

**Milford Health & Medical, Inc.  
and Subsidiaries**

Consolidated Financial Statements and  
Supplementary Information

September 30, 2014 and 2013



**BAKER TILLY**

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# Milford Health & Medical, Inc. and Subsidiaries

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September 30, 2014 and 2013

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## Independent Auditors' Report

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Milford Health & Medical, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of September 30, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Seaside Indemnity Alliance Company, Ltd. ("SIAC"), a wholly-owned subsidiary, whose statements reflect total assets constituting 12 percent of consolidated total assets and 11 percent of consolidated liabilities as of September 30, 2014. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for SIAC, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinion**

In our opinion, based on our audit and the report of the other auditors, the 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, 2014, and the consolidated results of its operations and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matter**

The financial statements of the Milford Health & Medical, Inc. and Subsidiaries, for the year ended September 30, 2013, were audited by another auditor whose report, dated September 29, 2014, included an emphasis-of-matter paragraph noting a significant transaction with another health care provider as more fully explained in Note 5, and an emphasis-of-matter paragraph that described the adoption of Accounting Standards Update 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, and expressed an unmodified opinion on those statements.

### **Supplementary Information**

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets 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.

*Baker Tilly Viechow Krause, LLP*

New York, New York  
February 26, 2015

**Milford Health & Medical, Inc. and Subsidiaries**

 Consolidated Balance Sheet  
 September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 7,667,186	\$ 3,173,042	Current maturities of long-term debt	\$ 142,366	\$ 133,467
Short-term investments	112,417	112,243	Accounts payable	7,255,878	5,511,378
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately \$3,088,000 in 2014 and \$3,344,000 in 2013	9,919,854	10,371,729	Accrued salaries, wages and vacation	6,989,049	7,152,032
Inventories	772,809	887,860	Estimated third-party payor settlements	2,415,370	1,886,925
Prepaid expenses and other current assets	<u>1,159,190</u>	<u>3,619,088</u>	Other current liabilities	<u>1,964,014</u>	<u>2,820,072</u>
Total current assets	19,631,456	18,163,962	Total current liabilities	18,766,677	17,503,874
Investments	5,052,099	8,139,641	<b>Long-Term Debt</b>	12,492,523	6,634,757
<b>Assets Whose Use Is Limited</b>	5,169,001	7,731,111	<b>Insured Claims Liabilities, Net of Current Portion</b>	1,383,772	1,756,978
<b>Property, Plant, and Equipment</b>			<b>Self Insured Professional Claims Liabilities</b>	3,959,117	7,814,894
Land and land improvements	6,652,199	6,648,600	<b>Accrued Pension and Other Liabilities</b>	<u>22,930,919</u>	<u>22,349,888</u>
Building and building improvements	23,787,281	23,434,624	Total liabilities	<u>59,533,008</u>	<u>56,060,391</u>
Equipment	35,152,583	33,956,818			
Construction in progress	<u>216,038</u>	<u>161,265</u>	<b>Net Assets</b>		
	65,808,101	64,201,307	Unrestricted	5,129,446	16,895,968
Less accumulated depreciation	<u>(31,844,774)</u>	<u>(28,868,914)</u>	Temporarily restricted	840,477	774,510
	33,963,327	35,332,393	Permanently restricted	<u>673,763</u>	<u>673,763</u>
<b>Investment in Affiliates</b>	304,400	348,150	Total net assets	<u>6,643,686</u>	<u>18,344,241</u>
<b>Insured Claims Receivable, Net of Current Portion</b>	<u>2,056,411</u>	<u>4,689,375</u>	Total liabilities and net assets	<u>\$ 66,176,694</u>	<u>\$ 74,404,632</u>
Total assets	<u>\$ 66,176,694</u>	<u>\$ 74,404,632</u>			

See notes to consolidated financial statements

**Milford Health & Medical, Inc. and Subsidiaries**Consolidated Statement of Operations and Changes in Net Assets  
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Patient service revenue	\$ 73,810,727	\$ 78,277,044
Provision for bad debts	<u>(5,785,341)</u>	<u>(6,520,133)</u>
Net patient service revenue (less provision for bad debts)	68,025,386	71,756,911
Other revenues	<u>2,438,403</u>	<u>2,729,480</u>
Total operating revenues	<u>70,463,789</u>	<u>74,486,391</u>
<b>Operating Expenses</b>		
Salaries and wages	38,732,104	40,775,328
Employee benefits	10,103,835	10,178,107
Supplies and other	26,425,643	27,775,212
Provision for non-patient bad debts	2,880,503	972,726
Depreciation and amortization	2,989,243	6,887,793
Interest	<u>452,267</u>	<u>468,339</u>
Total operating expenses	<u>81,583,595</u>	<u>87,057,505</u>
Operating loss	(11,119,806)	(12,571,114)
<b>Other Income</b>		
Investment income	1,712,782	1,736,373
Contributions	<u>156,498</u>	<u>454,342</u>
Total other income	1,869,280	2,190,715
<b>Change in Unrealized Gains and Losses on Investments</b>	<u>(422,199)</u>	<u>(536,330)</u>
Expenses in excess of revenues	\$ (9,672,725)	\$ (10,916,729)

*See notes to consolidated financial statements*

**Milford Health & Medical, Inc. and Subsidiaries**

## Consolidated Statement of Operations and Changes in Net Assets

Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Unrestricted Net Assets</b>		
Expenses in excess of revenues	\$ (9,672,725)	\$ (10,916,729)
Pension liability adjustment	(1,655,986)	12,309,985
Transfers to affiliates	(529,885)	-
Net assets released from restrictions used for purchases of property and equipment	<u>92,074</u>	<u>40,577</u>
(Decrease) increase in unrestricted net assets	<u>(11,766,522)</u>	<u>1,433,833</u>
<b>Temporarily Restricted Net Assets</b>		
Investment income	158,041	145,646
Net assets released from restrictions	<u>(92,074)</u>	<u>(40,577)</u>
Increase in temporarily restricted net assets	<u>65,967</u>	<u>105,069</u>
(Decrease) increase in net assets	(11,700,555)	1,538,902
<b>Net Assets, Beginning</b>	<u>18,344,241</u>	<u>16,805,339</u>
<b>Net Assets, Ending</b>	<u><u>\$ 6,643,686</u></u>	<u><u>\$ 18,344,241</u></u>

*See notes to consolidated financial statements*

**Milford Health & Medical, Inc. and Subsidiaries**

## Consolidated Statement of Cash Flows

Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (11,700,555)	\$ 1,538,902
Adjustments to reconcile (decrease) increase in net assets net cash (used in) provided by operating activities:		
Depreciation	2,989,243	6,887,793
Provision for bad debts	8,665,844	7,492,859
Change in realized gains and unrealized losses on investments	54,300	536,330
Pension liability adjustment	1,655,986	(12,309,985)
Transfers to affiliates	529,885	-
Changes in assets and liabilities:		
Patient accounts receivable	(5,333,466)	(3,834,860)
Inventories	115,051	(26,728)
Prepaid expenses and other current assets	(420,605)	(3,084,172)
Pledges receivable	-	5,000
Accounts payable	1,744,500	1,042,344
Accrued salaries, wages and vacation	(162,983)	207,280
Other liabilities	(1,931,013)	3,112,373
Estimated third-party payor settlements	528,445	786,912
Insured claims receivable, net	2,259,758	(2,932,397)
Self insured professional claims liabilities	(3,855,777)	7,814,894
	<u>(4,861,387)</u>	<u>7,236,545</u>
<b>Cash Flows from Investing Activities</b>		
Net purchases of property and equipment	(1,620,177)	(3,757,968)
Change in investments in affiliates	43,750	796,457
Decrease (increase) in investments and assets whose use is limited	5,595,178	(1,621,033)
	<u>4,018,751</u>	<u>(4,582,544)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of note payable	6,000,000	-
Transfers to affiliates	(529,885)	-
Repayment of long-term debt	(133,335)	(1,060,609)
	<u>5,336,780</u>	<u>(1,060,609)</u>
Net cash provided by (used in) financing activities		
	<u>5,336,780</u>	<u>(1,060,609)</u>
Net increase in cash and cash equivalents	4,494,144	1,593,392
<b>Cash and Cash Equivalents, Beginning</b>	<u>3,173,042</u>	<u>1,579,650</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 7,667,186</u>	<u>\$ 3,173,042</u>
<b>Supplementary Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 452,267</u>	<u>\$ 468,339</u>

See notes to consolidated financial statements

# **Milford Health & Medical, Inc. and Subsidiaries**

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Notes to Consolidated Financial Statements

September 30, 2014 and 2013

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

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.; and Milford Health Care Services, Inc. The Company's for-profit subsidiaries include Torry Corporation, Seabridge, Inc., Seaside Indemnity Alliance Company, Ltd. ("SIAC"); and Milford Medical Lab, Inc. All of the subsidiaries are incorporated under the general statutes of the state of Connecticut, except for SIAC. All material intercompany transactions have been eliminated.

SIAC was incorporated on May 10, 2013, under the laws of the Cayman Islands and is wholly owned by the Company. SIAC obtained a Cayman Islands unrestricted class B(i) insurance license on June 6, 2013, and commenced to write certain of its business on July 1, 2013. SIAC's activities are the direct insurance of the Hospital's professional and comprehensive general liability risks together with the physician professional liability risks of certain of the Hospital's affiliated physicians.

### **Financial Transaction and Liquidity**

For the years ended September 30, 2014 and 2013, the Company had operating losses of approximately \$11.1 and \$12.6 million, respectively. The Company's continued existence is dependent upon future operations in which cash revenue exceeds expenses to provide for the maintenance of adequate working capital. Management's plans for dealing with the historical and ongoing effects of recently declining operations results are focused on cost reduction, revenue enhancement, and shared or interested services with other health care providers. The Company entered into an agreement with another health care provider in September 2014. Under the terms of the agreement the health care provider will utilize beds at the Hospital under a lease arrangement and the health care provider furnished an \$8.0 million term loan to the Company in order to provide it with liquidity. See Note 5.

### **Estimates and Assumptions**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities such as estimated uncollectible accounts for patient accounts receivable, insurance claims liabilities and receivables, estimated impairment of long-lived assets 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 doubtful accounts, impairment of long-lived assets, 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.

## **Milford Health & Medical, Inc. and Subsidiaries**

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Notes to Consolidated Financial Statements

September 30, 2014 and 2013

### **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 and therefore, bear a risk of loss.

### **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, 2014 and 2013, 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**

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. Investment income or loss (including interest, dividends, realized gains and losses, and change in unrealized gains and losses) is included in the determination of expenses in excess of revenues unless the income or loss is restricted by donor or law. 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 in the accompanying balance sheet based upon net asset values derived from the application of the equity method of accounting. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Financial information used by the Company to evaluate its alternative investments is prepared by the investment manager or general partner and includes fair value valuations that 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.

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.

## **Milford Health & Medical, Inc. and Subsidiaries**

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### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Investment income, including realized gains and changes in 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. The financial statements of the investees are audited annually by independent auditors.

The alternative investments include certain liquidity restrictions that may require 90 days advance notice for redemptions, and there are remaining commitments to the alternative investment funds of \$112,500 as of September 30, 2014.

#### **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 and investments held by SIAC for funding of self-insured professional liability claims. Except for the assets restricted by donors and investments held by SIAC, 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 doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage, and other collection indicators. 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 doubtful accounts, include 43% and 40% for Medicare, and 8% and 7% for Medicaid for the years ended September 30, 2014 and 2013, 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 of the related assets as follows:

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

## **Milford Health & Medical, Inc. and Subsidiaries**

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### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. As a result of declining operating results, the Company performed an evaluation of long-lived assets. In performing the test, the Company determined that the total of the expected future undiscounted cash flows directly related to its enterprise-wide asset group was less than the carrying value of the asset group; therefore, an impairment loss was required to be recorded. The impairment loss of \$3.8 million represents the difference between the fair value of the asset group and its related carrying value and is included within depreciation and amortization in the consolidated statement of operations and changes in net assets for the year ended September 30, 2013. The loss has been allocated to various categories of fixed assets. Fair value of the asset group that was deemed to be impaired, principally fixed assets, was primarily based on a combination of the cost and sales comparison approaches. The cost approach provides an indication of the current cost of an asset by an estimate of accrued depreciation. The sales comparison approach is based on the principle of whether a property is replaceable in the market. Because of uncertainty in the current market, it is reasonably possible that the estimate of the fair value of the asset group may change in the near term. The Company determined that the long-lived assets are not impaired at September 30, 2014.

During January 2014, the Company received approval for grant funding in the amount of \$2,000,000 from the State of Connecticut Department of Public Health to purchase medical and computer equipment to meet the clinical needs of its patients. As of September 30, 2014, the Company has been reimbursed approximately \$317,000 for funds used to purchase equipment.

#### **Self-Insured Professional Liability Claims**

Self-insured professional claims liabilities have been provided for using management's estimates on the basis of claims records and an independent actuarial review and include an amount for the adverse development of reported claims. Adjustments to the estimate of the liability for losses are reflected in earnings for the period in which the adjustment is determined.

#### **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.

## **Milford Health & Medical, Inc. and Subsidiaries**

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Notes to Consolidated Financial Statements

September 30, 2014 and 2013

### **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.

### **Expenses in Excess of Revenues**

The accompanying consolidated statement of operations and changes in net assets include expenses in excess of revenues as the performance indicator. Changes in unrestricted net assets which are excluded from expenses in excess of revenues 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 pension liability adjustment.

### **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., Torry Corporation, and SIAC, 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 \$6,043,000. A deferred tax asset for these losses of approximately \$2,417,000 is offset by a corresponding valuation allowance of the same amount. Operating loss carryforwards will begin to expire in five years.

As of September 30, 2014, Seabridge, Inc. and its subsidiary had consolidated net operating loss carryforwards of approximately \$7,400,000. A deferred tax asset for these losses of approximately \$2,960,000 is offset by a corresponding valuation allowance of the same amount. Operating loss carryforwards will begin to expire in five years.

As of September 30, 2014, Torry Corporation has a net operating loss carryforward of approximately \$1,287,000. A deferred tax asset for these losses of approximately \$515,000 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 nine years.

## Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
September 30, 2014 and 2013

As of September 30, 2014, SIAC presently has no taxation imposed on income or premiums by the government of the Cayman Islands. If any form of taxation were to be enacted, the Company has been granted an exemption there until May 10, 2033.

### 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 or disclosure in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2014, the Company evaluated subsequent events through February 26, 2015, which is the date the consolidated financial statements were available to be issued.

### New Accounting Standard

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017; early application is not permitted. The Company has not yet determined the impact of adoption of this ASU on its financial statements.

### Reclassifications

Certain reclassifications have been made to the 2013 balances previously reported to conform to the current year presentation.

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

The following table summarizes net revenues from services to patients:

	<u>2014</u>	<u>2013</u>
Gross revenues from services to patients	\$ 204,465,712	\$ 200,111,201
Deductions:		
Allowances	130,073,690	121,190,556
Charity care	581,295	643,601
	<u>130,654,985</u>	<u>121,834,157</u>
Patient service revenue (net of contractual allowances and discounts)	73,810,727	78,277,044
Provision for bad debts	<u>(5,785,341)</u>	<u>(6,520,133)</u>
Net patient service revenue (less provision for bad debts)	<u>\$ 68,025,386</u>	<u>\$ 71,756,911</u>

## Milford Health & Medical, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Patient revenues from services to patients for the years ended September 30, 2014 and 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, are as follows:

	<u>2014</u>	<u>2013</u>
Third-party payors	\$ 67,706,220	\$ 72,488,403
Self-pay	<u>6,104,507</u>	<u>5,788,641</u>
Total all payors	<u>\$ 73,810,727</u>	<u>\$ 78,277,044</u>

Deductibles and copayments under third-party payment programs within the third-party payor amount above are the patient's responsibility and the Hospital considers these amounts in its determination of the provision for bad debts based on collection experience.

Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Company records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Company's allowance for doubtful accounts totaled approximately \$3,144,000 and \$3,388,000 at September 30, 2014 and 2013, respectively. The allowance for doubtful accounts for self-pay patients was approximately 61.6% and 53.9% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively. Overall, the total of self-pay discounts and write-offs has not changed significantly for the year ended September 30, 2014. The Company has not experienced significant changes in write-off trends.

## **Milford Health & Medical, Inc. and Subsidiaries**

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### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

During 2014 and 2013, the Company's net revenues from services to patients were 44.1% and 40.9% from Medicare, 9.0% and 6.7% from Medicaid, and 14.1% and 15.3% from Blue Cross (governmental payors include managed Medicare and Medicaid business), respectively. 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.

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 payers decreased net revenues from services to patients by approximately \$50,000 and \$642,000 for the years ended September 30, 2014 and 2013, 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 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 \$241,224 and \$293,668 for the years ended September 30, 2014 and 2013, 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  
September 30, 2014 and 2013

### 3. Investments

Investments are comprised of the following at September 30:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,459,946	\$ 646,852
Corporate bonds and fixed income securities	1,042,637	753,483
Equities	468,253	2,024,029
Equity mutual funds	1,004,250	1,721,652
Alternative investments	1,077,013	2,993,625
	<u>\$ 5,052,099</u>	<u>\$ 8,139,641</u>

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

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,258,804	\$ 1,960,270
Government bonds	1,038,254	847,457
Corporate bonds	651,696	1,028,714
Other fixed income securities	1,302,506	1,986,757
Equities	917,741	1,907,913
	<u>\$ 5,169,001</u>	<u>\$ 7,731,111</u>

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

	<u>2014</u>	<u>2013</u>
Internally designated	\$ 1,029,171	\$ 1,855,375
Investments held by SIAC	3,349,333	5,005,504
Temporarily restricted for capital purposes	116,734	196,469
Permanently restricted	673,763	673,763
Total	<u>\$ 5,169,001</u>	<u>\$ 7,731,111</u>

## Milford Health & Medical, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>
Interest income	\$ 1,010,271	\$ 540,358
Dividend income	316,919	238,670
Realized gains	599,639	1,477,808
Other	<u>(214,047)</u>	<u>(520,463)</u>
Investment income, net	<u>1,712,782</u>	<u>1,736,373</u>
Change in unrealized gains and losses on investments	<u>(422,199)</u>	<u>(536,330)</u>
Total	<u>\$ 1,290,583</u>	<u>\$ 1,200,043</u>

#### 4. Fair Value of Financial Instruments

As defined in ASC 820-10, *Fair Value Measurement - Overall*, 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

September 30, 2014 and 2013

Financial assets carried at fair value in the accompanying consolidated 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:

	2014			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 7,667,186	\$ -	\$ -	\$ 7,667,186
Short-term investments:				
Certificates of deposit	112,417	-	-	112,417
Investments:				
Cash and cash equivalents	1,459,946	-	-	1,459,946
Corporate bonds and fixed income securities	-	1,042,637	-	1,042,637
Equities	468,253	-	-	468,253
Equity mutual funds	1,004,250	-	-	1,004,250
Alternative investments	-	-	1,077,013	1,077,013
Total investments	2,932,449	1,042,637	1,077,013	5,052,099
Assets whose use is limited:				
Cash and cash equivalents	1,258,804	-	-	1,258,804
Government bonds	-	1,038,254	-	1,038,254
Corporate bonds	-	651,696	-	651,696
Other fixed income securities	-	1,302,506	-	1,302,506
Equities	917,741	-	-	917,741
Total assets whose use is limited	2,176,545	2,992,456	-	5,169,001
Total	\$ 12,888,597	\$ 4,035,093	\$ 1,077,013	\$ 18,000,703

## Milford Health & Medical, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

	2013			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 3,173,042	\$ -	\$ -	\$ 3,173,042
Short-term investments:				
Certificates of deposit	112,243	-	-	112,243
Investments:				
Cash and cash equivalents	646,852	-	-	646,852
Corporate bonds and fixed income securities	-	753,483	-	753,483
Equities	2,024,029	-	-	2,024,029
Equity mutual funds	1,721,652	-	-	1,721,652
Alternative investments	-	-	2,993,625	2,993,625
Total investments	4,392,533	753,483	2,993,625	8,139,641
Assets whose use is limited:				
Cash and cash equivalents	1,960,270	-	-	1,960,270
Government bonds	-	847,457	-	847,457
Corporate bonds	-	1,028,714	-	1,028,714
Other fixed income securities	-	1,986,757	-	1,986,757
Equities	1,907,913	-	-	1,907,913
Total assets whose use is limited	3,868,183	3,862,928	-	7,731,111
Total	\$ 11,546,001	\$ 4,616,411	\$ 2,993,625	\$ 19,156,037

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.

## Milford Health & Medical, Inc. and Subsidiaries

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Notes to Consolidated Financial Statements  
September 30, 2014 and 2013

### 5. Note Payable and Debt

On September 2, 2014, the Company entered into a Master Agreement with another health care provider to provide a framework for implementing programs in a manner that is consistent with the charitable mission of each organization and the communities it serves. Under the terms of the agreement, the health care provider will utilize beds at the Company under a lease arrangement to provide inpatient rehabilitation services to its patients and will furnish an \$8,000,000 term loan to the Company. The Company had an outstanding balance on the loan of \$6,000,000 at September 30, 2014. The term loan bears interest of 6.5% annually that is payable monthly. The principal balance of the term loan is payable to the lender in two equal installments on September 30, 2018 and 2019.

The term loan is collateralized by certain property owned by the Company.

In addition to the Master Agreement, the Company entered into an Inpatient Rehabilitation Unit ("IRU") Lease and an IRU Services Agreement. The details of those agreements are as follows:

- IRU Lease Agreement: The term of the IRU Lease Agreement is five years during which time the Company will lease certain beds to the health care provider to be used to provide inpatient rehabilitation services to patients of the health care provider. The lease provides the tenant with two five-year renewal options at the end of each term. Monthly payments to the Company range from \$39,000 to \$44,000.
- IRU Services Agreement: The term of the IRU Services Agreement is five years during which time the health care provider will purchase certain clinical services related to those rehabilitation patients at the Company from the Company and certain affiliated physicians. The service agreement provides the Company with two five-year renewal options at the end of each term. Monthly payments to the Company range from \$153,000 to \$237,000.

The Master Agreement requires the Company to comply with certain financial covenants regarding levels of cash available for operations. If the Company fails to meet such covenants, they are required to provide the health care provider with an action plan related to maintaining certain levels of cash available for operations. If the Company falls below 20 days cash on hand, the health care provider may terminate the agreements in which case the term loan will be due immediately.

On November 19, 2009, the Company entered into a construction loan with a bank. At September 30, 2014 and 2013, the Company had an unpaid balance of \$6,634,889 and \$6,768,224, respectively. Interest paid during fiscal years 2014 and 2013 amounted to \$425,306 and \$433,403, 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, 2014 and 2013.

## Milford Health & Medical, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Future minimum principal payments during each of the next five fiscal years, and in the aggregate, were as follows at September 30, 2014:

2015	\$	142,366
2016		150,501
2017		161,473
2018		3,172,008
2019		3,183,230
Thereafter		<u>5,825,311</u>
	\$	<u>12,634,889</u>

#### 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.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of the 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 are the following amounts that have not yet been recognized in net periodic pension cost:

	<u>2014</u>	<u>2013</u>
Unrecognized actuarial loss	<u>\$ (17,062,288)</u>	<u>\$ (15,406,302)</u>

## Milford Health & Medical, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

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:

	<u>2014</u>	<u>2013</u>
Changes in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 81,706,599	\$ 93,981,617
Service cost	535,754	333,194
Interest cost	3,748,965	3,465,833
Benefits paid	(5,959,465)	(3,690,998)
Expenses paid	(552,032)	(535,754)
Actuarial losses (gains)	2,165,547	(11,847,293)
	<u>\$ 81,645,368</u>	<u>\$ 81,706,599</u>
Changes in plan assets:		
Fair value of plan assets, beginning of year	\$ 65,869,815	\$ 64,873,614
Contributions	-	625,000
Actual return on plan assets	5,057,449	4,597,953
Benefits paid	(5,959,465)	(3,690,998)
Expenses paid	(552,032)	(535,754)
	<u>\$ 64,415,767</u>	<u>\$ 65,869,815</u>
Fair value of plan assets, end of year	<u>\$ 64,415,767</u>	<u>\$ 65,869,815</u>
Funded status of the Plan	<u>\$ (17,229,601)</u>	<u>\$ (15,836,784)</u>
Components of net periodic pension credit:		
Service cost	\$ 535,754	\$ 333,194
Interest cost	3,748,965	3,465,833
Expected return on plan assets	(4,818,777)	(4,805,664)
Net amortization and deferral of actuarial loss	270,889	670,403
	<u>\$ (263,169)</u>	<u>\$ (336,234)</u>
Net periodic pension credit	<u>\$ (263,169)</u>	<u>\$ (336,234)</u>

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

	<u>2014</u>	<u>2013</u>
Discount rate used for net periodic pension credit	4.65 %	3.73 %
Discount rate used for projected benefit obligation	4.45	4.65
Expected long-term rate of return on plan assets	7.50	7.50
Rate of compensation increase	N/A	N/A

The accumulated benefit obligation at September 30, 2014 and 2013, was \$81,645,368 and \$81,706,599, respectively.

The actuarial losses in 2014 are primarily attributed to an increase in the discount rate and change in the mortality table. The actuarial gain in 2013 is primarily attributed to a decrease in the discount rate.

## Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

### 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 by asset category, are as follows:

	<u>2014</u>	<u>2013</u>
Asset category		
Cash and money market funds	2.6 %	9.4 %
Government bonds	10.4	12.9
Corporate bonds	6.5	8.2
Equities	62.7	64.1
Alternative investments	17.8	5.4
	<u>100.0 %</u>	<u>100.0 %</u>
Total		

The target allocation for the Plan's assets is 60% equity securities, 30% fixed income securities, and 10% other investments.

Financial assets carried at fair value included in the Plan are classified in the tables below in one of the three categories described above:

	<u>2014</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Cash and cash equivalents	\$ 1,698,509	\$ -	\$ -	\$ 1,698,509
Fixed income:				
Government bonds	-	6,703,907	-	6,703,907
Corporate bonds	-	4,163,447	-	4,163,447
Equities:				
International	13,234,227	-	-	13,234,227
Mid cap	3,003,899	-	-	3,003,899
Large cap	24,138,263	-	-	24,138,263
Alternative investments	-	-	11,473,515	11,473,515
	<u>\$ 42,074,898</u>	<u>\$ 10,867,354</u>	<u>\$ 11,473,515</u>	<u>\$ 64,415,767</u>

## Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
September 30, 2014 and 2013

	2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 6,212,552	\$ -	\$ -	\$ 6,212,552
Fixed income:				
Government bonds	-	8,523,744	-	8,523,744
Corporate bonds	-	5,394,936	-	5,394,936
Equities:				
International	13,479,371	-	-	13,479,371
Mid cap	3,092,328	-	-	3,092,328
Large cap	25,581,878	-	-	25,581,878
Alternative investments	-	-	3,585,006	3,585,006
	<u>\$ 48,366,129</u>	<u>\$ 13,918,680</u>	<u>\$ 3,585,006</u>	<u>\$ 65,869,815</u>

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

	2014	2013
Beginning balance for the year	\$ 3,585,006	\$ 2,987,425
Purchases	7,000,000	500,000
Sales	(172,000)	-
Net change in unrealized appreciation	1,060,509	97,581
Ending balance for the year	<u>\$ 11,473,515</u>	<u>\$ 3,585,006</u>

Alternative investments 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.

## Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
September 30, 2014 and 2013

### Contributions

The Hospital does not expect to contribute to the Plan in 2015.

### Estimated Future Benefit Payments

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

Fiscal years:

2015	\$	3,688,782
2016		3,801,137
2017		4,019,213
2018		4,288,574
2019-2023		24,424,190
2024-2028		<u>25,082,459</u>
Total	\$	<u>65,304,355</u>

## 7. Medical Malpractice Insurance

Effective October 1, 2004, the Hospital became insured by the Company through Healthcare Alliance Insurance Company, Ltd. ("HAIC"). HAIC was a multi-provider captive insurance company domiciled in the Cayman Islands. The Company was a one-third owner of the captive with two other local hospitals that each hold one-third ownership. The Hospital's insurance coverage was \$1,500,000 per occurrence, and \$3,000,000 in the aggregate. The Hospital had an excess layer of indemnity coverage of \$25,000,000 per occurrence and \$25,000,000 in the aggregate.

Effective July 1, 2013, the Company sold its equity interest in HAIC and the Hospital became insured by SIAC. As a result of the sale of the equity interest in HAIC, the Company has recorded a gain of \$846,760 which is included in nonoperating income in the accompanying consolidated statement of operations and changes in net assets for the year ended September 30, 2013.

The Hospital's claims-made insurance coverage through SIAC beginning July 1, 2013, is \$26,500,000 per claim with a policy aggregate of \$28,750,000. SIAC purchases reinsurance coverage which is \$25,000,000 per claim and \$25,000,000 in the aggregate.

In addition, SIAC will assume the Company's risks previously insured by an unrelated insurance company during the period 2004 to 2013 via a loss portfolio transfer (LPT). SIAC's retention, as outlined above, in relation to these prior periods (included within the LPT) will be the same.

Management accrues its best estimate of losses as they occur. Accordingly, management has recorded a liability of approximately \$690,000 and \$761,000 at September 30, 2014 and 2013, respectively, for claims incurred but not reported which is included in accrued pension and other liabilities on the accompanying consolidated balance sheet. This liability has been discounted using a 3% discount rate at September 30, 2014 and 2013.

## Milford Health & Medical, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

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, 2014, 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.

Unpaid losses and loss adjustments are as follows:

Reserve for reported claims	\$ 985,068
Reserve for adverse claims development	<u>2,974,049</u>
	<u>\$ 3,959,117</u>

Activity in the provision for unpaid losses and loss adjustment expenses, which is included in self-insured professional claims liabilities on the consolidated balance sheets, is summarized as follows:

Balance at October 1, 2013	\$ 7,814,894
Losses incurred related to:	
Current year	944,032
Prior years	<u>(2,685,661)</u>
Total incurred	<u>(1,741,629)</u>
Paid losses related to:	
Current year	(28,307)
Prior years	<u>(2,758,480)</u>
Total paid	<u>(2,786,787)</u>
Reinsurance recoverable on loss reserves	<u>672,639</u>
Balance at September 30, 2014	<u>\$ 3,959,117</u>

The change in the provision of incurred losses relating to prior years resulted from recent trends in the Company's loss experience and is not attributable to any one incident.

In the opinion of management, the reserve for losses and loss adjustment expenses as of the balance sheet date, which represents management's best estimate, on a discounted basis, of the Company's liability under the policies issued, is adequate to cover the discounted expected ultimate liability of the risks incurred. Due to the nature of the underlying insurance risks and the general uncertainty surrounding medical malpractice claims settlement, the liability for losses is an estimate and could vary significantly from the amount ultimately paid.

## Milford Health & Medical, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

The provision for unpaid losses and loss adjustment is based upon the discounted ultimate liability of the Company as determined by independent actuaries and has been discounted to present value using pay-out patterns derived from insurance industry medical professional liability data using a discount rate of 3%. At September 30, 2014, gross undiscounted total loss provisions were \$2,892,257.

#### 8. Commitments and Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements; however, the possible future financial effects of this matter on the Company, if any, are not presently determinable.

#### 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:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 76,375,000	\$ 81,500,000
General and administrative	5,209,000	5,558,000
	<u>\$ 81,584,000</u>	<u>\$ 87,058,000</u>

#### 10. Other Operating Revenues

Other operating revenues consist of the following for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Electronic health records incentive payments	\$ 852,995	\$ 977,058
Cafeteria	187,170	220,717
Pharmacy	183,449	178,878
Rental income	1,112,561	1,253,627
Other	102,228	99,200
	<u>\$ 2,438,403</u>	<u>\$ 2,729,480</u>

## **Milford Health & Medical, Inc. and Subsidiaries**

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### Notes to Consolidated Financial Statements

September 30, 2014 and 2013

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. 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 years ended September 30, 2014 and 2013, was \$852,995 and \$977,058, respectively, and is included in other operating revenues. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Included in due to third-party reimbursement agencies is a retrospective reserve of \$218,706 and \$378,555 for this purpose as of September 30, 2014 and 2013, respectively. Additionally, the Company's attestation of compliance with the meaningful use criteria is subject to audit.

**Milford Health & Medical, Inc. and Subsidiaries**

Schedule of Consolidating Information, Balance Sheet

September 30, 2014

(See Independent Auditors' Report on Supplementary Information)

	Milford	Milford	Milford	Milford	Milford	Milford	Milford	Seaside	Consolidation		
	Hospital, Inc.	Hospital Foundation, Inc.	Medical Lab, Inc.	Home Care Plus, Inc.	Health & Medical, Inc.	Torry Corporation	Health Care Services, Inc.	Seabridge, Inc.	Indemnity Alliance, LTD	Eliminations	Consolidated
<b>Assets</b>											
<b>Current Assets</b>											
Cash and cash equivalents	\$ 6,892,694	\$ 142,155	\$ 64,275	\$ 414,505	\$ 27,464	\$ 13,648	\$ 433	\$ 916	\$ 111,096	\$ -	\$ 7,667,186
Short-term investments	110,778	1,639	-	-	-	-	-	-	-	-	112,417
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately \$3,088,000	8,850,797	-	213,017	856,040	-	-	-	-	-	-	9,919,854
Inventories	772,809	-	-	-	-	-	-	-	-	-	772,809
Prepaid expenses and other current assets	872,178	6,966	17,121	22,464	2,000	206,199	-	-	1,165,428	(1,133,166)	1,159,190
Insured claims receivable	672,298	-	-	-	-	-	-	-	-	(672,298)	-
Total current assets	18,171,554	150,760	294,413	1,293,009	29,464	219,847	433	916	1,276,524	(1,805,464)	19,631,456
<b>Investments</b>	1,815,473	654,244	-	-	-	-	-	-	2,582,382	-	5,052,099
<b>Assets Whose Use is Limited</b>	1,658,681	160,987	-	-	-	-	-	-	3,349,333	-	5,169,001
<b>Property, Plant, and Equipment</b>											
Land and improvements	1,437,940	-	-	-	-	5,214,259	-	-	-	-	6,652,199
Building and improvements	15,580,796	-	50,186	13,384	-	8,142,915	-	-	-	-	23,787,281
Equipment	34,694,933	15,471	96,775	298,904	-	46,500	-	-	-	-	35,152,583
Construction in progress	-	-	-	-	-	216,038	-	-	-	-	216,038
	51,713,669	15,471	146,961	312,288	-	13,619,712	-	-	-	-	65,808,101
Less: accumulated depreciation	(30,714,786)	(4,329)	(136,903)	(243,555)	-	(745,201)	-	-	-	-	(31,844,774)
	20,998,883	11,142	10,058	68,733	-	12,874,511	-	-	-	-	33,963,327
<b>Beneficial Interest in Milford Hospital Foundation, Inc.</b>	960,239	-	-	-	-	-	-	-	-	(960,239)	-
<b>Due from Affiliates</b>	541,820	4,203	-	-	1,456,150	118,546	-	-	-	(2,120,719)	-
<b>Investment in Affiliates</b>	-	-	-	-	11,506,623	-	-	305,442	-	(11,507,665)	304,400
<b>Insured Claims Receivable, net</b>	2,795,413	-	-	-	-	-	-	-	672,639	(1,411,641)	2,056,411
Total assets	\$ 46,942,063	\$ 981,336	\$ 304,471	\$ 1,361,742	\$ 12,992,237	\$ 13,212,904	\$ 433	\$ 306,358	\$ 7,880,878	\$ (17,805,728)	\$ 66,176,694

**Milford Health & Medical, Inc. and Subsidiaries**

Schedule of Consolidating Information, Balance Sheet

September 30, 2014

(See Independent Auditors' Report on Supplementary Information)

	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.	Seaside Indemnity Alliance, LTD	Consolidation	
										Eliminations	Consolidated
<b>Liabilities and Net Assets (Deficit)</b>											
<b>Current Liabilities</b>											
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 142,366	\$ -	\$ -	\$ -	\$ -	\$ 142,366
Accounts payable	7,032,887	-	18,474	45,833	-	104,106	-	-	54,578	-	7,255,878
Accrued salaries, wages and vacation	6,690,575	-	-	298,474	-	-	-	-	-	-	6,989,049
Estimated third-party payor settlements	2,226,150	-	-	189,220	-	-	-	-	-	-	2,415,370
Due to affiliates	122,749	21,097	10,381,903	45,630	752,223	86,728	759,408	65,344	8,277	(12,243,359)	-
Insured claims liabilities	672,298	-	-	-	-	-	-	-	-	(672,298)	-
Other current liabilities	1,881,969	-	23,403	-	-	58,642	-	-	-	-	1,964,014
Total current liabilities	18,626,628	21,097	10,423,780	579,157	752,223	391,842	759,408	65,344	62,855	(12,915,657)	18,766,677
<b>Long-Term Debt</b>	6,000,000	-	-	-	-	6,492,523	-	-	-	-	12,492,523
<b>Insured Claims Liabilities, net</b>	2,795,413	-	-	-	-	-	-	-	-	(1,411,641)	1,383,772
<b>Self Insured Professional Claims Liabilities</b>	-	-	-	-	-	-	-	-	3,959,117	-	3,959,117
<b>Accrued Pension and Other Liabilities</b>	20,542,231	-	-	-	1,133,166	-	-	-	2,388,688	(1,133,166)	22,930,919
Total liabilities	47,964,272	21,097	10,423,780	579,157	1,885,389	6,884,365	759,408	65,344	6,410,660	(15,460,464)	59,533,008
<b>Net Assets (Deficit)</b>											
Unrestricted	(2,536,448)	-	(10,120,309)	782,585	11,106,848	6,327,539	(758,975)	236,014	1,370,218	(1,278,026)	5,129,446
Temporarily restricted	840,476	840,476	-	-	-	-	-	-	-	(840,475)	840,477
Permanently restricted	673,763	119,763	-	-	-	-	-	-	-	(119,763)	673,763
Common stock	-	-	1,000	-	-	1,000	-	5,000	100,000	(107,000)	-
Total net assets (deficit)	(1,022,209)	960,239	(10,119,309)	782,585	11,106,848	6,328,539	(758,975)	241,014	1,470,218	(2,345,264)	6,643,686
Total liabilities and net assets (deficit)	\$ 46,942,063	\$ 981,336	\$ 304,471	\$ 1,361,742	\$ 12,992,237	\$ 13,212,904	\$ 433	\$ 306,358	\$ 7,880,878	\$ (17,805,728)	\$ 66,176,694

**Milford Health & Medical, Inc. and Subsidiaries**

Schedule of Consolidating Information, Balance Sheet

September 30, 2013

(See Independent Auditors' Report on Supplementary Information)

	Milford	Milford	Milford	Home Care	Milford	Torry	Milford	Seaside	Consolidation		
	Hospital, Inc.	Hospital Foundation, Inc.	Medical Lab, Inc.	Plus, Inc.	Health & Medical, Inc.	Corporation	Health Care Services, Inc.	Indemnity Alliance, LTD	Eliminations	Consolidated	
<b>Assets</b>											
<b>Current Assets</b>											
Cash and cash equivalents	\$ 1,665,016	\$ 143,817	\$ 120,474	\$ 693,830	\$ 80,932	\$ 9,688	\$ 433	\$ 13,574	\$ 445,278	\$ -	\$ 3,173,042
Short-term investments	110,612	1,631	-	-	-	-	-	-	-	-	112,243
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately \$3,344,000	9,618,035	-	150,538	603,156	-	-	-	-	-	-	10,371,729
Inventories	887,860	-	-	-	-	-	-	-	-	-	887,860
Prepaid expenses and other current assets	1,727,752	6,966	1,621	10,140	909,654	133,838	-	-	829,117	-	3,619,088
Insured claims receivable	814,691	-	-	-	-	-	-	-	-	(814,691)	-
Total current assets	14,823,966	152,414	272,633	1,307,126	990,586	143,526	433	13,574	1,274,395	(814,691)	18,163,962
<b>Investments</b>	3,482,913	578,689	-	-	-	-	-	-	4,078,039	-	8,139,641
<b>Assets Whose Use is Limited</b>	2,580,001	145,606	-	-	-	-	-	-	5,005,504	-	7,731,111
<b>Property, Plant, and Equipment</b>											
Land and improvements	1,434,340	-	-	-	-	5,214,260	-	-	-	-	6,648,600
Building and improvements	15,228,139	-	50,186	13,384	-	8,142,915	-	-	-	-	23,434,624
Equipment	33,530,177	15,470	105,207	260,410	-	45,554	-	-	-	-	33,956,818
Construction in progress	-	-	-	-	-	161,265	-	-	-	-	161,265
	50,192,656	15,470	155,393	273,794	-	13,563,994	-	-	-	-	64,201,307
Less: accumulated depreciation	(28,032,186)	(3,542)	(140,692)	(213,992)	-	(478,502)	-	-	-	-	(28,868,914)
	22,160,470	11,928	14,701	59,802	-	13,085,492	-	-	-	-	35,332,393
<b>Beneficial Interest in Milford Hospital Foundation, Inc.</b>	894,273	-	-	-	-	-	-	-	-	(894,273)	-
<b>Due from Affiliates</b>	348,164	5,636	-	-	1,529,024	14,016	-	-	-	(1,896,840)	-
<b>Investment in Affiliates</b>	-	-	-	-	11,486,623	-	-	349,191	-	(11,487,664)	348,150
<b>Insured Claims Receivable, net</b>	4,086,302	-	-	-	-	-	-	-	2,932,397	(2,329,324)	4,689,375
Total assets	\$ 48,376,089	\$ 894,273	\$ 287,334	\$ 1,366,928	\$ 14,006,233	\$ 13,243,034	\$ 433	\$ 362,765	\$ 13,290,335	\$ (17,422,792)	\$ 74,404,632

**Milford Health & Medical, Inc. and Subsidiaries**

Schedule of Consolidating Information, Balance Sheet

September 30, 2013

(See Independent Auditors' Report on Supplementary Information)

	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.	Seaside Indemnity Alliance, LTD	Consolidation	
										Eliminations	Consolidated
<b>Liabilities and Net Assets (Deficit)</b>											
<b>Current Liabilities</b>											
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,467	\$ -	\$ -	\$ -	\$ -	\$ 133,467
Accounts payable	5,318,753	-	9,804	46,129	-	64,124	-	-	72,568	-	5,511,378
Accrued salaries, wages and vacation	6,870,249	-	-	281,783	-	-	-	-	-	-	7,152,032
Estimated third-party payor settlements	1,691,606	-	-	195,319	-	-	-	-	-	-	1,886,925
Due to affiliates	20,705	-	9,664,194	37,900	761,272	-	748,099	47,656	-	(11,279,826)	-
Insured claims liabilities	814,691	-	-	-	-	-	-	-	-	(814,691)	-
Other current liabilities	1,871,366	-	23,765	-	-	66,778	-	-	858,163	-	2,820,072
Total current liabilities	16,587,370	-	9,697,763	561,131	761,272	264,369	748,099	47,656	930,731	(12,094,517)	17,503,874
<b>Long-Term Debt</b>	-	-	-	-	-	6,634,757	-	-	-	-	6,634,757
<b>Insured Claims Liabilities, net</b>	4,086,302	-	-	-	-	-	-	-	-	(2,329,324)	1,756,978
<b>Self Insured Professional Claims Liabilities</b>	-	-	-	-	-	-	-	-	7,814,894	-	7,814,894
<b>Accrued Pension and Other Liabilities</b>	19,096,320	-	-	-	179,076	-	-	-	3,074,492	-	22,349,888
Total liabilities	39,769,992	-	9,697,763	561,131	940,348	6,899,126	748,099	47,656	11,820,117	(14,423,841)	56,060,391
<b>Net Assets (Deficit)</b>											
Unrestricted	7,157,824	-	(9,411,429)	805,797	13,065,885	6,342,908	(747,666)	310,109	1,370,218	(1,997,678)	16,895,968
Temporarily restricted	774,510	774,510	-	-	-	-	-	-	-	(774,510)	774,510
Permanently restricted	673,763	119,763	-	-	-	-	-	-	-	(119,763)	673,763
Common stock	-	-	1,000	-	-	1,000	-	5,000	100,000	(107,000)	-
Total net assets (deficit)	8,606,097	894,273	(9,410,429)	805,797	13,065,885	6,343,908	(747,666)	315,109	1,470,218	(2,998,951)	18,344,241
Total liabilities and net assets (deficit)	\$ 48,376,089	\$ 894,273	\$ 287,334	\$ 1,366,928	\$ 14,006,233	\$ 13,243,034	\$ 433	\$ 362,765	\$ 13,290,335	\$ (17,422,792)	\$ 74,404,632

**Milford Health & Medical, Inc. and Subsidiaries**

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)

Year Ended September 30, 2014

(See Independent Auditors' Report on Supplementary Information)

	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.	Seaside Indemnity Alliance, LTD	Consolidation	
										Eliminations	Consolidated
<b>Operating Revenues</b>											
Patient services revenues	\$ 69,109,103	\$ -	\$ 1,098,459	\$ 3,603,165	\$ -	\$ -	\$ -	\$ -	\$ 1,271,433	\$ (1,271,433)	\$ 73,810,727
Provision for bad debts	(5,608,309)	-	(104,526)	(72,506)	-	-	-	-	-	-	(5,785,341)
Net patient service revenues (less provision for bad debts)	63,500,794	-	993,933	3,530,659	-	-	-	-	1,271,433	(1,271,433)	68,025,386
Other revenues	1,352,459	-	43,979	5,183	-	1,217,577	-	-	-	(180,795)	2,438,403
Total operating revenues	64,853,253	-	1,037,912	3,535,842	-	1,217,577	-	-	1,271,433	(1,452,228)	70,463,789
<b>Operating Expenses</b>											
Salaries and wages	35,687,359	29,727	669,833	2,145,419	45,077	70,600	1,206	15,168	67,715	-	38,732,104
Employee benefits	9,339,375	9,970	217,418	476,919	13,151	20,304	386	4,643	21,669	-	10,103,835
Supplies and other	24,335,355	66,717	903,626	934,545	80,450	519,622	2,063	28,338	1,535,511	(1,980,584)	26,425,643
Provision for non-patient bad debts	-	-	-	-	2,880,503	-	-	-	-	-	2,880,503
Depreciation and amortization	2,687,549	787	4,643	29,565	-	266,699	-	-	-	-	2,989,243
Interest	26,961	-	-	-	5,117	425,306	11,259	-	-	(16,376)	452,267
Total operating expenses	72,076,599	107,201	1,795,520	3,586,448	3,024,298	1,302,531	14,914	48,149	1,624,895	(1,996,960)	81,583,595
Operating income (loss)	(7,223,346)	(107,201)	(757,608)	(50,606)	(3,024,298)	(84,954)	(14,914)	(48,149)	(353,462)	544,732	(11,119,806)
<b>Other Income</b>											
Investment income	362,189	41,212	3	1,619	530,007	-	-	260,258	433,083	84,411	1,712,782
Contributions	-	156,498	-	-	-	-	-	-	-	-	156,498
Total other income	362,189	197,710	3	1,619	530,007	-	-	260,258	433,083	84,411	1,869,280
<b>Change in Unrealized Gains and Losses on Investments</b>											
	(342,578)	49,898	-	-	-	-	-	-	(79,621)	(49,898)	(422,199)
Revenues in excess of (less than) expenses	\$ (7,203,735)	\$ 140,407	\$ (757,605)	\$ (48,987)	\$ (2,494,291)	\$ (84,954)	\$ (14,914)	\$ 212,109	\$ -	\$ 579,245	\$ (9,672,725)

**Milford Health & Medical, Inc. and Subsidiaries**

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)

Year Ended September 30, 2013

(See Independent Auditors' Report on Supplementary Information)

	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.	Seaside Indemnity Alliance, LTD	Consolidation	
										Eliminations	Consolidated
<b>Operating Revenues</b>											
Patient services revenues	\$ 73,584,384	\$ -	\$ 1,110,087	\$ 3,582,573	\$ -	\$ -	\$ -	\$ -	\$ 441,361	\$ (441,361)	\$ 78,277,044
Provision for bad debts	(6,456,481)	-	(41,240)	(22,412)	-	-	-	-	-	-	(6,520,133)
Net patient service revenues (less provision for bad debts)	67,127,903	-	1,068,847	3,560,161	-	-	-	-	441,361	(441,361)	71,756,911
Other revenues	1,449,445	-	40,902	26,095	-	1,285,177	-	-	-	(72,139)	2,729,480
Total operating revenues	68,577,348	-	1,109,749	3,586,256	-	1,285,177	-	-	441,361	(513,500)	74,486,391
<b>Operating Expenses</b>											
Salaries and wages	37,819,070	12,115	563,198	2,280,146	31,381	52,400	-	17,018	-	-	40,775,328
Employee benefits	9,405,113	3,711	214,960	524,813	9,097	14,829	-	5,584	-	-	10,178,107
Supplies and other	25,901,738	19,864	925,844	881,133	52,413	416,070	1,950	23,063	660,545	(1,107,408)	27,775,212
Provision for non-patient bad debts	-	-	-	-	972,726	-	-	-	-	-	972,726
Depreciation and amortization	4,180,977	787	5,264	25,496	-	2,675,269	-	-	-	-	6,887,793
Interest	34,936	-	-	-	-	433,403	11,259	-	-	(11,259)	468,339
Total operating expenses	77,341,834	36,477	1,709,266	3,711,588	1,065,617	3,591,971	13,209	45,665	660,545	(1,118,667)	87,057,505
Operating income (loss)	(8,764,486)	(36,477)	(599,517)	(125,332)	(1,065,617)	(2,306,794)	(13,209)	(45,665)	(219,184)	605,167	(12,571,114)
<b>Other Income</b>											
Investment income	324,629	50,200	4	2,470	1,296,915	-	-	198,712	18,684	(155,241)	1,736,373
Contributions	300,669	153,673	-	-	-	-	-	-	-	-	454,342
Total other income	625,298	203,873	4	2,470	1,296,915	-	-	198,712	18,684	(155,241)	2,190,715
<b>Change in Unrealized Gains and Losses on Investments</b>											
	(736,830)	(4,977)	-	-	-	-	-	-	200,500	4,977	(536,330)
Revenues in excess of (less than) expenses	\$ (8,876,018)	\$ 162,419	\$ (599,513)	\$ (122,862)	\$ 231,298	\$ (2,306,794)	\$ (13,209)	\$ 153,047	\$ -	\$ 454,903	\$ (10,916,729)