

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Stamford Health, Inc.
Years Ended September 30, 2015 and 2014
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, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014 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 22, 2016

Stamford Health, Inc.

Consolidated Balance Sheets
(In Thousands)

| | September 30 | |
|---|---------------------|--------------|
| | 2015 | 2014 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 134,849 | \$ 109,623 |
| Assets limited as to use | 134 | 257 |
| Short-term investments | 53 | 58 |
| Patient accounts receivable (less allowance for uncollectible accounts of \$39,782 and \$48,249) | 77,483 | 73,832 |
| Other receivables | 2,745 | 3,130 |
| Pledges receivable | 9,226 | 4,476 |
| Estimated third-party payor settlements, current | 265 | 2,838 |
| Other current assets | 15,395 | 13,029 |
| Total current assets | 240,150 | 207,243 |
| Assets limited as to use: | | |
| Held by captive insurance company | 38,734 | 41,617 |
| Long-term investments – endowments | 8,492 | 8,408 |
| Held by trustee – construction and debt service funds | – | 77,128 |
| | 47,226 | 127,153 |
| Long-term investments | 205,036 | 243,057 |
| Property, plant, and equipment, net | 559,414 | 428,864 |
| Pledges receivable, net | 19,610 | 21,200 |
| Other assets | 13,098 | 13,583 |
| Total assets | \$ 1,084,534 | \$ 1,041,100 |

| | September 30 | |
|---|----------------------------|----------------------------|
| | 2015 | 2014 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 5,933 | \$ 5,802 |
| Accounts payable and accrued expenses | 89,221 | 81,388 |
| Salaries, wages, and fees payable | 17,725 | 14,631 |
| Accrued vacation liability | 21,324 | 20,649 |
| Estimated third-party payor settlements, current | 7,801 | 6,542 |
| Estimated professional liabilities, current | 9,105 | 11,017 |
| Total current liabilities | <u>151,109</u> | 140,029 |
| Pension liabilities | 90,860 | 84,427 |
| Estimated third-party payor settlements, net of current portion | 2,063 | 656 |
| Long-term debt, net of current portion | 366,920 | 372,853 |
| Estimated professional liabilities, net of current portion | 33,922 | 33,959 |
| Other long-term liabilities | 2,281 | 129 |
| Total liabilities | <u>647,155</u> | 632,053 |
| Commitments and contingencies | | |
| Net assets: | | |
| Unrestricted | 344,214 | 339,225 |
| Temporarily restricted | 84,673 | 61,414 |
| Permanently restricted | 8,492 | 8,408 |
| Total net assets | <u>437,379</u> | 409,047 |
| Total liabilities and net assets | <u><u>\$ 1,084,534</u></u> | <u><u>\$ 1,041,100</u></u> |

See accompanying notes.

Stamford Health, Inc.

Consolidated Statements of Operations
(In Thousands)

| | Year Ended September 30 | |
|---|--------------------------------|-------------------|
| | 2015 | 2014 |
| Unrestricted revenue, gains, and other support: | | |
| Net patient service revenue | \$ 550,626 | \$ 537,792 |
| Provision for bad debts | (29,515) | (41,755) |
| Net patient service revenue, less provision for bad debts | 521,111 | 496,037 |
| Other revenue | 17,682 | 23,399 |
| Net assets released from restrictions for operations | 1,638 | 1,495 |
| Total unrestricted revenue, gains, and other support | <u>540,431</u> | <u>520,931</u> |
| Expenses: | | |
| Salaries | 240,552 | 229,234 |
| Employee benefits | 55,662 | 53,247 |
| Supplies and other expenses | 197,760 | 198,202 |
| Depreciation and amortization | 25,572 | 25,518 |
| Interest expense | 5,900 | 6,171 |
| Total expenses | <u>525,446</u> | <u>512,372</u> |
| Income from operations | 14,985 | 8,559 |
| Nonoperating gains and losses: | | |
| Loss on lease obligation | - | (226) |
| Investment returns | 5,231 | 7,618 |
| Change in net unrealized gains and losses | (7,809) | 1,586 |
| Total nonoperating gains and losses | <u>(2,578)</u> | <u>8,978</u> |
| Excess of revenue over expenses | 12,407 | 17,537 |
| Net assets released from restrictions used for purchases of property and equipment | 457 | 491 |
| Pension-related changes other than net periodic pension cost | (7,875) | (19,631) |
| Increase (decrease) in unrestricted net assets | <u>\$ 4,989</u> | <u>\$ (1,603)</u> |

See accompanying notes.

Stamford Health, Inc.

Consolidated Statements of Changes in Net Assets
(In Thousands)

Years Ended September 30, 2015 and 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|---------------------------|---------------------------|-------------------|
| Balance at September 30, 2013 | \$ 340,828 | \$ 42,237 | \$ 8,080 | \$ 391,145 |
| Excess of revenue over expenses | 17,537 | – | – | 17,537 |
| Pension-related changes other than net periodic pension cost | (19,631) | – | – | (19,631) |
| Contributions | – | 20,012 | 328 | 20,340 |
| Change in net unrealized gains and losses | – | 214 | – | 214 |
| Investment returns | – | 937 | – | 937 |
| Net assets released from restrictions for operations | – | (1,495) | – | (1,495) |
| Net assets released from restrictions used for purchases of property and equipment | 491 | (491) | – | – |
| (Decrease) increase in net assets | (1,603) | 19,177 | 328 | 17,902 |
| 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 |

See accompanying notes.

Stamford Health, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

| | Year Ended September 30 | |
|---|-------------------------|-------------------|
| | 2015 | 2014 |
| Operating activities | | |
| Change in net assets | \$ 28,332 | \$ 17,902 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Pension-related changes other than net periodic pension cost | 7,875 | 19,631 |
| Net realized gains and losses and change in net unrealized gains and losses | 3,425 | (7,129) |
| Loss on lease obligation | – | 226 |
| Loss on disposal of fixed assets | 216 | 1,787 |
| Restricted contributions | (25,542) | (20,340) |
| Restricted investment returns | 104 | (1,151) |
| Depreciation and amortization | 25,572 | 25,518 |
| Amortization of deferred financing costs | 296 | 303 |
| Net amortization of bond premium | (268) | (271) |
| Provision for bad debts | 29,515 | 41,755 |
| Change in: | | |
| Patient accounts receivable | (33,166) | (43,207) |
| Accounts payable and accrued expenses | 7,833 | 7,502 |
| Estimated third-party payor settlements | 5,239 | 333 |
| Estimated professional liabilities | (1,949) | 4,098 |
| Change in all other operating assets and liabilities | (473) | (23,056) |
| Net cash provided by operating activities | <u>47,009</u> | <u>23,901</u> |
| Investing activities | | |
| Capital expenditures, net | (156,338) | (113,948) |
| Net cash redeemed from assets limited as to use and investments | 114,651 | 71,065 |
| Net cash used in investing activities | <u>(41,687)</u> | <u>(42,883)</u> |
| Financing activities | | |
| Principal payments on long-term debt | (5,534) | (5,596) |
| Restricted investment returns | (104) | 1,151 |
| Restricted contributions | 25,542 | 20,340 |
| Net cash provided by financing activities | <u>19,904</u> | <u>15,895</u> |
| Net increase (decrease) in cash and cash equivalents | 25,226 | (3,087) |
| Cash and cash equivalents, beginning of year | 109,623 | 112,710 |
| Cash and cash equivalents, end of year | <u>\$ 134,849</u> | <u>\$ 109,623</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | <u>\$ 17,746</u> | <u>\$ 18,014</u> |

See accompanying notes.

Stamford Health, Inc.

Notes to Consolidated Financial Statements (In Thousands)

September 30, 2015

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 Integrated Practices, Inc. (SHIP) 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, SHIP was transferred from SHI to the Hospital.

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 funds 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, 2015 and 2014, SHI has future commitments of \$1,210 and \$1,615, 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, 2015 and 2014, Stamford Health recorded (losses) and gains on unrestricted alternative investments of (\$4,005) and \$4,132, 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, 2015 and 2014, SHI recorded total ordinary income and net realized gains of \$9,236 and \$3,486, respectively.

Assets Limited as to Use

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

Property, Plant, and Equipment

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

Stamford Health, Inc.

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

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

accounts when such assets are disposed of, and any resulting gain or loss is included in operations. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations and leasehold improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment or leasehold improvement. Interest cost incurred on borrowed funds, net of interest earned on such funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Estimated useful lives by classification are as follows:

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

Deferred Financing Costs

Included in other assets are deferred financing costs. Costs incurred in connection with the issuance of bonds are amortized over the lives of the bonds using the effective interest method. At September 30, 2015 and 2014, the accumulated amortization for deferred financing costs was \$1,377 and \$1,081, respectively. Amortization of deferred financing costs is included in interest expense in the accompanying consolidated statements of operations.

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 \$3,307 and \$3,377 as of September 30, 2015 and 2014, respectively.

Stamford Health, Inc.

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

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

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 Center, 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 2015 and 2014, SHI recognized income of \$484 and \$736, respectively, and received capital distributions of \$648 and \$727, respectively.

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.

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

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)

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

Estimated Professional Liabilities

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

Income Taxes

SHI is a not-for-profit corporation and all of its not-for-profit affiliates have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The related income or losses of SHI and all of its not-for-profit affiliates are not subject to federal or state income taxes. The related losses of SCR, a for-profit affiliate, is subject to federal and state income taxes. No significant liabilities exist as of September 30, 2015 and 2014 for applicable federal and state 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 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). 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 and most industry-specific guidance. The provisions of ASU 2014-09 are effective for Stamford Health for annual reporting periods beginning after December 15, 2016. Early application is not permitted. Stamford Health has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 eliminates the different presentation requirements for debt issuance costs and debt discounts and premiums and requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective for Stamford Health for annual reporting periods beginning after December 15, 2015. Early application is permitted. Stamford Health has elected not to early adopt and is evaluating the impact of ASU 2015-03 on its consolidated financial statements.

In May 2015, the FASB issued Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. Early application is permitted. Management has elected to adopt ASU 2015-07 in fiscal year 2015.

Stamford Health, Inc.

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

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

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 previous years, the Hospital initiated a formal community health needs assessment of its service areas in partnership with the City of Stamford Health Department. This process includes the analysis of qualitative and quantitative data and involves interviews with social service and other community organizations to elicit their input as to community needs and opportunities for collaborative partnerships. The Hospital also administered a community survey to obtain feedback directly from the population served by the Hospital. The survey was facilitated through selected community venues.

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

In collaboration with the City of Stamford Health Department, the Hospital sponsored a joint City of Stamford-wide flu campaign to reduce the number of hospitalizations and emergency department visits. In addition, the Hospital works in partnership with the City of Stamford HIV prevention program and a third-party organization. The Hospital's mobile mammography program served community centers, places of employment and churches, providing on-site mammograms including free screenings for those without insurance. Kid's Fitness and Nutrition Services (KidsFANS) is a Hospital-led, community-wide task force designed to promote physical activity and health conscious nutrition among children. Over the past year, the Hospital has provided thousands of free health screenings at health fairs and events throughout the community. The Hospital's physicians and other health professionals offer services and speak to

Stamford Health, Inc.

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

2. Community Benefit and Charity Care (continued)

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 \$32,000 and \$30,000 for the years ended September 30, 2015 and 2014, respectively. For the years ended September 30, 2015 and 2014, the estimated cost of charity care was \$8,400 and \$8,800, 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, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|
| Provision for bad debts – net of recoveries | \$ 29,515 | \$ 41,755 |
| Charity care based on charges | 32,247 | 30,293 |
| Total uncompensated care | <u>\$ 61,762</u> | <u>\$ 72,048</u> |

For distributions from the Uncompensated Care Pool, the Hospital received \$3,418 and \$6,932 for the years ended September 30, 2015 and 2014, respectively, which is included in net patient service revenue in the accompanying consolidated statements of operations and paid \$20,153 and \$17,311 of tax assessments for the years ended September 30, 2015 and 2014, respectively.

Stamford Health, Inc.

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

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, except for the year ended September 30, 2009.

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 methodologies. TSH is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by TSH and audits thereof by Medicaid or its fiscal intermediary. 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.

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

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful

Stamford Health, Inc.

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

3. Net Patient Service Revenue (continued)

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 \$39,782 and \$48,249 at September 30, 2015 and 2014, respectively. The decrease in the allowance for uncollectible accounts was mainly due to the decrease in the allowance relating to self-pay patient accounts, which was approximately 58% and 64% of self-pay patient accounts receivable as of September 30, 2015 and 2014, respectively. The decrease in the allowance for self-pay patient accounts was a result of the full year implementation of Stamford Health's self-pay payment plan program, as well as the implementation of certain operational and process changes that shifted patient accounts from the self-pay financial class to the Medicaid and other insurance financial class. Overall, the total of self-pay discounts and write-offs did not change significantly for the year ended September 30, 2015. Stamford Health has not experienced significant changes in write-off trends and did not change its charity care policy during the year ended September 30, 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 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.

Stamford Health, Inc.

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

3. Net Patient Service Revenue (continued)

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, 2015 and 2014, 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>2015</u> | <u>2014</u> |
|--------------------|-------------------|-------------------|
| Third-party payors | \$ 528,601 | \$ 494,769 |
| Self-pay | 22,025 | 43,023 |
| Total all payors | <u>\$ 550,626</u> | <u>\$ 537,792</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.

During the year ended September 30, 2015, TSH recorded \$119 of previously recorded estimated third-party payor settlement assets that were no longer considered necessary and were included as decreases in net patient service revenue.

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

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, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|----------------------------|-------------|-------------|
| Medicare | 21% | 19% |
| Medicaid | 7 | 9 |
| Managed care organizations | 42 | 41 |
| Other third-party payors | 26 | 25 |
| Self-pay patients | 4 | 6 |
| | <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 of assets limited as to use at September 30, 2015 and 2014 is as follows:

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|------------------|------------------|
| Current portion: | | |
| Cash and cash equivalents | \$ 134 | \$ 257 |
| Held by captive insurance company: | | |
| Cash and cash equivalents | \$ 9,895 | \$ 10,193 |
| Mutual funds | 22,490 | 20,144 |
| Alternative investments – hedge funds | 6,349 | 11,280 |
| | <u>\$ 38,734</u> | <u>\$ 41,617</u> |

Stamford Health, Inc.

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

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

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|
| Long-term investments – endowments: | | |
| Cash and cash equivalents | \$ 672 | \$ 763 |
| Mutual funds | 3,367 | 3,362 |
| Alternative investments – hedge funds | 2,788 | 2,488 |
| Alternative investments – limited partnerships | 1,393 | 1,505 |
| Private mutual funds | 272 | 290 |
| | <u>\$ 8,492</u> | <u>\$ 8,408</u> |
| Held by trustee – construction and debt service funds: | | |
| Cash and cash equivalents | \$ – | \$ 77,128 |

The composition of investments at September 30, 2015 and 2014 is as follows:

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Short-term investments: | | |
| Cash and cash equivalents | \$ 9 | \$ 58 |
| Mutual funds | 44 | – |
| | <u>\$ 53</u> | <u>\$ 58</u> |
| Long-term investments: | | |
| Cash and cash equivalents | \$ 72,400 | \$ 19,560 |
| Government securities | – | 83,856 |
| Corporate bonds | – | 12,978 |
| Mutual funds | 77,976 | 72,880 |
| Alternative investments – hedge funds | 34,225 | 31,246 |
| Alternative investments – limited partnerships | 17,102 | 18,899 |
| Private mutual funds | 3,333 | 3,638 |
| | <u>\$ 205,036</u> | <u>\$ 243,057</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 for the years ended September 30, 2015 and 2014 consist of the following:

| | 2015 | | | 2014 | | |
|--|--------------|------------------------|------------|--------------|------------------------|-----------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Ordinary income (interest and dividends) | \$ 847 | \$ 62 | \$ 909 | \$ 2,075 | \$ 91 | \$ 2,166 |
| Net realized gains and (losses) | 8,389 | 1,139 | 9,528 | 1,411 | 377 | 1,788 |
| Gains and (losses) from alternative investments | (4,005) | (252) | (4,257) | 4,132 | 469 | 4,601 |
| Investment returns | 5,231 | 949 | 6,180 | 7,618 | 937 | 8,555 |
| Change in net unrealized gains and (losses) | (7,809) | (1,053) | (8,862) | 1,586 | 214 | 1,800 |
| | \$ (2,578) | \$ (104) | \$ (2,682) | \$ 9,204 | \$ 1,151 | \$ 10,355 |

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, 2015 and 2014, pledges receivable consist of the following:

| | 2015 | 2014 |
|--------------------------------------|------------------|------------------|
| Amounts expected to be collected in: | | |
| Less than one year | \$ 9,712 | \$ 4,712 |
| One to five years | 21,778 | 23,612 |
| | <u>31,490</u> | <u>28,324</u> |
| Less: | | |
| Reserve for uncollectible pledges | 1,574 | 1,416 |
| Discount on pledges | 1,080 | 1,232 |
| Current portion | 9,226 | 4,476 |
| Pledges receivable, net | <u>\$ 19,610</u> | <u>\$ 21,200</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, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Land | \$ 44,898 | \$ 44,898 |
| Land improvements | 4,823 | 5,064 |
| Buildings and improvements | 187,856 | 201,552 |
| Fixed and major movable equipment | 344,119 | 359,117 |
| Leasehold improvements | 23,240 | 16,143 |
| | <u>604,936</u> | <u>626,774</u> |
| Less accumulated depreciation and amortization | 388,290 | 403,836 |
| | <u>216,646</u> | <u>222,938</u> |
| Construction-in-progress | 342,768 | 205,926 |
| | <u>\$ 559,414</u> | <u>\$ 428,864</u> |

During the fiscal year September 30, 2015, SHI wrote off approximately \$41,009 of fully depreciated assets.

Included in property, plant, and equipment are assets under capital leases of \$1,666 at September 30, 2015 and 2014, with accumulated amortization of \$1,666 and \$1,440, respectively.

Depreciation and amortization expense for the years ended September 30, 2015 and 2014 was \$25,572 and \$25,518, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of \$194 and \$380 for the years ended September 30, 2015 and 2014, respectively.

Net interest capitalized for the years ended September 30, 2015 and 2014 was \$11,849 and \$11,840, 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 includes the construction of a new addition and central utility plant, modernization of the emergency department and other infrastructure

Stamford Health, Inc.

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

6. Property, Plant, and Equipment (continued)

improvements. The estimated project cost for the Master Facility Plan is \$450,000, consisting of construction costs and equipment. Construction in progress as of September 30, 2015 and 2014 includes, exclusive of capitalized interest, capitalized costs relating to the costs incurred for the planning and construction of the Master Facility Plan amounting to \$294,732 and \$172,093 as of September 30, 2015 and 2014, respectively. As of September 30, 2015, the Hospital has entered into commitments tied to the Master Facility Plan totaling approximately \$92,000.

7. Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|-----------------------|------------------|------------------|
| Health care services: | | |
| Purchase of equipment | \$ 51,771 | \$ 28,568 |
| Patient care | 31,569 | 31,386 |
| Health education | 1,333 | 1,460 |
| | <u>\$ 84,673</u> | <u>\$ 61,414</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.

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

Stamford Health, Inc.

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

7. Net Assets (continued)

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:

- 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 for the years ended September 30, 2015 and 2014:

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

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, 2015 and 2014.

Stamford Health, Inc.

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

8. Long-Term Debt

At September 30, 2015 and 2014, long-term debt consists of the following:

| | September 30 | |
|--|---------------------|-------------|
| | 2015 | 2014 |
| 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 | \$ 110,015 | \$ 115,035 |
| State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series J, payable in varying annual amounts with fixed interest rates varying from 3.25% to 5.125%, with the final payment due in 2042 | 250,000 | 250,000 |
| Term promissory notes bearing interest at LIBOR plus 2.00%, maturing June 1, 2021 | 8,266 | 8,674 |
| Capital lease obligations | – | 107 |
| | 368,281 | 373,816 |
| Unamortized bond premium | 4,572 | 4,839 |
| | 372,853 | 378,655 |
| Less current portion | 5,933 | 5,802 |
| | \$ 366,920 | \$ 372,853 |

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, 2015 and 2014, accumulated amortization related to the bond premium was \$411 and \$341, respectively. The Series I Bonds were used for the refunding of the State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series F and Series G Bonds, and bank loans. The proceeds were also used for financing architectural, engineering, site permitting, legal and planning costs relating to the Master Facility Plan. In addition, the proceeds were used to finance routine capital expenditures including, but not limited to, land acquisitions, renovations, planning activities and equipment purchases. The proceeds also reimbursed TSH for certain capital expenditures and certain costs of issuance of the Series I Bonds.

Stamford Health, Inc.

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

8. Long-Term Debt (continued)

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, Series 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, 2015 and 2014, accumulated amortization related to the bond premium was \$640 and \$443, 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.

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

In May 2011, the Hospital entered into a mortgage note agreement with a bank for \$4,100, bearing interest at LIBOR plus 2.00% at September 30, 2015 and 2014. The purpose of the mortgage note was to fund the acquisition of a property in New Canaan, Connecticut. The mortgage note is payable in monthly installments and matures on June 1, 2021.

At September 30, 2015 and 2014, the Hospital has a line of credit available with a bank totaling \$30,000 and a maturity date of May 31, 2017. There were no amounts outstanding on the line of credit at September 30, 2015 and 2014. The Hospital's agreement with the bank was amended 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.

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. There were no amounts outstanding under the line of credit and letter of credit as of September 30, 2015.

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 and Series J Bonds, the mortgage note payable and the line of credit. As of September 30, 2015, SHI was in compliance with such debt covenants.

Stamford Health, Inc.

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

8. Long-Term Debt (continued)

In May 2011, MHMS entered into a term mortgage note agreement with a bank for \$5,900, bearing an interest rate of LIBOR + 2.00% at September 2015 and 2014. 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, 2015, SHI was in compliance with such debt covenants.

Scheduled principal payments on long-term debt obligations as of September 30, 2015 are as follows:

| | |
|------------------------|-------------------|
| Fiscal year: | |
| 2016 | \$ 5,933 |
| 2017 | 7,779 |
| 2018 | 8,129 |
| 2019 | 8,449 |
| 2020 | 8,784 |
| Thereafter | <u>333,779</u> |
| Total minimum payments | <u>\$ 372,853</u> |

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.

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

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.

Included in other changes in unrestricted net assets at September 30, 2015 and 2014 are the following amounts that have not yet been recognized in net periodic pension cost:

| | 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> |

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

| | 2014 | | |
|---------------------------------|--------------------|-------------------|---------------------|
| | Plan | SERPs | Total |
| Unrecognized prior service cost | \$ — | \$ — | \$ — |
| Unrecognized actuarial loss | (95,730) | (7,121) | (102,851) |
| | <u>\$ (95,730)</u> | <u>\$ (7,121)</u> | <u>\$ (102,851)</u> |

The prior service cost and actuarial loss included in changes in unrestricted net assets at September 30, 2015 and expected to be recognized in net periodic pension cost during the year ending September 30, 2016 are as follows:

| | Plan | SERPs |
|--------------------|---------|----------|
| Prior service cost | \$ — | \$ (181) |
| Net loss | (9,698) | (295) |

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, 2015 and 2014, are as follows:

| | Plan | | SERPs | | Total | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Benefit obligation | | | | | | |
| Benefit obligation, beginning of year | \$ 264,958 | \$ 234,082 | \$ 13,672 | \$ 12,351 | \$ 278,630 | \$ 246,433 |
| Service cost | 2,928 | 2,914 | — | 111 | 2,928 | 3,025 |
| Interest cost | 11,591 | 11,548 | 565 | 566 | 12,156 | 12,114 |
| Plan change | — | — | 1,755 | — | 1,755 | — |
| Actuarial losses | 8,187 | 27,402 | 225 | 1,456 | 8,412 | 28,858 |
| Curtailments | (10,437) | — | — | — | (10,437) | — |
| Benefits paid | (9,362) | (10,988) | (788) | (812) | (10,150) | (11,800) |
| Benefit obligation, end of year | <u>267,865</u> | <u>264,958</u> | <u>15,429</u> | <u>13,672</u> | <u>283,294</u> | <u>278,630</u> |
| Plan assets | | | | | | |
| Fair value of plan assets, beginning of year | 193,381 | 175,378 | — | — | 193,381 | 175,378 |
| Actual return on plan assets | (3,685) | 13,991 | — | — | (3,685) | 13,991 |
| Employer contributions | 11,250 | 15,000 | 788 | 812 | 12,038 | 15,812 |
| Benefits paid | (9,362) | (10,988) | (788) | (812) | (10,150) | (11,800) |
| Fair value of plan assets, end of year | <u>191,584</u> | <u>193,381</u> | <u>—</u> | <u>—</u> | <u>191,584</u> | <u>193,381</u> |
| Funded status | <u>\$ (76,281)</u> | <u>\$ (71,577)</u> | <u>\$ (15,429)</u> | <u>\$ (13,672)</u> | <u>\$ (91,710)</u> | <u>\$ (85,249)</u> |

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

| | Plan | | SERPs | | Total | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Current portion of obligation | \$ - | \$ - | \$ (850) | \$ (822) | \$ (850) | \$ (822) |
| Noncurrent portion of obligation | (76,281) | (71,577) | (14,579) | (12,850) | (90,860) | (84,427) |
| Total | <u>\$ (76,281)</u> | <u>\$ (71,577)</u> | <u>\$ (15,429)</u> | <u>\$ (13,672)</u> | <u>\$ (91,710)</u> | <u>\$ (85,249)</u> |
| Accumulated benefit obligation | \$ (267,264) | \$ (252,945) | \$ (15,429) | \$ (13,672) | \$ (282,693) | \$ (266,617) |

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

The weighted-average assumptions used in determining the pension and postretirement benefit obligations at September 30, 2015 and 2014 were as follows:

| | Plan | | SERPs | |
|-------------------------------|--------------|-------|--------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Discount rate | 4.45% | 4.45% | 4.45% | 4.35% |
| Rate of compensation increase | 2.50 | 2.50 | - | - |

Net periodic pension cost and postretirement cost for the years ended September 30, 2015 and 2014 consist of the following components:

| | Plan | | SERPs | | Total | |
|------------------------------------|-----------------|-----------------|---------------|---------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 2,928 | \$ 2,914 | \$ - | \$ 111 | \$ 2,928 | \$ 3,025 |
| Interest cost | 11,591 | 11,548 | 565 | 566 | 12,156 | 12,114 |
| Expected return on plan assets | (13,703) | (11,936) | - | - | (13,703) | (11,936) |
| Amortization of prior service cost | - | - | - | - | - | - |
| Amortization of actuarial loss | 8,963 | 6,868 | 280 | 301 | 9,243 | 7,169 |
| Net periodic pension cost | <u>\$ 9,779</u> | <u>\$ 9,394</u> | <u>\$ 845</u> | <u>\$ 978</u> | <u>\$ 10,624</u> | <u>\$ 10,372</u> |

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

The weighted-average assumptions used in determining the net periodic pension and postretirement benefits costs for the years ended September 30, 2015 and 2014 were as follows:

| | Plan | | SERPs | |
|--|--------------|-------------|--------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Discount rate | 4.45% | 5.05% | 4.35% | 4.90% |
| Expected long-term rate of return on plan assets | 7.00 | 6.75 | – | – |
| Rate of compensation increase | 2.50 | 3.00 | – | – |

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 2015 primarily relate to changes in the discount rate and mortality assumption to measure the benefit obligation, and the actuarial losses in 2014 primarily relate to changes in the discount rate and mortality improvement scale used to measure the benefit obligation.

Plan Assets

The Plan's weighted-average asset allocation at September 30, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|--|-------------|-------------|
| Equity securities | 21% | 25% |
| Fixed income securities | 23 | 29 |
| Alternative investments – limited partnerships | 18 | 19 |
| Alternative investments – hedge funds | 34 | 23 |
| Cash and cash equivalents | 4 | 4 |
| | 100% | 100% |

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

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

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

Ordinarily, cash flows are used to maintain allocation percentages that are close to the target allocation percentages. If cash flows are not sufficient to maintain allocation percentages within 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 \$867 to the plans during fiscal year 2016.

Stamford Health, Inc.

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

9. Retirement Benefits (continued)

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: | | | |
| 2016 | \$ 10,539 | \$ 867 | \$ 11,406 |
| 2017 | 11,277 | 900 | 12,177 |
| 2018 | 12,077 | 907 | 12,984 |
| 2019 | 13,061 | 931 | 13,992 |
| 2020 | 14,055 | 1,027 | 15,082 |
| 2021 through 2025 | 80,467 | 5,001 | 85,468 |

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 employee benefit expenses in the accompanying consolidated statements of operations for the years ended September 30, 2015 and 2014 are \$6,314 and \$5,974, 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.

Stamford Health, Inc.

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

10. Professional Liability Insurance

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

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

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

The Hospital recovered \$1,358 for medical professional liability self-insurance for the year ended September 30, 2015 and expensed \$460 for medical professional liability self-insurance for the year ended September 30, 2014. The undiscounted actuarially determined tail liability of \$9,944 and \$11,307 is included in the estimated professional liabilities in the accompanying consolidated balance sheets at September 30, 2015 and 2014, respectively.

Healthstar is responsible for the medical professional liability, as well as general liability, insurance exposures of the Hospital beginning October 1, 2002, and is 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. Healthstar retains, net and exclusive of reinsurance, a primary layer of \$5,000 per claim for

Stamford Health, Inc.

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

10. Professional Liability Insurance (continued)

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

For the year ended September 30, 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.

For the year ended September 30, 2014, the Hospital paid insurance premiums of \$10,272 to Healthstar, \$7,600 of which relates to the coverage retained as net of reinsurance by Healthstar and \$2,672 of which relates to reinsurance placed with third-party reinsurers. Of the \$10,272 insurance premium payments, \$1,603 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, 2015 and 2014, Healthstar's undiscounted estimated professional and general liability reserves for claims and expenses are \$29,777 and \$30,298, respectively. For the years ended September 30, 2015 and 2014, claims covered and expensed by Healthstar amounted to \$6,192 and \$1,127, respectively.

The Hospital recorded an estimated insurance recoveries receivable and insurance claim liability of \$3,307 and \$3,377 as of September 30, 2015 and 2014, respectively. The insurance recoveries receivable is included in other assets and the insurance claim liability is included in estimated

Stamford Health, Inc.

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

10. Professional Liability Insurance (continued)

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.

11. Other Revenue

Other revenue consists of the following:

| | Year Ended September 30 | |
|--|--------------------------------|------------------|
| | 2015 | 2014 |
| Contributions | \$ 1,942 | \$ 5,385 |
| Rental income | 3,470 | 3,493 |
| Electronic health records incentive payments | 1,646 | 2,483 |
| Grant revenue | 588 | 664 |
| Investment income | 1,350 | 1,238 |
| Rehabilitation services | 3,251 | 3,195 |
| Other | 5,435 | 6,941 |
| | <u>\$ 17,682</u> | <u>\$ 23,399</u> |

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

Stamford Health, Inc.

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

11. Other Revenue (continued)

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 \$1,600 and \$2,500 for the years ended September 30, 2015 and 2014 (Medicare: \$1,600 and \$2,100 for 2015 and 2014, respectively; Medicaid: \$400 for 2014), 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.

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, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|----------------------------|-------------|-------------|
| Managed care organizations | 31% | 39% |
| Medicare | 16 | 17 |
| Medicaid | 8 | 7 |
| All other insurers | 39 | 28 |
| Self-pay patients | 6 | 9 |
| | <u>100%</u> | <u>100%</u> |

Stamford Health, Inc.

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

13. Concentration of Credit Risk (continued)

At September 30, 2015, 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.

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, 2015 and 2014, are as follows:

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------|-------------------|-------------------|
| Health care and resident services | \$ 448,998 | \$ 440,361 |
| General and administrative | 76,448 | 72,011 |
| | <u>\$ 525,446</u> | <u>\$ 512,372</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.

Stamford Health, Inc.

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

15. Fair Value of Financial Instruments (continued)

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

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, 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, 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 |
| | \$ 414,024 | \$ – | \$ – | \$ 414,024 |

Stamford Health, Inc.

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

15. Fair Value of Financial Instruments (continued)

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> |

Financial assets, including the defined benefit plan assets, carried at fair value as of September 30, 2014, 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:

| | 2014 | | | |
|-------------------------------|-------------------|------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 217,582 | \$ – | \$ – | \$ 217,582 |
| Corporate bonds | – | 12,978 | – | 12,978 |
| Government securities | – | 83,856 | – | 83,856 |
| Mutual funds – multi industry | 32,981 | – | – | 32,981 |
| Mutual funds – fixed income | 63,405 | – | – | 63,405 |
| Defined benefit plan assets: | | | | |
| Cash and cash equivalents | 11,460 | – | – | 11,460 |
| Mutual funds – fixed income | 43,692 | – | – | 43,692 |
| Mutual funds – multi industry | 42,818 | – | – | 42,818 |
| | <u>\$ 411,938</u> | <u>\$ 96,834</u> | <u>\$ –</u> | <u>\$ 508,772</u> |

Stamford Health, Inc.

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

15. Fair Value of Financial Instruments (continued)

Private mutual funds which are carried at fair value based upon, as a practical expedient, the net asset value of the funds, amounted to \$3,928 as of September 30, 2014.

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, 2014:

| | |
|---|-------------------|
| Plan assets from table above | \$ 97,970 |
| Plan assets measured at net asset value: | |
| Private mutual funds ^(a) | 6,376 |
| Partnerships ^(b) | 29,710 |
| Hedge funds ^(c) | <u>59,325</u> |
| Total plan assets measured at net asset value | <u>95,411</u> |
| | <u>\$ 193,381</u> |

^(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. \$18,152 and \$18,976 of the investment at September 30, 2015 and 2014, respectively, is redeemable in the near-term. SHI considers redemptions that could occur within 120 days of its measurement date to be near-term. \$9,390 and \$10,734 of the investment at September 30, 2015 and 2014, respectively, have redemption restrictions in place, given the future funding commitments of \$1,444 and \$1,527 at September 30, 2015 and 2014, 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.

Stamford Health, Inc.

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

15. Fair Value of Financial Instruments (continued)

At September 30, 2015, SHI expects to be able to redeem defined benefit pension plan investments in hedge funds in the near-term.

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, 2015 and 2014 are as follows:

| | 2015 | | 2014 | |
|----------------|------------|----------------|------------|----------------|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Long-term debt | \$ 395,152 | \$ 372,853 | \$ 400,521 | \$ 378,655 |

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

16. 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:

| | |
|--|------------------|
| 2016 | \$ 9,314 |
| 2017 | 8,959 |
| 2018 | 8,638 |
| 2019 | 6,857 |
| 2020 | 6,928 |
| Thereafter | 18,048 |
| Total minimum operating lease payments | <u>\$ 58,744</u> |

Total nonaffiliate rental expense charged to operations for the years ended September 30, 2015 and 2014 aggregated \$7,027 and \$6,986, respectively.

Stamford Health, Inc.

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

16. Operating Lease Obligations (continued)

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:

| | |
|--------------------------------------|------------------|
| 2016 | \$ 2,081 |
| 2017 | 2,035 |
| 2018 | 1,894 |
| 2019 | 1,667 |
| 2020 | 1,433 |
| Thereafter | 2,185 |
| Total minimum operating lease income | <u>\$ 11,295</u> |

Total nonaffiliate rental income recorded in operations for the years ended September 30, 2015 and 2014 aggregated \$3,740 and \$3,493, respectively.

In October 2014, SHIP entered into a lease arrangement which involved the recording of a landlord leasehold improvement allowance of \$2,783. As of September 30, 2015, the related liability is \$2,532, \$251 of which is included in accounts payable and accrued expenses and \$2,281 of which is recorded as other long-term liabilities in the accompanying consolidated balance sheets.

17. 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, 2015, SHI evaluated subsequent events through January 22, 2016, which is the date the consolidated financial statements were available to be issued.

Stamford Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

17. Subsequent Events (continued)

The Hospital is named as a lead beneficiary of 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 estate is in the process of being settled, and the Hospital expects to record a significant permanently restricted contribution in fiscal year 2016 upon finalization of the valuation.

No subsequent events occurred that require disclosure in or adjustment to the consolidated financial statements, except as disclosed above related to the Hospital's beneficial interest in a perpetual trust.

Supplementary Information

Stamford Health, Inc.

Consolidating Balance Sheet
(In Thousands)

September 30, 2015

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | 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 | 5,274 | 3,307 | 106 | – | 8,687 | 4,387 | 24 | – | – | 13,098 |
| Total assets | \$ 905,966 | \$ 76,323 | \$ 23,202 | \$ (12,134) | \$ 993,357 | \$ 135,099 | \$ 9,299 | \$ – | \$ (53,221) | \$ 1,084,534 |

Stamford Health, Inc.

Consolidating Balance Sheet (continued)
(In Thousands)

September 30, 2015

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC | Eliminations | Consolidated Stamford Health, Inc. |
|---|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|---|--------------|--|
| Liabilities and net assets | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | |
| Current portion of long-term debt | \$ 5,693 | \$ - | \$ - | \$ - | \$ 5,693 | \$ - | \$ 240 | \$ - | \$ - | \$ 5,933 |
| 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 | 122,006 | 9,167 | 16,139 | - | 147,312 | 3,490 | 307 | - | - | 151,109 |
| 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 | 362,280 | - | - | - | 362,280 | - | 4,640 | - | - | 366,920 |
| 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 | 596,492 | 33,371 | 23,172 | (226) | 652,809 | 42,571 | 4,947 | - | (53,172) | 647,155 |
| 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 | \$ 905,966 | \$ 76,323 | \$ 23,202 | \$ (12,134) | \$ 993,357 | \$ 135,099 | \$ 9,299 | \$ - | \$ (53,221) | \$ 1,084,534 |

Stamford Health, Inc.

Consolidating Balance Sheet
(In Thousands)

September 30, 2014

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC & Stamford OB/GYN | Eliminations | Consolidated Stamford Health, Inc. |
|---|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|---|--------------|--|
| Assets | | | | | | | | | | |
| Current assets: | | | | | | | | | | |
| Cash and cash equivalents | \$ 101,451 | \$ – | \$ 2,575 | \$ – | \$ 104,026 | \$ 3,907 | \$ 1,674 | \$ 16 | \$ – | \$ 109,623 |
| Assets limited as to use | 113 | – | – | – | 113 | 100 | 44 | – | – | 257 |
| Short-term investments | 58 | – | – | – | 58 | – | – | – | – | 58 |
| Patient accounts receivable, net | 68,967 | – | 4,865 | – | 73,832 | – | – | – | – | 73,832 |
| Other receivables | 2,322 | 40 | 28 | – | 2,390 | 706 | 34 | – | – | 3,130 |
| Pledges receivable | 4,476 | – | – | – | 4,476 | – | – | – | – | 4,476 |
| Estimated third-party payor settlements, current | 2,838 | – | – | – | 2,838 | – | – | – | – | 2,838 |
| Other current assets | 12,432 | 2 | 334 | – | 12,768 | 25 | 39 | 197 | – | 13,029 |
| Total current assets | 192,657 | 42 | 7,802 | – | 200,501 | 4,738 | 1,791 | 213 | – | 207,243 |
| Assets limited as to use: | | | | | | | | | | |
| Held by captive insurance company | – | 41,617 | – | – | 41,617 | – | – | – | – | 41,617 |
| Long-term investments – endowments | 8,361 | – | – | – | 8,361 | 47 | – | – | – | 8,408 |
| Due from SHI – donor restricted | 17,892 | – | – | – | 17,892 | – | – | – | (17,892) | – |
| Held by trustee – construction and debt service funds | 77,128 | – | – | – | 77,128 | – | – | – | – | 77,128 |
| | 103,381 | 41,617 | – | – | 144,998 | 47 | – | – | (17,892) | 127,153 |
| Long-term investments | 66,272 | 30,671 | – | (11,908) | 85,035 | 158,071 | – | – | (49) | 243,057 |
| Property, plant, and equipment, net | 415,159 | – | 6,301 | – | 421,460 | 3,738 | 3,666 | – | – | 428,864 |
| Pledges receivable, net | 21,200 | – | – | – | 21,200 | – | – | – | – | 21,200 |
| Due from TSH – board designated | – | – | – | – | – | 20,014 | – | – | (20,014) | – |
| Due from Parent and affiliates | 6,962 | – | 644 | (163) | 7,443 | 7,662 | 3,579 | – | (18,684) | – |
| Other assets | 5,564 | 3,377 | 106 | – | 9,047 | 4,507 | 29 | – | – | 13,583 |
| Total assets | \$ 811,195 | \$ 75,707 | \$ 14,853 | \$ (12,071) | \$ 889,684 | \$ 198,777 | \$ 9,065 | \$ 213 | \$ (56,639) | \$ 1,041,100 |

Stamford Health, Inc.

Consolidating Balance Sheet (continued)
(In Thousands)

September 30, 2014

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC & Stamford OB/GYN | Eliminations | Consolidated Stamford Health, Inc. |
|---|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|---|--------------|--|
| Liabilities and net assets | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | |
| Current portion of long-term debt | \$ 5,562 | \$ - | \$ - | \$ - | \$ 5,562 | \$ - | \$ 240 | \$ - | \$ - | \$ 5,802 |
| Accounts payable and accrued expenses | 74,743 | 49 | 3,373 | - | 78,165 | 3,111 | 63 | 49 | - | 81,388 |
| Salaries, wages, and fees payable | 10,571 | - | 4,060 | - | 14,631 | - | - | - | - | 14,631 |
| Accrued vacation liability | 19,240 | - | 1,409 | - | 20,649 | - | - | - | - | 20,649 |
| Estimated third-party payor settlements, current | 6,542 | - | - | - | 6,542 | - | - | - | - | 6,542 |
| Estimated professional liabilities, current | - | 11,017 | - | - | 11,017 | - | - | - | - | 11,017 |
| Total current liabilities | 116,658 | 11,066 | 8,842 | - | 136,566 | 3,111 | 303 | 49 | - | 140,029 |
| Pension liabilities | 73,008 | - | - | - | 73,008 | 11,419 | - | - | - | 84,427 |
| Estimated third-party payor settlements, net of current portion | 656 | - | - | - | 656 | - | - | - | - | 656 |
| Long-term debt, net of current portion | 367,973 | - | - | - | 367,973 | - | 4,880 | - | - | 372,853 |
| 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 | 2,779 | 163 | 4,662 | (163) | 7,441 | 7,096 | - | 4,147 | (18,684) | - |
| Estimated professional liabilities, net of current portion | 11,301 | 22,658 | - | - | 33,959 | - | - | - | - | 33,959 |
| Other long-term liabilities | - | - | 129 | - | 129 | - | - | - | - | 129 |
| Total liabilities | 592,389 | 33,887 | 13,633 | (163) | 639,746 | 39,518 | 5,183 | 4,196 | (56,590) | 632,053 |
| Net assets (deficiency): | | | | | | | | | | |
| Unrestricted | 151,392 | 41,820 | 1,220 | (11,908) | 182,524 | 156,851 | 3,882 | (3,983) | (49) | 339,225 |
| Temporarily restricted | 59,053 | - | - | - | 59,053 | 2,361 | - | - | - | 61,414 |
| Permanently restricted | 8,361 | - | - | - | 8,361 | 47 | - | - | - | 8,408 |
| Total net assets (deficiency) | 218,806 | 41,820 | 1,220 | (11,908) | 249,938 | 159,259 | 3,882 | (3,983) | (49) | 409,047 |
| Total liabilities and net assets | \$ 811,195 | \$ 75,707 | \$ 14,853 | \$ (12,071) | \$ 889,684 | \$ 198,777 | \$ 9,065 | \$ 213 | \$ (56,639) | \$ 1,041,100 |

Stamford Health, Inc.

Consolidating Statement of Operations
(In Thousands)

Year Ended September 30, 2015

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | 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 Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC | Eliminations | Consolidated Stamford Health, Inc. |
|--|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|---|--------------|--|
| Income (loss) from operations (continued from page 52) | \$ 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 Operations
(In Thousands)

Year Ended September 30, 2014

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC & Stamford OB/GYN | Eliminations | Consolidated Stamford Health, Inc. |
|---|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|---|--------------|--|
| Unrestricted revenue, gains, and other support: | | | | | | | | | | |
| Net patient service revenue | \$ 498,456 | \$ - | \$ 39,218 | \$ - | \$ 537,674 | \$ - | \$ - | \$ 118 | \$ - | \$ 537,792 |
| Provision for bad debts | (40,649) | - | (1,119) | - | (41,768) | - | - | 13 | - | (41,755) |
| Net patient service revenue, less provision for bad debts | 457,807 | - | 38,099 | - | 495,906 | - | - | 131 | - | 496,037 |
| Other revenue | 21,118 | 8,820 | 4,746 | (12,343) | 22,341 | 1,596 | 1,386 | - | (1,924) | 23,399 |
| Net assets released from restrictions for operations | 1,495 | - | - | - | 1,495 | - | - | - | - | 1,495 |
| Total unrestricted revenue, gains, and other support | 480,420 | 8,820 | 42,845 | (12,343) | 519,742 | 1,596 | 1,386 | 131 | (1,924) | 520,931 |
| Expenses: | | | | | | | | | | |
| Salaries | 183,394 | - | 45,440 | 400 | 229,234 | - | - | - | - | 229,234 |
| Employee benefits | 46,314 | - | 6,126 | - | 52,440 | 806 | - | 1 | - | 53,247 |
| Supplies and other expenses | 183,690 | 6,227 | 19,758 | (12,743) | 196,932 | 2,112 | 579 | 503 | (1,924) | 198,202 |
| Depreciation and amortization | 24,086 | - | 918 | - | 25,004 | 319 | 195 | - | - | 25,518 |
| Interest expense | 6,007 | - | - | - | 6,007 | - | 164 | - | - | 6,171 |
| Total expenses | 443,491 | 6,227 | 72,242 | (12,343) | 509,617 | 3,237 | 938 | 504 | (1,924) | 512,372 |
| Income (loss) from operations | 36,929 | 2,593 | (29,397) | - | 10,125 | (1,641) | 448 | (373) | - | 8,559 |

Stamford Health, Inc.

Consolidating Statement of Operations (continued)
(In Thousands)

Year Ended September 30, 2014

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC | Eliminations | Consolidated Stamford Health, Inc. |
|--|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|---|--------------|--|
| Income (loss) from operations (continued from page 54) | \$ 36,929 | \$ 2,593 | \$ (29,397) | \$ - | \$ 10,125 | \$ (1,641) | \$ 448 | \$ (373) | \$ - | \$ 8,559 |
| Nonoperating gains and losses: | | | | | | | | | | |
| Loss on lease obligation | 75 | - | (301) | - | (226) | - | - | - | - | (226) |
| Investment returns | 2,280 | 958 | - | - | 3,238 | 4,380 | - | - | - | 7,618 |
| Change in net unrealized gains and losses | 363 | - | - | - | 363 | 1,223 | - | - | - | 1,586 |
| Total non-operating gains and (losses) | 2,718 | 958 | (301) | - | 3,375 | 5,603 | - | - | - | 8,978 |
| Excess (deficiency) of revenue over expenses | 39,647 | 3,551 | (29,698) | - | 13,500 | 3,962 | 448 | (373) | - | 17,537 |
| Net assets released from restrictions used for purchases of property and equipment | 491 | - | - | - | 491 | - | - | - | - | 491 |
| Pension-related changes other than net periodic pension cost | (18,573) | - | - | - | (18,573) | (1,058) | - | - | - | (19,631) |
| Equity transfers | (30,640) | - | 30,640 | - | - | (982) | - | 982 | - | - |
| (Decrease) increase in unrestricted net assets | \$ (9,075) | \$ 3,551 | \$ 942 | \$ - | \$ (4,582) | \$ 1,922 | \$ 448 | \$ 609 | \$ - | \$ (1,603) |

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 Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | 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 |
| 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 |
| 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 Statement of Changes in Net Assets
(In Thousands)

Year Ended September 30, 2014

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC & Stamford OB/GYN | Eliminations | Consolidated Stamford Health, Inc. |
|--|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|--|--------------|--|
| Excess (deficiency) of revenue over expenses | \$ 39,647 | \$ 3,551 | \$ (29,698) | \$ – | \$ 13,500 | \$ 3,962 | \$ 448 | \$ (373) | \$ – | \$ 17,537 |
| Net assets released from restrictions used for purchases of property and equipment | 491 | – | – | – | 491 | – | – | – | – | 491 |
| Pension-related changes other than net periodic pension cost | (18,573) | – | – | – | (18,573) | (1,058) | – | – | – | (19,631) |
| Equity transfers | (30,640) | – | 30,640 | – | – | (982) | – | 982 | – | – |
| (Decrease) increase in unrestricted net assets | (9,075) | 3,551 | 942 | – | (4,582) | 1,922 | 448 | 609 | – | (1,603) |
| Temporarily restricted net assets: | | | | | | | | | | |
| Contributions | 20,012 | – | – | – | 20,012 | – | – | – | – | 20,012 |
| Change in net unrealized gains and losses | 214 | – | – | – | 214 | – | – | – | – | 214 |
| Investment returns | 937 | – | – | – | 937 | – | – | – | – | 937 |
| Net assets released from restrictions for operations | (1,495) | – | – | – | (1,495) | – | – | – | – | (1,495) |
| Net assets released from restrictions used for purchases of property and equipment | (491) | – | – | – | (491) | – | – | – | – | (491) |
| Increase in temporarily restricted net assets | 19,177 | – | – | – | 19,177 | – | – | – | – | 19,177 |
| Permanently restricted net assets: | | | | | | | | | | |
| Contributions | 328 | – | – | – | 328 | – | – | – | – | 328 |
| Increase in permanently restricted net assets | 328 | – | – | – | 328 | – | – | – | – | 328 |
| Increase in net assets | 10,430 | 3,551 | 942 | – | 14,923 | 1,922 | 448 | 609 | – | 17,902 |
| Net assets – beginning of year | 208,376 | 38,269 | 278 | (11,908) | 235,015 | 157,337 | 3,434 | (4,592) | (49) | 391,145 |
| Net assets (deficiency) – end of year | \$ 218,806 | \$ 41,820 | \$ 1,220 | \$ (11,908) | \$ 249,938 | \$ 159,259 | \$ 3,882 | \$ (3,983) | \$ (49) | \$ 409,047 |

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 Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC | Eliminations | Consolidated Stamford Health, Inc. |
|--|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|---|--------------|--|
| Gross revenue from patients | \$ 1,872,448 | \$ - | \$ 104,864 | \$ - | \$ 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 | 504,370 | - | 46,256 | - | 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 | \$ 476,412 | \$ - | \$ 44,699 | \$ - | \$ 521,111 | \$ - | \$ - | \$ - | \$ - | \$ 521,111 |

Stamford Health, Inc.

Consolidating Schedule of Net Patient Service Revenue
(In Thousands)

Year Ended September 30, 2014

| | The Stamford Hospital | Healthstar Indemnity Company, Ltd. | Stamford Health Integrated Practices, Inc. | Eliminations | Consolidated The Stamford Hospital | Stamford Health, Inc. | Miller Hall Medical Suites | Southwest Connecticut Radiology LLC & Stamford OB/GYN | Eliminations | Consolidated Stamford Health, Inc. |
|--|-----------------------------|--|--|--------------|--|--------------------------|----------------------------------|---|--------------|--|
| Gross revenue from patients | \$ 1,779,033 | \$ - | \$ 91,711 | \$ - | \$ 1,870,744 | \$ - | \$ - | \$ 334 | \$ - | \$ 1,871,078 |
| Deductions: | | | | | | | | | | |
| Contractual allowances | 1,250,284 | - | 52,493 | - | 1,302,777 | - | - | 216 | - | 1,302,993 |
| Charity care | 30,293 | - | - | - | 30,293 | - | - | - | - | 30,293 |
| Total deductions | 1,280,577 | - | 52,493 | - | 1,333,070 | - | - | 216 | - | 1,333,286 |
| Net patient service revenue | 498,456 | - | 39,218 | - | 537,674 | - | - | 118 | - | 537,792 |
| Provision for bad debts | (40,649) | - | (1,119) | - | (41,768) | - | - | 13 | - | (41,755) |
| Net patient service revenue, less provision for bad debts | \$ 457,807 | \$ - | \$ 38,099 | \$ - | \$ 495,906 | \$ - | \$ - | \$ 131 | \$ - | \$ 496,037 |

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