

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Milford Health & Medical, Inc. and Subsidiaries
Years Ended September 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Milford Health & Medical, Inc. and Subsidiaries

Consolidated Financial Statements and
Supplementary Information

Years Ended September 30, 2013 and 2012

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Report of Independent Auditors

The Board of Directors
The Milford Hospital, Incorporated

We have audited the accompanying consolidated financial statements of Milford Health & Medical, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Milford Health & Medical, Inc. and Subsidiaries at September 30, 2013 and 2012, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Transaction

As more fully explained in Note 1 to the accompanying consolidated financial statements, in September 2014, the Company completed a significant transaction with another health care provider that will utilize beds at the Company under a lease agreement and furnished the Company with a term loan to provide additional liquidity. The term loan agreement requires the Company to comply with certain financial covenants. Our opinion is not modified with respect to this matter.

Change in Presentation of the Provision for Uncollectible Accounts

As discussed in Notes 1 and 2 to the accompanying consolidated financial statements, in 2013 the Company adopted the provisions of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which resulted in a change in the presentation of the provision for uncollectible accounts on the consolidated statements of operations and changes in net assets effective October 1, 2012. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were 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.



September 29, 2014

Milford Health & Medical, Inc. and Subsidiaries

Consolidated Balance Sheets

	September	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,173,042	\$ 1,579,650
Short-term investments	112,243	226,782
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$4,221,000 and \$4,680,000 in 2013 and 2012, respectively	10,371,729	13,057,002
Inventories	887,860	861,132
Prepaid expenses and other	3,619,088	1,507,642
Insured claims receivable	—	939,962
Total current assets	<u>18,163,962</u>	<u>18,172,170</u>
Investments	4,061,602	11,850,225
Assets limited as to use	11,809,150	2,821,285
Property, plant, and equipment:		
Land and improvements	6,648,600	5,769,200
Buildings and improvements	23,434,624	49,961,121
Equipment	33,956,818	33,146,300
Construction in progress	161,265	52,041
	<u>64,201,307</u>	<u>88,928,662</u>
Less accumulated depreciation	<u>(28,868,914)</u>	<u>(50,466,444)</u>
	35,332,393	38,462,218
Pledges receivable	—	5,000
Investment in affiliates	348,150	1,144,607
Insured claims receivable, net of current portion	4,689,375	3,038,843
	<u>5,037,525</u>	<u>4,188,450</u>
Total assets	<u>\$ 74,404,632</u>	<u>\$ 75,494,348</u>

	September	
	2013	2012
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 5,511,378	\$ 4,469,034
Accrued employee compensation	7,152,032	6,944,752
Other accrued liabilities	2,999,148	2,646,648
Due to third-party reimbursement agencies	1,886,925	1,100,013
Current portion of notes payable to bank	133,467	1,060,828
Insured claims liabilities	—	939,962
Total current liabilities	<u>17,682,950</u>	<u>17,161,237</u>
Notes payable to bank, less current portion	6,634,757	6,768,005
Insured claims liabilities, net of current portion	1,756,978	3,038,843
Self-insured professional claims liabilities	7,814,894	—
Accrued pension and other liabilities	22,170,812	31,720,924
Total liabilities	<u>56,060,391</u>	<u>58,689,009</u>
Net assets:		
Unrestricted	16,895,968	15,462,135
Temporarily restricted	774,510	669,441
Permanently restricted	673,763	673,763
Total net assets	<u>18,344,241</u>	<u>16,805,339</u>
Total liabilities and net assets	<u><u>\$ 74,404,632</u></u>	<u><u>\$ 75,494,348</u></u>

See accompanying notes.

Milford Health & Medical, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2013	2012
Operating revenues:		
Net revenues from services to patients (net of contractual allowances and discounts)	\$ 81,052,456	\$ 86,766,855
Provision for uncollectible accounts	(6,520,133)	(7,004,614)
Net revenues from services to patients, less provision for uncollectible accounts	74,532,323	79,762,241
Other operating revenues	2,729,480	3,585,478
	77,261,803	83,347,719
Operating expenses:		
Salaries and wages	40,773,272	41,152,660
Employee benefits	12,946,476	15,348,836
Supplies and other	27,784,310	27,531,222
Non-patient bad debt expense	972,726	963,545
Depreciation (including impairment loss of \$3.8 million on long lived assets)	6,887,793	3,165,395
Interest	468,339	542,344
	89,832,916	88,704,002
Operating loss	(12,571,113)	(5,356,283)
Nonoperating income:		
Investment income, net	1,736,372	2,507,029
Gifts and bequests	454,342	283,158
	2,190,714	2,790,187
Deficiency of revenues over expenses before change in unrealized gains and losses on investments	(10,380,399)	(2,566,096)
Change in unrealized gains and losses on investments	(536,330)	3,465
Deficiency of revenues over expenses	\$ (10,916,729)	\$ (2,562,631)

Continued on next page.

Milford Health & Medical, Inc. and Subsidiaries

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

	Year Ended September 30	
	2013	2012
Unrestricted net assets:		
Deficiency of revenues over expenses (continued)	\$ (10,916,729)	\$ (2,562,631)
Net assets released from restrictions for capital	40,577	120,089
Change in net assets related to pension plan liability to be recognized in future periods	12,309,985	(11,309,559)
Pension curtailment gain	–	5,482,615
Increase (decrease) in unrestricted net assets	1,433,833	(8,269,486)
Temporarily restricted net assets:		
Net assets released from restrictions for capital	(40,577)	(120,089)
Investment income, net	145,646	163,369
Increase in temporarily restricted net assets	105,069	43,280
Increase (decrease) in net assets	1,538,902	(8,226,206)
Net assets at beginning of year	16,805,339	25,031,545
Net assets at end of year	\$ 18,344,241	\$ 16,805,339

See accompanying notes.

Milford Health & Medical, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended September 30	
	2013	2012
Operating activities		
Change in net assets	\$ 1,538,902	\$ (8,226,206)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	6,520,133	7,004,614
Depreciation (including impairment loss of \$3.8 million on long lived assets)	6,887,793	3,165,395
Change in unrealized gains and losses on investments	536,330	(3,465)
Change in net assets related to pension plan liability to be recognized in future periods	(12,309,985)	11,309,559
Pension curtailment gain	–	(5,482,615)
Changes in assets and liabilities:		
Patient accounts receivable	(3,834,860)	(6,468,244)
Inventories	(26,728)	(86,488)
Prepaid expenses and other	(2,111,446)	66,436
Pledges receivable	5,000	5,000
Investments classified as trading	(1,831,250)	8,198,798
Accounts payable	1,042,344	206,901
Accrued employee compensation	207,280	367,699
Other accrued liabilities	352,500	(433,260)
Due to third-party reimbursement agencies	786,912	(1,218,285)
Insured claims receivable, net	(2,932,397)	–
Self-insured professional claims liabilities	7,814,894	–
Accrued pension and other liabilities	2,759,873	(6,077,807)
Net cash provided by operating activities	<u>5,405,295</u>	<u>2,328,032</u>
Investing activities		
Net purchases of property, plant, and equipment	(3,757,968)	(1,794,067)
Decrease (increase) in investment in affiliates	796,457	(393,735)
Net sales (purchases) of short-term investments	114,539	(867)
Decrease in assets limited as to use	95,678	97,686
Net cash used in investing activities	<u>(2,751,294)</u>	<u>(2,090,983)</u>
Financing activities		
Payments made on notes payable to bank	(1,060,609)	(1,062,218)
Net cash provided by financing activities	<u>(1,060,609)</u>	<u>(1,062,218)</u>
Increase (decrease) in cash and cash equivalents	1,593,392	(825,169)
Cash and cash equivalents at beginning of year	1,579,650	2,404,819
Cash and cash equivalents at end of year	<u>\$ 3,173,042</u>	<u>\$ 1,579,650</u>

See accompanying notes.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2013

1. Organization and Accounting Policies

Organization

The accompanying consolidated financial statements include the accounts of Milford Health & Medical Inc. (the Company), a tax-exempt entity incorporated under the general statutes of the state of Connecticut. The Company's tax-exempt subsidiaries include Milford Hospital, Inc. (the Hospital), an acute care hospital; Milford Hospital Foundation, Inc.; Home Care Plus, Inc.; Milford Health & Medical, Inc.; and Milford Health Care Services, Inc. The Company's for-profit subsidiaries include Torry Corporation, Seabridge, Inc.; 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, 2013 and 2012, the Company had operating losses of approximately \$12.6 million and \$5.4 million, respectively. The fiscal year 2013 operating loss was partially due to an impairment loss recorded on long-lived assets of \$3.8 million. 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 recent declining operating results are focused on cost reduction, revenue enhancement, and shared or integrated services with other health care providers.

During September 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 Hospital under a lease arrangement to provide inpatient rehabilitation services to its patients and will furnish an \$8.0 million term loan to the Company in order to provide it with liquidity (described in Note 8). Management has

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

determined that the liquidity from the term loan will provide it with the required funding to meet its obligations as they become due and allow the Company to continue as a going concern.

In addition to the Master Agreement, the Hospital also entered into an Inpatient Rehabilitation Unit (IRU) Lease and an IRU Services Agreement. The details of those agreements follow.

- *IRU Lease Agreement:* The term of the IRU Lease Agreement is five years during which time the Hospital 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.
- *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 Hospital from the Hospital and certain affiliated physicians. The service agreement provides the Hospital with two five-year renewal options at the end of each term.

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.

Estimates and Assumptions

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities such as estimated uncollectible accounts for patient accounts receivable, insurance claims liabilities and receivables, and estimated receivables from and payables to third-party reimbursement agencies, and disclosure of contingent assets and contingent liabilities at the date of the financial statements. The allowance for uncollectible accounts, insurance claims liabilities and receivables, and the estimated receivables from and payables to third party reimbursement agencies, among other accounts, require significant use of estimates. Estimates also affect the reported amounts of revenues and expenses during the reported period. There is at least a reasonable possibility that certain

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Regulatory Matters

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

Cash and Cash Equivalents and Short-Term Investments

The Company considers all highly-liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Short-term investments consist of bank certificates of deposit. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits 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, 2013 and 2012, approximate fair value based on current market conditions. The fair value of each financial instrument is disclosed in the respective notes and in Note 4.

Investments

The Company's investment portfolio is classified as trading, with changes in unrealized gains and losses included in the deficiency of revenues over expenses. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Assets temporarily restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

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

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

Investment income, including realized and unrealized gains and losses on investments, interest and dividends, is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method. 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 approximately \$266,000 as of September 30, 2013.

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.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Patient Accounts Receivable

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

The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage, and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

The Company's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies, and private patients. The Company manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable, before allowances for uncollectible accounts, include 40% and 48% for Medicare, and 7% and 6% for Medicaid for the years ended September 30, 2013 and 2012, 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

Long-Lived Assets

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 at September 30, 2013. In performing the test, the Company determined that the total of the expected future undiscounted

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

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 asset impairment loss in the consolidated statement of operations 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 to reproduce or replace 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.

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.

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

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

received are included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

Deficiency of Revenues Over Expenses

The accompanying consolidated statements of operations and changes in net assets include the deficiency of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the deficiency of revenues over expenses include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets, change in net assets related to pension plan liability to be recognized in future periods, and the pension curtailment gain.

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 \$6,048,000. A deferred tax asset for these losses of approximately \$2,419,200 is offset by a corresponding valuation allowance of the same amount. Operating loss carryforwards will begin to expire in six years.

As of September 30, 2013, Seabridge, Inc. and its subsidiary had consolidated net operating loss carryforwards of approximately \$6,890,000. A deferred tax asset for these losses of approximately \$2,756,000 is offset by a corresponding valuation allowance of the same amount. Operating loss carryforwards will begin to expire in six years.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

As of September 30, 2013, Torry Corporation has a net operating loss carryforward of approximately \$1,322,000. A deferred tax asset for these losses of approximately \$528,800 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 ten years.

As of September 30, 2013, 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 in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2013, the Company evaluated subsequent events through September 29, 2014, which is the date the consolidated financial statements were available to be issued.

Effective January 9, 2014, the Hospital 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. No other events occurred that require disclosure in or adjustment to the financial statements except for the transaction described in the financial transaction and liquidity section of Note 1.

New Accounting Standards

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The provisions of ASU No. 2011-07 require certain health care entities that recognize significant amounts of patient service revenue at the time the services are rendered without assessing the patient's ability to pay to present the provision for uncollectible accounts related to patient service revenue as a deduction from patient service revenue in the statement of operations and changes in net assets rather than as an operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for uncollectible accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

beginning after December 15, 2011, with early adoption permitted. The Company adopted those provisions as of and for the year ended September 30, 2013, and retrospectively applied the presentation requirements to all periods presented. There was no material impact to the Company's financial statements other than the required changes in presentation. See Note 2 for additional disclosures required by ASU No. 2011-07.

Reclassifications

Certain reclassifications have been made to the 2012 balances previously reported to conform to the current year presentation. These reclassifications relate to the adoption of ASU No. 2011-07 and approximately \$2,363,000 previously included in supplies and other within operating expenses to a component of net revenue from services to patients. In addition, \$1,000,000 has been reclassified from investments to assets limited as to use.

2. Revenues From Services to Patients and Charity Care

The following table summarizes net revenues from services to patients:

	Year Ended September 30	
	2013	2012
Gross revenues from services to patients	\$ 202,576,756	\$ 196,681,143
Deductions:		
Allowances	120,880,699	109,721,755
Charity care	643,601	192,533
	121,524,300	109,914,288
Net revenues from services to patients (net of contractual allowances and discounts)	81,052,456	86,766,855
Provision for uncollectible accounts	(6,520,133)	(7,004,614)
Net revenues from services to patients less provision for uncollectible accounts	\$ 74,532,323	\$ 79,762,241

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Patient revenues from services to patients for the years ended September 30, 2013 and 2012, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources based on primary insurance designation, are as follows:

	Year Ended September 30	
	2013	2012
Third-party payors	\$ 75,263,815	\$ 80,797,797
Self-pay	5,788,641	5,969,058
Total all payors	<u>\$ 81,052,456</u>	<u>\$ 86,766,855</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 uncollectible accounts 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 uncollectible accounts. 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 uncollectible accounts and a provision for uncollectible accounts, 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 uncollectible accounts 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 uncollectible accounts.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The Company's allowance for doubtful accounts totaled approximately \$4,221,000 and \$4,680,000 at September 30, 2013 and 2012, respectively. The allowance for doubtful accounts for self-pay patients was approximately 89.1% and 85.0% of self-pay accounts receivable as of September 30, 2013 and 2012, respectively. Overall, the total of self-pay discounts and write-offs has not changed significantly for the year ended September 30, 2013. The Company has not experienced significant changes in write-off trends.

During fiscal years 2013 and 2012, the Company's net revenues from services to patients were 38.7% and 41.8% from Medicare, 7.1% and 4.5% from Medicaid, and 17.1% and 16.7% 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 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. 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.

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

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

settlements with third-party payors decreased net revenues from services to patients by approximately \$642,000 for the year ended September 30, 2013, and increased net revenues from services to patients by approximately \$2,101,000 for the year ended September 30, 2012. In prior years, the Hospital was a party to a Medicare appeal claim challenging the calculation of the rural floor budget neutrality adjustment. In fiscal 2012, the appeal was settled and the Hospital received a payment of approximately \$869,000, which was included in retroactive settlement adjustments for the year ended September 30, 2012.

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 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 \$294,641 and \$92,166 for the years ended September 30, 2013 and 2012, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

3. Investments

Investments are comprised of the following at September 30:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 473,887	\$ 1,287,037
Government bonds	–	2,022,272
Corporate bonds	397,315	1,967,077
Other fixed income securities	–	24,924
Equities	1,646,622	4,529,614
Commodities	–	716,747
Alternative investments	1,532,892	1,283,286
Accrued interest	10,886	19,268
	<u>\$ 4,061,602</u>	<u>\$ 11,850,225</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

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

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 2,120,398	\$ 1,695,949
Government bonds	1,203,625	379,175
Corporate bonds	1,758,965	179,947
Other fixed income securities	3,355,565	327,947
Equities	3,368,647	235,464
Accrued interest	1,950	2,803
	<u>\$ 11,809,150</u>	<u>\$ 2,821,285</u>

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

	<u>2013</u>	<u>2012</u>
Internally designated	\$ 1,855,375	\$ 1,939,766
Investments held by SIAC	9,083,543	-
Temporarily restricted for capital purposes	196,469	207,756
Permanently restricted	673,763	673,763
	<u>\$ 11,809,150</u>	<u>\$ 2,821,285</u>

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

	<u>2013</u>	<u>2012</u>
Interest income	\$ 540,357	\$ 436,897
Dividend income	238,670	293,593
Realized gains and losses	1,477,808	1,874,454
Other	(520,463)	(97,915)
Investment income, net	<u>1,736,372</u>	<u>2,507,029</u>
Change in unrealized gains and losses on investments	(536,330)	3,465
Total return on investments	<u>\$ 1,200,042</u>	<u>\$ 2,510,494</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Value of Financial Instruments

As defined in ASC 820-10, *Fair Value 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 (continued)

4. Fair Value of Financial Instruments (continued)

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

	September 30, 2013			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 3,173,042	\$ —	\$ —	\$ 3,173,042
Short-term investments:				
Cash and cash equivalents	112,243	—	—	112,243
Investments:				
Cash and cash equivalents	473,887	—	—	473,887
Fixed income:				
Other	397,315	—	—	397,315
Equities:				
International	632,081	—	—	632,081
Mid cap	222,732	—	—	222,732
Large cap	679,359	—	—	679,359
Emerging markets	112,450	—	—	112,450
Assets limited as to use:				
Cash and cash equivalents	2,120,398	—	—	2,120,398
Fixed income:				
Government bonds	—	1,203,625	—	1,203,625
Corporate bonds	—	1,758,965	—	1,758,965
Other	—	3,355,565	—	3,355,565
Equities:				
International	5,440	—	—	5,440
Small cap	3,927	—	—	3,927
Mid cap	3,908	—	—	3,908
Large cap	101,690	—	—	101,690
Emerging markets	136,674	—	—	136,674
Other	—	3,117,008	—	3,117,008

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

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

The amounts reported in the tables above do not include alternative investments totaling \$1,532,892 and \$1,283,286 for the years ended September 30, 2013 and 2012, respectively, that are accounted for under the equity method of accounting.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers.

5. Debt

The Hospital had a mortgage note arrangement with a bank secured by hospital property. The Hospital paid principal and interest at a fixed rate of 6.86% over a ten-year term. At September 30, 2012, the Hospital had an unpaid principal balance of \$935,367. The mortgage note had a maturity date of August 15, 2013. Interest paid during fiscal years 2013 and 2012 amounted to \$30,869 and \$97,317, respectively. As of September 30, 2012, the carrying value of the mortgage note approximated fair value.

On November 19, 2009, Torry Corporation entered into a construction loan with a bank. At September 30, 2013 and 2012, Torry Corporation had an unpaid balance of \$6,768,224 and \$6,893,466, respectively. Interest paid during fiscal years 2013 and 2012 amounted to \$433,396 and \$442,009, 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, 2013 and 2012.

Future minimum principal payments during each of the next five fiscal years, and in the aggregate, were as follows at September 30, 2013:

2014	\$ 133,467
2015	142,366
2016	150,501
2017	161,473
2018	172,008
Thereafter	6,008,409
	<u>\$ 6,768,224</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. Plan benefits are based on years of service and the employee's compensation. Plan participants will vest in their benefits on a percentage basis with years of service.

Effective August 26, 2009, the Hospital's executive committee of the Board of Directors adopted a resolution to freeze the Plan for non-union employees effective December 31, 2009. Effective January 24, 2012, the Hospital's executive committee of the Board of Directors adopted a resolution to freeze the Plan for nursing union employees effective January 31, 2012, which resulted in a pension curtailment gain of \$5,482,615.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of the 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>2013</u>	<u>2012</u>
Unrecognized actuarial loss	\$ (15,406,302)	\$ (27,716,287)
	<u>\$ (15,406,302)</u>	<u>\$ (27,716,287)</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

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

	September 30	
	2013	2012
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 93,981,617	\$ 82,488,161
Service cost	333,194	988,966
Interest cost	3,465,833	3,644,948
Benefits paid	(3,690,998)	(2,974,691)
Expenses paid	(535,754)	(570,708)
Curtailement gain	-	(5,482,615)
Actuarial (gains) losses	(11,847,293)	15,887,556
Benefit obligation at end of year	<u>81,706,599</u>	<u>93,981,617</u>
Change in plan assets		
Fair value of plan assets at beginning of year	64,873,614	52,878,221
Contributions	625,000	7,052,981
Actual return on plan assets	4,597,953	8,487,811
Benefits paid	(3,690,998)	(2,974,691)
Expenses paid	(535,754)	(570,708)
Fair value of plan assets at end of year	<u>65,869,815</u>	<u>64,873,614</u>
Funded status of the plan	<u>\$ (15,836,784)</u>	<u>\$ (29,108,003)</u>
Components of net periodic pension cost		
Service cost	\$ 333,194	\$ 988,966
Interest cost	3,465,833	3,644,948
Expected return on plan assets	(4,805,664)	(4,454,673)
Curtailement loss	-	222,808
Net amortization and deferral	670,403	322,051
Net periodic pension (credit) cost	<u>\$ (336,234)</u>	<u>\$ 724,100</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

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

	<u>2013</u>	<u>2012</u>
Discount rate used for net periodic pension cost	3.73%	4.75%
Discount rate used for projected benefit obligation	4.65	3.73
Expected long-term rate of return on plan assets	7.50	8.00
Rate of compensation increase	–	3.00

The accumulated benefit obligation at September 30, 2013 and 2012, was \$81,706,599 and \$93,981,617, respectively.

Plan Assets

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

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

	<u>2013</u>	<u>2012</u>
Asset category		
Cash and money market funds	9.4%	11.6%
Government bonds	12.9	13.7
Corporate bonds	8.2	7.9
Equities	64.1	62.2
Alternative investments	5.4	4.6
Total	<u>100.0%</u>	<u>100.0%</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

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

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

	September 30, 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
	\$ 48,366,129	\$ 13,918,680	\$ 3,585,006	\$ 65,869,815

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

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

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

	<u>2013</u>	<u>2012</u>
Beginning balance for the year	\$ 2,987,425	\$ 2,127,822
Purchases	500,000	687,500
Net change in unrealized appreciation	97,581	172,103
Ending balance for the year	<u>\$ 3,585,006</u>	<u>\$ 2,987,425</u>

Assets invested in the defined benefit cash balance plan are carried at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting. Debt securities and equity securities with readily determinable values are classified as Level 1 as determined based on independent published sources. Level 2 assets are valued based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Assets that are valued using significant unobservable inputs, such as extrapolated data, proprietary models, or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy.

Level 3 assets are valued based on the Hospital's ownership interest in the net asset value (NAV) of the fund as discussed above. As the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Hospital's interest therein, its classification as Level 3 is based on the Hospital's ability to redeem its interest at or near the measurement date. The Hospital routinely monitors and assesses methodologies and assumptions used in valuing these interests.

Contributions

The Hospital does not expect to contribute to the Plan in 2014.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

Estimated Future Benefit Payments

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

Fiscal years:	
2014	\$ 3,498,222
2015	3,662,934
2016	3,858,008
2017	4,010,609
2018	4,235,307
Years 2019 – 2023	24,791,691

7. Medical Malpractice Insurance

Effective October 1, 2004, the Hospital became insured by the Parent through Healthcare Alliance Insurance Company, Ltd. (HAIC). HAIC was a multi-provider captive insurance company domiciled in the Cayman Islands. The Parent 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 Parent 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.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Medical Malpractice Insurance (continued)

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 \$761,000 and \$596,000 at September 30, 2013 and 2012, respectively, for claims incurred but not reported which is included in accrued pension and other liabilities on the accompanying balance sheets. This liability has been discounted using a 3% discount rate at September 30, 2013 and 2012.

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, 2013, 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.

	<u>2013</u>
Unpaid losses and loss adjustments are as follows:	
Provision for unpaid losses and loss adjustment expenses	\$ 3,003,760
Provision for losses incurred but not yet reported and adverse deviation	<u>4,811,134</u>
	<u>\$ 7,814,894</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Medical Malpractice Insurance (continued)

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	\$	—
Loss portfolio transfer		8,134,032
Losses incurred related to:		
Current year		408,005
Prior years		(627,838)
Total incurred		<u>(219,833)</u>
Paid losses related to:		
Current year		—
Prior years		(99,305)
Total paid		<u>(99,305)</u>
Balance at September 30, 2013	\$	<u>7,814,894</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.

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, 2013, gross undiscounted total loss provisions were \$6,383,119.

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Commitments and Contingencies

The Company is a party to various lawsuits incidental to its business. Management believes that the lawsuits fall within the Company's liability insurance and that they will not have a material adverse effect on the Company's consolidated financial statements. SIAC's exposure to underwriting risk is not diversified to the extent that its insurance business involves insuring certain risks of the Company.

As described in Note 1, the Hospital entered into a term loan agreement as part of a transaction with a health care provider. The term loan agreement has a term that coincides with the IRU Lease Agreement in that the loan termination date is the date of termination or expiration of the IRU Lease Agreement. The term of the IRU Lease Agreement is five years and provides the tenant with two five-year renewal options at the end of each term.

The term loan bears interest of 6.5% annually that is payable monthly. The loan is collateralized by certain property owned by a subsidiary of the Company.

9. Functional Expenses

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

	Years Ended September 30	
	2013	2012
Health care services	\$ 78,675,220	\$ 79,305,482
General and administrative	11,157,696	9,398,520
	<u>\$ 89,832,916</u>	<u>\$ 88,704,002</u>

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Other Operating Revenues

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

	<u>2013</u>	<u>2012</u>
Electronic health records incentive payments	\$ 977,058	\$ 2,003,647
Cafeteria	220,717	237,396
Pharmacy	178,878	198,790
Rental income	1,253,377	1,071,598
Other	99,450	74,047
	<u>\$ 2,729,480</u>	<u>\$ 3,585,478</u>

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act. 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, 2013 and 2012, was \$977,058 and \$2,003,647, 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

Milford Health & Medical, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Other Operating Revenues (continued)

third-party reimbursement agencies is a retrospective adjustment of \$378,555 for this purpose, as of September 30, 2013. Additionally, the Company's attestation of compliance with the meaningful use criteria is subject to audit.

Supplementary Information

Milford Health & Medical, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2013

	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	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Assets											
Current assets:											
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, less allowance for uncollectible accounts	9,618,035	—	150,538	603,156	—	—	—	—	—	—	10,371,729
Inventories	887,860	—	—	—	—	—	—	—	—	—	887,860
Prepaid expenses and other	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
Investments	3,482,913	578,689	—	—	—	—	—	—	—	—	4,061,602
Assets limited as to use	2,580,001	145,606	—	—	—	—	—	—	9,083,543	—	11,809,150
Property, plant, and equipment:											
Land and improvements	1,434,340	—	—	—	—	5,214,260	—	—	—	—	6,648,600
Buildings and improvements	15,228,138	—	50,187	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
	50,192,655	15,470	155,394	273,794	—	13,563,994	—	—	—	—	64,201,307
Less accumulated depreciation	(28,032,185)	(3,542)	(140,693)	(213,992)	—	(478,502)	—	—	—	—	(28,868,914)
	22,160,470	11,928	14,701	59,802	—	13,085,492	—	—	—	—	35,332,393
Beneficial interest in Milford Hospital Foundation, Inc.	894,273	—	—	—	—	—	—	—	—	(894,273)	—
Due from affiliates	348,164	5,636	—	—	1,529,024	14,016	—	—	—	(1,896,840)	—
Pledges receivable	—	—	—	—	—	—	—	—	—	—	—
Investment in affiliates	—	—	—	—	11,486,623	—	—	349,191	—	(11,487,664)	348,150
Insured claims receivable, net of current portion	4,086,302	—	—	—	—	—	—	—	2,932,397	(2,329,324)	4,689,375
	5,328,739	5,636	—	—	13,015,647	14,016	—	349,191	2,932,397	(16,608,101)	5,037,525
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

Consolidating Balance Sheet (continued)

September 30, 2013

	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	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Liabilities and net assets											
Current liabilities:											
Accounts payable	\$ 5,318,753	\$ —	\$ 9,804	\$ 46,129	\$ —	\$ 64,124	\$ —	\$ —	\$ 72,568	\$ —	\$ 5,511,378
Accrued employee compensation	6,870,249	—	—	281,783	—	—	—	—	—	—	7,152,032
Other accrued liabilities	1,871,366	—	23,765	—	179,076	66,778	—	—	858,163	—	2,999,148
Due to third-party reimbursement agencies	1,691,606	—	—	195,319	—	—	—	—	—	—	1,886,925
Due to affiliates	20,705	—	9,664,194	37,900	—	—	748,099	47,656	—	(10,518,554)	—
Current portion of notes payable to bank	—	—	—	—	—	133,467	—	—	—	—	133,467
Insured claims liabilities	814,691	—	—	—	—	—	—	—	—	(814,691)	—
Total current liabilities	16,587,370	—	9,697,763	561,131	179,076	264,369	748,099	47,656	930,731	(11,333,245)	17,682,950
Notes payable to bank, less current portion	—	—	—	—	—	6,634,757	—	—	—	—	6,634,757
Insured claims liabilities, net of current portion	4,086,302	—	—	—	—	—	—	—	—	(2,329,324)	1,756,978
Self-Insured professional claims liabilities	—	—	—	—	—	—	—	—	7,814,894	—	7,814,894
Accrued pension and other liabilities	19,096,320	—	—	—	761,272	—	—	—	3,074,492	(761,272)	22,170,812
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
Net assets:											
Common stock	—	—	1,000	—	—	1,000	—	5,000	100,000	(107,000)	—
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
Total net assets	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	\$ 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

Consolidating Balance Sheet

September 30, 2012

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

Milford Health & Medical, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2012

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

Milford Health & Medical, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2013

	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	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Operating revenues:											
Net revenues from services to patients (net of contractual allowances and discounts)	\$ 76,359,796	\$ –	\$ 1,110,087	\$ 3,582,573	\$ –	\$ –	\$ –	\$ –	\$ 441,361	\$ (441,361)	\$ 81,052,456
Provision for uncollectible accounts	(6,456,481)	–	(41,240)	(22,412)	–	–	–	–	–	–	(6,520,133)
Net revenues from services to patients less provision for uncollectible accounts	69,903,315	–	1,068,847	3,560,161	–	–	–	–	441,361	(441,361)	74,532,323
Other operating revenues	1,449,445	–	40,902	26,095	–	1,285,177	–	–	–	(72,139)	2,729,480
	71,352,760	–	1,109,749	3,586,256	–	1,285,177	–	–	441,361	(513,500)	77,261,803
Operating expenses:											
Salaries and wages	37,819,070	12,114	563,198	2,280,146	29,326	52,400	–	17,018	–	–	40,773,272
Employee benefits	12,180,524	3,711	214,960	524,813	2,055	14,829	–	5,584	–	–	12,946,476
Supplies and other	25,901,739	19,864	925,844	881,133	61,510	416,070	1,950	23,063	660,545	(1,107,408)	27,784,310
Non-patient bad debt expense	–	–	–	–	972,726	–	–	–	–	–	972,726
Depreciation	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
	80,117,246	36,476	1,709,266	3,711,588	1,065,617	3,591,971	13,209	45,665	660,545	(1,118,667)	89,832,916
Operating loss	(8,764,486)	(36,476)	(599,517)	(125,332)	(1,065,617)	(2,306,794)	(13,209)	(45,665)	(219,184)	605,167	(12,571,113)
Nonoperating income:											
Investment income, net	324,629	50,199	4	2,470	1,296,915	–	–	198,712	18,684	(155,241)	1,736,372
Gifts and bequests	300,669	153,673	–	–	–	–	–	–	–	–	454,342
	625,298	203,872	4	2,470	1,296,915	–	–	198,712	18,684	(155,241)	2,190,714
(Deficiency) excess of revenue over expenses before change in unrealized gains and losses on investments	(8,139,188)	167,396	(599,513)	(122,862)	231,298	(2,306,794)	(13,209)	153,047	(200,500)	449,926	(10,380,399)
Change in unrealized gains and losses on investments	(736,830)	(4,977)	–	–	–	–	–	–	200,500	4,977	(536,330)
(Deficiency) excess of revenue over expenses	\$ (8,876,018)	\$ 162,419	\$ (599,513)	\$ (122,862)	\$ 231,298	\$ (2,306,794)	\$ (13,209)	\$ 153,047	\$ –	\$ 454,903	\$ (10,916,729)

Milford Health & Medical, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2012

	Milford Hospital, Inc.	Milford Hospital Foundation, Inc.	Milford Medical Lab, Inc.	Home Care Plus, Inc.	Milford Health & Medical, Inc.	Torry Corporation	Milford Health Care Services, Inc.	Seabridge, Inc.	Total Eliminations	Milford Health & Medical, Inc. Consolidated
Operating revenues:										
Net revenues from services to patients	\$ 82,088,250	\$ –	\$ 1,197,026	\$ 3,481,579	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 86,766,855
Provision for uncollectible accounts	(7,028,914)	–	(26,015)	50,315	–	–	–	–	–	(7,004,614)
Net revenues from services to patients less provision for uncollectible accounts	75,059,336	–	1,171,011	3,531,894	–	–	–	–	–	79,762,241
Other operating revenues	2,505,143	–	50,299	8,737	–	1,119,762	–	–	(98,463)	3,585,478
	<u>77,564,479</u>	<u>–</u>	<u>1,221,310</u>	<u>3,540,631</u>	<u>–</u>	<u>1,119,762</u>	<u>–</u>	<u>–</u>	<u>(98,463)</u>	<u>83,347,719</u>
Operating expenses:										
Salaries and wages	37,965,219	163,476	619,733	2,316,206	27,413	46,122	–	14,491	–	41,152,660
Employee benefits	14,538,699	33,309	190,961	575,861	2,055	6,234	–	1,717	–	15,348,836
Supplies and other	25,890,496	75,152	1,067,530	786,670	57,631	408,944	2,200	33,566	(790,967)	27,531,222
Non-patient bad debt expense	–	–	–	–	963,545	–	–	–	–	963,545
Depreciation	2,796,910	787	5,525	24,850	–	337,323	–	–	–	3,165,395
Interest	102,151	–	–	–	–	442,009	11,289	–	(13,105)	542,344
	<u>81,293,475</u>	<u>272,724</u>	<u>1,883,749</u>	<u>3,703,587</u>	<u>1,050,644</u>	<u>1,240,632</u>	<u>13,489</u>	<u>49,774</u>	<u>(804,072)</u>	<u>88,704,002</u>
Operating loss	(3,728,996)	(272,724)	(662,439)	(162,956)	(1,050,644)	(120,870)	(13,489)	(49,774)	705,609	(5,356,283)
Nonoperating income:										
Investment income, net	1,939,764	24,246	7	3,431	414,333	–	–	200,841	(75,593)	2,507,029
Gifts and bequests	–	283,158	–	–	–	–	–	–	–	283,158
	<u>1,939,764</u>	<u>307,404</u>	<u>7</u>	<u>3,431</u>	<u>414,333</u>	<u>–</u>	<u>–</u>	<u>200,841</u>	<u>(75,593)</u>	<u>2,790,187</u>
(Deficiency) excess of revenue over expenses before change in unrealized gains and losses on investments	(1,789,232)	34,680	(662,432)	(159,525)	(636,311)	(120,870)	(13,489)	151,067	630,016	(2,566,096)
Change in unrealized gains and losses on investments	3,465	72,600	–	–	–	–	–	–	(72,600)	3,465
(Deficiency) excess of revenues over expenses	<u>\$ (1,785,767)</u>	<u>\$ 107,280</u>	<u>\$ (662,432)</u>	<u>\$ (159,525)</u>	<u>\$ (636,311)</u>	<u>\$ (120,870)</u>	<u>\$ (13,489)</u>	<u>\$ 151,067</u>	<u>\$ 557,416</u>	<u>\$ (2,562,631)</u>

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