

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

The Stamford Hospital  
Years Ended September 30, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

The Stamford Hospital  
Consolidated Financial Statements  
and Supplementary Information  
Years Ended September 30, 2013 and 2012

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## Report of Independent Auditors

The Board of Directors  
The Stamford Hospital

We have audited the accompanying consolidated financial statements of The Stamford Hospital and subsidiaries (collectively referred to as the Hospital), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Stamford Hospital and subsidiaries at September 30, 2013 and 2012, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets at September 30, 2013 and 2012, the consolidating statements of operations, the consolidating statements of changes in net assets, and the schedules of net patient service revenue for the years then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

January 24, 2014

The Stamford Hospital

Consolidated Balance Sheets

(In Thousands)

	September 30	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 107,796	\$ 69,613
Assets limited as to use	163	159
Short-term investments	44	30,119
Patient accounts receivable (less allowance for uncollectible accounts of \$43,414 and \$21,094, respectively)	72,355	68,695
Other receivables	4,942	15,091
Pledges receivable	2,635	1,787
Due from third parties, current portion	3,366	2,554
Other current assets	11,859	10,607
Total current assets	<u>203,160</u>	<u>198,625</u>
 Assets limited as to use:		
Held by captive insurance company	34,737	29,759
Long-term investments – endowments	8,033	8,033
Due from Parent – donor-restricted	18,042	18,042
Held by trustee – construction and debt service funds	167,015	243,826
	<u>227,827</u>	<u>299,660</u>
 Long-term investments	71,832	60,663
Property, plant, and equipment, net	334,153	257,829
Pledges receivable, net	14,069	12,948
Due from Parent and affiliates	5,517	4,076
Other assets	9,956	8,586
Total assets	<u>\$ 866,514</u>	<u>\$ 842,387</u>

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
<hr/>		
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 5,664	\$ 5,416
Accounts payable and accrued expenses	70,247	63,701
Salaries, wages and fees payable	15,808	12,055
Accrued vacation liability	19,936	18,570
Estimated third-party payor settlements, net of current portion	6,229	7,600
Estimated professional liabilities, current	8,086	19,824
Total current liabilities	125,970	127,166
Pension liabilities	59,907	109,174
Estimated third-party payor settlements, net of current portion	1,164	3,621
Long-term debt, net of current portion	373,518	379,180
Due to Parent – board designated	20,014	20,014
Due to Parent and affiliates	8,308	7,072
Estimated professional liabilities, net of current portion	32,792	27,782
Other long-term liabilities	9,826	9,323
Total liabilities	631,499	683,332
Commitments and contingencies		
Net assets:		
Unrestricted	187,106	118,936
Temporarily restricted	39,876	32,086
Permanently restricted	8,033	8,033
Total net assets	235,015	159,055
Total liabilities and net assets	\$ 866,514	\$ 842,387
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*See accompanying notes.*

The Stamford Hospital

Consolidated Statements of Operations

(In Thousands)

	Year Ended September 30	
	2013	2012
Unrestricted revenue, gains, and other support:		
Net patient service revenue	\$ 541,863	\$ 529,820
Provision for bad debts	(50,056)	(52,401)
Net patient service revenue, less provision for bad debts	491,807	477,419
Other revenue	19,019	18,635
Net assets released from restrictions for operations	1,454	1,268
Total unrestricted revenue, gains, and other support	512,280	497,322
Expenses:		
Salaries	220,611	200,078
Employee benefits	51,985	52,963
Pension settlement charge	11,856	—
Supplies and other expenses	190,096	180,746
Depreciation and amortization	25,439	26,673
Interest expense	6,274	5,641
Total expenses	506,261	466,101
Income from operations	6,019	31,221
Nonoperating gains and losses:		
Loss on lease obligation	(1,784)	(12,725)
Investment returns	2,732	3,699
Change in net unrealized gains and losses	202	(25)
Total nonoperating gains and losses	1,150	(9,051)
Excess of revenue over expenses	7,169	22,170
Net assets released from restrictions used for purchases of property and equipment	913	3,254
Pension-related changes other than net periodic pension cost	60,088	(27,878)
Equity transfer from Stamford Health System	—	(664)
Increase (decrease) in unrestricted net assets	\$ 68,170	\$ (3,118)

See accompanying notes.

# The Stamford Hospital

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

Years Ended September 30, 2013 and 2012

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Balance at September 30, 2011	\$ 122,054	\$ 18,662	\$ 8,033	\$ 148,749
Excess of revenue over expenses	22,170	—	—	22,170
Pension-related changes other than net periodic pension cost	(27,878)	—	—	(27,878)
Equity transfer from Stamford Health System	(664)	—	—	(664)
Contributions	—	16,783	—	16,783
Change in net unrealized gains and losses	—	(40)	—	(40)
Investment returns	—	1,203	—	1,203
Net assets released from restrictions for operations	—	(1,268)	—	(1,268)
Net assets released from restrictions used for purchases of property and equipment	3,254	(3,254)	—	—
(Decrease) increase in net assets	(3,118)	13,424	—	10,306
Balance at September 30, 2012	118,936	32,086	8,033	159,055
Excess of revenue over expenses	<b>7,169</b>	—	—	<b>7,169</b>
Pension-related changes other than net periodic pension cost	<b>60,088</b>	—	—	<b>60,088</b>
Contributions	—	<b>8,873</b>	—	<b>8,873</b>
Change in net unrealized gains and losses	—	<b>104</b>	—	<b>104</b>
Investment returns	—	<b>1,180</b>	—	<b>1,180</b>
Net assets released from restrictions for operations	—	(1,454)	—	(1,454)
Net assets released from restrictions used for purchases of property and equipment	<b>913</b>	(913)	—	—
Increase in net assets	<b>68,170</b>	<b>7,790</b>	—	<b>75,960</b>
Balance at September 30, 2013	<b>\$ 187,106</b>	<b>\$ 39,876</b>	<b>\$ 8,033</b>	<b>\$ 235,015</b>

*See accompanying notes.*



The Stamford Hospital

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30	
	2013	2012
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 75,960	\$ 10,306
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity transfer from Stamford Health System	–	664
Pension-related changes other than net periodic pension cost	(60,088)	27,878
Pension settlement charge	11,856	–
Net realized gains and losses and change in net unrealized gains and losses	(2,383)	(3,210)
Loss on lease obligation	1,784	12,725
Restricted contributions	(8,873)	(16,783)
Restricted investment returns	(1,284)	(1,163)
Depreciation and amortization	25,439	26,673
Amortization of deferred financing costs	304	214
Amortization of bond premium	(274)	(129)
Provision for bad debts	50,056	52,401
Changes in operating assets and liabilities:		
Patient accounts receivable	(53,716)	(58,978)
Due to/from Parent and affiliates	(205)	530
Accounts payable and accrued expenses	6,546	15,459
Estimated third-party payor settlements	(4,640)	(25)
Estimated professional liabilities	(6,728)	11,832
Net change in all other operating assets and liabilities	8,066	(36,645)
Net cash provided by operating activities	41,820	41,749
<b>Cash flows from investing activities</b>		
Capital expenditures, net	(101,763)	(41,039)
Net cash redeemed from (invested in) assets limited as to use and investments	93,118	(277,722)
Net cash used in investing activities	(8,645)	(318,761)
<b>Cash flows from financing activities</b>		
Restricted contributions	8,873	16,783
Restricted investment returns	1,284	1,163
Principal payments on long-term debt	(5,140)	(4,939)
Cash paid for deferred financing fees	(9)	(3,014)
Proceeds from long-term debt	–	254,621
Net cash provided by financing activities	5,008	264,614
Net increase (decrease) in cash and cash equivalents	38,183	(12,398)
Cash and cash equivalents, beginning of year	69,613	82,011
Cash and cash equivalents, end of year	\$ 107,796	\$ 69,613
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 18,537	\$ 6,343

See accompanying notes.

# The Stamford Hospital

## Notes to Consolidated Financial Statements (In Thousands)

September 30, 2013

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

#### **Organization**

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

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

Stamford Health Integrated Practices, Inc. (SHIP) is a not-for profit corporation formed by SHS in fiscal year 2011 to provide a comprehensive network of physician practices and related management services. In May 2011, SHIP was transferred from SHS to the Hospital.

#### **Consolidated Financial Statements**

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

#### **Use of Estimates**

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

# The Stamford Hospital

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

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

#### **Cash and Cash Equivalents**

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

#### **Inventories**

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

#### **Pledges Receivable**

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

#### **Investments**

Investments consist of alternative investments and marketable securities. Alternative investments are defined as nontraditional, not readily marketable asset classes, and consist of interests in hedge funds and funds of funds, some of which are structured such that the Hospital holds limited partnership interests, and are reported based upon net asset values derived from the application of the equity method of accounting. Individual investment holdings of such limited partnerships which hold the alternative investments may, in turn, include investments in both marketable and nonmarketable securities. Marketable securities which are not considered alternative investments, such as equity and debt securities, and the holdings of private mutual funds are recorded at fair value as quoted by the public markets. Marketable securities are classified as trading securities.

# The Stamford Hospital

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

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

Financial information used by the Hospital to evaluate its alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee. Fund of funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The investment value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. While these financial instruments may contain varying degrees of risk, the risk of TSH with respect to such transactions is limited to its capital balance in each investment. Certain amounts are subject to notification to allow for divestiture, while other amounts have divestiture provisions based only on termination of the fund. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual consolidated financial statement reporting. At September 30, 2013 and 2012, SHS, for the account of the Hospital, has future commitments of \$1,199 and \$980, respectively, to invest in alternative investments.

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

Realized and unrealized gains and losses are included in determining the excess of revenue over expenses. For the years ended September 30, 2013 and 2012, the Hospital recorded gains on unrestricted alternative investments of \$1,239 and \$1,878, respectively, which are included in investment returns in the accompanying consolidated statements of operations.

# The Stamford Hospital

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

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

#### **Investment Returns**

Unrestricted investment returns (including realized and unrealized gains and losses on marketable securities, interest and dividends and realized and unrealized gains and losses on alternative investments) are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. For the years ended September 30, 2013 and 2012, the Hospital recorded ordinary income and net realized gains of \$1,493 and \$1,821, respectively.

#### **Assets Limited as to Use**

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

#### **Due from Parent**

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

#### **Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost or, in the case of gifts, at fair value at the date of the gift, less accumulated depreciation and amortization. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. The carrying amount of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations and leasehold improvements are amortized on the straight-line method over the shorter period of

# The Stamford Hospital

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

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

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

Estimated useful lives by classification are as follows:

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

### Deferred Financing Costs

Included in other assets are deferred financing costs and other noncurrent assets. 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, 2013 and 2012, the accumulated amortization for deferred financing costs was \$770 and \$460, 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 \$3,022. Amortization of deferred financing cost is included in interest expense in the accompanying consolidated statements of operations.

### Insurance Recoveries Receivable

The Hospital records anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities in the accompanying consolidated balance sheets. The insurance recoveries receivable included in other assets and related insurance claims liability included in estimated professional liabilities totaled approximately \$3,990 and \$10,395 as of September 30, 2013 and 2012, respectively.

### Temporarily and Permanently Restricted Net Assets

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

# The Stamford Hospital

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

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

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

#### **Consolidated Statements of Operations**

For the purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services, are reported as unrestricted revenue, gains and 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 (see Note 17).

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

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

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

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

# The Stamford Hospital

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

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

#### **Charity Care**

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

#### **Contributions**

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

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

#### **Estimated Professional Liabilities**

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



# The Stamford Hospital

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

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

#### Income Taxes

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

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

#### Pension Plans

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

#### Recent Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 amended Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The Hospital adopted ASU 2011-04 in 2013 and has applied its provisions to the accompanying consolidated financial statements. The Hospital's adoption of ASU 2011-04 did not have a significant effect on the accompanying consolidated financial statements and relates only to disclosures.

#### Reclassifications

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

# The Stamford Hospital

## 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 2012 and 2013, the Hospital initiated a formal community health needs assessment of its service areas in partnership with the City of Stamford Health Department. This process includes the analysis of qualitative and quantitative data and involves interviews with social service and other community organizations to elicit their input as to community needs and opportunities for collaborative partnerships.

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

In collaboration with the City of Stamford Health Department, the Hospital sponsored a joint City of Stamford-wide flu campaign to reduce the number of hospitalizations and emergency department visits. The Hospital's mobile mammography program served community centers, places of employment and churches, providing on-site mammograms including free screenings for those without insurance. Kid's Fitness and Nutrition Services (KidsFANS) is a Hospital led community collaborative designed to promote smart eating, physical activity and health weight 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 \$29,000 and \$35,000 for the years ended September 30, 2013 and 2012, respectively. For the years ended September 30, 2013 and 2012, the estimated cost of charity care was approximately \$8,900 and \$11,400, respectively. The estimated cost of charity care includes the direct and indirect cost of providing charity care services and is estimated by multiplying the total charges associated with the care provided by the ratio of total patient care expenses to total charges for all services rendered.

# The Stamford Hospital

## 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 Hospital total of bad debt expense and charity care for the years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Provision for bad debts – net of recoveries	\$ 50,056	\$ 52,401
Charity care based on charges	<u>28,856</u>	<u>34,808</u>
Total uncompensated care	<u>\$ 78,912</u>	<u>\$ 87,209</u>

For distributions from the Uncompensated Care Pool, the Hospital received approximately \$14,607 and \$22,748 for the years ended September 30, 2013 and 2012, respectively, which is included in net patient service revenue in the accompanying consolidated statements of operations and paid approximately \$17,311 of tax assessments for each of the years ended September 30, 2013 and 2012.

### 3. Net Patient Service Revenue

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

# The Stamford Hospital

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

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

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

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

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

The Hospital's allowance for uncollectible accounts was \$43,414 and \$21,094 at September 30, 2013 and 2012, respectively. The increase in the allowance for uncollectible accounts was primarily the result of a change made during 2013 to retain certain accounts in the active

# The Stamford Hospital

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

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

accounts receivable to be pursued for collection internally. Previously, these accounts were written off and sent to external collection agencies. Approximately \$27.1 million and \$48.3 million of patient accounts were written off during the years ending September 30, 2013 and September 30, 2012, respectively.

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

Patient service revenue for the years ended September 30, 2013 and 2012, 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:

	2013		
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 498,298	\$ 43,565	\$ 541,863
	2012		
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 487,869	\$ 41,951	\$ 529,820

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

## The Stamford Hospital

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

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

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, 2013 and 2012, approximately \$1,285 and \$2,948, respectively, of previously recorded estimated third-party payor settlement liabilities that were no longer considered necessary and were included as increases in net patient service revenue.

The percentages of net patient service revenue received from various third-party payors and patients were as follows for the years ended September 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Medicare	<b>19%</b>	19%
Medicaid	<b>8</b>	7
Managed care organizations	<b>40</b>	41
Other third-party payors	<b>25</b>	25
Self-pay	<b>8</b>	8
	<b>100%</b>	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. The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material effect on the accompanying consolidated financial statements.

# The Stamford Hospital

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

### 4. Assets Limited as to Use and Investments

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

#### Assets Limited as to Use

The composition of assets limited as to use (exclusive of amounts due from and held by SHS; see Note 1) at September 30, 2013 and 2012 is as follows:

	<b>2013</b>	<b>2012</b>
Current portion:		
Cash and cash equivalents	<b>\$ 163</b>	\$ 159
Held by captive insurance company:		
Cash and cash equivalents	<b>\$ 6,425</b>	\$ 10,155
Mutual funds	<b>19,424</b>	11,736
Alternative investments – hedge funds	<b>8,888</b>	7,868
	<b>\$ 34,737</b>	\$ 29,759
Long-term investments – endowments:		
Cash and cash equivalents	<b>\$ 237</b>	\$ 525
Mutual funds	<b>3,677</b>	3,697
Alternative investments – hedge funds	<b>2,389</b>	2,271
Alternative investments – limited partnerships	<b>1,427</b>	1,272
Private mutual funds	<b>303</b>	268
	<b>\$ 8,033</b>	\$ 8,033
Held by trustee – construction and debt service funds:		
Cash and cash equivalents	<b>\$ 167,015</b>	\$ 243,826

# The Stamford Hospital

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

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

The composition of investments at September 30, 2013 and 2012 is as follows:

	<b>2013</b>	<b>2012</b>
Short-term investments:		
Cash and cash equivalents	\$ 8	\$ 30,119
Mutual funds	36	—
	<u>\$ 44</u>	<u>\$ 30,119</u>
Long-term investments:		
Cash and cash equivalents	\$ 1,133	\$ 2,333
Corporate bonds	2,043	—
Government securities	8,527	—
Mutual funds	44,096	45,422
Alternative investments – hedge funds	9,301	7,691
Alternative investments – limited partnerships	5,556	4,310
Private mutual funds	1,176	907
	<u>\$ 71,832</u>	<u>\$ 60,663</u>

Total returns on investments for the years ended September 30, 2013 and 2012 consist of the following:

	<b>2013</b>			<b>2012</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Ordinary income (interest and dividends)	\$ 424	\$ 113	\$ 537	\$ 464	\$ 132	\$ 596
Net realized gains and losses	1,069	365	1,434	1,357	641	1,998
Gains and losses from alternative investments	1,239	702	1,941	1,878	430	2,308
Investment returns	2,732	1,180	3,912	3,699	1,203	4,902
Change in net unrealized gains and losses	202	104	306	(25)	(40)	(65)
	<u>\$ 2,934</u>	<u>\$ 1,284</u>	<u>\$ 4,218</u>	<u>\$ 3,674</u>	<u>\$ 1,163</u>	<u>\$ 4,837</u>



# The Stamford Hospital

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

### 5. Pledges Receivable

Pledges are recorded at the net present value determined using a discount rate commensurate with the rate on U.S. Treasury obligations whose maturities correspond to the maturities of the pledges. At September 30, 2013 and 2012, pledges receivable consist of the following:

	<u>2013</u>	<u>2012</u>
Amounts expected to be collected in:		
Less than one year	\$ 2,773	\$ 1,881
One to five years	15,451	14,240
Less:		
Reserve for uncollectible pledges	911	806
Discount on pledges	609	580
Current portion	2,635	1,787
Pledges receivable, net	<u>\$ 14,069</u>	<u>\$ 12,948</u>

### 6. Property, Plant, and Equipment

Property, plant, and equipment, at cost, and accumulated depreciation and amortization at September 30, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 43,861	\$ 43,483
Land improvements	4,060	4,028
Buildings and improvements	181,926	177,407
Fixed equipment	123,001	119,500
Movable equipment	205,207	195,719
Leasehold improvements	8,312	7,767
	<u>566,367</u>	<u>547,904</u>
Less accumulated depreciation and amortization	365,067	339,669
	<u>201,300</u>	<u>208,235</u>
Construction-in-progress	132,853	49,594
	<u>\$ 334,153</u>	<u>\$ 257,829</u>

## The Stamford Hospital

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

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

Included in property, plant, and equipment are assets under capital leases of approximately \$1,666 at September 30, 2013 and 2012, with accumulated amortization of approximately \$1,060 and \$680, respectively.

Depreciation and amortization expense for the years ended September 30, 2013 and 2012 was \$25,439 and \$26,673, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of approximately \$380 for the years ended September 30, 2013 and 2012.

Net interest capitalized for the years ended September 30, 2013 and 2012 was approximately \$12,108 and \$3,810, respectively.

In May 2009, SHS submitted an application for a certificate of need with the State of Connecticut for the Master Facility Plan of the Hospital which includes the construction of a new addition and central utility plant, modernization of the emergency department and other infrastructure improvements. The estimated project cost for the Master Facility Plan is approximately \$450,000, consisting of construction costs and equipment. Construction in progress as of September 30, 2013 and 2012 includes, exclusive of capitalized interest, approximately \$105,000 and \$33,240, respectively, of capitalized costs relating to the costs incurred for the planning and construction of the Master Facility Plan. As of September 30, 2013, the Hospital has entered into future commitments tied to the Master Facility Plan totaling approximately \$253,927.

#### 7. Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2013 and 2012:

	2013	2012
Health care services:		
Purchase of equipment	\$ 22,386	\$ 15,825
Patient care	16,106	14,929
Health education	1,384	1,332
	<u>\$ 39,876</u>	<u>\$ 32,086</u>

# The Stamford Hospital

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

### 7. Net Assets (continued)

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

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

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

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

# The Stamford Hospital

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

### 7. Net Assets (continued)

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

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

The following tables set forth the changes to assets as they relate to the Hospital's endowments for the years ended September 30, 2013 and 2012:

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2012	\$ 1,160	\$ 8,033	\$ 9,193
Investment return (realized and unrealized)	1,254	—	1,254
Appropriation of endowment assets for expenditure	(384)	—	(384)
Endowment assets, September 30, 2013	<u>\$ 2,030</u>	<u>\$ 8,033</u>	<u>\$ 10,063</u>
	2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2011	\$ 865	\$ 8,033	\$ 8,898
Investment return (realized and unrealized)	1,062	—	1,062
Appropriation of endowment assets for expenditure	(767)	—	(767)
Endowment assets, September 30, 2012	<u>\$ 1,160</u>	<u>\$ 8,033</u>	<u>\$ 9,193</u>

# The Stamford Hospital

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

### 7. Net Assets (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Hospital to retain as a fund of perpetual duration. There were no significant deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2013 and 2012.

### 8. Long-Term Debt

Long-term debt at September 30, 2013 and 2012 consists of the following:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series I, payable in varying annual amounts with fixed interest rates varying from 3.75% to 5.00%, with the final payment due in 2030	<b>\$ 119,825</b>	\$ 124,385
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series J, payable in varying annual amounts with fixed interest rates varying from 3.25% to 5.125%, with the final payment due in 2042	<b>250,000</b>	250,000
Term promissory notes bearing interest at LIBOR plus 2.00%, maturing June 1, 2021	<b>3,708</b>	3,876
City of Stamford, sewer connection fee loan, payable in annual installments through 2013 (noninterest bearing)	<b>—</b>	12
Capital lease obligations	<b>539</b>	939
	<b>374,072</b>	379,212
Unamortized bond premium	<b>5,110</b>	5,384
	<b>379,182</b>	384,596
Less current portion	<b>5,664</b>	5,416
	<b>\$ 373,518</b>	\$ 379,180

## The Stamford Hospital

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

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

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series I (the Series I Bonds) were issued on May 12, 2010, in the amount of \$132,990 for a term of 20 years, at a premium of \$1,002. As of September 30, 2013 and 2012, accumulated amortization related to the bond premium was \$267 and \$190, respectively. The Series I Bonds were used for the refunding of the State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series F and Series G Bonds, and bank loans. The proceeds were also used for financing architectural, engineering, site permitting, legal and planning costs relating to the Master Facility Plan. In addition, the proceeds were used to finance routine capital expenditures including, but not limited to land acquisitions, renovations, planning activities and equipment purchases. The proceeds also reimbursed TSH for certain capital expenditures and certain costs of issuance of the Series I Bonds.

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series J (the Series J Bonds) were issued on June 20, 2012 in the amount of \$250,000 for a term of 30 years, at a premium of \$4,621. As of September 30, 2013 and 2012, accumulated amortization related to the bond premium was \$246 and \$49, respectively. The Series J Bonds proceeds will be used for financing architectural, engineering, site permitting, legal planning and construction costs relating to the Master Facility Plan. The proceeds also reimbursed TSH for certain costs of issuance of the Series J Bonds.

Hospital gross receipts are pledged as collateral under debt arrangements relating to the Series I and Series J bonds.

In May 2011, the Hospital entered into a mortgage note agreement with a bank for \$4,100, bearing interest at LIBOR plus 2.00% at September 30, 2013 and 2012. 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, 2013 and 2012, 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, 2013 and 2012. Under this line of credit, the bank issued a maximum letter of credit to the Hospital for \$4,250. The maturity date of the line of credit has been amended to May 20, 2015 effective October 1, 2013.

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.

# The Stamford Hospital

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

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

SHS must maintain certain financial ratios with respect to the Series I and Series J Bonds, the mortgage note payable and the line of credit. As of September 30, 2013, SHS was in compliance with such debt covenants.

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

	<b>Loans Payable</b>	<b>Capital Leases</b>	<b>Total</b>
Fiscal year:			
2014	\$ 5,229	\$ 435	\$ 5,664
2015	5,456	104	5,560
2016	5,692	—	5,692
2017	7,539	—	7,539
2018	7,889	—	7,889
Thereafter	346,838	—	346,838
Total minimum payments	378,643	539	379,182
Less current portion of long-term debt	5,229	435	5,664
	<u>\$ 373,414</u>	<u>\$ 104</u>	<u>\$ 373,518</u>

### 9. Retirement Benefits

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

#### Defined Benefit Pension Plan and SERPs

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

## The Stamford Hospital

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

#### **9. Retirement Benefits (continued)**

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

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

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



# The Stamford Hospital

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

### 9. Retirement Benefits (continued)

Included in other changes in unrestricted net assets at September 30, 2013 and 2012 are the following amounts that have not yet been recognized in net periodic pension cost:

	2013		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ —	\$ —	\$ —
Unrecognized actuarial loss	(77,247)	(20)	(77,267)
	<u>\$ (77,247)</u>	<u>\$ (20)</u>	<u>\$ (77,267)</u>

  

	2012		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ (3)	\$ —	\$ (3)
Unrecognized actuarial loss	(137,248)	(104)	(137,352)
	<u>\$ (137,251)</u>	<u>\$ (104)</u>	<u>\$ (137,355)</u>

The prior service cost and actuarial loss included in changes in unrestricted net assets at September 30, 2013 and expected to be recognized in net periodic pension cost during the year ending September 30, 2014 are as follows:

	Plan	SERPs
Prior service cost	\$ —	\$ —
Net loss	(6,868)	(10)

# The Stamford Hospital

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

### 9. Retirement Benefits (continued)

The reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plans' assets for the years ended September 30, 2013 and 2012 are as follows:

	Plan		SERPs		Total	
	2013	2012	2013	2012	2013	2012
<b>Benefit obligation</b>						
Benefit obligation, beginning of year	\$ 288,713	\$ 237,955	\$ 1,193	\$ 911	\$ 289,906	\$ 238,866
Service cost	3,326	3,425	101	120	3,427	3,545
Interest cost	10,975	12,320	49	49	11,024	12,369
Settlements	(26,874)	—	—	—	(26,874)	—
Actuarial (gains) losses	(34,354)	41,684	(75)	136	(34,429)	41,820
Benefits paid	(7,704)	(6,671)	(25)	(23)	(7,729)	(6,694)
Benefit obligation, end of year	234,082	288,713	1,243	1,193	235,325	289,906
<b>Plan assets</b>						
Fair value of plan assets, beginning of year	180,704	146,883	—	—	180,704	146,883
Actual return on plan assets	14,252	15,242	—	—	14,252	15,242
Settlements	(26,874)	—	—	—	(26,874)	—
Employer contributions	15,000	25,250	25	23	15,025	25,273
Benefits paid	(7,704)	(6,671)	(25)	(23)	(7,729)	(6,694)
Fair value of plan assets, end of year	175,378	180,704	—	—	175,378	180,704
Funded status	\$ (58,704)	\$ (108,009)	\$ (1,243)	\$ (1,193)	\$ (59,947)	\$ (109,202)
Current portion of obligation	\$ —	\$ —	\$ (40)	\$ (28)	\$ (40)	\$ (28)
Noncurrent portion of obligation	(58,704)	(108,009)	(1,203)	(1,165)	(59,907)	(109,174)
Total	\$ (58,704)	\$ (108,009)	\$ (1,243)	\$ (1,193)	\$ (59,947)	\$ (109,202)
Accumulated benefit obligation	\$ (219,719)	\$ (270,394)	\$ (1,243)	\$ (1,071)	\$ (220,962)	\$ (271,465)

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

# The Stamford Hospital

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

### 9. Retirement Benefits (continued)

The weighted-average assumptions used in determining the pension and postretirement benefit obligations at September 30, 2013 and 2012 were as follows:

	Plan		SERPs	
	2013	2012	2013	2012
Discount rate	5.05%	4.10%	4.75%	4.00%
Rate of compensation increase	3.00	3.00	—	—

Net periodic pension cost and postretirement cost for the years ended September 30, 2013 and 2012 consist of the following components:

	Plan		SERPs		Total	
	2013	2012	2013	2012	2013	2012
Service cost	\$ 3,326	\$ 3,425	\$ 101	\$ 120	\$ 3,427	\$ 3,545
Interest cost	10,975	12,320	49	49	11,024	12,369
Expected return on plan assets	(11,527)	(11,780)	—	—	(11,527)	(11,780)
Amortization of prior service cost	3	7	—	—	3	7
Amortization of actuarial loss	11,066	10,473	7	—	11,073	10,473
Net periodic pension cost	\$ 13,843	\$ 14,445	\$ 157	\$ 169	\$ 14,000	\$ 14,614

Weighted-average assumptions used in determining the net periodic pension and postretirement benefit costs for the years ended September 30, 2013 and 2012 were as follows:

	Plan		SERPs	
	2013	2012	2013	2012
Discount rate	4.10%	5.25%	4.00%	5.25%
Expected long-term rate of return on plan assets	6.75	7.25	—	—
Rate of compensation increase	3.00	3.50	—	—

# The Stamford Hospital

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

### 9. Retirement Benefits (continued)

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

The Plan's weighted-average asset allocation at September 30, 2013 and 2012 is as follows:

	<b>2013</b>	<b>2012</b>
Equity securities	<b>23%</b>	17%
Fixed income securities	<b>30</b>	39
Alternative investments – limited partnerships	<b>17</b>	13
Alternative investments – hedge funds	<b>27</b>	24
Cash and cash equivalents	<b>3</b>	7
	<b>100%</b>	100%

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

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

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

# The Stamford Hospital

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

### 9. Retirement Benefits (continued)

#### Investment Strategy

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

#### Cash Flows

TSH expects to contribute approximately \$15,041 to the Plans during fiscal year 2014.

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

	<b>Plan</b>	<b>SERPs</b>	<b>Total</b>
Fiscal year ending September 30:			
2014	\$ 10,943	\$ 41	\$ 10,984
2015	9,388	55	9,443
2016	10,266	55	10,321
2017	11,101	55	11,156
2018	11,915	61	11,976
2019 through 2023	73,820	420	74,240

#### Defined Contribution Plan

On January 1, 2003, SHS established a defined contribution plan (the DC Plan). Existing SHS employees and employees of its affiliates were given the option of foregoing future benefits under the Plan to earn future benefits in the DC Plan beginning on January 1, 2003, or continuing to earn future benefits under the Plan. The effect of the establishment of the DC Plan resulted in a curtailment for those participants that chose to forgo future benefits under the Plan. Included in employee benefit expenses in the accompanying consolidated statements of operations for the years ended September 30, 2013 and 2012 are \$5,879 and \$5,406, respectively, in pension contributions to the DC Plan.

# The Stamford Hospital

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

### **10. Professional Liability Insurance**

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

For the period from October 1, 1985 to October 1, 2002, the Hospital maintained a self-insured retention for medical professional liability insurance risk internally through the establishment of an irrevocable trust (the Trust), which segregated assets needed to cover medical professional self-insured claim liability, as well as reporting endorsement (tail) liability for this exposure, and costs associated with these liabilities and the maintenance of the Trust. The tail liability results from events that have occurred, but have not yet been reported, under claims-made insurance coverage. The limits of liability coverage afforded through the self-insured retention for the years covered under the Trust range from \$1,000 per occurrence subject to \$3,000 in the annual aggregate to \$3,000 per occurrence subject to \$9,000 in the annual aggregate.

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

The Hospital expensed \$637 and \$133 for medical professional liability self-insurance for the years ended September 30, 2013 and 2012, respectively. There were no claims or expenses payable from the Trust at September 30, 2013 and 2012, respectively. The undiscounted actuarially determined tail liability of \$10,841 and \$10,204 is included in the estimated professional liabilities in the accompanying consolidated balance sheets at September 30, 2013 and 2012, respectively.

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

## The Stamford Hospital

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

#### 10. Professional Liability Insurance (continued)

annual aggregate of \$25,000, and have also included limits for general liability on a net retained basis of \$2,000 per claim subject to an annual aggregate of \$4,000. Healthstar retains, net and exclusive of reinsurance, a primary layer of \$5,000 per claim for professional liability subject to \$18,500 in the annual aggregate, an excess buffer layer, directly above the primary layer, of \$1,000 per claim subject to \$1,000 in the annual aggregate, and an additional layer of annual aggregate coverage of \$1,500 in excess of \$45,000 in aggregate commercial reinsurance, which lies directly above the buffer layer noted above but below the additional \$1,500 annual aggregate coverage referenced above. For general liability, Healthstar retains, net and exclusive of reinsurance, a primary layer of \$2,000 per claim subject to \$4,000 in the annual aggregate, and for employee benefits liability a primary layer of \$1,000 per claim subject to \$1,000 in the annual aggregate. A separate tower of commercial reinsurance coverage equaling \$45,000 per claim and in the annual aggregate lies above the net retained general and employee benefits liability limits of coverage noted above, as well as above scheduled underlying commercial insurance policies. Healthstar retains, net and exclusive of reinsurance, a primary layer of terrorism liability insurance coverage for limits of \$5,000 per claim and \$5,000 in the annual aggregate. Commercial excess terrorism reinsurance coverage equaling \$20,000 per claim subject to \$20,000 in the annual aggregate is purchased in excess of the net retained terrorism liability limits of coverage noted above. All commercial reinsurance afforded to Healthstar is provided by a combination of syndicates at Lloyd's of London and European reinsurers.

For the year ended September 30, 2013, the Hospital paid insurance premiums of \$9,974 to Healthstar, \$7,432 of which relates to the coverage under Healthstar and \$2,542 of which relates to the coverage reinsured with third-party reinsurers. Of the \$9,974 insurance premium payments, \$1,462 was paid by the Hospital on behalf of its affiliates.

For the year ended September 30, 2012, the Hospital paid insurance premiums of \$7,483 to Healthstar, \$4,850 of which relates to the coverage under Healthstar and \$2,633 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.

Healthstar employs the services of an actuary to estimate professional and general liabilities. As of September 30, 2013 and 2012, Healthstar's undiscounted estimated professional and general liabilities for claims and expenses are approximately \$26,047 and \$27,007, respectively. For the years ended September 30, 2013 and 2012, claims covered and expensed by Healthstar amounted to \$5,625 and \$4,137, respectively.

# The Stamford Hospital

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

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

The Hospital recorded an estimated insurance recoveries receivable and insurance claim liability of approximately \$3,990 and \$10,395 as of September 30, 2013 and 2012, respectively. The insurance recoveries receivable is included in other assets and the insurance claim liability is included in estimated professional liabilities in the accompanying consolidated balance sheets. These amounts primarily relate to professional liability claims insured with third-party reinsurers.

### **11. Related-Party Transactions**

Amounts due to Parent and affiliates represent amounts due to related entities for expenses paid on the Hospital's behalf and are currently payable without interest. At September 30, 2013 and 2012, amounts due to affiliates totaled approximately \$8,308 and \$7,072, respectively.

The Hospital leases certain real property from affiliates. Rent expense to affiliates for the years ended September 30, 2013 and 2012 is approximately \$1,721 and \$1,692, respectively.

The Hospital provides professional services to its affiliates at varying amounts. Other revenue in the accompanying consolidated statements of operations include \$83 and \$107 earned from professional services provided to affiliates for the years ended September 30, 2013 and 2012, respectively. Amounts receivable from affiliates for professional services described above and other services were \$5,517 and \$4,076 at September 30, 2013 and 2012, respectively.

Donor-restricted contributions are maintained in an investment account at SHS. Amounts due from SHS for donor-restricted contributions was \$18,042 at September 30, 2013 and 2012, respectively.

Amounts due to SHS of \$20,014 at September 30, 2013 and 2012 represent board-designated items related to cash transfers made in the years ended September 30, 2001 through September 30, 2004, and certain investments held by the Hospital for SHS.



## The Stamford Hospital

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

#### 12. Other Revenue

Other revenue consists of the following:

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Contributions	\$ 2,409	\$ 1,729
Rental income	3,005	2,819
Electronic health records incentive payments	1,961	3,003
Grant revenue	670	874
Investment income	1,401	1,228
Rehabilitation services	3,166	3,182
Other	6,407	5,800
	<u>\$ 19,019</u>	<u>\$ 18,635</u>

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

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive

## The Stamford Hospital

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

#### 12. Other Revenue (continued)

payment revenue totaling approximately \$2.0 million and \$3.0 million for the years ended September 30, 2013 and 2012 (Medicare: \$1.5 million and \$2.1 million for 2013 and 2012, respectively; Medicaid: \$0.5 million and \$0.9 million for 2013 and 2012, respectively), is included in other revenue in the accompanying consolidated statements of operations. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

#### 13. Commitments and Contingencies

##### Litigation

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

#### 14. Concentration of Credit Risk

The Hospital is located in Stamford, Connecticut. The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The proportion of net patient accounts receivable from various third-party payors and patients was as follows for the years ended September 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Managed care organizations	<b>28%</b>	32%
Medicare	<b>16</b>	16
Medicaid	<b>7</b>	6
All other insurers	<b>19</b>	14
Self-pay patients	<b>30</b>	32
	<b>100%</b>	100%

## The Stamford Hospital

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

#### 14. Concentration of Credit Risk (continued)

At September 30, 2013, all of the cash and cash equivalents of the Hospital were held in custodial accounts at three financial institutions. Management believes that credit risk related to these deposits is minimal.

#### 15. Functional Expenses

The Hospital provides general health care services to residents within its geographic area. Expenses related to provision of these services for the years ended September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Health care	\$ 431,897	\$ 401,213
General and administrative	74,364	64,888
	<u>\$ 506,261</u>	<u>\$ 466,101</u>

#### 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. Fair value measurements are applied based on the unit of account from the Hospital's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

## The Stamford Hospital

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

#### **16. Fair Value of Financial Instruments (continued)**

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 and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

*Level 2:* Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3:* Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

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

# The Stamford Hospital

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

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

Financial assets, including the defined benefit plan assets, carried at fair value as of September 30, 2013 and 2012, are classified in the tables below in one of the three categories described previously:

	2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 282,777	\$ —	\$ —	\$ 282,777
Corporate bonds	—	2,043	—	2,043
Government securities	—	8,527	—	8,527
Mutual funds – fixed income	51,904	—	—	51,904
Mutual funds – multi industry	15,329	—	—	15,329
Private mutual funds <sup>(a)</sup>	—	1,479	—	1,479
Defined benefit plan assets:				
Cash and cash equivalents	5,279	—	—	5,279
Mutual funds – fixed income	52,510	—	—	52,510
Mutual funds – multi industry	37,568	—	—	37,568
Private mutual funds <sup>(a)</sup>	—	6,143	—	6,143
Partnerships <sup>(b)</sup>	—	15,488	9,115	24,603
Hedge funds <sup>(c)</sup>	—	49,275	—	49,275
	<u>\$ 445,367</u>	<u>\$ 82,955</u>	<u>\$ 9,115</u>	<u>\$ 537,437</u>

# The Stamford Hospital

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

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

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

<sup>(a)</sup> Private mutual funds pursue exposure to investment securities and provide the benefit of a diversified and active investment management strategy. The holdings can include domestic and international equity securities, fixed income securities, convertible debt, and distressed debt. The Hospital can normally redeem these investments on a monthly basis.

<sup>(b)</sup> Partnerships are private equity investments that seek to generate acceptable returns in private companies over a given investment period. At September 30, 2013 and 2012, \$15,488 and \$10,004, respectively, of this investment has been classified in Level 2 of the fair value hierarchy as TSH determined this amount is redeemable in the near-term given its ability to redeem the investment monthly or quarterly. The Hospital considers redemptions that could occur within 120 days of its measurement date to be near-term. At September 30, 2013 and 2012, \$9,115 and \$8,362, 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 \$4,308 and \$2,524 at September 30, 2013 and 2012, respectively.

# The Stamford Hospital

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

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

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

At September 30, 2013, the Hospital expects to be able to redeem defined benefit pension plan investments in hedge funds in the near-term.

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

The following table sets forth a summary of changes in the fair value of the Hospital's Level 3 assets for the years ended September 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Fair value at September 30, 2012	\$ 8,362	\$ 8,623
Investment income, net of fees	(36)	(46)
Net realized losses	(1,237)	(1,255)
Unrealized gains relating to instruments held at reporting date	1,529	833
Purchases	833	556
Contributions	1,178	377
Return of capital	(1,514)	(827)
Settlements	—	101
Transfers out of Level 3	—	—
Fair value at September 30, 2013	<u>\$ 9,115</u>	<u>\$ 8,362</u>

# The Stamford Hospital

## 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, 2013 and 2012 are as follows:

	2013		2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt	\$ 372,210	\$ 379,182	\$ 410,547	\$ 384,596

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

### 17. Operating Lease Obligations

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

2014	\$ 5,961
2015	5,915
2016	6,162
2017	5,885
2018	5,882
Thereafter	26,716
Total minimum operating lease payments	<u>\$ 56,521</u>

Total nonaffiliate rental expense charged to operations for the years ended September 30, 2013 and 2012 aggregated approximately \$5,706 and \$5,739, respectively.

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



## The Stamford Hospital

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

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

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

2014	\$ 2,170
2015	1,758
2016	1,652
2017	1,652
2018	1,641
Thereafter	4,629
Total minimum operating lease income	<u>\$ 13,502</u>

Total nonaffiliate rental income recorded in operations for the years ended September 30, 2013 and 2012 aggregated approximately \$2,606 and \$2,534, respectively.

In March 2012, the Hospital determined that a leased building in Norwalk, Connecticut will not be put into use as originally intended and recorded a loss on the lease obligation of \$12,725. This charge represents the present value of the future lease payments and costs net of estimated rental income from subleasing the facility. In March 2013, the Hospital recorded an additional \$1.8 million non-operating loss on lease obligation for the leased building. This charge represents an adjustment to the prior year loss assumptions as to the present value of the future lease payments and costs net of estimated rental income from subleasing the facility.

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

## The Stamford Hospital

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **18. Subsequent Events**

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

For the year ended September 30, 2013, the Hospital evaluated subsequent events through January 24, 2014, which is the date the consolidated financial statements were available to be issued.

## Supplementary Information

# The Stamford Hospital

## Consolidating Balance Sheet (In Thousands)

September 30, 2013

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 105,744	\$ —	\$ 2,052	\$ —	\$ 107,796
Assets limited as to use	159	—	4	—	163
Short-term investments	44	—	—	—	44
Patient accounts receivable, net	68,026	—	4,329	—	72,355
Other receivables	4,687	210	45	—	4,942
Pledges receivable	2,635	—	—	—	2,635
Due from third parties, current portion	3,366	—	—	—	3,366
Other current assets	11,639	3	217	—	11,859
Total current assets	196,300	213	6,647	—	203,160
Assets limited as to use:					
Held by captive insurance company	—	34,737	—	—	34,737
Long-term investments – endowments	8,033	—	—	—	8,033
Due from Parent – donor-restricted	18,042	—	—	—	18,042
Held by trustee – construction and debt service funds	167,015	—	—	—	167,015
	193,090	34,737	—	—	227,827
Long-term investments	54,217	29,523	—	(11,908)	71,832
Property, plant, and equipment, net	329,579	—	4,574	—	334,153
Pledges receivable, net	14,069	—	—	—	14,069
Due from Parent and affiliates	4,672	—	888	(43)	5,517
Other assets	5,863	3,988	105	—	9,956
Total assets	\$ 797,790	\$ 68,461	\$ 12,214	\$ (11,951)	\$ 866,514

# The Stamford Hospital

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

September 30, 2013

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
<b>Liabilities and net assets</b>					
Current liabilities:					
Current portion of long-term debt	\$ 5,664	\$ —	\$ —	\$ —	\$ 5,664
Accounts payable and accrued expenses	67,704	112	2,431	—	70,247
Salaries, wages and fees payable	11,945	—	3,863	—	15,808
Accrued vacation liability	18,956	—	980	—	19,936
Estimated third-party payor settlements, net of current portion	6,229	—	—	—	6,229
Estimated professional liabilities, current	—	8,086	—	—	8,086
Total current liabilities	110,498	8,198	7,274	—	125,970
Pension liabilities	59,907	—	—	—	59,907
Estimated third-party payor settlements, net of current portion	1,164	—	—	—	1,164
Long-term debt, net of current portion	373,518	—	—	—	373,518
Due to Parent – board designated	20,014	—	—	—	20,014
Due to Parent and affiliates	3,646	43	4,662	(43)	8,308
Estimated professional liabilities, net of current portion	10,841	21,951	—	—	32,792
Other long-term liabilities	9,826	—	—	—	9,826
Total liabilities	589,414	30,192	11,936	(43)	631,499
Net assets:					
Unrestricted	160,467	38,269	278	(11,908)	187,106
Temporarily restricted	39,876	—	—	—	39,876
Permanently restricted	8,033	—	—	—	8,033
Total net assets	208,376	38,269	278	(11,908)	235,015
Total liabilities and net assets	\$ 797,790	\$ 68,461	\$ 12,214	\$ (11,951)	\$ 866,514

# The Stamford Hospital

## Consolidating Balance Sheet (In Thousands)

September 30, 2012

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

# The Stamford Hospital

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

September 30, 2012

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

The Stamford Hospital

Consolidating Statement of Operations

(In Thousands)

Year Ended September 30, 2013

	TSH	Healthstar	SHIP	Eliminations	TSH Consolidated
Unrestricted revenue, gains, and other support:					
Net patient service revenue	\$ 514,701	\$ —	\$ 27,162	\$ —	\$ 541,863
Provision for bad debts	(48,817)	—	(1,239)	—	(50,056)
Net patient service revenue, less provision for bad debts	465,884	—	25,923	—	491,807
Other revenue	17,738	8,819	4,062	(11,600)	19,019
Net assets released from restrictions for operations	1,454	—	—	—	1,454
Total unrestricted revenue, gains, and other support	485,076	8,819	29,985	(11,600)	512,280
Expenses:					
Salaries	184,582	—	35,774	255	220,611
Employee benefits	47,864	—	4,121	—	51,985
Pension settlement charge	11,856	—	—	—	11,856
Supplies and other expenses	178,251	6,442	17,258	(11,855)	190,096
Depreciation and amortization	24,839	—	600	—	25,439
Interest expense	6,274	—	—	—	6,274
Total expenses	453,666	6,442	57,753	(11,600)	506,261
Income (loss) from operations	31,410	2,377	(27,768)	—	6,019
Nonoperating gains and losses:					
Loss on lease obligation	(1,784)	—	—	—	(1,784)
Investment returns	2,671	61	—	—	2,732
Change in net unrealized gains and losses	202	—	—	—	202
Total nonoperating gains and losses	1,089	61	—	—	1,150
Excess (deficiency) of revenue over expenses	32,499	2,438	(27,768)	—	7,169
Net assets released from restrictions used for purchases of property and equipment	913	—	—	—	913
Pension-related changes other than net periodic pension cost	60,088	—	—	—	60,088
Equity transfer from Stamford Health System	(53,928)	—	53,928	—	—
Increase in unrestricted net assets	\$ 39,572	\$ 2,438	\$ 26,160	\$ —	\$ 68,170



The Stamford Hospital

Consolidating Statement of Operations

(In Thousands)

Year Ended September 30, 2012

	<b>TSH</b>	<b>Healthstar</b>	<b>SHIP</b>	<b>Eliminations</b>	<b>TSH Consolidated</b>
Unrestricted revenue, gains, and other support:					
Net patient service revenue	\$ 510,293	\$ –	\$ 19,527	\$ –	\$ 529,820
Provision for bad debts	(51,939)	–	(462)	–	(52,401)
Net patient service revenue, less provision for bad debts	458,354	–	19,065	–	477,419
Other revenue	17,678	6,079	1,494	(6,616)	18,635
Net assets released from restrictions for operations	1,268	–	–	–	1,268
Total unrestricted revenue, gains, and other support	477,300	6,079	20,559	(6,616)	497,322
Expenses:					
Salaries	176,514	–	23,319	245	200,078
Employee benefits	50,257	–	2,706	–	52,963
Supplies and other expenses	171,538	4,844	11,225	(6,861)	180,746
Depreciation and amortization	26,237	–	436	–	26,673
Interest expense	5,641	–	–	–	5,641
Total expenses	430,187	4,844	37,686	(6,616)	466,101
Income (loss) from operations	47,113	1,235	(17,127)	–	31,221
Nonoperating gains and losses:					
Loss on lease obligation	(12,725)	–	–	–	(12,725)
Investment returns	2,652	1,047	–	–	3,699
Change in net unrealized gains and losses	(25)	–	–	–	(25)
Total nonoperating gains and losses	(10,098)	1,047	–	–	(9,051)
Excess (deficiency) of revenue over expenses	37,015	2,282	(17,127)	–	22,170
Net assets released from restrictions used for purchases of property and equipment	3,254	–	–	–	3,254
Pension-related changes other than net periodic pension cost	(27,878)	–	–	–	(27,878)
Equity transfer from Stamford Health System	–	–	(664)	–	(664)
Increase (decrease) in unrestricted net assets	\$ 12,391	\$ 2,282	\$ (17,791)	\$ –	\$ (3,118)

# The Stamford Hospital

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

Year Ended September 30, 2013

	TSH					TSH
	TSH	Healthstar	SHIP	Eliminations		Consolidated
Excess (deficiency) of revenue over expenses	\$ 32,499	\$ 2,438	\$ (27,768)	\$ –	\$	7,169
Pension-related changes other than net periodic pension cost	60,088	–	–	–		60,088
Equity transfer	(53,928)	–	53,928	–		–
Net assets released from restrictions used for purchases of property and equipment	913	–	–	–		913
Increase in unrestricted net assets	39,572	2,438	26,160	–		68,170
Temporarily restricted net assets:						
Contributions	8,873	–	–	–		8,873
Change in net unrealized gains and losses	104	–	–	–		104
Investment returns	1,180	–	–	–		1,180
Net assets released from restrictions for operations	(1,454)	–	–	–		(1,454)
Net assets released from restrictions used for purchases of property and equipment	(913)	–	–	–		(913)
Increase in temporarily restricted net assets	7,790	–	–	–		7,790
Increase in net assets	47,362	2,438	26,160	–		75,960
Net assets, beginning of year	161,014	35,831	(25,882)	(11,908)		159,055
Net assets, end of year	\$ 208,376	\$ 38,269	\$ 278	\$ (11,908)	\$	235,015

# The Stamford Hospital

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

Year Ended September 30, 2012

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

# The Stamford Hospital

## Schedule of Net Patient Service Revenue (In Thousands)

Year Ended September 30, 2013

	<b>TSH</b>	<b>Healthstar</b>	<b>SHIP</b>	<b>Eliminations</b>		<b>TSH</b>
				<b>Debit</b>	<b>Credit</b>	<b>Consolidated</b>
Gross revenue from patients	\$ 1,718,106	\$ —	\$ 63,215	\$ —	\$ —	\$ 1,781,321
Deductions:						
Contractual allowances	1,174,549	—	36,053	—	—	1,210,602
Charity care	28,856	—	—	—	—	28,856
Total deductions	1,203,405	—	36,053	—	—	1,239,458
Net patient service revenue	514,701	—	27,162	—	—	541,863
Provision for bad debts	(48,817)	—	(1,239)	—	—	(50,056)
Net patient service revenue, less provision for bad debts	\$ 465,884	\$ —	\$ 25,923	\$ —	\$ —	\$ 491,807

# The Stamford Hospital

## Schedule of Net Patient Service Revenue (In Thousands)

Year Ended September 30, 2012

	<b>TSH</b>	<b>Healthstar</b>	<b>SHIP</b>	<b>Eliminations</b>		<b>TSH</b>
				<b>Debit</b>	<b>Credit</b>	<b>Consolidated</b>
Gross revenue from patients	\$ 1,648,027	\$ —	\$ 46,222	\$ —	\$ —	\$ 1,694,249
Deductions:						
Contractual allowances	1,102,926	—	26,695	—	—	1,129,621
Charity care	34,808	—	—	—	—	34,808
Total deductions	1,137,734	—	26,695	—	—	1,164,429
Net patient service revenue	510,293	—	19,527	—	—	529,820
Provision for bad debts	(51,939)	—	(462)	—	—	(52,401)
Net patient service revenue, less provision for bad debts	\$ 458,354	\$ —	\$ 19,065	\$ —	\$ —	\$ 477,419

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