

Day Kimball Healthcare, Inc.

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2014 and 2013



Saslow Lufkin & Buggy, LLP
Accounting · Tax · Advisory

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Independent Auditors' Report

To the Board of Directors of
Day Kimball Healthcare, Inc.:

We have audited the accompanying consolidated balance sheets of Day Kimball Healthcare, Inc. (the Hospital) a Connecticut not-for-profit, non-stock corporation, as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 Hospital'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 consolidated financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Day Kimball Healthcare, Inc. as of September 30, 2014 and 2013, and its consolidated operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.





Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Hospital experienced an overall consolidated loss of \$5.4 million and \$8.5 million during the years ended September 30, 2014 and 2013, respectively. In addition, the Hospital incurred a \$6.1 million charge against unrestricted net assets to increase its pension liability during the year ended September 30, 2014. As of September 30, 2014, the Hospital has a \$1.6 million deficit in its unrestricted net assets. In addition, the Hospital's days cash on hand calculation as of September 30, 2014 is approximately 52 days. At the March 31 and September 30, 2015 measurement dates, the days cash on hand requirement is 55 days. If the Hospital fails both of these testing periods during fiscal year 2015, the bondholder has the ability to call the debt. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual entities. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saslow Lufkin & Buggy, LLP

January 16, 2015

Day Kimball Healthcare, Inc.
Consolidated Balance Sheets
September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,060,282	\$ 6,386,290
Short-term investments	3,023,883	2,705,332
Accounts receivable (less allowance for doubtful accounts of \$3,058,162 in 2014 and \$2,861,516 in 2013)	14,709,950	14,973,355
Accounts receivable, other	905,146	907,691
Pledges receivable, current portion	359,404	554,536
Inventories and prepaid expenses	2,751,354	2,836,495
Assets whose use is limited:		
Current portion of funds held under bond indenture agreement	988,196	7,166,565
Total current assets	29,798,215	35,530,264
Assets whose use is limited:		
Funds held under bond indenture agreement	2,340,811	2,340,577
Pledges receivable, net of current portion	209,803	691,839
Funds held in trust by others	4,675,704	4,538,749
Donor restricted investments	2,301,251	3,249,762
Board restricted investments	10,555,721	10,511,560
	20,083,290	21,332,487
Investments in real estate	222,619	236,356
Deferred financing costs, net	1,274,535	1,318,867
Property, plant and equipment, net	48,567,028	41,725,187
	\$ 99,945,687	\$ 100,143,161
Total assets	\$ 99,945,687	\$ 100,143,161
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ 1,070,205	\$ 1,496,609
Accounts payable	12,344,179	9,938,871
Salaries and wages payable	2,553,878	1,910,817
Employee benefits payable	4,970,881	4,142,097
Due to third-party payers	734,249	1,067,507
Other liabilities	2,663,660	2,855,141
Current portion of accrued pension obligation	4,221,340	3,458,093
Current portion of long-term debt	1,866,750	804,612
Total current liabilities	30,425,142	25,673,747
Long-term debt, less current portion	29,561,646	29,718,688
Accrued pension obligation, less current portion	34,030,148	27,623,323
Total liabilities	94,016,936	83,015,758
Net assets:		
Unrestricted net assets (deficit)	(1,617,411)	8,092,517
Temporarily restricted	3,198,536	4,729,199
Permanently restricted	4,347,626	4,305,687
Total net assets	5,928,751	17,127,403
Total liabilities and net assets	\$ 99,945,687	\$ 100,143,161

The accompanying notes are an integral part of these consolidated financial statements.

Day Kimball Healthcare, Inc.
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Net patient service revenues	\$ 131,546,377	\$ 129,595,703
Provision for bad debts	(3,589,475)	(3,254,039)
Net patient service revenues, provision for bad debts	127,956,902	126,341,664
Other operating revenues	6,294,825	6,054,956
Grant income	864,217	952,947
Assets released from restrictions for operations	542,491	1,631,364
Total operating revenues	135,658,435	134,980,931
Operating expenses:		
Salaries and wages	69,912,447	69,863,889
Employee benefits	20,769,667	20,590,079
Professional fees	12,883,126	15,211,305
Supplies and other	31,389,219	32,496,720
Interest	1,343,831	952,190
Depreciation and amortization	5,278,929	4,808,113
Total operating expenses	141,577,219	143,922,296
Loss from operations	(5,918,784)	(8,941,365)
Non-operating gains (losses)		
Income from board designated investments, net	405,541	878,011
Income from trusts held by others	113,623	110,586
Loss on debt extinguishment	-	(558,062)
Total non-operating gains	519,164	430,535
Deficiency of revenues over expenses	\$ (5,399,620)	\$ (8,510,830)

The accompanying notes are an integral part of these consolidated financial statements.

Day Kimball Healthcare, Inc.
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Deficiency of revenues over expenses	\$ (5,399,620)	\$ (8,510,830)
Pension related changes other than net periodic pension cost	(6,094,072)	9,148,079
Change in unrealized gains on investments	470,390	252,602
Assets released from restrictions for property, plant and equipment	<u>1,313,374</u>	<u>1,059,307</u>
Change in unrestricted net assets	<u>(9,709,928)</u>	<u>1,949,158</u>
Temporarily restricted net assets:		
Contributions	230,186	975,373
Change in funds held in trust by others	95,016	129,714
Assets released from restrictions	<u>(1,855,865)</u>	<u>(2,690,671)</u>
Change in temporarily restricted net assets	<u>(1,530,663)</u>	<u>(1,585,584)</u>
Permanently restricted net assets:		
Change in funds held in trust by others	<u>41,939</u>	<u>98,792</u>
Change in permanently restricted net assets	<u>41,939</u>	<u>98,792</u>
Change in net assets	(11,198,652)	462,366
Net assets at beginning of year	<u>17,127,403</u>	<u>16,665,037</u>
Net assets at end of year	<u><u>\$ 5,928,751</u></u>	<u><u>\$ 17,127,403</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Day Kimball Healthcare, Inc.
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Operating activities and non-operating gains:		
Change in net assets	\$ (11,198,652)	\$ 462,366
Adjustments to reconcile change in net assets to net cash provided by operating activities and non-operating gains:		
Depreciation and amortization	5,278,929	4,808,113
Provision for bad debts	3,589,475	3,254,039
Realized gains from sales of investments	(235,139)	(676,242)
Change in funds held in trust by others	(136,955)	(228,506)
Pension related changes other than net periodic pension cost	6,094,072	(9,148,079)
Restricted contributions	(230,186)	(975,373)
Changes in operating assets and liabilities:		
Accounts receivable	(3,326,070)	(3,550,903)
Accounts receivable, other	2,545	118,498
Pledges receivable	677,168	420,192
Inventories and prepaid expenses	85,141	(260,744)
Accounts payable	2,405,308	2,304,333
Salaries and wages payable	643,061	156,236
Employee benefits payable	828,784	59,699
Due to third-party payers	(333,258)	3,712,616
Accrued pension obligation	1,076,000	1,635,662
Other liabilities	(191,481)	668,328
Net cash provided by operating activities and non-operating gains	5,028,742	2,760,235
Investing activities:		
Additions to property, plant and equipment	(10,728,063)	(8,928,124)
Sales of investments, net	1,291,328	2,913,164
Change in funds held under bond agreements	6,178,135	(7,436,745)
Net cash used in investing activities	(3,258,600)	(13,451,705)
Financing activities:		
Proceeds from restricted contributions	230,186	975,373
Payment of deferred financing costs	-	(1,329,950)
Borrowings on CHEFA Series B debt	-	30,330,000
Borrowings on Cardinal note	1,150,000	193,300
(Payments) borrowings on line of credit	(426,404)	916,609
Principal payments on long-term debt	(1,315,394)	(17,284,874)
Payments on leases	(734,538)	-
Net cash (used in) provided by financing activities	(1,096,150)	13,800,458
Change in cash and cash equivalents	673,992	3,108,988
Cash and cash equivalents at beginning of year	6,386,290	3,277,302
Cash and cash equivalents at end of year	\$ 7,060,282	\$ 6,386,290

The accompanying notes are an integral part of these consolidated financial statements.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 1 - General

Organization - Day Kimball Healthcare, Inc., (d/b/a Day Kimball Hospital) (the Hospital) is a voluntary, tax-exempt association incorporated under the General Statutes of the State of Connecticut. The Hospital has three subsidiaries, Day Kimball Homemakers, Inc. (Homemakers), Physician Services of Northeast Connecticut, LLC (Physician Services) and Day Kimball Medical Group, Inc. (DKMG).

The Hospital provides inpatient, outpatient and emergency care services for residents of northeastern Connecticut. Homemakers provides homemaker and chore companion services to residents of northeastern Connecticut. Physician Services provided primary care and surgical services in northeastern Connecticut. DKMG was established during 2012, and in 2013, substantially all of the primary care and surgical services operations within Physician Services and the Hospital was transferred to DKMG. During 2014, Physician Services was dissolved, and any remaining balances were transferred to the Hospital.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of the Hospital and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Operating Results and Going Concern Discussions - During the years ended September 30, 2014 and 2013, the Hospital experienced an overall consolidated loss of \$5.4 million and \$8.5 million, respectively. These amounts include losses from operations of \$5.9 million and \$8.9 million during 2014 and 2013, respectively. The Hospital has a \$1.6 million deficit in unrestricted net assets as September 30, 2014. The Hospital's days cash on hand as of September 30, 2014 are approximately 52 days, and the Hospital is required to meet its bond covenant days cash on hand measurement of 55 days as of March 31, 2015 and September 30, 2015. If the Hospital fails both of these testing periods during fiscal year 2015, the bondholder has the ability to call the debt. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern.

Management is in the process of developing a financial improvement plan, which includes a potential strategic partnership with another healthcare entity, and continuing discussions with the bondholder regarding the debt covenants as discussed in Note 7. Management believes, however, that the Hospital will be able to continue operations through fiscal year 2015, and into the future, through continued profit and loss improvements. If needed, the Hospital has the ability to meet its estimated fiscal year 2015 cash flow needs through the use of short-term and Board restricted investments, which approximate \$13.5 million, in addition to its cash and cash equivalents. The use of these additional funds, however, have the potential to cause the Hospital to fail its days cash on hand bond covenant, as described above and in Note 7, which could result in significant impact to the Hospital depending on the remedies determined by the bondholder. The Board of Directors has approved a fiscal year 2015 budget whereby the Hospital will generate an estimated additional \$1.2 million in cash from operations in order to meet its days cash on hand bond covenant measurement of 55 days for the testing periods ended March 31, 2015 and September 30, 2015. Management continues to identify opportunities to further improve operations.

Reclassifications - Certain 2013 amounts have been reclassified to conform with the 2014 consolidated financial statement presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from those estimates.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. Cash equivalents include money market funds of \$1,516,371 and \$2,404,688 as of September 30, 2014 and 2013, respectively. In general, the Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. The FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. It is the Hospital's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Hospital maintains cash balances in excess of the FDIC insurance limit.

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its one dollar per share value, it is possible that a money market fund's value can decrease below one dollar per share.

Inventories - Inventories, used in general operations of the Hospital, are stated using the first-in first-out method, or last price paid.

Deferred Financing Costs - Deferred financing costs have been recorded as an asset and are being amortized using the effective interest method over the term of the related financing agreements. Amortization expense on deferred financing costs was \$44,332 and \$69,281 for the years ended September 30, 2014 and 2013, respectively.

Property, Plant and Equipment - Property, plant and equipment is recorded on the basis of cost or, if received as a donation or bequest, at the fair market value on the date received. The Hospital provides for the depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives.

Investments - The Hospital's investment portfolio is classified as available for sale, with unrealized gains and losses excluded from deficiency of revenues over expenses, unless the losses are deemed to be other than temporary. Investments in equity securities with readily determinable fair values, and all mutual funds, are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the deficiency of revenues over expenses, unless the income or loss is restricted by donor or law. The investment return is comprised of operating interest, dividends and realized gains and losses on unrestricted investments, which are included within other operating revenues and non-operating gains on the consolidated statements of operations and changes in net assets. Investment income generated by funds held in trust by others is included within non-operating gains in the consolidated statements of operations and changes in net assets.

Certificates of Deposit - The Hospital holds non-negotiable certificates of deposit with maturities of greater than three months, which are included within short-term investments on the accompanying consolidated balance sheets. The certificates of deposit are carried at amortized cost, which approximates their fair value. The certificates of deposit are subject to early withdrawal penalties.

Other Than Temporary Impairments on Investments - The Hospital accounts for other than temporary impairments in accordance with certain provisions of FASB ASC 320, "*Investments - Debt and Equity Securities*", and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2014 or 2013.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Professional and General Liability Insurance - The Hospital maintains claims-made professional and general liability policies. GAAP requires that health care entities present insurance claim liabilities on a gross basis, and not net of expected insurance recoveries. Accordingly, the Hospital has recorded \$681,157 and \$587,030, which is included in accounts receivable, other and other liabilities in the accompanying consolidated balance sheets as of September 30, 2014 and 2013, respectively. The balances represent the Hospital's estimate of liabilities and recoveries for certain professional and general liability claims.

Additionally, the Hospital has recorded a liability of \$500,000 related to its deductible obligations under the workers' compensation policy, which is included in employee benefits payable on the balance sheets as of September 30, 2014.

In addition, the Hospital has recorded a reserve for estimated medical malpractice claims incurred but not reported. The Hospital had initially utilized the services of an independent consulting actuary to estimate the reserve for estimated incurred but not reported medical malpractice claims; however, has subsequently estimated this liability based on internal reporting.

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 frame or purpose, and are included within assets whose use is limited. Temporarily restricted net assets are available primarily for health care services, including cancer and pediatric programs and capital replacement.

Permanently restricted net assets consist of the Hospital's permanently restricted endowments, which are included in donor restricted investments and in funds held in trusts by others. Permanently restricted endowments are investments to be held in perpetuity, the income from which is expendable to support health care services. The income from permanently restricted funds held in trust by others is expendable to support health care services.

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 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

(Deficiency) of Revenues Over Expenses - The consolidated statements of operations and changes in net assets includes deficiency of revenues over expenses. Changes in unrestricted net assets, which are excluded from deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments for other than trading securities, assets released from restrictions for the purchase of property, plant and equipment and certain changes in pension liabilities.

Non-Operating Gains (Losses) - Activities other than in connection with providing health care services are considered to be non-operating. Non-operating gains consist primarily of the net income on board restricted investment funds, income from funds held in trust by others, and loss on debt extinguishment.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of traditional charity care provided, determined on the basis of cost, was approximately \$233,499 and \$333,464 for the years ended September 30, 2014 and 2013, respectively.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes - The Hospital, Homemakers and DKMG are not-for-profit corporations, as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. Physician Services is a limited liability company and the effect of its tax activities accrue to its sole member, which is the Hospital.

The Hospital accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, “*Income Taxes*”, which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as September 30, 2014 and 2013. As of September 30, 2014 and 2013, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital’s prior three tax years are open and subject to examination by the Internal Revenue Service.

Accounting Pronouncements Adopted - In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, “*Disclosures about Offsetting Assets and Liabilities*”, which was later clarified by ASU 2013-01, “*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*”. This guidance contained new disclosure requirements regarding the nature of an entity’s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance became effective for the Hospital beginning on October 1, 2013, and did not have an impact on its consolidated financial statements.

In October 2012, the FASB issued ASU 2012-05, “*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*”. This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance became effective for the Hospital beginning on October 1, 2013, and did not have a material impact on its consolidated statements of cash flows.

Accounting Pronouncements Pending Adoption - In February 2013, the FASB issued ASU 2013-04, “*Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*”. This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This guidance is effective for the Hospital beginning October 1, 2014, with early adoption permitted. The Hospital has not yet evaluated the impact this guidance may have on its consolidated financial statements.

Subsequent Events - Subsequent events have been evaluated through January 16, 2015, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 3 - Revenues from Services to Patients and Charity Care

The following summarizes net patient service revenues for the year ended September 30, 2014:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Medical Group</u>	<u>Physician Services</u>	<u>Total</u>
Gross revenues from services to patients	\$ 224,868,002	\$ 2,241,780	\$ 35,463,546	\$ 40,748	\$ 262,614,076
Deductions:					
Allowances	114,704,856	-	14,253,227	30,841	128,988,924
Connecticut uncompensated care pool	1,542,484	-	-	-	1,542,484
Charity care	522,721	-	13,570	-	536,291
Total deductions	<u>116,770,061</u>	<u>-</u>	<u>14,266,797</u>	<u>30,841</u>	<u>131,067,699</u>
Net revenues from services to patients	<u>\$ 108,097,941</u>	<u>\$ 2,241,780</u>	<u>\$ 21,196,749</u>	<u>\$ 9,907</u>	<u>\$ 131,546,377</u>

The following summarizes net patient service revenues for the year ended September 30, 2013:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Medical Group</u>	<u>Physician Services</u>	<u>Total</u>
Gross revenues from services to patients	\$ 216,749,429	\$ 2,079,680	\$ 25,434,978	\$ 7,409,801	\$ 251,673,888
Deductions:					
Allowances	107,878,972	-	10,151,428	2,911,988	120,942,388
Connecticut uncompensated care pool	376,984	-	-	-	376,984
Charity care	703,850	-	54,963	-	758,813
Total deductions	<u>108,959,806</u>	<u>-</u>	<u>10,206,391</u>	<u>2,911,988</u>	<u>122,078,185</u>
Net revenues from services to patients	<u>\$ 107,789,623</u>	<u>\$ 2,079,680</u>	<u>\$ 15,228,587</u>	<u>\$ 4,497,813</u>	<u>\$ 129,595,703</u>

In addition to the net revenues from services to patients above, during 2014 and 2013, the Hospital recognized revenue for certain incentive payments from Medicare and Medicaid related to the adoption of electronic medical records. The revenue recognized for these incentive payments amounted to \$689,541 and \$1,425,422 for the years ending September 30, 2014 and 2013, respectively, which is recorded within other operating revenues on the accompanying consolidated statements of operations and changes in net assets.

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most third-party payers are different from established billing rates of the Hospital, and these differences are accounted for as contractual allowances.

Net patient service revenue is reported at the estimated net realizable amounts from third party payers, patients, and others for services rendered. The Hospital has agreements with third party payers that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments, and discounted charges, including estimated retroactive settlements under payment agreements with third-party payers.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 3 - Revenues from Services to Patients and Charity Care (continued)

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue based on its discounted rates. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient accounts receivable are based on gross charges and stated at net realizable value. Accounts receivable are reduced by an allowance for contractual adjustments, based on expected payment rates from payers under current reimbursement methodologies, and also 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 payer sources of revenue to estimate appropriate allowance for doubtful accounts and provision for bad debts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and 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 (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers 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 co-payment 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.

For uninsured patients that do not qualify for financial assistance, the Hospital offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Hospital's allowance for doubtful accounts for self-pay patients was approximately 68% and 65% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively. The Hospital's self-pay write-offs totaled approximately \$3.1 million and \$3.5 million during 2014 and 2013, respectively. The Hospital did not change its charity care or financial assistance policy during 2014 or 2013. The Hospital does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

It is an inherent part of the Hospital's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenues. Patients who would otherwise qualify for charity care but who do not provide adequate information would be characterized as bad debt and included in the provision for bad debts.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
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Note 3 - Revenues from Services to Patients and Charity Care (continued)

During 2014, approximately 31% of net revenues from services to patients were received under the Medicare program, 18% under the Medicaid and town programs and 23% from Blue Cross. During 2013, approximately 30% of net revenues from services to patients were received under the Medicare program, 16% under the Medicaid and town programs and 22% from Blue Cross.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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 inquiries are outstanding, 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.

Note 4 - Investments

The Hospital has investments whose use is limited, which are carried on the consolidated balance sheets within funds held in trust by others, funds held under bond indenture agreements, funds held under bond reserve fund, donor restricted investments and board restricted investments. The composition of these assets consists primarily of cash, fixed income and equity investments. The funds held in trust by others were \$4,675,704 and \$4,538,749 as of September 30, 2014 and 2013, respectively.

The funds held under bond indenture agreements whose use is limited are \$3,329,007 and \$9,507,142 as of September 30, 2014 and 2013, respectively.

Short-term investments, donor restricted investments and board restricted investments, as of September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 1,516,371	\$ 2,404,688
Certificates of deposit	125,000	436,366
Equities	5,602,459	5,083,233
Exchange traded funds	178,303	165,322
Mutual funds - fixed income	5,929,541	5,444,816
Mutual funds - equities	1,383,964	1,793,687
Mutual funds - real estate	70,437	78,190
Alternative investment funds	1,074,780	1,060,352
	<u>15,880,855</u>	<u>16,466,654</u>
Less: Donor restricted investments	2,301,251	3,249,762
Less: Board restricted investments	10,555,721	10,511,560
	<u>3,023,883</u>	<u>2,705,332</u>
Short-term investments	<u>\$ 3,023,883</u>	<u>\$ 2,705,332</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 4 - Investments (continued)

Investment income, which is included within other operating revenues and non-operating gains (losses), is comprised of the following for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Income:		
Realized gains on sales of investments	\$ 235,139	\$ 676,242
Interest income	54,517	133,049
Non-operating interest and dividend income	<u>315,086</u>	<u>344,112</u>
 Total investment return	 <u>\$ 604,742</u>	 <u>\$ 1,153,403</u>
 Other changes in net assets:		
Unrealized gains on investments	<u>\$ 470,390</u>	<u>\$ 252,602</u>

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2014 and 2013:

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
September 30, 2014						
Equities	\$ 695,013	\$ (74,741)	\$ 42,557	\$ (11,269)	\$ 737,570	\$ (86,010)
Mutual funds	1,504,157	(17,718)	2,831,668	(126,241)	4,335,825	(143,959)
Other securities	17,156	(948)	19,713	(300)	36,869	(1,248)
Total	<u>\$ 2,216,326</u>	<u>\$ (93,407)</u>	<u>\$ 2,893,938</u>	<u>\$ (137,810)</u>	<u>\$ 5,110,264</u>	<u>\$ (231,217)</u>
	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
September 30, 2013						
Equities	\$ 645,345	\$ (30,093)	\$ 11,972	\$ (8,640)	\$ 657,317	\$ (38,733)
Mutual funds	5,734,311	(203,831)	621,588	(71,271)	6,355,899	(275,102)
Other securities	13,009	(923)	15,098	(913)	28,107	(1,836)
Total	<u>\$ 6,392,665</u>	<u>\$ (234,847)</u>	<u>\$ 648,658</u>	<u>\$ (80,824)</u>	<u>\$ 7,041,323</u>	<u>\$ (315,671)</u>

In 2014 and 2013, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

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Notes to the Consolidated Financial Statements
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Note 4 - Investments (continued)

During 2013, the Hospital invested in three alternative investment funds: Partners Group Private Equity LLC (Partners Fund), FS Energy & Power Fund (FS Energy Fund), and Corporate Property Associates 17 Global Incorporated (CPA17 Fund). These funds have a total market value of \$1,074,780 and \$1,060,352 as of September 30, 2014 and 2013, respectively. The Hospital's investment in these funds is recorded at fair value based upon each fund's Net Asset Value (NAV), with the change in the fair value of the investment in each fund reported in other operating revenues. The Hospital's NAV in each fund is based on certain unaudited financial information as of September 30, 2014 and 2013. The funds are audited annually at December 31, the end of their fiscal year.

The funds invested in by the Hospital are not traded on an exchange and do not provide the Hospital with the ability to redeem shares on a daily basis. Each fund's NAV serves as the basis for the investor's periodic (i.e. monthly or quarterly) subscription and redemption activity pursuant to the terms of each fund's governing documents. These funds may not have the liquidity to provide for redemptions to investors. Accordingly, the investor must wait until the fund can sell its investments in order to convert the fair value of the investment into cash, which can then be distributed in accordance with the fund's governing documents.

In accordance with fund subscription agreements, the Hospital is required to make minimum capital contributions upon the initial subscription, which increases the Hospital's investment in the respective fund. The Hospital's investment in each fund is restricted pursuant to the respective subscription agreement, and may only be withdrawn at certain points in time.

During 2014 and 2013, the Hospital contributed total capital of \$150,000 and \$1,027,000, respectively, to these alternative investment funds in relation to its initial investment. The subscription agreements for these funds do not require additional capital contributions beyond the initial investment. As of September 30, 2014, there are no unfunded capital commitments due. Additionally, the net income or loss earned by the funds is allocated to each investor based on their respective ownership percentage of the fund, and is subsequently reinvested. As of September 30, 2014 and 2013, the Hospital recorded net appreciation of \$14,428 and \$33,352, respectively, related to its ownership in these funds, which is included in change in unrealized.

Note 5 - Fair Value Measurements

FASB ASC 820-10, "*Fair Value Measurements and Disclosures*", provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Day Kimball Healthcare, Inc.
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Note 5 - Fair Value Measurements (continued)

If the asset or liability has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value, as of September 30, 2014, by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds and certificates of deposit	\$ 1,641,371	\$ -	\$ -	\$ 1,641,371
Equities:				
Small cap	734,612	-	-	734,612
Mid cap	457,443	-	-	457,443
Large cap	4,410,404	-	-	4,410,404
Exchange traded funds	178,303	-	-	178,303
Mutual funds - fixed income	5,929,541	-	-	5,929,541
Mutual funds - equities	1,383,964	-	-	1,383,964
Mutual funds - real estate	70,437	-	-	70,437
Alternative investment funds	-	1,074,780	-	1,074,780
	<u>14,806,075</u>	<u>1,074,780</u>	-	<u>15,880,855</u>
Funds held under bond agreements	3,329,007	-	-	3,329,007
Funds held in trust by others	<u>-</u>	<u>-</u>	<u>4,675,704</u>	<u>4,675,704</u>
Total	<u>\$ 18,135,082</u>	<u>\$ 1,074,780</u>	<u>\$ 4,675,704</u>	<u>\$ 23,885,566</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value, as of September 30, 2013, by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds and certificates of deposit	\$ 2,841,054	\$ -	\$ -	\$ 2,841,054
Equities:				
Small cap	736,085	-	-	736,085
Mid cap	480,150	-	-	480,150
Large cap	3,866,998	-	-	3,866,998
Exchange traded funds	165,322	-	-	165,322
Mutual funds - fixed income	5,444,816	-	-	5,444,816
Mutual funds - equities	1,793,687	-	-	1,793,687
Mutual funds - real estate	78,190	-	-	78,190
Alternative investment funds	-	1,060,352	-	1,060,352
	<u>15,406,302</u>	<u>1,060,352</u>	-	<u>16,466,654</u>
Funds held under bond agreements	9,507,142	-	-	9,507,142
Funds held in trust by others	-	-	4,538,749	4,538,749
	<u>-</u>	<u>-</u>	<u>4,538,749</u>	<u>4,538,749</u>
Total	<u>\$ 24,913,444</u>	<u>\$ 1,060,352</u>	<u>\$ 4,538,749</u>	<u>\$ 30,512,545</u>

A rollforward of the amounts classified as Level 3 investments within the fair value hierarchy, as of September 30, 2014, is as follows:

	<u>Funds Held in Trust by Others</u>
Balance as of October 1, 2013	\$ 4,538,749
Net change in market value	250,578
Distributions	(113,623)
	<u>4,675,704</u>
Balance as of September 30, 2014	<u>\$ 4,675,704</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
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Note 5 - Fair Value Measurements (continued)

A rollforward of the amounts classified as Level 3 investments within the fair value hierarchy, as of September 30, 2013, is as follows:

		<u>Funds Held in Trust by Others</u>
Balance as of October 1, 2012	\$	4,310,243
Net change in market value		339,092
Distributions		<u>(110,586)</u>
 Balance as of September 30, 2013	 \$	 <u><u>4,538,749</u></u>

The Hospital's valuation methodologies used to measure financial assets at fair value are outlined below:

Where applicable, the Hospital uses quoted prices in active markets for identical assets to determine fair value (Level 1 inputs). This pricing methodology applies to exchange traded funds, equities, money market funds and mutual funds.

If quoted prices in active markets for identical assets are not available, then quoted prices for similar assets, quoted prices for identical assets in inactive markets or inputs other than quoted prices that are observable for the asset, either directly or indirectly, will be used to determine fair value (Level 2 inputs).

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. The Hospital's funds held in trust by others are classified within the Level 3 classification. The value of the Hospital's assets is based on total fund values and the Hospital's corresponding beneficiary percentage.

The alternative investment funds, which invest in various debt and equity securities, including money market funds, are not readily liquid and may place certain limited restrictions on the timing and amount of investor withdrawals. These funds have been valued using the NAVs as determined by the fund managers, which are based on the fair value of underlying assets less their liabilities. The Hospital's fair values based on the NAVs are computed using the Hospital's ownership percentage multiplied by the NAVs, as computed by the fund managers on September 30, 2014 and 2013.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. There were no significant transfers in or out of levels 1, 2, or 3 during 2014 and 2013.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
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Note 5 - Fair Value Measurements (continued)

As of September 30, 2014 and 2013, the funds held under bond agreements include money market funds. As of September 30, 2014 and 2013, the Hospital's other financial instruments included certificates of deposit, accounts receivable, accounts payable and accrued expenses, estimated third-party payer settlements and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Note 6 - Net Assets

Net assets that are temporarily restricted, as of September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Beneficial trusts	\$ 1,817,426	\$ 1,722,410
Pledges restricted for capital improvements	569,207	1,246,375
Funds restricted for capital improvements	10,493	629,440
Funds restricted for health care services	<u>801,410</u>	<u>1,130,974</u>
Total	<u>\$ 3,198,536</u>	<u>\$ 4,729,199</u>

Net assets that are permanently restricted, as of September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Beneficial trusts	\$ 2,858,278	\$ 2,816,339
Endowments held in perpetuity with income restricted for operations	<u>1,489,348</u>	<u>1,489,348</u>
Total	<u>\$ 4,347,626</u>	<u>\$ 4,305,687</u>

The Hospital's endowment and other donor restricted funds consist of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

The Hospital has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital during its annual budgeting process.

The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment policies of the Hospital.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 6 - Net Assets (continued)

Changes in endowment net assets and other donor restricted assets for the year ended September 30, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2013	\$ 10,511,560	\$ 3,006,789	\$ 1,489,348	\$ 15,007,697
Investment return:				
Investment income	315,086	-	-	315,086
Net change in market value	136,955	-	-	136,955
Investment fees	(127,273)	-	-	(127,273)
Contributions	1,313,374	230,186	-	1,543,560
Expenditures	(1,593,981)	(1,855,865)	-	(3,449,846)
Balance at September 30, 2014	<u>\$ 10,555,721</u>	<u>\$ 1,381,110</u>	<u>\$ 1,489,348</u>	<u>\$ 13,426,179</u>

Changes in endowment net assets and other donor restricted assets for the year ended September 30, 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2012	\$ 7,795,145	\$ 4,722,087	\$ 1,489,348	\$ 14,006,580
Investment return:				
Investment income	344,112	-	-	344,112
Net change in market value	833,869	-	-	833,869
Investment fees	(112,027)	-	-	(112,027)
Contributions	1,728,042	975,373	-	2,703,415
Expenditures	(77,581)	(2,690,671)	-	(2,768,252)
Balance at September 30, 2013	<u>\$ 10,511,560</u>	<u>\$ 3,006,789</u>	<u>\$ 1,489,348</u>	<u>\$ 15,007,697</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2014 and 2013, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters - The Hospital's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Spending Policy - During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Hospital's board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
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Note 6 - Net Assets (continued)

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 7 - Long-Term Debt and Line of Credit

On July 1, 2013 the Hospital, Homemakers and DKMG (collectively, the Series B Obligated Group) entered into a financing arrangement with the State of Connecticut Health and Educational Facilities Authority (CHEFA) for the financing of an emergency department expansion and facility renovation project, and to refinance the Hospital's existing CHEFA Series A Bonds and bank debt. Under the arrangement, \$30,330,000 of Series B, fixed rate, revenue bonds were sold with an average interest rate of approximately 4.5%.

The Series B Bonds mature on July 1, 2023 in the amount \$11,485,000, and July 1, 2043 in the amount of \$18,845,000, and are subject to mandatory redemption prior to maturity by operation of a sinking fund in amounts payable on July 1st each year as set forth in accordance with the trust indenture executed as part of the financing arrangement.

Pursuant to the Series B loan agreements, the Hospital is required to provide amounts sufficient to enable the trustee to pay the principal and interest on the bonds. The borrowings under the Series B revenue bonds are secured by a mortgage of substantially all of the Hospital's assets. The Series B loan agreements provide for covenants for the Series B Obligated Group, including limitations on new indebtedness, a minimum days cash on hand requirement and a minimum debt service coverage ratio requirement of 1.35 to 1.0 beginning on October 1, 2014, and a minimum debt service coverage ratio requirement of 1.0 for fiscal years before that. The debt service coverage ratio calculation excludes various items on the consolidated statement of operations and changes in net assets including the provisions for bad debts, charity care, depreciation and amortization. The minimum days cash on hand requirement is measured semiannually, which as of September 30, 2014 and 2013, was 50 and 40 days, respectively. The minimum required days escalates to 60 as of March 31, 2016, and remains consistent subsequent to that date. The Hospital was in compliance with these covenants for 2014 and 2013.

The Hospital had entered into a financing arrangement with CHEFA under a Trust Indenture for the financing of a facility renovation project. Under the arrangement, \$19,150,000 of Series A, fixed rate, insured revenue bonds (the Series A Bonds), were sold maturing serially from 1996 through 2026 with an average annual interest rate of approximately 5.2%. During 2013, the Series A Bonds were paid off with proceeds from the CHEFA Series B Bonds described above. The Hospital recognized a \$558,062 loss on bond extinguishment related to the remaining deferred financing costs and interest payable at the time of pay off, which is included in non-operating gains (losses) for the year ended September 30, 2013.

On August 26, 2010, the Hospital entered into a Construction Mortgage Note (the Note) with a local bank to finance the construction of a medical office building in Plainfield, Connecticut. Under the terms of the Note, the Hospital was able to borrow up to \$5.0 million during the construction period. Principal payments on the Note began on September 1, 2011, based on a 20-year amortization period, with a final installment of the remaining balance due on August 1, 2021. The Note bore interest at 3.50% above the weekly average yield of United States Treasury Securities (0.17% at September 30, 2012). During 2013, the Note was paid off with proceeds from the CHEFA Series B Bonds described above.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 7 - Long-Term Debt and Line of Credit (continued)

On March 5, 2013, the Hospital entered into an interest free \$204,670 conservation loan with the Connecticut Hospital Association Trust to pay for the cost of various energy conservation improvements. The conservation loan calls for 84 equal monthly principal payments of approximately \$2,483. The Hospital has not imputed interest on this loan, as it would be immaterial to the consolidated financial statements.

The Hospital has a line of credit agreement with Citizens National Bank for \$2.5 million, which matures annually on January 31 and is renewed at the current rate, which was 4.25% as of September 30, 2014 and 2013. The outstanding balance on the line is \$1,070,205 and \$1,496,609 as of September 30, 2014 and 2013, respectively.

On November 1, 2013, the Hospital entered into a note payable with Cardinal Health, Inc. for \$1,150,000, which matures October 1, 2015, and accrues interest at an annual rate of 7%. The balance on this note is \$638,718 as of September 30, 2014.

Interest paid on all outstanding debt during fiscal years 2014 and 2013 amounted to \$1,343,831 and \$952,190, respectively.

During 2014, the Hospital entered into certain capital lease arrangements, with \$1,625,960 capitalized and included in property, plant and equipment, net. As of September 30, 2014, \$1,061,961 remains payable and is included in current and long-term debt on the balance sheet.

Maturities of long-term debt for the five years subsequent to September 30, 2014, and thereafter are as follows:

	<u>CHEFA</u>	<u>Energy Loan</u>	<u>Capital Leases</u>	<u>Cardinal</u>	<u>Total</u>
2015	\$ 805,000	\$ 42,641	\$ 427,527	\$ 591,582	\$ 1,866,750
2016	1,050,000	42,641	634,434	47,136	1,774,211
2017	1,100,000	42,641	-	-	1,142,641
2018	1,155,000	39,794	-	-	1,194,794
2019	1,205,000	-	-	-	1,205,000
Thereafter	24,245,000	-	-	-	24,245,000
Total	<u>\$ 29,560,000</u>	<u>\$ 167,717</u>	<u>\$ 1,061,961</u>	<u>\$ 638,718</u>	<u>\$ 31,428,396</u>

Note 8 - Pension Plans

The Hospital has a defined benefit pension plan (the Plan) covering all employees who have worked at least 1,000 hours during the year. Effective January 1, 2006, the Hospital amended the Plan to exclude all new hires after December 31, 2005. Effective September 30, 2008, the Plan was frozen and the participants are no longer accruing benefits. The benefits were based on years of service and the employee's compensation. The Hospital's funding policy is to contribute amounts sufficient to cover benefits to be paid as required by Employee Retirement Income Security Act funding standards.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Pension Plans (continued)

Significant disclosures relating to the Plan as of September 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 100,806,811	\$ 105,720,480
Interest cost	4,591,572	4,234,518
Actuarial loss (gain)	10,035,408	(5,055,578)
Benefits paid	(4,391,614)	(4,092,609)
Benefit obligations at end of year	<u>\$ 111,042,177</u>	<u>\$ 100,806,811</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 69,725,395	\$ 67,126,647
Actual return on plan assets	5,355,480	4,966,183
Employer contributions	2,101,428	1,725,174
Benefits paid	(4,391,614)	(4,092,609)
Fair value of plan assets at end of year	<u>\$ 72,790,689</u>	<u>\$ 69,725,395</u>
Accrued pension liability:		
Unfunded status	<u>\$ (38,251,488)</u>	<u>\$ (31,081,416)</u>
Components of net periodic benefit cost:		
Interest cost	\$ 4,591,572	\$ 4,234,518
Expected return on plan assets	(4,742,330)	(5,114,051)
Recognized net loss	3,328,186	4,240,369
Net periodic benefit cost	<u>\$ 3,177,428</u>	<u>\$ 3,360,836</u>
Assumptions:		
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.10%	4.65%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost (income):		
Discount rate	4.10%	4.65%
Expected long-term return on plan assets	7.00%	7.00%

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Pension Plans (continued)

Amounts recorded in unrestricted net assets as of September 30, 2014 and 2013, not yet amortized as components of net periodic benefit costs, are as follows:

	2014	2013
Unamortized actuarial loss	\$ 44,043,077	\$ 37,949,005

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2015 is approximately \$3.3 million.

Plan assets are invested in an insurance contract along with other investments. The expected long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and the correlation between the returns of various asset classes.

The asset mix was determined by evaluating the expected return against the Plan's long-term objectives. Performance is monitored on a monthly basis and the portfolio is rebalanced back to target levels to ensure the targets are within range. The investment policy describes which securities are allowed in the portfolios and the financial objectives of the Plan with which the Investment Committee of the Board of Directors oversees. The Investment Committee monitors the investment performance quarterly to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy.

The fair values of the Hospital's pension plan assets by asset category, are as follows, for the year ended September 30, 2014:

	Level 1	Level 2	Level 3	Total
Money market securities	\$ 203,030	\$ -	\$ -	\$ 203,030
Equity securities:				
Small cap	3,593,378	-	-	3,593,378
Mid cap	8,917,379	-	-	8,917,379
Large cap	46,558,472	-	-	46,558,472
Alternative investment fund	-	3,427,612	-	3,427,612
Guaranteed investment contract	-	-	10,090,818	10,090,818
Total	\$ 59,272,259	\$ 3,427,612	\$ 10,090,818	\$ 72,790,689

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Pension Plans (continued)

The fair values of the Hospital's pension plan assets by asset category, are as follows, for the year ended September 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market securities	\$ 1,094,781	\$ -	\$ -	\$ 1,094,781
Equity securities:				
Small cap	3,950,563	-	-	3,950,563
Mid cap	9,488,422	-	-	9,488,422
Large cap	41,853,295	-	-	41,853,295
Alternative investment fund	-	2,060,681	-	2,060,681
Guaranteed investment contract	-	-	11,277,653	11,277,653
Total	<u>\$ 56,387,061</u>	<u>\$ 2,060,681</u>	<u>\$ 11,277,653</u>	<u>\$ 69,725,395</u>

During the year ending September 30, 2014, the value of the guaranteed investment contract decreased for disbursements of \$4,043,797, and increased by \$2,856,962 related to income and Hospital contributions. During the year ending September 30, 2013, the value of the guaranteed investment contract decreased for disbursements of \$4,089,748, and increased by \$1,833,425 related to income and Hospital contributions.

Contributions - The Hospital expects to contribute \$4,221,340 to its pension plan during the fiscal year beginning October 1, 2014.

Estimated future benefit payments - The following benefit payments are expected to be paid as follows:

2015	\$ 4,650,000
2016	\$ 4,935,000
2017	\$ 5,238,000
2018	\$ 5,551,000
2019	\$ 5,855,000
Years 2019-2024	\$ 32,959,000

The Hospital also has established a defined contribution benefit plan, which became effective January 1, 2006. Substantially all full-time employees are eligible to participate in the new plan. Employees may contribute up to 50% of their compensation into the defined contribution plan subject to Internal Revenue Code limitations and the Hospital contributes 3% of each eligible participant's gross earnings. In addition, the Hospital will contribute an additional 3% for participants that are fifty-five years of age or fifty years of age with 10 years of vesting service. Effective January 1, 2014, the Hospital will contribute up to half of a participant's contributions, subject to 3% of the participant's gross earnings. In addition, the Hospital will make one contribution at the end of the calendar year for eligible participants actively employed at that time. The Hospital made employer contributions to the defined contribution plan totaling approximately \$2.7 million and \$1.7 million in 2014 and 2013, respectively. Employees become vested in the Hospital's contributions over three years. The portion of the employer contributions unvested upon termination of an employee are forfeited and used to reduce future contributions made by the Hospital on a dollar-for-dollar basis.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Pension Plans (continued)

The Hospital also has established a 403(b) plan covering all full time and part time employees of the Hospital. Participants may elect to contribute a specific percentage of their compensation in pre-tax deferrals subject to established Internal Revenue Code limitations. Currently, the Hospital does not contribute to this plan.

Note 9 - Operating Leases

The Hospital is party to various operating lease agreements. Future minimum lease payments by fiscal year as of September 30, 2014, are as follows:

	2015	\$ 746,784
	2016	442,419
	2017	139,926
	2018	<u>139,926</u>
Total		<u>\$ 1,469,055</u>

Note 10 - Property, Plant and Equipment

Property, plant and equipment consist of the following, as of September 30, 2014:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Medical Group</u>	<u>Physician Services</u>	<u>Total</u>
Land and land improvements	\$ 3,516,235	\$ -	\$ -	\$ -	\$ 3,516,235
Buildings and improvements	68,651,480	-	-	-	68,651,480
Fixed equipment	790,605	-	-	-	790,605
Movable equipment	34,479,095	229,701	374,543	-	35,083,339
Construction in progress (estimated cost to complete - \$10,083,500)	<u>12,875,489</u>	<u>-</u>	<u>4,042</u>	<u>-</u>	<u>12,879,531</u>
	120,312,904	229,701	378,585	-	120,921,190
Less: accumulated depreciation	<u>(72,130,092)</u>	<u>(89,267)</u>	<u>(134,803)</u>	<u>-</u>	<u>(72,354,162)</u>
Total	<u>\$ 48,182,812</u>	<u>\$ 140,434</u>	<u>\$ 243,782</u>	<u>\$ -</u>	<u>\$ 48,567,028</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Property, Plant and Equipment (continued)

Property, plant and equipment consist of the following, as of September 30, 2013:

	Day Kimball Hospital	Homemakers	Medical Group	Physician Services	Total
Land and land improvements	\$ 3,516,235	\$ -	\$ -	\$ -	\$ 3,516,235
Buildings and improvements	66,307,167	-	-	-	66,307,167
Fixed equipment	812,679	-	-	-	812,679
Movable equipment	31,066,937	221,165	326,286	10,120	31,624,508
Construction in progress (estimated cost to complete - \$19,778,813)	10,356,162	-	-	-	10,356,162
	<u>112,059,180</u>	<u>221,165</u>	<u>326,286</u>	<u>10,120</u>	<u>112,616,751</u>
Less: accumulated depreciation	<u>(70,767,132)</u>	<u>(65,310)</u>	<u>(56,941)</u>	<u>(2,181)</u>	<u>(70,891,564)</u>
Total	<u>\$ 41,292,048</u>	<u>\$ 155,855</u>	<u>\$ 269,345</u>	<u>\$ 7,939</u>	<u>\$ 41,725,187</u>

Note 11 - Insurance Reserves

The Hospital maintains claims made professional and general liability insurance to cover malpractice and general liability exposures, which does not have a deductible amount. The Hospital also maintains occurrence basis workers' compensation coverage, with a \$100,000 per occurrence deductible, subject to an annual aggregate of \$500,000 for deductibles. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital believes that it has the ability and intent to continue purchasing such claims-made insurance policies. As discussed in Note 2, the Hospital has recorded \$681,157 and \$587,030 within accounts receivable, other and other liabilities in the accompanying consolidated balance sheets as of September 30, 2014 and 2013, respectively. These balances represent the Hospital's estimate of liabilities and recoveries for certain professional and general liability claims. The Hospital has estimated and recorded the ultimate costs, if any, of the settlement of all incurred but not reported claims. Additionally, the Hospital has recorded a liability of \$500,000 related to its workers' compensation deductible obligations, which is included in employee benefits payable on the balance sheet as of September 30, 2014.

Note 12 - Risks and Uncertainties

The Hospital is a party to various claims and lawsuits incidental to its business. Management believes that these matters will not have a material adverse effect on its consolidated financial position of the Hospital.

The Hospital and the Hospital's defined benefit pension plan invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

Note 13 - Functional Expenses

The Hospital, Homemakers, DKMG and Physician Services provide general health care services to residents within their geographic location. General and administrative expenses were approximately 19% of total expenses in 2014 and 2013.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 14 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers as of September 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Medicare	32%	38%
Medicaid	21%	15%
Blue Cross	12%	13%
Self pay	14%	14%
HMO and commercial	20%	18%
Other	1%	2%
	<u>100%</u>	<u>100%</u>

Note 15 - Pledges Receivable

Pledges receivable represent unconditional promises to give for an ongoing capital campaign for an expansion of the emergency department. The following pledges are due to the Hospital as of September 30, 2014:

Due within one year	\$ 422,828
Due in one to five years	<u>246,827</u>
	669,655
Less: allowance for uncollectible pledges	<u>(100,448)</u>
Total	<u>\$ 569,207</u>

The pledges have been discounted by \$12,067 to arrive at the present value in the above table.

Note 16 - Related Party Transactions

As of September 30, 2014 and 2013, the Hospital has recorded an investment in affiliates of (\$479,627) and \$785,435, respectively. These balances are net of reserves of \$5,340,580 and \$11,006,007, respectively, which were established to adjust the investments in affiliates to the actual equity balances of the related entities, and are recorded through unrestricted net assets. Prior to 2013, the balances in investment in affiliates represented the cumulative amount of capital that the Hospital had invested in its affiliates. As of September 30, 2014, the Hospital has recorded cumulative reserves of \$16,346,587 against its investment in affiliate balances.

During the 2014 and 2013, the Hospital charged DKMG and Physician Services \$3,164,311 and \$4,409,299, respectively, for costs associated with the management, accounting and oversight of the entities. As of September 30, 2014, the Hospital had a \$3,164,311 receivable from DKMG for these services. As of September 30, 2013, the Hospital had a receivable of \$10,191,861 from DKMG and Physician Services for these services. These amounts have been fully reserved for as of September 30, 2014 and 2013, as their collectability is doubtful. As of September 30, 2014, the Hospital has recorded cumulative reserves of \$13,356,172 against its due from affiliate balances related to DKMG and Physician Services. As of September 30, 2014 and 2013, the Hospital had a receivable of \$6,254 and \$6,465, respectively, from Homemakers.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet
September 30, 2014

Assets	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Day Kimball Medical Group, Inc.	Eliminations	Series B Obligated Group	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Current assets:								
Cash and cash equivalents	\$ 6,171,314	\$ 617,715	\$ 271,253	\$ -	\$ 7,060,282	\$ -	\$ -	\$ 7,060,282
Short-term investments	3,023,883	-	-	-	3,023,883	-	-	3,023,883
Accounts receivable (less allowance for doubtful accounts of \$3,058,162)	12,518,755	415,700	1,775,495	-	14,709,950	-	-	14,709,950
Due from affiliates (less allowance for uncollectible amounts of \$3,164,311)	6,254	-	-	(6,254)	-	-	-	-
Accounts receivable, other	905,146	-	-	-	905,146	-	-	905,146
Pledges receivable, current portion	359,404	-	-	-	359,404	-	-	359,404
Inventories and prepaid expenses	2,635,878	14,749	100,727	-	2,751,354	-	-	2,751,354
Assets whose use is limited:								
Funds held under bond indenture agreement	988,196	-	-	-	988,196	-	-	988,196
Total current assets	<u>26,608,830</u>	<u>1,048,164</u>	<u>2,147,475</u>	<u>(6,254)</u>	<u>29,798,215</u>	<u>-</u>	<u>-</u>	<u>29,798,215</u>
Assets whose use is limited:								
Funds held under bond indenture agreement	2,340,811	-	-	-	2,340,811	-	-	2,340,811
Pledges receivable, net of current portion	209,803	-	-	-	209,803	-	-	209,803
Funds held in trust by others	4,675,704	-	-	-	4,675,704	-	-	4,675,704
Donor restricted investments	2,301,251	-	-	-	2,301,251	-	-	2,301,251
Board restricted investments	10,555,721	-	-	-	10,555,721	-	-	10,555,721
	<u>20,083,290</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,083,290</u>	<u>-</u>	<u>-</u>	<u>20,083,290</u>
Investments in real estate	222,619	-	-	-	222,619	-	-	222,619
Investments in affiliates	(479,627)	-	-	479,627	-	-	-	-
Deferred financing costs, net	1,274,535	-	-	-	1,274,535	-	-	1,274,535
Property, plant and equipment, net	48,182,812	140,434	243,782	-	48,567,028	-	-	48,567,028
Total assets	<u>\$ 95,892,459</u>	<u>\$ 1,188,598</u>	<u>\$ 2,391,257</u>	<u>\$ 473,373</u>	<u>\$ 99,945,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,945,687</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet (Continued)
September 30, 2014

Liabilities and Net Assets	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Day Kimball Medical Group, Inc.	Eliminations	Series B Obligated Group	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Current liabilities:								
Line of credit	\$ 1,070,205	\$ -	\$ -	\$ -	\$ 1,070,205	\$ -	\$ -	\$ 1,070,205
Accounts payable	11,751,819	92,226	500,134	-	12,344,179	-	-	12,344,179
Salaries and wages payable	1,541,765	-	1,012,113	-	2,553,878	-	-	2,553,878
Employee benefits payable	3,612,244	-	1,358,637	-	4,970,881	-	-	4,970,881
Due to third-party payers	734,249	-	-	-	734,249	-	-	734,249
Other liabilities	2,663,660	-	-	-	2,663,660	-	-	2,663,660
Due to affiliates	-	6,254	-	(6,254)	-	-	-	-
Current portion of accrued pension obligation	4,221,340	-	-	-	4,221,340	-	-	4,221,340
Current portion of long-term debt	1,866,750	-	-	-	1,866,750	-	-	1,866,750
Total current liabilities	<u>27,462,032</u>	<u>98,480</u>	<u>2,870,884</u>	<u>(6,254)</u>	<u>30,425,142</u>	<u>-</u>	<u>-</u>	<u>30,425,142</u>
Long-term debt, less current portion	29,561,646	-	-	-	29,561,646	-	-	29,561,646
Accrued pension obligation, less current portion	34,030,148	-	-	-	34,030,148	-	-	34,030,148
Total liabilities	<u>91,053,826</u>	<u>98,480</u>	<u>2,870,884</u>	<u>(6,254)</u>	<u>94,016,936</u>	<u>-</u>	<u>-</u>	<u>94,016,936</u>
Net assets (deficit):								
Unrestricted	(2,707,529)	1,090,118	(479,627)	479,627	(1,617,411)	-	-	(1,617,411)
Temporarily restricted	3,198,536	-	-	-	3,198,536	-	-	3,198,536
Permanently restricted	4,347,626	-	-	-	4,347,626	-	-	4,347,626
Total net assets	<u>4,838,633</u>	<u>1,090,118</u>	<u>(479,627)</u>	<u>479,627</u>	<u>5,928,751</u>	<u>-</u>	<u>-</u>	<u>5,928,751</u>
Total liabilities and net assets	<u><u>\$ 95,892,459</u></u>	<u><u>\$ 1,188,598</u></u>	<u><u>\$ 2,391,257</u></u>	<u><u>\$ 473,373</u></u>	<u><u>\$ 99,945,687</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 99,945,687</u></u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2014

	<u>Day Kimball Hospital</u>	<u>Day Kimball Homemakers, Inc.</u>	<u>Day Kimball Medical Group, Inc.</u>	<u>Eliminations</u>	<u>Series B Obligated Group</u>	<u>Physician Services of NE CT, LLC</u>	<u>Eliminations</u>	<u>Day Kimball Healthcare, Inc.</u>
Operating revenues:								
Net patient service revenues	\$ 108,097,941	\$ 2,241,780	\$ 21,196,749	\$ -	\$ 131,536,470	\$ 9,907	\$ -	\$ 131,546,377
Provision for bad debts	(3,250,605)	3,354	(310,615)	-	(3,557,866)	(31,609)	-	(3,589,475)
Net patient service revenues less provision for bad debts	104,847,336	2,245,134	20,886,134	-	127,978,604	(21,702)	-	127,956,902
Other operating revenues	5,473,853	1,715	847,248	-	6,322,816	(27,991)	-	6,294,825
Grant income	679,671	184,546	-	-	864,217	-	-	864,217
Assets released from restrictions for operations	542,228	263	-	-	542,491	-	-	542,491
Total operating revenues	<u>111,543,088</u>	<u>2,431,658</u>	<u>21,733,382</u>	<u>-</u>	<u>135,708,128</u>	<u>(49,693)</u>	<u>-</u>	<u>135,658,435</u>
Operating expenses:								
Salaries and wages	47,646,733	1,981,082	20,268,194	-	69,896,009	16,438	-	69,912,447
Employee benefits	17,072,825	189,679	3,489,498	-	20,752,002	17,665	-	20,769,667
Professional fees	10,631,022	15,135	2,234,829	-	12,880,986	2,140	-	12,883,126
Supplies and other	27,133,430	173,904	4,057,587	-	31,364,921	24,298	-	31,389,219
Interest	1,343,831	-	-	-	1,343,831	-	-	1,343,831
Depreciation and amortization	5,177,041	23,957	77,860	-	5,278,858	71	-	5,278,929
Total operating expenses	<u>109,004,882</u>	<u>2,383,757</u>	<u>30,127,968</u>	<u>-</u>	<u>141,516,607</u>	<u>60,612</u>	<u>-</u>	<u>141,577,219</u>
Gain (loss) from operations	2,538,206	47,901	(8,394,586)	-	(5,808,479)	(110,305)	-	(5,918,784)
Non-operating gains:								
Income from board designated investments, net	405,541	-	-	-	405,541	-	-	405,541
Income from trusts held by others	113,623	-	-	-	113,623	-	-	113,623
	<u>519,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>519,164</u>	<u>-</u>	<u>-</u>	<u>519,164</u>
Excess (deficiency) of revenues over expenses	<u>\$ 3,057,370</u>	<u>\$ 47,901</u>	<u>\$ (8,394,586)</u>	<u>\$ -</u>	<u>\$ (5,289,315)</u>	<u>\$ (110,305)</u>	<u>\$ -</u>	<u>\$ (5,399,620)</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations and Changes in Net Assets (Continued)
For the Year Ended September 30, 2014

	<u>Day Kimball Hospital</u>	<u>Day Kimball Homemakers, Inc.</u>	<u>Day Kimball Medical Group, Inc.</u>	<u>Eliminations</u>	<u>Series B Obligated Group</u>	<u>Physician Services of NE CT, LLC</u>	<u>Eliminations</u>	<u>Day Kimball Healthcare, Inc.</u>
Unrestricted net assets:								
Excess (deficiency) of revenues over expenses	\$ 3,057,370	\$ 47,901	\$ (8,394,586)	\$ -	\$ (5,289,315)	\$ (110,305)	\$ -	\$ (5,399,620)
Pension related changes other than net periodic pension cost	(6,094,072)	-	-	-	(6,094,072)	-	-	(6,094,072)
Change in unrealized gains on investments	470,390	-	-	-	470,390	-	-	470,390
Assets released from restrictions for property, plant and equipment	1,313,374	-	-	-	1,313,374	-	-	1,313,374
Transfers from (to) affiliates	(3,164,311)	-	3,164,311	-	-	-	-	-
Change in reserves for amounts due (from) to and investments in affiliates	(5,340,580)	-	4,137,199	1,093,076	(110,305)	(61,681)	171,986	-
Change in unrestricted net assets	(9,757,829)	47,901	(1,093,076)	1,093,076	(9,709,928)	(171,986)	171,986	(9,709,928)
Temporarily restricted net assets:								
Contributions	230,186	-	-	-	230,186	-	-	230,186
Change in funds held in trust by others	95,016	-	-	-	95,016	-	-	95,016
Assets released from restrictions	(1,855,602)	(263)	-	-	(1,855,865)	-	-	(1,855,865)
Change in temporarily restricted net assets	(1,530,400)	(263)	-	-	(1,530,663)	-	-	(1,530,663)
Permanently restricted net assets:								
Change in funds held in trust by others	41,939	-	-	-	41,939	-	-	41,939
Change in permanently restricted net assets	41,939	-	-	-	41,939	-	-	41,939
Change in net assets	(11,246,290)	47,638	(1,093,076)	1,093,076	(11,198,652)	(171,986)	171,986	(11,198,652)
Net assets at beginning of year	16,084,923	1,042,480	613,449	(613,449)	17,127,403	171,986	(171,986)	17,127,403
Net assets (deficit) at end of year	<u>\$ 4,838,633</u>	<u>\$ 1,090,118</u>	<u>\$ (479,627)</u>	<u>\$ 479,627</u>	<u>\$ 5,928,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,928,751</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet
September 30, 2013

Assets	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Day Kimball Medical Group, Inc.	Eliminations	Series B Obligated Group	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Current assets:								
Cash and cash equivalents	\$ 5,285,678	\$ 610,321	\$ 444,392	\$ -	\$ 6,340,391	\$ 45,899	\$ -	\$ 6,386,290
Short-term investments	2,705,332	-	-	-	2,705,332	-	-	2,705,332
Accounts receivable (less allowance for doubtful accounts of \$2,861,516)	12,792,119	370,802	1,732,468	-	14,895,389	77,966	-	14,973,355
Due from affiliates (less allowance for uncollectible amounts of \$10,191,861)	8,611	-	-	(6,465)	2,146	-	(2,146)	-
Accounts receivable, other	907,691	-	-	-	907,691	-	-	907,691
Pledges receivable, current portion	554,536	-	-	-	554,536	-	-	554,536
Inventories and prepaid expenses	2,613,957	4,690	133,180	-	2,751,827	84,668	-	2,836,495
Assets whose use is limited:								
Funds held under bond indenture agreement	7,166,565	-	-	-	7,166,565	-	-	7,166,565
Total current assets	<u>32,034,489</u>	<u>985,813</u>	<u>2,310,040</u>	<u>(6,465)</u>	<u>35,323,877</u>	<u>208,533</u>	<u>(2,146)</u>	<u>35,530,264</u>
Assets whose use is limited:								
Funds held under bond indenture agreement	2,340,577	-	-	-	2,340,577	-	-	2,340,577
Pledges receivable, net of current portion	691,839	-	-	-	691,839	-	-	691,839
Funds held in trust by others	4,538,749	-	-	-	4,538,749	-	-	4,538,749
Donor restricted investments	3,249,499	263	-	-	3,249,762	-	-	3,249,762
Board restricted investments	10,511,560	-	-	-	10,511,560	-	-	10,511,560
	<u>21,332,224</u>	<u>263</u>	<u>-</u>	<u>-</u>	<u>21,332,487</u>	<u>-</u>	<u>-</u>	<u>21,332,487</u>
Investments in real estate	236,356	-	-	-	236,356	-	-	236,356
Investments in affiliates	785,435	-	-	(613,449)	171,986	-	(171,986)	-
Deferred financing costs, net	1,318,867	-	-	-	1,318,867	-	-	1,318,867
Property, plant and equipment, net	41,292,048	155,855	269,345	-	41,717,248	7,939	-	41,725,187
 Total assets	 <u>\$ 96,999,419</u>	 <u>\$ 1,141,931</u>	 <u>\$ 2,579,385</u>	 <u>\$ (619,914)</u>	 <u>\$ 100,100,821</u>	 <u>\$ 216,472</u>	 <u>\$ (174,132)</u>	 <u>\$ 100,143,161</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet (Continued)
September 30, 2013

Liabilities and Net Assets	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Day Kimball Medical Group, Inc.	Eliminations	Series B Obligated Group	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Current liabilities:								
Line of credit	\$ 1,496,609	\$ -	\$ -	\$ -	\$ 1,496,609	\$ -	\$ -	\$ 1,496,609
Accounts payable	9,451,225	92,986	372,402	-	9,916,613	22,258	-	9,938,871
Salaries and wages payable	1,186,976	-	721,699	-	1,908,675	2,142	-	1,910,817
Employee benefits payable	3,252,322	-	871,835	-	4,124,157	17,940	-	4,142,097
Due to third-party payers	1,067,507	-	-	-	1,067,507	-	-	1,067,507
Other liabilities	2,855,141	-	-	-	2,855,141	-	-	2,855,141
Due to affiliates	-	6,465	-	(6,465)	-	2,146	(2,146)	-
Current portion of accrued pension obligation	3,458,093	-	-	-	3,458,093	-	-	3,458,093
Current portion of long-term debt	804,612	-	-	-	804,612	-	-	804,612
Total current liabilities	<u>23,572,485</u>	<u>99,451</u>	<u>1,965,936</u>	<u>(6,465)</u>	<u>25,631,407</u>	<u>44,486</u>	<u>(2,146)</u>	<u>25,673,747</u>
Long-term debt, less current portion	29,718,688	-	-	-	29,718,688	-	-	29,718,688
Accrued pension obligation, less current portion	27,623,323	-	-	-	27,623,323	-	-	27,623,323
Total liabilities	<u>80,914,496</u>	<u>99,451</u>	<u>1,965,936</u>	<u>(6,465)</u>	<u>82,973,418</u>	<u>44,486</u>	<u>(2,146)</u>	<u>83,015,758</u>
Net assets:								
Unrestricted	7,050,300	1,042,217	613,449	(613,449)	8,092,517	171,986	(171,986)	8,092,517
Temporarily restricted	4,728,936	263	-	-	4,729,199	-	-	4,729,199
Permanently restricted	4,305,687	-	-	-	4,305,687	-	-	4,305,687
Total net assets	<u>16,084,923</u>	<u>1,042,480</u>	<u>613,449</u>	<u>(613,449)</u>	<u>17,127,403</u>	<u>171,986</u>	<u>(171,986)</u>	<u>17,127,403</u>
Total liabilities and net assets	<u>\$ 96,999,419</u>	<u>\$ 1,141,931</u>	<u>\$ 2,579,385</u>	<u>\$ (619,914)</u>	<u>\$ 100,100,821</u>	<u>\$ 216,472</u>	<u>\$ (174,132)</u>	<u>\$ 100,143,161</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2013

	<u>Day Kimball Hospital</u>	<u>Day Kimball Homemakers, Inc.</u>	<u>Day Kimball Medical Group, Inc.</u>	<u>Eliminations</u>	<u>Series B Obligated Group</u>	<u>Physician Services of NE CT, LLC</u>	<u>Eliminations</u>	<u>Day Kimball Healthcare, Inc.</u>
Operating revenues:								
Net patient service revenues	\$ 107,789,623	\$ 2,079,680	\$ 15,228,587	\$ -	\$ 125,097,890	\$ 4,497,813	\$ -	\$ 129,595,703
Provision for bad debts	(3,140,293)	(8,800)	(93,326)	-	(3,242,419)	(11,620)	-	(3,254,039)
Net patient service revenues less provision for bad debts	104,649,330	2,070,880	15,135,261	-	121,855,471	4,486,193	-	126,341,664
Other operating revenues	4,042,346	1,999	1,491,849	-	5,536,194	518,762	-	6,054,956
Grant income	764,654	188,293	-	-	952,947	-	-	952,947
Assets released from restrictions for operations	1,624,641	6,723	-	-	1,631,364	-	-	1,631,364
Total operating revenues	<u>111,080,971</u>	<u>2,267,895</u>	<u>16,627,110</u>	<u>-</u>	<u>129,975,976</u>	<u>5,004,955</u>	<u>-</u>	<u>134,980,931</u>
Operating expenses:								
Salaries and wages	47,682,335	1,755,987	16,418,137	-	65,856,459	4,007,430	-	69,863,889
Employee benefits	17,030,038	168,389	2,525,085	-	19,723,512	866,567	-	20,590,079
Professional fees	12,483,720	15,406	2,085,915	-	14,585,041	626,264	-	15,211,305
Supplies and other	27,750,076	132,293	3,345,125	-	31,227,494	1,269,226	-	32,496,720
Interest	952,190	-	-	-	952,190	-	-	952,190
Depreciation and amortization	4,726,233	12,219	56,940	-	4,795,392	12,721	-	4,808,113
Total operating expenses	<u>110,624,592</u>	<u>2,084,294</u>	<u>24,431,202</u>	<u>-</u>	<u>137,140,088</u>	<u>6,782,208</u>	<u>-</u>	<u>143,922,296</u>
Gain (loss) from operations	456,379	183,601	(7,804,092)	-	(7,164,112)	(1,777,253)	-	(8,941,365)
Non-operating gains (losses):								
Income from board designated investments, net	878,011	-	-	-	878,011	-	-	878,011
Income from trusts held by others	110,586	-	-	-	110,586	-	-	110,586
Loss on debt extinguishment	(558,062)	-	-	-	(558,062)	-	-	(558,062)
	<u>430,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>430,535</u>	<u>-</u>	<u>-</u>	<u>430,535</u>
Excess (deficiency) of revenues over expenses	<u>\$ 886,914</u>	<u>\$ 183,601</u>	<u>\$ (7,804,092)</u>	<u>\$ -</u>	<u>\$ (6,733,577)</u>	<u>\$ (1,777,253)</u>	<u>\$ -</u>	<u>\$ (8,510,830)</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations and Changes in Net Assets (Continued)
For the Year Ended September 30, 2013

	<u>Day Kimball Hospital</u>	<u>Day Kimball Homemakers, Inc.</u>	<u>Day Kimball Medical Group, Inc.</u>	<u>Eliminations</u>	<u>Series B Obligated Group</u>	<u>Physician Services of NE CT, LLC</u>	<u>Eliminations</u>	<u>Day Kimball Healthcare, Inc.</u>
Unrestricted net assets:								
Excess (deficiency) of revenues over expenses	\$ 886,914	\$ 183,601	\$ (7,804,092)	\$ -	\$ (6,733,577)	\$ (1,777,253)	\$ -	\$ (8,510,830)
Pension related changes other than net periodic pension cost	9,148,079	-	-	-	9,148,079	-	-	9,148,079
Change in unrealized gains on investments	252,602	-	-	-	252,602	-	-	252,602
Assets released from restrictions for property, plant and equipment	1,059,307	-	-	-	1,059,307	-	-	1,059,307
Transfers from (to) affiliates	(4,409,299)	-	4,999,305	-	590,006	(590,006)	-	-
Change in reserves for amounts due (from) to and investments in affiliates	(16,788,561)	-	3,418,236	(613,449)	(13,983,774)	6,773,617	7,210,157	-
Change in unrestricted net assets	(9,850,958)	183,601	613,449	(613,449)	(9,667,357)	4,406,358	7,210,157	1,949,158
Temporarily restricted net assets:								
Contributions	975,373	-	-	-	975,373	-	-	975,373
Change in funds held in trust by others	129,714	-	-	-	129,714	-	-	129,714
Assets released from restrictions	(2,683,948)	(6,723)	-	-	(2,690,671)	-	-	(2,690,671)
Change in temporarily restricted net assets	(1,578,861)	(6,723)	-	-	(1,585,584)	-	-	(1,585,584)
Permanently restricted net assets:								
Change in funds held in trust by others	98,792	-	-	-	98,792	-	-	98,792
Change in permanently restricted net assets	98,792	-	-	-	98,792	-	-	98,792
Change in net assets	(11,331,027)	176,878	613,449	(613,449)	(11,154,149)	4,406,358	7,210,157	462,366
Net assets at beginning of year	27,415,950	865,602	-	-	28,281,552	(4,234,372)	(7,382,143)	16,665,037
Net assets at end of year	<u>\$ 16,084,923</u>	<u>\$ 1,042,480</u>	<u>\$ 613,449</u>	<u>\$ (613,449)</u>	<u>\$ 17,127,403</u>	<u>\$ 171,986</u>	<u>\$ (171,986)</u>	<u>\$ 17,127,403</u>

See accompanying Independent Auditors' Report.