

AUDITED FINANCIAL STATEMENTS

The Milford Hospital, Incorporated Years Ended September 30, 2011 and 2010 With Report of Independent Auditors

Ernst & Young LLP



Audited Financial Statements

Years Ended September 30, 2011 and 2010

Contents

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



Ernst & Young LLP Goodwin Square 225 Asylum Street Hartford, CT 06103-1506

Tel: +1 860 247 3100 Fax: +1 860 725 6040 www.ey.com

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, 2011 and 2010, 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, 2011 and 2010, 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 24, 2012

Balance Sheets

Assets 2011 2010 Current assets: Sp56,229 \$303,667 Cash and cash equivalents \$956,229 \$303,667 Short-term investments 224,305 223,228 Patient accounts receivable, less allowance for uncollectible accounts of approximately \$4,896,000 in 2011 and \$4,512,000 in 2010 12,622,341 12,226,798 Inventories 774,644 748,785 Prepaid expenses and other 1,6044,999 1,342,410 Total current assets 16,044,999 14,844,888 Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 1 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 24,209,203 24,705,214 24,723,209 Construction-in-progress 36,667 238,283 24,725,414 24,736,321 26,370,015 Less accumulated depreciation (47,323,119) 45,954,913 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498		September 30			r 30
Current assets: \$ 956,229 \$ 303,667 Short-term investments 224,305 223,228 Patient accounts receivable, less allowance for uncollectible accounts of approximately \$4,896,000 in 2011 and \$4,512,000 in 2010 12,622,341 12,226,798 Inventories 774,644 748,785 746,444 748,785 Prepaid expenses and other 1,467,390 1,342,410 Total current assets 16,044,909 14,844,888 Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111			2011		2010
Cash and cash equivalents \$ 956,229 \$ 303,667 Short-term investments 224,305 223,228 Patient accounts receivable, less allowance for uncollectible accounts of approximately \$4,896,000 in 2011 and \$4,512,000 in 2010 12,622,341 12,226,798 Inventories 774,644 748,785 Prepaid expenses and other 1,467,390 1,342,410 Total current assets 16,044,909 14,844,888 Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 1 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 20,575,753 27,2059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Assets				
Short-term investments 224,305 223,228 Patient accounts receivable, less allowance for uncollectible accounts of approximately \$4,896,000 in 2011 and \$4,512,000 in 2010 12,622,341 12,226,798 Inventories 774,644 748,785 Prepaid expenses and other 1,467,390 1,342,410 Total current assets 16,044,909 14,844,888 Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Current assets:				
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$4,896,000 in 2011 and \$4,512,000 in 2010 12,622,341 12,226,798 Inventories 774,644 748,785 Prepaid expenses and other 1,467,390 1,342,410 Total current assets 16,044,909 14,844,888 Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Cash and cash equivalents	\$	956,229	\$	303,667
uncollectible accounts of approximately \$4,896,000 in 2011 and \$4,512,000 in 2010 12,622,341 12,226,798 Inventories 774,644 748,785 Prepaid expenses and other 1,467,390 1,342,410 Total current assets 16,044,909 14,844,888 Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Short-term investments		224,305		223,228
Inventories 774,644 748,785 Prepaid expenses and other 1,467,390 1,342,410 Total current assets 16,044,909 14,844,888 Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	uncollectible accounts of approximately \$4,896,000 in				
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Total current assets 16,044,909 14,844,888 Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 20,575,753 27,793,697 Land and improvements 38,526,752 38,433,808 38,433,808 38,526,752 38,433,808 38,526,752 38,433,808 32,107,653 32,107,653 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111			774,644		
Investments 20,575,753 27,793,697 Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: 20,575,753 1,799,385 Land and improvements 38,526,752 38,433,808 Building and improvements 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Prepaid expenses and other		1,467,390		1,342,410
Assets limited as to use 1,804,281 1,799,385 Property, plant, and equipment: Land and improvements 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Total current assets		16,044,909		14,844,888
Property, plant, and equipment: 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 T2,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Investments		20,575,753		27,793,697
Land and improvements 1,545,184 1,545,184 Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Assets limited as to use		1,804,281		1,799,385
Building and improvements 38,526,752 38,433,808 Equipment 31,950,837 32,107,653 Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Property, plant, and equipment:				
Equipment Construction-in-progress 31,950,837 32,107,653 238,283 32,107,653 238,283 Test accumulated depreciation (47,323,119) (45,954,913) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. Due from affiliates 745,924 777,498 719,613 719,61	Land and improvements		1,545,184		1,545,184
Construction-in-progress 36,667 238,283 72,059,440 72,324,928 Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Building and improvements		38,526,752		38,433,808
Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Equipment		31,950,837		32,107,653
Less accumulated depreciation (47,323,119) (45,954,913) 24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Construction-in-progress		36,667		238,283
24,736,321 26,370,015 Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111			72,059,440		72,324,928
Interest in Milford Hospital Foundation, Inc. 745,924 777,498 Due from affiliates 676,168 719,613 1,422,092 1,497,111	Less accumulated depreciation		(47,323,119)		(45,954,913)
Due from affiliates 676,168 719,613 1,422,092 1,497,111	•		24,736,321		26,370,015
Due from affiliates 676,168 719,613 1,422,092 1,497,111	Interest in Milford Hospital Foundation, Inc.		745,924		777,498
1,422,092 1,497,111	· · · · · · · · · · · · · · · · · · ·		,		,
	Total assets	\$		\$, ,

	Sep	tember 30
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 4,033,31	2 \$ 3,958,361
Accrued employee compensation	6,308,05	5,811,602
Other accrued liabilities	2,859,72	2 3,133,999
Due to third-party reimbursement agencies	2,024,21	2 1,885,402
Current portion of notes payable to bank	955,68	4 892,497
Total current liabilities	16,180,98	3 15,681,861
Notes payable to bank, less current portion	935,36	1,891,051
Accrued pension and other liabilities	31,971,78	7 27,920,210
Net assets:		
Unrestricted	14,195,29	
Temporarily restricted	626,16	
Permanently restricted	673,76	· · · · · · · · · · · · · · · · · · ·
Total net assets	15,495,21	9 26,811,974
Total liabilities and net assets	\$ 64,583,35	6 \$ 72,305,096

See accompanying notes.

Statements of Operations and Changes in Net Assets

	Year Ended September 30			
	2011	2010		
Operating revenues:		_		
Net revenues from services to patients	\$ 79,860,535	\$ 78,615,925		
Other operating revenues	653,094	779,865		
	80,513,629	79,395,790		
Operating expenses:				
Salaries and wages	37,951,254	37,361,201		
Supplies and other	36,419,837	37,879,115		
Provision for uncollectible accounts	7,611,773	6,738,669		
Depreciation	3,208,305	3,574,898		
Interest	168,405	230,967		
Professional fees	227,948	262,888		
	85,587,522	86,047,738		
Operating loss	(5,073,893)	(6,651,948)		
Nonoperating income:				
Investment income, net	2,111,457	1,715,094		
Deficiency of revenues over expenses before change in				
unrealized gains and losses on investments	(2,962,436)	(4,936,854)		
Change in unrealized gains and losses on investments	(2,445,378)	1,110,476		
Deficiency of revenues over expenses	(5,407,814)	(3,826,378)		

Continued on next page.

Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30			
	2011	2010		
Unrestricted net assets:		_		
Deficiency of revenues over expenses (continued)	\$ (5,407,814)	\$ (3,826,378)		
Net assets released from restrictions for capital	16,991	1,138		
Net asset transfers to Milford Health and Medical, Inc.	(1,205,306)	(1,943,756)		
Change in pension funding obligation	(4,694,052)	(5,551,334)		
Decrease in unrestricted net assets	(11,290,181)	(11,320,330)		
Temporarily restricted net assets:				
Net assets released from restrictions for capital	(16,991)	(1,138)		
Interest income	16,991	1,138		
Change in equity interest of Milford Hospital	ŕ	ŕ		
Foundation, Inc.	(90,045)	26,355		
(Decrease) increase in temporarily restricted net assets	(90,045)	26,355		
Permanently restricted net assets:				
Restricted gifts	5,000	5,000		
Change in equity interest of Milford Hospital				
Foundation, Inc.	58,471	2,050		
Increase in permanently restricted net assets	63,471	7,050		
Decrease in net assets	(11,316,755)	(11,286,925)		
Net assets at beginning of year	26,811,974	38,098,899		
Net assets at end of year	\$ 15,495,219	\$ 26,811,974		

See accompanying notes.

Statements of Cash Flows

	Year Ended September 30			
	2011	2010		
Operating activities				
Change in net assets	\$ (11,316,755)	\$ (11,286,925)		
Adjustments to reconcile change in net assets to net cash	, , ,			
provided by operating activities:				
Noncash items:				
Provision for uncollectible accounts	7,611,773	6,738,669		
Depreciation	3,208,305	3,574,898		
Change in unrealized gains and losses on				
investments	2,445,378	(1,110,476)		
Change in pension funding obligation	4,694,052	5,551,334		
Net asset items:				
Net asset transfers	1,205,306	1,943,756		
Change in equity interest in Milford Hospital				
Foundation, Inc.	31,574	(28,405)		
Restricted gifts	(5,000)	(5,000)		
Changes in assets and liabilities:				
Patient accounts receivable	(8,007,316)	(5,430,226)		
Due from affiliates	43,445	(142,087)		
Inventories	(25,859)	29,440		
Prepaid expenses and other	(124,980)	(13,614)		
Investments classified as trading	4,772,566	3,004,095		
Accounts payable	74,951	(366,623)		
Accrued employee compensation	496,451	(445,793)		
Other accrued liabilities	(274,277)	143,515		
Due to third-party reimbursement agencies	138,810	(486,666)		
Accrued pension and other liabilities	(642,475)	509,575		
Net cash provided by operating activities	4,325,949	2,179,467		
Investing activities				
Net purchases of property, plant, and equipment	(1,574,611)	(767,576)		
Net purchases of short-term investments	(1,077)	(1,238)		
Decrease in mortgage receivable from affiliate	_	642,750		
Increase in assets limited as to use	(4,896)	(56,146)		
Net cash used in investing activities	(1,580,584)	(182,210)		

Statements of Cash Flows (continued)

	Year Ended September 30			
	2011			2010
Financing activities				
Payments made on notes payable to bank	\$	(892,497)	\$	(833,487)
Restricted gifts		5,000		5,000
Net asset transfers		(1,205,306)		(1,943,756)
Net cash used in financing activities		(2,092,803)		(2,772,243)
Increase (decrease) in cash and cash equivalents		652,562		(774,986)
Cash and cash equivalents at beginning of year		303,667		1,078,653
Cash and cash equivalents at end of year	\$	956,229	\$	303,667

See accompanying notes.

Notes to Financial Statements

September 30, 2011

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.

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, 2011 and 2010 approximate fair value based on current market conditions. The fair value of each financial instrument is disclosed in the respective notes and in Note 4.

Investments

The 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.

Alternative investments (nontraditional, not-readily-marketable assets) are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the Hospital'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 Hospital 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 Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

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

Assets Limited As To Use

Assets limited as to use primarily consist of interest bearing deposits in banks which have been set aside by the Board 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.

Notes to Financial Statements (continued)

1. Organization and Accounting Policies (continued)

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 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 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 42% and 37% for Medicare, and 8% and 10% for Medicaid, for the fiscal years ended September 30, 2011 and 2010, respectively.

Property, Plant, and Equipment

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

Restricted Net Assets

Temporarily restricted net assets are those where use by the 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.

Notes to Financial Statements (continued)

1. Organization and Accounting Policies (continued)

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.

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 Income

Activities, other than in connection with providing healthcare services, are considered to be nonoperating. Nonoperating income primarily consists of 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.

Notes to Financial Statements (continued)

1. Organization and Accounting Policies (continued)

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 \$6,170,000. A deferred tax asset for these losses of approximately \$2,468,000 is offset by a corresponding valuation allowance of the same amount.

Subsequent Events

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

New Accounting Standards

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

Notes to Financial Statements (continued)

1. Organization and Accounting Policies (continued)

New Accounting Standards (continued)

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

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

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

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			
	2011	2010		
Gross revenues from services to patients	\$ 184,109,979	\$ 204,296,146		
Deductions:				
Allowances	104,061,678	125,381,192		
Charity care	187,766	299,029		
	104,249,444	125,680,221		
	\$ 79,860,535	\$ 78,615,925		

During fiscal years 2011 and 2010, the Hospital's net revenues from services to patients were 37% and 39% from Medicare, 7% and 6% from Medicaid, and 18% and 16% 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 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.

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 increased net revenues from services to patients by approximately \$228,000 and decreased net revenues from services to patients by approximately \$119,800 for the years ended September 30, 2011 and 2010, respectively.

The 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 comprised of the following at September 30:

	2011	2010
Cash and cash equivalents	\$ 1,928,762	\$ 2,043,739
Government bonds	2,699,287	4,095,380
Corporate bonds	1,634,084	2,922,409
Equities	13,078,051	17,586,034
Alternative investments	1,205,131	1,090,331
Accrued interest	30,438	55,804
	\$ 20,575,753	\$ 27,793,697

Notes to Financial Statements (continued)

3. Investments (continued)

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

	 2011	2010
Cash and cash equivalents	\$ 754,029	\$ 928,832
Government bonds	391,081	466,878
Corporate bonds	289,079	296,038
Other fixed income securities	288,956	_
Equities	76,429	103,771
Accrued interest	 4,708	3,866
	\$ 1,804,281	\$ 1,799,385

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

	2011	2010
Interest income	\$ 41,520	5 \$ 51,325
Dividend income	420,745	,
Realized capital gains and losses	1,649,180	1,161,239
Investment income, net	2,111,457	7 1,715,094
Change in unrealized gains and losses on investments	(2,445,378	3) 1,110,476
Total return on investments	\$ (333,921	1) \$ 2,825,570

4. Fair Value of Financial Instruments

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

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

Notes to Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

- 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 Hospital 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.

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

	September 30, 2011				
	Level 1	Level 2	Level 3	Total	
Cash and cash equivalents Short term investments:	\$ 956,229	\$ -	\$ -	\$ 956,229	
Cash and cash equivalents Investments:	224,305	-	-	224,305	
Cash and cash equivalents Fixed income:	1,928,762	_	_	1,928,762	
Government bonds	_	2,699,287	_	2,699,287	
Corporate bonds Equities:	_	1,634,084	_	1,634,084	
International	2,175,765	_	_	2,175,765	
Mid cap	1,334,583	_	_	1,334,583	
Large cap	8,626,927	_	_	8,626,927	
Emerging markets	940,776	_	_	940,776	
Assets whose use is limited: Cash and cash equivalents Fixed income:	754,029	-	-	754,029	
Government bonds	_	391,081	_	391,081	
Corporate bonds	_	289,079	_	289,079	
Other	_	288,956	_	288,956	
Equities: International	2.960			2.000	
	3,860	_	_	3,860	
Mid cap	2,491	_	_	2,491	
Emerging markets	23,646			23,646	
Other	46,432	_	_	46,432	

Notes to Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents Short term investments:	\$ 303,667	\$ -	\$ -	\$ 303,667
Cash and cash equivalents Investments:	223,228	_	_	223,228
Cash and cash equivalents Fixed income:	2,043,739	_	_	2,043,739
Government bonds	_	4,095,380	_	4,095,380
Corporate bonds	_	2,922,409	_	2,922,409
Equities:				
International	3,162,507	_	_	3,162,507
Mid cap	1,647,948	_	_	1,647,948
Large cap	10,606,228	_	_	10,606,228
Emerging markets Assets whose use is limited:	2,169,351	_	_	2,169,351
Cash and cash equivalents Fixed income:	928,832	_	_	928,832
Government bonds	_	466,808	_	466,808
Corporate bonds	_	296,038	_	296,038
Equities:		,		,
International	4,496	_	_	4,496
Mid cap	28,096	_	_	28,096
Large cap	71,179	_	_	71,179

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

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

Notes to Financial Statements (continued)

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, 2011 and 2010, the Hospital had an unpaid principal balance of \$1,891,051 and \$2,783,548, respectively. The mortgage note has a maturity date of August 15, 2013. Interest paid during fiscal years 2011 and 2010 amounted to \$160,685 and \$219,864, respectively. As of September 30, 2011 and 2010, the carrying value of the mortgage note approximates fair value.

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

2012	\$ 955,684	
2013	935,367	
	\$ 1,891,051	

6. Pension Plan

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

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

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

Notes to 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		
	2011	2010	
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 80,267,273	\$ 69,739,738	
Service cost	1,017,495	1,744,674	
Interest cost	3,890,994	3,984,156	
Benefits paid	(3,172,320)	(3,710,820)	
Expenses paid	(453,640)	_	
Actuarial loss	938,359	8,509,525	
Benefit obligation at end of year	82,488,161	80,267,273	
Change in plan assets			
Fair value of plan assets at beginning of year	54,569,223	49,347,927	
Contributions	2,500,000	3,125,000	
Actual return on plan assets	(565,042)	5,807,116	
Benefits paid	(3,172,320)	(3,710,820)	
Expenses paid	(453,640)		
Fair value of plan assets at end of year	52,878,221	54,569,223	
Funded status of the plan	\$ (29,609,940)	\$ (25,698,050)	
Components of net periodic pension cost			
Service cost	\$ 1,017,495	\$ 1,744,674	
Interest cost	3,890,994	3,984,156	
Expected return on plan assets	(4,368,627)	(3,984,361)	
Net amortization and deferral	1,177,976	1,135,436	
Net periodic pension cost	\$ 1,717,838	\$ 2,879,905	

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

Notes to 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, 2011 and 2010, are as follows:

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

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

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

Plan Assets

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

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

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

Notes to Financial Statements (continued)

6. Pension Plan (continued)

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

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

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

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

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

Notes to Financial Statements (continued)

6. Pension Plan (continued)

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

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

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

Contributions

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

Estimated Future Benefit Payments

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

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

Notes to Financial Statements (continued)

7. Transactions With Affiliates

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

	September 30		
	2011	2010	
Milford Medical Lab, Inc.	\$ 224,110	\$ 315,337	
Milford Health and Medical, Inc.	309,799	275,113	
Home Care Plus, Inc.	28,702	16,849	
Other affiliated entities	113,557	112,314	
	\$ 676,168	\$ 719,613	

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. \$704,714 and \$630,488 in 2011 and 2010, respectively, for those services. The receivable from Milford Medical Lab, Inc. is net of an allowance for uncollectible accounts of \$8,137,743 and \$7,329,886 at September 30, 2011 and 2010, 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, 2011 and 2010 were \$124,304 and \$76,726, 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 \$594,000 and \$478,000 at September 30, 2011 and 2010, respectively, for claims incurred-but-not-reported. This liability has been discounted using a 3.5% and 5% discount rate at September 30, 2011 and 2010, respectively.

Notes to Financial Statements (continued)

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	Year Ended September 30		
	2011	2010		
Healthcare services General and administrative	\$ 74,697,636 10,889,886	\$ 74,710,549 11,337,189		
	\$ 85,587,522	\$ 86,047,738		

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