

AUDITED FINANCIAL STATEMENTS

The Milford Hospital, Incorporated
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

The Milford Hospital, Incorporated

Audited Financial Statements

Years Ended September 30, 2009 and 2008

Contents

Report of Independent Auditors.....	1
Balance Sheets	2
Statements of Operations and Changes in Net Assets	4
Statements of Cash Flows.....	6
Notes to Financial Statements.....	8

Report of Independent Auditors

The Board of Directors
The Milford Hospital, Incorporated

We have audited the accompanying balance sheets of The Milford Hospital, Incorporated (the Hospital) as of September 30, 2009 and 2008, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital'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 Hospital'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 Hospital'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 financial statements referred to above present fairly, in all material respects, the financial position of The Milford Hospital, Incorporated at September 30, 2009 and 2008, and the results of its operations and changes in net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 25, 2010

The Milford Hospital, Incorporated

Balance Sheets

	September 30	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,078,653	\$ 1,243,133
Short-term investments	221,990	218,753
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$6,169,000 in 2009 and \$10,180,000 in 2008	13,535,241	13,366,597
Inventories	778,225	856,351
Prepaid expenses and other	1,328,796	1,426,335
Total current assets	16,942,905	17,111,169
Investments	29,687,316	32,474,587
Assets limited as to use	1,743,239	1,726,495
Property, plant, and equipment:		
Land and improvements	1,545,184	1,545,184
Building and improvements	38,311,785	37,781,191
Equipment	31,246,590	31,379,639
Construction-in-progress	644,126	319,881
	71,747,685	71,025,895
Less accumulated depreciation	(42,570,348)	(40,332,380)
	29,177,337	30,693,515
Interest in Milford Hospital Foundation, Inc.	749,093	656,633
Due from affiliates	577,526	646,664
Mortgage receivable from affiliate	642,750	654,173
	1,969,369	1,957,470
Total assets	\$ 79,520,166	\$ 83,963,236

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 4,324,984	\$ 5,116,659
Accrued employee compensation	6,257,395	5,794,344
Other accrued liabilities	2,990,484	2,130,817
Due to third-party reimbursement agencies	2,372,068	2,213,360
Current portion of notes payable to bank	833,487	778,379
Total current liabilities	16,778,418	16,033,559
Notes payable to bank, less current portion	2,783,548	3,617,035
Accrued pension and other liabilities	21,859,301	15,532,404
Net assets:		
Unrestricted	36,805,806	47,584,605
Temporarily restricted	689,851	602,391
Permanently restricted	603,242	593,242
Total net assets	38,098,899	48,780,238
Total liabilities and net assets	\$ 79,520,166	\$ 83,963,236

See accompanying notes.

The Milford Hospital, Incorporated

Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2009	2008
Operating revenues:		
Net revenues from services to patients	\$ 82,829,045	\$ 83,524,926
Other operating revenues	749,027	702,596
	83,578,072	84,227,522
Operating expenses:		
Salaries and wages	37,172,912	36,129,757
Supplies and other	39,588,961	39,758,708
Provision for uncollectible accounts	6,998,451	4,873,574
Depreciation	3,973,806	3,977,866
Interest	280,961	337,777
Professional fees	472,382	284,509
	88,487,473	85,362,191
Operating loss	(4,909,401)	(1,134,669)
Nonoperating (loss) income:		
Investment (loss) income, net	(2,269,354)	1,601,380
(Deficiency) excess of revenues over expenses before change in unrealized gains and losses on investments	(7,178,755)	466,711
Change in unrealized gains and losses on investments	3,551,963	(5,521,196)
Deficiency of revenues over expenses	(3,626,792)	(5,054,485)

Continued on next page.

The Milford Hospital, Incorporated

Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2009	2008
Unrestricted net assets:		
Deficiency of revenues over expenses (continued)	\$ (3,626,792)	\$ (5,054,485)
Net assets released from restrictions for capital	4,483	18,091
Net asset transfers	(1,668,843)	(1,568,518)
Change in pension funding obligation	(5,487,647)	(3,101,812)
Decrease in unrestricted net assets	(10,778,799)	(9,706,724)
Temporarily restricted net assets:		
Net assets released from restrictions for capital	(4,483)	(18,091)
Interest income	4,483	20,534
Change in equity interest of Milford Hospital Foundation, Inc.	87,460	-
Net asset transfers	-	(7,677)
Increase (decrease) in temporarily restricted net assets	87,460	(5,234)
Permanently restricted net assets:		
Restricted gifts	5,000	32,500
Change in equity interest of Milford Hospital Foundation, Inc.	5,000	5,000
Net asset transfers	-	7,677
Increase in permanently restricted net assets	10,000	45,177
Decrease in net assets	(10,681,339)	(9,666,781)
Net assets at beginning of year	48,780,238	58,447,019
Net assets at end of year	\$ 38,098,899	\$ 48,780,238

See accompanying notes.

The Milford Hospital, Incorporated

Statements of Cash Flows

	Year Ended September 30	
	2009	2008
Operating activities		
Change in net assets	\$ (10,681,339)	\$ (9,666,781)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Provision for uncollectible accounts	6,998,451	4,873,574
Depreciation	3,973,806	3,977,866
Change in unrealized gains and losses on investments	(3,551,963)	5,521,196
Change in pension funding obligation	5,487,647	3,101,812
Net asset items:		
Net asset transfers	1,668,843	1,568,518
Change in equity interest in Milford Hospital Foundation, Inc.	(92,460)	(34,943)
Restricted gifts	(5,000)	(32,500)
Changes in assets and liabilities:		
Patient accounts receivable	(7,167,095)	(8,664,745)
Due from affiliates	69,138	144,203
Inventories	78,126	(149,498)
Prepaid expenses and other	97,539	(107,286)
Investments classified as trading	6,339,234	(1,811,741)
Accounts payable	(791,675)	1,070,012
Accrued employee compensation	463,051	512,196
Other accrued liabilities	859,667	(44,904)
Due to third-party reimbursement agencies	158,708	(298,576)
Accrued pension and other liabilities	839,250	503,785
Net cash provided by operating activities	4,743,928	462,188
Investing activities		
Net purchases of property, plant, and equipment	(2,457,628)	(1,495,147)
Net purchases of short-term investments	(3,237)	(6,064)
Decrease in mortgage receivable from affiliate	11,423	14,956
(Increase) decrease in assets limited as to use	(16,744)	676,824
Net cash used in investing activities	(2,466,186)	(809,431)

The Milford Hospital, Incorporated
 Statements of Cash Flows (continued)

	Year Ended September 30	
	2009	2008
Financing activities		
Payments made on notes payable to bank	\$ (778,379)	\$ (726,915)
Restricted gifts	5,000	32,500
Net asset transfers	(1,668,843)	(1,568,518)
Net cash used in financing activities	(2,442,222)	(2,262,933)
Decrease in cash and cash equivalents	(164,480)	(2,610,176)
Cash and cash equivalents at beginning of year	1,243,133	3,853,309
Cash and cash equivalents at end of year	\$ 1,078,653	\$ 1,243,133

See accompanying notes.

The Milford Hospital, Incorporated

Notes to Financial Statements

September 30, 2009

1. Organization and Accounting Policies

Organization

The Milford Hospital, Incorporated (the Hospital), a voluntary tax-exempt acute care hospital incorporated under the General Statutes of the State of Connecticut, is a subsidiary of Milford Health and Medical, Inc. (the Parent). The Board of Directors (the Board) of the Hospital, appointed by the Parent, controls the operations of the Hospital. Also, the Milford Hospital Foundation, Inc. is a subsidiary of the Parent, and functions as the fund-raising affiliate for the Hospital.

Estimates and Assumptions

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reported period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Regulatory Matters

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

Inventories

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

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities as of September 30, 2009 and 2008 approximate fair value based on current market conditions. The fair values of other financial instruments are disclosed in the respective notes and in Note 4.

Investments

The Hospital's investment portfolio is classified as trading, with 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.

Investment (loss) income, including realized and unrealized gains and losses on investments, interest, and dividends, is included in nonoperating (loss) 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 and restricted by donors 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 the health care services provided by the Hospital. 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 on 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 Milford Hospital, Incorporated

Notes to Financial Statements (continued)

1. Organization and Accounting Policies (continued)

The Hospital'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 Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 35% and 28% for Medicare, and 10% and 9%, for Medicaid, for the fiscal years ending September 30, 2009 and 2008, respectively.

Property, Plant, and Equipment

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

Restricted Net Assets

Temporarily restricted net assets are those where use by the Hospital has been limited by donors to a specific time frame or purpose. All of the Hospital'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 statements 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 statements of operations and changes in net assets.

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Deficiency of Revenues Over Expenses

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

Nonoperating (Loss) Income

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

Interest in Milford Hospital Foundation, Inc.

The interest in Milford Hospital Foundation, Inc. represents the Hospital's interest in net assets of The Milford Hospital Foundation, Inc. This investment is accounted for in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*.

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital has losses from unrelated business activities of approximately \$5,538,000. A deferred tax asset for these losses of approximately \$2,215,000 is offset by a corresponding valuation allowance of the same amount.

New Accounting Standards

In June 2006, the FASB issued ASC 740-10, *Accounting for Uncertainty of Income Taxes* (ASC 740-10), which is effective for financial statements for fiscal years beginning after December 15, 2008. ASC 740-10 provided guidance to all enterprises for how uncertain tax provisions should be recognized, measured, presented, and disclosed in the financial statements. The Hospital is evaluating the potential impact, if any, of ASC 740-10 upon adoption.

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Adoption of New Accounting Standards

In June 2009, FASB issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB ASC as the sole source of authoritative GAAP. Pursuant to the provisions of ASC 105, the Hospital has updated references to GAAP in its financial statements issued for the year ended September 30, 2009. The adoption of ASC 105 did not impact the Hospital's financial position or results of operations.

Effective October 1, 2008, the Hospital adopted ASC 820-10, *Fair Value Measurements* (ASC 820-10). ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure about fair value measurements. The Hospital's adoption of ASC 820-10 did not significantly affect its financial statements (see Note 4).

Effective October 1, 2008, the Hospital adopted ASC 825-10, *The Fair Value Option for Financial Assets and Liabilities* (ASC 825-10). ASC 825-10 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value under GAAP. The Hospital chose not to elect the fair value option for its financial assets and liabilities. Consequently, the adoption of ASC 825-10 did not have any impact on its financial statements.

On October 1, 2008, the Hospital adopted ASC 958-205: *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (ASC 958-205), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The Hospital's endowments, including permanently restricted donor endowments, are not material. Therefore, the adoption of ASC 958-205 did not have a material effect on the Hospital's balance sheet at September 30, 2009, or on the statement of operations and changes in net assets for the year ended September 30, 2009.

During 2009, the Hospital adopted ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The Hospital adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through February 25, 2010, representing the date at which the financial statements were issued.

The Milford Hospital, Incorporated
Notes to Financial Statements (continued)

2. Revenues from Services to Patients and Charity Care

The following table summarizes net revenues from services to patients:

	Year Ended September 30	
	2009	2008
Gross revenues from services to patients	\$ 219,139,563	\$ 222,377,753
Deductions:		
Allowances	136,188,461	138,687,606
Charity care	122,057	165,221
	136,310,518	138,852,827
	\$ 82,829,045	\$ 83,524,926

During fiscal years 2009 and 2008, the Hospital's net revenues from services to patients were 39% from Medicare, 5% from Medicaid, and 15% from Blue Cross (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 Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing except as disclosed in Note 9. 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 Hospital.

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

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

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

Net patient service revenue 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 decreased net patient service revenue by approximately \$22,000 and increased net patient service revenue by \$450,000 for the years ended September 30, 2009 and 2008, respectively.

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

3. Investments

Investments are stated at fair value, as determined through published market valuations, and are comprised of the following at September 30:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,600,963	\$ 2,630,242
U.S. Treasury issues	5,966,860	8,720,544
Corporate debt securities	5,886,096	6,615,926
Equity securities	16,109,738	14,347,349
Accrued interest	123,659	160,526
	<u>\$ 29,687,316</u>	<u>\$ 32,474,587</u>

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

3. Investments (continued)

Assets limited as to use are stated at fair value, as determined through published market valuations, and are comprised of the following at September 30:

	2009	2008
Cash and cash equivalents	\$ 108,172	\$ 308,171
Certificates of deposit	104,288	101,780
U.S. Treasury issues	1,134,728	997,283
Corporate debt securities	294,940	218,955
Equity securities	95,532	95,519
Accrued interest	5,579	4,787
	\$ 1,743,239	\$ 1,726,495

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

	2009	2008
Interest income	\$ 80,119	\$ 192,028
Dividend income	933,885	1,014,758
Realized capital gains and other	(3,283,357)	296,893
Change in equity interest of Milford Hospital Foundation, Inc.	-	97,701
Investment income, net	(2,269,354)	1,601,380
Change in unrealized gains and losses on investments	3,551,963	(5,521,196)
Total return on investments	\$ 1,282,609	\$ (3,919,816)

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

4. Fair Value of Financial Instruments

As described in Note 1, on October 1, 2008, the Hospital adopted the methods of calculating fair value as described in ASC 820-10 to value its financial assets and liabilities, when applicable. 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 are 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 Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In addition, the Hospital considers counterparty credit risk in its assessment of fair value.

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 1,078,653	\$ —	\$ —	\$ 1,078,653
Short-term Investments	221,990	—	—	221,990
Investments:				
Equity securities	16,109,738	—	—	16,109,738
Cash and cash equivalents	1,600,963	—	—	1,600,963
U.S. Treasury issues	5,966,860	—	—	5,966,860
Corporate debt securities	5,886,096	—	—	5,886,096
Assets whose use is limited:				
Equity securities	95,532	—	—	95,532
Cash and cash equivalents	212,460	—	—	212,460
U.S. Treasury issues	1,134,728	—	—	1,134,728
Corporate debt securities	294,940	—	—	294,940

Fair value for Level 1 is based upon quoted market prices. The amounts in the above table exclude assets invested in the Hospital's pension plan (see Note 5).

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, 2009 and 2008, the Hospital had an unpaid principal balance of \$3,617,035 and \$4,395,414, respectively. The mortgage note has a maturity date of August 15, 2013. Interest paid during fiscal years 2009 and 2008 amounted to \$275,129 and \$326,741, respectively.

Future minimum principal payments during each of the next five fiscal years, and in the aggregate, were as follows at September 30, 2009:

2010	\$ 833,487
2011	892,497
2012	955,684
2013	935,367
2014	—
	<u>\$ 3,617,035</u>

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

6. Pension Plan

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

Effective August 26, 2009, the Hospital's Executive Committee of the Board of Directors adopted a resolution to freeze the Plan for non-union employees effective December 31, 2009. As a result of this resolution, the Plan liabilities were remeasured for non-union employees as of September 30, 2009. All outstanding prior service cost related to these employees totaling \$576,155 was expensed as of the date of the remeasurement. This amount was included in supplies and other within operating expenses in the accompanying statement of operations.

Included in unrestricted net assets at September 30, 2009 and 2008, respectively, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost of \$360,674 and \$1,124,231 and unrecognized actuarial loss of 11,283,283 and \$5,032,680. The prior service cost and actuarial loss included in unrestricted net assets, and expected to be recognized in net periodic pension cost during the year ending September 30, 2010, are \$63,000 and \$270,000, respectively.

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	
	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 60,216,942	\$ 61,505,963
Service cost	2,154,644	2,504,126
Interest cost	4,042,228	3,973,493
Benefits paid	(2,228,711)	(1,907,502)
Actuarial loss (gain)	14,158,603	(5,859,138)
Reduction due to Curtailment	(8,603,968)	-
Benefit obligation at end of year	<u>69,739,738</u>	<u>60,216,942</u>

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

6. Pension Plan (continued)

	September 30	
	2009	2008
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 45,945,024	\$ 51,050,115
Contributions	2,662,892	2,147,378
Actual return on plan assets	2,968,722	(5,344,967)
Benefits paid	(2,228,711)	(1,907,502)
Fair value of plan assets at end of year	<u>49,347,927</u>	<u>45,945,024</u>
Funded status of the plan	<u>\$ (20,391,811)</u>	<u>\$ (14,271,918)</u>
Components of net periodic pension cost		
Service cost	\$ 2,154,644	\$ 2,504,126
Interest cost	4,042,228	3,973,493
Expected return on plan assets	(3,665,290)	(3,803,385)
Net amortization and deferral	187,401	187,402
Curtailement Loss	576,155	-
Net periodic pension cost	<u>\$ 3,295,138</u>	<u>\$ 2,861,636</u>

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

The weighted-average assumptions used to develop net periodic benefit cost, and the projected benefit obligation as of September 30, 2009 and 2008, are as follows:

	2009	2008
Discount rate used for net periodic pension cost	7.00%	6.40%
Discount rate used for projected benefit obligation	5.50	7.00
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increase	6.00	6.00

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

Assets invested in the defined benefit cash balance plan are carried at fair value. Debt securities and equity securities with readily determinable values are carried at fair value as determined based on independent published sources.

The Milford Hospital, Incorporated
Notes to Financial Statements (continued)

6. Pension Plan (continued)

The accumulated benefit obligation at September 30, 2009 and 2008 was \$64,548,878 and \$46,269,394, respectively.

Plan Assets

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

The Hospital's pension plan weighted-average allocations at September 30, 2009 and 2008, by asset category, are as follows:

Asset Category	2009	2008
Cash and money market funds	7.2%	12.2%
Corporate/Government bonds	40.7	44.1
Common equities	52.1	43.7
Total	<u>100.0%</u>	<u>100.0%</u>

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

Contributions

The Hospital expects to contribute \$2,500,000 to the Plan in 2010.

The Milford Hospital, Incorporated
Notes to 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	
2010	\$ 2,518,135
2011	2,731,000
2012	2,834,777
2013	3,183,634
2014	3,445,211
Years 2015 – 2019	19,152,033

7. Transactions With Affiliates

Amounts expected to be collected from affiliated entities are as follows:

	September 30	
	2009	2008
Milford Medical Lab, Inc.	\$ 228,387	\$ 283,534
Milford Health and Medical, Inc.	254,111	217,401
Home Care Plus, Inc.	21,225	28,199
Other affiliated entities	73,803	117,530
	<u>\$ 577,526</u>	<u>\$ 646,664</u>

Amounts due from Milford Medical Lab, Inc. relate to lab and related services provided by the Hospital on behalf of Milford Medical Lab, Inc. The Hospital charged Milford Medical Lab, Inc. \$677,033 and \$692,113 in 2009 and 2008, respectively, for those services. The receivable from Milford Medical Lab, Inc. is net of an allowance for uncollectible accounts of \$6,826,969 and \$6,178,490 at September 30, 2009 and 2008, respectively.

Amounts due from Milford Health and Medical, Inc., Home Care Plus, Inc., and other affiliated entities are the result of allocating joint general and administrative costs incurred by the Hospital. The amounts allocated to affiliates during the years ended September 30, 2009 and 2008 were \$124,028 and \$186,221, respectively.

The Milford Hospital, Incorporated

Notes to Financial Statements (continued)

7. Transactions With Affiliates (continued)

During 2003, the Hospital entered into a mortgage loan agreement with Torry Corporation. The loan is payable over 30 years, and bears interest at 6.0%. At September 30, 2009 and 2008, the amounts outstanding under this agreement were \$642,750 and \$654,173, respectively.

8. Medical Malpractice Insurance

Effective October 1, 2004, the Hospital became insured by the Parent through Healthcare Alliance Insurance Company, Ltd. (HAIC). HAIC is a multi-provider captive insurance company domiciled in the Cayman Islands. The Parent is a one-third owner of the captive with two other local hospitals that each hold one-third ownership. 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.

Management accrues its best estimate of losses as they occur. Accordingly, management has recorded a liability of \$528,000 and \$467,000 at September 30, 2009 and 2008, respectively, for claims incurred-but-not-reported. This liability has been discounted using a 4% and 6% discount rate at September 30, 2009 and 2008, respectively.

9. Commitments and Contingencies

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

10. Functional Expenses

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

	Year Ended September 30	
	2009	2008
Healthcare services	\$ 76,345,739	\$ 74,746,196
General and administrative	12,141,734	10,615,995
	<u>\$ 88,487,473</u>	<u>\$ 85,362,191</u>