total nonaffiliate rental expense charged to operations for the years ended September 30, 2012 and 2011 aggregated approximately \$6,795 and \$7,098, 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.

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

17. Operating Lease Obligations (continued)

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

2013	\$ 3,295
2014	2,849
2015	2,333
2016	1,697
2017	1,741
Thereafter	6,327
Total minimum operating lease payments	\$ 18,242

Total nonaffiliate rental income recorded in operations for the years ended September 30, 2012 and 2011 aggregated approximately \$3,834 and \$3,861, respectively.

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

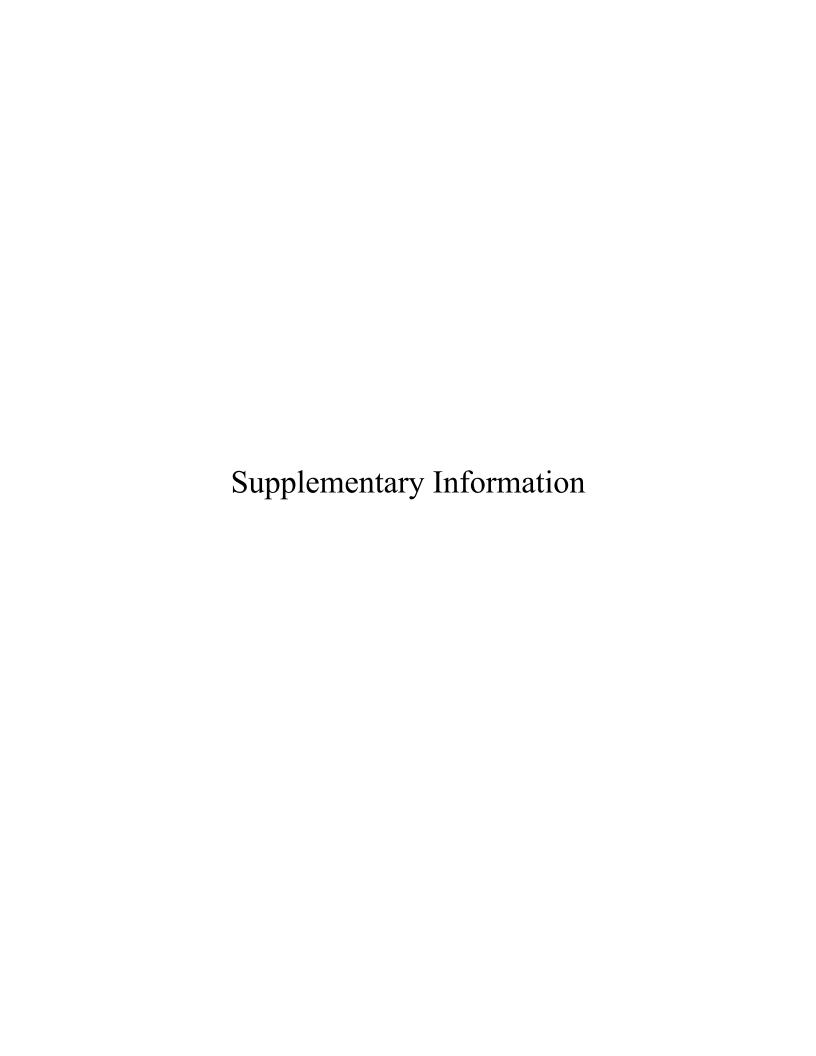
18. Subsequent Events

Subsequent events have been evaluated through January 25, 2013, the date the consolidated financial statements were available to be issued. No subsequent events have occurred that require disclosure in, or adjustment to, the consolidated financial statements, except those already disclosed or noted below.

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

18. Subsequent Events (continued)

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



Consolidating Balance Sheet (In Thousands)

	tamford Health System	The tamford Iospital	lgehill CRC)	 liller Hall Medical Suites	OB/GYN		Southwest Conn Radiology	Premier Medical Group	Elin	ninations	 nsolidated Balance
Assets											
Current assets:											
Cash and cash equivalents	\$ 3,152	\$ 69,613	\$ -	\$ 1,523	\$ 301	\$	1,686	S –	\$	-	\$ 76,275
Assets limited as to use	374	159	_	107	_	•	_	_		-	640
Short-term investments	89,096	30,119	_	_	_	•	_	_		-	119,215
Patient accounts receivable, net	_	68,695	_	_	131		930	_		_	69,756
Other receivables	68	15,091	_	110	_		12	_		_	15,281
Pledges receivable	74	1,787	-	_	_		_	_		-	1,861
Due from third parties, current portion	_	2,554	-	_	_		_	_		-	2,554
Other current assets	52	10,607	_	31	_		53	_		_	10,743
Total current assets	92,816	198,625	-	1,771	432		2,681	-		_	296,325
Assets limited as to use:											
Held by captive insurance company	_	29,759	_	_	_		_	_		_	29,759
Long-term investments – endowments	47	8,033	_	_	_		_	_		_	8,080
Due from SHS – donor restricted	_	18,042	_	_	_		_	_		(18,042)	_
Held by trustee – construction and debt service funds	_	243,826	_	_	_		_	_		_	243,826
•	47	299,660	-	_	-		_	-		(18,042)	281,665
Long-term investments	56,685	60,663	_	_	_		_	_		(49)	117,299
Property, plant and equipment, net	4,634	257,829	_	4,057	_		_	_		_	266,520
Pledges receivable, net	_	12,948	_	_	_		_	_		_	12,948
Due from TSH – board designated	20,014	_	_	_	_		_	_		(20,014)	_
Due from Parent and affiliates	8,893	4,076	_	2,823	16		_	_		(15,808)	_
Other assets	3,947	8,586	_	40	_		_	_		_	12,573
Total assets	\$ 187,036	\$ 842,387	\$ _	\$ 	\$ 448	\$	2,681	\$ -	\$	(53,913)	\$ 987,330

Consolidating Balance Sheet (continued) (In Thousands)

	Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	Miller Hall Medical Suites	OB/GYN	Southwest Conn Radiology	Premier Medical Group	Eliminations	Consolidated Balance
Liabilities and net assets (deficiency)									
Current liabilities:									
Current portion of long-term debt	\$ -	\$ 5,416	\$ -	\$ 240	\$ -	\$ -	\$ -	\$ -	\$ 5,656
Accounts payable and accrued expenses	3,006	63,701	_	135	1,726	325	_	_	68,893
Salaries, wages and fees payable	_	12,055	_	_	_	106	_	_	12,161
Accrued vacation liability	_	18,570	_	_	_	_	_	_	18,570
Estimated third-party payor settlements, current	_	7,600	_	_	_	_	_	_	7,600
Estimated professional liabilities, current		19,824	_	-	_	-	_	_	19,824
Total current liabilities	3,006	127,166	-	375	1,726	431	-	_	132,704
Pension liabilities Estimated third-party payor settlements,	11,274	109,174	-	-	-	_	-	-	120,448
net of current portion	_	3,621	_	_	_		_	_	3,621
Long-term debt, net of current portion	_	379,180	_	5,340	_	_	_	_	384,520
Due to Parent – board designated	_	20,014	_	´ -	_	_	_	(20,014)	´ –
Due to TSH – donor restricted	18,042	´ -	_	_	_	_	_	(18,042)	_
Due to Parent and affiliates	3,692	7,072	_	_	944	4,100	_	(15,808)	_
Estimated professional liabilities	´ _	27,782	_	_	_	´ –	_		27,782
Other long-term liabilities	_	9,323	_	_	_	_	_	_	9,323
Total liabilities	36,014	683,332	-	5,715	2,670	4,531	-	(53,864)	678,398
Net assets (deficiency):									
Unrestricted	148,614	118,936	_	2,976	(2,222)	(1,850)	_	(49)	266,405
Temporarily restricted	2,361	32,086	_	_,-	(-,)	(-,)	_	-	34,447
Permanently restricted	47	8,033	_	_	_	_	_	_	8,080
Total net assets (deficiency)	151,022	159,055	_	2,976	(2,222)	(1,850)	_	(49)	308,932
Total liabilities and net assets (deficiency)	\$ 187,036	\$ 842,387	\$ -	\$ 8,691		\$ 2,681	\$ -	\$ (53,913)	\$ 987,330

Consolidating Balance Sheet (In Thousands)

	Stam Hea Syst	alth	The Stamford Hospital	Edgehill (CCRC)	 liller Hall Medical Suites	0	B/GYN	N	Premier Medical Group	Eli	minations	nsolidated Balance
Assets												
Current assets:												
Cash and cash equivalents	\$	835	\$ 82,011	\$ 10,191	\$ 1,189	\$	102	\$	170	\$	_	\$ 94,498
Assets limited as to use		75	159	407	107		_		_		_	748
Short-term investments		_	276	24,757	_		-		_		_	25,033
Patient accounts receivable, net		_	62,118	(59)	_		180		194		_	62,433
Other receivables		103	5,632	6	89		_		1		_	5,831
Pledges receivable		674	164	_	_		_		_		_	838
Due from third parties, current portion		_	2,592	_	_		_		_		_	2,592
Other current assets		71	8,910	209	23		_		4		_	9,217
Current assets held-for-sale		_	_	1,566	_		_		_		_	1,566
Total current assets		1,758	161,862	37,077	1,408		282		369		-	202,756
Assets limited as to use:												
Held by captive insurance company		_	25,977	_	_		_		_		_	25,977
Long-term investments – endowments		47	8,033	_	_		_		_		_	8,080
Due from SHS – donor restricted		_	18,642	_	_		_		_		(18,642)	_
Held by trustee – construction and debt service funds		_	1,357	9,102	_		_		_		_	10,459
Held-for-sale		_	_	300	_		_		_		_	300
		47	54,009	9,402	-		-		-		(18,642)	44,816
Long-term investments	4	40,718	55,225	10,250	_		_		_		(49)	106,144
Property, plant and equipment, net		5,136	244,127	_	4,217		_		103		`	253,583
Pledges receivable, net		_	445	_	_		_		_		_	445
Due from TSH – board designated	2	20,014	_	_	_		_		_		(20,014)	_
Due from Parent and affiliates		4,013	4,251	_	2,849		6		_		(11,119)	_
Other assets		3,956	4,062	174	45		_		83			8,320
Noncurrent assets held-for-sale		_	_	63,922	_		_		_		_	63,922
Total assets	\$	75,642	\$ 523,981	\$ 120,825	\$ 8,519	\$	288	\$	555	\$	(49,824)	\$ 679,986

Consolidating Balance Sheet (continued) (In Thousands)

	 Stamford Health System	The Stamford Hospital	Edgehill (CCRC)	liller Hall Medical Suites	OB/GYN	Premier Medical Group	El	liminations	 onsolidated Balance
Liabilities and net assets (deficiency)									
Current liabilities:									
Current portion of long-term debt	\$ _	\$ 5,018	\$ 713	\$ 240	\$ _	\$ 47	\$	_	\$ 6,018
Accounts payable and accrued expenses	2,889	48,242	124	126	75	41		_	51,497
Salaries, wages and fees payable	_	10,173	_	_	_	3		_	10,176
Accrued vacation liability	_	16,031	_	_	_	2		_	16,033
Estimated third-party payor settlements, current	_	5,424	_	_	_	_		_	5,424
Estimated professional liabilities, current	_	4,830	_	_	_	_		_	4,830
Current liabilities held-for-sale	_	_	3,942	_	_	_		_	3,942
Total current liabilities	 2,889	89,718	4,779	366	75	93		_	97,920
Pension liabilities	10,509	91,954	_	_	_	_		_	102,463
Estimated third-party payor settlements,									
net of current portion	_	5,860	_	_	_	_		_	5,860
Long-term debt, net of current portion	_	130,025	16,276	5,580	_	_		_	151,881
Due to Parent – board designated	_	20,014	_	_	_	_		(20,014)	_
Due to TSH – donor restricted	18,642	_	_	_	_	_		(18,642)	_
Due to Parent and affiliates	3,063	6,717	13	_	467	859		(11,119)	_
Deferred revenue – entrance fees	_	_	8,833	_	_	_		_	8,833
Estimated professional liabilities	_	30,944	_	_	_	_		_	30,944
Long-term liabilities held-for-sale	 _	_	83,971	_	_	_		_	83,971
Total liabilities	 35,103	375,232	113,872	5,946	542	952		(49,775)	481,872
Net assets (deficiency):									
Unrestricted	38,131	122,054	26,194	2,573	(254)	(397)		(49)	188,252
Unrestricted – held-for-sale	_	_	(19,241)	_	_	_		_	(19,241)
Total unrestricted	 38,131	122,054	6,953	2,573	(254)	(397)		(49)	169,011
Temporarily restricted	2,361	18,662	_	-	`	`			21,023
Permanently restricted	47	8,033	_	_	_	_		_	8,080
Total net assets (deficiency)	 40,539	148,749	6,953	2,573	(254)	(397)		(49)	198,114
Total liabilities and net assets (deficiency)	\$ 75,642	\$ 523,981	\$ 120,825	\$ 8,519	\$ 288	\$ 555	\$	(49,824)	\$ 679,986

Consolidating Statement of Operations (In Thousands)

		Stamford Health System		e Stamford Hospital		Edgehill (CCRC)	I	Miller Hall Medical Suites		OB/GYN		Southwest Conn Radiology		Premier Medical Group	Elin	ninations	C	onsolidated Balance
Unrestricted revenue, gains and																		
other support: Net patient service revenue	\$		e	524,383	\$		s		\$	(1,258)	\$	5,199	\$	420	s	_	\$	528,744
Provision for bad debts	Ф	_	Ф	(52,401)	Ф	_	Э	_	Э	(1,250)	Э	(186)	Þ	420	Þ	_	Э	(52,587)
Net patient service revenue, less				(32,401)								(100)						(32,307)
provision for bad debts		_		471,982		_		_		(1,258)		5,013		420		_		476,157
Other revenue		2,095		24,072		_		1,340		65		_		_		(1,799)		25,773
Net assets released from		-,		,,				-,								(-,)		
restrictions for operations		_		1,268		_		_		_		_		_		_		1,268
Total unrestricted revenue, gains and																		
other support		2,095		497,322		_		1,340		(1,193)		5,013		420		(1,799)		503,198
Expenses:																		
Salaries		_		200,078		_		_		_		3,987		397		_		204,462
Employee benefits		810		52,963		_		_		_		306		15		_		54,094
Supplies and other expenses		1,448		180,746		_		554		775		2,570		261		(1,799)		184,555
Depreciation and amortization		498		26,673		_		203		_		_		14		_		27,388
Interest expense		_		5,641		_		180		_		_		_		_		5,821
Total expenses		2,756		466,101		-		937		775		6,863		687		(1,799)		476,320
(Loss) income from operations		(661)		31,221		_		403		(1,968)		(1,850)		(267)		_		26,878

Consolidating Statement of Operations (continued) (In Thousands)

	tamford Health System	e Stamford Hospital	Edgehill (CCRC)	ľ	Miller Hall Medical Suites	•	OB/GYN	Southwest Conn Radiology	Premier Medical Group	Eli	minations	-	onsolidated Balance
(Loss) income from operations (continued from page 52)	\$ (661)	\$ 31,221	\$ _	\$	403	\$	(1,968)	\$ (1,850)	\$ (267)	\$	-	\$	26,878
Nonoperating gains and losses: Loss on lease obligation Investment returns Changes in net unrealized gains	- 6,704	(12,725) 3,699	_ _		- -		- -	- -	_ _		- -		(12,725) 10,403
and losses	 180	(25)	_		_		_	_	_		_		155
Total nonoperating gains and losses	 6,884	(9,051)											(2,167)
Excess (deficiency) of revenue over expenses	6,223	22,170	_		403		(1,968)	(1,850)	(267)		_		24,711
Net assets released from restrictions used for purchases of property and equipment Pension-related changes other than net	-	3,254	-		-		_	-	_		_		3,254
periodic pension cost	(739)	(27,878)	_		_		_	_	_		_		(28,617)
Equity transfer	 104,999	(664)	(104,999)				_		664		_		
Increase (decrease) in unrestricted net assets before discontinued operations Discontinued operations	110,483	(3,118)	(104,999) 98,046		403		(1,968)	(1,850) -	397		_ _		(652) 98,046
Increase (decrease) in unrestricted net assets	\$ 110,483	\$ (3,118)	\$ (6,953)	\$	403	\$	(1,968)	\$ (1,850)	\$ 397	\$	_	\$	97,394

Consolidating Statement of Operations (In Thousands)

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

Consolidating Statement of Operations (continued) (In Thousands)

	F	amford Iealth ystem	The amford lospital	dgehill CCRC)	N	iller Hall Aedical Suites	0	B/GYN	nirfield urgical	irfield imary	Me	emier edical roup	irfield /GYN	Elin	ninations	solidated Salance
(Loss) income from operations (continued from page 54)	\$	(1,751)	\$ 32,478	\$ _	\$	549	\$	(245)	\$ (1,111)	\$ (10) \$	\$	(1,375)	\$ (552)	\$	1	\$ 27,984
Nonoperating gains and losses: Investment returns Changes in net unrealized gains and losses		(1,164) 1,004	(1,100) 538	_ _				- -	_ _			_ _	_		(1)	(2,265) 1,542
Total nonoperating gains and losses		(160)	(562)	_		_		_	_	_		_	_		(1)	(723)
(Deficiency) excess of revenue over expenses		(1,911)	31,916	-		549		(245)	(1,111)	(10)		(1,375)	(552)		_	27,261
Net assets released from restrictions used for purchases of property and equipment Pension-related changes other than net periodic		-	1,466	-		-		-	_	-		-	-		-	1,466
pension cost		(594)	(13,080)	_		_		_	_	_		_	_		_	(13,674)
Equity transfer		(1,543)	1,608	_		_		_	967	(1,140)		_	108		_	
(Decrease) increase in unrestricted net assets before discontinued operations Discontinued operations		(4,048)	21,910	5,076		549 _		(245)	(144)	(1,150)		(1,375)	(444)		_	15,053 5,076
(Decrease) increase in unrestricted net assets	\$	(4,048)	\$ 21,910	\$ 5,076	\$	549	\$	(245)	\$ (144)	\$ (1,150) 5	\$	(1,375)	\$ (444)	\$	_	\$ 20,129

Consolidating Statement of Changes in Net Assets (In Thousands)

	S	Stamford Health System	The tamford Hospital	Edgehill (CCRC)	liller Hall Medical Suites	(OB/GYN	outhwest Conn adiology	M	remier Iedical Group	Eli	minations	onsolidated Balance
Excess (deficiency) of revenue over expenses Pension-related changes other than net periodic pension cost Equity transfer Net assets released from restrictions	\$	6,223 (739) 104,999	\$ 22,170 (27,878) (664)	- (104,999)	\$ 403 _ _	\$	(1,968) - -	\$ (1,850) S	\$	(267) - 664	\$	- - -	\$ 24,711 (28,617) -
used for purchases of property and equipment Increase (decrease) in unrestricted net		_	3,254	_	_		_	_		_			3,254
assets before discontinued operations Discontinued operations Increase (decrease) in unrestricted net		110,483	(3,118)	(104,999) 98,046	403		(1,968)	 (1,850)		397		_ 	(652) 98,046
assets		110,483	(3,118)	(6,953)	403		(1,968)	(1,850)		397		-	97,394
Temporarily restricted net assets: Contributions Change in net unrealized gains and		-	16,783	-	_		-	-		_		-	16,783
losses Investment returns		-	(40) 1,203	- -	- -		- -	- -		- -		-	(40) 1,203
Net assets released from restrictions for operations Net assets released from		-	(1,268)	-	-		-	-		-		-	(1,268)
restrictions used for purchases of property and equipment		_	(3,254)	_	-		_			_		-	(3,254)
Increase in temporarily restricted net assets			13,424	_				-					13,424
Increase (decrease) in net assets Net assets (deficiency) – beginning of		110,483	10,306	(6,953)	403		(1,968)	(1,850)		397		-	110,818
year _	\$	40,539 151,022	\$ 148,749 159,055	\$ 6,953	\$ 2,573 2,976	\$	(254)	\$ (1,850)	\$	(397)	\$	(49) (49)	\$ 198,114 308,932

Consolidating Statement of Changes in Net Assets (In Thousands)

	Н	mford ealth ystem	The Stamford Hospital	dgehill CCRC)	M	ller Hall Iedical Suites	OB/ GYN	 airfield urgical	 airfield rimary	N	Premier Medical Group	 irfield OB/ GYN	s	HIP	Elimi	nations	 nsolidated Balance
(Deficiency) excess of revenue over expenses Pension-related changes other than net	\$	(1,911)	\$ 31,916	\$ _	\$	549	\$ (245)	\$ (1,111)	\$ (10)	\$	(1,375)	\$ (552)	\$	_	\$	_	\$ 27,261
periodic pension cost Equity transfer Net assets released from restrictions used		(594) (1,339)	(13,080) 1,608	-		-	_	967	- (1,140)		_	108		(204)		-	(13,674)
for purchases of property and equipment			1,466	_		_	_	_	_		_			_		_	1,466
(Decrease) increase in unrestricted net assets before discontinued operations Discontinued operations		(3,844)	21,910	- 5,076		549 _	(245)	(144)	(1,150)		(1,375)	(444) -		(204)		-	15,053 5,076
(Decrease) increase in unrestricted net assets		(3,844)	21,910	5,076		549	(245)	(144)	(1,150)		(1,375)	(444)		(204)		-	20,129
Temporarily restricted net assets: Contributions Change in net unrealized gains and		-	3,087	_		_	_	_	-		_	_		_		_	3,087
losses		_	(227)	_		_	_	_	_		_	_		_		_	(227)
Investment returns		_	170	_		_	_	_	_		_	-		-		_	170
Net assets released from restrictions for operations Net assets released from restrictions		-	(2,397)	-		-	-	-	-		-	-		-		-	(2,397)
used for purchases of property and equipment		_	(1,466)	_		_	_	_	_		_			_		_	(1,466)
Decrease in temporarily restricted net assets		_	(833)	_		_	_	_	_		_	_		_		_	(833)
(Decrease) increase in net assets Net assets(deficiency) – beginning of year		(3,844) 44,383	21,077 127,672	5,076 1,877		549 2,024	(245) (9)	(144) 144	(1,150) 1,150		(1,375) 978	(444) 444		(204) 204		- (49)	19,296 178,818
Net assets (deficiency) – end of year			\$ 148,749	\$ 6,953	\$	2,573	\$ (254)	\$ 	\$ 	\$	(397)	\$	\$	_	\$	(49)	\$ 198,114

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