

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Stamford Health, Inc.
Years Ended September 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Stamford Health, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2016 and 2015

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Consolidating Balance Sheets.....	51
Consolidating Statements of Operations.....	55
Consolidating Statements of Changes in Net Assets	59
Consolidating Schedules of Net Patient Service Revenue.....	61



Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6350
ey.com

Report of Independent Auditors

The Board of Directors
Stamford Health, Inc.

We have audited the accompanying consolidated financial statements of Stamford Health, Inc. and subsidiaries, which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stamford Health, Inc. and subsidiaries at September 30, 2016 and 2015, 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, 2016 and 2015 and the consolidating statements of operations, changes in net assets, and 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 20, 2017

Stamford Health, Inc.

Consolidated Balance Sheets
(In Thousands)

	September 30	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 129,578	\$ 134,849
Assets limited as to use	129	134
Short-term investments	45	53
Patient accounts receivable (less allowance for uncollectible accounts of \$42,103 and \$39,782)	77,844	77,483
Other receivables	1,767	2,745
Pledges receivable	6,393	9,226
Estimated third-party payor settlements, current	46	265
Other current assets	14,129	15,395
Total current assets	229,931	240,150
Assets limited as to use:		
Held by captive insurance company	27,869	38,734
Long-term investments – endowments	5,719	8,492
Beneficial interest in a perpetual trust	55,774	–
Held by trustee – cost of issuance	178	–
	89,540	47,226
Long-term investments	201,050	205,036
Property, plant, and equipment, net	658,470	559,414
Pledges receivable, net	23,417	19,610
Other assets	10,782	9,139
Total assets	\$ 1,213,190	\$ 1,080,575

	September 30	
	2016	2015
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 11,966	\$ 5,645
Accounts payable and accrued expenses	89,474	89,221
Salaries, wages, and fees payable	18,892	17,725
Accrued vacation liability	21,439	21,324
Estimated third-party payor settlements, current	5,359	7,801
Estimated professional liabilities, current	7,359	9,105
Total current liabilities	<u>154,489</u>	<u>150,821</u>
Pension liabilities	126,874	90,860
Estimated third-party payor settlements, net of current portion	1,390	2,063
Long-term debt, net of current portion	401,228	363,249
Estimated professional liabilities, net of current portion	30,377	33,922
Other long-term liabilities	2,030	2,281
Total liabilities	<u>716,388</u>	<u>643,196</u>
Commitments and contingencies		
Net assets:		
Unrestricted	411,293	344,214
Temporarily restricted	24,016	84,673
Permanently restricted	61,493	8,492
Total net assets	<u>496,802</u>	<u>437,379</u>
Total liabilities and net assets	<u>\$ 1,213,190</u>	<u>\$ 1,080,575</u>

See accompanying notes.

Stamford Health, Inc.

Consolidated Statements of Operations
(In Thousands)

	Year Ended September 30	
	2016	2015
Unrestricted revenue, gains, and other support:		
Net patient service revenue	\$ 580,663	\$ 550,626
Provision for bad debts	(36,042)	(29,515)
Net patient service revenue, less provision for bad debts	544,621	521,111
Other revenue	17,208	17,682
Net assets released from restrictions for operations	1,715	1,638
Total unrestricted revenue, gains, and other support	563,544	540,431
Expenses:		
Salaries	253,605	240,552
Employee benefits	57,790	55,662
Supplies and other expenses	204,770	197,760
Depreciation and amortization	35,305	25,572
Interest expense	6,942	5,900
Total expenses	558,412	525,446
Income from operations	5,132	14,985
Nonoperating gains and losses:		
Investment returns	9,130	5,231
Change in net unrealized gains and losses	(3,660)	(7,809)
Total nonoperating gains and losses	5,470	(2,578)
Excess of revenue over expenses	10,602	12,407
Net assets released from restrictions used for purchases of property and equipment	81,241	457
Pension-related changes other than net periodic pension cost	(24,764)	(7,875)
Increase in unrestricted net assets	\$ 67,079	\$ 4,989

See accompanying notes.

Stamford Health, Inc.

Consolidated Statements of Changes in Net Assets
(In Thousands)

Years Ended September 30, 2016 and 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at September 30, 2014	\$ 339,225	\$ 61,414	\$ 8,408	\$ 409,047
Excess of revenue over expenses	12,407	–	–	12,407
Pension-related changes other than net periodic pension cost	(7,875)	–	–	(7,875)
Contributions	–	25,458	84	25,542
Change in net unrealized gains and losses	–	(1,053)	–	(1,053)
Investment returns	–	949	–	949
Net assets released from restrictions for operations	–	(1,638)	–	(1,638)
Net assets released from restrictions used for purchases of property and equipment	457	(457)	–	–
Increase in net assets	4,989	23,259	84	28,332
Balance at September 30, 2015	344,214	84,673	8,492	437,379
Excess of revenue over expenses	10,602	–	–	10,602
Pension-related changes other than net periodic pension cost	(24,764)	–	–	(24,764)
Contributions	–	19,120	50,000	69,120
Change in net unrealized gains and losses	–	(406)	–	(406)
Investment returns	–	812	–	812
Gains or losses (realized/unrealized) – beneficial interest in a perpetual trust	–	–	6,134	6,134
Distributions – beneficial interest in a perpetual trust	–	–	(360)	(360)
Net assets released from restrictions for operations	–	(1,715)	–	(1,715)
Net assets transfer	–	2,773	(2,773)	–
Net assets released from restrictions used for purchases of property and equipment	81,241	(81,241)	–	–
Increase (decrease) in net assets	67,079	(60,657)	53,001	59,423
Balance at September 30, 2016	\$ 411,293	\$ 24,016	\$ 61,493	\$ 496,802

See accompanying notes.

Stamford Health, Inc.

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30	
	2016	2015
Operating activities		
Change in net assets	\$ 59,423	\$ 28,332
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	24,764	7,875
Net realized gains and losses and change in net unrealized gains and losses	(4,748)	3,425
Loss on disposal of fixed assets	45	216
Restricted contributions	(69,120)	(25,542)
Restricted investment returns	(6,180)	104
Depreciation and amortization	35,305	25,572
Amortization of deferred financing costs	297	296
Net amortization of bond premium	(293)	(268)
Provision for bad debts	36,042	29,515
Change in:		
Patient accounts receivable	(36,403)	(33,166)
Accounts payable and accrued expenses	253	7,833
Estimated third-party payor settlements	(2,896)	5,239
Estimated professional liabilities	(5,291)	(1,949)
Change in all other operating assets and liabilities	11,894	(473)
Net cash provided by operating activities	43,092	47,009
Investing activities		
Capital expenditures	(134,592)	(156,338)
Proceeds from sale of fixed assets	200	-
Net cash redeemed from assets limited as to use and investments	16,433	114,651
Net cash used in investing activities	(117,959)	(41,687)
Financing activities		
Principal payments on long-term debt	(5,669)	(5,534)
Cash paid for deferred financing fees	(956)	-
Proceeds from long-term financing	50,921	-
Restricted investment returns	6,180	(104)
Restricted contributions	19,120	25,542
Net cash provided by financing activities	69,596	19,904
Net (decrease) increase in cash and cash equivalents	(5,271)	25,226
Cash and cash equivalents, beginning of year	134,849	109,623
Cash and cash equivalents, end of year	\$ 129,578	\$ 134,849
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 17,491	\$ 17,746

See accompanying notes.

Stamford Health, Inc.

Notes to Consolidated Financial Statements (In Thousands)

September 30, 2016

1. Organization and Summary of Significant Accounting Policies

Organization

Stamford Health, Inc. (SHI or Stamford Health), formerly known as Stamford Health System, Inc., a tax-exempt corporation, is the sole member or ultimate parent of The Stamford Hospital (TSH or the Hospital), a not-for-profit acute care hospital; Miller Hall Medical Suites, LLC (MHMS), a professional office building on the campus of TSH and Southwest Connecticut Radiology LLC (SCR), a professional captive that employed radiologists who provided radiologic services at the Hospital. SCR was dissolved in August 2015. The legal name change of Stamford Health was effective in February 2015.

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). 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. Healthstar was reclassified as a Class 3 segregated account insurer effective October 1, 2014.

Stamford Health Medical Group, Inc. (SHMG), formerly known as Stamford Health Integrated Practices, Inc., is a not-for profit corporation formed by SHI in fiscal year 2011 to provide a comprehensive network of physician practices and related management services. In May 2011, SHMG was transferred from SHI to the Hospital. The legal name change of SHMG was effective in February 2016.

Consolidated Financial Statements

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

Stamford Health, Inc.

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

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

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.

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. SHI 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.

Stamford Health, Inc.

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

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

Investments and Pension Plan Assets

Investments and pension plan assets 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 Stamford Health holds limited partnership interests. Stamford Health's investments in alternative investments are reported based upon net asset values derived from the application of the equity method of accounting. Pension plan assets invested in alternative investments are reported at fair value determined based upon, as a practical expedient, the net asset values of each investment. Individual investment holdings of limited partnerships, hedge funds and funds of funds may, in turn, include investments in both marketable and nonmarketable securities. Marketable securities which are not considered alternative investments, such as mutual funds and equity and debt securities, are recorded at fair value as quoted by the public markets. Private mutual funds are reported at fair value based upon the net asset values of each fund as a practical expedient. Investments in marketable securities are classified as trading securities.

Financial information used by SHI to evaluate 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 SHI 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 SHI's annual consolidated financial statement reporting. At September 30, 2016 and 2015, SHI has future commitments of \$1,823 and \$1,210, respectively, to invest in alternative investments.

Stamford Health, Inc.

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

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

Alternative investments may indirectly expose SHI 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 the 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, 2016 and 2015, Stamford Health recorded gains (losses) on unrestricted alternative investments of \$1,397 and (\$4,005), respectively, which are included in investment returns in the accompanying consolidated statements of operations.

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, 2016 and 2015, SHI recorded total ordinary income and net realized gains of \$7,733 and \$9,236, respectively.

Assets Limited as to Use

Assets limited as to use include amounts for professional liabilities, endowment assets limited by donor restriction, assets held by trustee for cost of issuance and a beneficial interest in a perpetual trust. Assets limited as to use required to meet current liabilities are reported as current assets.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost or, in the case of gifts, at fair value at the date of the gift, less accumulated depreciation and amortization. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. The

Stamford Health, Inc.

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

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

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

Estimated useful lives by classification are as follows:

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

Insurance Recoveries Receivable

Stamford Health 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 \$2,915 and \$3,307 as of September 30, 2016 and 2015, respectively.

Equity Investments

Included in other assets are SHI's investments in Stamford/NSC Management, LLC, a joint venture with Wilton NSC, LLC (entered into on February 19, 2008), and in Stamford Health Urgent Care, LLC, a joint venture with Clinic 21 Management Group, LLC (entered into on September 10, 2014). SHI accounts for these investments using the equity method of accounting. During 2016 and 2015, SHI recognized (loss) income of (\$187) and \$484, respectively, and received capital distributions of \$522 and \$648, respectively.

Stamford Health, Inc.

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

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

Deferred Financing Costs

Capitalized financing costs are included as a deduction to long-term debt in the accompanying consolidated balance sheets and are amortized using the effective interest method over the term that the related debt is expected to be outstanding.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by SHI 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. 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.

Permanently restricted net assets have been restricted by donors to be maintained by SHI in perpetuity. See Note 7 for additional information relative to temporarily and permanently restricted net assets.

Consolidated Statements of Operations

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.

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

Stamford Health, Inc.

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

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

Patient Accounts Receivable and Net Patient Service Revenue

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

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

Charity Care

TSH provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Because TSH 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 SHI are reported at fair value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value at the date the gift becomes unconditional. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Unrestricted contributions are included as a component of other revenue in the accompanying consolidated statements of operations.

Stamford Health, Inc.

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

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

Estimated Professional Liabilities

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

Income Taxes

SHI, the Hospital and SHMG are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code. SHI, the Hospital and SHMG are also exempt from state income taxes.

Healthstar, the Hospital's wholly owned insurance company, 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 SHI 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).

Stamford Health, Inc.

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

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for Stamford Health for annual reporting periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. Stamford Health has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern*, that will require management of public and nonpublic companies to evaluate and disclose where there is substantial doubt about an entity's ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016, and for annual periods thereafter. Early application is permitted. Stamford Health is evaluating the effects the adoption of this standard will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the corresponding debt liability rather than as an asset. This change will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The recognition and measurement guidance for debt issuance costs is not affected. The provisions of ASU 2015-03 are effective for Stamford Health for annual reporting periods beginning after December 15, 2015, with retrospective application to all periods presented. Early application is permitted. Stamford Health has adopted ASU 2015-03 for the year ended September 30, 2016. As a result, \$4,618 of net deferred financing costs at September 30, 2016 (\$3,959 at September 30, 2015) are reflected in the accompanying consolidated balance sheets as a component of long-term debt (see Note 8).

Stamford Health, Inc.

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

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

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require a lessee to report most leases on its balance sheet but recognize expenses on its income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. Stamford Health has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

Reclassifications

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

2. Community Benefit and Charity Care

The Hospital is committed to providing health care services to the community. In the past year, the Hospital conducted a formal community health needs assessment for the Town of Darien and City of Stamford which was adopted by the Board of Directors on September 30, 2016. The assessment process included the analysis of both qualitative as well as quantitative data. The Hospital conducted interviews, focus groups and an online survey in an effort to solicit feedback from community leaders, members and organizations representing a broad spectrum of individuals about the health priorities of the community served by the Hospital.

The Hospital provides a variety of programs that benefit the community, including health risk awareness assessments, 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 such as heart disease, diabetes, breast cancer, sleep disorders, arthritis, high cholesterol, cancer prevention, nutrition, stress management, circulatory problems, digestive disorders, pain management, sports injuries, and children's nutrition.

The Hospital and the City of Stamford Housing Authority founded the Vita Health & Wellness Collaborative (VITA), a community health improvement initiative that is focused on vulnerable populations in the city's west side neighborhood. VITA seeks to improve the physical

Stamford Health, Inc.

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

2. Community Benefit and Charity Care (continued)

environment and health of the neighborhood for its residents. VITA seeks to leverage existing resources in the community and develop health education programs, such as Fairgate Farm and its nutrition education activities, Parents-as-Co-Educators for families of pre-school children and the Community Care Team, a community-wide crisis-intervention program. In addition, the Hospital, in partnership with the AmeriCares Stamford free clinic, provides diagnostics tests and follow up for uninsured individuals in the Stamford community. Kid's Fitness and Nutrition Services (KidsFANS) is a Hospital-led, community-wide task force designed to promote physical activity and health conscious nutrition among children. KidsFANS has expanded its outreach programs into every elementary school in Stamford. The Hospital's cancer programs have continued, including Paint the Town Pink initiative, which advocates for screening mammograms and early detection of breast cancer. 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 \$26,000 and \$32,000 for the years ended September 30, 2016 and 2015, respectively. For the years ended September 30, 2016 and 2015, the estimated cost of charity care was \$6,400 and \$8,400, 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 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Provision for bad debts – net of recoveries	\$ 36,042	\$ 29,515
Charity care based on charges	25,882	32,247
Total uncompensated care	<u>\$ 61,924</u>	<u>\$ 61,762</u>

Stamford Health, Inc.

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

2. Community Benefit and Charity Care (continued)

For distributions from the Uncompensated Care Pool, the Hospital received \$7,347 and \$2,310 for the years ended September 30, 2016 and 2015, respectively, and paid \$28,678 and \$20,153 of tax assessments for the years ended September 30, 2016 and 2015, respectively. The distributions, net of tax assessments, are included in net patient service revenue in the accompanying consolidated statements of operations.

3. Net Patient Service Revenue

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

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under national prospective payment systems and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. TSH is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by TSH and audits thereof by the Medicare fiscal intermediary. The classification of patients of TSH under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with TSH. The Medicare cost reports of TSH have been audited and finalized by the Medicare fiscal intermediary through the year ended September 30, 2013.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries were paid at prospectively determined rates per discharge through December 31, 2014. After December 31, 2014, inpatient acute care services rendered are being paid based on a weighted All Patient Refined-Diagnostic Related Group (APR-DRG). Outpatient services rendered to Medicaid program beneficiaries are reimbursed on cost-based and fee schedule prior to July 1, 2016 and Ambulatory Payment Classification (APC) and fee schedule after July 1, 2016. The Medicaid cost reports of TSH through the year ended September 30, 2013 and prior have been settled. All Medicaid cost reports are subject to audit and finalization by the State of Connecticut.

Stamford Health, Inc.

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

3. Net Patient Service Revenue (continued)

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

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

Consolidated SHI allowance for uncollectible accounts was \$42,103 and \$39,782 at September 30, 2016 and 2015, respectively. The increase in the allowance for uncollectible accounts was mainly due to the increase in the allowance relating to self-pay patient accounts, which was approximately 60% and 58% of self-pay patient accounts receivable as of September 30, 2016 and 2015, respectively. Overall, the total of self-pay discounts and write-offs did not change significantly for the year ended September 30, 2016. Stamford Health has not experienced significant changes in write-off trend and did not significantly change its charity care policy during the year ended September 30, 2016 and 2015.

TSH recognizes accounts receivable and net patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the

Stamford Health, Inc.

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

3. Net Patient Service Revenue (continued)

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

Consolidated SHI patient service revenue for the years ended September 30, 2016 and 2015, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period by major payor source, is as follows:

	<u>2016</u>	<u>2015</u>
Third-party payors	\$ 551,630	\$ 528,601
Self-pay	29,033	22,025
Total all payors	<u>\$ 580,663</u>	<u>\$ 550,626</u>

SHI 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 SHI. If the appeals are successful, additional income applicable to those years might be realized.

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

The net effect of TSH's revisions to prior year third-party payor settlement estimates resulted in an increase to net patient service revenue of \$1,525 for the year ended September 30, 2016 and a decrease of \$119 for the year ended September 30, 2015.

Stamford Health, Inc.

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

3. Net Patient Service Revenue (continued)

The percentages of net patient service revenue provided by TSH from various third-party payors and patients were as follows for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Medicare	20%	21%
Medicaid	7	7
Managed care organizations	44	42
Other third-party payors	24	26
Self-pay patients	5	4
	<u>100%</u>	<u>100%</u>

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

4. Assets Limited as to Use and Investments

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

The composition and reported value of assets limited as to use, excluding beneficial interest in a perpetual trust (see Note 7), at September 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Current portion:		
Cash and cash equivalents	\$ 129	\$ 134
Held by captive insurance company:		
Cash and cash equivalents	\$ 10,350	\$ 9,895
Mutual funds	11,732	22,490
Alternative investments – hedge funds	5,787	6,349
	<u>\$ 27,869</u>	<u>\$ 38,734</u>

Stamford Health, Inc.

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

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

	<u>2016</u>	<u>2015</u>
Long-term investments – endowments:		
Cash and cash equivalents	\$ 817	\$ 672
Mutual funds	2,755	3,367
Alternative investments – hedge funds	1,177	2,788
Alternative investments – limited partnerships	781	1,393
Private mutual funds	189	272
	<u>\$ 5,719</u>	<u>\$ 8,492</u>
Held by trustee – cost of issuance:		
Cash and cash equivalents	<u>\$ 178</u>	<u>\$ –</u>

The composition of investments at September 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Short-term investments:		
Cash and cash equivalents	\$ 18	\$ 9
Mutual funds	27	44
	<u>\$ 45</u>	<u>\$ 53</u>
Long-term investments:		
Cash and cash equivalents	\$ 57,852	\$ 72,400
Mutual funds	102,573	77,976
Alternative investments – hedge funds	22,273	34,225
Alternative investments – limited partnerships	14,780	17,102
Private mutual funds	3,572	3,333
	<u>\$ 201,050</u>	<u>\$ 205,036</u>

Stamford Health, Inc.

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

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

Total returns on investments, excluding beneficial interest in a perpetual trust (see Note 7), for the years ended September 30, 2016 and 2015 consist of the following:

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Ordinary income (interest and dividends)	\$ 722	\$ 39	\$ 761	\$ 847	\$ 62	\$ 909
Net realized gains and (losses)	7,011	819	7,830	8,389	1,139	9,528
Gains and (losses) from alternative investments	1,397	(46)	1,351	(4,005)	(252)	(4,257)
Investment returns	9,130	812	9,942	5,231	949	6,180
Change in net unrealized gains and (losses)	(3,660)	(406)	(4,066)	(7,809)	(1,053)	(8,862)
	<u>\$ 5,470</u>	<u>\$ 406</u>	<u>\$ 5,876</u>	<u>\$ (2,578)</u>	<u>\$ (104)</u>	<u>\$ (2,682)</u>

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, 2016 and 2015, pledges receivable consist of the following:

	2016	2015
Amounts expected to be collected in:		
Less than one year	\$ 6,728	\$ 9,712
One to five years	25,800	21,778
	<u>32,528</u>	<u>31,490</u>
Less:		
Reserve for uncollectible pledges	1,626	1,574
Discount on pledges	1,092	1,080
Current portion	6,393	9,226
Pledges receivable, net	<u>\$ 23,417</u>	<u>\$ 19,610</u>

Stamford Health, Inc.

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

6. Property, Plant, and Equipment

Property, plant, and equipment, at cost, and accumulated depreciation and amortization at September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 44,898	\$ 44,898
Land improvements	9,571	4,823
Buildings and improvements	449,533	187,856
Fixed and major movable equipment	500,851	344,119
Leasehold improvements	27,004	23,240
	<u>1,031,857</u>	604,936
Less accumulated depreciation and amortization	386,549	388,290
	<u>645,308</u>	216,646
Construction-in-progress	13,162	342,768
	<u>\$ 658,470</u>	<u>\$ 559,414</u>

Included in property, plant, and equipment are assets under capital leases of \$1,666 at September 30, 2016 and 2015. These assets are fully amortized as of September 30, 2016 and 2015.

Depreciation and amortization expense for the years ended September 30, 2016 and 2015 was \$35,305 and \$25,572, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of \$194 for the year ended September 30, 2015 (none for the year ended September 30, 2016).

Net interest capitalized for the years ended September 30, 2016 and 2015 was \$10,863 and \$11,849, respectively.

In May 2009, SHI submitted an application for a certificate of need with the State of Connecticut for the Master Facility Plan of the Hospital which included the construction of a new hospital building and central utility plant. In September 2016, TSH opened the new hospital building and placed in service approximately \$448,000 of assets to reflect the opening of the new hospital. As of September 30, 2016, TSH has entered into commitments related to the Master Facility Plan totaling approximately \$29,000, which are expected to be completed during fiscal year 2017.

Stamford Health, Inc.

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

6. Property, Plant, and Equipment (continued)

During the fiscal year September 30, 2016, with the opening of the new hospital, SHI wrote off approximately \$7,500 of fully depreciated assets. Additionally, SHI accelerated the depreciation of certain assets associated with the old hospital building. The accelerated depreciation charge included in depreciation and amortization expense in the accompanying consolidated statement of operations for the year ended September 30, 2016 was approximately \$9,700.

In August 2016, SHI and TSH entered into a collaboration with the Hospital for Special Surgery (HSS) to enhance the orthopedic services provided at the Hospital. The goal of the collaboration is to create expanded access to high quality musculoskeletal services for patients across the Hospital's service area and beyond, uniting orthopedic clinical protocols and best practices from HSS with the Planetree-designated patient-centered care provided at Stamford Health. Under the terms of the agreement, the Hospital will construct additional dedicated orthopedic space to include operating rooms, patient rooms and other related facilities at an estimated cost of \$36,600.

7. Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Health care services:		
Purchase of equipment	\$ 3,649	\$ 51,771
Patient care	19,026	31,569
Health education	1,341	1,333
	<u>\$ 24,016</u>	<u>\$ 84,673</u>

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

Also included in permanently restricted net assets is the Hospital's beneficial interest in a perpetual trust established by a long-time supporter. On October 30, 2015, the Hospital was notified by the trustee of the passing of the donor in March 2015 and was provided with reliable and verifiable evidence of the Hospital's beneficial interest in the trust. The corpus is controlled

Stamford Health, Inc.

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

7. Net Assets (continued)

by a third-party trustee. Under the trust arrangement, the Hospital has the irrevocable right to receive a portion of the income earned on the underlying assets held in perpetuity. Accordingly, the Hospital recorded a permanently restricted contribution and recognized a beneficial interest in the trust at fair value of \$50,000. Subsequent changes to the trust's fair value will be reported as permanently restricted net unrealized gains or losses on perpetual trust. As of September 30, 2016, the Hospital recorded a change in the trust's fair value amounting to \$6,134.

Any distribution received from the trust is unrestricted due to the absence of a donor-imposed restriction. For the year ended September 30, 2016, distributions from the trust amounted to \$360 and is included in other revenue in the accompanying consolidated statement of operations.

SHI follows the requirements of Uniform Prudent Management Institutional Funds Act (UPMIFA) as they relate to its endowments. SHI'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 SHI to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SHI 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, SHI 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, SHI considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

Stamford Health, Inc.

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

7. Net Assets (continued)

- The duration and preservation of the fund
- The purposes of SHI 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 SHI
- The investment policies of SHI

SHI 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 SHI 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, SHI 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). SHI 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.

Stamford Health, Inc.

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

7. Net Assets (continued)

The following table set forth the changes to assets as they relate to SHI's endowments, excluding the beneficial interest in a perpetual trust, for the years ended September 30, 2016 and 2015:

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2015	\$ 1,921	\$ 8,492	\$ 10,413
Investment return (realized and unrealized)	312	–	312
Contributions	201	–	201
Appropriation of endowment assets for expenditure	(564)	(2,773)	(3,337)
Endowment assets, September 30, 2016	<u>\$ 1,870</u>	<u>\$ 5,719</u>	<u>\$ 7,589</u>
	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, September 30, 2014	\$ 2,624	\$ 8,408	\$ 11,032
Investment return (realized and unrealized)	(223)	–	(223)
Contributions	–	84	84
Appropriation of endowment assets for expenditure	(480)	–	(480)
Endowment assets, September 30, 2015	<u>\$ 1,921</u>	<u>\$ 8,492</u>	<u>\$ 10,413</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of UPMIFA requires SHI 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, 2016 and 2015.

Stamford Health, Inc.

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

8. Long-Term Debt

At September 30, 2016 and 2015, long-term debt consists of the following:

	September 30	
	2016	2015
	<i>(As Adjusted)</i>	
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	\$ 104,755	\$ 110,015
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series J, payable in varying annual amounts with fixed interest rates varying from 3.25% to 5.125%, with the final payment due in 2042	250,000	250,000
State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series K, payable in varying annual amounts with fixed interest rates at 4.00%, with the final payment due in 2046	47,620	–
Term promissory notes bearing interest at LIBOR plus 2.00%, maturing June 1, 2021	7,858	8,266
	410,233	368,281
Add unamortized bond premium	7,579	4,572
Less deferred financing costs, net of accumulated amortization	(4,618)	(3,959)
	413,194	368,894
Less current portion	11,966	5,645
	\$ 401,228	\$ 363,249

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, 2016 and 2015, accumulated amortization related to the bond premium was \$480 and \$411, 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

Stamford Health, Inc.

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

8. Long-Term Debt (continued)

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, 2016 and 2015, accumulated amortization related to the bond premium was \$836 and \$640, respectively. The Series J Bonds proceeds were 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.

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series K (the Series K Bonds) were issued on July 12, 2016 in the amount of \$47,620 for a term of 30 years, at a premium of \$3,301. As of September 30, 2016, accumulated amortization related to the bond premium was \$29. The Series K Bonds proceeds were used for reimbursing a portion of the costs of the construction, furnishing and equipping the Master Facility Plan. The proceeds also reimbursed TSH for certain costs of issuance of the Series K Bonds.

Hospital gross receipts are pledged as collateral under debt arrangements relating to the Series I, Series J and Series K 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, 2016 and 2015. 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.

In May 2011, MHMS entered into a term mortgage note agreement with a bank for \$5,900, bearing an interest rate of LIBOR plus 2.00% at September 2016 and 2015. The mortgage note is payable in monthly installments and matures on June 1, 2021. SHI, as guarantor, must maintain certain debt covenants with respect to the term mortgage note. As of September 30, 2016, SHI was in compliance with such debt covenants.

Stamford Health, Inc.

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

8. Long-Term Debt (continued)

At September 30, 2016 and 2015, the Hospital has a line of credit available with a bank totaling \$50,000 and \$30,000, respectively. The Hospital's agreement with the bank was amended in August 2015 to increase the line of credit commitment from \$30,000 to \$50,000 effective October 1, 2015 and to automatically decrease the line of credit commitment from \$50,000 to \$30,000 on October 1, 2016. There were no amounts outstanding on the line of credit at September 30, 2016 and 2015, which has a maturity date of May 31, 2017.

In addition to the line of credit, the bank may issue one or more standby letters of credit for the account of the Hospital, provided the aggregate amount of all issued and unreimbursed standby letters of credit at any one time shall not exceed \$5,000 without the prior consent of the bank. All amounts drawn under the letter of credit shall be deemed to be loans made under the line of credit. Under this line of credit, the bank issued a maximum letter of credit to the Hospital for \$5,000.

SHI 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.

SHI must maintain certain financial ratios with respect to the Series I, Series J and Series K Bonds, the mortgage note payable and the line of credit. As of September 30, 2016, SHI was in compliance with such debt covenants.

Scheduled principal payments on long-term debt obligations as of September 30, 2016 are as follows:

Fiscal year:	
2017	\$ 11,966
2018	7,633
2019	7,958
2020	8,298
2021	8,688
Thereafter	<u>365,690</u>
Total minimum payments	<u>\$ 410,233</u>

Stamford Health, Inc.

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

9. Retirement Benefits

SHI 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

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

SHI 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.

On September 30, 2015, the Board of Directors of SHI approved to cease future benefit accruals under the Plan after July 9, 2016, with the intent, to the extent practicable, to provide eligible participants actively employed by SHI on July 9, 2016 with the service credit for benefit accrual purposes that they would otherwise have been credited with for the 2016 plan year had benefit accruals not ceased as of July 9, 2016. Additionally, all participants who will be credited with benefit accruals under the Plan immediately prior to July 9, 2016 shall be eligible to be credited with the applicable employer contributions under SHI's defined contribution plan beginning as of January 1, 2017.

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

Included in other changes in unrestricted net assets at September 30, 2016 and 2015 are the following amounts that have not yet been recognized in net periodic pension cost:

	2016		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ —	\$ (1,519)	\$ (1,519)
Unrecognized actuarial loss	(125,400)	(8,571)	(133,971)
	<u>\$ (125,400)</u>	<u>\$ (10,090)</u>	<u>\$ (135,490)</u>
	2015		
	Plan	SERPs	Total
Unrecognized prior service cost	\$ —	\$ (1,702)	\$ (1,702)
Unrecognized actuarial loss	(101,901)	(7,123)	(109,024)
	<u>\$ (101,901)</u>	<u>\$ (8,825)</u>	<u>\$ (110,726)</u>

The prior service cost and actuarial loss included in changes in unrestricted net assets at September 30, 2016 and expected to be recognized in net periodic pension cost during the year ending September 30, 2017 are as follows:

	Plan	SERPs
Prior service cost	\$ —	\$ (181)
Net loss	(3,845)	(394)

Stamford Health, Inc.

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, 2016 and 2015, are as follows:

	Plan		SERPs		Total	
	2016	2015	2016	2015	2016	2015
Benefit obligation						
Benefit obligation, beginning of year	\$ 267,865	\$ 264,958	\$ 15,429	\$ 13,672	\$ 283,294	\$ 278,630
Service cost	2,653	2,928	–	–	2,653	2,928
Interest cost	11,699	11,591	644	565	12,343	12,156
Plan change	–	–	–	1,755	–	1,755
Actuarial losses	26,371	8,187	1,745	225	28,116	8,412
Curtailments	–	(10,437)	–	–	–	(10,437)
Benefits paid	(10,566)	(9,362)	(832)	(788)	(11,398)	(10,150)
Benefit obligation, end of year	298,022	267,865	16,986	15,429	315,008	283,294
Plan assets						
Fair value of plan assets, beginning of year	191,584	193,381	–	–	191,584	193,381
Actual return on plan assets	6,240	(3,685)	–	–	6,240	(3,685)
Employer contributions	–	11,250	832	788	832	12,038
Benefits paid	(10,566)	(9,362)	(832)	(788)	(11,398)	(10,150)
Fair value of plan assets, end of year	187,258	191,584	–	–	187,258	191,584
Funded status	\$ (110,764)	\$ (76,281)	\$ (16,986)	\$ (15,429)	\$ (127,750)	\$ (91,710)
Current portion of obligation						
	\$ –	\$ –	\$ (876)	\$ (850)	\$ (876)	\$ (850)
Noncurrent portion of obligation						
	(110,764)	(76,281)	(16,110)	(14,579)	(126,874)	(90,860)
Total	\$ (110,764)	\$ (76,281)	\$ (16,986)	\$ (15,429)	\$ (127,750)	\$ (91,710)
Accumulated benefit obligation						
	\$ (298,022)	\$ (267,865)	\$ (16,986)	\$ (15,429)	\$ (315,008)	\$ (283,294)

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

Stamford Health, Inc.

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, 2016 and 2015 were as follows:

	Plan		SERPs	
	2016	2015	2016	2015
Discount rate	3.70%	4.45%	4.25%	4.45%
Rate of compensation increase	–	2.50	–	–

Net periodic pension cost and postretirement cost for the years ended September 30, 2016 and 2015 consist of the following components:

	Plan		SERPs		Total	
	2016	2015	2016	2015	2016	2015
Service cost	\$ 2,653	\$ 2,928	\$ –	\$ –	\$ 2,653	\$ 2,928
Interest cost	11,699	11,591	644	565	12,343	12,156
Expected return on plan assets	(13,066)	(13,703)	–	–	(13,066)	(13,703)
Amortization of prior service cost	–	–	183	–	183	–
Amortization of actuarial loss	9,698	8,963	297	280	9,995	9,243
Net periodic pension cost	\$ 10,984	\$ 9,779	\$ 1,124	\$ 845	\$ 12,108	\$ 10,624

The weighted-average assumptions used in determining the net periodic pension and postretirement benefits costs for the years ended September 30, 2016 and 2015 were as follows:

	Plan		SERPs	
	2016	2015	2016	2015
Discount rate	4.45%	4.45%	4.45%	4.35%
Expected long-term rate of return on plan assets	7.00	7.00	–	–
Rate of compensation increase	2.50	2.50	–	–

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

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

The actuarial losses in 2016 primarily relate to the change in the discount rate assumption used to measure the projected benefit obligation, and the actuarial losses in 2015 primarily relate to change in the mortality assumption used to measure the projected benefit obligation.

Plan Assets

The Plan's weighted-average asset allocation at September 30, 2016 and 2015 is as follows:

	2016	2015
Equity securities	33%	21%
Fixed income securities	34	23
Alternative investments – limited partnerships	13	18
Alternative investments – hedge funds	15	34
Cash and cash equivalents	5	4
	100%	100%

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

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

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

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

Investment Strategy

SHI 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

SHI expects to contribute \$10,891 to the plans during fiscal year 2017.

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

	Plan	SERPs	Total
Fiscal year ending September 30:			
2017	\$ 12,784	\$ 889	\$ 13,673
2018	12,717	965	13,682
2019	13,180	976	14,156
2020	14,228	1,120	15,348
2021	15,137	1,104	16,241
2022 through 2026	83,187	5,185	88,372

Defined Contribution Plan

On January 1, 2003, SHI established a defined contribution plan (the DC Plan). Existing SHI employees and employees of its affiliates were given the option of forgoing future benefits under the Plan to earn future benefits in the DC Plan beginning on January 1, 2003, or continuing to earn future benefits under the Plan. The effect of the establishment of the DC Plan resulted in a curtailment for those participants that chose to forgo future benefits under the Plan. Included in

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

employee benefit expenses in the accompanying consolidated statements of operations for the years ended September 30, 2016 and 2015 are \$1,815 and \$6,314, respectively, in pension contributions to the DC Plan.

On September 30, 2015, the Board of Directors of SHI approved to suspend employer matching contributions and employer nonelective contributions to the DC Plan with respect to the 2016 plan year, with such employer contributions to automatically recommence effective as of January 1, 2017 pursuant to the same terms that were applicable immediately prior to the beginning of the 2016 plan year, except that upon recommencement of the employer contributions as of January 1, 2017, all participants who were being credited with the benefit accruals under the Plan immediately prior to July 9, 2016 shall be eligible to be credited with applicable employer contributions under the DC Plan beginning as of January 1, 2017.

10. Professional, General, and Umbrella Liability Insurance

The Hospital self-insured a portion of its medical professional and general liability insurance coverage through September 30, 2002. Excess commercial insurance policies were maintained for coverage in excess of the self-insured limits which, with respect to umbrella liability, were also in excess of various scheduled underlying commercial liability policies.

For the period from October 1, 1986 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. 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.

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

Stamford Health, Inc.

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

10. Professional, General, and Umbrella Liability Insurance (continued)

None of the coverage for umbrella liability has been retained as net of reinsurance, it being 100% reinsured. Healthstar retains, net and exclusive of reinsurance, a primary layer of \$5,000 per claim for medical professional liability, subject to \$18,500 in the annual aggregate, and an additional layer of annual aggregate net retained medical professional liability coverage of \$1,500 in excess of \$45,000 in the aggregate. For general liability, Healthstar retains, net and exclusive of reinsurance, \$2,000 per claim subject to \$4,000 in the annual aggregate, and for employee benefits liability \$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, which are not the financial responsibility of Healthstar. Healthstar underwrites terrorism liability insurance coverage for limits of \$25,000 per claim and \$25,000 in the annual aggregate, of which \$5,000 per claim and \$5,000 in the annual aggregate are net retained. All commercial reinsurance coverage afforded to Healthstar with respect to professional, general, umbrella, and terrorism liability is provided by a combination of syndicates at Lloyd's of London and European reinsurers.

For the year ended September 30, 2016, the Hospital paid insurance premiums of \$9,019 to Healthstar, \$6,769 of which relates to the coverage retained as net of reinsurance by Healthstar and \$2,250 of which relates to reinsurance placed with third-party reinsurers. Of the \$9,019 insurance premium payments, \$1,883 was paid by the Hospital on behalf of its affiliates.

For the year ended September 30, 2015, the Hospital paid insurance premiums of \$9,540 to Healthstar, \$7,290 of which relates to the coverage retained as net of reinsurance by Healthstar and \$2,250 of which relates to reinsurance placed with third-party reinsurers. Of the \$9,540 insurance premium payments, \$1,744 was paid by the Hospital on behalf of its affiliates.

Healthstar employs the services of an actuary to estimate the ultimate value of professional and general liabilities. As of September 30, 2016 and 2015, Healthstar's undiscounted estimated professional and general liability reserves for claims and expenses are \$26,141 and \$29,777, respectively. For the years ended September 30, 2016 and 2015, claims covered and expensed by Healthstar amounted to \$5,731 and \$6,192, respectively.

Stamford Health, Inc.

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

10. Professional, General, and Umbrella Liability Insurance (continued)

The Hospital recorded an estimated insurance recoveries receivable and insurance claim liability of \$2,915 and \$3,307 as of September 30, 2016 and 2015, 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 relate to anticipated future recoveries for professional and general liability claims reinsured with third-party reinsurers.

The Hospital employs the services of an actuary to estimate the ultimate value of professional and general liabilities for events that have occurred but have not yet been reported under its claims-made coverage with Healthstar. This “tail” liability was \$8,679 and \$9,944 as of September 30, 2016 and 2015, respectively.

11. Other Revenue

Other revenue consists of the following:

	Year Ended September 30	
	2016	2015
Contributions	\$ 1,762	\$ 2,698
Rental income	3,520	3,470
Electronic health records incentive payments	566	1,646
Grant revenue	1,247	588
Investment income	1,317	1,350
Rehabilitation services	3,572	3,251
Other	5,224	4,679
	<u>\$ 17,208</u>	<u>\$ 17,682</u>

Stamford Health, Inc.

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

11. Other Revenue (continued)

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2016.

SHI 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 SHI is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling approximately \$600 and \$1,600 for the years ended September 30, 2016 and 2015 (Medicare: \$600 and \$1,600 for 2016 and 2015, respectively; none relating to Medicaid), 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, SHI's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

12. Commitments and Contingencies

Litigation

Various investigations, lawsuits and claims arising out of the normal course of operations are pending or on appeal against SHI. 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 SHI.

Stamford Health, Inc.

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

12. Commitments and Contingencies (continued)

Operating Lease Obligations

SHI 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:

2017	\$ 11,547
2018	11,698
2019	9,948
2020	10,123
2021	10,533
Thereafter	<u>43,776</u>
Total minimum operating lease payments	<u>\$ 97,625</u>

Total nonaffiliate rental expense charged to operations for the years ended September 30, 2016 and 2015 aggregated \$8,768 and \$7,027, respectively.

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

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

2017	\$ 2,235
2018	2,421
2019	2,023
2020	1,840
2021	1,831
Thereafter	<u>12,128</u>
Total minimum operating lease income	<u>\$ 22,478</u>

Total nonaffiliate rental income recorded in operations for the years ended September 30, 2016 and 2015 aggregated \$3,520 and \$3,740, respectively.

Stamford Health, Inc.

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

12. Commitments and Contingencies (continued)

On June 30, 2015, the Hospital (Lessee) entered into a lease arrangement for a new medical office building and attached parking garage, which will be known as the Integrated Care Pavillion (ICP), with Stamford Physicians, LLC, a subsidiary of MedCraft Healthcare Real Estate (Landlord or Lessor). The ICP will be constructed by the Landlord and will contain approximately 100,000 square feet when complete. The Hospital and SHMG will lease approximately 65% of the available space within the ICP and the entire parking garage. The ICP will be located on the Hospital's existing campus. The Hospital has entered into a ground lease with an initial 50-year term and 20-year renewal option with Stamford Physicians, LLC.

13. Concentration of Credit Risk

SHI is located in Stamford, Connecticut. SHI 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Managed care organizations	34%	31%
Medicare	15	16
Medicaid	7	8
All other insurers	38	39
Self-pay patients	6	6
	<u>100%</u>	<u>100%</u>

At September 30, 2016, all of the cash and cash equivalents of SHI were held in custodial accounts at three financial institutions. Management believes that credit risk related to these deposits is minimal.

Stamford Health, Inc.

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

14. Functional Expenses

SHI provides general health care services to residents within its geographic area. Expenses related to providing these services for the years ended September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Health care and resident services	\$ 479,409	\$ 448,998
General and administrative	79,003	76,448
	<u>\$ 558,412</u>	<u>\$ 525,446</u>

15. Fair Value of Financial Instruments

For assets and liabilities required to be measured at fair value, SHI 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 SHI'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.

SHI follows a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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

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

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

Stamford Health, Inc.

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

15. Fair Value of Financial Instruments (continued)

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

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

Financial assets, including the defined benefit plan assets, carried at fair value as of September 30, 2016, except for those carried at fair value based upon, as a practical expedient, the net asset values of each investment, are classified in the tables below in one of the three categories described previously:

	2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 198,922	\$ –	\$ –	\$ 198,922
Mutual funds – multi industry	44,748	–	–	44,748
Mutual funds – fixed income	72,339	–	–	72,339
Defined benefit plan assets:				
Cash and cash equivalents	8,996	–	–	8,996
Mutual funds – multi industry	52,429	–	–	52,429
Mutual funds – fixed income	50,853	–	–	50,853
Beneficial interest in a perpetual trust	–	–	55,774	55,774
	\$ 428,287	\$ –	\$ 55,774	\$ 484,061

Private mutual funds which are carried at fair value based upon, as a practical expedient, the net asset value of the funds, amounted to \$3,761 as of September 30, 2016.

Stamford Health, Inc.

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

15. Fair Value of Financial Instruments (continued)

Defined benefit plan assets carried at fair value, based upon, as a practical expedient, the net asset values of each investment, are as follows as of September 30, 2016:

Plan assets from table above	\$ 112,278
Plan assets measured at net asset value:	
Private mutual funds ^(a)	6,119
Partnerships ^(b)	24,760
Hedge funds ^(c)	44,101
Total plan assets measured at net asset value	<u>74,980</u>
	<u>\$ 187,258</u>

The fair value of the beneficial interest in a perpetual trust was estimated based on the Hospital's interest in the fair value of the underlying trust assets and is classified in Level 3 of the valuation hierarchy above. The following table sets forth a summary of changes in the fair value of the beneficial interest in a perpetual trust for the year ended September 30, 2016:

Fair value at September 30, 2015	\$ –
Contribution – recognition of beneficial interest	50,000
Total gains or losses (realized/unrealized) included in changes in net assets	6,134
Distributions	(360)
Fair value at September 30, 2016	<u>\$ 55,774</u>

Stamford Health, Inc.

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

15. Fair Value of Financial Instruments (continued)

Financial assets, including the defined benefit plan assets, carried at fair value as of September 30, 2015, except for those carried at fair value based upon, as a practical expedient, the net asset values of each investment, are classified in the tables below in one of the three categories described previously:

	2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 217,959	\$ –	\$ –	\$ 217,959
Mutual funds – multi industry	34,085	–	–	34,085
Mutual funds – fixed income	69,792	–	–	69,792
Defined benefit plan assets:				
Cash and cash equivalents	6,911	–	–	6,911
Mutual funds – multi industry	40,795	–	–	40,795
Mutual funds – fixed income	44,482	–	–	44,482
	<u>\$ 414,024</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 414,024</u>

Private mutual funds which are carried at fair value based upon, as a practical expedient, the net asset value of the funds, amounted to \$3,605 as of September 30, 2015.

Defined benefit plan assets carried at fair value, based upon, as a practical expedient, the net asset values of each investment, are as follows as of September 30, 2015:

Plan assets from table above	\$ 92,188
Plan assets measured at net asset value:	
Private mutual funds ^(a)	5,851
Partnerships ^(b)	27,548
Hedge funds ^(c)	65,997
Total plan assets measured at net asset value	<u>99,396</u>
	<u>\$ 191,584</u>

Stamford Health, Inc.

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

15. Fair Value of Financial Instruments (continued)

- (a) Private mutual funds pursue exposure to investment securities and provide the benefit of a diversified and active investment management strategy. The holdings can include domestic and international equity securities, fixed income securities, convertible debt, and distressed debt. SHI can normally redeem these investments on a monthly basis.
- (b) Partnerships are private equity investments that seek to generate acceptable returns in private companies over a given investment period. \$17,914 and \$18,152 of the investment at September 30, 2016 and 2015, respectively, is redeemable in the near-term. SHI considers redemptions that could occur within 120 days of its measurement date to be near-term. \$6,846 and \$9,396 of the investment at September 30, 2016 and 2015, respectively, have redemption restrictions in place, given the future funding commitments of \$1,814 and \$1,444 at September 30, 2016 and 2015, respectively.
- (c) Hedge funds and funds of hedge funds pursue a variety of investment strategies. SHI holds multiple hedge funds and funds of hedge funds in an attempt to diversify exposures to multiple investment strategies and their respective risks, while attempting to reduce volatility. The underlying investments can include domestic and international equity securities, fixed income securities, convertible debt, distressed debt, merger arbitrage, real estate, private investments, and hedge funds (in the case of funds of funds). The redemption terms vary among funds but, in most cases, SHI can normally redeem monthly or quarterly with 30 to 120 days' notice.

SHI'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 carrying values and fair values of SHI's financial instruments that are not required to be carried at fair value at September 30, 2016 and 2015 are as follows:

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt	\$ 448,957	\$ 413,194	\$ 395,152	\$ 368,894

Stamford Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Fair Value of Financial Instruments (continued)

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

16. Subsequent Events

SHI 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, 2016, SHI evaluated subsequent events through January 20, 2017, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Stamford Health, Inc.

Consolidating Balance Sheet
(In Thousands)

September 30, 2016

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Eliminations	Consolidated Stamford Health, Inc.
Assets									
Current assets:									
Cash and cash equivalents	\$ 123,543	\$ -	\$ 2,928	\$ -	\$ 126,471	\$ 682	\$ 2,425	\$ -	\$ 129,578
Assets limited as to use	100	-	-	-	100	-	29	-	129
Short-term investments	45	-	-	-	45	-	-	-	45
Patient accounts receivable, net	73,153	-	4,691	-	77,844	-	-	-	77,844
Other receivables	1,320	47	24	-	1,391	347	29	-	1,767
Pledges receivable	6,393	-	-	-	6,393	-	-	-	6,393
Estimated third-party payor settlements, current	46	-	-	-	46	-	-	-	46
Other current assets	13,647	10	343	-	14,000	95	34	-	14,129
Total current assets	218,247	57	7,986	-	226,290	1,124	2,517	-	229,931
Assets limited as to use:									
Held by captive insurance company	-	27,869	-	-	27,869	-	-	-	27,869
Long-term investments – endowments	5,672	-	-	-	5,672	47	-	-	5,719
Beneficial interest in a perpetual trust	55,774	-	-	-	55,774	-	-	-	55,774
Held by trustee – cost of issuance	178	-	-	-	178	-	-	-	178
Due from SHI – donor restricted	17,892	-	-	-	17,892	-	-	(17,892)	-
	79,516	27,869	-	-	107,385	47	-	(17,892)	89,540
Long-term investments	63,455	47,651	-	(11,908)	99,198	101,901	-	(49)	201,050
Property, plant, and equipment, net	640,833	-	15,153	-	655,986	1,516	968	-	658,470
Pledges receivable, net	23,417	-	-	-	23,417	-	-	-	23,417
Due from TSH – board designated	-	-	-	-	-	20,014	-	(20,014)	-
Due from Parent and affiliates	7,951	-	-	(153)	7,798	5,540	3,529	(16,867)	-
Other assets	2,864	2,916	89	-	5,869	4,913	-	-	10,782
Total assets	\$ 1,036,283	\$ 78,493	\$ 23,228	\$ (12,061)	\$ 1,125,943	\$ 135,055	\$ 7,014	\$ (54,822)	\$ 1,213,190

Stamford Health, Inc.

Consolidating Balance Sheet (continued)
(In Thousands)

September 30, 2016

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Eliminations	Consolidated Stamford Health, Inc.
Liabilities and net assets									
Current liabilities:									
Current portion of long-term debt	\$ 7,345	\$ –	\$ –	\$ –	\$ 7,345	\$ –	\$ 4,621	\$ –	\$ 11,966
Accounts payable and accrued expenses	79,387	40	6,434	–	85,861	3,564	49	–	89,474
Salaries, wages, and fees payable	11,781	–	7,111	–	18,892	–	–	–	18,892
Accrued vacation liability	19,549	–	1,890	–	21,439	–	–	–	21,439
Estimated third-party payor settlements, current	5,359	–	–	–	5,359	–	–	–	5,359
Estimated professional liabilities, current	–	7,359	–	–	7,359	–	–	–	7,359
Total current liabilities	123,421	7,399	15,435	–	146,255	3,564	4,670	–	154,489
Pension liabilities	112,003	–	–	–	112,003	14,871	–	–	126,874
Estimated third-party payor settlements, net of current portion	1,390	–	–	–	1,390	–	–	–	1,390
Long-term debt, net of current portion	401,228	–	–	–	401,228	–	–	–	401,228
Due to Parent – board designated	20,014	–	–	–	20,014	–	–	(20,014)	–
Due to TSH – donor restricted	–	–	–	–	–	17,892	–	–	(17,892)
Due to Parent and affiliates	2,728	153	5,540	(153)	8,268	8,599	–	(16,867)	–
Estimated professional liabilities, net of current portion	8,679	21,698	–	–	30,377	–	–	–	30,377
Other long-term liabilities	–	–	2,030	–	2,030	–	–	–	2,030
Total liabilities	669,463	29,250	23,005	(153)	721,565	44,926	4,670	(54,773)	716,388
Net assets:									
Unrestricted	283,719	49,243	223	(11,908)	321,277	87,721	2,344	(49)	411,293
Temporarily restricted	21,655	–	–	–	21,655	2,361	–	–	24,016
Permanently restricted	61,446	–	–	–	61,446	47	–	–	61,493
Total net assets	366,820	49,243	223	(11,908)	404,378	90,129	2,344	(49)	496,802
Total liabilities and net assets	\$ 1,036,283	\$ 78,493	\$ 23,228	\$ (12,061)	\$ 1,125,943	\$ 135,055	\$ 7,014	\$ (54,822)	\$ 1,213,190

Stamford Health, Inc.

Consolidating Balance Sheet
(In Thousands)

September 30, 2015

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Stamford Health, Inc.
Assets										
Current assets:										
Cash and cash equivalents	\$ 127,288	\$ -	\$ 2,768	\$ -	\$ 130,056	\$ 2,721	\$ 2,072	\$ -	\$ -	\$ 134,849
Assets limited as to use	103	-	-	-	103	-	31	-	-	134
Short-term investments	53	-	-	-	53	-	-	-	-	53
Patient accounts receivable, net	72,727	-	4,756	-	77,483	-	-	-	-	77,483
Other receivables	1,265	203	1,065	-	2,533	134	78	-	-	2,745
Pledges receivable	9,226	-	-	-	9,226	-	-	-	-	9,226
Estimated third-party payor settlements, current	265	-	-	-	265	-	-	-	-	265
Other current assets	15,003	24	299	-	15,326	29	40	-	-	15,395
Total current assets	225,930	227	8,888	-	235,045	2,884	2,221	-	-	240,150
Assets limited as to use:										
Held by captive insurance company	-	38,734	-	-	38,734	-	-	-	-	38,734
Long-term investments – endowments	8,445	-	-	-	8,445	47	-	-	-	8,492
Due from SHI – donor restricted	17,892	-	-	-	17,892	-	-	-	(17,892)	-
	26,337	38,734	-	-	65,071	47	-	-	(17,892)	47,226
Long-term investments	83,859	34,055	-	(11,908)	106,006	99,079	-	-	(49)	205,036
Property, plant, and equipment, net	537,777	-	14,208	-	551,985	3,936	3,493	-	-	559,414
Pledges receivable, net	19,610	-	-	-	19,610	-	-	-	-	19,610
Due from TSH – board designated	-	-	-	-	-	20,014	-	-	(20,014)	-
Due from Parent and affiliates	7,179	-	-	(226)	6,953	4,752	3,561	-	(15,266)	-
Other assets	1,339	3,307	106	-	4,752	4,387	-	-	-	9,139
Total assets	\$ 902,031	\$ 76,323	\$ 23,202	\$ (12,134)	\$ 989,422	\$ 135,099	\$ 9,275	\$ -	\$ (53,221)	\$ 1,080,575

Stamford Health, Inc.

Consolidating Balance Sheet (continued)
(In Thousands)

September 30, 2015

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Stamford Health, Inc.
Liabilities and net assets										
Current liabilities:										
Current portion of long-term debt	\$ 5,410	\$ -	\$ -	\$ -	\$ 5,410	\$ -	\$ 235	\$ -	\$ -	\$ 5,645
Accounts payable and accrued expenses	77,183	62	8,419	-	85,664	3,490	67	-	-	89,221
Salaries, wages, and fees payable	11,627	-	6,098	-	17,725	-	-	-	-	17,725
Accrued vacation liability	19,702	-	1,622	-	21,324	-	-	-	-	21,324
Estimated third-party payor settlements, current	7,801	-	-	-	7,801	-	-	-	-	7,801
Estimated professional liabilities, current	-	9,105	-	-	9,105	-	-	-	-	9,105
Total current liabilities	121,723	9,167	16,139	-	147,029	3,490	302	-	-	150,821
Pension liabilities	77,424	-	-	-	77,424	13,436	-	-	-	90,860
Estimated third-party payor settlements, net of current portion	2,063	-	-	-	2,063	-	-	-	-	2,063
Long-term debt, net of current portion	358,628	-	-	-	358,628	-	4,621	-	-	363,249
Due to Parent – board designated	20,014	-	-	-	20,014	-	-	-	(20,014)	-
Due to TSH – donor restricted	-	-	-	-	-	17,892	-	-	(17,892)	-
Due to Parent and affiliates	2,761	226	4,752	(226)	7,513	7,753	-	-	(15,266)	-
Estimated professional liabilities, net of current portion	9,944	23,978	-	-	33,922	-	-	-	-	33,922
Other long-term liabilities	-	-	2,281	-	2,281	-	-	-	-	2,281
Total liabilities	592,557	33,371	23,172	(226)	648,874	42,571	4,923	-	(53,172)	643,196
Net assets:										
Unrestricted	218,717	42,952	30	(11,908)	249,791	90,120	4,352	-	(49)	344,214
Temporarily restricted	82,312	-	-	-	82,312	2,361	-	-	-	84,673
Permanently restricted	8,445	-	-	-	8,445	47	-	-	-	8,492
Total net assets	309,474	42,952	30	(11,908)	340,548	92,528	4,352	-	(49)	437,379
Total liabilities and net assets	\$ 902,031	\$ 76,323	\$ 23,202	\$ (12,134)	\$ 989,422	\$ 135,099	\$ 9,275	\$ -	\$ (53,221)	\$ 1,080,575

Stamford Health, Inc.

Consolidating Statement of Operations
(In Thousands)

Year Ended September 30, 2016

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Eliminations	Consolidated Stamford Health, Inc.
Unrestricted revenue, gains, and other support:									
Net patient service revenue	\$ 528,175	\$ -	\$ 52,488	\$ -	\$ 580,663	\$ -	\$ -	\$ -	\$ 580,663
Provision for bad debts	(33,979)	-	(2,063)	-	(36,042)	-	-	-	(36,042)
Net patient service revenue, less provision for bad debts	494,196	-	50,425	-	544,621	-	-	-	544,621
Other revenue	15,837	8,065	8,048	(15,122)	16,828	742	1,157	(1,519)	17,208
Net assets released from restrictions for operations	1,715	-	-	-	1,715	-	-	-	1,715
Total unrestricted revenue, gains, and other support	511,748	8,065	58,473	(15,122)	563,164	742	1,157	(1,519)	563,544
Expenses:									
Salaries	193,035	-	60,120	450	253,605	-	-	-	253,605
Employee benefits	49,785	-	6,937	-	56,722	1,068	-	-	57,790
Supplies and other expenses	192,854	3,208	23,952	(15,572)	204,442	1,356	491	(1,519)	204,770
Depreciation and amortization	30,945	-	1,546	-	32,491	289	2,525	-	35,305
Interest expense	6,793	-	-	-	6,793	-	149	-	6,942
Total expenses	473,412	3,208	92,555	(15,122)	554,053	2,713	3,165	(1,519)	558,412
Income (loss) from operations	38,336	4,857	(34,082)	-	9,111	(1,971)	(2,008)	-	5,132

Stamford Health, Inc.

Consolidating Statement of Operations (continued)
(In Thousands)

Year Ended September 30, 2016

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Eliminations	Consolidated Stamford Health, Inc.
Income (loss) from operations (continued from page 55)	\$ 38,336	\$ 4,857	\$ (34,082)	\$ –	\$ 9,111	\$ (1,971)	\$ (2,008)	\$ –	\$ 5,132
Nonoperating gains and losses:									
Investment returns	2,735	1,434	–	–	4,169	4,961	–	–	9,130
Change in net unrealized gains and losses	(1,215)	–	–	–	(1,215)	(2,445)	–	–	(3,660)
Total nonoperating gains and losses	1,520	1,434	–	–	2,954	2,516	–	–	5,470
Excess (deficiency) of revenue over expenses	39,856	6,291	(34,082)	–	12,065	545	(2,008)	–	10,602
Net assets released from restrictions used for purchases of property and equipment	81,241	–	–	–	81,241	–	–	–	81,241
Pension-related changes other than net periodic pension cost	(23,602)	–	–	–	(23,602)	(1,162)	–	–	(24,764)
SHI equity transfer of fixed assets	1,782	–	–	–	1,782	(1,782)	–	–	–
Equity transfers	(34,275)	–	34,275	–	–	–	–	–	–
Increase (decrease) in unrestricted net assets	\$ 65,002	\$ 6,291	\$ 193	\$ –	\$ 71,486	\$ (2,399)	\$ (2,008)	\$ –	\$ 67,079

Stamford Health, Inc.

Consolidating Statement of Operations
(In Thousands)

Year Ended September 30, 2015

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Stamford Health, Inc.
Unrestricted revenue, gains, and other support:										
Net patient service revenue	\$ 504,371	\$ -	\$ 46,255	\$ -	\$ 550,626	\$ -	\$ -	\$ -	\$ -	\$ 550,626
Provision for bad debts	(27,958)	-	(1,557)	-	(29,515)	-	-	-	-	(29,515)
Net patient service revenue, less provision for bad debts	476,413	-	44,698	-	521,111	-	-	-	-	521,111
Other revenue	15,601	8,751	6,481	(13,615)	17,218	1,310	1,325	-	(2,171)	17,682
Net assets released from restrictions for operations	1,638	-	-	-	1,638	-	-	-	-	1,638
Total unrestricted revenue, gains, and other support	493,652	8,751	51,179	(13,615)	539,967	1,310	1,325	-	(2,171)	540,431
Expenses:										
Salaries	187,562	-	52,610	380	240,552	-	-	-	-	240,552
Employee benefits	48,329	-	6,484	-	54,813	849	-	-	-	55,662
Supplies and other expenses	182,237	6,631	22,786	(13,995)	197,659	1,559	513	200	(2,171)	197,760
Depreciation and amortization	23,802	-	1,274	-	25,076	311	185	-	-	25,572
Interest expense	5,743	-	-	-	5,743	-	157	-	-	5,900
Total expenses	447,673	6,631	83,154	(13,615)	523,843	2,719	855	200	(2,171)	525,446
Income (loss) from operations	45,979	2,120	(31,975)	-	16,124	(1,409)	470	(200)	-	14,985

Stamford Health, Inc.

Consolidating Statement of Operations (continued)
(In Thousands)

Year Ended September 30, 2015

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Stamford Health, Inc.
Income (loss) from operations (continued from page 57)	\$ 45,979	\$ 2,120	\$ (31,975)	\$ -	\$ 16,124	\$ (1,409)	\$ 470	\$ (200)	\$ -	\$ 14,985
Nonoperating gains and losses:										
Investment returns	2,097	(988)	-	-	1,109	4,122	-	-	-	5,231
Change in net unrealized gains and losses	(2,679)	-	-	-	(2,679)	(5,130)	-	-	-	(7,809)
Total nonoperating gains and losses	(582)	(988)	-	-	(1,570)	(1,008)	-	-	-	(2,578)
Excess (deficiency) of revenue over expenses	45,397	1,132	(31,975)	-	14,554	(2,417)	470	(200)	-	12,407
Net assets released from restrictions used for purchases of property and equipment	457	-	-	-	457	-	-	-	-	457
Pension-related changes other than net periodic pension cost	(6,240)	-	-	-	(6,240)	(1,635)	-	-	-	(7,875)
SHI equity transfer of Investments	58,496	-	-	-	58,496	(58,496)	-	-	-	-
Equity transfers	(30,785)	-	30,785	-	-	(4,183)	-	4,183	-	-
Increase (decrease) in unrestricted net assets	\$ 67,325	\$ 1,132	\$ (1,190)	\$ -	\$ 67,267	\$ (66,731)	\$ 470	\$ 3,983	\$ -	\$ 4,989

Stamford Health, Inc.

Consolidating Statement of Changes in Net Assets
(In Thousands)

Year Ended September 30, 2016

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Eliminations	Consolidated Stamford Health, Inc.
Excess (deficiency) of revenue over expenses	\$ 39,856	\$ 6,291	\$ (34,082)	\$ –	\$ 12,065	\$ 545	\$ (2,008)	\$ –	\$ 10,602
Pension-related changes other than net periodic pension cost	(23,602)	–	–	–	(23,602)	(1,162)	–	–	(24,764)
Net assets released from restrictions used for purchases of property and equipment	81,241	–	–	–	81,241	–	–	–	81,241
SHI equity transfer of fixed assets	1,782	–	–	–	1,782	(1,782)	–	–	–
Equity transfers	(34,275)	–	34,275	–	–	–	–	–	–
Increase (decrease) in unrestricted net assets	65,002	6,291	193	–	71,486	(2,399)	(2,008)	–	67,079
Temporarily restricted net assets:									
Contributions	19,120	–	–	–	19,120	–	–	–	19,120
Change in net unrealized gains and losses	(406)	–	–	–	(406)	–	–	–	(406)
Investment returns	812	–	–	–	812	–	–	–	812
Net assets released from restrictions for operations	(1,715)	–	–	–	(1,715)	–	–	–	(1,715)
Net assets transfer	2,773	–	–	–	2,773	–	–	–	2,773
Net assets released from restrictions used for purchases of property and equipment	(81,241)	–	–	–	(81,241)	–	–	–	(81,241)
Decrease in temporarily restricted net assets	(60,657)	–	–	–	(60,657)	–	–	–	(60,657)
Permanently restricted net assets:									
Contributions	50,000	–	–	–	50,000	–	–	–	50,000
Gains or losses (realized/unrealized) – beneficial interest in a perpetual trust	6,134	–	–	–	6,134	–	–	–	6,134
Distributions – beneficial interest in a perpetual trust	(360)	–	–	–	(360)	–	–	–	(360)
Net assets transfer	(2,773)	–	–	–	(2,773)	–	–	–	(2,773)
Increase in permanently restricted net assets	53,001	–	–	–	53,001	–	–	–	53,001
Increase (decrease) in net assets	57,346	6,291	193	–	63,830	(2,399)	(2,008)	–	59,423
Net assets – beginning of year	309,474	42,952	30	(11,908)	340,548	92,528	4,352	(49)	437,379
Net assets – end of year	\$ 366,820	\$ 49,243	\$ 223	\$ (11,908)	\$ 404,378	\$ 90,129	\$ 2,344	\$ (49)	\$ 496,802

Stamford Health, Inc.

Consolidating Statement of Changes in Net Assets
(In Thousands)

Year Ended September 30, 2015

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Stamford Health, Inc.
Excess (deficiency) of revenue over expenses	\$ 45,397	\$ 1,132	\$ (31,975)	\$ -	\$ 14,554	\$ (2,417)	\$ 470	\$ (200)	\$ -	\$ 12,407
Pension-related changes other than net periodic pension cost	(6,240)	-	-	-	(6,240)	(1,635)	-	-	-	(7,875)
Net assets released from restrictions used for purchases of property and equipment	457	-	-	-	457	-	-	-	-	457
SHI equity transfer of Investments	58,496	-	-	-	58,496	(58,496)	-	-	-	-
Equity transfers	(30,785)	-	30,785	-	-	(4,183)	-	4,183	-	-
Increase (decrease) in unrestricted net assets	67,325	1,132	(1,190)	-	67,267	(66,731)	470	3,983	-	4,989
Temporarily restricted net assets:										
Contributions	25,458	-	-	-	25,458	-	-	-	-	25,458
Change in net unrealized gains and losses	(1,053)	-	-	-	(1,053)	-	-	-	-	(1,053)
Investment returns	949	-	-	-	949	-	-	-	-	949
Net assets released from restrictions for operations	(1,638)	-	-	-	(1,638)	-	-	-	-	(1,638)
Net assets released from restrictions used for purchases of property and equipment	(457)	-	-	-	(457)	-	-	-	-	(457)
Increase in temporarily restricted net assets	23,259	-	-	-	23,259	-	-	-	-	23,259
Permanently restricted net assets:										
Contributions	84	-	-	-	84	-	-	-	-	84
Increase in permanently restricted net assets	84	-	-	-	84	-	-	-	-	84
Increase (decrease) in net assets	90,668	1,132	(1,190)	-	90,610	(66,731)	470	3,983	-	28,332
Net assets – beginning of year	218,806	41,820	1,220	(11,908)	249,938	159,259	3,882	(3,983)	(49)	409,047
Net assets – end of year	\$ 309,474	\$ 42,952	\$ 30	\$ (11,908)	\$ 340,548	\$ 92,528	\$ 4,352	\$ -	\$ (49)	\$ 437,379

Stamford Health, Inc.

Consolidating Schedule of Net Patient Service Revenue
(In Thousands)

Year Ended September 30, 2016

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Eliminations	Consolidated Stamford Health, Inc.
Gross revenue from patients	\$ 2,018,104	\$ -	\$ 116,865	\$ -	\$ 2,134,969	\$ -	\$ -	\$ -	\$ 2,134,969
Deductions:									
Contractual allowances	1,464,048	-	64,377	-	1,528,425	-	-	-	1,528,425
Charity care	25,881	-	-	-	25,881	-	-	-	25,881
Total deductions	1,489,929	-	64,377	-	1,554,306	-	-	-	1,554,306
Net patient service revenue	528,175	-	52,488	-	580,663	-	-	-	580,663
Provision for bad debts	(33,979)	-	(2,063)	-	(36,042)	-	-	-	(36,042)
Net patient service revenue, less provision for bad debts	\$ 494,196	\$ -	\$ 50,425	\$ -	\$ 544,621	\$ -	\$ -	\$ -	\$ 544,621

Stamford Health, Inc.

Consolidating Schedule of Net Patient Service Revenue
(In Thousands)

Year Ended September 30, 2015

	The Stamford Hospital	Healthstar Indemnity Company, Ltd.	Stamford Health Medical Group, Inc.	Eliminations	Consolidated The Stamford Hospital	Stamford Health, Inc.	Miller Hall Medical Suites, LLC	Southwest Connecticut Radiology LLC	Eliminations	Consolidated Stamford Health, Inc.
Gross revenue from patients	\$ 1,872,449	\$ -	\$ 104,863	\$ -	\$ 1,977,312	\$ -	\$ -	\$ -	\$ -	\$ 1,977,312
Deductions:										
Contractual allowances	1,335,831	-	58,608	-	1,394,439	-	-	-	-	1,394,439
Charity care	32,247	-	-	-	32,247	-	-	-	-	32,247
Total deductions	1,368,078	-	58,608	-	1,426,686	-	-	-	-	1,426,686
Net patient service revenue	504,371	-	46,255	-	550,626	-	-	-	-	550,626
Provision for bad debts	(27,958)	-	(1,557)	-	(29,515)	-	-	-	-	(29,515)
Net patient service revenue, less provision for bad debts	\$ 476,413	\$ -	\$ 44,698	\$ -	\$ 521,111	\$ -	\$ -	\$ -	\$ -	\$ 521,111

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2016 Ernst & Young LLP.
All Rights Reserved.

ey.com

