The Milford Hospital, Incorporated

Financial Statements

September 30, 2016 and 2015

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The Milford Hospital, Incorporated

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Independent Auditors' Report

Board of Directors
The Milford Hospital, Incorporated

We have audited the accompanying financial statements of The Milford Hospital, Incorporated (the "Hospital"), which comprise the balance sheet as of September 30, 2016 and 2015, and the related statements of operations and changes in net assets (deficit) 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 conformity with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Milford Hospital, Incorporated, at September 30, 2016 and 2015, and the results of its operations and changes in net assets (deficit) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
February 27, 2017

The Milford Hospital, Incorporated

Balance Sheet
September 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 2,256,558	$ 1,171,348
Short-term investments	1,318,374	3,536,565
Patient accounts receivable (net of estimated allowance for doubtful accounts of $3,178,000 in 2016 and $3,009,000 in 2015, respectively)	6,548,786	8,480,597
Inventories	1,100,067	775,631
Prepaid expenses and other current assets	854,963	774,760
Insured claims receivable	493,550	568,833
Total current assets	12,572,298	15,307,734
Investments	477,448	457,556
Assets Whose Use is Limited	1,696,568	1,665,769
Property, Plant, and Equipment		
Land and land improvements	1,437,941	1,437,941
Building and building improvements	15,610,441	15,581,482
Equipment	35,550,113	36,060,889
	52,598,495	53,080,312
Less accumulated depreciation	(34,239,316)	(32,778,530)
	18,359,179	20,301,782
Beneficial Interest in Milford Hospital Foundation, Inc.	1,216,926	946,440
Due from Affiliates	848,417	1,349,267
Insured Claims Receivable, Net	1,892,274	2,477,595
Total assets	$ 37,063,110	$ 42,506,143

	2016	2015
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable	$ 4,415,431	$ 6,717,519
Accrued salaries, wages and vacation	5,083,631	5,785,222
Estimated third-party payor settlements	633,085	920,996
Due to affiliates	169,786	230,880
Insured claims liabilities	493,550	568,833
Other current liabilities	2,073,828	1,896,404
Total current liabilities	12,869,311	16,119,854
Note Payable	8,000,000	8,000,000
Insured Claims Liabilities, Net of Current Portion	1,892,274	2,477,595
Accrued Pension and Other Liabilities	42,509,270	37,275,828
Total liabilities	65,270,855	63,873,277
Net Assets (Deficit)		
Unrestricted	(29,978,671)	(22,867,574)
Temporarily restricted	1,097,163	826,677
Permanently restricted	673,763	673,763
Total net deficit	(28,207,745)	(21,367,134)
Total liabilities and net assets deficit	$ 37,063,110	$ 42,506,143

See notes to financial statements

The Milford Hospital, Incorporated

Statement of Operations and Changes in Net Assets (Deficit)
Years Ended September 30, 2016 and 2015

	2016	2015
Operating Revenues		
Patient service revenue	$ 66,006,513	$ 63,929,340
Provision for bad debts	(3,982,595)	(3,556,700)
Net patient service revenue (less provision for bad debts)	62,023,918	60,372,640
Other revenues	5,924,574	3,567,807
Total operating revenues	67,948,492	63,940,447
Operating Expenses		
Salaries and wages	33,709,901	32,255,430
Employee benefits	8,294,963	10,123,985
Supplies and other	22,871,172	23,739,261
Depreciation	2,354,624	2,462,228
Interest	68,338	85,184
Total operating expenses	67,298,998	68,666,088
Operating income (loss)	649,494	(4,725,641)
Nonoperating Income	141,936	319,767
Change in Unrealized Gains and Losses on Investments	(39,227)	(207,863)
Revenues in excess of (less than) expenses	$ 752,203	$ (4,613,737)

See notes to financial statements

The Milford Hospital, Incorporated

Statement of Operations and Changes in Net Assets (Deficit)
Years Ended September 30, 2016 and 2015

	2016	2015
Unrestricted Net Deficit (continued)		
Revenues in excess of (less than) expenses (from previous page)	$ 752,203	$ (4,613,737)
Net assets released from restrictions for capital	30,692	6,976
Transfers to affiliates	(1,938,464)	(2,487,585)
Pension liability adjustment	(5,955,528)	(13,236,780)
Change in unrestricted net deficit	(7,111,097)	(20,331,126)
Temporarily Restricted Net Assets		
Investment income	30,692	6,976
Net assets released from restrictions for capital	(30,692)	(6,976)
Change in beneficial interest in Milford Hospital Foundation, Inc.	270,486	(13,799)
Increase (decrease) in temporarily restricted net assets	270,486	(13,799)
Change in net deficit	(6,840,611)	(20,344,925)
Net Deficit, Beginning	(21,367,134)	(1,022,209)
Net Deficit, Ending	$ (28,207,745)	$ (21,367,134)

See notes to financial statements

The Milford Hospital, Incorporated

Statement of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net deficit	$ (6,840,611)	$ (20,344,925)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Depreciation	2,354,624	2,462,228
Provision for bad debts	3,982,595	3,556,700
Total realized gains and unrealized gains and losses on investments	39,227	207,861
Pension liability adjustment	5,955,528	13,236,780
Transfers to affiliates	1,938,464	2,487,585
Change in beneficial interest in Milford Hospital Foundation, Inc.	(270,486)	13,799
Changes in assets and liabilities:		
Accounts receivable	(2,050,784)	(3,186,500)
Inventories	(324,436)	(2,822)
Prepaid expenses and other current assets	(80,203)	97,418
Due from affiliates	500,850	(807,447)
Accounts payable	(2,302,088)	(315,368)
Accrued salaries, wages and vacation	(701,591)	(905,353)
Other liabilities	(544,662)	2,671,247
Estimated third-party payor settlements	(287,911)	(465,149)
Due to affiliates	(61,094)	108,131
Net cash provided by (used in) operating activities	1,307,422	(1,185,815)
Cash Flows from Investing Activities		
Net purchases of property and equipment	(412,021)	(1,765,127)
Decrease (increase) in investments and assets whose use is limited	2,128,273	(2,282,819)
Net cash provided by (used in) investing activities	1,716,252	(4,047,946)
Cash Flows from Financing Activities		
Proceeds from issuance of note payable	-	2,000,000
Transfers to affiliates	(1,938,464)	(2,487,585)
Net cash used in financing activities	(1,938,464)	(487,585)
Net increase (decrease) in cash and cash equivalents	1,085,210	(5,721,346)
Cash and Cash Equivalents, Beginning	1,171,348	6,892,694
Cash and Cash Equivalents, Ending	$ 2,256,558	$ 1,171,348
Supplementary Disclosure of Cash Flow Information		
Interest paid	$ 68,338	$ 85,184

See notes to financial statements

1. Organization and Significant 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 of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities such as estimated uncollectible accounts for patient accounts receivable, insurance claims liabilities and receivables, and estimated receivables from and payables to third-party reimbursement agencies, and disclosure of contingent assets and contingent liabilities at the date of the financial statements. The allowance for doubtful accounts, insurance claims liabilities and receivables, and the estimated receivables from and payables to third-party reimbursement agencies, among other accounts, require significant use of estimates. Estimates also affect the reported amounts of revenues and expenses during the reported period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Regulatory Matters

The 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 cash and cash equivalents. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits and, therefore, bear a risk of loss.

Inventories

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

Fair Value of Financial Instruments

The carrying value of financial instruments in the accompanying balance sheet as of September 30, 2016 and 2015 approximates fair value based on current market conditions. The fair value of each financial instrument is disclosed in the respective notes and in Note 4.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Investment income or loss (including interest, dividends, realized gains and losses, and change in unrealized gains and losses) is included in the determination of revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law. Assets temporarily restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost.

Alternative investments (not readily marketable assets) are stated in the accompanying balance sheet based upon net asset values derived from the application of the equity method of accounting. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Financial information used by the Hospital to evaluate its alternative investments is prepared by the investment manager or general partner and includes fair value valuations that may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the 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.

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

Investment income, including realized gains on investments, interest, and dividends, is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method. The financial statements of the investees are audited annually by independent auditors.

The alternative investments include certain liquidity restrictions that may require 90 days advance notice for redemptions, and there are remaining commitments to the alternative investment funds of $75,000 as of September 30, 2016.

Assets Whose Use is Limited

Assets whose use is limited primarily consist of interest-bearing deposits in banks which have been set aside by the Board, restricted by donors for future capital improvements or purchases of equipment and designated as collateral for a construction loan with a related party. The Board retains control of funds it has set aside and may, at its discretion, subsequently use these funds for other purposes.

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage, and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

The 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 doubtful amounts. Significant concentrations of gross patient accounts receivable, before allowances for doubtful accounts, include 40% for Medicare, and 11% and 7% for Medicaid, at September 30, 2016 and 2015, respectively.

Property, Plant, and Equipment

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

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

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. The Hospital determined that the long-lived assets are not impaired at September 30, 2016 or 2015.

During January 2014, the Hospital received approval for grant funding in the amount of $2.0 million from the State of Connecticut Department of Public Health to purchase medical and computer equipment to meet the clinical needs of its patients. As of September 30, 2016, the Hospital has received approximately $2.0 million for funds used to purchase equipment.

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 maintained in perpetuity, the income of which can be used for capital expenditures.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations 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 statement of operations and changes in net assets.

Revenues in Excess of (Less Than) Expenses

The accompanying statement of operations and changes in net assets (deficit) include revenues in excess of (less than) expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the revenues in excess of (less than) expenses include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets, and the pension liability adjustment.

Beneficial Interest in Milford Hospital Foundation, Inc.

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

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 50l(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 and is exempt from the state of Connecticut and local income taxes. The Hospital has a net operating loss carryforward from unrelated business activities of approximately $6,365,000. A deferred tax asset for these losses of approximately $2,546,000 is offset by a corresponding valuation allowance of the same amount. Operating loss carryforwards will begin to expire in three years.

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 or disclosure in the financial statements as of the balance sheet date. For the year ended September 30, 2016, the Hospital evaluated subsequent events through February 27, 2017, which is the date the financial statements were issued.

Reclassifications

Certain reclassifications have been made to the 2015 balances previously reported to conform to the current year presentation.

Recent Accounting Pronouncements

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value practical expedient in ASC 820. ASU 2015-07 requires retrospective application and is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Management has elected to early adopt the provisions of this new standard. Accordingly, the standard was retrospectively applied.

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

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU No. 2016-14 is to be applied retroactively with transition provisions. The Hospital has not yet determined the impact of this standard on its financial statements.

2. Revenues from Services to Patients and Charity Care

The following table summarizes net revenues from services to patients:

	2016	2015
Gross revenues from services to patients	$ 207,773,119	$ 201,245,838
Deductions:		
Allowances	141,466,133	137,071,144
Charity care	300,473	245,354
	141,766,606	137,316,498
Patient service revenue (net of contractual allowances and discounts)	66,006,513	63,929,340
Provision for bad debts	(3,982,595)	(3,556,700)
Net patient service revenue (less provision for bad debts)	$ 62,023,918	$ 60,372,640

Patient revenues from services to patients for the years ended September 30, 2016 and 2015, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, are as follows:

	2016	2015
Third-party payors	$ 62,895,526	$ 60,991,005
Self-pay	3,110,987	2,938,335
Total all payors	$ 66,006,513	$ 63,929,340

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

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

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

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

The Hospital allowance for doubtful accounts totaled approximately $3,178,000 and $3,009,000 at September 30, 2016 and 2015, respectively. The allowance for doubtful accounts for self-pay patients was approximately 83.3% and 76.9% of self-pay accounts receivable as of September 30, 2016 and 2015, respectively. Overall, the total of self-pay discounts and write-offs has not changed significantly for the year ended September 30, 2016. The Hospital has not experienced significant changes in write-off trends.

During fiscal years 2016 and 2015, the Hospital's net patient service revenues from services to patients were 41% and 43% from Medicare, 8% and 9% from Medicaid, 16% and 13% from Blue Cross (governmental payors include managed Medicare business), 5% and 4% from Self-pay, and 30% and 31% from other third-party payors, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

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

Net revenues from services to patients is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Retroactive adjustments related to settlements with third-party payors decreased net patient service revenue by approximately $11,000 in 2016 and increased net patient service revenue by approximately $216,000 in 2015.

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

The estimated cost of charity care provided was $103,133 and $88,777 for the years ended September 30, 2016 and 2015, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

3. Investments

Investments are comprised of the following at September 30:

	2016	2015
Cash and cash equivalents	$ 1,659,506	$ 3,841,085
Fixed income mutual funds	4,843	4,838
Alternative investments	131,473	148,198
	1,795,822	3,994,121
Less short-term investments	1,318,374	3,536,565
	$ 477,448	$ 457,556

Assets whose use is limited are comprised of the following at September 30:

	2016	2015
Cash and cash equivalents	$ 1,013,863	$ 1,010,213
Certificates of deposit	29,391	29,283
Government bonds	333,810	366,670
Corporate bonds	319,504	259,603
	$ 1,696,568	$ 1,665,769

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

	2016	2015
Collateral for a construction loan with a related party	$ 1,022,805	$ 992,006
Permanently restricted	673,763	673,763
	$ 1,696,568	$ 1,665,769

The components of investment earnings include the following for the years ended September 30:

	2016	2015
Interest income	$ 7,368	$ 22,160
Dividend income	64,428	332,744
Realized (losses) and gains	(1,689)	2,853
Other	71,829	(37,990)
	141,936	319,767
Change in unrealized gains and losses on investments	(39,227)	(207,863)
Total return on investments	$ 102,709	$ 111,904

4. Fair Value of Financial Instruments

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

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

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the 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 sheet, 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:

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 2,673,369	$ -	$ -	$ 2,673,369
Certificates of deposit	29,391	-	-	29,391
Fixed income mutual funds	4,843	-	-	4,843
Government bonds	-	333,810	-	333,810
Corporate bonds	-	319,504	-	319,504
Total assets in the fair value hierarchy	$ 2,707,603	$ 653,314	$ -	3,360,917
Investments measured at net asset value (a)				131,473
Investments at fair value				$ 3,492,390

	2015			
Cash and cash equivalents	$ 4,851,298	$ -	$ -	$ 4,851,298
Certificates of deposit	29,283	-	-	29,283
Fixed income mutual funds	4,838	-	-	4,838
Government bonds	-	366,670	-	366,670
Corporate bonds	-	259,603	-	259,603
Total assets in the fair value hierarchy	$ 4,885,419	$ 626,273	$ -	5,511,692
Investments measured at net asset value (a)				148,198
Investments at fair value				$ 5,659,890

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

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

Investments Measured Using NAV per Share Practical Expedient

The following table summarizes investments measured at fair value based on NAV per share as of September 30, 2016 and 2015, respectively.

	September 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Alternative investments	$ 131,473	N/A	Daily	N/A
	September 30, 2015			
Alternative investments	$ 148,198	N/A	Daily	N/A

5. Note Payable

On September 2, 2014, the Hospital entered into a Master Agreement with another health care provider to provide a framework for implementing programs in a manner that is consistent with the charitable mission of each organization and the communities it serves. Under the terms of the agreement the health care provider will utilize beds at the Hospital under a lease arrangement to provide inpatient rehabilitation services to its patients and will furnish an $8,000,000 term loan to the Hospital. The Hospital had an outstanding balance on the loan of $8,000,000 at September 30, 2016 and 2015. The term loan bears interest of 6.5%, which is a deduction of the amount due under the Inpatient Rehabilitation Unit ("IRU") Lease. The principal balance of the term loan is payable to the lender in two equal annual installments on September 30, 2018 and 2019.

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

In addition to the Master Agreement, the Hospital entered into an IRU Lease Agreement and an IRU Services Agreement. The details of those agreements are as follows:

- IRU Lease Agreement: The term of the IRU Lease Agreement is five years during which time the Hospital will lease certain beds to the health care provider to be used to provide inpatient rehabilitation services to patients of the health care provider. The lease provides the tenant with two five-year renewal options at the end of each term. Monthly payments (base rent and overhead allocation) to the Hospital range from $192,000 to $280,000 throughout the initial five-year term.

- IRU Services Agreement: The term of the IRU Services Agreement is five years during which time the health care provider will purchase certain clinical services related to those rehabilitation patients at the Hospital from the Hospital and certain affiliated physicians. The service agreement provides the Hospital with two five-year renewal options at the end of each term. Monthly payments to the Hospital include a fixed monthly fee of approximately $149,000 and a per-patient-per-day fee of $238. The monthly fee will increase by 2.75% per year.

The Master Agreement requires the Hospital to comply with certain financial covenants regarding levels of cash available for operations. If the Hospital fails to meet such covenants they are required to provide the health care provider with an action plan related to maintaining certain levels of cash available for operations. If the Hospital falls below 20 days cash on hand the health care provider may terminate the agreements, in which case the term loan will be due immediately. The Hospital obtained a waiver of this covenant through October 1, 2017.

6. Pension Plan

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

The Hospital recognizes the funded status (i.e., the difference between the fair value of Plan assets and the projected benefit obligation) of the Plan in its balance sheet.

Net unrecognized actuarial losses at the reporting date will be subsequently recognized in the future as net periodic pension credit pursuant to the Hospital's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension credit in the same periods will be recognized as a component of unrestricted net assets.

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic pension cost. The increase in the unrestricted net assets represents the pension liability adjustment of $5,955,528:

	2016	2015
Unrecognized actuarial loss	$ (36,254,596)	$ (30,299,068)

The following is 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:

	2016	2015
Changes in benefit obligation:		
Projected benefit obligation, beginning of year	$ 85,139,554	$ 81,645,368
Service cost	663,328	552,032
Interest cost	3,459,467	3,705,453
Benefits paid	(4,262,299)	(6,578,690)
Expenses paid	(440,662)	(636,897)
Actuarial losses	8,092,916	6,452,288
Projected benefit obligation, end of year	$ 92,652,304	$ 85,139,554
Changes in Plan assets:		
Fair value of Plan assets, beginning of year	$ 54,683,948	$ 64,415,767
Contributions	535,464	-
Actual return on Plan assets	5,496,287	(2,516,232)
Benefits paid	(4,262,299)	(6,578,690)
Expenses paid	(440,662)	(636,897)
Fair value of Plan assets, end of year	$ 56,012,738	$ 54,683,948
Funded status of the Plan	$ (36,639,566)	$ (30,455,606)
Components of net periodic pension credit:		
Service cost	$ 663,328	$ 552,032
Interest cost	3,459,467	3,705,452
Expected return on plan assets	(4,033,066)	(4,704,119)
Net amortization and deferral of actuarial loss	852,655	435,860
Net periodic pension credit	$ 942,384	$ (10,775)

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

	2016	2015
Discount rate used for net periodic pension credit	4.15 %	4.45 %
Discount rate used for projected benefit obligation	3.50	4.15
Expected long-term rate of return on plan assets	7.50	7.50
Rate of compensation increase	N/A	N/A

The accumulated benefit obligation at September 30, 2016 and 2015 was $92,652,304 and $85,139,554, respectively.

The actuarial losses in 2016 and 2015 are primarily attributed to a decrease in the discount rate and change in the mortality table.

Plan Assets

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

The Hospital's pension plan weighted-average allocations at September 30, 2016 and 2015, by asset category, are as follows:

	2016	2015
Cash and cash equivalents	12.0 %	4.1 %
Government bonds	12.1	12.5
Corporate bonds	7.7	7.4
Equities	39.2	58.4
Alternative investments	29.0	17.6
Total	100.0 %	100.0 %

The target allocation for the Plan's assets is 55-75% equity securities and 25-45% fixed income.

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

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 6,736,377	$ -	$ -	$ 6,736,377
Fixed income:				
Government bonds	-	6,749,729	-	6,749,729
Corporate bonds	-	4,293,067	-	4,293,067
Equities:				
International	10,528,746	-	-	10,528,746
Mid cap	3,070,525	-	-	3,070,525
Large cap	8,372,970	-	-	8,372,970
Total assets in the fair value hierarchy	$ 28,708,618	$ 11,042,796	$ -	39,751,414
Investments measured at net asset value (a)				16,261,324
Investments at fair value				$ 56,012,738

	2015			
Cash and cash equivalents	$ 2,221,137	$ -	$ -	$ 2,221,137
Fixed income:				
Government bonds	-	6,808,588	-	6,808,588
Corporate bonds	-	4,019,003	-	4,019,003
Equities:				
International	10,151,161	-	-	10,151,161
Mid cap	2,611,160	-	-	2,611,160
Large cap	19,382,959	-	-	19,382,959
Total assets in the fair value hierarchy	$ 34,366,417	$ 10,827,591	$ -	45,194,008
Investments measured at net asset value (a)				9,489,940
Investments at fair value				$ 54,683,948

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

Investments Measured Using NAV per Share Practical Expedient

The following table summarizes investments measured at fair value based on NAV per share as of September 30, 2016 and 2015, respectively.

	September 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Beach Point Total Return Offshore Fund II Ltd.	$ 2,205,973	N/A	Quarterly	60 days
Boyd Watterson GSA Fund, LP	5,611,029	N/A	N/A	N/A
LS Real Estate Recovery Trust	438,049	N/A	Daily	N/A
Omega Overseas Credit Opportunities Fund, Ltd.	2,168,163	N/A	Annually	60 days
Omega Overseas Partners Ltd.	4,838,110	N/A	Annually	45 days
Corrum Capital Global Credit Opportunities Fund, LP	1,000,000	N/A	N/A	N/A
	September 30, 2015			
Beach Point Total Return Offshore Fund II Ltd.	$ 2,082,841	N/A	Quarterly	60 days
LS Real Estate Recovery Trust	493,993	N/A	Daily	N/A
Omega Overseas Credit Opportunities Fund, Ltd.	2,260,602	N/A	Annually	60 days
Omega Overseas Partners Ltd.	4,652,504	N/A	Annually	45 days

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

Contributions

The Hospital expects to contribute $3,433,393 to the Plan in 2017.

Estimated Future Benefit Payments

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

Fiscal years:	
2017	$ 3,998,000
2018	4,440,000
2019	4,983,000
2020	5,045,000
2021	4,912,000
2022-2026	25,726,000
Total	$ 49,104,000

7. Transactions with Affiliates

Net amounts expected to be collected from (paid to) affiliated entities are as follows:

	2016	2015
Milford Medical Lab, Inc.	$ 464,884	$ 203,235
Milford Health and Medical, Inc.	82,308	671,738
Home Care Plus, Inc.	36,661	36,115
Milford Hospital Foundation, Inc.	(4,762)	(4,694)
Torry Corporation	(20,025)	(114,597)
Milford Health Care Services, Inc.	1,450	1,450
Seaside Indemnity Alliance Company	118,115	325,140
Total	$ 678,631	$ 1,118,387

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. $433,344 and $455,242 in 2016 and 2015, respectively, for those services. Amounts due from other affiliated entities are the result of allocating joint general and administrative costs incurred by the Hospital. The amounts transferred to affiliates during the years ended September 30, 2016 and 2015, were $1,938,464 and $2,487,585, 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 was a one-third owner of the captive with two other local hospitals that each held one-third ownership. The Hospital's insurance coverage was $1,500,000 per occurrence and $3,000,000 in the aggregate. The Hospital had an excess layer of indemnity coverage of $25,000,000 per occurrence and $25,000,000 in the aggregate.

Effective July 1, 2013, the Parent sold its equity interest in HAIC and the Hospital became insured by Seaside Indemnity Alliance Company ("SIAC"). SIAC was incorporated on May 10, 2013, under the laws of the Cayman Islands and is a wholly owned subsidiary of the Parent. SIAC's activities are the direct insurance of the Hospital's professional and comprehensive general liability risks together with the physician professional liability risks of certain of the Hospital's affiliated physicians.

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

SIAC will assume risks previously insured by HAIC during the period 2004 to 2013 via a loss portfolio transfer. The coverage limits in relation to these prior periods remain the same.

Management accrues its best estimate of losses as they occur. Accordingly, management has recorded a liability of approximately $432,000 and $558,000 at September 30, 2016 and 2015, respectively, for claims incurred but not reported which is included in accrued pension and other liabilities on the accompanying balance sheets. This liability has been discounted using a 3% discount rate at September 30, 2016 and 2015.

Malpractice claims have been asserted against the Hospital by various claimants. These claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents that have occurred through September 30, 2016, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. In management's opinion, the outcome of these matters will not have a material effect on the Hospital's financial statements.

9. Commitments and Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. In 2017, the President of the United States signed an executive order stating the administrations intention to repeal the Affordable Care Act. The significance of the impact of the executive order and any potential future changes to the Affordable Care Act on the Hospital's operations, if any, are not presently determinable.

Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statues and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements; however, the possible future financial effects of this matter on the Hospital, if any, are not presently determinable.

10. Functional Expenses

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

	2016	2015
Healthcare services	$ 58,984,000	$ 60,315,000
General and administrative	8,315,000	8,351,000
	$ 67,299,000	$ 68,666,000

11. Other Operating Revenues

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

	2016	2015
Inpatient Rehabilitation Unit income, net	$ 5,273,881	$ 2,898,446
Electronic health records incentive payments	(127,120)	307,348
Cafeteria	212,594	199,846
Pharmacy	59,690	129,226
Other	505,529	32,941
Total	$ 5,924,574	$ 3,567,807

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act. The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology.

In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue from Medicare and Medicaid for the years ended September 30, 2016 and 2015, was $(127,120) and $307,348, respectively, and is included in other operating revenues. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit.