



CONSOLIDATED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

Milford Health & Medical Inc. and Subsidiaries  
Years Ended September 30, 2011 and 2010  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Milford Health & Medical Inc. and Subsidiaries

Consolidated Financial Statements and  
Other Financial Information

Years Ended September 30, 2011 and 2010

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## Report of Independent Auditors

Board of Directors  
Milford Health & Medical Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Milford Health and Medical Inc. and Subsidiaries (the Company) as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Milford Health and Medical Inc. and Subsidiaries as of September 30, 2011 and 2010, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

February 24, 2012

Milford Health & Medical Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,404,819	\$ 2,129,463
Short-term investments	225,915	224,820
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$5,645,000 in 2011 and \$4,839,000 in 2010	13,593,372	12,871,074
Inventories	774,644	748,785
Prepaid expenses and other	1,574,078	1,424,929
Total current assets	<u>18,572,828</u>	<u>17,399,071</u>
Investments	21,045,558	28,261,217
Property, plant, and equipment:		
Land and improvements	5,900,427	5,900,427
Buildings and improvements	50,188,527	44,075,567
Equipment	32,351,867	32,419,457
Construction in progress	36,667	4,823,678
	<u>88,477,488</u>	<u>87,219,129</u>
Less accumulated depreciation	<u>(48,643,942)</u>	<u>(47,013,853)</u>
	39,833,546	40,205,276
Pledges receivable	10,000	12,500
Assets limited as to use	1,918,971	1,865,560
Investment in affiliates	750,872	1,018,208
	<u>2,679,843</u>	<u>2,896,268</u>
Total assets	<u>\$ 82,131,775</u>	<u>\$ 88,761,832</u>

	September	
	2011	2010
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 4,262,133	\$ 4,615,591
Accrued employee compensation	6,577,053	6,091,816
Other accrued liabilities	3,079,908	3,191,714
Due to third-party reimbursement agencies	2,318,298	1,977,820
Current portion of notes payable to bank	1,062,247	892,497
Total current liabilities	<u>17,299,639</u>	<u>16,769,438</u>
Notes payable to bank, less current portion	7,828,804	7,257,480
Accrued pension and other liabilities	31,971,787	27,920,210
Net assets:		
Unrestricted	23,731,621	35,488,206
Temporarily restricted	626,161	716,206
Permanently restricted	673,763	610,292
Total net assets	<u>25,031,545</u>	<u>36,814,704</u>
Total liabilities and net assets	<u><u>\$ 82,131,775</u></u>	<u><u>\$ 88,761,832</u></u>

*See accompanying notes.*

Milford Health & Medical Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	<b>Years Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Operating revenues:		
Net revenues from services to patients	<b>\$ 84,946,930</b>	\$ 84,180,488
Other operating revenues	<b>1,505,504</b>	1,283,851
	<b>86,452,434</b>	85,464,339
Operating expenses:		
Salaries and wages	<b>41,622,787</b>	41,093,039
Supplies and other	<b>38,814,622</b>	39,992,526
Provision for uncollectible accounts	<b>9,027,012</b>	7,969,130
Depreciation	<b>3,491,992</b>	3,771,551
Interest	<b>458,693</b>	321,450
Professional fees	<b>227,948</b>	262,888
	<b>93,643,054</b>	93,410,584
Operating loss	<b>(7,190,620)</b>	(7,946,245)
Nonoperating income:		
Investment income, net	<b>2,334,923</b>	2,341,183
Gifts and bequests	<b>221,551</b>	266,708
	<b>2,556,474</b>	2,607,891
Deficiency of revenues over expenses before change in unrealized gains and losses on investments	<b>(4,634,146)</b>	(5,338,354)
Change in unrealized gains and losses on investments	<b>(2,445,378)</b>	1,110,476
Deficiency of revenues over expenses	<b>(7,079,524)</b>	(4,227,878)

*Continued on next page.*

Milford Health & Medical Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

	<b>Years Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Unrestricted net assets:		
Deficiency of revenues over expenses (continued)	<b>\$ (7,079,524)</b>	\$ (4,227,878)
Net assets released from restrictions for capital	<b>16,991</b>	1,137
Change in pension funding obligation	<b>(4,694,052)</b>	(5,551,334)
Decrease in unrestricted net assets	<b>(11,756,585)</b>	(9,778,075)
Temporarily restricted net assets:		
Net assets released from restrictions for capital	<b>(16,991)</b>	(1,137)
Interest income	<b>16,991</b>	1,137
Investment (loss) income, net	<b>(90,045)</b>	26,355
(Decrease) increase in temporarily restricted net assets	<b>(90,045)</b>	26,355
Permanently restricted net assets:		
Restricted gifts	<b>63,471</b>	7,050
Increase in permanently restricted net assets	<b>63,471</b>	7,050
Decrease in net assets	<b>(11,783,159)</b>	(9,744,670)
Net assets at beginning of year	<b>36,814,704</b>	46,559,374
Net assets at end of year	<b>\$ 25,031,545</b>	\$ 36,814,704

*See accompanying notes.*

Milford Health & Medical Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended September 30	
	2011	2010
<b>Operating activities</b>		
Change in net assets	\$ (11,783,159)	\$ (9,744,670)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Noncash items:		
Provision for uncollectible accounts	9,027,012	7,969,130
Depreciation	3,491,992	3,771,551
Change in unrealized gains and losses on investments	2,445,378	(1,125,256)
Change in pension funding obligation	4,694,052	5,551,334
Net asset item:		
Restricted gifts and investment (loss) income, net	(26,574)	7,050
Changes in assets and liabilities:		
Patient accounts receivable	(9,749,310)	(6,797,619)
Inventories	(25,859)	29,440
Prepaid expenses and other	(149,149)	45,112
Pledges receivable	2,500	32,500
Investments classified as trading	4,770,281	2,959,097
Accounts payable	(353,458)	187,558
Accrued employee compensation	485,237	(437,860)
Other accrued liabilities	(111,806)	172,111
Due to third-party reimbursement agencies	340,478	(518,304)
Accrued pension and other liabilities	(642,475)	509,575
Net cash provided by operating activities	<u>2,415,140</u>	<u>2,610,749</u>
<b>Investing activities</b>		
Purchases of property, plant, and equipment, net	(3,120,263)	(4,989,092)
Increase in investment in affiliates	267,336	(324,739)
Net purchases of short-term of investments	(1,095)	(1,267)
Increase in assets limited as to use	(53,411)	(122,321)
Net cash used in investing activities	<u>(2,907,433)</u>	<u>(5,437,419)</u>
<b>Financing activities</b>		
Payments made on notes payable to bank	(892,497)	(3,127,399)
Proceeds from debt financing	1,633,572	5,366,429
Restricted gifts and investment (loss) income, net	26,574	(7,050)
Net cash provided by financing activities	<u>767,649</u>	<u>2,231,980</u>
Increase (decrease) in cash and cash equivalents	<u>275,356</u>	<u>(594,690)</u>
Cash and cash equivalents at beginning of year	<u>2,129,463</u>	<u>2,724,153</u>
Cash and cash equivalents at end of year	<u>\$ 2,404,819</u>	<u>\$ 2,129,463</u>

See accompanying notes.

# Milford Health & Medical Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2011

### **1. Organization and Accounting Policies**

#### **Organization**

The accompanying consolidated financial statements include the accounts of Milford Health & Medical Inc. (the Company), a tax-exempt entity incorporated under the General Statutes of the State of Connecticut. The Company's tax-exempt subsidiaries include Milford Hospital Inc., (the Hospital) an acute care hospital, Milford Hospital Foundation Inc., Home Care Plus Inc., Milford Health & Medical, Inc., and Milford Health Care Services Inc. The Company's for-profit subsidiaries include Torry Corporation, Seabridge, Inc., and Milford Medical Lab Inc. All of the subsidiaries are incorporated under the General Statutes of the State of Connecticut. All material intercompany transactions have been eliminated.

#### **Estimates and Assumptions**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and contingent liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reported 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.

#### **Regulatory Matters**

The Company is required to file annual operating information with the State of Connecticut Office of Health Care Access.

#### **Cash and Cash Equivalents and Short-Term Investments**

The Company considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Short-term investments consist of bank certificates of deposit. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Company's policy to monitor the strength of these institutions.

#### **Inventories**

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

# Milford Health & Medical Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Organization and Accounting Policies (continued)

#### Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities as of September 30, 2011 and 2010 approximate fair value based on current market conditions. The fair value of each financial instrument is disclosed in the respective notes and in Note 4.

#### Investments

The Company's investment portfolio is classified as trading, with unrealized gains and losses included in the deficiency excess of revenues over expenses.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Assets temporarily restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost.

Alternative investments (nontraditional, not-readily-marketable assets) are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the Company's holdings, may be determined by the investment manager or general partner. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Company to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts, and other derivative products. While these financial instruments may contain varying degrees of risk, the Company's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

#### Assets Limited As To Use

Assets limited as to use primarily consist of interest bearing deposits in banks which have been set aside by the Board of Directors (the Board) for future capital improvements or purchases of equipment. Except for the assets restricted by donors, the Board retains control of funds it has set aside and may, at its discretion, subsequently use these funds for other purposes.

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Accounting Policies (continued)**

##### **Patient Accounts Receivable**

Patient accounts receivable result from health care services provided by the Company. Additions to the allowance for uncollectible accounts result from the provision for uncollectible accounts. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

The amount of the allowance for uncollectible 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. See Note 2 for additional information relative to third-party payor programs.

The Company's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients. The Company manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 42% and 36% for Medicare, and 9% and 11% for Medicaid, for the fiscal years ended September 30, 2011 and 2010, respectively.

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

Property, plant and equipment is stated on the basis of cost. Depreciation of property, plant and equipment is provided using the straight-line method over their estimated useful lives.

##### **Restricted Net Assets**

Temporarily restricted net assets are those where use by the Company has been limited by donors to a specific time frame or purpose. All of the Company's temporarily restricted net assets are restricted for capital expenditures. Permanently restricted net assets are amounts to be held in perpetuity, the income of which can be used for capital expenditures.

##### **Donor Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets, as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are included in nonoperating income in the accompanying consolidated statement of operations and changes in net assets.

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Accounting Policies (continued)**

##### **Deficiency of Revenues over Expenses**

The consolidated statements of operations and changes in net assets include the deficiency of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the deficiency of revenues over expenses, consistent with industry practice, include, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and the change in pension funding obligation.

##### **Nonoperating Income**

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating income primarily consists of income on invested funds and unrestricted gifts.

##### **Income Taxes**

The Company and its subsidiaries are not-for-profit, with the exception of Seabridge Inc., Milford Medical Lab Inc. and Torry Corporation, as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital has losses from unrelated business activities of approximately \$6,170,000. A deferred tax asset for these losses of approximately \$2,468,000 is offset by a corresponding valuation allowance of the same amount. As of September 30, 2011, Seabridge Inc. and its subsidiary had consolidated net operating loss carryforwards of approximately \$5,930,000. A deferred tax asset for these losses of approximately \$2,372,000 is offset by a corresponding valuation allowance of the same amount. As of September 30, 2011, Torry Corporation has a net operating loss carryforward of approximately \$1,050,000. A deferred tax asset for these losses of approximately \$420,000 is offset by a corresponding valuation allowance of the same amount. Tax provisions and related liabilities for Seabridge Inc. and Milford Medical Lab Inc. are not material to the consolidated financial statements.

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Accounting Policies (continued)

##### Subsequent Events

The Company 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 in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2011, the Company evaluated subsequent events through February 24, 2012, which is the date the consolidated financial statements were available to be issued. No events occurred that require disclosure or adjustment to the financial statements except for approval to freeze the plan for nursing union employees within the defined benefit pension plan. Refer to Note 6.

##### New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2012, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009. The adoption of the provisions of ASU 2010-06 did not have a material impact on the Company’s consolidated financial statements.

In August 2010, the FASB issued ASC 2010-23, *Measuring Charity Care for Disclosure*. ASC 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASC 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASC 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company is evaluating the effect of ASC 2010-23 on its consolidated financial statements.

# Milford Health & Medical Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Organization and Accounting Policies (continued)

#### New Accounting Standards (continued)

In July 2011, FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. ASU 2011-07 requires certain health care entities to present the bad debt expense associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense with enhanced footnote disclosures on the policies for recognizing revenue and assessing bad debts, and qualitative and quantitative information about changes in the allowances for doubtful accounts. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Company is evaluating the effect of ASU 2011-07 on its consolidated financial statements.

In August 2010, the FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU 2010-24 anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company is evaluating the effect of ASU 2010-24 on its consolidated financial statements.

### 2. Revenues from Services to Patients and Charity Care

The following table summarizes revenues from services to patients:

	<b>Years Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Gross revenues from services to patients	<b>\$ 191,158,170</b>	\$ 211,623,153
Deductions:		
Allowances	<b>106,023,074</b>	127,143,636
Charity care	<b>187,766</b>	299,029
	<b>106,211,240</b>	127,442,665
	<b>\$ 84,946,930</b>	\$ 84,180,488

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **2. Revenues from Services to Patients and Charity Care (continued)**

During fiscal years 2011 and 2010, the Company's net revenues from services to patients were 38% and 40% from Medicare, 8% and 6% from Medicaid, respectively, and 17% and 15% from Blue Cross, respectively. (governmental payors include managed Medicare and Medicaid business). Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Company 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 except as disclosed in Note 8. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Company.

Patient accounts receivable and revenues are recorded when patient services are performed. The Company has agreements with certain third-party payors, including health maintenance organizations, that provide for payments to the Company at amounts different from the Company's established billing rates. These differences are accounted for as allowances. Under these agreements, the Company receives reimbursement based on a number of different arrangements, including fee-for-service payments.

Net revenues from services to patients is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Retroactive adjustments related to settlements with third-party payors for previous fiscal years increased net revenues from services to patients by approximately \$228,000 and decreased net revenues from services to patients by approximately \$119,800 for the years ended September 30, 2011 and 2010, respectively.

The Company accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Company. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Company utilizes the generally recognized poverty income levels for the state, but also includes certain cases where incurred charges are significant when compared to income. These charges are not included in net revenues from services to patients for financial reporting purposes.

Milford Health & Medical Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**3. Investments**

Investments are stated at fair value are comprised of the following at September 30:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 1,938,776	\$ 2,058,286
Government bonds	2,731,536	4,120,449
Corporate bonds	1,997,838	3,259,020
Equities	13,134,509	17,677,327
Alternative investments	1,205,131	1,090,331
Accrued interest	37,768	55,804
	<u>\$ 21,045,558</u>	<u>\$ 28,261,217</u>

Assets limited as to use are stated at fair value are comprised of the following at September 30:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 868,719	\$ 496,446
Government bonds	391,081	466,808
Corporate bonds	289,079	794,038
Other fixed income securities	288,956	—
Equities	76,428	103,771
Accrued interest	4,708	4,497
	<u>\$ 1,918,971</u>	<u>\$ 1,865,560</u>

The components of investment earnings, included in nonoperating income, include the following for the years ended September 30:

	<u>2011</u>	<u>2010</u>
Interest income	\$ 420,995	\$ 391,322
Dividend income	420,745	502,530
Realized capital gains and losses	1,493,183	1,447,331
Investment income, net	<u>2,334,923</u>	<u>2,341,183</u>
Change in unrealized gains and losses on investments	(2,445,378)	1,110,476
Total return on investments	<u>\$ (110,455)</u>	<u>\$ 3,451,659</u>

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **4. Fair Value of Financial Instruments**

As defined in ASC 820-10, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820-10 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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

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

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

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

Milford Health & Medical Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Fair Value of Financial Instruments (continued)**

Financial assets carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Hospital's defined benefit pension plan, are classified in the table below in one of the three categories described above:

	<b>September 30, 2011</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents	<b>\$ 2,404,819</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,404,819</b>
Short term investments:				
Cash and cash equivalents	<b>225,915</b>	<b>—</b>	<b>—</b>	<b>225,915</b>
Investments:				
Cash and cash equivalents	<b>1,938,776</b>	<b>—</b>	<b>—</b>	<b>1,938,776</b>
Fixed income:				
Government bonds	<b>—</b>	<b>2,731,536</b>	<b>—</b>	<b>2,731,536</b>
Corporate bonds	<b>—</b>	<b>1,997,838</b>	<b>—</b>	<b>1,997,838</b>
Equities:				
International	<b>2,175,765</b>	<b>—</b>	<b>—</b>	<b>2,175,765</b>
Mid cap	<b>1,334,583</b>	<b>—</b>	<b>—</b>	<b>1,334,583</b>
Large cap	<b>8,626,927</b>	<b>—</b>	<b>—</b>	<b>8,626,927</b>
Emerging markets	<b>940,776</b>	<b>—</b>	<b>—</b>	<b>940,776</b>
Other	<b>56,458</b>	<b>—</b>	<b>—</b>	<b>56,458</b>
Assets whose use is limited:				
Cash and cash equivalents	<b>868,719</b>	<b>—</b>	<b>—</b>	<b>868,719</b>
Fixed income:				
Government bonds	<b>—</b>	<b>391,081</b>	<b>—</b>	<b>391,081</b>
Corporate bonds	<b>—</b>	<b>289,079</b>	<b>—</b>	<b>289,079</b>
Other	<b>—</b>	<b>288,956</b>	<b>—</b>	<b>288,956</b>
Equities:				
International	<b>3,860</b>	<b>—</b>	<b>—</b>	<b>3,860</b>
Mid cap	<b>2,491</b>	<b>—</b>	<b>—</b>	<b>2,491</b>
Emerging markets	<b>23,646</b>	<b>—</b>	<b>—</b>	<b>23,646</b>
Other	<b>46,431</b>	<b>—</b>	<b>—</b>	<b>46,431</b>

Milford Health & Medical Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Fair Value of Financial Instruments (continued)**

	<b>September 30, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,129,463	\$ —	\$ —	\$ 2,129,463
Short term investments:				
Cash and cash equivalents	224,820	—	—	224,820
Investments:				
Cash and cash equivalents	2,058,286	—	—	2,058,286
Fixed income:				
Government bonds	—	4,120,449	—	4,120,449
Corporate bonds	—	3,259,020	—	3,259,020
Equities:				
International	3,162,507	—	—	3,162,507
Mid cap	1,647,948	—	—	1,647,948
Large cap	10,697,521	—	—	10,697,521
Emerging markets	2,169,351	—	—	2,169,351
Assets whose use is limited:				
Cash and cash equivalents	994,446	—	—	994,446
Fixed income:				
Government bonds	—	466,808	—	466,808
Corporate bonds	—	296,038	—	296,038
Equities:				
International	4,496	—	—	4,496
Mid cap	28,096	—	—	28,096
Large cap	71,179	—	—	71,179

The amounts reported in the tables above do not include alternative investments totaling \$1,205,131 and \$1,090,331 for the years ended September 30, 2011 and 2010, respectively, that are accounted for under the equity method of accounting.

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Debt

The Company has a mortgage note arrangement with a bank secured by Company property. The Company pays principal and interest at a fixed rate of 6.86% over a ten-year term. At September 30, 2011 and 2010, the Company had an unpaid principal balance of \$1,891,051 and \$2,783,548, respectively. The mortgage note has a maturity date of August 15, 2013. Interest paid during fiscal years 2011 and 2010 amounted to \$160,685 and \$219,864, respectively.

On November 19, 2009, Torry Corporation entered into a construction loan with a bank. At September 30, 2011 and 2010, Torry Corporation had an unpaid balance of \$7,000,000 and \$5,366,429, respectively. Interest paid during fiscal years 2011 and 2010 amounted to \$292,104 and 95,513, respectively. A portion of the proceeds of this loan was used to pay off the irrevocable construction mortgage in 2010. The previous irrevocable construction mortgage was taken out on May 5, 2006. The project was completed during fiscal year 2011 and on October 15, 2011, the construction loan was converted to a permanent mortgage bearing interest at a fixed rate of 6.25% over a 25-year term.

The Company's carrying value of debt obligations approximates fair value as of September 30, 2011 and 2010.

Future minimum principal payments during each of the next five fiscal years and in the aggregate were as follows at September 30, 2011:

2012	\$ 1,062,247
2013	1,060,828
2014	133,647
2015	142,366
2016	150,501
Thereafter	<u>6,341,462</u>
	<u>\$ 8,891,051</u>

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Pension Plan

The Hospital has a defined benefit cash balance pension plan (the Plan) covering substantially all of its employees. Plan benefits are based on years of service and the employee's compensation. Contributions to the Plan are intended to provide for benefits attributed to services rendered to date and benefits expected to be earned in the future. Plan participants earn a return based on an interest rate established annually at the beginning of the plan year. Plan participants will vest in their benefits on a percentage basis with years of service.

Effective August 26, 2009, the Hospital's Executive Committee of the Board of Directors adopted a resolution to freeze the Plan for non-union employees effective December 31, 2009. Effective January 24, 2012, the Hospital's Executive Committee of the Board of Directors adopted a resolution to freeze the Plan for nursing union employees effective January 31, 2012. The Hospital is still evaluating the impact to the fiscal year 2012 consolidated financial statements.

Included in unrestricted net assets at September 30, 2011 and 2010, respectively, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost of \$222,808 and \$291,741 and unrecognized actuarial loss of \$21,666,535 and \$16,903,550. The prior service cost and actuarial loss included in unrestricted net assets, and expected to be recognized in net periodic pension cost during the year ending September 30, 2012 is 68,933.

The following table presents a reconciliation of the beginning and ending balances of the Plan's projected benefit obligation and the fair value of plan assets, as well as the funded status of the Plan and accrued pension cost included in the financial statements:

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	<b>\$ 80,267,273</b>	\$ 69,739,738
Service cost	<b>1,017,495</b>	1,744,674
Interest cost	<b>3,890,994</b>	3,984,156
Benefits paid	<b>(3,172,320)</b>	(3,710,820)
Expenses paid	<b>(453,640)</b>	-
Actuarial loss	<b>938,359</b>	8,509,525
Benefit obligation at end of year	<b>82,488,161</b>	80,267,273

Milford Health & Medical Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**6. Pension Plan (continued)**

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 54,569,223	\$ 49,347,927
Contributions	2,500,000	3,125,000
Actual return on plan assets	(565,042)	5,807,116
Benefits paid	(3,172,320)	(3,710,820)
Expenses paid	(453,640)	—
Fair value of plan assets at end of year	<u>52,878,221</u>	<u>54,569,223</u>
Funded status of the plan	<u>\$ (29,609,940)</u>	<u>\$ (25,698,050)</u>
<b>Components of net periodic pension cost</b>		
Service cost	\$ 1,017,495	\$ 1,744,674
Interest cost	3,890,994	3,984,156
Expected return on plan assets	(4,368,627)	(3,984,361)
Net amortization and deferral	1,177,976	1,135,436
Net periodic pension cost	<u>\$ 1,717,838</u>	<u>\$ 2,879,905</u>

The measurement date for determining plan assets and obligations is September 30.

The weighted-average assumptions used to develop net periodic benefit cost, and the projected benefit obligation as of September 30, 2011 and 2010, are as follows:

	<b>2011</b>	<b>2010</b>
Discount rate used for net periodic pension cost	<b>5.00%</b>	5.50%
Discount rate used for projected benefit obligation	<b>4.75</b>	5.00
Expected long-term rate of return on plan assets	<b>8.00</b>	8.00
Rate of compensation increase	<b>3.50</b>	3.50

To develop the expected long-term rate of return on plan assets assumption, the Hospital considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The accumulated benefit obligation at September 30, 2011 and 2010 was \$76,602,288 and \$72,601,273, respectively.

Milford Health & Medical Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**6. Pension Plan (continued)**

**Plan Assets**

The Plan's investment objectives are to achieve long-term growth in excess of long-term inflation, and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize the risk, the Plan aims to minimize the variability in yearly returns. The Plan also aims to diversify its holdings among sectors, industries, and companies. No more than 10% of the Plan's portfolio, excluding U.S. government securities and cash, may be held in an individual company's stocks or bonds, and no more than 20% in a single industry.

The Hospital's pension plan weighted-average allocations at September 30, 2011 and 2010, by asset category, are as follows:

<b>Asset Category</b>	<b>2011</b>	<b>2010</b>
Cash and money market funds	4.2%	5.5%
Government bonds	15.8	15.4
Corporate bonds	8.5	10.4
Equities	67.4	65.7
Alternative investments	4.1	3.0
Total	<u>100.0%</u>	<u>100.0%</u>

The target allocation for the Plan's assets is 65% equity securities, 25% fixed income securities, and 10% other investments.

Financial assets carried at fair value included in the defined benefit pension plan are classified in the table below in one of the three categories described above:

	<b>September 30, 2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,232,417	\$ —	\$ —	\$ 2,232,417
Fixed income:				
Government bonds	—	8,380,644	—	8,380,644
Corporate bonds	—	4,496,920	—	4,496,920
Equities:				
International	9,139,673	—	—	9,139,673
Mid cap	4,174,933	—	—	4,174,933
Large cap	22,325,812	—	—	22,325,812
Alternatives investments	—	—	2,127,822	2,127,822
	<u>\$ 37,872,835</u>	<u>\$ 12,877,564</u>	<u>\$ 2,127,822</u>	<u>\$ 52,878,221</u>

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Pension Plan (continued)

The plan's assets carried at fair value as of September 30, 2010 are classified in the table below in one of the three categories (as described in Note 4):

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,833,047	\$ —	\$ —	\$ 2,833,047
Fixed income:				
Government bonds	—	8,372,679	—	8,372,679
Corporate bonds	—	5,688,115	—	5,688,115
Equities:				
International	10,458,365	—	—	10,458,365
Mid cap	3,403,849	—	—	3,403,849
Large cap	21,971,118	—	—	21,971,118
Alternatives investments	—	—	1,842,050	1,842,050
	\$ 38,666,379	\$14,060,794	\$ 1,842,050	\$ 54,569,223

The changes in investments classified as Level 3 are as follows for the years ended September 30, 2011 and 2010:

	2011	2010
Beginning balance for the year	\$ 1,842,050	\$ —
Purchases, sales and settlements, net	250,000	1,717,385
Net change in unrealized appreciation	35,772	124,665
Ending balance for the year	\$ 2,127,822	\$ 1,842,050

Assets invested in the defined benefit cash balance plan are carried at fair value. Debt securities and equity securities with readily determinable values are classified as Level 1 as determined based on independent published sources. Assets that are valued using significant unobservable inputs, such as extrapolated data, proprietary models or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. Level 3 assets are valued based on the Hospital's ownership interest in the net asset value (NAV) of the fund. As the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Hospital's interest therein, its classification as Level 3 is based on the Hospital's ability to redeem its interest at or near the measurement date. The Hospital routinely monitors and assesses methodologies and assumptions used in valuing these interests.

#### Contributions

The Hospital expects to contribute \$7,055,000 to the Plan in 2012.

## Milford Health & Medical Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Pension Plan (continued)

##### Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<b>Fiscal Years</b>	
2012	\$ 2,907,375
2013	3,287,917
2014	3,500,166
2015	3,597,539
2016	3,773,492
Years 2017 – 2021	22,094,339

#### 7. Medical Malpractice Insurance

Effective October 1, 2004, the Hospital became insured by the Company through Healthcare Alliance Insurance Company, Ltd. (HAIC). HAIC is a multi-provider captive insurance company domiciled in the Cayman Islands. The Company is a one-third owner of the captive with two other local hospitals that each hold one-third ownership. The Company's ownership is accounted for under the equity method in the accompanying statements of operation. The investment in HAIC is included in investment in affiliates in the consolidated balance sheets. During 2011, the Company's investment was reduced to zero based on cumulative losses of HAIC and the equity method was suspended until its share of profits is sufficient to recover any cumulative losses that have not previously been recorded. The Hospital's insurance coverage is \$1,500,000 per occurrence and \$3,000,000 in the aggregate. The Hospital has an excess layer of indemnity coverage of \$25,000,000 per occurrence, and \$25,000,000 in the aggregate. Coverage for medical malpractice insurance is provided on a claims-made basis.

Management accrues its best estimate of losses as they occur. Accordingly, management has recorded a liability of \$594,000 and \$478,000 at September 30, 2011 and 2010, respectively, for claims incurred-but-not-reported. This liability has been discounted using a 3.5% and 5% discount rate at September 30, 2011 and 2010, respectively.

#### 8. Commitments and Contingencies

The Company is a party to various lawsuits incidental to its business. Management believes that the lawsuits fall within the Company's liability insurance and that they will not have a material adverse effect on the Company's consolidated financial statements.

Milford Health & Medical Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Functional Expenses**

The Company provides inpatient and outpatient general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<b>Years Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Health care services	<b>\$ 81,728,207</b>	\$ 81,103,306
General and administrative	<b>11,914,847</b>	12,307,278
	<b><u>\$ 93,643,054</u></b>	<b><u>\$ 93,410,584</u></b>

## Report of Independent Auditors on Other Financial Information

Board of Directors  
Milford Health & Medical Inc. and Subsidiaries

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

*Ernst & Young LLP*

February 24, 2012

Milford Health & Medical Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

	Milford Hospital Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical Inc.	Torry Corp.	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical Inc. Consolidated
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 956,229	\$ 144,532	\$ 97,158	\$ 871,519	\$ 233,247	\$ 93,933	\$ 383	\$ 7,818	\$ -	\$ 2,404,819
Short-term investments	224,305	1,610	-	-	-	-	-	-	-	225,915
Patient accounts receivable	12,622,341	-	143,079	827,952	-	-	-	-	-	13,593,372
Inventories	774,644	-	-	-	-	-	-	-	-	774,644
Prepaid expenses and other	1,467,390	9,194	3,287	3,750	1,000	89,457	-	-	-	1,574,078
Total current assets	16,044,909	155,336	243,524	1,703,221	234,247	183,390	383	7,818	-	18,572,828
Investments	20,575,753	469,805	-	-	-	-	-	-	-	21,045,558
Property, plant, and equipment:										
Land and improvements	1,545,184	-	-	13,384	-	4,341,859	-	-	-	5,900,427
Buildings and improvements	38,526,752	-	50,187	-	-	11,611,588	-	-	-	50,188,527
Equipment	31,950,837	15,470	89,090	251,336	-	45,134	-	-	-	32,351,867
Construction in progress	36,667	-	-	-	-	-	-	-	-	36,667
Less accumulated depreciation	(47,323,119)	(1,966)	(129,903)	(163,647)	-	(1,025,307)	-	-	-	(48,643,942)
	24,736,321	13,504	9,374	101,073	-	14,973,274	-	-	-	39,833,546
Other assets:										
Interest in Milford Hospital Foundation, Inc.	745,924	-	-	-	-	-	-	-	(745,924)	-
Due from affiliates	676,168	-	-	-	1,317,659	500	-	-	(1,994,327)	-
Pledges receivable	-	10,000	-	-	-	-	-	-	-	10,000
Assets limited as to use	1,804,281	114,690	-	-	-	-	-	-	-	1,918,971
Investment in affiliates	-	-	-	-	9,176,512	-	-	751,874	(9,177,514)	750,872
Total assets	\$ 64,583,356	\$ 763,335	\$ 252,898	\$ 1,804,294	\$ 10,728,418	\$ 15,157,164	\$ 383	\$ 759,692	\$ (11,917,765)	\$ 82,131,775

Milford Health & Medical Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2011

	Milford Hospital Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical Inc.	Torry Corp.	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical Inc. Consolidated
<b>Liabilities and net assets</b>										
Current liabilities:										
Accounts payable	\$ 4,033,312	\$ -	\$ 16,126	\$ 123,822	\$ -	\$ 88,873	\$ -	\$ -	\$ -	\$ 4,262,133
Accrued employee compensation	6,308,053	-	-	269,000	-	-	-	-	-	6,577,053
Other accrued liabilities	2,859,722	-	23,403	-	126,233	70,550	-	-	-	3,079,908
Due to third-party reimbursement agencies	2,024,212	-	-	294,086	-	-	-	-	-	2,318,298
Due to affiliates	-	17,411	8,361,853	29,202	309,799	86,101	725,501	8,697	(9,538,564)	-
Current portion of notes payable to bank	1,955,684	-	-	-	-	106,563	-	-	-	1,062,247
Total current liabilities	16,180,983	17,411	8,401,382	716,110	436,032	352,087	725,501	8,697	(9,538,564)	17,299,639
Notes payable to bank, less current portion	935,367	-	-	-	-	6,893,437	-	-	-	7,828,804
Accrued pension and other liabilities	31,971,787	-	-	-	593,506	-	-	-	(593,506)	31,971,787
									-	
Net assets:										
Common stock	-	-	1,000	-	-	1,000	-	5,000	(7,000)	-
Paid-in capital	-	-	-	-	-	9,170,514	-	-	(9,170,514)	-
Unrestricted	14,195,295	-	(8,149,484)	1,088,184	9,698,880	(1,259,874)	(725,118)	745,995	8,137,743	23,731,621
Temporarily restricted	626,161	626,161	-	-	-	-	-	-	(626,161)	626,161
Permanently restricted	673,763	119,763	-	-	-	-	-	-	(119,763)	673,763
Total net assets	15,495,219	745,924	(8,148,484)	1,088,184	9,698,880	7,911,640	(725,118)	750,995	(1,785,695)	25,031,545
Total liabilities and net assets	\$ 64,583,356	\$ 763,335	\$ 252,898	\$ 1,804,294	\$ 10,728,418	\$ 15,157,164	\$ 383	\$ 759,692	\$ (11,917,765)	\$ 82,131,775

Milford Health & Medical Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2010

	Milford Hospital Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical Inc.	Torry Corp.	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical Inc. Consolidated
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 303,667	\$ 232,298	\$ 183,714	\$ 1,350,924	\$ 6,035	\$ 3,975	\$ 432	\$ 47,418	\$ 1,000	\$ 2,129,463
Short-term investments	223,228	1,592	—	—	—	—	—	—	—	224,820
Patient accounts receivable	12,226,798	—	154,530	489,746	—	—	—	—	—	12,871,074
Inventories	748,785	—	—	—	—	—	—	—	—	748,785
Prepaid expenses and other	1,342,410	6,394	1,621	1,669	28,332	44,503	—	—	—	1,424,929
Total current assets	14,844,888	240,284	339,865	1,842,339	34,367	48,478	432	47,418	1,000	17,399,071
Investments	27,793,697	467,520	—	—	—	—	—	—	—	28,261,217
Property, plant, and equipment:										
Land and improvements	1,545,184	—	—	13,384	—	4,341,859	—	—	—	5,900,427
Buildings and improvements	38,433,808	—	50,187	—	—	5,591,572	—	—	—	44,075,567
Equipment	32,107,653	15,470	115,533	143,006	—	37,795	—	—	—	32,419,457
Construction in progress	238,283	—	—	—	—	4,585,395	—	—	—	4,823,678
										87,219,129
Less accumulated depreciation	(45,954,913)	(1,180)	(151,646)	(145,779)	—	(760,335)	—	—	—	(47,013,853)
	26,370,015	14,290	14,074	10,611	—	13,796,286	—	—	—	40,205,276
Other assets:										
Interest in Milford Hospital Foundation, Inc.	777,498	—	—	—	—	—	—	—	(777,498)	—
Due from affiliates	719,613	—	—	—	1,191,300	—	—	—	(1,910,913)	—
Mortgage receivable from affiliate	—	—	—	—	—	—	—	—	—	—
Pledges receivable	—	12,500	—	—	—	—	—	—	—	12,500
Assets limited as to use	1,799,385	66,175	—	—	—	—	—	—	—	1,865,560
Investment in affiliates	—	—	—	—	9,304,348	—	—	722,874	(9,009,014)	1,018,208
Total assets	\$ 72,305,096	\$ 800,769	\$ 353,939	\$ 1,852,950	\$ 10,530,015	\$ 13,844,764	\$ 432	\$ 770,292	\$ (11,696,425)	\$ 88,761,832

Milford Health & Medical Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2010

	Milford Hospital Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical Inc.	Torry Corp.	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical Inc. Consolidated
<b>Liabilities and net assets</b>										
Current liabilities:										
Accounts payable	\$ 3,958,361	\$ -	\$ 97,482	\$ 50,909	\$ -	\$ 583,413	\$ -	\$ -	\$ (74,574)	\$ 4,615,591
Accrued employee compensation	5,811,602	-	-	280,214	-	-	-	-	-	6,091,816
Other accrued liabilities	3,133,999	-	23,403	-	28,596	5,716	-	-	-	3,191,714
Due to third-party reimbursement agencies	1,885,402	-	-	92,418	-	-	-	-	-	1,977,820
Due to affiliates	-	23,271	7,570,649	15,849	275,113	83,237	712,892	5,806	(8,686,817)	-
Current portion of notes payable to bank	892,497	-	-	-	-	-	-	-	-	892,497
Total current liabilities	15,681,861	23,271	7,691,534	439,390	303,709	672,366	712,892	5,806	(8,761,391)	16,769,438
Notes payable to bank, less current portion	1,891,051	-	-	-	-	5,366,429	-	-	-	7,257,480
Accrued pension and other liabilities	27,920,210	-	-	-	478,408	-	-	-	(478,408)	27,920,210
Net assets:										
Common stock	-	-	1,000	-	-	1,000	-	5,000	(7,000)	-
Paid-in capital	-	-	-	-	-	9,002,014	-	-	(9,002,014)	-
Unrestricted	25,485,476	-	(7,338,595)	1,413,560	9,747,898	(1,197,045)	(712,460)	759,486	7,329,886	35,488,206
Temporarily restricted	716,206	716,206	-	-	-	-	-	-	(716,206)	716,206
Permanently restricted	610,292	61,292	-	-	-	-	-	-	(61,292)	610,292
Total net assets	26,811,974	777,498	(7,337,595)	1,413,560	9,747,898	7,805,969	(712,460)	764,486	(2,456,626)	36,814,704
Total liabilities and net assets	\$ 72,305,096	\$ 800,769	\$ 353,939	\$ 1,852,950	\$ 10,530,015	\$ 13,844,764	\$ 432	\$ 770,292	\$ (11,696,425)	\$ 88,761,832

Milford Health & Medical Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2011

	Milford Hospital Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical Inc.	Torry Corp.	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical Inc. Consolidated
Operating revenues:										
Net revenues from services to patients	\$ 79,860,535	\$ -	\$ 1,160,502	\$ 3,925,893	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84,946,930
Other operating revenues	653,094	-	102,553	8,425	-	895,603	-	-	(154,171)	1,505,504
	80,513,629	-	1,263,055	3,934,318	-	895,603	-	-	(154,171)	86,452,434
Operating expenses:										
Salaries and wages	37,951,254	171,706	806,306	2,577,988	27,721	79,953	-	7,859	-	41,622,787
Supplies and other	36,419,837	132,691	1,218,094	1,459,806	77,039	326,042	3,799	34,778	(857,464)	38,814,622
Provision for uncollectible accounts	7,611,773	-	44,865	210,451	1,159,923	-	-	-	-	9,027,012
Depreciation	3,208,305	787	4,700	17,867	-	260,333	-	-	-	3,491,992
Interest	168,405	-	-	-	-	292,104	11,259	-	(13,075)	458,693
Professional fees	227,948	-	-	-	-	-	-	-	-	227,948
	85,587,522	305,184	2,073,965	4,266,112	1,264,683	958,432	15,058	42,637	(870,539)	93,643,054
Operating loss	(5,073,893)	(305,184)	(810,910)	(331,794)	(1,264,683)	(62,829)	(15,058)	(42,637)	716,368	(7,190,620)
Nonoperating income (loss):										
Investment income (loss), net	2,111,457	59,302	21	6,418	(187,240)	-	-	229,146	115,819	2,334,923
Gifts and bequests	-	221,551	-	-	-	-	-	-	-	221,551
	2,111,457	280,853	21	6,418	(187,240)	-	-	229,146	115,819	2,556,474
(Deficiency) excess of revenues over expenses before change in unrealized gains and losses on investments	(2,962,436)	(24,331)	(810,889)	(325,376)	(1,451,923)	(62,829)	(15,058)	186,509	832,187	(4,634,146)
Change in unrealized gains and losses on investments	(2,445,378)	(65,714)	-	-	-	-	-	-	65,714	(2,445,378)
(Deficiency) excess of revenues over expenses	\$ (5,407,814)	\$ (90,045)	\$ (810,889)	\$ (325,376)	\$ (1,451,923)	\$ (62,829)	\$ (15,058)	\$ 186,509	\$ 897,901	\$ (7,079,524)

Milford Health & Medical Inc. and Subsidiaries  
 Consolidating Statement of Operations (continued)

Year Ended September 30, 2010

	Milford Hospital Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical Inc.	Torry Corp.	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical Inc. Consolidated
Operating revenues:										
Net revenues from services to patients	\$ 78,615,925	\$ —	\$ 1,323,862	\$ 4,240,701	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 84,180,488
Other operating revenues	779,865	—	220,959	4,649	—	550,705	—	—	(272,327)	1,283,851
	<u>79,395,790</u>	<u>—</u>	<u>1,544,821</u>	<u>4,245,350</u>	<u>—</u>	<u>550,705</u>	<u>—</u>	<u>—</u>	<u>(272,327)</u>	<u>85,464,339</u>
Operating expenses:										
Salaries and wages	37,361,201	167,686	817,950	2,631,378	17,783	92,109	—	4,932	—	41,093,039
Supplies and other	37,879,115	120,266	1,203,282	1,319,649	58,938	289,044	1,350	25,118	(904,236)	39,992,526
Provision for uncollectible accounts	6,738,669	—	28,813	34,431	1,167,217	—	—	—	—	7,969,130
Depreciation	3,574,898	787	5,525	3,145	—	187,196	—	—	—	3,771,551
Interest	230,967	—	—	—	—	95,513	11,259	—	(16,289)	321,450
Professional fees	262,888	—	—	—	—	—	—	—	—	262,888
	<u>86,047,738</u>	<u>288,739</u>	<u>2,055,570</u>	<u>3,988,603</u>	<u>1,243,938</u>	<u>663,862</u>	<u>12,609</u>	<u>30,050</u>	<u>(920,525)</u>	<u>93,410,584</u>
Operating (loss) income	<u>(6,651,948)</u>	<u>(288,739)</u>	<u>(510,749)</u>	<u>256,747</u>	<u>(1,243,938)</u>	<u>(113,157)</u>	<u>(12,609)</u>	<u>(30,050)</u>	<u>648,198</u>	<u>(7,946,245)</u>
Nonoperating income (loss):										
Investment income (loss), net	1,715,094	46,394	43	8,808	411,561	—	—	316,139	(156,856)	2,341,183
Gifts and bequests	—	266,708	—	—	—	—	—	—	—	266,708
	<u>1,715,094</u>	<u>313,102</u>	<u>43</u>	<u>8,808</u>	<u>411,561</u>	<u>—</u>	<u>—</u>	<u>316,139</u>	<u>(156,856)</u>	<u>2,607,891</u>
(Deficiency) excess of revenues over expenses before change in unrealized gains and losses on investments	(4,936,854)	24,363	(510,706)	265,555	(832,377)	(113,157)	(12,609)	286,089	491,342	(5,338,354)
Change in unrealized gains and losses on investments	1,110,476	14,780	—	—	—	—	—	—	(14,780)	1,110,476
(Deficiency) excess of revenues over expenses	<u>\$ (3,826,378)</u>	<u>\$ 39,143</u>	<u>\$ (510,706)</u>	<u>\$ 265,555</u>	<u>\$ (832,377)</u>	<u>\$ (113,157)</u>	<u>\$ (12,609)</u>	<u>\$ 286,089</u>	<u>\$ 476,562</u>	<u>\$ (4,227,878)</u>

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