

# **Day Kimball Healthcare, Inc. d/b/a Day Kimball Hospital**

## **Independent Auditor's Report and Consolidated Financial Statements**

**September 30, 2015 and 2014**

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**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**September 30, 2015 and 2014**

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## Independent Auditor's Report

Board of Directors  
Day Kimball Healthcare, Inc.  
d/b/a Day Kimball Hospital  
Putnam, Connecticut

We have audited the accompanying consolidated financial statements of Day Kimball Healthcare, Inc., d/b/a Day Kimball Hospital (the "Organization"), which comprise the consolidated balance sheet as of September 30, 2015 and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Day Kimball Healthcare, Inc., d/b/a Day Kimball Hospital, as of September 30, 2015, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Prior Year Audited by Other Auditors***

The 2014 financial statements were audited by other auditors and their report thereon, dated January 16, 2015, expressed an unmodified opinion, and included an emphasis of matter paragraph regarding the Organization's ability to continue as a going concern.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

Springfield, Missouri  
May 19, 2016

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Consolidated Balance Sheets**  
**September 30, 2015 and 2014**

**Assets**

	<b>2015</b>	<b>2014</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,911,198	\$ 7,060,282
Short-term investments	2,841,383	3,023,883
Assets limited as to use - current	2,715,707	988,196
Patient accounts receivable, net of allowance: 2015 - \$4,404,250, 2014 - \$3,400,739	12,502,951	14,709,950
Other receivables	2,072,231	1,264,550
Estimated amounts due from third-party payers	1,352,274	-
Supplies, prepaid expenses and other	2,498,339	2,751,354
Total current assets	28,894,083	29,798,215
<b>Assets Limited As To Use</b>		
Internally designated	8,384,272	10,555,721
Externally restricted by donors	1,952,406	2,301,251
Held by trustee	2,715,707	3,329,007
	13,052,385	16,185,979
Less amount required to meet current obligations	2,715,707	988,196
	10,336,678	15,197,783
<b>Property and Equipment, Net</b>	49,364,234	48,567,028
<b>Other Assets</b>		
Beneficial interest in trusts	4,209,026	4,675,704
Deferred financing costs	1,224,804	1,274,535
Other	405,303	432,422
	5,839,133	6,382,661
Total assets	\$ 94,434,128	\$ 99,945,687

## Liabilities and Net Assets

	<u>2015</u>	<u>2014</u>
<b>Current Liabilities</b>		
Line of credit	\$ 750,400	\$ 1,070,205
Current maturities of long-term debt	1,473,425	1,866,750
Accounts payable	10,081,033	12,344,179
Accrued payroll and benefits payable	7,123,695	7,524,759
Accrued expenses	2,342,959	2,663,660
Estimated amounts due to third-party payers	<u>4,459,573</u>	<u>734,249</u>
Total current liabilities	26,231,085	26,203,802
<b>Accrued Pension Liability</b>	49,175,366	38,251,488
<b>Long-Term Debt</b>	<u>28,319,536</u>	<u>29,561,646</u>
Total liabilities	<u>103,725,987</u>	<u>94,016,936</u>
<b>Net Assets</b>		
Unrestricted	(16,251,755)	(1,617,411)
Temporarily restricted	2,893,106	3,198,536
Permanently restricted	<u>4,066,790</u>	<u>4,347,626</u>
Total net assets	<u>(9,291,859)</u>	<u>5,928,751</u>
Total liabilities and net assets	<u>\$ 94,434,128</u>	<u>\$ 99,945,687</u>

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 131,737,653	\$ 135,598,827
Provision for uncollectible accounts	(4,514,145)	(3,589,475)
Net patient service revenue less provision for uncollectible accounts	127,223,508	132,009,352
Other	4,490,229	6,873,070
Net assets released from restrictions used for operations	279,620	542,491
Total unrestricted revenues, gains and other support	131,993,357	139,424,913
<b>Expenses and Losses</b>		
Salaries and wages	65,526,421	69,892,689
Employee benefits	19,190,492	20,762,808
Professional fees	12,205,957	12,883,126
Supplies and other	35,322,779	35,468,286
Depreciation and amortization	5,898,547	5,278,929
Interest	1,451,212	1,343,831
Total expenses and losses	139,595,408	145,629,669
<b>Operating Loss</b>	<b>(7,602,051)</b>	<b>(6,204,756)</b>
<b>Other Income</b>		
Investment return	1,022,028	589,402
Contributions received	258,802	215,734
Total other income	1,280,830	805,136
<b>Deficiency of Revenues Over Expenses</b>	<b>(6,321,221)</b>	<b>(5,399,620)</b>
Change in defined benefit pension plan gains and losses	(9,791,301)	(6,094,072)
Change in unrealized gains (losses) on investments	(877,427)	470,390
Contributions and grants for the acquisition of property and equipment	2,155,290	-
Net assets released from restrictions used for acquisition of property and equipment	200,315	1,313,374
<b>Decrease in Unrestricted Net Assets</b>	<b>\$ (14,634,344)</b>	<b>\$ (9,709,928)</b>

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Unrestricted Net Assets</b>		
Deficiency of revenues over expenses	\$ (6,321,221)	\$ (5,399,620)
Change in defined benefit pension plan gains and losses	(9,791,301)	(6,094,072)
Investment return - change in unrealized gains (losses) on investments	(877,427)	470,390
Contributions and grants for the acquisition of property and equipment	2,155,290	-
Net assets released from restrictions used for acquisition of property and equipment	200,315	1,313,374
Decrease in unrestricted net assets	(14,634,344)	(9,709,928)
<b>Temporarily Restricted Net Assets</b>		
Contributions received	251,644	230,186
Change in beneficial interest in trust	(77,139)	95,016
Net assets released from restrictions	(479,935)	(1,855,865)
Decrease in temporarily restricted net assets	(305,430)	(1,530,663)
<b>Permanently Restricted Net Assets</b>		
Change in beneficial interest in perpetual trusts	(280,836)	41,939
Increase (decrease) in permanently restricted net assets	(280,836)	41,939
<b>Change in Net Assets</b>	(15,220,610)	(11,198,652)
<b>Net Assets, Beginning of Year</b>	5,928,751	17,127,403
<b>Net Assets, End of Year</b>	\$ (9,291,859)	\$ 5,928,751



**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Activities</b>		
Change in net assets	\$ (15,220,610)	\$ (11,198,652)
Items not requiring (providing) cash		
Depreciation and amortization	5,898,547	5,278,929
Net (gain) loss on investments	304,273	(235,139)
Change in beneficial interest in perpetual trust	357,975	(136,955)
Change in defined benefit pension plans	9,791,301	6,094,072
Contributions for acquisition of property and equipment	(2,155,290)	-
Restricted contributions received	(251,644)	(230,186)
Changes in		
Patient accounts receivable, net	2,206,999	263,405
Estimated amounts due from and to third-party payers	2,373,050	(333,258)
Accounts payable and accrued expenses	139,433	4,761,672
Other assets and liabilities	(1,276,431)	764,854
	<u>2,167,603</u>	<u>5,028,742</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Proceeds from disposition of investments	3,147,643	7,469,463
Purchase of property and equipment	(7,916,024)	(10,728,063)
	<u>(4,768,381)</u>	<u>(3,258,600)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Proceeds from restricted contributions	2,406,934	230,186
Proceeds from line of credit	150,000	-
Payments on line of credit	(469,805)	(426,404)
Proceeds from issuance of long-term debt	240,490	1,150,000
Principal payments on long-term debt	(1,875,925)	(2,049,932)
	<u>451,694</u>	<u>(1,096,150)</u>
Net cash provided by (used in) financing activities		
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(2,149,084)	673,992
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>7,060,282</u>	<u>6,386,290</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 4,911,198</u>	<u>\$ 7,060,282</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 1,719,656	\$ 1,343,831
Property and equipment acquired in accounts payable	\$ 1,400,124	\$ 130,122

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015 and 2014**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Day Kimball Healthcare, Inc., d/b/a Day Kimball Hospital, (DKH) is a not-for-profit corporation organized to coordinate and manage the integration of the delivery of healthcare services to the northeastern Connecticut area.

***Principles of Consolidation***

The consolidated financial statements include the accounts of DKH, d/b/a Day Kimball Hospital (Hospital), Day Kimball Medical Group (DKMG), Day Kimball Homemakers (Homemakers) and Physician Services of Northeast Connecticut, LLC (Physician Services). All material intercompany accounts and transactions have been eliminated in consolidation.

The Hospital provides inpatient, outpatient and emergency care services for residents of 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 were transferred to DKMG. Homemakers provide homemaker and chore companion services to residents of northeastern Connecticut. Physician Services provided primary care and surgical services in northeastern Connecticut. During 2014, Physician Services transferred any remaining balances to the Hospital.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

DKH considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2015 and 2014, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2015 and 2014, DKH's cash accounts exceeded federally insured limits by approximately \$4,417,000 and \$4,924,000, respectively.

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Notes to Consolidated Financial Statements**  
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***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets (deficit). Other investment return is reflected in the statements of operations and changes in net assets (deficit) as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

***Assets Limited As To Use***

Assets limited as to use include (1) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes, (2) assets externally restricted by donors and (3) assets held by trustees. Amounts required to meet current liabilities of DKH are included in current assets.

***Patient Accounts Receivable***

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

For receivables associated with services provided to patients who have third-party coverage, DKH analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (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).

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

DKH's allowance for uncollectible accounts for self-pay patients decreased from 63% of self-pay accounts receivable at September 30, 2014, to 61% of self-pay accounts receivable at September 30, 2015. In addition, DKH's write-offs increased approximately \$500,000 from approximately \$3,000,000 for the year ended September 30, 2014, to approximately \$3,500,000 for the year ended September 30, 2015. Allowance for uncollectible accounts activity for 2015 and 2014 is shown in the following table:

	<b>2015</b>	<b>2014</b>
Balance, beginning of year	\$ 3,400,739	\$ 2,861,516
Provision for year	4,514,145	3,589,475
Accounts charged off during year	(3,510,634)	(3,050,252)
Balance, end of year	\$ 4,404,250	\$ 3,400,739

***Other Receivables***

Other receivables are stated at their outstanding principal amount, net of allowance for uncollectible notes. DKH provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Notes are written off based on individual credit evaluation and specific circumstances of the borrower.

***Supplies***

DKH states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

***Property and Equipment***

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

**Day Kimball Healthcare, Inc.**  
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The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	10 - 40 years
Leasehold improvements	10 - 30 years
Equipment	3 - 10 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

DKH capitalizes interest cost as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	<b>2015</b>	<b>2014</b>
Interest capitalized	\$ 621,396	\$ 745,675
Interest charged to expense	1,451,212	1,343,831
Total interest incurred	<u>\$ 2,072,608</u>	<u>\$ 2,089,506</u>

***Long-Lived Asset Impairment***

DKH evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2015 and 2014.

***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015 and 2014**

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by DKH has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by DKH in perpetuity.

***Net Patient Service Revenue***

DKH has agreements with third-party payers that provide for payments to DKH at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

DKH provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

***Contributions***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

***Professional Liability Claims***

DKH recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 7*.

**Day Kimball Healthcare, Inc.**  
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***Income Taxes***

The Hospital, DKMG and Homemakers are exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital, DKMG and Homemakers are subject to federal income tax on any unrelated business taxable income.

The Hospital, DKMG and Homemakers file tax returns in the U.S. federal jurisdiction. With a few exceptions, they are no longer subject to U.S. federal examinations by tax authorities for years before 2012.

***Deficiency of Revenues Over Expenses***

The consolidated statements of operations include 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 other than trading securities, changes in defined benefit pension costs and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

***Estimated Self-Insurance Costs***

DKH maintains estimated reserves for self-insurance costs for employee health insurance and workers' compensation insurance. These reserves include an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

**Day Kimball Healthcare, Inc.**  
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DKH recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

DKH has recorded revenue of approximately \$437,000 and \$1,078,000, for the years ended September 30, 2015 and 2014, respectively, which is included in other revenue within operating revenues in the consolidated statement of operations.

***Reclassifications***

Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

**Note 2: Net Patient Service Revenue**

DKH 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. For uninsured patients that do not qualify for charity care, DKH recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of DKH's uninsured patients will be unable or unwilling to pay for the services provided. Thus, DKH records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the consolidated statement of operations as a component of net patient service revenue.

DKH has agreements with third-party payers that provide for payments to DKH at amounts different from its established rates. These payment arrangements include:

*Medicare.* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. DKH is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by DKH and audits thereof by the Medicare administrative contractor.



**Day Kimball Healthcare, Inc.**  
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**Notes to Consolidated Financial Statements**  
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*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined rates. DKH is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by DKH and audits thereof by the Medicaid administrative contractor.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

DKH has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to DKH under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2015 and 2014, was approximately:

	<b>2015</b>	<b>2014</b>
Medicare	\$ 45,307,524	\$ 46,888,752
Medicaid	19,677,509	19,208,910
Blue Cross	28,399,637	32,200,119
Other third-party payers	37,322,621	37,138,719
Patients	1,030,362	162,327
	<u>\$ 131,737,653</u>	<u>\$ 135,598,827</u>

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Notes to Consolidated Financial Statements**  
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**Note 3: Concentrations of Credit Risk**

DKH grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2015 and 2014, was:

	<b>2015</b>	<b>2014</b>
Medicare	34%	32%
Medicaid	15%	21%
Blue Cross	15%	12%
Other third-party payers	24%	21%
Patients	12%	14%
	<u>100%</u>	<u>100%</u>

**Note 4: Investments and Investment Return**

Investments at September 30 include:

	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 4,118,256	\$ 4,845,378
Fixed income and fixed income mutual funds	4,602,283	6,054,541
Equity securities and equity mutual funds	6,083,799	7,164,726
Alternative investments	1,089,430	1,145,217
	<u>\$ 15,893,768</u>	<u>\$ 19,209,862</u>

Investments are included on the consolidated balance sheet as follows:

	<b>2015</b>	<b>2014</b>
Short-term investments	\$ 2,841,383	\$ 3,023,883
Assets limited as to use		
Internally designated	8,384,272	10,555,721
Externally restricted by donors	1,952,406	2,301,251
Held by trustee	2,715,707	3,329,007
	<u>\$ 15,893,768</u>	<u>\$ 19,209,862</u>

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Total investment return is comprised of the following:

	<b>2015</b>	<b>2014</b>
Interest and dividend income	\$ 335,910	\$ 240,615
Distributions from beneficial interest in trusts	112,964	113,648
Realized gains on sales of securities	573,154	235,139
Net unrealized gains (losses) on trading securities	(877,427)	470,390
	<u>\$ 144,601</u>	<u>\$ 1,059,792</u>

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	<b>2015</b>	<b>2014</b>
Unrestricted net assets		
Other nonoperating revenue		
Investment return	\$ 1,022,028	\$ 589,402
Change in unrealized gains and losses on investments	(877,427)	470,390
	<u>\$ 144,601</u>	<u>\$ 1,059,792</u>

Certain investments in fixed income and equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2015 and 2014, was \$6,934,297 and \$7,041,323, which is approximately 44% and 37%, respectively, of DKH's investment portfolio. These declines primarily resulted from increases in market interest rates, failure of certain investments to maintain consistent credit quality ratings, and changes in the market's perception of the current risks or failure to meet projected earnings targets.

Management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

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The following table shows DKH's 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 at September 30, 2015 and 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>September 30, 2015</b>						
Fixed income	\$ 1,047,865	\$ (177,846)	\$ 720,917	\$ (189,575)	\$ 1,768,782	\$ (367,421)
Equity securities	<u>2,836,530</u>	<u>(132,230)</u>	<u>2,328,985</u>	<u>(195,887)</u>	<u>5,165,515</u>	<u>(328,117)</u>
Total temporarily impaired securities	<u>\$ 3,884,395</u>	<u>\$ (310,076)</u>	<u>\$ 3,049,902</u>	<u>\$ (385,462)</u>	<u>\$ 6,934,297</u>	<u>\$ (695,538)</u>
<b>September 30, 2014</b>						
Fixed income	\$ 2,987,493	\$ 57,940	\$ 323,838	\$ 20,258	\$ 3,311,331	\$ 78,198
Equity securities	<u>3,405,172</u>	<u>176,907</u>	<u>324,820</u>	<u>60,566</u>	<u>3,729,992</u>	<u>237,473</u>
Total temporarily impaired securities	<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>

**Alternative Investments**

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at September 30, 2015, consist of the following:

Real Estate Investment Trust (A)	\$ 525,075
Private Debt Securities (B)	170,388
Private Equity (C)	393,967

- (A) This category includes a real estate investment trust, investing in real estate markets across the globe with a focus on the United States. There is a quarterly redemption plan. The value is based on the most recent appraisal which was performed as of December 31, 2014.
- (B) This category includes a fund that invests primarily in debt and income-oriented equity of private U.S. energy and power companies. There is a quarterly tender offer, subject to suspension or termination at any time.
- (C) This category includes a globally diversified buyout fund of private investments. The fund as a redemption policy of 5% of the fund subject to board approval and portfolio liquidity.

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***Other-than-Temporary Impairment***

Upon acquisition of a security, DKH decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

DKH routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Economic models are used to determine whether an other-than-temporary impairment has occurred on these securities. While all securities are considered, the securities primarily impacted by other-than-temporary impairment testing are debt securities. For each security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred.

**Note 5: Property and Equipment**

Property and equipment consists of the following at September 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Land and land improvements	\$ 3,488,121	\$ 3,516,235
Buildings and building improvements	80,366,512	68,749,731
Equipment	34,385,075	35,775,693
Construction in progress	4,666,369	12,879,531
	<u>122,906,077</u>	<u>120,921,190</u>
Less accumulated depreciation	<u>73,541,843</u>	<u>72,354,162</u>
	<u>\$ 49,364,234</u>	<u>\$ 48,567,028</u>

At September 30, 2015, construction in progress represents costs incurred in connection with the construction of various additions and alterations to DKH's facilities and equipment. The total cost to complete the projects is \$2,081,586 and is being funded through contributions, externally restricted investments, and internally designated investments.

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**Note 6: Beneficial Interest in Trusts**

DKH is an income beneficiary of several trusts controlled by unrelated third-party trustees. Income is distributed in accordance with the individual trust documents. The estimated value of the expected future cash flows is \$4,209,026 and \$4,675,704, which represents DKH's share of the fair value of the trust assets at September 30, 2015 and 2014, respectively. Trust income distributed to DKH for the years ended September 30, 2015 and 2014, was \$112,964 and \$113,648, respectively, and is recorded as investment return.

**Note 7: Medical Malpractice Claims**

DKH purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. As of September 30, 2015 DKH was covered by a professional liability policy with individual claim limits of \$1,000,000 for each occurrence and \$5,000,000 annual aggregate.

Based upon DKH's claims experience, an accrual had been made for DKHs' estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, amounting to approximately \$100,000 and \$680,000 as of September 30, 2015 and 2014, respectively. It is reasonably possible that this estimate could change materially in the near term.

**Note 8: Line of Credit**

DKH has available a \$1,250,400 line of credit. Borrowings are secured by certain inventory, accounts receivable, equipment and general intangibles. The interest rate at September 30, 2015 and 2014, was 4.25%. The line of credit matures annually on December 31. The line is partially used as a letter of credit of \$500,000 to secure self-insurance obligations related to DKH's workers compensation plan. The outstanding balance on the line of credit is \$750,400 and \$1,070,205 as of September 30, 2015 and 2014, respectively.

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**Note 9: Long-Term Debt**

	<u>2015</u>	<u>2014</u>
Series 2013 Bonds (A)	\$ 28,755,000	\$ 29,560,000
Note payable (B)	136,448	167,717
Note payable (C)	47,136	638,718
Capital lease obligations (D)	854,377	1,061,961
	<u>29,792,961</u>	<u>31,428,396</u>
Less current maturities	<u>1,473,425</u>	<u>1,866,750</u>
	<u>\$ 28,319,536</u>	<u>\$ 29,561,646</u>

- (A) On June 1, 2013 the State of Connecticut Health and Educational Facilities Authority (the “Authority”) issued \$30,300,000 of fixed rate revenue bonds to the Hospital, DKMG and Homemakers (collectively the “Obligated Group”) for the primary purpose of financing an emergency department expansion and the facility renovation project as well as refinance the Hospital’s existing bonds and bank debt. The bonds are fixed rate revenue bonds with interest rates ranging from 4.625% to 5.875%. The bonds mature at various dates between July 1, 2023 and July 1, 2043. The bonds contain certain covenants including maintaining a minimum amount of days cash on hand and debt service coverage ratio. The bonds are secured by the gross revenues of DKH.

DKH failed the days cash on hand requirement at September 30, 2015. The next measurement date was March 31, 2016, which originally DKH would not have met. In April 2016, DKH executed an amendment to the loan agreement, which reduced the March 31, 2016, requirement, of which DKH met. The amendment also reduced the requirement at September 30, 2016, and March 31, 2017.

- (B) On March 6, 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 loan calls for 84 equal monthly principal payments of approximately \$2,483.
- (C) On November 1, 2013, DKH entered into a note payable with a vendor for \$1,150,000, which matures October 1, 2015, and accrues interest at an annual rate of 7%. The balance on this note is \$47,136 as of September 30, 2015.
- (D) At varying rates of interest ranging from 3.00% to 7.25%. The agreements mature between March 2016 and August 2021.

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Aggregate annual maturities of long-term debt and capital lease obligations at September 30, 2015, are:

2016	\$ 1,473,425
2017	1,348,494
2018	1,352,015
2019	1,305,672
2020	1,321,320
Thereafter	<u>22,992,035</u>
	<u><u>\$ 29,792,961</u></u>

Property and equipment include the following under capital lease:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 1,697,053	\$ 1,456,562
Less accumulated depreciation	<u>577,169</u>	<u>190,095</u>
	<u><u>\$ 1,119,884</u></u>	<u><u>\$ 1,266,468</u></u>

**Note 10: Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are restricted for the following purposes at September 30:

	<u>2015</u>	<u>2014</u>
Beneficial interest in trust	\$ 1,632,170	\$ 1,817,426
Capital improvements and health care services	<u>1,260,936</u>	<u>1,381,110</u>
Total	<u><u>\$ 2,893,106</u></u>	<u><u>\$ 3,198,536</u></u>



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Permanently restricted net assets are restricted for the following purposes at September 30:

	<u>2015</u>	<u>2014</u>
Beneficial interest in trusts	\$ 2,576,856	\$ 2,858,278
Investments to be held in perpetuity	<u>1,489,934</u>	<u>1,489,348</u>
Total	<u>\$ 4,066,790</u>	<u>\$ 4,347,626</u>

The beneficial interest in trust included in temporarily restricted net assets is restricted to support capital purchases. The income from the investments held in perpetual is available to support health care services.

**Note 11: Charity Care**

The costs of charity care provided under DKH's charity care policy were approximately \$209,000 and \$253,000 for 2015 and 2014, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated care charges.

**Note 12: Functional Expenses**

DKH provides health care services to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 118,797,816	\$ 122,680,692
General and administrative	<u>20,797,592</u>	<u>22,948,977</u>
	<u>\$ 139,595,408</u>	<u>\$ 145,629,669</u>

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**Note 13: Pension Plans**

***Defined Benefit Plan***

DKH has a defined benefit pension plan covering all employees who meet the eligibility requirements. DKH's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as DKH may determine to be appropriate from time to time. The Hospital expects to contribute \$3,004,675 to the plan in 2016.

Effective January 1, 2006, DKH 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.

DKH uses a September 30 measurement date for the plan. Information about the plan's funded status follows:

Liabilities recognized in the consolidated balance sheets:

	<b>2015</b>	<b>2014</b>
Benefit obligation	\$ (118,269,066)	\$ (111,042,177)
Fair value of plan assets	<u>69,093,700</u>	<u>72,790,689</u>
Funded status	<u>\$ (49,175,366)</u>	<u>\$ (38,251,488)</u>
Noncurrent liabilities	<u>\$ 49,175,366</u>	<u>\$ 38,251,488</u>

Amounts not yet recognized as components of net periodic benefit cost consist of:

	<b>2015</b>	<b>2014</b>
Net loss	<u>\$ (53,834,378)</u>	<u>\$ (44,043,077)</u>

The projected benefit obligation equaled the accumulated benefit obligation for the plan at September 30, 2015 and 2014, respectively.

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Other significant balances and costs are:

	<b>2015</b>	<b>2014</b>
Employer contributions	\$ 2,999,687	\$ 2,101,428
Benefits paid	\$ 4,687,354	\$ 4,391,614
Net periodic benefit costs	\$ 4,132,264	\$ 3,177,428

Other changes in plan assets and benefit obligations recognized outside of deficiency of revenues over expenses:

	<b>2015</b>	<b>2014</b>
Net loss	<u>\$ (9,791,301)</u>	<u>\$ (6,094,072)</u>

Significant assumptions include:

	<b>2015</b>	<b>2014</b>
Discount rate	4.15%	4.10%

Weighted average assumptions used to determine benefit costs:

	<b>2015</b>	<b>2014</b>
Discount rate	4.15%	4.10%
Expected long-term return on assets	7.00%	7.00%

DKH estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The asset mix was determined by evaluating the expected return against the plan's long-term objectives. Performance is monitored 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.

***Pension Plan Assets***

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

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Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include mutual funds and cash equivalents. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Level 3 securities include pooled separate accounts which are valued based on the fair value of the underlying mutual fund in a publicly traded market adjusted to arrive at the net asset value of each pooled separate account. The property pooled separate account is valued based on the estimated fair value of the underlying real estate using discounted cash flow valuation models that utilize public real estate market data inputs such as transaction prices, market rents, vacancy levels, leasing absorption, market cap rates and discount rates. In addition, each property is appraised annually by an independent appraiser.

The fair values of DKH's pension plan assets at September 30, 2015 and 2014, by asset class are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2015</b>				
Cash and cash equivalents	\$ 92,649	\$ 92,649	\$ -	\$ -
Mutual funds - domestic stock	29,247,614	29,247,614	-	-
Mutual funds - international stock	14,978,583	14,978,583	-	-
Mutual funds - bonds	829,121	829,121	-	-
Corporate bonds	10,802,662	-	10,802,662	-
Pooled, common and collective funds	13,143,071	-	3,864,087	9,278,984
<b>September 30, 2014</b>				
Cash and cash equivalents	\$ 203,030	\$ 203,030	\$ -	\$ -
Mutual funds - domestic stock	34,751,946	34,751,946	-	-
Mutual funds - international stock	12,352,464	12,352,464	-	-
Mutual funds - bonds	1,124,176	1,124,176	-	-
Corporate bonds	10,840,643	-	10,840,643	-
Pooled, common and collective funds	13,518,430	-	3,427,612	10,090,818

The level 3 investments had a net decrease of \$811,834 and \$1,186,835 for 2015 and 2014, respectively, due to net sales of the investments.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of September 30, 2015:

2016	\$ 5,020,000
2017	5,355,000
2018	5,678,000
2019	6,002,000
2020	6,349,000
2021-2024	<u>34,906,000</u>
	<u>\$ 63,310,000</u>

***Defined Contribution Plan***

DKH has a defined contribution plan covering substantially all employees. Effective January 1, 2014, DKH will contribute up to 3% of eligible employees gross earnings. Pension expense was approximately \$896,000 and \$1,150,000 for 2015 and 2014, respectively.

**Note 14: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

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***Recurring Measurements***

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2015 and 2014.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2015</b>				
Cash and cash equivalents	\$ 4,118,256	\$ 4,118,256	\$ -	\$ -
Fixed income and fixed income mutual funds	4,602,283	4,602,283	-	-
Equity securities and equity mutual funds	6,083,799	6,083,799	-	-
Alternative investments	1,089,430	-	1,089,430	-
Beneficial interest in trusts	4,209,026	-	-	4,209,026
<b>September 30, 2014</b>				
Cash and cash equivalents	\$ 4,845,378	\$ 4,845,378	\$ -	\$ -
Fixed income and fixed income mutual funds	6,054,541	6,054,541	-	-
Equity securities and equity mutual funds	7,164,726	7,164,726	-	-
Alternative investments	1,145,217	-	1,145,217	-
Beneficial interest in trusts	4,675,704	-	-	4,675,704

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2015 and 2014. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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***Cash Equivalents and Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. DKH has no Level 3 investments.

***Beneficial Interest in Perpetual Trusts***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

***Level 3 Reconciliation***

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	<b>Beneficial Interest in Trusts</b>	
	<b>2015</b>	<b>2014</b>
	<hr/>	<hr/>
Balance, October 1	\$ 4,675,704	\$ 4,538,749
Change in fair value of interest in trusts	(353,714)	250,578
Distributions	<hr/> (112,964)	<hr/> (113,623)
Balance, September 30	<hr/> <hr/> \$ 4,209,026	<hr/> <hr/> \$ 4,675,704

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	2015	2014
Total gains or losses for the year included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date reported in the consolidated statements of operations as a component of excess of revenues over expenses	<u>\$ (353,714)</u>	<u>\$ 250,578</u>

**Note 15: The Fair Value Option**

As permitted by Topic 825, DKH elected to measure alternative investments at fair value. Management has elected the fair value option for this item because it more accurately reflects the portfolio returns and financial position of DKH. Total alternative investments at September 30, 2015 and 2014 are \$1,089,430 and \$1,145,217, respectively.

Change in fair value for items in which the fair value option has been elected are reported as investment return in other income (expense) in the financial statements. The fair value of these investments decreased by \$55,787 in 2015 and increased by \$14,428 in 2014.

**Note 16: Asset Retirement Obligation**

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable even when the timing and/or method of settlement may be conditional on a future event. At September 30, 2015 and 2014, DKH had an asset retirement obligation (ARO) related to asbestos remediation in accordance with state regulations. Environmental regulations exist in Connecticut that require that DKH handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. A liability of \$440,565 and \$399,918 had been recorded as of September 30, 2015 and 2014, respectively.



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**Note 17: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

***Professional Liability Claims***

Estimates related to the accrual for professional liability claims and related insurance receivable are described in *Note 7*.

***Investments***

DKH invests 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 and that such change could materially affect the amounts reported in the accompanying balance sheets.

***Self-Insurance***

Estimates related to the accrual for employee health care benefits and workers' compensation claims are described in *Note 1*. DKH accrues a liability for self-insured amounts by charging the statement of operations for certain known claims and reasonable estimates for incurred but not reported claims based on claims experience. The amount of actual losses incurred could differ materially from these estimates in the near term.

***Asset Retirement Obligation***

As discussed in *Note 16*, DKH has recorded a liability for its conditional asset retirement obligation related to asbestos.

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***Pension Benefit Obligation***

DKH has a noncontributory defined benefit pension whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to services rendered prior to the valuation date. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

***Litigation***

In the normal course of business, DKH is from time to time subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by DKH's commercial insurance policies; for example, allegations regarding employment practices or performance of contracts. DKH evaluates such allegations by conducting investigations to determine the validity of each potential claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

## **Supplementary Information**

**Day Kimball Healthcare, Inc.**  
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**Consolidating Schedule – Balance Sheet Information**  
**September 30, 2015**

**Assets**

	<b>Day Kimball Hospital</b>	<b>Day Kimball Medical Group, Inc.</b>	<b>Day Kimball Homemakers, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>					
Cash and cash equivalents	\$ 3,619,557	\$ 360,594	\$ 931,047	\$ -	\$ 4,911,198
Short-term investments	2,841,383	-	-	-	2,841,383
Assets limited as to use - current	2,715,707	-	-	-	2,715,707
Patient accounts receivable, net of allowance	10,634,409	1,621,414	247,128	-	12,502,951
Other receivables	1,671,235	402,865	-	(1,869)	2,072,231
Estimated amounts due from third-party payers	1,352,274	-	-	-	1,352,274
Supplies, prepaid expenses and other	2,402,769	71,484	24,086	-	2,498,339
Total current assets	<u>25,237,334</u>	<u>2,456,357</u>	<u>1,202,261</u>	<u>(1,869)</u>	<u>28,894,083</u>
<b>Assets Limited As To Use</b>					
Internally designated	8,384,272	-	-	-	8,384,272
Externally restricted by donors	1,952,406	-	-	-	1,952,406
Held by trustee	2,715,707	-	-	-	2,715,707
	<u>13,052,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,052,385</u>
Less amount required to meet current obligations	2,715,707	-	-	-	2,715,707
	<u>10,336,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,336,678</u>
<b>Property and Equipment, Net</b>	<u>49,078,740</u>	<u>169,628</u>	<u>115,866</u>	<u>-</u>	<u>49,364,234</u>
<b>Other Assets</b>					
Beneficial interest in trusts	4,209,026	-	-	-	4,209,026
Deferred financing costs	1,224,804	-	-	-	1,224,804
Other	405,303	-	-	-	405,303
	<u>5,839,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,839,133</u>
Total assets	<u>\$ 90,491,885</u>	<u>\$ 2,625,985</u>	<u>\$ 1,318,127</u>	<u>\$ (1,869)</u>	<u>\$ 94,434,128</u>

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Consolidating Schedule – Balance Sheet Information**  
**September 30, 2015**

**Liabilities and Net Assets**

	<b>Day Kimball Hospital</b>	<b>Day Kimball Medical Group, Inc.</b>	<b>Day Kimball Homemakers, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>					
Line of credit	\$ 750,400	\$ -	\$ -	\$ -	\$ 750,400
Current maturities of long-term debt	1,473,425	-	-	-	1,473,425
Accounts payable	9,450,701	529,915	102,286	(1,869)	10,081,033
Accrued payroll and benefits payable	5,209,480	1,914,215	-	-	7,123,695
Accrued expenses	2,279,263	63,696	-	-	2,342,959
Estimated amounts due to third-party payers	4,459,573	-	-	-	4,459,573
	<u>23,622,842</u>	<u>2,507,826</u>	<u>102,286</u>	<u>(1,869)</u>	<u>26,231,085</u>
Total current liabilities					
<b>Accrued Pension Liability</b>	49,175,366	-	-	-	49,175,366
<b>Long-Term Debt</b>	<u>28,319,536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,319,536</u>
	<u>101,117,744</u>	<u>2,507,826</u>	<u>102,286</u>	<u>(1,869)</u>	<u>103,725,987</u>
Total liabilities					
<b>Net Assets</b>					
Unrestricted	(17,585,755)	118,159	1,215,841	-	(16,251,755)
Temporarily restricted	2,893,106	-	-	-	2,893,106
Permanently restricted	4,066,790	-	-	-	4,066,790
	<u>(10,625,859)</u>	<u>118,159</u>	<u>1,215,841</u>	<u>-</u>	<u>(9,291,859)</u>
Total net assets					
Total liabilities and net assets	<u>\$ 90,491,885</u>	<u>\$ 2,625,985</u>	<u>\$ 1,318,127</u>	<u>\$ (1,869)</u>	<u>\$ 94,434,128</u>

**Day Kimball Healthcare, Inc.**  
**d/b/a Day Kimball Hospital**  
**Consolidating Schedule – Statement of Operations Information**  
**Year Ended September 30, 2015**

	Day Kimball Hospital	Day Kimball Medical Group, Inc.	Day Kimball Homemakers, Inc.	Total
<b>Unrestricted Revenues, Gains and Other Support</b>				
Patient service revenue (net of contractual discounts and allowances)	\$ 110,443,309	\$ 19,152,588	\$ 2,141,756	\$ 131,737,653
Provision for uncollectible accounts	(4,172,085)	(330,300)	(11,760)	(4,514,145)
Net patient service revenue less provision for provision for uncollectible accounts	106,271,224	18,822,288	2,129,996	127,223,508
Other	3,119,128	1,219,453	151,648	4,490,229
Net assets released from restrictions used for operations	279,620	-	-	279,620
Total unrestricted revenues, gains and other support	<u>109,669,972</u>	<u>20,041,741</u>	<u>2,281,644</u>	<u>131,993,357</u>
<b>Expenses and Losses</b>				
Salaries and wages	46,570,692	17,204,234	1,751,495	65,526,421
Employee benefits	15,990,518	3,031,233	168,741	19,190,492
Professional fees	10,276,040	1,913,839	16,078	12,205,957
Supplies and other	31,434,793	3,694,240	193,746	35,322,779
Depreciation and amortization	5,804,468	68,218	25,861	5,898,547
Interest	1,451,212	-	-	1,451,212
Total expenses	<u>111,527,723</u>	<u>25,911,764</u>	<u>2,155,921</u>	<u>139,595,408</u>
<b>Operating Income (Loss)</b>	<u>(1,857,751)</u>	<u>(5,870,023)</u>	<u>125,723</u>	<u>(7,602,051)</u>
<b>Other Income</b>				
Investment return	1,022,028	-	-	1,022,028
Contributions received	258,802	-	-	258,802
Total other income (expense)	<u>1,280,830</u>	<u>-</u>	<u>-</u>	<u>1,280,830</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	(576,921)	(5,870,023)	125,723	(6,321,221)
Change in defined benefit pension plan gains and losses	(9,791,301)	-	-	(9,791,301)
Change in unrealized losses on investments	(877,427)	-	-	(877,427)
Contributions and grants for the acquisition of property and equipment	2,155,290	-	-	2,155,290
Net assets released from restrictions used for acquisition of property and equipment	200,315	-	-	200,315
Transfer from (to) affiliates	(6,467,809)	6,467,809	-	-
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>\$ (15,357,853)</u>	<u>\$ 597,786</u>	<u>\$ 125,723</u>	<u>\$ (14,634,344)</u>