

Day Kimball Healthcare, Inc.

**Independent Auditors' Report,
Consolidated Financial Statements, and
Supplemental Information**

**As of and for the Years Ended
September 30, 2009 and 2008**

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Saslow Lufkin & Buggy, LLP

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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, 2009 and 2008, and the related consolidated statements of operations, 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, 2009 and 2008, 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 has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and 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. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows of the individual companies. However, in our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Saslow Lufkin & Buggy, LLP

December 1, 2009

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Day Kimball Healthcare, Inc.
Consolidated Balance Sheets
September 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 9,970,754	\$ 10,775,830
Certificates of deposit	2,541,422	2,500,452
Short-term investments	10,865,968	10,340,434
Accounts receivable (less allowance for doubtful accounts of \$4,130,887 in 2009 and \$4,117,000 in 2008)	11,197,943	10,227,117
Accounts receivable, other	228,139	149,188
Inventories and prepaid expenses	1,482,202	951,421
Assets whose use is limited:		
Funds held under bond indenture agreement	<u>605,899</u>	418,444
Total current assets	<u>36,892,327</u>	35,362,886
Assets whose use is limited:		
Funds held under bond indenture agreement	1,292,324	1,292,324
Funds held under bond reserve fund	453,612	-
Funds restricted for bond reserve fund	-	839,000
Funds held in trust by others	3,734,376	3,756,691
Donor restricted endowment	3,612,175	3,281,562
Board restricted endowment	<u>5,628,100</u>	5,622,461
	<u>14,720,587</u>	14,792,038
Investments in real estate	291,301	305,037
Deferred financing costs, net	773,880	853,575
Property, plant and equipment, net	<u>25,518,179</u>	24,795,695
Total assets	<u>\$ 78,196,274</u>	<u>\$ 76,109,231</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 3,735,626	\$ 1,955,951
Salaries and wages payable	1,617,235	1,557,644
Employee benefits payable	4,093,881	3,812,756
Due to third-party payers	3,205,718	1,916,517
Other liabilities	2,294,479	2,480,707
Current portion of pension liability	761,860	1,500,000
Current portion of long-term debt	<u>530,000</u>	500,000
Total current liabilities	<u>16,238,799</u>	13,723,575
Long-term debt, less current portion	13,620,000	14,150,000
Pension and other liabilities	<u>25,602,222</u>	2,079,231
Total liabilities	<u>55,461,021</u>	29,952,806
Net assets:		
Unrestricted	15,388,702	39,118,172
Temporarily restricted	3,711,784	3,345,100
Permanently restricted	3,634,767	3,693,153
Total net assets	<u>22,735,253</u>	46,156,425
Total liabilities and net assets	<u>\$ 78,196,274</u>	<u>\$ 76,109,231</u>

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

Day Kimball Healthcare, Inc.
Consolidated Statements of Operations
For the Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Net revenues from services to patients	\$ 99,560,103	\$ 90,296,406
Other operating revenues	1,878,233	2,695,908
Grant income	933,549	762,432
Assets released from restrictions for operations	200,965	130,366
Total operating revenues	102,572,850	93,885,112
Operating expenses:		
Other professional services	27,695,510	23,705,702
Nursing services	22,011,176	22,372,793
Other operating expenses	19,454,572	17,019,073
Fiscal services	7,713,373	8,980,456
General services	6,763,719	6,636,258
Administrative services	4,043,985	4,902,811
Homecare	4,780,044	4,605,018
Depreciation	4,425,527	4,319,724
Bad debts	3,599,872	3,963,022
Interest and amortization	792,499	808,754
Total operating expenses	101,280,277	97,313,611
Gain (loss) from operations	1,292,573	(3,428,499)
Pension curtailment expense	-	(270,279)
Non-operating (losses) gains	(687,680)	763,925
Excess of revenues over (under) expenses	\$ 604,893	\$ (2,934,853)

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

Day Kimball Healthcare, Inc.
Consolidated Statements of Changes in Net Assets
For the Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted net assets:		
Excess of revenues over (under) expenses	\$ 604,893	\$ (2,934,853)
Pension related changes other than net periodic pension cost	(25,271,151)	4,610,030
Cumulative effect of adoption of pension measurement date	-	(667,198)
Change in unrealized gains (losses) on investments	924,737	(1,120,052)
Assets released from restrictions for property, plant and equipment	<u>12,051</u>	<u>67,749</u>
Change in unrestricted net assets	<u>(23,729,470)</u>	<u>(44,324)</u>
Temporarily restricted net assets:		
Contributions	500,338	331,210
Net realized and unrealized gains (losses) on investments	43,291	(32,288)
Change in funds held in trust by others	36,071	(233,546)
Assets released from restrictions	<u>(213,016)</u>	<u>(198,115)</u>
Change in temporarily restricted net assets	<u>366,684</u>	<u>(132,739)</u>
Permanently restricted net assets:		
Change in funds held in trust by others	<u>(58,386)</u>	<u>(566,251)</u>
Change in permanently restricted net assets	<u>(58,386)</u>	<u>(566,251)</u>
Change in net assets	(23,421,172)	(743,314)
Net assets at beginning of year	<u>46,156,425</u>	<u>46,899,739</u>
Net assets at end of year	<u><u>\$ 22,735,253</u></u>	<u><u>\$ 46,156,425</u></u>

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

Day Kimball Healthcare, Inc.
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2009 and 2008

	2009	2008
Operating activities and non-operating gains and losses:		
Change in net assets	\$ (23,421,172)	\$ (743,314)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities and non-operating gains and losses:		
Depreciation and amortization	4,518,958	4,415,252
Provision for bad debts	3,599,872	3,963,022
Realized losses from sales of investments	1,207,755	710,253
Change in funds held in trust by others	22,315	799,797
Pension related changes other than net periodic pension cost	25,271,151	(4,610,030)
Restricted contributions and other investment earnings	(543,629)	(298,922)
Changes in operating assets and liabilities:		
Accounts receivable	(4,570,698)	(4,623,102)
Accounts receivable - other	(78,951)	(38,516)
Inventories and prepaid expenses	(530,781)	(55,637)
Accounts payable	1,779,675	234,577
Salaries and wages payable	59,591	448,091
Employee benefits payable	281,125	(455,483)
Due to third-party payers	1,289,201	336,160
Other liabilities	<u>(2,672,528)</u>	<u>(2,700,935)</u>
Net cash provided by (used in) operating activities and non-operating gains and losses	<u>6,211,884</u>	<u>(2,618,787)</u>
Investing activities:		
Additions to property, plant and equipment	(5,148,011)	(3,251,390)
Sales of investments, net	(1,684,153)	(473,666)
(Purchases) sales of certificates of deposit, net	(40,970)	4,093,507
Change in funds held under bond indenture agreement	<u>(187,455)</u>	<u>(840,590)</u>
Net cash used in investing activities	<u>(7,060,589)</u>	<u>(472,139)</u>
Financing activities:		
Proceeds from restricted contributions and restricted investment income	543,629	298,922
Principal payments on long-term debt	<u>(500,000)</u>	<u>(475,000)</u>
Net cash provided by (used in) financing activities	<u>43,629</u>	<u>(176,078)</u>
Change in cash and cash equivalents	<u>(805,076)</u>	<u>(3,267,004)</u>
Cash and cash equivalents at beginning of year	<u>10,775,830</u>	<u>14,042,834</u>
Cash and cash equivalents at end of year	<u>\$ 9,970,754</u>	<u>\$ 10,775,830</u>

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, 2009 and 2008

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 two subsidiaries, Day Kimball Homemakers, Inc. (Homemakers) and Physician Services of Northeast Connecticut, LLC (Physician Services). Physician Services began operations on July 13, 2008.

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 services in the towns of Danielson, Brooklyn, Woodstock, and Putnam, Connecticut.

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. The consolidated financial statements include the accounts of the Hospital and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated 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 amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Hospital considers all highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents. At times, the Hospital maintains cash balances that are in excess of the \$250,000 Federal Depository Insurance Corporation (FDIC) insured limits. In addition, FDIC coverage for balances in non-interest bearing transaction deposit accounts is unlimited if the bank elects to participate. The Hospital maintains its cash at four banks, and it is the Hospital's policy to monitor the banks' financial strength on an ongoing basis.

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 \$79,695 and \$81,792 for the years ended September 30, 2009 and 2008, respectively.

Property, Plant and Equipment - Property, plant and equipment is recorded on the basis of cost or, if received as a donation or bequest, at the fair market value on the date received. The Hospital provides for 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.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 2 - Summary of Significant Accounting Policies (continued)

Investments - Investments, which consist principally of marketable equity securities and fixed income maturities, are measured at fair value in the consolidated balance sheet. Investment income (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over (under) expenses unless restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from excess of revenues over (under) expenses.

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 income on the consolidated statements of operations. Investment income generated by funds held in trust by others is included within non-operating (losses) gains in the consolidated statements of operations. In addition, in 2008 the Hospital received a \$1,158,104 cash insurance settlement, which is included within non-operating (losses) gains during 2008, see Note 10 for further discussion of this settlement.

Effective October 1, 2008, the Hospital adopted provisions of Accounting Standards Codification 820-10, *“Fair Value Measurements and Disclosures”* (ASC 820-10). For financial statement elements currently required to be measured at fair value, ASC 820-10 redefines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability, which is referred to as the exit price. ASC 820-10 provides guidance on how to measure fair value, when required, under existing accounting standards. ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2 and 3).

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access at the measurement date.

Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.

Level 3 - Unobservable inputs reflecting the Hospital’s estimates of the assumptions that market participants could use in pricing the asset or liability (including assumptions about risk).

Other Than Temporary Impairments on Investments - When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings, included in net realized gains (losses) on investments, and the cost basis of that investment is reduced. For equity securities, the Hospital’s management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and the Hospital’s intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 2 - Summary of Significant Accounting Policies (continued)

The Hospital adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification 320-10, *“Investments - Debt and Equity Securities”* (which encompassed FASB Staff Position Financial Accounting Standard 115-2 and Financial Accounting Standard 124-2), *“Recognition and Presentation of Other-Than-Temporary Impairments”* (FSP FAS 115-2/124-2), which relates to fixed income securities.

This guidance requires the Hospital to evaluate whether it intends to sell an impaired fixed income security or whether it is more likely than not that it will be required to sell an impaired fixed income security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the fixed income security’s amortized cost and its fair value is recognized in earnings. For impaired fixed income securities that do not meet these criteria, the Hospital determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment (i.e., the difference between the security’s amortized cost and its projected net present value) is recognized in earnings and the remaining portion of the impairment is recognized outside of excess of revenues over expenses. No impairment losses were recognized during 2009. An impairment loss was recognized during 2008, which is further described in Note 4.

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 endowment and in funds held in trusts by others. Permanently restricted net assets are restricted primarily for investments to be held in perpetuity, the income from which is expendable to support health care services and restricted funds held in trust by others, the income from which 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 statements of operations or changes in net assets, as net assets released from restrictions.

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

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 2 - Summary of Significant Accounting Policies (continued)

Estimated Malpractice Costs - The Hospital maintains a claims-made medical malpractice policy. The Hospital has recorded a reserve for estimated medical malpractice claims incurred but not reported. The Hospital utilizes the services of an independent consulting actuary to estimate the reserve for estimated incurred but not reported medical malpractice claims.

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.

Non-Operating (Losses) Gains - Activities, other than in connection with providing health care services, are considered to be non-operating. Non-operating gains and losses consist primarily of income on board restricted endowment funds, income from funds held in trust by others and the insurance settlement of \$1,158,104 in 2008.

Income Taxes - The Hospital and Homemakers 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.

Effective October 1, 2007, the Hospital adopted certain provisions of Accounting Standards Codification 740-10, “*Income Taxes*” (ASC 740-10), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a company’s tax position taken or expected to be taken in a tax return. ASC 740-10 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of ASC 740-10 did not have any impact on the accompanying financial statements, as the Hospital does not believe that it has any uncertain tax positions.

Reclassifications - Certain 2008 amounts have been reclassified to conform with the 2009 financial statement presentation. Such reclassifications consisted of certain board and donor restricted endowment assets now being reported within assets whose use is limited and the income and losses on the board restricted endowments being reclassified to non-operating (losses) gains. Such reclassifications did not have a material effect on the consolidated financial statements.

Recent Accounting Pronouncement - In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, “*FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162*”. This guidance establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative GAAP for nongovernmental entities. The Codification supersedes all existing non-SEC accounting and reporting standards. Rules and interpretive releases of the SEC under authority of federal securities laws will remain authoritative GAAP for SEC registrants.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 2 - Summary of Significant Accounting Policies (continued)

This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As the Codification will not change existing GAAP, the adoption of this guidance did not have an impact on the consolidated financial condition or results of consolidated operations of the Hospital.

Subsequent Events - Subsequent events have been evaluated through November 19, 2009, the date through which procedures were performed to prepare the financial statements for issuance.

Note 3 - Revenues from Services to Patients and Charity Care

The following summarizes net patient service revenues for the year ended September 30, 2009:

	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Total
Gross revenues from services to patients	\$ 165,561,002	\$ 1,275,127	\$ 3,172,532	\$ 170,008,661
Deductions:				
Allowances	68,355,481	-	882,840	69,238,321
Charity care	1,210,237	-	-	1,210,237
	69,565,718	-	882,840	70,448,558
Net revenues from services to patients	<u>\$ 95,995,284</u>	<u>\$ 1,275,127</u>	<u>\$ 2,289,692</u>	<u>\$ 99,560,103</u>

The following summarizes net patient service revenues for the year ended September 30, 2008:

	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Total
Gross revenues from services to patients	\$ 154,041,672	\$ 1,077,163	\$ 366,469	\$ 155,485,304
Deductions:				
Allowances	64,337,750	-	130,446	64,468,196
Charity care	720,702	-	-	720,702
	65,058,452	-	130,446	65,188,898
Net revenues from services to patients	<u>\$ 88,983,220</u>	<u>\$ 1,077,163</u>	<u>\$ 236,023</u>	<u>\$ 90,296,406</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

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

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

Net 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 2009, approximately 31% of net revenues from services to patients were received under the Medicare program, 13% under the Medicaid and town programs, and 22% from Blue Cross. During 2008, approximately 35% of net revenues from services to patients were received under the Medicare program, 9% under the Medicaid and town programs, and 25% 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 for the State, 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 a bond indenture agreement, funds held under a bond reserve fund, donor restricted endowment and board restricted endowment. The composition of these assets consists primarily of cash, fixed income and equity investments. The funds held in trust by others were \$3,734,376 and \$3,756,691 as of September 30, 2009 and 2008, respectively.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 4 - Investments (continued)

The \$453,612 of funds held under the bond reserve fund as of September 30, 2009 and the \$839,000 of funds that were restricted for the bond reserve fund as of September 30, 2008, were established due to the fact that the Hospital did not meet certain 2008 debt covenants of the bond insurer, see Note 6. The funds held under a bond indenture agreement whose use is limited are \$1,898,223 and \$1,710,768 as of September 30, 2009 and 2008, respectively.

Short-term investments, donor restricted endowment and board restricted endowment as of September 30, 2009 and 2008 consist of the following:

	2009	2008
Money market funds	\$ 8,764,138	\$ 7,382,872
Equities	5,134,640	4,467,910
Mutual funds	3,955,227	2,378,762
Government securities	1,309,545	3,440,773
Corporate bonds	<u>942,693</u>	<u>1,574,140</u>
	20,106,243	19,244,457
Less: donor restricted endowment	<u>3,612,175</u>	<u>3,281,562</u>
Less: board restricted endowment	<u>5,628,100</u>	<u>5,622,461</u>
Short-term investments	<u><u>\$ 10,865,968</u></u>	<u><u>\$ 10,340,434</u></u>

Investment income, which is included within other operating revenues and non-operating (losses) gains, is comprised of the following for the years ended September 30, 2009 and 2008:

	2009	2008
Income:		
Realized losses on sales of investments	\$ (1,207,755)	\$ (710,253)
Interest income	<u>762,627</u>	<u>1,011,386</u>
Non-operating interest and dividend income	<u>93,880</u>	<u>113,826</u>
Total investment return	<u><u>\$ (351,248)</u></u>	<u><u>\$ 414,959</u></u>
Other changes in net assets:		
Unrealized gains (losses) on investments	<u><u>\$ 924,737</u></u>	<u><u>\$ (1,120,052)</u></u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

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, at September 30, 2009:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	\$ 817,827	\$ (86,704)	\$ 1,076,480	\$ (261,887)	\$ 1,894,307	\$ (348,591)
Mutual funds	178,844	(17,452)	763,979	(172,872)	942,823	(190,324)
Government securities	351,562	(352)	-	-	351,562	(352)
Corporate bonds	392,681	(3,803)	-	-	392,681	(3,803)
	<u>\$ 1,740,914</u>	<u>\$ (108,311)</u>	<u>\$ 1,840,459</u>	<u>\$ (434,759)</u>	<u>\$ 3,581,373</u>	<u>\$ (543,070)</u>

In 2009, 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, 2008:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	\$ 2,760,892	\$ (548,370)	\$ 196,687	\$ (9,124)	\$ 2,957,579	\$ (557,494)
Mutual funds	1,179,767	(179,280)	545,130	(19,826)	1,724,897	(199,106)
Government securities	2,148,391	(11,914)	-	-	2,148,391	(11,914)
Corporate bonds	1,413,119	(77,454)	87,714	(485)	1,500,833	(77,939)
	<u>\$ 7,502,169</u>	<u>\$ (817,018)</u>	<u>\$ 829,531</u>	<u>\$ (29,435)</u>	<u>\$ 8,331,700</u>	<u>\$ (846,453)</u>

During 2008, the Hospital recognized an impairment loss of \$484,000 resulting from certain unrealized losses, which were deemed to be other than temporary. The investments that were deemed to be other than temporarily impaired had a market value of \$1,137,471 as of September 30, 2008. This impairment loss is included within other operating revenues on the consolidated statement of operations and has reduced the Hospital's cost basis for these investments to their market values as of September 30, 2008.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 5 - Endowment and Restricted Funds

The Hospital's endowment consists of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds, funds designated by the Board of Directors to function as endowments and funds held in trust by others. As required by accounting principles generally accepted in the United States of America, 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.

The net asset composition of the Hospital's endowment and other donor restricted funds as of September 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	\$ 5,628,100	\$ -	\$ -	\$ 5,628,100
Beneficial trusts	-	1,283,957	2,450,419	3,734,376
Donor restricted	<u>-</u>	<u>2,427,827</u>	<u>1,184,348</u>	<u>3,612,175</u>
Total	<u>\$ 5,628,100</u>	<u>\$ 3,711,784</u>	<u>\$ 3,634,767</u>	<u>\$ 12,974,651</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 5 - Endowment and Restricted Funds (continued)

The net asset composition of the Hospital's endowment and other donor restricted funds as of September 30, 2008 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	\$ 5,622,461	\$ -	\$ -	\$ 5,622,461
Beneficial trusts	-	1,247,886	2,508,805	3,756,691
Donor restricted	<u>-</u>	<u>2,097,214</u>	<u>1,184,348</u>	<u>3,281,562</u>
Total	<u>\$ 5,622,461</u>	<u>\$ 3,345,100</u>	<u>\$ 3,693,153</u>	<u>\$ 12,660,714</u>

Changes in endowment and other donor restricted net assets for the year ended September 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2008	\$ 5,622,461	\$ 3,345,100	\$ 3,693,153	\$ 12,660,714
Investment return:				
Investment income	397,926	34,110	-	432,036
Net change in market value	(305,638)	45,252	(58,386)	(318,772)
Contributions	-	500,338	-	500,338
Expenditures	<u>(86,649)</u>	<u>(213,016)</u>	<u>-</u>	<u>(299,665)</u>
Balance at September 30, 2009	<u>\$ 5,628,100</u>	<u>\$ 3,711,784</u>	<u>\$ 3,634,767</u>	<u>\$ 12,974,651</u>

Net asset funds that are temporarily restricted are available for the following purposes as of September 30, 2009 and 2008:

	2009	2008
Beneficial trusts	\$ 1,283,957	\$ 1,247,886
Health care services	<u>2,427,827</u>	<u>2,097,214</u>
	<u>\$ 3,711,784</u>	<u>\$ 3,345,100</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 5 - Endowment and Restricted Funds (continued)

Net asset funds that are permanently restricted as of September 30, 2009 and 2008 consist of the following:

	2009	2008
Beneficial trusts	\$ 2,450,419	\$ 2,508,805
Held in perpetuity with income restricted for operations	<u>1,184,348</u>	<u>1,184,348</u>
	<u>\$ 3,634,767</u>	<u>\$ 3,693,153</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, 2009 and 2008, 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.

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.

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 appropriated \$86,649 in funds for expenditure from its board restricted endowment for the year ending September 30, 2009. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

Note 6 - Long-Term Debt

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, 2009 and 2008 was \$14,150,000 and \$14,650,000, 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, 2009 and 2008

Note 6 - Long-Term Debt (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 year ending September 30, 2009, the Hospital was in compliance with these requirements. For the year ending 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 \$453,612 as of September 30, 2009 has been included within the assets whose use is limited on the accompanying consolidated balance sheet. In 2008, the Hospital had estimated the amount which was to be restricted as a result of this non-compliance as \$839,000. 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 2009 and 2008.

Maturities of long-term debt for the five years subsequent to September 30, 2009 are as follows:

2010	\$ 530,000
2011	560,000
2012	590,000
2013	620,000
2014	655,000
Thereafter	<u>11,195,000</u>
	<u><u>\$ 14,150,000</u></u>

Interest paid during fiscal year 2009 and 2008 amounted to \$799,218 and \$812,138, respectively.

The Hospital has a line of credit agreement with Citizens National Bank for \$2.5 million. The line matures on November 1, 2011, and bears interest at the prime rate minus one half a percentage point (2.75% and 4.50% as of September 30, 2009 and 2008, respectively). There were no borrowings against the line as of September 30, 2009 and 2008.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 7 - 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 additional benefits. The impact of freezing the Plan required the Hospital to recognize a curtailment expense of \$270,279 during the fiscal year ended September 30, 2008. 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.

Accounting Standards Codification 715-60, "*Defined Benefit Plans - Other Postretirement*" (ASC 715-60) required the Hospital to begin measuring the funded status of the Plan as of the date of its year end consolidated balance sheets. Prior to the adoption of the measurement provision during the fiscal year ending September 30, 2008, the Hospital had measured its year end liability as of June 30. The adoption of the measurement provision caused the Hospital to recognize an increase to the pension liability of \$667,198 and a corresponding decrease to unrestricted net assets of \$667,198, which represented the three-month adjustment to bring the valuation date to September 30, 2008.

Significant disclosures relating to the Plan as of the related valuation dates are as follows:

	2009	2008
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 61,816,102	\$ 72,982,495
Service cost	-	2,890,476
Interest cost	4,573,185	4,598,091
Curtailment and plan amendments	-	(7,481,832)
Actuarial loss (gain)	19,966,480	(8,653,938)
Benefits paid	(2,937,467)	(3,186,388)
Impact of measurement date adoption	-	667,198
Benefit obligations at end of year	<u>\$ 83,418,300</u>	<u>\$ 61,816,102</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 58,236,871	\$ 56,410,736
Actual return on plan assets	104,814	(7,562,452)
Employer contributions	1,750,000	12,574,975
Benefits paid	(2,937,467)	(3,186,388)
Fair value of plan assets at end of year	<u>\$ 57,154,218</u>	<u>\$ 58,236,871</u>
Accrued pension liability:		
Unfunded status	<u>\$ (26,264,082)</u>	<u>\$ (3,579,231)</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 7 - Pension Plan (continued)

	2009	2008
Components of net periodic benefit (income) cost:		
Service cost	\$ -	\$ 2,890,476
Interest cost	4,573,185	4,598,091
Expected return on plan assets	(5,409,485)	(4,888,667)
Net amortization and deferral	-	33,898
Recognized net loss	-	620,169
Curtailment expense	-	270,279
Net periodic benefit (income) cost	\$ (836,300)	\$ 3,524,246

Assumptions:

Weighted-average assumptions used to determine benefit obligations:

Discount rate	5.55%	7.55%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit (income) cost:

Discount rate	7.55%	6.41%
Expected long-term return on plan assets	8.00%	8.25%

Amounts recorded in unrestricted net assets as of September 30, 2009 and 2008, not yet amortized as components of net periodic benefit (income) costs are as follows:

	2009	2008
Unamortized actuarial loss	\$ 33,764,041	\$ 8,592,890
Amount recognized as a reduction in unrestricted net assets	\$ 33,764,041	\$ 8,592,890

The amortization of the above items expected to be recognized in net periodic benefit (income) costs are approximately \$1,600,000 and \$0 for the years ending September 30, 2010 and 2009, respectively.

Plan assets are invested in an insurance contract with Prudential and other investments with Merrill Lynch.

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.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 7 - Pension Plan (continued)

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

The fair values of the Hospital's pension plan assets by asset category are as follows for the year ending September 30, 2009, are as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market securities	\$ 2,098,639	\$ -	\$ -
Fixed income	-	8,784,428	-
Equity securities	34,616,163	-	-
Guaranteed investment contract	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>
	\$ 36,714,802	\$ 8,784,428	\$ 11,654,988
	<hr/>	<hr/>	<hr/>

As of October 1, 2008, the value of the guaranteed investment contract was \$13,887,310. During the year ending September 30, 2009, the value decreased for disbursements of \$2,998,907 and increased for income of \$766,585.

Contributions - The Hospital expects to contribute \$761,870 to its pension plan during the fiscal year beginning October 1, 2009.

Estimated future benefit payments - The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

2010	\$ 3,333,000
2011	\$ 3,586,000
2012	\$ 3,861,000
2013	\$ 4,159,000
2014	\$ 4,427,000
Years 2015-2019	\$ 25,888,000

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.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 7 - Pension Plan (continued)

Employees may contribute up to 50% of their compensation into the defined contribution plan subject to Internal Revenue Service 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 or fifty years of age with 10 years of vesting service. The Hospital made employer contributions to the defined contribution plan totaling \$1,599,418 in 2009 and \$160,054 in 2008. 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.

Note 8 - Property, Plant and Equipment

Property, plant and equipment consist of the following at September 30, 2009:

	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Total
Land and land improvements	\$ 3,526,800	\$ -	\$ -	\$ 3,526,800
Buildings and improvements	49,951,086	-	-	49,951,086
Fixed equipment	812,679	-	-	812,679
Movable equipment	25,541,292	63,027	12,684	25,617,003
Construction in progress (estimated cost to complete - \$987,493)	1,220,368	-	-	1,220,368
	<u>81,052,225</u>	<u>63,027</u>	<u>12,684</u>	<u>81,127,936</u>
Less: accumulated depreciation	<u>(55,565,960)</u>	<u>(41,575)</u>	<u>(2,222)</u>	<u>(55,609,757)</u>
	<u>\$ 25,486,265</u>	<u>\$ 21,452</u>	<u>\$ 10,462</u>	<u>\$ 25,518,179</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 8 - Property, Plant and Equipment (continued)

Property, plant and equipment consist of the following at September 30, 2008:

	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Total
Land and land improvements	\$ 2,877,284	\$ -	\$ 2,877,284
Buildings and improvements	47,852,530	-	47,852,530
Fixed equipment	812,679	-	812,679
Movable equipment	24,323,797	57,729	24,381,526
Construction in progress (estimated cost to complete - \$309,239)	455,330	-	455,330
	<hr/> 76,321,620	<hr/> 57,729	<hr/> 76,379,349
Less: accumulated depreciation	<hr/> (51,554,467)	<hr/> (29,187)	<hr/> (51,583,654)
	<hr/> <u>\$ 24,767,153</u>	<hr/> <u>\$ 28,542</u>	<hr/> <u>\$ 24,795,695</u>

Note 9 - Operating Leases

The Hospital is party to various operating lease agreements and subleases space to various tenants. Future minimum lease payments are \$424,288 (2010), \$209,039 (2011), \$40,191 (2012), \$11,204 (2013) and \$0 (2014).

Note 10 - 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 policies. In addition, the Hospital has estimated and recorded the ultimate costs, if any, of the settlement of all incurred but not reported claims.

During the year ending September 30, 2008, the Hospital received a \$1,158,104 insurance settlement from an insurance company that underwrote the Hospital's older malpractice insurance policies which was placed into run-off. The settlement is included within non-operating (losses) gains on the consolidated statement of operations during 2008.

Note 11 - Contingencies

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.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 11 - Contingencies (continued)

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 12 - 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 2009 and 2008.

Note 13 - 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 at September 30, 2009 and 2008, was as follows:

	2009	2008
Medicare	31%	31%
Medicaid	17%	11%
Blue Cross	11%	15%
Self pay	21%	21%
HMO and commercial	17%	17%
Other	3%	5%
	100%	100%

Note 14 - Related Party Transactions

During the year ending September 30, 2009, the Hospital recorded an investment in Physician Services of \$1,050,000, which represents the cumulative amount of capital that the Hospital has invested in Physician Services. In addition, as of September 30, 2009 and 2008, Physician Services owes the Hospital \$261,865 and \$45,302, respectively, of costs associated with the management, accounting and oversight services.

As of September 30, 2009 and 2008, Homemakers owes the Hospital \$4,437 and \$5,255, respectively.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 15 - Fair Value of Financial Instruments

The Hospital's short term investments, donor restricted endowment and board restricted endowment consist of money market funds, equity securities, mutual funds, governmental securities and corporate bonds as of September 30, 2009 and are recorded at fair value in accordance with ASC 820-10 as further described in Note 2.

The Hospital measures the fair value of these securities at September 30, 2009 as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 8,764,138	\$ -	\$ -
Equities	5,134,640	-	-
Mutual funds	3,955,227	-	-
Government securities	-	1,309,545	-
Corporate bonds	-	942,693	-
	<u>\$ 17,854,005</u>	<u>\$ 2,252,238</u>	<u>\$ -</u>

The following methods and assumptions were used by the Hospital in estimating the fair value of its other financial instruments:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Certificates of deposit: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Funds held under bond indenture agreement: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Funds held in trust by others: These assets consist primarily of cash, short and long-term investments. The carrying amounts reported in the consolidated balance sheets are fair value based on quoted active market prices (level 1).

Accounts payable and salaries and wages payable: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Due to third-party payers: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2009 and 2008

Note 15 - Fair Value of Financial Instruments (continued)

Long-term debt: The carrying amounts reported in the consolidated balance sheets approximate the fair values. The fair value of the Hospital's long-term debt is estimated using a discounted cash flow analysis, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements (Level 3).

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet
September 30, 2009

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	\$ 9,595,927	\$ 360,884	\$ 13,943	\$ -	\$ 9,970,754
Certificates of deposit	2,541,422	-	-	-	2,541,422
Short-term investments	10,865,968	-	-	-	10,865,968
Accounts receivable (less allowance for doubtful accounts of \$4,130,887)	10,764,165	219,057	214,721	-	11,197,943
Due from affiliates	266,302	-	-	(266,302)	-
Accounts receivable, other	228,139	-	-	-	228,139
Inventories and prepaid expenses	1,478,957	3,245	-	-	1,482,202
Assets whose use is limited:					
Funds held under bond indenture agreement	605,899	-	-	-	605,899
Total current assets	<u>36,346,779</u>	<u>583,186</u>	<u>228,664</u>	<u>(266,302)</u>	<u>36,892,327</u>
Assets whose use is limited:					
Funds held under bond indenture agreement	1,292,324	-	-	-	1,292,324
Funds held under bond reserve fund	453,612	-	-	-	453,612
Funds held in trust by others	3,734,376	-	-	-	3,734,376
Donor restricted endowment	3,605,872	6,303	-	-	3,612,175
Board restricted endowment	5,539,186	88,914	-	-	5,628,100
	<u>14,625,370</u>	<u>95,217</u>	<u>-</u>	<u>-</u>	<u>14,720,587</u>
Investments in real estate	291,301	-	-	-	291,301
Investment in Physician Services of Northeast Connecticut, LLC	1,050,000	-	-	(1,050,000)	-
Deferred financing costs, net	773,880	-	-	-	773,880
Property, plant and equipment, net	<u>25,486,265</u>	<u>21,452</u>	<u>10,462</u>	<u>-</u>	<u>25,518,179</u>
Total assets	<u><u>\$ 78,573,595</u></u>	<u><u>\$ 699,855</u></u>	<u><u>\$ 239,126</u></u>	<u><u>\$ (1,316,302)</u></u>	<u><u>\$ 78,196,274</u></u>
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 3,594,514	\$ 70,778	\$ 70,334	\$ -	\$ 3,735,626
Salaries and wages payable	1,564,816	-	52,419	-	1,617,235
Employee benefits payable	4,093,881	-	-	-	4,093,881
Due to third-party payers	3,205,718	-	-	-	3,205,718
Other liabilities	2,294,479	-	-	-	2,294,479
Due to affiliates	-	4,437	261,865	(266,302)	-
Current portion of pension liability	761,860	-	-	-	761,860
Current portion of long-term debt	530,000	-	-	-	530,000
Total current liabilities	<u>16,045,268</u>	<u>75,215</u>	<u>384,618</u>	<u>(266,302)</u>	<u>16,238,799</u>
Long-term debt, less current portion	13,620,000	-	-	-	13,620,000
Pension and other liabilities	25,602,222	-	-	-	25,602,222
Total liabilities	<u>55,267,490</u>	<u>75,215</u>	<u>384,618</u>	<u>(266,302)</u>	<u>55,461,021</u>
Net assets:					
Unrestricted	15,965,857	618,337	(145,492)	(1,050,000)	15,388,702
Temporarily restricted	3,705,481	6,303	-	-	3,711,784
Permanently restricted	3,634,767	-	-	-	3,634,767
Total net assets	<u>23,306,105</u>	<u>624,640</u>	<u>(145,492)</u>	<u>(1,050,000)</u>	<u>22,735,253</u>
Total liabilities and net assets	<u><u>\$ 78,573,595</u></u>	<u><u>\$ 699,855</u></u>	<u><u>\$ 239,126</u></u>	<u><u>\$ (1,316,302)</u></u>	<u><u>\$ 78,196,274</u></u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations
For the Year Ended September 30, 2009

	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Operating revenues:					
Net revenues from					
services to patients	\$ 95,995,284	\$ 1,275,127	\$ 2,289,692	\$ -	\$ 99,560,103
Other operating revenues	2,088,115	1,983	1,476	(213,341)	1,878,233
Grant income	700,644	232,905	-	-	933,549
Assets released from restrictions					
for operations	197,268	3,697	-	-	200,965
Total operating revenues	<u>98,981,311</u>	<u>1,513,712</u>	<u>2,291,168</u>	<u>(213,341)</u>	<u>102,572,850</u>
Operating expenses:					
Other professional services	27,695,510	-	-	-	27,695,510
Nursing services	22,011,176	-	-	-	22,011,176
Other operating expenses	15,013,826	1,407,840	3,246,247	(213,341)	19,454,572
Fiscal services	7,713,373	-	-	-	7,713,373
General services	6,763,719	-	-	-	6,763,719
Administrative services	4,043,985	-	-	-	4,043,985
Homecare	4,780,044	-	-	-	4,780,044
Depreciation	4,411,120	12,185	2,222	-	4,425,527
Bad debts	3,538,352	17,705	43,815	-	3,599,872
Interest and amortization	792,499	-	-	-	792,499
Total operating expenses	<u>96,763,604</u>	<u>1,437,730</u>	<u>3,292,284</u>	<u>(213,341)</u>	<u>101,280,277</u>
Gain (loss) from operations	2,217,707	75,982	(1,001,116)	-	1,292,573
Non-operating losses	<u>(657,705)</u>	<u>(29,975)</u>	<u>-</u>	<u>-</u>	<u>(687,680)</u>
Excess of revenues over (under) expenses	<u>\$ 1,560,002</u>	<u>\$ 46,007</u>	<u>\$ (1,001,116)</u>	<u>\$ -</u>	<u>\$ 604,893</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet
September 30, 2008

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	\$ 10,171,320	\$ 359,021	\$ 245,489	\$ -	\$ 10,775,830
Certificates of deposit	2,500,452	-	-	-	2,500,452
Short-term investments	10,340,434	-	-	-	10,340,434
Accounts receivable (less allowance for doubtful accounts of \$4,117,000)	9,875,269	173,153	178,695	-	10,227,117
Due from affiliates	550,557	-	-	(550,557)	-
Accounts receivable, other	149,188	-	-	-	149,188
Inventories and prepaid expenses	946,761	2,090	2,570	-	951,421
Assets whose use is limited:					
Funds held under bond indenture agreement	418,444	-	-	-	418,444
Total current assets	<u>34,952,425</u>	<u>534,264</u>	<u>426,754</u>	<u>(550,557)</u>	<u>35,362,886</u>
Assets whose use is limited:					
Funds held under bond indenture agreement	1,292,324	-	-	-	1,292,324
Funds restricted for bond reserve fund	839,000	-	-	-	839,000
Funds held in trust by others	3,756,691	-	-	-	3,756,691
Donor restricted endowment	3,281,562	-	-	-	3,281,562
Board restricted endowment	5,534,647	87,814	-	-	5,622,461
	<u>14,704,224</u>	<u>87,814</u>	<u>-</u>	<u>-</u>	<u>14,792,038</u>
Investments in real estate	305,037	-	-	-	305,037
Deferred financing costs, net	853,575	-	-	-	853,575
Property, plant and equipment, net	<u>24,767,153</u>	<u>28,542</u>	<u>-</u>	<u>-</u>	<u>24,795,695</u>
Total assets	<u><u>\$ 75,582,414</u></u>	<u><u>\$ 650,620</u></u>	<u><u>\$ 426,754</u></u>	<u><u>\$ (550,557)</u></u>	<u><u>\$ 76,109,231</u></u>
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 1,846,682	\$ 78,290	\$ 36,234	\$ (5,255)	\$ 1,955,951
Salaries and wages payable	1,518,050	-	39,594	-	1,557,644
Employee benefits payable	3,812,756	-	-	-	3,812,756
Due to third-party payers	1,916,517	-	-	-	1,916,517
Other liabilities	2,480,707	-	-	-	2,480,707
Due to affiliates	-	-	545,302	(545,302)	-
Current portion of pension liability	1,500,000	-	-	-	1,500,000
Current portion of long-term debt	500,000	-	-	-	500,000
Total current liabilities	<u>13,574,712</u>	<u>78,290</u>	<u>621,130</u>	<u>(550,557)</u>	<u>13,723,575</u>
Long-term debt, less current portion	14,150,000	-	-	-	14,150,000
Pension and other liabilities	2,079,231	-	-	-	2,079,231
Total liabilities	<u>29,803,943</u>	<u>78,290</u>	<u>621,130</u>	<u>(550,557)</u>	<u>29,952,806</u>
Net assets:					
Unrestricted	38,740,218	572,330	(194,376)	-	39,118,172
Temporarily restricted	3,345,100	-	-	-	3,345,100
Permanently restricted	3,693,153	-	-	-	3,693,153
Total net assets	<u>45,778,471</u>	<u>572,330</u>	<u>(194,376)</u>	<u>-</u>	<u>46,156,425</u>
Total liabilities and net assets	<u><u>\$ 75,582,414</u></u>	<u><u>\$ 650,620</u></u>	<u><u>\$ 426,754</u></u>	<u><u>\$ (550,557)</u></u>	<u><u>\$ 76,109,231</u></u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations
For the Year Ended September 30, 2008

	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Operating revenues:					
Net revenues from services to patients	\$ 88,983,220	\$ 1,077,163	\$ 236,023	\$ -	\$ 90,296,406
Other operating revenues	2,735,924	4,008	1,278	(45,302)	2,695,908
Grant income	571,081	191,351	-	-	762,432
Assets released from restrictions for operations	130,366	-	-	-	130,366
Total operating revenues	92,420,591	1,272,522	237,301	(45,302)	93,885,112
Operating expenses:					
Nursing services	22,372,793	-	-	-	22,372,793
Other professional services	23,705,702	-	-	-	23,705,702
Other operating expenses	15,443,343	1,207,691	413,341	(45,302)	17,019,073
General services	6,636,258	-	-	-	6,636,258
Homecare	4,605,018	-	-	-	4,605,018
Fiscal services	8,980,456	-	-	-	8,980,456
Administrative services	4,902,811	-	-	-	4,902,811
Bad debts	3,944,217	469	18,336	-	3,963,022
Depreciation	4,315,141	4,583	-	-	4,319,724
Interest and amortization	808,754	-	-	-	808,754
Total operating expenses	95,714,493	1,212,743	431,677	(45,302)	97,313,611
(Loss) gain from operations	(3,293,902)	59,779	(194,376)	-	(3,428,499)
Pension curtailment expense	(270,279)	-	-	-	(270,279)
Non-operating income	752,308	11,617	-	-	763,925
Excess of revenues (under) over expenses	\$ (2,811,873)	\$ 71,396	\$ (194,376)	\$ -	\$ (2,934,853)

See accompanying Independent Auditors' Report.