

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Milford Health & Medical, Inc. and Subsidiaries
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Milford Health & Medical, Inc. and Subsidiaries

Consolidated Financial Statements and
Supplementary Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

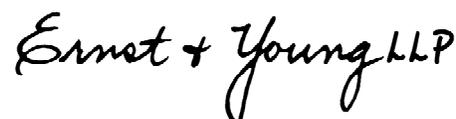
Board of Directors
Milford Health & Medical, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Milford Health & Medical, Inc. and Subsidiaries (the Company) as of September 30, 2012 and 2011, 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 & Medical, Inc. and Subsidiaries as of September 30, 2012 and 2011, 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.

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

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

February 27, 2013

Milford Health & Medical, Inc. and Subsidiaries

Consolidated Balance Sheets

September 30, 2012

	September 30	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,579,650	\$ 2,404,819
Short-term investments	226,782	225,915
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$4,680,000 in 2012 and \$5,645,000 in 2011	13,057,002	13,593,372
Inventories	861,132	774,644
Prepaid expenses and other	1,507,642	1,574,078
Insured claims receivable	939,962	-
Total current assets	<u>18,172,170</u>	<u>18,572,828</u>
Investments	12,850,225	21,045,558
Assets limited as to use	1,821,285	1,918,971
Property, plant, and equipment:		
Land and improvements	5,769,200	5,900,427
Buildings and improvements	49,961,121	50,188,527
Equipment	33,146,300	32,351,867
Construction in progress	52,041	36,667
	<u>88,928,662</u>	<u>88,477,488</u>
Less accumulated depreciation	<u>(50,466,444)</u>	<u>(48,643,942)</u>
	<u>38,462,218</u>	<u>39,833,546</u>
Pledges receivable	5,000	10,000
Investment in affiliates	1,144,607	750,872
Insured claims receivable, net of current portion	3,038,843	-
	<u>4,188,450</u>	<u>760,872</u>
Total assets	<u>\$ 75,494,348</u>	<u>\$ 82,131,775</u>

	September 30	
	2012	2011
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 4,469,034	\$ 4,262,133
Accrued employee compensation	6,944,752	6,577,053
Other accrued liabilities	2,646,648	3,079,908
Due to third-party reimbursement agencies	1,100,013	2,318,298
Current portion of notes payable to bank	1,060,828	1,062,247
Insured claims liabilities	939,962	—
Total current liabilities	<u>17,161,237</u>	17,299,639
Notes payable to bank, less current portion	6,768,005	7,828,804
Insured claims liabilities, net of current portion	3,038,843	—
Accrued pension and other liabilities	31,720,924	31,971,787
Total liabilities	<u>58,689,009</u>	57,100,230
Net assets:		
Unrestricted	15,462,135	23,731,621
Temporarily restricted	669,441	626,161
Permanently restricted	673,763	673,763
Total net assets	<u>16,805,339</u>	25,031,545
Total liabilities and net assets	<u><u>\$ 75,494,348</u></u> <u>\$ 82,131,775</u>	

See accompanying notes.

Milford Health & Medical, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2012	2011
Operating revenues:		
Net revenues from services to patients	\$ 89,130,320	\$ 84,946,930
Other operating revenues	3,585,478	1,400,382
	92,715,798	86,347,312
Operating expenses:		
Salaries and wages	41,152,660	41,622,787
Employee benefits	15,348,836	14,345,050
Supplies and other	29,894,899	24,592,398
Provision for uncollectible accounts	7,967,947	9,027,012
Depreciation	3,165,395	3,491,992
Interest	542,344	458,693
	98,072,081	93,537,932
Operating loss	(5,356,283)	(7,190,620)
Nonoperating income:		
Investment income, net	2,507,029	2,334,923
Gifts and bequests	283,158	221,551
	2,790,187	2,556,474
Deficiency of revenues over expenses before change in unrealized gains and losses on investments	(2,566,096)	(4,634,146)
Change in unrealized gains and losses on investments	3,465	(2,445,378)
Deficiency of revenues over expenses	\$ (2,562,631)	\$ (7,079,524)

Continued on next page.

Milford Health & Medical, Inc. and Subsidiaries

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

	Year Ended September 30	
	2012	2011
Unrestricted net assets:		
Deficiency of revenues over expenses (continued)	\$ (2,562,631)	\$ (7,079,524)
Net assets released from restrictions for capital	120,089	16,991
Change in net assets related to pension plan liability to be recognized in future periods	(11,309,559)	(4,694,052)
Pension curtailment gain	5,482,615	–
Decrease in unrestricted net assets	(8,269,486)	(11,756,585)
Temporarily restricted net assets:		
Net assets released from restrictions for capital	(120,089)	(16,991)
Interest income	56,089	16,991
Investment income (loss), net	107,280	(90,045)
Increase (decrease) in temporarily restricted net assets	43,280	(90,045)
Permanently restricted net assets:		
Restricted gifts	–	63,471
Increase in permanently restricted net assets	–	63,471
Decrease in net assets	(8,226,206)	(11,783,159)
Net assets at beginning of year	25,031,545	36,814,704
Net assets at end of year	\$ 16,805,339	\$ 25,031,545

See accompanying notes.

Milford Health & Medical, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2012	2011
Operating activities		
Change in net assets	\$ (8,226,206)	\$ (11,783,159)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Provision for uncollectible accounts	7,967,947	9,027,012
Depreciation	3,165,395	3,491,992
Change in unrealized gains and losses on investments	(3,465)	2,445,378
Change in net assets related to pension plan liability to be recognized in future periods	11,309,559	4,694,052
Pension curtailment gain	(5,482,615)	–
Net asset item:		
Restricted gifts and investment income, net	–	(26,574)
Changes in assets and liabilities:		
Patient accounts receivable	(7,431,577)	(9,749,310)
Inventories	(86,488)	(25,859)
Prepaid expenses and other	66,436	(149,149)
Pledges receivable	5,000	2,500
Investments classified as trading	8,198,798	4,770,281
Accounts payable	206,901	(353,458)
Accrued employee compensation	367,699	485,237
Other accrued liabilities	(433,260)	(111,806)
Due to third-party reimbursement agencies	(1,218,285)	340,478
Accrued pension and other liabilities	(6,077,807)	(642,475)
Net cash provided by operating activities	2,328,032	2,415,140
Investing activities		
Purchases of property, plant, and equipment, net	(1,794,067)	(3,120,263)
Increase in investment in affiliates	(393,735)	267,336
Net purchases of short-term investments	(867)	(1,095)
Increase in assets limited as to use	97,686	(53,411)
Net cash used in investing activities	(2,090,983)	(2,907,433)
Financing activities		
Payments made on notes payable to bank	(1,062,218)	(892,497)
Proceeds from debt financing	–	1,633,572
Restricted gifts and investment income, net	–	26,574
Net cash provided by financing activities	(1,062,218)	767,649
(Decrease) increase in cash and cash equivalents	(825,169)	275,356
Cash and cash equivalents at beginning of year	2,404,819	2,129,463
Cash and cash equivalents at end of year	\$ 1,579,650	\$ 2,404,819

See accompanying notes.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012

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 U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities such as estimated uncollectibles for patient accounts receivable, insurance claims liabilities and receivables, and estimated receivables from and payables to third-party reimbursement agencies and disclosure of contingent assets and contingent liabilities at the date of the financial statements. The allowance for uncollectible accounts, insurance claims liabilities and receivables, and the estimated receivables from and payables to third party reimbursement agencies, among other accounts, require significant use of estimates. 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

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

deposits that exceed federally insured limits and therefore, bear a risk of loss. It is the Company's policy to monitor the strength of these institutions.

Inventories

Inventories, consisting mainly of supplies, are stated at the lower of cost or market. The Company values its inventories using the first-in, first-out method.

Fair Value of Financial Instruments

The carrying value of financial instruments in the accompanying consolidated balance sheets as of September 30, 2012 and 2011 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 changes in unrealized gains and losses included in the deficiency 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 (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.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

There is uncertainty in determining values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change.

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.

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, before allowances for uncollectible accounts, include 48% and 42% for Medicare, and 6% and 9% for Medicaid for the years ended September 30, 2012 and 2011, respectively.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

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 of the related assets as follows:

Building and improvements	5 – 50 years
Equipment	3 – 25 years

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 statements of operations and changes in net assets.

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 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, change in net assets related to pension plan liability to be recognized in future periods and the pension curtailment gain.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

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 and from the State of Connecticut and local income taxes.

The Hospital has a net operating loss carryforward from unrelated business activities of approximately \$6,237,000. A deferred tax asset for these losses of approximately \$2,495,000 is offset by a corresponding valuation allowance of the same amount. Operating loss carryforwards will begin to expire in 7 years.

As of September 30, 2012, Seabridge, Inc. and its subsidiary had consolidated net operating loss carryforwards of approximately \$6,880,000. A deferred tax asset for these losses of approximately \$2,752,000 is offset by a corresponding valuation allowance of the same amount. Operating loss carryforwards will begin to expire in 7 years.

As of September 30, 2012, Torry Corporation has a net operating loss carryforward of approximately \$1,191,000. A deferred tax asset for these losses of approximately \$476,000 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. Operating loss carryforwards will begin to expire in 11 years.

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, 2012, the Company evaluated subsequent events through February 27, 2013, which is the date the consolidated financial statements were available to be issued. No events occurred that require disclosure in or adjustment to the consolidated financial statements.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

New Accounting Standards

In August 2010, the Financial Accounting Standards Board (the FASB) issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU No. 2010-24). ASU 2010-24 clarifies that, for medical malpractice or similar contingent liabilities, a health care entity such as the Company should not net insurance recoveries against related claims liabilities and that claims liabilities should be determined without consideration of insurance recoveries. Health care entities that are indemnified for these liabilities should recognize insurance receivables at the same time that they recognize the liabilities, measured on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible amounts. As a result of the adoption of ASU No. 2010-24 in 2012, the Company recognized insurance claims receivable and insurance claims liability of approximately \$3,979,000 (\$940,000 current and \$3,039,000 long-term) in the accompanying consolidated balance sheet at September 30, 2012. Such amounts represent the actuarially determined present value of medical malpractice and other insurance claims that are anticipated to be covered by insurance, discounted at a rate of 3.5%. As permitted, the Company's consolidated balance sheet as of September 30, 2011 was not restated to reflect the adoption of this accounting pronouncement, which has no effect on the Company's net assets.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The provisions of ASU No. 2011-07 require certain health care entities that recognize significant amounts of patient service revenue at the time the services are rendered without assessing the patient's ability to pay to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the consolidated statements of operations and changes in net assets rather than as an operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for uncollectible accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Company plans to adopt the provisions of ASU No. 2011-07 in 2013.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the 2011 balances previously reported to conform to the current year presentation.

2. Revenues from Services to Patients and Charity Care

The following table summarizes revenues from services to patients:

	Year Ended September 30	
	2012	2011
Gross revenues from services to patients	\$ 196,681,143	\$ 191,158,170
Deductions:		
Allowances	107,358,290	106,023,474
Charity care	192,533	187,766
	107,550,823	106,211,240
	\$ 89,130,320	\$ 84,946,930

During fiscal years 2012 and 2011, the Company's net revenues from services to patients were 42% and 38% from Medicare, 5% and 8% from Medicaid, respectively, and 17% and 17% 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. 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.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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 \$2,101,000 and decreased net revenues from services to patients by approximately \$228,000 for the years ended September 30, 2012 and 2011, respectively. In prior years, the Company was a party to a Medicare appeal claim challenging the calculation of the rural floor budget neutrality adjustment. In fiscal 2012, the appeal was settled and the Company received a payment of approximately \$869,000 which is included in the retroactive settlement adjustments referred to above.

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 of Connecticut, 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.

The estimated cost of charity care provided was \$92,762 and \$87,180 for the years ended September 30, 2012 and 2011, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments

Investments are comprised of the following at September 30:

	2012	2011
Cash and cash equivalents	\$ 2,287,037	\$ 1,938,776
Government bonds	2,022,272	2,731,536
Corporate bonds	1,967,077	1,997,838
Other fixed income securities	24,924	–
Equities	4,529,614	13,134,509
Commodities	716,747	–
Alternative investments	1,283,286	1,205,131
Accrued interest	19,268	37,768
	\$ 12,850,225	\$ 21,045,558

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

	2012	2011
Cash and cash equivalents	\$ 695,949	\$ 868,719
Government bonds	379,175	391,081
Corporate bonds	179,947	289,079
Other fixed income securities	327,947	288,956
Equities	235,464	76,428
Accrued interest	2,803	4,708
	\$ 1,821,285	\$ 1,918,971

The composition of assets limited as to use at September 30 is as follows:

	2012	2011
Internally designated	\$ 939,766	\$ 1,118,969
Temporarily restricted for capital purposes	207,756	126,239
Permanently restricted	673,763	673,763
	\$ 1,821,285	\$ 1,918,971

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

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

	<u>2012</u>	<u>2011</u>
Interest income	\$ 436,897	\$ 420,995
Dividend income	293,593	420,745
Realized capital gains and losses	<u>1,776,539</u>	1,493,183
Investment income, net	<u>2,507,029</u>	2,334,923
Change in unrealized gains and losses on investments	<u>3,465</u>	<u>(2,445,378)</u>
Total return on investments	<u>\$ 2,510,494</u>	<u>\$ (110,455)</u>

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 balance sheets, excluding assets invested in the Company's defined benefit pension plan, are classified in the table below in one of the three categories described above:

	September 30, 2012			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 1,579,650	\$ —	\$ —	\$ 1,579,650
Short-term investments:				
Cash and cash equivalents	226,782	—	—	226,782
Investments:				
Cash and cash equivalents	2,287,037	—	—	2,287,037
Fixed income:				
Government bonds	—	2,022,272	—	2,022,272
Corporate bonds	—	1,967,077	—	1,967,077
Other	—	24,924	—	24,924
Equities:				
International	1,344,238	—	—	1,344,238
Small cap	25,394	—	—	25,394
Mid cap	650,679	—	—	650,679
Large cap	1,995,259	—	—	1,995,259
Emerging markets	514,044	—	—	514,044
Commodities	716,747	—	—	716,747
Assets limited as to use:				
Cash and cash equivalents	695,949	—	—	695,949
Fixed income:				
Government bonds	—	379,175	—	379,175
Corporate bonds	—	179,947	—	179,947
Other	—	327,947	—	327,947
Equities:				
International	10,630	—	—	10,630
Small cap	7,424	—	—	7,424
Mid cap	7,678	—	—	7,678
Large cap	209,732	—	—	209,732

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

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

The amounts reported in the tables above do not include alternative investments totaling \$1,283,286 and \$1,205,131 for the years ended September 30, 2012 and 2011, respectively, that are accounted for under the equity method of accounting.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and 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.

5. Debt

The Hospital has a mortgage note arrangement with a bank secured by Hospital property. The Hospital pays principal and interest at a fixed rate of 6.86% over a ten-year term. At September 30, 2012 and 2011, the Hospital had an unpaid principal balance of \$935,367 and \$1,891,051, respectively. The mortgage note has a maturity date of August 15, 2013. Interest paid during fiscal years 2012 and 2011 amounted to \$97,317 and \$160,685, respectively. As of September 30, 2012 and 2011, the carrying value of the mortgage note approximates fair value.

On November 19, 2009, Torry Corporation entered into a construction loan with a bank. At September 30, 2012 and 2011, Torry Corporation had an unpaid balance of \$6,893,466 and \$7,000,000, respectively. Interest paid during fiscal years 2012 and 2011 amounted to \$442,009 and \$292,104, 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, 2012 and 2011.

Future minimum principal payments during each of the next five fiscal years, and in the aggregate, were as follows at September 30, 2012:

2013	\$ 1,060,828
2014	133,647
2015	142,366
2016	150,501
2017	161,473
Thereafter	6,180,018
	<u>\$ 7,828,833</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. Plan benefits are based on years of service and the employee's compensation. 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 which resulted in a pension curtailment gain of \$5,482,615.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of the defined benefit pension plan in its balance sheet.

Net unrecognized actuarial losses at the reporting date will be subsequently recognized in the future as net periodic pension cost pursuant to the Hospital's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of unrestricted net assets.

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

	<u>2012</u>	<u>2011</u>
Unrecognized actuarial loss	\$ (27,716,287)	\$ (21,666,535)
Unrecognized prior service costs	-	(222,808)
	<u>\$ (27,716,287)</u>	<u>\$ (21,889,343)</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

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:

	September 30	
	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 82,488,161	\$ 80,267,273
Service cost	988,966	1,017,495
Interest cost	3,644,948	3,890,994
Benefits paid	(2,974,691)	(3,172,320)
Expenses paid	(570,708)	(453,640)
Curtailement gain	(5,482,615)	—
Actuarial loss	15,887,556	938,359
Benefit obligation at end of year	<u>93,981,617</u>	<u>82,488,161</u>
Change in plan assets		
Fair value of plan assets at beginning of year	52,878,221	54,569,223
Contributions	7,052,981	2,500,000
Actual return on plan assets	8,487,811	(522,230)
Benefits paid	(2,974,691)	(3,172,320)
Expenses paid	(570,708)	(496,452)
Fair value of plan assets at end of year	<u>64,873,614</u>	<u>52,878,221</u>
Funded status of the plan	<u>\$ (29,108,003)</u>	<u>\$ (29,609,940)</u>
Components of net periodic pension cost		
Service cost	\$ 988,966	\$ 1,017,495
Interest cost	3,644,948	3,890,994
Expected return on plan assets	(4,454,673)	(4,368,627)
Amortization of prior service cost	—	68,933
Curtailement loss	222,808	—
Net amortization and deferral	322,051	1,109,044
Net periodic pension cost	<u>\$ 724,100</u>	<u>\$ 1,717,839</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

The weighted-average assumptions used to develop net periodic benefit cost, and the projected benefit obligation as of September 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate used for net periodic pension cost	4.75%	5.00%
Discount rate used for projected benefit obligation	3.73	4.75
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increase	3.00	3.50

The accumulated benefit obligation at September 30, 2012 and 2011 was \$93,981,617 and \$76,602,288, respectively.

Plan Assets

To develop the expected long-term rate of return on plan assets assumption, the Hospital considers the historical return and the future expectations for return for each asset class, as well as target allocation of the plan asset portfolio. 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, 2012 and 2011, by asset category, are as follows:

	<u>2012</u>	<u>2011</u>
Asset Category		
Cash and money market funds	11.6%	4.2%
Government bonds	13.7	15.8
Corporate bonds	7.9	8.5
Equities	62.2	67.4
Alternative investments	4.6	4.1
Total	<u>100.0%</u>	<u>100.0%</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

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 tables below in one of the three categories described above:

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 7,504,707	\$ —	\$ —	\$ 7,504,707
Fixed income:				
Government bonds	—	8,858,044	—	8,858,044
Corporate bonds	—	5,117,442	—	5,117,442
Equities:				
International	13,610,566	—	—	13,610,566
Mid cap	2,520,875	—	—	2,520,875
Large cap	24,274,555	—	—	24,274,555
Alternative investments	—	—	2,987,425	2,987,425
	\$ 47,910,703	\$ 13,975,486	\$ 2,987,425	\$ 64,873,614

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
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
Alternative investments	—	—	2,127,822	2,127,822
	\$ 37,872,835	\$ 12,877,564	\$ 2,127,822	\$ 52,878,221

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

The changes in investments classified as Level 3 are as follows for the years ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning balance for the year	\$ 2,127,822	\$ 1,842,050
Purchases	687,500	250,000
Net change in unrealized appreciation	172,103	35,772
Ending balance for the year	<u>\$ 2,987,425</u>	<u>\$ 2,127,822</u>

Assets invested in the defined benefit cash balance plan are carried at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting. Debt securities and equity securities with readily determinable values are classified as Level 1 as determined based on independent published sources. Level 2 assets are valued based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and 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. 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 discussed above. 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 approximately \$625,000 to the Plan in 2013.

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:

Fiscal years:	
2013	\$ 3,180,417
2014	3,548,552
2015	3,660,425
2016	3,855,780
2017	4,003,178
Years 2018 – 2022	23,887,895

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 consolidated statements of operations and changes in net assets. 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. In fiscal 2012, the Company has made a capital contribution to HAIC, which covered a portion of its losses. The investment recorded as of September 30, 2012 reflects this capital contribution. 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 approximately \$596,000 and \$594,000 at September 30, 2012 and 2011, respectively, for claims incurred but not reported which is included in accrued pension and other liabilities on the balance sheet. This liability has been discounted using a 3.5% discount rate at September 30, 2012 and 2011, respectively.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Medical Malpractice Insurance (continued)

Malpractice claims have been asserted against the Company by various claimants. These claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents that have occurred through September 30, 2012 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. In management's opinion, the outcome of these matters will not have a material effect on the Company's consolidated financial statements.

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.

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:

	Years Ended September 30	
	2012	2011
Health care services	\$ 87,781,500	\$ 82,976,316
General and administrative	10,290,581	10,561,616
	<u>\$ 98,072,081</u>	<u>\$ 93,537,932</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Other Operating Revenues

Other operating revenues consist of the following for the years ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Electronic health records incentive payments	\$ 2,003,647	\$ –
Cafeteria	237,396	247,998
Pharmacy	198,790	190,688
Rental income	1,071,598	843,985
Other	74,047	117,711
	<u>\$ 3,585,478</u>	<u>\$ 1,400,382</u>

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

The Company uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Company 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 from Medicare and Medicaid for the year ended September 30, 2012 was approximately \$1,808,000 and \$196,000, respectively, and is included in other operating revenue. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Company's attestation of compliance with the meaningful use criteria is subject to audit.

Supplementary Information

Report of Independent Auditors on Supplementary Information

Board of Directors
Milford Health & Medical, Inc. and Subsidiaries

We have audited the consolidated financial statements of Milford Health & Medical, Inc. and Subsidiaries as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated February 27, 2013 which contained an unqualified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and statement of operations are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 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.

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

February 27, 2013

Milford Health & Medical, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2012

	Milford Hospital, Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical, Inc.	Torry Corporation	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Assets										
Current assets:										
Cash and cash equivalents	\$ 404,540	\$ 90,471	\$ 118,241	\$ 737,119	\$ 201,815	\$ 511	\$ 383	\$ 26,570	\$ -	\$ 1,579,650
Short-term investments	225,160	1,622	-	-	-	-	-	-	-	226,782
Patient accounts receivable, less allowance for uncollectible accounts	12,293,728	-	124,520	638,754	-	-	-	-	-	13,057,002
Inventories	861,132	-	-	-	-	-	-	-	-	861,132
Prepaid expenses and other	1,443,580	6,966	1,621	1,257	38,575	15,643	-	-	-	1,507,642
Insured claims receivable	939,962	-	-	-	-	-	-	-	-	939,962
Total current assets	16,168,102	99,059	244,382	1,377,130	240,390	16,154	383	26,570	-	18,172,170
Investments	12,311,143	539,082	-	-	-	-	-	-	-	12,850,225
Assets limited as to use	1,681,166	140,119	-	-	-	-	-	-	-	1,821,285
Property, plant, and equipment:										
Land and improvements	1,427,341	-	-	-	-	4,341,859	-	-	-	5,769,200
Buildings and improvements	38,197,439	-	50,187	13,384	-	11,700,111	-	-	-	49,961,121
Equipment	32,734,508	15,470	98,803	252,385	-	45,134	-	-	-	33,146,300
Construction in progress	-	-	-	-	-	52,041	-	-	-	52,041
	72,359,288	15,470	148,990	265,769	-	16,139,145	-	-	-	88,928,662
Less accumulated depreciation	(48,777,136)	(2,755)	(135,428)	(188,496)	-	(1,362,629)	-	-	-	(50,466,444)
	23,582,152	12,715	13,562	77,273	-	14,776,516	-	-	-	38,462,218
Beneficial interest in Milford Hospital Foundation, Inc.	789,204	-	-	-	-	-	-	-	(789,204)	-
Due from affiliates	654,070	-	-	-	1,334,049	12,000	-	-	(2,000,119)	-
Pledges receivable	-	5,000	-	-	-	-	-	-	-	5,000
Investment in affiliates	-	-	-	-	9,721,575	-	-	600,546	(9,177,514)	1,144,607
Insured claims receivable, net of current portion	3,038,843	-	-	-	-	-	-	-	-	3,038,843
	4,482,117	5,000	-	-	11,055,624	12,000	-	600,546	(11,966,837)	4,188,450
Total assets	\$ 58,224,680	\$ 795,975	\$ 257,944	\$ 1,454,403	\$ 11,296,014	\$ 14,804,670	\$ 383	\$ 627,116	\$ (11,966,837)	\$ 75,494,348

Milford Health & Medical, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2012

	Milford Hospital, Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical, Inc.	Torry Corporation	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 4,350,123	\$ —	\$ 21,557	\$ 43,973	\$ —	\$ 53,381	\$ —	\$ —	\$ —	\$ 4,469,034
Accrued employee compensation	6,702,468	—	—	242,284	—	—	—	—	—	6,944,752
Other accrued liabilities	2,359,227	—	23,660	—	196,708	67,053	—	—	—	2,646,648
Due to third-party reimbursement agencies	895,803	—	—	204,210	—	—	—	—	—	1,100,013
Due to affiliates	11,500	6,771	9,023,643	35,277	364,864	—	738,990	25,054	(10,206,099)	—
Current portion of notes payable to bank	935,367	—	—	—	—	125,461	—	—	—	1,060,828
Insured claims liabilities	939,962	—	—	—	—	—	—	—	—	939,962
Total current liabilities	16,194,450	6,771	9,068,860	525,744	561,572	245,895	738,990	25,054	(10,206,099)	17,161,237
Notes payable to bank, less current portion	—	—	—	—	—	6,768,005	—	—	—	6,768,005
Insured claims liabilities, net of current portion	3,038,843	—	—	—	—	—	—	—	—	3,038,843
Accrued pension and other liabilities	31,720,924	—	—	—	596,458	—	—	—	(596,458)	31,720,924
Total liabilities	50,954,217	6,771	9,068,860	525,744	1,158,030	7,013,900	738,990	25,054	(10,802,557)	58,689,009
Net assets:										
Common stock	—	—	1,000	—	—	1,000	—	5,000	(7,000)	—
Paid-in capital	—	—	—	—	—	9,170,514	—	—	(9,170,514)	—
Unrestricted	5,927,259	—	(8,811,916)	928,659	10,137,984	(1,380,744)	(738,607)	597,062	8,802,438	15,462,135
Temporarily restricted	669,441	669,441	—	—	—	—	—	—	(669,441)	669,441
Permanently restricted	673,763	119,763	—	—	—	—	—	—	(119,763)	673,763
Total net assets	7,270,463	789,204	(8,810,916)	928,659	10,137,984	7,790,770	(738,607)	602,062	(1,164,280)	16,805,339
Total liabilities and net assets	\$ 58,224,680	\$ 795,975	\$ 257,944	\$ 1,454,403	\$ 11,296,014	\$ 14,804,670	\$ 383	\$ 627,116	\$ (11,966,837)	\$ 75,494,348

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 Corporation	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Assets										
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, less allowance for uncollectible accounts	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
Assets limited as to use	1,804,281	114,690	-	-	-	-	-	-	-	1,918,971
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
	72,059,440	15,470	139,277	264,720	-	15,998,581	-	-	-	88,477,488
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
Beneficial 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
Investment in affiliates	-	-	-	-	9,176,512	-	-	751,874	(9,177,514)	750,872
	1,422,092	10,000	-	-	10,494,171	500	-	751,874	(11,917,765)	760,872
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 Corporation	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Liabilities and net assets										
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	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
Total liabilities	49,088,137	17,411	8,401,382	716,110	1,029,538	7,245,524	725,501	8,697	(10,132,070)	57,100,230
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 Statement of Operations

Year Ended September 30, 2012

	Milford Hospital, Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical, Inc.	Torry Corporation	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Operating revenues:										
Net revenues from services to patients	\$ 84,451,715	\$ –	\$ 1,197,026	\$ 3,481,579	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 89,130,320
Other operating revenues	2,505,143	–	50,299	8,737	–	1,119,762	–	–	(98,463)	3,585,478
	86,956,858	–	1,247,325	3,490,316	–	1,119,762	–	–	(98,463)	92,715,798
Operating expenses:										
Salaries and wages	37,965,219	163,476	619,733	2,316,206	27,413	46,122	–	14,491	–	41,152,660
Employee benefits	14,538,699	33,309	190,961	575,861	2,055	6,234	–	1,717	–	15,348,836
Supplies and other	28,253,961	75,152	1,067,530	786,670	57,843	408,944	2,200	33,566	(790,967)	29,894,899
Provision for uncollectible accounts	7,028,914	–	26,015	(50,315)	963,333	–	–	–	–	7,967,947
Depreciation	2,796,910	787	5,525	24,850	–	337,323	–	–	–	3,165,395
Interest	102,151	–	–	–	–	442,009	11,289	–	(13,105)	542,344
	90,685,854	272,724	1,909,764	3,653,272	1,050,644	1,240,632	13,489	49,774	(804,072)	98,072,081
Operating loss	(3,728,996)	(272,724)	(662,439)	(162,956)	(1,050,644)	(120,870)	(13,489)	(49,774)	705,609	(5,356,283)
Nonoperating income:										
Investment income, net	1,939,764	24,246	7	3,431	414,333	–	–	200,841	(75,593)	2,507,029
Gifts and bequests	–	283,158	–	–	–	–	–	–	–	283,158
	1,939,764	307,404	7	3,431	414,333	–	–	200,841	(75,593)	2,790,187
(Deficiency) excess of revenue over expenses before change in unrealized gains and losses on investments	(1,789,232)	34,680	(662,432)	(159,525)	(636,311)	(120,870)	(13,489)	151,067	630,016	(2,566,096)
Change in unrealized gains and losses on investments	3,465	72,600	–	–	–	–	–	–	(72,600)	3,465
(Deficiency) excess of revenues over expenses	\$ (1,785,767)	\$ 107,280	\$ (662,432)	\$ (159,525)	\$ (636,311)	\$ (120,870)	\$ (13,489)	\$ 151,067	\$ 557,416	\$ (2,562,631)

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 Corporation	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	547,970	–	102,553	8,425	–	895,605	–	–	(154,171)	1,400,382
	80,408,505	–	1,263,055	3,934,318	–	895,605	–	–	(154,171)	86,347,312
Operating expenses:										
Salaries and wages	37,951,254	171,706	806,306	2,577,988	27,721	79,953	–	7,859	–	41,622,787
Employee benefits	13,445,501	43,842	221,483	614,013	3,348	16,024	–	839	–	14,345,050
Supplies and other	23,097,160	88,849	996,611	845,793	73,692	310,018	3,799	33,940	(857,464)	24,592,398
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
	85,482,398	305,184	2,073,965	4,266,112	1,264,684	958,432	15,058	42,638	(870,539)	93,537,932
Operating loss	(5,073,893)	(305,184)	(810,910)	(331,794)	(1,264,684)	(62,827)	(15,058)	(42,638)	716,368	(7,190,620)
Nonoperating income:										
Investment income, 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 revenue over expenses before change in unrealized gains and losses on investments	(2,962,436)	(24,331)	(810,889)	(325,376)	(1,451,924)	(62,827)	(15,058)	186,508	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)	\$ (1,451,924)	\$ (62,827)	\$ (15,058)	\$ 186,508	\$ 897,901	\$ (7,079,524)

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