

Day Kimball Healthcare, Inc.

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2012 and 2011



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Day Kimball Healthcare, Inc. (the Hospital) a Connecticut not-for-profit, non-stock corporation, as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Day Kimball Healthcare, Inc. as of September 30, 2012 and 2011, and the results of its consolidated operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Saslow Lufkin & Buggy, LLP

November 19, 2012

Day Kimball Healthcare, Inc.
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,277,302	\$ 2,768,481
Short-term investments	6,363,563	8,230,664
Accounts receivable (less allowance for doubtful accounts of \$3,371,361 in 2012 and \$3,482,663 in 2011)	14,676,491	12,857,684
Accounts receivable, other	1,026,189	1,146,921
Pledges receivable, current portion	508,459	252,099
Inventories and prepaid expenses	2,577,897	2,457,926
Due from third-party payers	2,645,109	-
Assets whose use is limited:		
Funds held under bond indenture agreement	324,188	431,679
Total current assets	31,399,198	28,145,454
Assets whose use is limited:		
Funds held under bond indenture agreement	1,292,108	1,292,238
Funds held under bond reserve fund	454,101	454,055
Pledges receivable, net of current portion	1,158,108	863,114
Funds held in trust by others	4,310,243	3,774,294
Donor restricted investments	4,544,868	3,600,068
Board restricted investments	7,795,145	6,346,080
	19,554,573	16,329,849
Investments in real estate	250,092	263,828
Deferred financing costs, net	541,087	618,684
Property, plant and equipment, net	37,039,270	36,609,993
	\$ 88,784,220	\$ 81,967,808
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ 580,000	\$ 340,000
Accounts payable	7,634,538	5,143,344
Salaries and wages payable	1,754,581	1,435,733
Employee benefits payable	4,084,544	3,156,267
Due to third-party payers	-	165,119
Other liabilities	2,186,813	2,225,915
Current portion of accrued pension obligation	1,725,174	3,662,028
Current portion of long-term debt	767,324	752,175
Total current liabilities	18,732,974	16,880,581
Long-term debt, less current portion	16,517,550	17,263,764
Accrued pension obligation, less current portion	36,868,659	29,499,800
Total liabilities	72,119,183	63,644,145
Net assets:		
Unrestricted	6,143,359	9,834,088
Temporarily restricted	6,314,783	4,589,323
Permanently restricted	4,206,895	3,900,252
Total net assets	16,665,037	18,323,663
Total liabilities and net assets	\$ 88,784,220	\$ 81,967,808

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

Day Kimball Healthcare, Inc.
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net revenues from services to patients	\$ 128,976,157	\$ 115,157,319
Other operating revenues	6,169,416	3,147,622
Grant income	943,485	1,025,822
Assets released from restrictions for operations	314,624	320,636
Total operating revenues	<u>136,403,682</u>	<u>119,651,399</u>
Operating expenses:		
Ancillary and physician services	51,260,164	41,658,850
Nursing services	23,633,378	23,567,308
Employee benefits and insurance	22,389,041	19,803,535
Fiscal services	9,310,889	8,772,638
General services	7,633,625	7,468,087
Administrative services	6,186,195	5,568,498
Homecare	5,983,745	5,196,012
Depreciation	4,810,041	4,608,128
Bad debts	3,709,565	3,528,349
Interest and amortization	1,106,339	995,291
Total operating expenses	<u>136,022,982</u>	<u>121,166,696</u>
Gain (loss) from operations	380,700	(1,515,297)
Non-operating gains	<u>486,938</u>	<u>1,333,404</u>
Excess (deficiency) of revenues over expenses	<u>\$ 867,638</u>	<u>\$ (181,893)</u>

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

Day Kimball Healthcare, Inc.
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets:		
Excess (deficiency) of revenues over expenses	\$ 867,638	\$ (181,893)
Pension related changes other than net periodic pension cost	(6,069,620)	(1,124,839)
Change in unrealized gains (losses) on investments	1,361,794	(1,309,695)
Assets released from restrictions for property, plant and equipment	149,459	209,203
Change in unrestricted net assets	(3,690,729)	(2,407,224)
Temporarily restricted net assets:		
Contributions	1,960,237	1,877,119
Change in funds held in trust by others	229,306	(8,657)
Assets released from restrictions	(464,083)	(529,839)
Change in temporarily restricted net assets	1,725,460	1,338,623
Permanently restricted net assets:		
Contributions	-	305,000
Change in funds held in trust by others	306,643	(122,073)
Change in permanently restricted net assets	306,643	182,927
Change in net assets	(1,658,626)	(885,674)
Net assets at beginning of year	18,323,663	19,209,337
Net assets at end of year	\$ 16,665,037	\$ 18,323,663

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

Day Kimball Healthcare, Inc.
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2012 and 2011

	2012	2011
Operating activities and non-operating gains:		
Change in net assets	\$ (1,658,626)	\$ (885,674)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities and non-operating gains:		
Depreciation and amortization	4,901,374	4,699,464
Provision for bad debts	3,709,565	3,528,349
Realized gains from sales of investments	(227,998)	(996,759)
Change in funds held in trust by others	(535,949)	130,730
Pension related changes other than net periodic pension cost	6,069,620	1,124,839
Restricted contributions	(1,960,237)	(1,877,119)
Changes in operating assets and liabilities:		
Accounts receivable	(5,528,372)	(5,666,797)
Accounts receivable, other	120,732	(484,669)
Pledges receivable	(551,354)	(1,115,213)
Inventories and prepaid expenses	(119,971)	(354,480)
Accounts payable	2,491,194	1,808,051
Salaries and wages payable	318,848	419,417
Employee benefits payable	928,277	(314,025)
Due to third-party payers	(2,810,228)	(1,143,003)
Accrued pension obligation	(637,615)	(149,798)
Other liabilities	(39,102)	(246,100)
Net cash provided by (used in) operating activities and non-operating gains	4,470,158	(1,522,787)
Investing activities:		
Additions to property, plant and equipment	(5,239,318)	(9,220,652)
(Purchases) sales of investments, net	(298,766)	721,518
Change in funds held under bond agreements	107,575	(198,750)
Net cash used in investing activities	(5,430,509)	(8,697,884)
Financing activities:		
Proceeds from restricted contributions	1,960,237	1,877,119
Borrowings on construction loan	-	3,324,832
Borrowings on line of credit	240,000	340,000
Principal payments on long-term debt	(731,065)	(560,000)
Net cash provided by financing activities	1,469,172	4,981,951
Change in cash and cash equivalents	508,821	(5,238,720)
Cash and cash equivalents at beginning of year	2,768,481	8,007,201
Cash and cash equivalents at end of year	\$ 3,277,302	\$ 2,768,481

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

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 1 - General

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

The Hospital provides inpatient, outpatient and emergency care services for residents of northeastern Connecticut. Homemakers provides homemaker and chore companion services to residents of northeastern Connecticut. Physician Services provides primary care and surgical services in northeastern Connecticut. DKMG was established during 2012 and has no business activity to date to report.

Note 2 - Summary of Significant Accounting Policies

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

Reclassifications - Certain 2011 amounts have been reclassified to conform with the 2012 consolidated financial statement presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

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

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

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

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

Deferred Financing Costs - Deferred financing costs have been recorded as an asset and are being amortized using the effective interest method over the term of the related financing agreement. Amortization expense on deferred financing costs was \$77,598 for the years ended September 30, 2012 and 2011.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Other Than Temporary Impairments on Investments - The Hospital accounts for other than temporary impairments in accordance with certain provisions of FASB ASC 320 "*Investments - Debt and Equity Securities*" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2012 or 2011.

Professional and General Liability Insurance - The Hospital maintains claims-made medical malpractice and general liability policies. Effective October 1, 2011 and for all periods presented, the Hospital adopted provisions of Accounting Standards Update (ASU) No. 2010-24, "*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*", which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. In connection with the Hospital's adoption of ASU 2010-24, the Hospital recorded increases under the captions "Accounts receivable, other" and "Other liabilities" in the accompanying consolidated balance sheets by \$732,300 and \$586,800 as of September 30, 2012 and 2011, respectively. The increases represent the Hospital's estimate of liabilities and recoveries for certain workers' compensation and professional and general liability claims. The adoption of ASU 2010-24 had no impact on the Hospital's consolidated results of operations or cash flows.

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

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose and are included within assets whose use is limited. Temporarily restricted net assets are available primarily for health care services, including cancer and pediatric programs and capital replacement.

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

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

Excess (Deficiency) of Revenues Over Expenses - The consolidated statements of operations and changes in net assets includes 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 for other than trading securities, assets released from restrictions for the purchase of property, plant and equipment and certain changes in pension liabilities.

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

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of traditional charity care provided, determined on the basis of cost, was approximately \$332,593 and \$237,696 for the years ended September 30, 2012 and 2011, respectively. Previously, the Hospital reported its estimates of services provided under its charity care programs based on gross charges. In connection with the Hospital's adoption of ASU 2010-23, "Health Care Entities (Topic 954): Measuring Charity Care for Disclosure," amounts previously reported for care provided under its charity care programs have been restated to reflect the Hospital's estimates of its direct and indirect cost of providing these services. This change had no impact on the Hospital's consolidated results of operations.

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

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

The Hospital accounts for uncertain tax positions with provisions of FASB ASC 740, “*Income Taxes*” which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as September 30, 2012 and 2011. As of September 30, 2012 and 2011, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital’s prior three tax years are open and subject to examination by the Internal Revenue Service.

Accounting Pronouncements Adopted - In August 2010, the FASB issued ASU No. 2010-23, “*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*”. ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for fiscal years beginning after December 15, 2010, with retrospective application required. The Hospital’s adoption of ASU 2010-23 did not have a material impact on its overall consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-24, “*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*”. ASU No. 2010-24 clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010. The Hospital’s adoption of ASU 2010-24 did not have an impact on its overall consolidated financial statements.

Pending Accounting Pronouncements - In May 2011, the FASB issued ASU No. 2011-04, “*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRs*”. ASU No. 2011-04 amends certain guidance in ASC 820, “*Fair Value Measurement*”. ASU 2011-04 expands ASC 820’s existing disclosure requirements for fair value measurements and makes other amendments. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011 and will be applied on a prospective basis. The Hospital is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Hospital’s consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, “*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*”. ASU 2011-07 requires a health care entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity’s policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012. The Hospital does not believe adoption of ASU 2011-07 will have a material impact on its overall consolidated financial statements.

Subsequent Events - Subsequent events have been evaluated through November 19, 2012, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 3 - Revenues from Services to Patients and Charity Care

The following summarizes net patient service revenues for the year ended September 30, 2012:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Physician Services</u>	<u>Total</u>
Gross revenues from services to patients	\$ 212,323,722	\$ 1,767,709	\$ 23,952,494	\$ 238,043,925
Deductions:				
Allowances	98,574,532	-	10,149,381	108,723,913
Connecticut uncompensated care pool	(366,243)	-	-	(366,243)
Charity care	710,098	-	-	710,098
	<u>98,918,387</u>	<u>-</u>	<u>10,149,381</u>	<u>109,067,768</u>
Net revenues from services to patients	<u>\$ 113,405,335</u>	<u>\$ 1,767,709</u>	<u>\$ 13,803,113</u>	<u>\$ 128,976,157</u>

The following summarizes net patient service revenues for the year ended September 30, 2011:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Physician Services</u>	<u>Total</u>
Gross revenues from services to patients	\$ 183,998,961	\$ 1,446,272	\$ 10,852,495	\$ 196,297,728
Deductions:				
Allowances	77,571,223	-	3,541,717	81,112,940
Connecticut uncompensated care pool	(419,050)	-	-	(419,050)
Charity care	446,519	-	-	446,519
	<u>77,598,692</u>	<u>-</u>	<u>3,541,717</u>	<u>81,140,409</u>
Net revenues from services to patients	<u>\$ 106,400,269</u>	<u>\$ 1,446,272</u>	<u>\$ 7,310,778</u>	<u>\$ 115,157,319</u>

In addition to the net revenues from services to patients above, during 2012 and 2011 the Hospital recognized revenue for certain incentive payments from Medicare and Medicaid related to the adoption of electronic medical records. The revenue recognized for these incentive payments amounted to \$1,837,958 and \$553,478 for the years ending September 30, 2012 and 2011, respectively and is recorded within other operating revenues on the accompanying consolidated statements of operations and changes in net assets.

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

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

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

Net revenues from services to patients are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments from cost reports with third-party payers. Cost report adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. During 2012, approximately 28% of net revenues from services to patients were received under the Medicare program, 17% under the Medicaid and town programs and 22% from Blue Cross. During 2011, approximately 30% of net revenues from services to patients were received under the Medicare program, 14% under the Medicaid and town programs and 22% from Blue Cross.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

The Hospital has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service and contractual payments to the Hospital for certain covered services based upon discounted fee schedules.

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

Note 4 - Investments

The Hospital has investments whose use is limited, which are carried on the consolidated balance sheets within funds held in trust by others, funds held under bond indenture agreements, funds held under bond reserve fund, donor restricted investments and board restricted investments. The composition of these assets consists primarily of cash, fixed income and equity investments. The funds held in trust by others were \$4,310,243 and \$3,774,294 as of September 30, 2012 and 2011, respectively.

The funds held under bond reserve fund as of September 30, 2012 and 2011 were \$454,101 and \$454,055, respectively. This fund was established as a result of the Hospital not meeting certain 2008 debt covenants of the bond insurer. The funds held under bond indenture agreements whose use is limited are \$1,616,296 and \$1,723,917 as of September 30, 2012 and 2011, respectively.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 4 - Investments (continued)

Short-term investments, donor restricted investments and board restricted investments, as of September 30, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 5,955,576	\$ 4,335,943
Certificates of deposit	434,682	431,617
Equities	6,555,151	5,329,862
Mutual funds - fixed income	5,535,523	3,655,328
Mutual funds - equities	222,644	987,710
Government securities	-	3,436,352
	<u>18,703,576</u>	<u>18,176,812</u>
Less: donor restricted investments	4,544,868	3,600,068
Less: board restricted investments	<u>7,795,145</u>	<u>6,346,080</u>
Short-term investments	<u>\$ 6,363,563</u>	<u>\$ 8,230,664</u>

Investment income, which is included within other operating revenues and non-operating gains, is comprised of the following, for the years ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Income:		
Realized gains on sales of investments	\$ 227,998	\$ 996,759
Interest income	176,295	206,926
Non-operating interest and dividend income	<u>258,061</u>	<u>297,561</u>
Total investment return	<u>\$ 662,354</u>	<u>\$ 1,501,246</u>
Other changes in net assets:		
Unrealized gains (losses) on investments	<u>\$ 1,361,794</u>	<u>\$ (1,309,695)</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 4 - Investments (continued)

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2012:

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities	\$ 578,352	\$ (28,803)	\$ -	\$ -	\$ 578,352	\$ (28,803)
Mutual funds	594,094	(22,042)	569,604	(21,550)	1,163,698	(43,592)
Other securities	15,156	(3,855)	-	-	15,156	(3,855)
Total	<u>\$ 1,187,602</u>	<u>\$ (54,700)</u>	<u>\$ 569,604</u>	<u>\$ (21,550)</u>	<u>\$ 1,757,206</u>	<u>\$ (76,250)</u>

In 2012, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2011:

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities	\$ 3,900,495	\$ (624,115)	\$ 1,022,140	\$(259,894)	\$ 4,922,635	\$ (884,009)
Mutual funds	2,890,430	(168,724)	154,718	(98,577)	3,045,148	(267,301)
Government securities	198,760	(2,109)	67,175	(1,063)	265,935	(3,172)
Total	<u>\$ 6,989,685</u>	<u>\$ (794,948)</u>	<u>\$ 1,244,033</u>	<u>\$(359,534)</u>	<u>\$ 8,233,718</u>	<u>\$ (1,154,482)</u>

In 2011, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

Note 5 - Fair Value Measurements

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

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

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

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 5 - Fair Value Measurements (continued)

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

The following table presents the financial instruments carried at fair value as of September 30, 2012 and 2011 by the valuation hierarchy:

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds	\$ 5,955,576	\$ -	\$ -	\$ 5,955,576
Equities:				
Small cap	745,447	-	-	745,447
Mid cap	649,933	-	-	649,933
Large cap	2,533,707	-	-	2,533,707
Exchange traded funds	1,719,383	-	-	1,719,383
Mutual funds - fixed income	5,535,523	-	-	5,535,523
Mutual funds - equities	1,129,325	-	-	1,129,325
	<u>18,268,894</u>	<u>-</u>	<u>-</u>	<u>18,268,894</u>
Funds held under bond agreements	2,070,397	-	-	2,070,397
Funds held in trust by others	<u>-</u>	<u>-</u>	<u>4,310,243</u>	<u>4,310,243</u>
Total	<u>\$ 20,339,291</u>	<u>\$ -</u>	<u>\$ 4,310,243</u>	<u>\$ 24,649,534</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 5 - Fair Value Measurements (continued)

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds	\$ 4,335,943	\$ -	\$ -	\$ 4,335,943
Equities:				
Small cap	1,011,209	-	-	1,011,209
Mid cap	881,643	-	-	881,643
Large cap	3,437,010	-	-	3,437,010
Mutual funds - fixed income	3,655,328	-	-	3,655,328
Mutual funds - equities	987,710	-	-	987,710
Government securities	-	3,436,352	-	3,436,352
	<u>14,308,843</u>	<u>3,436,352</u>	<u>-</u>	<u>17,745,195</u>
Funds held under bond agreements	2,177,972	-	-	2,177,972
Funds held in trust by others	<u>-</u>	<u>-</u>	<u>3,774,294</u>	<u>3,774,294</u>
Total	<u>\$ 16,486,815</u>	<u>\$ 3,436,352</u>	<u>\$ 3,774,294</u>	<u>\$ 23,697,461</u>

A rollforward of the amounts classified as Level 3 investments within the fair value hierarchy, as of September 30, 2012 and 2011 is as follows:

<u>2012</u>	<u>Funds Held in Trust by Others</u>
Balance as of October 1, 2011	\$ 3,774,294
Net change in market value	641,120
Distributions	<u>(105,171)</u>
Balance as of September 30, 2012	<u>\$ 4,310,243</u>
<u>2011</u>	<u>Funds Held in Trust by Others</u>
Balance as of October 1, 2010	\$ 3,905,024
Net change in market value	(29,858)
Distributions	<u>(100,872)</u>
Balance as of September 30, 2011	<u>\$ 3,774,294</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 5 - Fair Value Measurements (continued)

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

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

If quoted prices in active markets for identical assets and liabilities are not available, then quoted prices for similar assets and liabilities, quoted prices for identical assets or liabilities in inactive markets or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, will be used to determine fair value (Level 2 inputs). Securities typically priced using Level 2 inputs include government securities.

Assets and liabilities that are valued using significant unobservable inputs, such as extrapolated data, proprietary models, or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. The Hospital's funds held in trust by others are classified within the Level 3 classification. The value of the Hospital's assets is based on total fund values and the Hospital's corresponding beneficiary percentage.

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

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the year ended September 30, 2012 and 2011, there were no significant transfers in or out of levels 1, 2, or 3.

As of September 30, 2012 and 2011, the Hospital's other financial instruments included certificates of deposit, accounts receivable, accounts payable and accrued expenses, estimated third-party payer settlements and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Note 6 - Net Assets

Net assets that are temporarily restricted, as of September 30, 2012 and 2011, consist of the following:

	2012	2011
Beneficial trusts	\$ 1,592,696	\$ 1,363,390
Pledges restricted for capital improvements	1,666,567	1,115,213
Funds restricted for capital improvements	1,057,849	322,949
Funds restricted for health care services	1,997,671	1,787,771
Total	\$ 6,314,783	\$ 4,589,323

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 6 - Net Assets (continued)

Net assets that are permanently restricted, as of September 30, 2012 and 2011, consist of the following:

	2012	2011
Beneficial trusts	\$ 2,717,547	\$ 2,410,904
Endowments held in perpetuity with income restricted for operations	1,489,348	1,489,348
Total	\$ 4,206,895	\$ 3,900,252

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

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

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

Changes in endowment net assets and other donor restricted assets for the year ended September 30, 2012, are as follows:

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2011	\$ 6,346,080	\$ 3,225,933	\$ 1,489,348	\$ 11,061,361
Investment return:				
Investment income	258,061	-	-	258,061
Net change in market value	1,279,474	-	-	1,279,474
Investment fees	(88,470)	-	-	(88,470)
Contributions	-	1,960,237	-	1,960,237
Expenditures	-	(464,083)	-	(464,083)
Balance at September 30, 2012	\$ 7,795,145	\$ 4,722,087	\$ 1,489,348	\$ 14,006,580

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 6 - Net Assets (continued)

Changes in endowment net assets and other donor restricted assets for the year ended September 30, 2011, are as follows:

<u>2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2010	\$ 6,533,539	\$ 1,878,653	\$ 1,184,348	\$ 9,596,540
Investment return:				
Investment income	297,561	-	-	297,561
Net change in market value	(409,088)	-	-	(409,088)
Investment fees	(75,932)	-	-	(75,932)
Contributions	-	1,877,119	305,000	2,182,119
Expenditures	-	(529,839)	-	(529,839)
Balance at September 30, 2011	<u>\$ 6,346,080</u>	<u>\$ 3,225,933</u>	<u>\$ 1,489,348</u>	<u>\$ 11,061,361</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2012 and 2011, there were no funds that were below the level required by donor or law.

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

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

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

Note 7 - Long-Term Debt and Line of Credit

The Hospital has entered into a financing arrangement with the State of Connecticut Health and Educational Facilities Authority (the Authority) under a Trust Indenture for the financing of a facility renovation project. The Authority sold \$19,150,000 of Series A, fixed rate, insured revenue bonds, maturing serially from 1996 through 2026 with an average annual interest rate of approximately 5.2%. The balance of this debt as of September 30, 2012 and 2011 was \$12,470,000 and \$13,060,000, respectively. Under the terms of the financing arrangement, the proceeds of the Series A revenue bonds were loaned to the Hospital by the Authority.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

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

Pursuant to the loan agreements, the Hospital is required to provide amounts sufficient to enable the Authority to pay the principal and interest on the bonds. The borrowings under the Series A revenue bonds are secured by the pledge of gross receipts of the Hospital, as defined.

The debt is insured by a municipal bond insurance policy. Included within the debt agreements are financial covenants for the benefit of the bond insurer. These covenants include a minimum operating margin requirement of 1.0% and a minimum debt service coverage ratio of 2.0 to 1.0 for the obligated group, which does not include Physician Services. For the years ended September 30, 2012 and 2011, the Hospital was in compliance with these requirements. For the year ended September 30, 2008, the Hospital was not in compliance with these requirements. This violation required the Hospital to deposit funds into a special reserve fund in accordance with the calculation included within the master trust indenture agreement. The funds will be released to the Hospital in three equal annual installments after the Hospital has satisfied the covenants for a period of three consecutive years. The special reserve fund of \$454,101 and \$454,055, as of September 30, 2012 and 2011, respectively, has been included within the assets whose use is limited on the accompanying consolidated balance sheets. The Hospital has other covenants related to the Authority loan and trust indenture documents, including limitations on new indebtedness and a minimum debt service coverage ratio requirement of 1.35 to 1.0. The Hospital was in compliance with these covenants for 2012 and 2011.

On August 26, 2010, the Hospital entered into a Construction Mortgage Note (the Note) with a local bank to finance the construction of a medical office building in Plainfield, Connecticut. Under the terms of the Note, the Hospital can borrow up to \$5.0 million during the construction period. Principal payments on the Note began on September 1, 2011, based on a 20-year amortization period, with a final installment of the remaining balance due on August 1, 2021. The Note bears interest at 3.50% above the weekly average yield of United States Treasury Securities (0.17% and 0.10% at September 30, 2012 and 2011, respectively). The balance on the Note, as of September 30, 2012 and 2011, amounted to \$4,814,874 and \$4,955,939, respectively.

The Hospital has a line of credit agreement with Citizens National Bank for \$2.5 million. The line matures on January 31, 2013, and bears interest at the prime rate minus one half a percentage point (2.75% as of September 30, 2012 and 2011). Borrowings on the line are secured by certain Hospital equipment. There were \$580,000 and \$340,000 of borrowings against the line as of September 30, 2012 and 2011, respectively.

Interest paid during fiscal year 2012 and 2011 amounted to \$1,009,623 and \$947,693, respectively.

Maturities of long-term debt for the five years subsequent to September 30, 2012 and thereafter are as follows:

	<u>CHEFA</u>	<u>Bank Note</u>	<u>Total</u>
2013	\$ 620,000	\$ 147,324	\$ 767,324
2014	655,000	155,828	810,828
2015	690,000	164,823	854,823
2016	725,000	174,337	899,337
2017	765,000	184,401	949,401
Thereafter	<u>9,015,000</u>	<u>3,988,161</u>	<u>13,003,161</u>
Total	<u>\$ 12,470,000</u>	<u>\$ 4,814,874</u>	<u>\$ 17,284,874</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 8 - Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering all employees who have worked at least 1,000 hours during the year. Effective January 1, 2006, the Hospital amended the Plan to exclude all new hires after December 31, 2005. Effective September 30, 2008, the Plan was frozen and the participants are no longer accruing benefits. The benefits were based on years of service and the employee's compensation. The Hospital's funding policy is to contribute amounts sufficient to cover benefits to be paid as required by Employee Retirement Income Security Act funding standards. Significant disclosures relating to the Plan as of September 30, 2012 and 2011 are as follows:

	2012	2011
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 90,105,934	\$ 91,457,387
Interest cost	4,632,429	4,487,775
Actuarial loss (gain)	14,842,121	(2,194,210)
Benefits paid	(3,860,004)	(3,645,018)
Benefit obligations at end of year	\$ 105,720,480	\$ 90,105,934
 Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 56,944,106	\$ 59,270,600
Actual return on plan assets	11,040,517	(781,274)
Employer contributions	3,002,028	2,099,798
Benefits paid	(3,860,004)	(3,645,018)
Fair value of plan assets at end of year	\$ 67,126,647	\$ 56,944,106
 Accrued pension liability:		
Unfunded status	\$ (38,593,833)	\$ (33,161,828)
 Components of net periodic benefit cost:		
Interest cost	\$ 4,632,429	\$ 4,487,775
Expected return on plan assets	(5,099,081)	(5,100,648)
Recognized net loss	2,831,065	2,543,850
Net periodic benefit cost	\$ 2,364,413	\$ 1,930,977
 Assumptions:		
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.08%	5.25%
Rate of compensation increase	N/A	N/A
 Weighted-average assumptions used to determine net periodic benefit cost (income):		
Discount rate	5.25%	5.00%
Expected long-term return on plan assets	8.00%	8.00%

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 8 - Pension Plan (continued)

Amounts recorded in unrestricted net assets as of September 30, 2012 and 2011, not yet amortized as components of net periodic benefit costs, are as follows:

	<u>2012</u>	<u>2011</u>
Unamortized actuarial loss	<u>\$ 47,097,084</u>	<u>\$ 41,027,464</u>
Amount recognized as a reduction in unrestricted net assets	<u>\$ 47,097,084</u>	<u>\$ 41,027,464</u>

The amortization of the above items expected to be recognized in net periodic benefit costs for the years ended September 30, 2012 and 2011 are approximately \$4.2 million and \$2.8 million, respectively.

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

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

The fair values of the Hospital's pension plan assets by asset category, are as follows, for the years ending September 30, 2012 and 2011:

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market securities	\$ 2,402,329	\$ -	\$ -	\$ 2,402,329
Government securities	-	4,241,213	-	4,241,213
Corporate bonds	-	2,808,301	-	2,808,301
Equity securities:				
Small cap	138,289	-	-	138,289
Mid cap	6,540,944	-	-	6,540,944
Large cap	37,461,595	-	-	37,461,595
Guaranteed investment contract	-	-	13,533,976	13,533,976
Total	<u>\$ 46,543,157</u>	<u>\$ 7,049,514</u>	<u>\$ 13,533,976</u>	<u>\$ 67,126,647</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 8 - Pension Plan (continued)

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market securities	\$ 1,577,585	\$ -	\$ -	\$ 1,577,585
Government securities	-	4,571,515	-	4,571,515
Corporate bonds	-	2,130,051	-	2,130,051
Equity securities:				
Small cap	109,826	-	-	109,826
Mid cap	5,194,670	-	-	5,194,670
Large cap	29,751,154	-	-	29,751,154
Guaranteed investment contract	-	-	13,609,305	13,609,305
 Total	 <u>\$ 36,633,235</u>	 <u>\$ 6,701,566</u>	 <u>\$ 13,609,305</u>	 <u>\$ 56,944,106</u>

During the year ending September 30, 2012, the value of the guaranteed investment contract decreased for disbursements of \$3,924,893 and increased for income and Hospital contributions of \$3,849,564. During the year ending September 30, 2011, the value decreased for disbursements of \$3,708,819 and increased for income and Hospital contributions of \$4,173,396.

Contributions - The Hospital expects to contribute \$1,725,174 to its pension plan during the fiscal year beginning October 1, 2012.

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

2013	\$ 4,174,000
2014	\$ 4,450,000
2015	\$ 4,695,000
2016	\$ 4,943,000
2017	\$ 5,197,000
Years 2017-2022	\$ 29,866,000

The Hospital also has established a defined contribution benefit plan, which became effective January 1, 2006. Substantially all full-time employees are eligible to participate in the new plan. Employees may contribute up to 50% of their compensation into the defined contribution plan subject to Internal Revenue Code limitations and the Hospital contributes 3% of each eligible participant's gross earnings. In addition, the Hospital will contribute an additional 3% for participants that are fifty-five years of age or fifty years of age with 10 years of vesting service. The Hospital made employer contributions to the defined contribution plan totaling \$1,827,875 and \$1,748,524 in 2012 and 2011, respectively. Employees become vested in the Hospital's contributions over three years. The portion of the employer contributions unvested upon termination of an employee are forfeited and used to reduce future contributions made by the Hospital on a dollar-for-dollar basis.

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

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 9 - Operating Leases

The Hospital is party to various operating lease agreements and subleases space to various tenants. Future minimum lease payments by fiscal year as of September 30, 2012, are as follows:

2013	\$ 584,714
2014	424,527
2015	278,844
2016	100,664
2017	<u>29,437</u>
Total	<u>\$ 1,418,186</u>

Note 10 - Property, Plant and Equipment

Property, plant and equipment consist of the following as of September 30, 2012:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Physician Services</u>	<u>Total</u>
Land and land improvements	\$ 3,516,235	\$ -	\$ -	\$ 3,516,235
Buildings and improvements	64,447,808	-	-	64,447,808
Fixed equipment	812,679	-	-	812,679
Movable equipment	32,045,166	89,112	454,601	32,588,879
Construction in progress (estimated cost to complete - \$1,846,734)	3,849,846	-	-	3,849,846
	<u>104,671,734</u>	<u>89,112</u>	<u>454,601</u>	<u>105,215,447</u>
Less: accumulated depreciation	<u>(67,985,808)</u>	<u>(73,929)</u>	<u>(116,440)</u>	<u>(68,176,177)</u>
Total	<u>\$ 36,685,926</u>	<u>\$ 15,183</u>	<u>\$ 338,161</u>	<u>\$ 37,039,270</u>

Property, plant and equipment consist of the following as of September 30, 2011:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Physician Services</u>	<u>Total</u>
Land and land improvements	\$ 3,526,800	\$ -	\$ -	\$ 3,526,800
Buildings and improvements	63,964,917	-	-	63,964,917
Fixed equipment	812,679	-	-	812,679
Movable equipment	30,053,467	86,760	219,163	30,359,390
Construction in progress (estimated cost to complete - \$1,605,204)	2,510,153	-	-	2,510,153
	<u>100,868,016</u>	<u>86,760</u>	<u>219,163</u>	<u>101,173,939</u>
Less: accumulated depreciation	<u>(64,431,275)</u>	<u>(65,729)</u>	<u>(66,942)</u>	<u>(64,563,946)</u>
Total	<u>\$ 36,436,741</u>	<u>\$ 21,031</u>	<u>\$ 152,221</u>	<u>\$ 36,609,993</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 11 - Medical Malpractice

The Hospital maintains claims made professional and general liability insurance to cover malpractice and general liability exposures. The current insurance coverage does not have a deductible amount. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital believes that it has the ability and intent to continue purchasing such claims-made insurance policies. As discussed in Note 2, in connection with the Hospital's adoption of ASU 2010-24, the Hospital recorded increases under the captions "Other assets" and "Other long-term liabilities" in the accompanying consolidated balance sheets by \$732,300 and \$586,800 as of September 30, 2012 and 2011, respectively. In addition, the Hospital has estimated and recorded the ultimate costs, if any, of the settlement of all incurred but not reported claims.

Note 12 - Risks and Uncertainties

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

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

Note 13 - Functional Expenses

The Hospital, Homemakers and Physician Services provide general health care services to residents within their geographic location. General and administrative expenses were approximately 19% of total expenses in 2012 and 2011.

Note 14 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers as of September 30, 2012 and 2011 was as follows:

	2012	2011
Medicare	35%	32%
Medicaid	16%	19%
Blue Cross	14%	15%
Self pay	15%	15%
HMO and commercial	17%	18%
Other	3%	1%
	100%	100%
Total		

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 15 - Pledges Receivable

Pledges receivable represent unconditional promises to give for an ongoing capital campaign for an expansion of the emergency department. The following pledges are due to the Hospital as of September 30, 2012:

Due within one year	\$ 535,220
Due in one to five years	<u>1,219,061</u>
	1,754,281
Less: allowance for uncollectible pledges	<u>(87,714)</u>
Total	<u><u>\$ 1,666,567</u></u>

The pledges have been discounted by \$51,258 to arrive at the present value in the above table.

Note 16 - Related Party Transactions

As of September 30, 2012 and 2011, the Hospital has recorded an investment in Physician Services of \$7,382,143 and \$5,049,538, respectively, which represents the cumulative amount of capital that the Hospital has invested in Physician Services. During the years ended September 30, 2012 and 2011, the Hospital charged Physician Services \$2,707,577 and \$1,791,475 for costs associated with the management, accounting and oversight of the entity. In addition, as of September 30, 2012 and 2011, Physician Services owes the Hospital \$5,361,396 and \$2,653,820, respectively, for these costs.

As of September 30, 2012 and 2011, Homemakers owed the Hospital \$6,959 and \$2,691, respectively.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet
September 30, 2012

Assets	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Current assets:					
Cash and cash equivalents	\$ 2,156,339	\$ 527,511	\$ 593,452	\$ -	\$ 3,277,302
Short-term investments	6,363,563	-	-	-	6,363,563
Accounts receivable (less allowance for doubtful accounts of \$3,371,361)	12,743,539	261,269	1,671,683	-	14,676,491
Due from affiliates	5,368,355	-	-	(5,368,355)	-
Accounts receivable, other	1,026,189	-	-	-	1,026,189
Pledges receivable, current portion	508,459	-	-	-	508,459
Inventories and prepaid expenses	2,281,910	10,380	285,607	-	2,577,897
Due from third-party payers	2,645,109	-	-	-	2,645,109
Assets whose use is limited:					
Funds held under bond indenture agreement	324,188	-	-	-	324,188
Total current assets	<u>33,417,651</u>	<u>799,160</u>	<u>2,550,742</u>	<u>(5,368,355)</u>	<u>31,399,198</u>
Assets whose use is limited:					
Funds held under bond indenture agreement	1,292,108	-	-	-	1,292,108
Funds held under bond reserve fund	454,101	-	-	-	454,101
Pledges receivable, net of current portion	1,158,108	-	-	-	1,158,108
Funds held in trust by others	4,310,243	-	-	-	4,310,243
Donor restricted investments	4,537,882	6,986	-	-	4,544,868
Board restricted investments	7,706,000	89,145	-	-	7,795,145
	<u>19,458,442</u>	<u>96,131</u>	<u>-</u>	<u>-</u>	<u>19,554,573</u>
Investments in real estate	250,092	-	-	-	250,092
Investment in Physician Services of Northeast Connecticut, LLC	7,382,143	-	-	(7,382,143)	-
Deferred financing costs, net	541,087	-	-	-	541,087
Property, plant and equipment, net	<u>36,685,926</u>	<u>15,183</u>	<u>338,161</u>	<u>-</u>	<u>37,039,270</u>
Total assets	<u>\$ 97,735,341</u>	<u>\$ 910,474</u>	<u>\$ 2,888,903</u>	<u>\$ (12,750,498)</u>	<u>\$ 88,784,220</u>
Liabilities and Net Assets					
Current liabilities:					
Line of credit	\$ 580,000	\$ -	\$ -	\$ -	\$ 580,000
Accounts payable	6,961,922	37,913	634,703	-	7,634,538
Salaries and wages payable	1,268,378	-	486,203	-	1,754,581
Employee benefits payable	3,443,571	-	640,973	-	4,084,544
Due to third-party payers	-	-	-	-	-
Other liabilities	2,186,813	-	-	-	2,186,813
Due to affiliates	-	6,959	5,361,396	(5,368,355)	-
Current portion of accrued pension obligation	1,725,174	-	-	-	1,725,174
Current portion of long-term debt	767,324	-	-	-	767,324
Total current liabilities	<u>16,933,182</u>	<u>44,872</u>	<u>7,123,275</u>	<u>(5,368,355)</u>	<u>18,732,974</u>
Long-term debt, less current portion	16,517,550	-	-	-	16,517,550
Accrued pension obligation, less current portion	36,868,659	-	-	-	36,868,659
Total liabilities	<u>70,319,391</u>	<u>44,872</u>	<u>7,123,275</u>	<u>(5,368,355)</u>	<u>72,119,183</u>
Net assets:					
Unrestricted	16,901,258	858,616	(4,234,372)	(7,382,143)	6,143,359
Temporarily restricted	6,307,797	6,986	-	-	6,314,783
Permanently restricted	4,206,895	-	-	-	4,206,895
Total net assets	<u>27,415,950</u>	<u>865,602</u>	<u>(4,234,372)</u>	<u>(7,382,143)</u>	<u>16,665,037</u>
Total liabilities and net assets	<u>\$ 97,735,341</u>	<u>\$ 910,474</u>	<u>\$ 2,888,903</u>	<u>\$ (12,750,498)</u>	<u>\$ 88,784,220</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations
For the Year Ended September 30, 2012

	<u>Day Kimball Hospital</u>	<u>Day Kimball Homemakers, Inc.</u>	<u>Physician Services of NE CT, LLC</u>	<u>Eliminations</u>	<u>Day Kimball Healthcare, Inc.</u>
Operating revenues:					
Net revenues from					
services to patients	\$ 113,405,335	\$ 1,767,709	\$ 13,803,113	\$ -	\$ 128,976,157
Other operating revenues	5,447,532	1,270	720,614	-	6,169,416
Grant income	776,902	166,583	-	-	943,485
Assets released from restrictions for operations	314,624	-	-	-	314,624
Total operating revenues	<u>119,944,393</u>	<u>1,935,562</u>	<u>14,523,727</u>	<u>-</u>	<u>136,403,682</u>
Operating expenses:					
Ancillary and physician services	33,239,866	1,625,787	16,394,511	-	51,260,164
Nursing services	23,633,378	-	-	-	23,633,378
Employee benefits and insurance	19,856,567	138,849	2,393,625	-	22,389,041
Fiscal services	9,310,889	-	-	-	9,310,889
General services	7,633,625	-	-	-	7,633,625
Administrative services	6,186,195	-	-	-	6,186,195
Homecare	5,983,745	-	-	-	5,983,745
Depreciation	4,752,691	7,851	49,499	-	4,810,041
Bad debts	3,538,134	4,070	167,361	-	3,709,565
Interest and amortization	1,106,339	-	-	-	1,106,339
Total operating expenses	<u>115,241,429</u>	<u>1,776,557</u>	<u>19,004,996</u>	<u>-</u>	<u>136,022,982</u>
Gain (loss) from operations	4,702,964	159,005	(4,481,269)	-	380,700
Non-operating gains	483,967	2,971	-	-	486,938
Excess (deficiency) of revenues over expenses	<u>\$ 5,186,931</u>	<u>\$ 161,976</u>	<u>\$ (4,481,269)</u>	<u>\$ -</u>	<u>\$ 867,638</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet
September 30, 2011

Assets	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Current assets:					
Cash and cash equivalents	\$ 2,168,500	\$ 427,364	\$ 172,617	\$ -	\$ 2,768,481
Short-term investments	8,230,664	-	-	-	8,230,664
Accounts receivable (less allowance for doubtful accounts of \$3,482,663)	11,823,463	187,048	847,173	-	12,857,684
Due from affiliates	2,656,511	-	-	(2,656,511)	-
Accounts receivable, other	1,146,921	-	-	-	1,146,921
Pledges received, current portion	252,099	-	-	-	252,099
Inventories and prepaid expenses	2,339,159	8,807	109,960	-	2,457,926
Assets whose use is limited:					
Funds held under bond indenture agreement	431,679	-	-	-	431,679
Total current assets	<u>29,048,996</u>	<u>623,219</u>	<u>1,129,750</u>	<u>(2,656,511)</u>	<u>28,145,454</u>
Assets whose use is limited:					
Funds held under bond indenture agreement	1,292,238	-	-	-	1,292,238
Funds held under bond reserve fund	454,055	-	-	-	454,055
Funds held in trust by others	3,774,294	-	-	-	3,774,294
Pledges receivable, net of current portion	863,114	-	-	-	863,114
Donor restricted investments	3,596,333	3,735	-	-	3,600,068
Board restricted investments	6,257,014	89,066	-	-	6,346,080
	<u>16,237,048</u>	<u>92,801</u>	<u>-</u>	<u>-</u>	<u>16,329,849</u>
Investments in real estate	263,828	-	-	-	263,828
Investment in Physician Services of Northeast Connecticut, LLC	5,049,538	-	-	(5,049,538)	-
Deferred financing costs, net	618,684	-	-	-	618,684
Property, plant and equipment, net	<u>36,436,741</u>	<u>21,031</u>	<u>152,221</u>	<u>-</u>	<u>36,609,993</u>
Total assets	<u>\$ 87,654,835</u>	<u>\$ 737,051</u>	<u>\$ 1,281,971</u>	<u>\$ (7,706,049)</u>	<u>\$ 81,967,808</u>
Liabilities and Net Assets					
Current liabilities:					
Line of credit	\$ 340,000	\$ -	\$ -	\$ -	\$ 340,000
Accounts payable	4,934,781	33,985	174,578	-	5,143,344
Salaries and wages payable	1,154,981	-	280,752	-	1,435,733
Employee benefits payable	2,897,738	-	258,529	-	3,156,267
Due to third-party payers	165,119	-	-	-	165,119
Other liabilities	2,225,915	-	-	-	2,225,915
Due to affiliates	-	2,691	2,653,820	(2,656,511)	-
Current portion of accrued pension obligation	3,662,028	-	-	-	3,662,028
Current portion of long-term debt	752,175	-	-	-	752,175
Total current liabilities	<u>16,132,737</u>	<u>36,676</u>	<u>3,367,679</u>	<u>(2,656,511)</u>	<u>16,880,581</u>
Long-term debt, less current portion	17,263,764	-	-	-	17,263,764
Accrued pension obligation, less current portion	29,499,800	-	-	-	29,499,800
Total liabilities	<u>62,896,301</u>	<u>36,676</u>	<u>3,367,679</u>	<u>(2,656,511)</u>	<u>63,644,145</u>
Net assets:					
Unrestricted	16,272,694	696,640	(2,085,708)	(5,049,538)	9,834,088
Temporarily restricted	4,585,588	3,735	-	-	4,589,323
Permanently restricted	3,900,252	-	-	-	3,900,252
Total net assets	<u>24,758,534</u>	<u>700,375</u>	<u>(2,085,708)</u>	<u>(5,049,538)</u>	<u>18,323,663</u>
Total liabilities and net assets	<u>\$ 87,654,835</u>	<u>\$ 737,051</u>	<u>\$ 1,281,971</u>	<u>\$ (7,706,049)</u>	<u>\$ 81,967,808</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations
For the Year Ended September 30, 2011

	<u>Day Kimball Hospital</u>	<u>Day Kimball Homemakers, Inc.</u>	<u>Physician Services of NE CT, LLC</u>	<u>Eliminations</u>	<u>Day Kimball Healthcare, Inc.</u>
Operating revenues:					
Net revenues from					
services to patients	\$ 106,400,269	\$ 1,446,272	\$ 7,310,778	\$ -	\$ 115,157,319
Other operating revenues	2,831,630	1,266	314,726	-	3,147,622
Grant income	842,008	183,814	-	-	1,025,822
Assets released from restrictions for operations	320,636	-	-	-	320,636
Total operating revenues	<u>110,394,543</u>	<u>1,631,352</u>	<u>7,625,504</u>	<u>-</u>	<u>119,651,399</u>
Operating expenses:					
Ancillary and physician services	30,547,101	1,416,826	9,694,923	-	41,658,850
Nursing services	23,567,308	-	-	-	23,567,308
Employee benefits and insurance	18,336,341	134,142	1,333,052	-	19,803,535
Fiscal services	8,772,638	-	-	-	8,772,638
General services	7,468,087	-	-	-	7,468,087
Homecare	5,196,012	-	-	-	5,196,012
Administrative services	5,568,498	-	-	-	5,568,498
Depreciation	4,550,361	10,936	46,831	-	4,608,128
Bad debts	3,435,180	9,250	83,919	-	3,528,349
Interest and amortization	995,291	-	-	-	995,291
Total operating expenses	<u>108,436,817</u>	<u>1,571,154</u>	<u>11,158,725</u>	<u>-</u>	<u>121,166,696</u>
Gain (loss) from operations	1,957,726	60,198	(3,533,221)	-	(1,515,297)
Non-operating losses	<u>1,333,404</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,333,404</u>
Excess (deficiency) of revenues over expenses	<u>\$ 3,291,130</u>	<u>\$ 60,198</u>	<u>\$ (3,533,221)</u>	<u>\$ -</u>	<u>\$ (181,893)</u>

See accompanying Independent Auditors' Report.