KPMG

SILVER HILL HOSPITAL, INC.

Financial Statements

February 28, 2013 and February 29, 2012

(With Independent Auditors' Report Thereon)

SILVER HILL HOSPITAL, INC.

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KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
Silver Hill Hospital, Inc.:

We have audited the accompanying financial statements of Silver Hill Hospital, Inc., which comprise the statements of financial position as of February 28, 2013 and February 29, 2012, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance 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 from 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors consider 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 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 financial position of Silver Hill Hospital, Inc. as of February 28, 2013 and February 29, 2012, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

July 12, 2013

SILVER HILL HOSPITAL, INC.

Statements of Financial Position

February 28, 2013 and February 29, 2012

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	1,368,392	2,134,460
Investments (note 3)		4,420,962	8,583,024
Patient accounts receivable, net of allowance for doubtful accounts of $470,948 and $525,515 (note 2)		3,727,519	2,133,705
Prepaid expenses		813,897	463,997
Pledges receivable		8,421	25,921
Other current assets		143,398	125,798
Insurance claims receivable (note 7)		850,000	—
Assets limited or restricted as to use – current liabilities (note 3)		2,323,699	1,325,589
Total current assets		13,656,288	14,792,494
Assets limited or restricted as to use (note 3):			
Temporarily and permanently restricted donations		824,848	782,469
Liquid reserve requirement		1,500,000	1,100,000
Total assets limited or restricted as to use		2,324,848	1,882,469
Other assets, net		115,671	124,240
Insurance claims receivable (note 7)		195,651	321,219
Property and equipment, net (note 4)		29,830,017	23,338,900
Total assets	$	46,122,475	40,459,322
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	880,445	735,157
Due to patients and third parties		1,549,984	636,199
Accrued salaries, taxes, and other compensation		852,531	1,046,764
Current portion of long-term debt		95,813	—
Other current liabilities		876,276	800,768
Estimated malpractice liability – current (note 7)		900,000	—
Total current liabilities		5,155,049	3,218,888
Line of credit (note 5)		127,680	5,127,680
Long-term debt, net of current portion (note 5)		4,206,102	—
Estimated malpractice liabilities (note 7)		569,075	570,344
Total liabilities		10,057,906	8,916,912
Net assets:			
Unrestricted		35,239,721	30,709,941
Temporarily restricted (note 10)		611,848	619,469
Permanently restricted (note 10)		213,000	213,000
Total net assets		36,064,569	31,542,410
Commitments and contingencies (notes 5, 6, and 7)			
Total liabilities and net assets	$	46,122,475	40,459,322

See accompanying notes to financial statements.

SILVER HILL HOSPITAL, INC.

Statements of Operations

Years ended February 28, 2013 and February 29, 2012

	2013	2012
Unrestricted revenues, gains, and other support:		
Net patient service revenue (note 2)	$ 35,007,505	32,101,190
Provision for bad debts, net (note 2)	(196,137)	(501,058)
Net patient service revenue less provision for bad debts	34,811,368	31,600,132
Contributions	753,201	738,672
Other revenue	312,358	225,429
Net assets released from restriction for use in operations	760,140	1,005,379
Total unrestricted revenues, gains, and other support	36,637,067	33,569,612
Operating expenses and losses (note 9):		
Salaries and related costs	16,898,932	15,640,484
Employee benefits (note 8)	4,266,118	3,728,765
Supplies and services	8,870,001	8,545,368
Depreciation and amortization	1,703,477	1,289,143
Development expense	575,169	580,574
Interest expense	121,720	72,458
Loss on the disposal of property and equipment	93,290	92,502
Total operating expenses and losses	32,528,707	29,949,294
Income from operations	4,108,360	3,620,318
Nonoperating gains (losses):		
Investment income, net	191,476	291,801
Realized gains on investments	489,392	221,535
Provision for uncollectible pledges	(22,748)	(23,752)
Other (losses) gains, net	(8,839)	2,861
Total nonoperating gains (losses), net	649,281	492,445
Excess of unrestricted revenues, gains, and other support and nonoperating gains (losses) over expenses	4,757,641	4,112,763
Other changes in unrestricted net assets:		
Change in net unrealized gains on other than trading securities	(231,361)	(295,520)
Net assets released from restriction for use in capital projects	3,500	70,570
Increase in unrestricted net assets	$ 4,529,780	3,887,813

See accompanying notes to financial statements.

SILVER HILL HOSPITAL, INC.

Statements of Changes in Net Assets

Years ended February 28, 2013 and February 29, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at February 28, 2011	$ 26,822,128	984,193	213,000	28,019,321
Excess of unrestricted revenues, gains, and other support and nonoperating gains (losses) over expenses	4,112,763	—	—	4,112,763
Restricted contributions	—	123,893	—	123,893
Special event revenue – gala for scholarships, net of direct donor benefit of $87,000	—	572,350	—	572,350
Investment income, net of realized gains	—	14,982	—	14,982
Change in net unrealized gains on other than trading securities	(295,520)	—	—	(295,520)
Net assets released from restriction for use in operations	—	(1,005,379)	—	(1,005,379)
Net assets released from restriction for use in capital projects	70,570	(70,570)	—	—
Change in net assets	3,887,813	(364,724)	—	3,523,089
Net assets at February 29, 2012	30,709,941	619,469	213,000	31,542,410
Excess of unrestricted revenues, gains, and other support and nonoperating gains (losses) over expenses	4,757,641	—	—	4,757,641
Restricted contributions	—	31,620	—	31,620
Provision for uncollectible pledges	—	(50,000)	—	(50,000)
Special event revenue – gala for scholarships, net of direct donor benefit of $127,500	—	739,523	—	739,523
Investment income, net of realized gains	—	31,102	—	31,102
Change in net unrealized gains on other than trading securities	(231,361)	3,774	—	(227,587)
Net assets released from restriction for use in operations	—	(760,140)	—	(760,140)
Net assets released from restriction for use in capital projects	3,500	(3,500)	—	—
Changes in net assets	4,529,780	(7,621)	—	4,522,159
Net assets at February 28, 2013	$ 35,239,721	611,848	213,000	36,064,569

See accompanying notes to financial statements.

SILVER HILL HOSPITAL, INC.

Statements of Cash Flows

Years ended February 28, 2013 and February 29, 2012

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	4,522,159	3,523,089
Adjustments to reconcile the change in net assets to net cash provided by operating activities:			
Depreciation and amortization		1,703,477	1,289,143
Provision for bad debts, net		196,137	501,058
Loss on disposal of assets		93,290	92,502
Provision for uncollectible pledge		72,748	23,752
Contributions restricted for capital projects		(3,500)	(55,899)
Net unrealized losses on other than trading securities		227,587	295,520
Realized gains on investments		(489,392)	(221,535)
Changes in assets and liabilities:			
Patient accounts receivable		(1,789,951)	(287,741)
Prepaid expenses		(349,900)	25,264
Pledges receivable		(7,500)	10,000
Insurance claims receivable		(724,432)	(321,219)
Other current assets		(17,600)	(11,398)
Other assets		472	1,415
Accounts payable and accrued expenses		(58,403)	45,349
Due to patients and third parties		913,785	139,037
Accrued salaries, taxes, and other compensation		(194,233)	87,464
Other current liabilities		75,508	(4,168)
Estimated malpractice liabilities		898,731	452,533
Net cash provided by operating activities		5,068,983	5,584,166
Cash flows from investing activities:			
Purchases of property and equipment		(494,807)	(515,580)
Purchase of contiguous properties		(5,328,042)	—
Expenditures for Hospital campus renovations		(2,245,188)	(5,641,162)
Purchases of investments		(2,187,481)	(4,839,426)
Proceeds from sale of investments		6,168,969	5,345,634
Change in assets limited or restricted as to use		(1,000,594)	791,231
Net cash used in investing activities		(5,087,143)	(4,859,303)
Cash flows from financing activities:			
Contributions restricted for capital projects		3,500	55,899
Proceeds from line of credit		—	1,050,000
Repayment of line of credit		(5,000,000)	(2,250,000)
Proceeds from mortgages		4,320,000	—
Repayment of mortgages		(18,085)	—
Deferred financing costs incurred		(53,323)	—
Net cash used in financing activities		(747,908)	(1,144,101)
Decrease in cash and cash equivalents		(766,068)	(419,238)
Cash and cash equivalents, beginning of year		2,134,460	2,553,698
Cash and cash equivalents, end of year	$	1,368,392	2,134,460
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	128,348	288,204
Increase in accounts payable and accrued expense for Hospital campus renovation expenditures		203,691	—

See accompanying notes to financial statements.

(1) Nature of Activities and Significant Accounting Policies

Nature of Activities

Silver Hill Hospital, Inc. (the Hospital) is a not-for-profit private psychiatric hospital, which provides medical attention to patients with psychiatric or substance abuse diagnosis through inpatient, residential, and outpatient programs. Silver Hill was incorporated in the state of Connecticut in 1934.

A summary of the Hospital's significant accounting policies is as follows:

(a) Basis of Accounting

The Hospital's financial statements have been prepared on the accrual basis of accounting.

(b) Cash and Cash Equivalents

The Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(c) Concentration of Credit Risk

The Hospital has cash balances in financial institutions that exceed federal depository insurance limits of $250,000.

(d) Patient Accounts Receivable

The collection of receivables from third-party payors and patients is the Hospital's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments to third-party payors. Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for uncollectible receivables. Management estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each payor type. Recoveries of receivables previously written off are recorded as a reduction of the provision for uncollectible accounts when received. The past-due status of receivables is determined on a case-by-case basis depending on the responsible payor. Interest is generally not charged on past-due accounts.

(e) Pledges Receivable

Pledges, less an allowance for uncollectible amounts (if warranted), are recorded as pledges receivable in the year the pledge is made.

(Continued)

(f) Assets Limited or Restricted as to Use

Assets limited or restricted as to use include assets set aside for current liabilities, including the Hospital 401(k) contribution to employees and deposits due to patients and third parties, assets restricted based on donors' intents, and liquid assets restricted by the line-of-credit and mortgage agreements.

(g) Investments

The Hospital accounts for its investments in accordance with current accounting standards for not-for-profit organizations. Under these standards, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains (losses) on investments, interest, and dividends are included in the change in unrestricted net assets in the accompanying statements of changes in net assets, unless donor or law restricted the use of the income or loss. Investments are available for current operations and therefore are classified as current in the accompanying statements of financial position.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term.

(h) Property and Equipment

Property and equipment are recorded at cost and depreciated over the estimated useful life of each class of depreciable assets, using the straight-line method. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Estimated useful lives of capital assets are as follows:

	Years
Land improvements	20 years
Buildings	25 years
Vehicles	5 years
Equipment	3 – 10 years

(i) Deferred Financing Costs

Deferred financing costs are amortized a straight-line basis, over the term of the related debt.

(j) Due to Patients and Third Parties

Due to patients and third parties include patient deposits for services to be performed and refunds due to third parties for overpayments. Patient deposits are recognized as income as charges are incurred. Any unearned deposits are returned to patients subsequent to discharge.

(Continued)

(k) Net Assets

The net assets of the Hospital and changes therein are classified and reported as follows:

Unrestricted Net Assets – unrestricted net assets are those whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract, board designation, or under debt agreements.

Temporarily and Permanently Restricted Net Assets – temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

(l) Excess of Unrestricted Revenues, Gains, Other Support, and Nonoperating Gains (Losses) over Expenses

The statements of operations include the excess of unrestricted revenues, gains, other support, and nonoperating gains (losses) over expenses. Changes in unrestricted net assets that are excluded from excess of unrestricted revenues, gains, other support, and nonoperating gains (losses) over expenses, consistent with industry practice, include changes in net unrealized losses on other than trading securities and net assets released from restriction for use in capital projects.

(m) Net Patient Service Revenue

The Hospital has agreements with third-party payors, which provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retrospective adjustments under reimbursement agreements with third-party payors. Retrospective 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.

(n) Charity Care

The Hospital provides care to patients who meet certain criteria established under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of accounts determined to qualify as charity care, they are not reported as revenue. The cost of providing charity care is estimated by multiplying total charges incurred by the patients that qualify for financial assistance by an overall ratio of costs to charges. The cost of providing charity care was $408,800 and $753,000 for the years ended February 28, 2013 and February 29, 2012, respectively.

In fiscal year 2013 and 2012, the Hospital released $500,000 and $750,000, respectively, of donor-restricted funds designated as scholarship funds for patient treatment.

(Continued)

(o) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indication of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support 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. In the absence of donor specifications that income and gains on donated funds are restricted, such donated funds are reported as income and gains within the accompanying statements of operations.

(p) Income Taxes

The Hospital is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code), and as such, no provision for income taxes has been recorded. The Internal Revenue Service informed the Hospital by a letter dated June 23, 1937 that the Hospital's operations are designed in accordance with such section of the Code. There are certain transactions that could be deemed "Unrelated Business Income" and would result in a tax liability. Management reviews transactions to estimate potential tax liabilities using a threshold of more likely than not of being sustained. It is management's estimation that there are no material tax liabilities that need to be recorded.

(q) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying financial statements is primarily related to the Hospital's determination of the net patient accounts receivable and settlements with third-party payors. Due to uncertainties inherent in the estimation and assumption process, actual results could differ from those estimates and such differences could be material.

(r) Healthcare Reform Legislation

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Reform Law), which was signed into law on March 23, 2010, will change how healthcare services are covered, delivered, and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Because of the many variables involved with the Health Reform Law, the Hospital's management is unable to predict the net effect on the Hospital of the expected increases in insured individuals using its facilities, the reductions in Medicare spending and funding, and numerous other provisions in the law that may affect the Hospital.

(s) Budget Control Act

The Budget Control Act of 2011 (the Budget Control Act) mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. The Budget Control Act also created a joint Select Committee on Deficit Reduction (the Super Committee) to develop a plan to further reduce the federal deficit by $1.5 trillion on or before November 23, 2011. Since the Super Committee failed to act before the mandated deadline, a 2% reduction in Medicare spending, among other reductions, was to take effect beginning January 1, 2013 in a process known as Sequestration. The Budget Control Act also required a 26.5% reduction in the sustainable growth rate formula regarding physician reimbursement under Medicare to be effective January 1, 2013.

On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act, which delayed sequestration until March 1, 2013 and delayed implementation of the reduction to the sustainable growth formula regarding physician reimbursement under Medicare through the end of 2013. On March 1, 2013, President Obama signed the sequestration order, and as such, the Hospital's nonphysician Medicare payments were reduced by the mandatory 2% reduction for claims with dates of service or dates of discharge on or after April 1, 2013. In fiscal year 2013, Medicare net patient revenue was approximately $1.5 million, or 4% of the Hospital's net patient revenue.

(t) Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as a measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This new guidance was effective for fiscal years beginning after December 15, 2010. As the Hospital does not recognize revenue when charity care is provided, adoption of this guidance in fiscal 2012 did not have an impact on the financial statements of the Hospital; it only required additional disclosures, including the method used to estimate the cost of charity care (note 1(n)).

In fiscal year 2012, the Hospital adopted FASB ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU No. 2010-24, medical malpractice claim liabilities should be determined without consideration of insurance recoveries. Healthcare entities that are indemnified for malpractice liabilities should recognize insurance receivables at the same time that they recognize the liabilities, measured on the same basis as the liabilities, subject to the need for valuation for uncollectible amounts. This guidance was effective for fiscal years beginning after December 15, 2010. The adoption of this guidance had no impact on the Hospital's operations or cash flows (note 7).

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU No. 2011-07 is intended to provide financial statement users with greater transparency about a healthcare entity's net patient service revenue and related allowance for doubtful accounts. The guidance provides information to assist financial statement users in assessing an entity's sources of patient service revenue and related changes in its allowance for doubtful accounts. The guidance requires certain healthcare entities to change the presentation of their statements of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those healthcare entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The guidance also requires disclosures of patient services revenue (net of contractual allowances and discounts), as well as qualitative information about changes in the allowance for doubtful accounts. In fiscal year 2013, the Hospital adopted ASU No. 2011-07 and reclassified the provision for bad debt expense, net, totaling $196,137 and $501,058 for the years ended February 28, 2013 and February 29, 2012, respectively, from operating expenses to a reduction of net patient services revenue in the statements of operations. See note 2 for the required disclosures related to the Hospital's sources of patient service revenue and changes in the allowance for doubtful accounts.

(2) Net Patient Service Revenue and Accounts Receivable

The Hospital has agreements with third-party payors, which provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at list price and the amounts reimbursed by Medicare, Blue Cross, and certain other third-party payors, and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. Contractual adjustments under third-party reimbursement programs are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. A summary of the basis of reimbursement with major third-party payors is as follows:

(a) Medicare

The Hospital is paid for inpatient services rendered to Medicare program beneficiaries under the Inpatient Psychiatric Facility Prospective Payment System, which was implemented in 2005. For both years ended February 28, 2013 and February 29, 2012, net revenue from the Medicare program accounted for approximately 4% and 5%, respectively, of the Hospital's net patient service revenue.

Laws and regulations governing the Medicare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change 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. While no such regulatory inquires have been made, 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 programs. Third-party payor settlements for 2013 and 2012 were not significant to the financial statements.

(b) Managed Care Organizations

The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes contractual allowances from established charges and prospectively determined per diem rates.

Patient revenue, net of contractual allowances, is reduced by the provision for bad debts, and net patients accounts receivable are reduced by an allowance for doubtful accounts. These amounts are based on historical and expected write-offs and net collections as well as aging status. Based on historical experience, a portion of the Hospital's self-pay patients who do not qualify for charity care will be unable or unwilling to pay for services provided. Thus, the Hospital records a provision for bad debts related to these patients in the period the services are provided. For the years ended February 28, 2013 and February 29, 2012, patient service revenue (including patient copays and deductibles), net of contractual allowances (but before the provision for uncollectible accounts) by major payor source was as follows:

		2013	2012
Medicare	$	1,505,694	1,545,954
Third-party payors		17,465,175	16,608,143
Self pay		16,036,636	13,947,093
Total	$	35,007,505	32,101,190

Patient accounts receivable, including patient copays and deductibles by major primary payor source, before deducting allowance for doubtful accounts were the following as of February 28, 2013 and February 29, 2012:

	2013	2012
Medicare	11%	9%
Blue Cross	23	20
Other third-party payors	53	58
Self-pay	13	13
	100%	100%

Patient accounts receivable, net of contractual adjustments were $4,198,467 and $2,659,220 as of February 28, 2013 and February 29, 2012, respectively, or 12% and 8% net of patient revenue for the fiscal years then ended. The related allowance for uncollectible accounts was $470,948 and $525,515 or 11% and 20% of the related patient accounts receivable, net of contractual allowances as of February 28, 2013 and February 29, 2012. In fiscal year 2013, the Hospital wrote off $250,704 in bad debts and denials, net of recoveries.

For the years ended February 28, 2013 and February 29, 2012, the provision for bad debt includes a favorable change in estimate related to the allowance for doubtful accounts, which increased the Hospital's net income by $483,400 and $373,000, respectively.

(Continued)

(3) Assets Limited or Restricted as to Use and Investments

Assets limited or restricted as to use and investments consisted of the following as of February 28, 2013 and February 29, 2012:

		2013	2012
Assets limited or restricted as to use:			
Current liabilities:			
Cash and cash equivalents	$	2,323,699	1,325,589
Donor restricted assets:			
Certificate of deposit		—	238,376
Mutual funds		824,848	544,093
		824,848	782,469
Liquid reserve requirement:			
Cash and cash equivalents		500,000	500,000
Mutual funds		1,000,000	600,000
		1,500,000	1,100,000
Total assets limited as to use		4,648,547	3,208,058
Less current portion		(2,323,699)	(1,325,589)
Assets limited or restricted as to use, net of current portion		2,324,848	1,882,469
Investments:			
Mutual funds		4,419,859	8,456,411
Equities		1,103	53,894
Market linked notes		—	24,700
Corporate bonds		—	48,019
Total investments		4,420,962	8,583,024
Total assets limited or restricted as to use, and investments	$	6,745,810	10,465,493

Current liabilities, for which assets are limited or restricted as to use, consisted of the following as of February 28, 2013 and February 29, 2012:

		2013	2012
Hospital 401(k) contribution due to employees	$	773,715	689,390
Due to patients and third parties		1,549,984	636,199
Total current liabilities	$	2,323,699	1,325,589

Hospital 401(k) contributions due to employees are included in accrued salaries, taxes, and other compensation in the accompanying statements of financial position.

The cost and market values of all investments, including those categorized as assets limited or restricted as to use, are summarized as follows as of February 28, 2013 and February 29, 2012:

	2013		
	Cost	Unrealized gains (losses)	Fair value
Investments:			
Mutual funds:			
Fixed income – domestic	$ 3,364,380	79,450	3,443,830
Domestic	1,806,745	435,481	2,242,226
International	512,101	46,550	558,651
	5,683,226	561,481	6,244,707
Equities:			
Domestic	1,114	(11)	1,103
	$ 5,684,340	561,470	6,245,810

	2012		
	Cost	Unrealized gains (losses)	Fair value
Investments:			
Mutual funds:			
Fixed income – domestic	$ 4,965,434	123,237	5,088,671
Domestic	3,020,216	648,886	3,669,102
International	829,780	12,951	842,731
	8,815,430	785,074	9,600,504
Equities:			
Domestic	41,709	5,291	47,000
International	6,165	729	6,894
	47,874	6,020	53,894
Market linked notes	25,000	(300)	24,700
Certificates of deposit	238,376	—	238,376
Corporate bonds	49,756	(1,737)	48,019
	$ 9,176,436	789,057	9,965,493

FASB Accounting Standards Codification 820, *Fair Value Measurement*, establishes a formal hierarchy and framework for measuring fair value and expands disclosure about fair value measurements and the reliability of valuation impacts. The guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities include those whose value is determined using pricing models, discounted cash flows methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation

At February 28, 2013 and February 29, 2012, the Hospital estimated the fair value of most of its investments based on Level 1 inputs. The Market linked notes, purchased in 2012, are valued based on Level 2 inputs. The Hospital does not have any Level 3 assets or liabilities as of February 28, 2013 and February 29, 2012.

(4) Property and Equipment

At February 28, 2013 and February 29, 2012, property and equipment consist of the following:

		2013	2012
Land and land improvements	$	4,436,224	2,298,295
Buildings		33,279,409	29,119,938
Vehicles		422,082	357,043
Equipment		6,296,611	5,758,589
Construction in progress		3,346,742	2,144,781
		47,781,068	39,678,646
Less accumulated depreciation		(17,951,051)	(16,339,746)
	$	29,830,017	23,338,900

During fiscal year 2013, the Hospital purchased residential land and buildings, adjacent to the Hospital property, for approximately $5.3 million. The Hospital plans to renovate and convert these properties into patient care areas.

As of February 28, 2013, construction in progress consists of renovation expenditures for River House and various other projects. The estimated cost to complete River House construction is approximately $613,000 as of February 28, 2013. As of February 29, 2012, construction in progress was mainly comprised of renovation expenditures for the Pain Program and various other projects. This project was completed and placed into service during the fiscal year ended February 28, 2013.

(5) Line of Credit and Long-Term Debt

Long-term debt is comprised of the following at February 28:

		2013
Mortgage	$	1,985,905
Mortgage		2,316,010
		4,301,915
Less current portion		(95,813)
	$	4,206,102

(a) In September 2012, the Hospital entered into a loan agreement for $2,000,000 with the bank to finance the purchase of the property at 225 Valley Road, which is contiguous to the Hospital grounds. The term of the loan is 10 years, with a 25-year amortization period and a fixed interest rate of 4.5%. Monthly principal and interest payments of $11,191 commenced on November 1, 2012 and are payable through September 1, 2022, with a balloon payment of $1,462,150 and any unpaid interest due on October 1, 2022. The loan is secured by the property. Interest incurred on the loan was $42,369 in 2013.

The Hospital entered into another loan agreement with the bank for $2,320,000 to finance the purchase of the contiguous property at 134 Valley Road. The term of the loan is 10 years, with a 25-year amortization period and a fixed interest rate of 4.5%. Monthly principal and interest payments of $12,980 commenced on February 1, 2013 and are payable through December 1, 2022, with a balloon payment of $1,695,879 and any unpaid interest due on January 1, 2023. The loan is secured by the property. Interest incurred on the loan was $22,606.

Aggregate principle payments on long term debt for the next five years and thereafter are as follows:

Year ending February 28:		
2014	$	95,813
2015		100,277
2016		104,949
2017		109,317
2018		114,932
There after		3,776,627
	$	4,301,915

(b) In 2007, the Hospital entered into a revolving line of credit, with a term of 10 years and a maximum available borrowing of $10,000,000, which was secured by the land and buildings owned by the Hospital. Interest was charged monthly at a rate of 7.15%. In December 2010, the line-of-credit agreement was modified to include an interest rate of 5.25% and an extension of the term to 10 years. In September 2012, the line-of-credit agreement was modified again to extend the 10-year term an additional year. The modified line revolves for a period of four years, with interest payments due monthly based on the balance outstanding. On December 31, 2015, the line will convert to a permanent commercial mortgage for the remaining 6 years of the term. Upon conversion, principal and interest payments will be due monthly through December 31, 2021 at which time a balloon payment for any unpaid principal and interest will be due.

As of February 29, 2012, $5,127,680 was outstanding on the line of credit. In April 2012, the Hospital repaid $5,000,000 of the outstanding line, liquidating $4,000,000 of investments to cover a portion of the repayment, and leaving an outstanding line-of-credit balance of $127,680 as of February 28, 2013. In 2013, interest incurred on the line was $56,744. In 2012, interest incurred on the line was $281,718, of which $209,260 was capitalized and included in property and equipment on the statements of financial position.

As part of the line-of-credit and loan agreements (mortgages), the Hospital must maintain a compensating balance at the bank of $500,000. The line-of-credit and loan agreements (mortgages) require an aggregate liquid reserve of $1,500,000 to be maintained over the term of the debt, which is included in assets limited or restricted as to use. Prior to fiscal year 2013, the liquid reserve requirement for the line of credit was $1,100,000.

(6) Lease Obligations

The Hospital has noncancelable operating leases, which expire through February 2017. Future minimum lease payments under these noncancelable operating leases are as follows:

Year ending February 28:		
2014	$	307,203
2015		95,406
2016		70,308
2017		11,009
	$	483,926

Rental expense for all operating leases totaled approximately $302,600 in 2013 and $273,000 in 2012. Rental expenses are included in supplies and services expenses on the statements of operations.

(7) Commitments and Contingencies

Insurance

As of February 28, 2013, the Hospital maintains professional and general liability insurance coverage on a claims-made basis. The claims-made policy, which is subject to renewal on an annual basis, covers only claims made during the term of the policy but not those occurrences for which claims may be made after expiration of the policy. Coverage under the policy is $1 million per occurrence, with an aggregate limit of $3 million. The Hospital also maintains an excess umbrella policy, which provides $8 million of additional coverage.

The Hospital engaged an actuary to determine an undiscounted estimate of losses from unasserted claims and incidents that may have occurred but have not been reported as of February 28, 2013 and February 29, 2012, respectively. The actuarial evaluation is based on the Hospital's historical experience, industry data, and other considerations. As of February 28, 2013 and February 29, 2012, the Hospital has accrued the following for losses from unasserted claims and incidents that may have occurred but have not been reported:

		2013	2012
Estimated malpractice liabilities	$	1,469,075	570,344
Insurance claims receivable		(1,045,651)	(321,219)
	$	423,424	249,125

The Hospital is party to routine litigation arising in the ordinary course of business. Although some of the matters are still in a preliminary stage and definite conclusions cannot be made as to those matters, the Hospital is of the opinion that based on information presently available, the lawsuits will not have a materially adverse effect on the financial statements of the Hospital.

Dining Services Contract

The Hospital contracts with Unidine to provide food service to its patients. The contract is cancelable by either party if the other party fails to perform all of its material obligations as outlined in the agreement. The cost is approximately $25,100 per week.

(8) Retirement Plan

The Hospital has a 401(k) defined-contribution plan (401(k) Plan) that covers all full-time employees who have both attained age 21 and completed at least 1,000 hours of service during the first year of employment. The 401(k) Plan provides for an employer-based contribution allowing the Hospital to make contributions ranging from 2.5% to 7.5% of each participant's annual compensation, depending on years of vested service. Employees may also make annual contributions up to the amount permitted by law. Expenses related to the 401(k) Plan were approximately $674,090 and $563,800 for the years ended February 28, 2013 and February 29, 2012, respectively, and are included with employee benefits within the accompanying statements of operations.

(9) Functional Expenses

The Hospital provides psychiatric and substance abuse healthcare services to residents within its geographic location. Expenses related to providing these services included in the statements of operations are as follows:

		2013	2012
Healthcare services	$	26,176,330	24,058,848
Development		575,169	580,574
General and administrative		5,777,208	5,309,872
	$	32,528,707	29,949,294

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of February 28, 2013 and February 29, 2012:

		2013	2012
Scholarship Fund for Young Adults	$	15,594	223,190
Scholarship Fund		581,493	330,540
Employee Assistance Fund		13,428	12,380
Other Funds		1,333	53,359
	$	611,848	619,469

Permanently restricted net assets of $213,000 at February 28, 2013 and February 29, 2012 consist of donor-restricted funds to be maintained by the Hospital in perpetuity. The income generated from permanently restricted funds is expendable for purposes designated by donors, including adolescent and chemical dependency program services.

(11) Subsequent Events

The Hospital has evaluated and disclosed subsequent events from the statement of financial position date of February 28, 2013 through July 12, 2013, which is the date the financial statements were available to be issued, and concluded that no additional disclosures were required.