

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

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2016 and 2015

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
September 30, 2016 and 2015

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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 sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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.

Auditor's 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 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, 2016 and 2015, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 18* to the financial statements, in 2016 the Organization adopted Accounting Standards Update 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were 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 audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
January 16, 2017

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Consolidated Balance Sheets
September 30, 2016 and 2015

Assets

	2016	2015 (Adjusted - Note 18)
Current Assets		
Cash and cash equivalents	\$ 9,604,840	\$ 4,911,198
Short-term investments	3,332,258	2,841,383
Assets limited as to use - current	733,355	2,715,707
Patient accounts receivable, net of allowance: 2016 - \$4,730,000, 2015 - \$4,400,000	10,982,888	12,502,951
Other receivables	1,082,081	2,072,231
Estimated amounts due from third-party payers	809,012	1,352,274
Supplies, prepaid expenses and other	2,906,418	2,498,339
Total current assets	29,450,852	28,894,083
Assets Limited As To Use		
Internally designated	8,670,707	8,384,272
Externally restricted by donors	1,780,785	1,952,406
Held by trustee	2,995,239	2,715,707
	13,446,731	13,052,385
Less amount required to meet current obligations	733,355	2,715,707
	12,713,376	10,336,678
Assets Held for Sale	9,030,707	-
Property and Equipment, Net	38,170,690	49,364,234
Other Assets		
Beneficial interest in trusts	4,040,534	4,209,026
Other	409,513	485,303
	4,450,047	4,694,329
Total assets	\$ 93,815,672	\$ 93,289,324

Liabilities and Net Assets

	2016	2015 (Adjusted - Note 18)
Current Liabilities		
Line of credit	\$ -	\$ 750,400
Current maturities of long-term debt	1,616,174	1,473,425
Accounts payable	8,992,159	10,081,033
Accrued payroll and benefits payable	5,761,084	7,123,695
Accrued expenses	4,448,815	3,314,989
Estimated amounts due to third-party payers	3,207,838	3,487,543
	<hr/>	<hr/>
Total current liabilities	24,026,070	26,231,085
 Accrued Pension Liability	 56,290,353	 49,175,366
 Line of Credit	 723,607	 -
 Long-Term Debt	 25,960,734	 27,174,732
	<hr/>	<hr/>
Total liabilities	107,000,764	102,581,183
 Net Assets		
Unrestricted	(19,667,186)	(16,251,755)
Temporarily restricted	2,306,160	2,893,106
Permanently restricted	4,175,934	4,066,790
	<hr/>	<hr/>
Total net assets	(13,185,092)	(9,291,859)
 Total liabilities and net assets	 \$ 93,815,672	 \$ 93,289,324
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Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Consolidated Statements of Operations
Years Ended September 30, 2016 and 2015

	2016	2015
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 130,811,533	\$ 131,737,653
Provision for uncollectible accounts	(3,798,377)	(4,514,145)
Net patient service revenue less provision for uncollectible accounts	127,013,156	127,223,508
Other	6,622,739	3,923,994
Net assets released from restrictions used for operations	495,129	279,620
Total unrestricted revenues, gains and other support	134,131,024	131,427,122
Expenses and Losses		
Salaries and wages	61,877,394	65,512,468
Employee benefits	15,554,368	19,191,812
Supplies and other	37,634,460	34,769,177
Professional fees	11,250,897	12,205,957
Depreciation and amortization	5,706,862	5,768,815
Interest	1,768,386	1,580,944
Total expenses and losses	133,792,367	139,029,173
Operating Income (Loss)	338,657	(7,602,051)
Other Income		
Investment return	508,080	1,022,028
Contributions received	133,898	258,802
Total other income	641,978	1,280,830
Excess (Deficiency) of Revenues Over Expenses	980,635	(6,321,221)
Change in defined benefit pension plan gains and losses	(7,982,483)	(9,791,301)
Change in unrealized gains and losses on investments	460,114	(877,427)
Contributions and grants for the acquisition of property and equipment	2,759,823	2,155,290
Net assets released from restrictions used for acquisition of property and equipment	366,480	200,315
Decrease in Unrestricted Net Assets	\$ (3,415,431)	\$ (14,634,344)

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 980,635	\$ (6,321,221)
Change in defined benefit pension plan gains and losses	(7,982,483)	(9,791,301)
Investment return - change in unrealized gains (losses) on investments	460,114	(877,427)
Contributions and grants for the acquisition of property and equipment	2,759,823	2,155,290
Net assets released from restrictions used for acquisition of property and equipment	<u>366,480</u>	<u>200,315</u>
Decrease in unrestricted net assets	<u>(3,415,431)</u>	<u>(14,634,344)</u>
Temporarily Restricted Net Assets		
Contributions received	552,300	251,644
Change in beneficial interest in trust	(277,637)	(77,139)
Net assets released from restrictions	<u>(861,609)</u>	<u>(479,935)</u>
Decrease in temporarily restricted net assets	<u>(586,946)</u>	<u>(305,430)</u>
Permanently Restricted Net Assets		
Change in beneficial interest in perpetual trusts	<u>109,144</u>	<u>(280,836)</u>
Increase (decrease) in permanently restricted net assets	<u>109,144</u>	<u>(280,836)</u>
Change in Net Assets	(3,893,233)	(15,220,610)
Net Assets, Beginning of Year	<u>(9,291,859)</u>	<u>5,928,751</u>
Net Assets, End of Year	<u><u>\$ (13,185,092)</u></u>	<u><u>\$ (9,291,859)</u></u>

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Consolidated Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ (3,893,233)	\$ (15,220,610)
Items not requiring (providing) cash		
Depreciation and amortization	5,706,862	5,768,815
Net (gain) loss on investments	(567,709)	304,273
Change in beneficial interest in perpetual trust	168,493	357,975
Change in defined benefit pension plan	7,982,483	9,791,301
Contributions for acquisition of property and equipment	(2,759,823)	(2,155,290)
Restricted contributions received	(552,300)	(251,644)
Changes in		
Patient accounts receivable, net	1,520,063	2,206,999
Estimated amounts due from and to third-party payers	263,557	2,373,050
Accounts payable and accrued expenses	(817,997)	139,433
Other assets and liabilities	353,286	(1,276,431)
Net cash provided by operating activities	7,403,682	2,037,871
Investing Activities		
Purchase of investments	(3,587,304)	(4,406,807)
Proceeds from disposition of investments	3,345,581	7,554,450
Purchase of property and equipment	(4,360,180)	(7,786,292)
Net cash used in investing activities	(4,601,903)	(4,638,649)
Financing Activities		
Proceeds from restricted contributions	3,312,123	2,406,934
Proceeds from line of credit	-	150,000
Payments on line of credit	(26,793)	(469,805)
Proceeds from issuance of long-term debt	-	240,490
Principal payments on long-term debt	(1,393,467)	(1,875,925)
Net cash provided by financing activities	1,891,863	451,694
Increase (Decrease) in Cash and Cash Equivalents	4,693,642	(2,149,084)
Cash and Cash Equivalents, Beginning of Year	4,911,198	7,060,282
Cash and Cash Equivalents, End of Year	\$ 9,604,840	\$ 4,911,198
Supplemental Cash Flows Information		
Interest paid	\$ 1,684,635	\$ 1,719,656
Property and equipment acquired in accounts payable	\$ 261,751	\$ 1,400,124
Note payable incurred for property and equipment	\$ 322,218	\$ -

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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

Nature of Operations

Day Kimball Healthcare, Inc., d/b/a Day Kimball Hospital, 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 Day Kimball Healthcare, Inc., d/b/a Day Kimball Hospital (Hospital), Day Kimball Medical Group (DKMG) and Day Kimball Homemakers (Homemakers), (collectively “DKH”). All material intercompany accounts and transactions have been eliminated in consolidation.

The Hospital provides inpatient, outpatient and emergency care services. DKMG provides primary care and surgical services. Homemakers provide homemaker and chore companion services.

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, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2016 and 2015, DKH’s cash accounts exceeded federally insured limits by approximately \$9,256,000 and \$4,417,000, respectively.

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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 61% of self-pay accounts receivable at September 30, 2015, to 60% of self-pay accounts receivable at September 30, 2016. In addition, DKH's write-offs decreased approximately \$46,000 from approximately \$3,514,000 for the year ended September 30, 2015, to approximately \$3,468,000 for the year ended September 30, 2016. Allowance for uncollectible accounts activity for 2016 and 2015 is shown in the following table:

	2016	2015
Balance, beginning of year	\$ 4,400,000	\$ 3,400,000
Provision for year	3,798,377	4,514,145
Accounts charged off during year	(3,468,377)	(3,514,145)
Balance, end of year	\$ 4,730,000	\$ 4,400,000

Other Receivables

Other receivables are stated at their outstanding principal amount, net of allowance for uncollectible amounts. DKH provides an allowance for uncollectible amounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Amounts 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.

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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.

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:

	2016	2015
Interest capitalized	\$ -	\$ 621,396
Interest charged to expense	1,768,386	1,580,944
Total interest incurred	\$ 1,768,386	\$ 2,202,340

Assets Held For Sale

Assets held for sale are measured at the lower of their carrying amount or fair value less the cost to sell.

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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, 2016 and 2015.

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. Deferred financing costs are presented as a direct deduction from long-term debt (*Note 18*).

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.

Day Kimball Healthcare, Inc.
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Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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*.

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.

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (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).

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Estimated Self-Insurance Costs

DKH maintains estimated liabilities 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.

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 \$226,000 and \$437,000, for the years ended September 30, 2016 and 2015, respectively, which is included in other revenue within operating revenues in the consolidated statement of operations.

Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 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.

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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.

Medicaid. Inpatient and outpatient services rendered to Medicaid beneficiaries are reimbursed under prospectively determined rates. Inpatient rates were transitioned to Diagnosis Related Groups on January 1, 2015. Outpatient services were transitioned to Ambulatory Payment Classifications on July 1, 2016.

DKH receives additional revenue from the state of Connecticut for providing services to certain patients. DKH recorded revenue related to these programs of approximately \$5,489,000 and \$1,608,000, for the years ended September 30, 2016 and 2015, respectively, which is included in net patient service revenue (\$2,015,000 in 2016 and \$967,000 in 2015) and other revenue (\$3,474,000 in 2016 and \$641,000 in 2015) within operating revenues in the consolidated statements of operations.

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.

Day Kimball Healthcare, Inc.
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Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2016 and 2015, was approximately:

	2016	2015
Medicare	\$ 45,288,097	\$ 44,335,188
Medicaid	18,284,395	18,909,112
Blue Cross	27,870,532	27,902,840
Other third-party payers	38,997,965	39,595,128
Patients	370,544	995,385
	<u>\$ 130,811,533</u>	<u>\$ 131,737,653</u>

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, 2016 and 2015, was:

	2016	2015
Medicare	34%	34%
Medicaid	11%	15%
Blue Cross	17%	15%
Other third-party payers	26%	24%
Patients	12%	12%
	<u>100%</u>	<u>100%</u>

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Note 4: Investments and Investment Return

Investments at September 30 include:

	2016	2015
Cash and cash equivalents	\$ 4,575,749	\$ 4,118,256
Fixed income securities and fixed income mutual funds	5,671,629	4,602,283
Equity securities and equity mutual funds	5,395,677	6,083,799
Alternative investments	1,135,934	1,089,430
	<u>\$ 16,778,989</u>	<u>\$ 15,893,768</u>

Investments are included on the consolidated balance sheet as follows:

	2016	2015
Short-term investments	\$ 3,332,258	\$ 2,841,383
Assets limited as to use		
Internally designated	8,670,707	8,384,272
Externally restricted by donors	1,780,785	1,952,406
Held by trustee	2,995,239	2,715,707
	<u>\$ 16,778,989</u>	<u>\$ 15,893,768</u>

Total investment return is comprised of the following:

	2016	2015
Interest and dividend income	\$ 299,109	\$ 335,910
Distributions from beneficial interest in trusts	101,376	112,964
Realized gains on sales of securities	107,595	573,154
Net unrealized gains (losses) on trading securities	460,114	(877,427)
	<u>\$ 968,194</u>	<u>\$ 144,601</u>

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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

	2016	2015
Unrestricted net assets		
Other nonoperating revenue		
Investment return	\$ 508,080	\$ 1,022,028
Change in unrealized gains and losses on investments	460,114	(877,427)
	<u>\$ 968,194</u>	<u>\$ 144,601</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, 2016 and 2015, consist of the following:

	2016	2015
Real Estate Investment Trust (A)	\$ 553,166	\$ 525,075
Private Debt Securities (B)	146,163	170,388
Private Equity (C)	436,605	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, 2015.
- (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.

Other-than-Temporary Impairment

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, 2016 and 2015, was \$6,331,550 and \$6,934,297, which is approximately 38% and 44%, 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.

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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.

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, 2016 and 2015:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
Fixed income	\$ 1,267,637	\$ (117,952)	\$ 802,706	\$ (143,633)	\$ 2,070,343	\$ (261,585)
Equity securities	<u>878,861</u>	<u>(59,228)</u>	<u>3,382,346</u>	<u>(135,054)</u>	<u>4,261,207</u>	<u>(194,282)</u>
Total temporarily impaired securities	<u>\$ 2,146,498</u>	<u>\$ (177,180)</u>	<u>\$ 4,185,052</u>	<u>\$ (278,687)</u>	<u>\$ 6,331,550</u>	<u>\$ (455,867)</u>
September 30, 2015						
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>

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.

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Note 5: Property and Equipment and Assets Held for Sale

Property and equipment consists of the following at September 30, 2016 and 2015:

	2016	2015
Land and land improvements	\$ 3,462,050	\$ 3,488,121
Buildings and building improvements	70,382,508	80,366,512
Equipment	36,652,525	34,385,075
Construction in progress	3,192,013	4,666,369
	<u>113,689,096</u>	<u>122,906,077</u>
Less accumulated depreciation	75,518,406	73,541,843
	<u>\$ 38,170,690</u>	<u>\$ 49,364,234</u>

At September 30, 2016, construction in progress represents costs incurred in connection with the construction of various additions and alterations to DKH's facilities and equipment. The remaining cost to complete the projects is \$2,214,000 and is being funded through contributions, externally restricted investments and internally designated investments.

During 2016, DKH committed to a plan to sell certain medical office buildings and has reclassified approximately \$9,000,000 of property and equipment to be reported as assets held for sale. DKH intends to enter into a leaseback agreement on certain properties if the properties are sold. As of January 16, 2017, no sale agreements have been executed.

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 \$4,040,534 and \$4,209,026 which represents DKH's share of the fair value of the trust assets at September 30, 2016 and 2015, respectively. Trust income distributed to DKH for the years ended September 30, 2016 and 2015, was \$101,376 and \$112,964, respectively, and is recorded as investment return.

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Note 7: Medical Malpractice Claims

DKH purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. As of September 30, 2016, 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 as of September 30, 2016 and 2015. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Line of Credit

As of September 30, 2016, 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 as of September 30, 2016 and 2015, was 4.50% and 4.25%, respectively. 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 line of credit balance is \$723,607 and \$750,400 as of September 30, 2016 and 2015, respectively.

Subsequent to September 30, 2016, DKH refinanced the line of credit to a \$720,000 term loan. The loan matures in October 2019. Payments are due monthly including interest at 4.50%. The letter of credit was increased to \$750,000, and expires in October 2017. Interest on any letter of credit advances is payable monthly at prime plus 3.25%, subject to a floor of 6.75%. The term loan is secured by all DKH assets and letter of credit is secured by designated DKH assets.

Note 9: Long-Term Debt

	2016	2015
Series 2013 Bonds (A)	\$ 27,705,000	\$ 28,755,000
Note payable (B)	102,336	136,448
Note payable (C)	-	47,136
Note payable (D)	268,515	-
Capital lease obligations (E)	566,113	854,377
	<u>28,641,964</u>	<u>29,792,961</u>
Less unamortized debt issuance costs	1,065,056	1,144,804
Less current maturities	1,616,174	1,473,425
	<u>\$ 25,960,734</u>	<u>\$ 27,174,732</u>

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(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 with interest rates of 4.625% and 5.875%, respectively. The bonds mature at various dates between July 1, 2014, 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.

In April 2016, DKH executed an amendment to the loan agreement, which reduced the March 31, 2016, September 30, 2016, and March 31, 2017, days cash on hand requirements. Unamortized debt issuance costs were \$1,065,056 and \$1,144,804 at September 30, 2016 and 2015, respectively.

(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. The note is unsecured.

(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 note was paid in full during 2016. The note is unsecured.

(D) During 2016, DKH entered into a note payable with a vendor for \$322,218, which matures in July 2017. Payments are due monthly with no interest. The note is unsecured.

(E) At varying rates of interest ranging from 3.00% to 7.25%. The agreements mature between November 2018 and September 2020.

Aggregate annual maturities of long-term debt and capital lease obligations at September 30, 2016, are:

2017	\$ 1,616,174
2018	1,364,760
2019	1,308,330
2020	1,360,471
2021	1,322,229
Thereafter	<u>21,670,000</u>
	<u>\$ 28,641,964</u>

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Property and equipment include the following under capital lease:

	2016	2015
Equipment	\$ 1,700,248	\$ 1,700,248
Less accumulated depreciation	<u>1,020,210</u>	<u>577,169</u>
	<u>\$ 680,038</u>	<u>\$ 1,123,079</u>

Note 10: Temporarily and Permanently Restricted Net Assets

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

	2016	2015
Beneficial interest in trust	\$ 1,354,532	\$ 1,632,170
Capital improvements and health care services	<u>951,628</u>	<u>1,260,936</u>
Total	<u>\$ 2,306,160</u>	<u>\$ 2,893,106</u>

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

	2016	2015
Beneficial interest in trusts	\$ 2,686,002	\$ 2,576,856
Investments to be held in perpetuity	<u>1,489,932</u>	<u>1,489,934</u>
Total	<u>\$ 4,175,934</u>	<u>\$ 4,066,790</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.

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Note 11: Charity Care

The costs of charity care provided under DKH’s charity care policy were approximately \$150,000 and \$219,000 for 2016 and 2015, 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:

	2016	2015
Health care services	\$ 114,927,932	\$ 118,315,941
General and administrative	18,864,435	20,713,232
	\$ 133,792,367	\$ 139,029,173

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 approximately \$3,360,000 to the plan in 2017.

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:

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Liabilities recognized in the consolidated balance sheets:

	2016	2015
Benefit obligation	\$ (128,855,375)	\$ (118,269,066)
Fair value of plan assets	<u>72,565,022</u>	<u>69,093,700</u>
Funded status	<u>\$ (56,290,353)</u>	<u>\$ (49,175,366)</u>
Noncurrent liabilities	<u>\$ 56,290,353</u>	<u>\$ 49,175,366</u>

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

	2016	2015
Net loss	<u>\$ (61,816,861)</u>	<u>\$ (53,834,378)</u>

The projected benefit obligation equaled the accumulated benefit obligation for the plan at September 30, 2016 and 2015, respectively.

Other significant balances and costs are:

	2016	2015
Employer contributions	\$ 2,655,576	\$ 2,999,687
Benefits paid	5,117,677	4,687,354
Net periodic benefit costs	1,788,080	4,132,264

In 2016, DKH changed the amortization method of amortizing net actuarial losses to a method using average remaining life expectancy. In 2015, net actuarial losses were amortized using a method based on average service period. The net actuarial losses recognized in 2016 and 2015 was \$1,348,596 and \$4,063,153, respectively. The amortization period in 2016 and 2015 was 27.71 and 8.57, respectively.

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

	2016	2015
Net loss	<u>\$ (7,982,483)</u>	<u>\$ (9,791,301)</u>

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Significant assumptions include:

	2016	2015
Discount rate	3.46%	4.15%

Weighted average assumptions used to determine benefit costs:

	2016	2015
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.

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.

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The fair values of DKH's pension plan assets at September 30, 2016 and 2015, 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)
September 30, 2016				
Cash and cash equivalents	\$ 248,418	\$ 248,418	\$ -	\$ -
Mutual funds - domestic stock	24,332,677	24,332,677	-	-
Mutual funds - international stock	16,264,141	16,264,141	-	-
Mutual funds - bonds	814,286	814,286	-	-
Mutual funds - balanced	7,420,798	7,420,798	-	-
Corporate bonds	10,903,736	-	10,903,736	-
Pooled, common and collective funds	12,580,966	-	4,167,058	8,413,908
September 30, 2015				
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

The Level 3 investments had a net decrease of \$865,076 and \$811,834 for 2016 and 2015, 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, 2016:

2017	\$ 5,466,000
2018	5,782,000
2019	6,080,000
2020	6,402,000
2021	6,668,000
2022 - 2026	<u>35,745,000</u>
	<u>\$ 66,143,000</u>

Defined Contribution Plan

DKH has defined contribution plans covering substantially all employees. DKH contributes a percentage of eligible employees gross earnings. Pension expense was approximately \$868,000 and \$896,000 for 2016 and 2015, 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, 2016 and 2015.

	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)
September 30, 2016				
Cash and cash equivalents	\$ 4,575,749	\$ 4,575,749	\$ -	\$ -
Fixed income and fixed income mutual funds	5,671,629	5,671,629	-	-
Equity securities and equity mutual funds	5,395,677	5,395,677	-	-
Alternative investments	1,135,934	-	1,135,934	-
Beneficial interest in trusts	4,040,534	-	4,040,534	-
September 30, 2015				
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

Following is a description of the valuation methodologies and inputs used for assets 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 pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended September 30, 2016 and 2015. 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 2 of the hierarchy in 2016. The interest is classified within Level 3 in 2015.

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:

	Beneficial Interest in Trusts	
	2016	2015
Balance, October 1	\$ 4,209,026	\$ 4,675,704
Change in fair value of interest in trusts	(67,116)	(353,714)
Distributions	(101,376)	(112,964)
Transfer to Level 2	(4,040,534)	-
Balance, September 30	<u>\$ -</u>	<u>\$ 4,209,026</u>

The beneficial interest in trusts were transferred to Level 2 in 2016 due to a reclassification of the valuation inputs.

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	2016	2015
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 (deficiency) of revenues over expenses	\$ (67,116)	\$ (353,714)

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, 2016 and 2015, are \$1,135,934 and \$1,089,430, 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 \$46,504 in 2016 and decreased by \$55,787 in 2015.

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, 2016 and 2015, 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 has been recorded as of September 30, 2016 and 2015.

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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.

Note 18: Change in Accounting Principle

In 2016, DKH adopted Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires debt issuance costs be presented as a reduction from the debt liability, consistent with debt discounts or premiums, rather than as a deferred asset. The following financial statement line items for 2015 were affected by the change in accounting principle.

	As Originally Reported	As Adjusted	Effect of Change
Deferred financing costs	\$ 1,144,804	\$ -	\$ (1,144,804)
Total assets	94,434,128	93,289,324	(1,144,804)
Long-term debt	28,319,536	27,174,732	(1,144,804)
Total liabilities	103,725,987	102,581,183	(1,144,804)
Total liabilities and net assets	94,434,128	93,289,324	(1,144,804)

Supplementary Information

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Consolidating Schedule – Balance Sheet Information
September 30, 2016

Assets

	Day Kimball Hospital	Day Kimball Medical Group, Inc.	Day Kimball Homemakers, Inc.	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 8,332,457	\$ 273,804	\$ 998,579	\$ -	\$ 9,604,840
Short-term investments	3,332,258	-	-	-	3,332,258
Assets limited as to use - current	733,355	-	-	-	733,355
Patient accounts receivable, net of allowance	9,475,141	1,229,599	278,148	-	10,982,888
Other receivables	765,803	331,545	-	(15,267)	1,082,081
Estimated amounts due from third-party payers	809,012	-	-	-	809,012
Supplies, prepaid expenses and other	2,781,104	105,737	19,577	-	2,906,418
Total current assets	<u>26,229,130</u>	<u>1,940,685</u>	<u>1,296,304</u>	<u>(15,267)</u>	<u>29,450,852</u>
Assets Limited As To Use					
Internally designated	8,670,707	-	-	-	8,670,707
Externally restricted by donors	1,780,785	-	-	-	1,780,785
Held by trustee	2,995,239	-	-	-	2,995,239
	<u>13,446,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,446,731</u>
Less amount required to meet current obligations	733,355	-	-	-	733,355
	<u>12,713,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,713,376</u>
Assets Held for Sale	<u>9,030,707</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,030,707</u>
Property and Equipment, Net	<u>37,967,113</u>	<u>110,200</u>	<u>93,377</u>	<u>-</u>	<u>38,170,690</u>
Other Assets					
Beneficial interest in trusts	4,040,534	-	-	-	4,040,534
Other	409,513	-	-	-	409,513
	<u>4,450,047</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,450,047</u>
Total assets	<u>\$ 90,390,373</u>	<u>\$ 2,050,885</u>	<u>\$ 1,389,681</u>	<u>\$ (15,267)</u>	<u>\$ 93,815,672</u>

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Consolidating Schedule – Balance Sheet Information
September 30, 2016

	Day Kimball Hospital	Day Kimball Medical Group, Inc.	Day Kimball Homemakers, Inc.	Eliminations	Total
Current Liabilities					
Current maturities of long-term debt	\$ 1,616,174	\$ -	\$ -	\$ -	\$ 1,616,174
Accounts payable	8,329,752	642,266	35,408	(15,267)	8,992,159
Accrued payroll and benefits payable	4,544,232	1,216,852	-	-	5,761,084
Accrued expenses	4,369,078	79,737	-	-	4,448,815
Estimated amounts due to third-party payers	3,207,838	-	-	-	3,207,838
	<u>22,067,074</u>	<u>1,938,855</u>	<u>35,408</u>	<u>(15,267)</u>	<u>24,026,070</u>
Total current liabilities					
Accrued Pension Liability	56,290,353	-	-	-	56,290,353
Line of Credit	723,607	-	-	-	723,607
Long-Term Debt	<u>25,960,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,960,734</u>
Total liabilities	<u>105,041,768</u>	<u>1,938,855</u>	<u>35,408</u>	<u>(15,267)</u>	<u>107,000,764</u>
Net Assets					
Unrestricted	(21,133,489)	112,030	1,354,273	-	(19,667,186)
Temporarily restricted	2,306,160	-	-	-	2,306,160
Permanently restricted	<u>4,175,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,175,934</u>
Total net assets	<u>(14,651,395)</u>	<u>112,030</u>	<u>1,354,273</u>	<u>-</u>	<u>(13,185,092)</u>
Total liabilities and net assets	<u>\$ 90,390,373</u>	<u>\$ 2,050,885</u>	<u>\$ 1,389,681</u>	<u>\$ (15,267)</u>	<u>\$ 93,815,672</u>

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

Assets

	Day Kimball Hospital	Day Kimball Medical Group, Inc.	Day Kimball Homemakers, Inc.	Eliminations	Total
Current Assets					
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>
Assets Limited As To Use					
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>
Property and Equipment, Net	<u>49,078,740</u>	<u>169,628</u>	<u>115,866</u>	<u>-</u>	<u>49,364,234</u>
Other Assets					
Beneficial interest in trusts	4,209,026	-	-	-	4,209,026
Other	485,303	-	-	-	485,303
	<u>4,694,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,694,329</u>
Total assets	<u>\$ 89,347,081</u>	<u>\$ 2,625,985</u>	<u>\$ 1,318,127</u>	<u>\$ (1,869)</u>	<u>\$ 93,289,324</u>

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

Liabilities and Net Assets

	Day Kimball Hospital	Day Kimball Medical Group, Inc.	Day Kimball Homemakers, Inc.	Eliminations	Total
Current Liabilities					
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	3,251,293	63,696	-	-	3,314,989
Estimated amounts due to third-party payers	3,487,543	-	-	-	3,487,543
	<u>23,622,842</u>	<u>2,507,826</u>	<u>102,286</u>	<u>(1,869)</u>	<u>26,231,085</u>
Accrued Pension Liability	49,175,366	-	-	-	49,175,366
Long-Term Debt	<u>27,174,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,174,732</u>
Total liabilities	<u>99,972,940</u>	<u>2,507,826</u>	<u>102,286</u>	<u>(1,869)</u>	<u>102,581,183</u>
Net Assets					
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	<u>(10,625,859)</u>	<u>118,159</u>	<u>1,215,841</u>	<u>-</u>	<u>(9,291,859)</u>
Total liabilities and net assets	<u>\$ 89,347,081</u>	<u>\$ 2,625,985</u>	<u>\$ 1,318,127</u>	<u>\$ (1,869)</u>	<u>\$ 93,289,324</u>

Day Kimball Healthcare, Inc.
d/b/a Day Kimball Hospital
Consolidating Schedule – Statement of Operations Information
Year Ended September 30, 2016

	Day Kimball Hospital	Day Kimball Medical Group, Inc.	Day Kimball Homemakers, Inc.	Eliminations	Total
Unrestricted Revenues, Gains and Other Support					
Patient service revenue (net of contractual discounts and allowances)	\$ 111,096,462	\$ 17,659,853	\$ 2,055,218	\$ -	\$ 130,811,533
Provision for uncollectible accounts	(3,460,363)	(338,014)	-	-	(3,798,377)
Net patient service revenue less provision for provision for uncollectible accounts	107,636,099	17,321,839	2,055,218	-	127,013,156
Other	5,943,981	877,802	145,061	(344,105)	6,622,739
Net assets released from restrictions used for operations	495,129	-	-	-	495,129
Total unrestricted revenues, gains and other support	<u>114,075,209</u>	<u>18,199,641</u>	<u>2,200,279</u>	<u>(344,105)</u>	<u>134,131,024</u>
Expenses and Losses					
Salaries and wages	43,804,810	16,375,288	1,697,296	-	61,877,394
Employee benefits	13,179,406	2,207,246	167,716	-	15,554,368
Supplies and other	34,466,828	3,354,456	157,281	(344,105)	37,634,460
Professional fees	9,573,587	1,661,473	15,837	-	11,250,897
Depreciation and amortization	5,627,130	54,723	25,009	-	5,706,862
Interest	1,768,386	-	-	-	1,768,386
Total expenses and losses	<u>108,420,147</u>	<u>23,653,186</u>	<u>2,063,139</u>	<u>(344,105)</u>	<u>133,792,367</u>
Operating Income (Loss)	<u>5,655,062</u>	<u>(5,453,545)</u>	<u>137,140</u>	<u>-</u>	<u>338,657</u>
Other Income					
Investment return	512,784	(4,704)	-	-	508,080
Contributions received	133,898	-	-	-	133,898
Total other income (expense)	<u>646,682</u>	<u>(4,704)</u>	<u>-</u>	<u>-</u>	<u>641,978</u>
Excess (Deficiency) of Revenues Over Expenses	6,301,744	(5,458,249)	137,140		980,635
Change in defined benefit pension plan gains and losses	(7,982,483)	-	-	-	(7,982,483)
Change in unrealized losses on investments	458,822	-	1,292	-	460,114
Contributions and grants for the acquisition of property and equipment	2,759,823	-	-	-	2,759,823
Net assets released from restrictions used for acquisition of property and equipment	366,480	-	-	-	366,480
Transfer from (to) affiliates	(5,452,120)	5,452,120	-	-	-
Increase (Decrease) in Unrestricted Net Assets	<u>\$ (3,547,734)</u>	<u>\$ (6,129)</u>	<u>\$ 138,432</u>	<u>\$ -</u>	<u>\$ (3,415,431)</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.	Eliminations	Total
Unrestricted Revenues, Gains and Other Support					
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	3,120,448	1,219,453	151,648	(567,555)	3,923,994
Net assets released from restrictions used for operations	279,620	-	-	-	279,620
Total unrestricted revenues, gains and other support	<u>109,671,292</u>	<u>20,041,741</u>	<u>2,281,644</u>	<u>(567,555)</u>	<u>131,427,122</u>
Expenses and Losses					
Salaries and wages	46,556,739	17,204,234	1,751,495	-	65,512,468
Employee benefits	15,991,838	3,031,233	168,741	-	19,191,812
Supplies and other	31,448,746	3,694,240	193,746	(567,555)	34,769,177
Professional fees	10,276,040	1,913,839	16,078	-	12,205,957
Depreciation and amortization	5,674,736	68,218	25,861	-	5,768,815
Interest	1,580,944	-	-	-	1,580,944
Total expenses and losses	<u>111,529,043</u>	<u>25,911,764</u>	<u>2,155,921</u>	<u>(567,555)</u>	<u>139,029,173</u>
Operating Income (Loss)	<u>(1,857,751)</u>	<u>(5,870,023)</u>	<u>125,723</u>	<u>-</u>	<u>(7,602,051)</u>
Other Income					
Investment return	1,022,028	-	-	-	1,022,028
Contributions received	258,802	-	-	-	258,802
Total other income	<u>1,280,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,280,830</u>
Excess (Deficiency) of Revenues Over Expenses	(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	-	-	-
Increase (Decrease) in Unrestricted Net Assets	<u>\$ (15,357,853)</u>	<u>\$ 597,786</u>	<u>\$ 125,723</u>	<u>\$ -</u>	<u>\$ (14,634,344)</u>