SILVER HILL HOSPITAL, INC.

Financial Statements

February 29, 2016 and February 28, 2015

(With Independent Auditors' Report Thereon)

SILVER HILL HOSPITAL, INC.

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Silver Hill Hospital, Inc.:

We have audited the accompanying financial statements of Silver Hill Hospital, Inc., which comprise the statements of financial position as of February 29, 2016 and February 28, 2015, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Silver Hill Hospital, Inc. as of February 29, 2016 and February 28, 2015, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

July 15, 2016

SILVER HILL HOSPITAL, INC.

Statements of Financial Position

February 29, 2016 and February 28, 2015

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	2,938,751	1,549,080
Investments (note 3)		7,555,097	8,169,223
Patient accounts receivable, net of allowance for uncollectible accounts of $503,720 and $637,137 in 2016 and 2015, respectively (note 2)		2,884,200	3,213,858
Prepaid expenses		1,588,676	1,473,257
Other current assets, net		671,885	538,485
Insurance claims receivable (note 8)		46,227	1,652,534
Assets limited or restricted as to use – current (note 3)		1,114,870	943,854
Total current assets		16,799,706	17,540,291
Assets limited or restricted as to use, net of current portion (note 3):			
Temporarily and permanently donor restricted		1,446,974	1,083,529
Liquid reserve requirement		1,500,000	1,500,000
Total assets limited or restricted as to use		2,946,974	2,583,529
Insurance claims receivable (note 8)		468,964	361,049
Property and equipment, net (note 4)		38,518,499	36,847,531
Total assets	$	58,734,143	57,332,400
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	918,181	1,089,633
Due to patients and third parties		1,114,870	943,854
Accrued salaries, withholdings, and other compensation		1,157,917	1,026,228
Line of credit (note 6)		—	80,004
Current portion of long-term debt (note 5)		109,317	104,949
Other current liabilities		2,469,573	2,219,519
Professional liability reserve – current (note 8)		46,227	1,652,534
Total current liabilities		5,816,085	7,116,721
Long-term debt, net (note 5)		3,872,926	3,979,408
Professional liability reserve (note 8)		1,295,686	964,821
Total liabilities		10,984,697	12,060,950
Net assets:			
Unrestricted		46,302,472	44,187,921
Temporarily restricted (note 11)		1,233,974	870,529
Permanently restricted (note 11)		213,000	213,000
Total net assets		47,749,446	45,271,450
Commitments and contingencies (notes 5, 6, 7, and 8)			
Total liabilities and net assets	$	58,734,143	57,332,400

See accompanying notes to financial statements.

SILVER HILL HOSPITAL, INC.

Statements of Operations

Years ended February 29, 2016 and February 28, 2015

		2016	2015
Revenue, gains, and other support:			
Patient service revenue before provision for bad debts, net	$	40,363,348	40,053,257
Provision for bad debts, net		(253,738)	(233,228)
Net patient service revenue (note 2)		40,109,610	39,820,029
Contributions		629,145	693,093
Other revenue		452,316	373,539
Net assets released from restriction for use in operations		784,313	746,066
Total revenues, gains, and other support		41,975,384	41,632,727
Expenses and losses (note 10):			
Salaries		19,943,940	19,550,433
Employee benefits (note 9)		5,120,152	5,137,798
Supplies and services		11,365,870	10,541,598
Depreciation and amortization		2,526,199	2,112,750
Interest		229,360	224,696
Asset impairment (note 1(g))		—	331,711
Total expenses and losses		39,185,521	37,898,986
Income from operations		2,789,863	3,733,741
Nonoperating gains (losses):			
Investment income, net		329,031	290,201
Realized (losses) gains on investments, net		(13,760)	53,037
Other gains (losses), net		24,615	(17,762)
Total nonoperating gains, net		339,886	325,476
Excess of revenues, gains, other support, and nonoperating gains, net over expenses and losses		3,129,749	4,059,217
Other changes in unrestricted net assets:			
Change in net unrealized (losses) gains on other-than-trading securities		(1,015,198)	103,414
Increase in unrestricted net assets	$	2,114,551	4,162,631

See accompanying notes to financial statements.

SILVER HILL HOSPITAL, INC.

Statements of Changes in Net Assets

Years ended February 29, 2016 and February 28, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at February 28, 2014	$ 40,025,290	618,369	213,000	40,856,659
Excess of unrestricted revenues, gains, and other support and nonoperating gains, net over expenses and losses	4,059,217	—	—	4,059,217
Restricted contributions	—	30,641	—	30,641
Special event revenue – gala for scholarships, net of direct donor benefit of $107,500	—	938,120	—	938,120
Investment income, net	—	34,712	—	34,712
Realized losses on investments	—	(9,408)	—	(9,408)
Change in net unrealized gains on other-than-trading securities	103,414	4,161	—	107,575
Net assets released from restriction for use in operations	—	(746,066)	—	(746,066)
Changes in net assets	4,162,631	252,160	—	4,414,791
Net assets at February 28, 2015	44,187,921	870,529	213,000	45,271,450
Excess of unrestricted revenues, gains, and other support and nonoperating gains, net over expenses and losses	3,129,749	—	—	3,129,749
Restricted contributions	—	117,431	—	117,431
Special event revenue – gala for scholarships, net of direct donor benefit of $132,900	—	989,358	—	989,358
Investment income, net	—	40,969	—	40,969
Change in net unrealized losses on other-than-trading securities	(1,015,198)	—	—	(1,015,198)
Net assets released from restriction for use in operations	—	(784,313)	—	(784,313)
Changes in net assets	2,114,551	363,445	—	2,477,996
Net assets at February 29, 2016	$ 46,302,472	1,233,974	213,000	47,749,446

See accompanying notes to financial statements.

SILVER HILL HOSPITAL, INC.

Statements of Cash Flows

Years ended February 29, 2016 and February 28, 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 2,477,996	4,414,791
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,526,199	2,112,750
Amortization of deferred financing costs	50,509	26,098
Asset impairment	—	331,711
Loss on disposal of equipment	36,899	—
Provision for bad debts, net	253,738	233,228
Change in unrealized losses (gains) on other-than-trading securities	1,015,198	(107,575)
Realized losses (gains) on investments, net	13,760	(43,629)
Changes in assets and liabilities:		
Patient accounts receivable	75,920	(192,924)
Prepaid expenses	(115,419)	(417,888)
Insurance claims receivable	1,498,392	(967,918)
Other current assets, net	(133,400)	(401,914)
Accounts payable and accrued expenses	55,687	(94,994)
Accrued salaries, withholdings, and other compensation	131,689	(4,347)
Other current liabilities	250,054	1,224,596
Professional liability reserve	(1,275,442)	1,062,875
Net cash provided by operating activities	6,861,780	7,174,860
Cash flows from investing activities:		
Purchases of property and equipment	(473,600)	(296,448)
Expenditures for Hospital campus renovations	(3,987,603)	(6,444,721)
Purchases of investments	(3,381,332)	(5,624,356)
Proceeds from sale of investments	2,966,500	4,299,489
Purchases of assets limited or restricted as to use	(774,271)	(1,939,649)
Proceeds from sale of assets limited or restricted as to use	410,826	2,532,978
Net cash used in investing activities	(5,239,480)	(7,472,707)
Cash flows from financing activities:		
Repayment of the line of credit	(127,680)	—
Repayment of mortgages	(104,949)	(100,278)
Net cash used in financing activities	(232,629)	(100,278)
Increase (decrease) in cash and cash equivalents	1,389,671	(398,125)
Cash and cash equivalents, beginning of year	1,549,080	1,947,205
Cash and cash equivalents, end of year	$ 2,938,751	1,549,080
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 190,519	196,570
Hospital campus renovation expenditures included within accounts payable and accrued expenses	232,139	385,675

See accompanying notes to financial statements.

(1) Nature of Activities and Significant Accounting Policies

Nature of Activities

Silver Hill Hospital, Inc. (the Hospital) is a not-for-profit private psychiatric hospital, which provides treatment to patients with psychiatric or substance use diagnoses through inpatient, transitional living, and outpatient programs. The Hospital was incorporated in the state of Connecticut in 1934.

A summary of the Hospital's significant accounting policies is as follows:

(a) Basis of Accounting

The Hospital's financial statements have been prepared on the accrual basis of accounting.

(b) Cash and Cash Equivalents

The Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(c) Concentration of Credit Risk

The Hospital has cash balances in financial institutions that exceed federal depository insurance limits of $250,000.

(d) Patient Accounts Receivable

The collection of receivables from third-party payors and patients is the Hospital's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments to third-party payors. Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and self-pay discounts, and less an estimated allowance for uncollectible accounts. Management estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each payor type. Recoveries of receivables previously written off are recorded as a reduction of the provision for bad debts when received. The past-due status of receivables is determined on a case-by-case basis depending on the responsible payor. Interest is generally not charged on past-due accounts.

(e) Assets Limited or Restricted As to Use

Assets limited or restricted as to use include assets set aside for current liabilities, including deposits due to patients and third parties, assets restricted based on donors' intents, and liquid assets restricted by the line-of-credit and mortgage agreements.

(f) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position and are classified as available-for-sale securities. Realized and unrealized gains (losses) on investments, interest, and dividends are included in the change in unrestricted net assets in the accompanying statements of changes in net assets, unless donor or law restricted the use of the income or loss. Net unrealized gains and losses on available-for-sale securities are excluded from the excess of revenues, gains, and other support over expenses.

A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an other-than-temporary impairment loss on other-than-trading securities (impairment charge). The other-than-temporary loss on other-than-trading securities is included in the excess of revenues, gains, other support, and nonoperating gains, net over expenses and losses in the statements of operations, and a new cost basis is established.

(g) Property and Equipment

Property and equipment are recorded at cost and depreciated over the estimated useful life of each class of depreciable assets, using the straight-line method. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Estimated useful lives of capital assets are as follows:

	Years
Land improvements	20 years
Buildings and improvements	20–25 years
Vehicles	5 years
Equipment	3–15 years

Long-lived assets, such as property and equipment subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There was a $331,711 impairment recorded during 2015.

(h) Deferred Financing Costs

Deferred financing costs are amortized over the term of the related debt and are included within long-term debt, net, on the accompanying statements of financial position.

(i) Due to Patients and Third Parties

Due to patients and third parties includes patient deposits for services to be performed and refunds due to third parties for overpayments. Patient deposits are recognized as income as services are provided and charges are incurred. Any unearned deposits are returned to patients subsequent to discharge.

(j) Net Assets

The net assets of the Hospital and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* – Unrestricted net assets are those whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract, board designation, or under debt agreements.

- *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 period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

(k) Excess of Revenues, Gains, Other Support, and Nonoperating Gains, Net Over Expenses and Losses

The statements of operations include the excess of revenues, gains, other support, and nonoperating gains, net over expenses and losses. Changes in unrestricted net assets that are excluded from excess of revenues, gains, other support, and nonoperating gains, net over expenses and losses, consistent with industry practice, include changes in net unrealized gains (losses) on other-than-trading securities and net assets released from restriction for use in capital projects.

All transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are considered to be operating activities and are reported as operating revenue and operating expenses. Peripheral or incidental transactions, which include investment income, net, realized gains (losses) on investments, net and other gains (losses), are reported as nonoperating gains (losses).

(l) Net Patient Service Revenue

The Hospital has agreements with third-party payors, which provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retrospective adjustments under reimbursement agreements with third-party payors. Retrospective 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.

(m) Charity Care

The Hospital provides care to patients who meet certain criteria established under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of accounts determined to qualify as charity care, they are not reported as revenue. The estimated cost of providing charity care is estimated by multiplying total charges incurred by the patients that qualify for financial assistance by an overall ratio of costs to charges. The cost of providing charity care was $740,400 and $610,500 for the years ended February 29, 2016 and February 28, 2015, respectively.

(n) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

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,

(Continued)

when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. In the absence of donor specifications that income and gains on donated funds are restricted, such donated funds are reported as income and gains within the accompanying statements of operations.

Unconditional promises to give, less an allowance for uncollectible amounts (if warranted), are recorded as pledges receivable in the year the pledge is made and included in other current assets.

In fiscal years 2016 and 2015, the Hospital released $740,400 and $500,000, respectively, of donor-restricted funds designated as scholarships for patient treatment.

(o) Income Taxes

The Hospital is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code), and as such, no provision for income taxes has been recorded. The Internal Revenue Service informed the Hospital by a letter dated June 23, 1937 that the Hospital's operations are designed in accordance with such section of the Code. There are certain transactions that could be deemed "Unrelated Business Income" and would result in a tax liability. Management reviews transactions to estimate potential tax liabilities. The Hospital recognizes income tax positions when it is more likely than not that the position will be sustainable based on the merits of the position. Management has concluded that there are no uncertain tax positions that needed to be recorded at February 29, 2016 and February 28, 2015.

(p) Recently Adopted Accounting Standards

In April, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 is intended to simplify the presentation of debt issuance costs, requiring them to be presented as a direct reduction from the carrying value of the related debt liability. This guidance is effective for fiscal years beginning after December 15, 2015, with early adoption allowed. The Hospital has early adopted ASU No. 2015-03 in fiscal year 2016 and for the fiscal year ended February 28, 2015 has reclassified $69,143 of deferred financing costs from other assets, net, to long-term debt and line of credit.

(q) Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying financial statements is primarily related to the Hospital's determination of the net patient accounts receivable. Due to uncertainties inherent in the estimation and assumption process, actual results could differ from those estimates and such differences could be material.

(r) Healthcare Reform Legislation

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Reform Law), which was signed into law on March 23, 2010, is changing how healthcare services are covered, delivered, and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Because of the many variables involved with the Health Reform Law, the Hospital's management is unable to predict the net effect on the Hospital of the expected increases in insured individuals using its facilities, the reductions in Medicare spending and funding, and numerous other provisions in the law that may affect the Hospital.

(s) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Net Patient Service Revenue and Accounts Receivable

The Hospital has agreements with third-party payors, which provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established charges and the amounts reimbursed by Medicare, Blue Cross, and certain other third-party payors, and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. Contractual adjustments under third-party reimbursement programs are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. A summary of the basis of reimbursement with major third-party payors is as follows:

(a) Medicare

The Hospital is paid for inpatient services rendered to Medicare program beneficiaries under the Inpatient Psychiatric Facility Prospective Payment System, which was implemented in 2005. Net revenue from the Medicare program accounted for approximately 5% and 4% of the Hospital's net patient service revenue in fiscal years 2016 and 2015, respectively.

Laws and regulations governing the Medicare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. 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 inquires have been made, 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 programs.

(b) Managed Care Organizations

The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes contractual allowances from established charges and prospectively determined per diem rates.

Patient service revenue, net of contractual allowances, is reduced by the provision for bad debts, and patients accounts receivable are reduced by an allowance for doubtful accounts. These amounts are based on historical and expected write-offs and net collections as well as aging status. Based on historical experience, a portion of the Hospital's self-pay patients who do not qualify for charity care will be unable or unwilling to pay for services provided. Thus, the Hospital records a provision for bad debts related to these patients in the period the services are provided. For the years ended February 29, 2016 and February 28, 2015, patient service revenue (including patient copays and deductibles), net of contractual allowances (but before the provision for bad debts) by major payor source was as follows:

		2016	2015
Medicare	$	1,874,521	1,787,609
Third-party payors		19,406,878	18,946,313
Self-pay		19,081,949	19,319,335
Total	$	40,363,348	40,053,257

Patient accounts receivable, including patient copays and deductibles by major primary payor source, before deducting the allowance for uncollectible accounts were the following as of February 29, 2016 and February 28, 2015:

	2016	2015
Medicare	13%	10%
Blue Cross	11	19
Other third-party payors	59	55
Self-pay	17	16
Total	100%	100%

Patient accounts receivable, net of contractual adjustments were $3,387,920 and $3,850,995 as of February 29, 2016 and February 28, 2015, respectively, or approximately 8% and 10% of net patient service revenue in fiscal years 2016 and 2015, respectively. The related allowance for uncollectible accounts was $503,720 and $637,137 or approximately 15% and 17%, respectively, of the related patient accounts receivable, net of contractual allowances as of February 29, 2016 and February 28, 2015, respectively. The

Hospital wrote off $387,155 and $317,742 in bad debts, net of recoveries, in fiscal years 2016 and 2015, respectively.

(3) Assets Limited or Restricted As to Use and Investments

Assets limited or restricted as to use and investments consisted of the following as of February 29, 2016 and February 28, 2015:

	2016	2015
Assets limited or restricted as to use:		
Cash and cash equivalents	$ 1,114,870	943,854
Donor-restricted assets:		
Cash and cash equivalents	248,515	175,179
Mutual funds	1,198,459	908,350
	1,446,974	1,083,529
Liquid reserve requirement:		
Cash and cash equivalents	500,000	500,000
Mutual funds	1,000,000	1,000,000
	1,500,000	1,500,000
Total assets limited as to use	4,061,844	3,527,383
Less current portion	(1,114,870)	(943,854)
Assets limited or restricted as to use, net of current portion	2,946,974	2,583,529
Investments:		
Money market funds	7,571	512,301
Mutual funds	7,547,526	7,656,922
Total investments	7,555,097	8,169,223
Total assets limited or restricted as to use and investments	$ 11,616,941	11,696,606

Assets limited or restricted as to use are available for amounts due to patient and third parties of $1,114,870 and $943,854 as of February 29, 2016 and February 28, 2015, respectively and are classified as current assets.

The cost and market values of all investments, including those categorized as assets limited or restricted as to use, are summarized as follows as of February 29, 2016 and February 28, 2015:

		2016		
		Cost	**Unrealized gains (losses)**	**Fair value**
Investments:				
Money market funds	$	7,571	—	7,571
Mutual funds:				
Fixed income – domestic		3,875,940	(90,220)	3,785,720
Equity – domestic		4,606,144	413,060	5,019,204
Equity – international		1,046,299	(105,238)	941,061
	$	9,535,954	217,602	9,753,556

		2015		
		Cost	**Unrealized gains (losses)**	**Fair value**
Investments:				
Money market funds	$	512,301	—	512,301
Mutual funds:				
Fixed income – domestic		3,789,697	(22,013)	3,767,684
Equity – domestic		3,685,625	963,245	4,648,870
Equity – international		857,150	291,568	1,148,718
	$	8,844,773	1,232,800	10,077,573

Mutual funds expose the Hospital to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a particular fund’s operating performance. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Fixed income mutual funds, also expose the Hospital to interest rate risk because as interest rates change, the value of many fixed income securities are affected. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term.

(Continued)

The Hospital has 26 individual investment securities with fair value below cost at February 29, 2016 mainly due to general market conditions. Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at February 29, 2016 were as follows:

		Less than 12 months		12 months or more		Total	
		Unrealized losses	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**
Mutual funds:							
Fixed income - domestic	$	(15,081)	1,613,873	(80,065)	989,364	(95,146)	2,603,237
Equity - domestic		(205,073)	1,906,551	(25,853)	106,508	(230,926)	2,013,059
Equity - international		(107,651)	873,150	—	—	(107,651)	873,150
	$	(327,805)	4,393,574	(105,918)	1,095,872	(433,723)	5,489,446

Unrealized losses on investments in mutual funds are considered to be temporary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, and changes in fair value subsequent to year-end. The number and amount of securities in a loss position at February 28, 2015 was not significant. No impairment charges were recorded for the fiscal year ended February 29, 2016 and February 28, 2015.

FASB Accounting Standards Codification 820, *Fair Value Measurement*, establishes a formal hierarchy and framework for measuring fair value and expands disclosure about fair value measurements and the reliability of valuation impacts. The guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities include those financial instruments whose value is determined using pricing models, discounted cash flows methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At February 29, 2016 and February 28, 2015, the Hospital estimated the fair value of all of its investments based on Level 1 inputs. The Hospital does not have any Level 2 or 3 assets or liabilities as of February 29, 2016 and February 28, 2015.

(4) Property and Equipment

At February 29, 2016 and February 28, 2015, property and equipment consist of the following:

		2016	2015
Land and land improvements	$	8,434,883	7,575,902
Buildings and improvements		43,275,788	40,545,266
Vehicles		475,135	475,135
Equipment		9,398,479	8,341,636
Construction in progress		1,373,490	1,836,080
		62,957,775	58,774,019
Less accumulated depreciation		(24,439,276)	(21,926,488)
	$	38,518,499	36,847,531

As of February 28, 2015, construction in progress consisted of renovation expenditures for the Jurgenson building and various other projects. The Jurgenson building was completed in fiscal year 2016. As of February 29, 2016, construction in progress consisted of various campus projects, including building renovations, septic, and campus landscape redesign. The estimated cost to complete building renovations at 225 Valley Road is approximately $1,000,000.

(5) Long-Term Debt

Long-term debt comprises of the following at February 29, 2016 and February 28, 2015:

		2016	2015
Mortgage (a)	$	1,845,677	1,894,564
Mortgage (b)		2,155,198	2,211,260
		4,000,875	4,105,824
Less current portion		(109,317)	(104,949)
Deferred financing costs, net		(18,632)	(21,467)
	$	3,872,926	3,979,408

(a) In 2012, the Hospital entered into a mortgage loan agreement for $2,000,000 with a bank to finance the purchase of the property at 225 Valley Road, which is contiguous to the Hospital grounds. The term of the loan is 10 years, with a 25-year amortization period and a fixed interest rate of 4.5%. Monthly principal and interest payments of $11,191 commenced on November 1, 2012 and are payable through September 1, 2022, with a balloon payment of $1,462,150 and any unpaid interest due on October 1, 2022. The loan is secured by the property. Interest incurred on the loan was $85,402 in 2016 and $87,415 in 2015.

(b) In 2013, the Hospital entered into another mortgage loan agreement with the same bank for $2,320,000 to finance the purchase of the contiguous property at 134 Valley Road. The term of the loan is 10 years, with a 25-year amortization period and a fixed interest rate of 4.5%. Monthly principal and interest payments of $12,980 commenced on February 1, 2013 and are payable through December 1, 2022, with a balloon payment of $1,695,879 and any unpaid interest due on January 1, 2023. The loan is secured by the property. Interest incurred on the loan was $99,699 in 2016 and $102,007 in 2015.

Aggregate principal payments on long-term debt for the next five years and thereafter are as follows:

Year ending February 28:		
2017	$	109,317
2018		114,932
2019		120,287
2020		125,891
2021		131,297
Thereafter		3,399,151
	$	4,000,875

(6) Line of Credit

In 2007, the Hospital entered into a revolving line of credit, with a term of 10 years and a maximum available borrowing of $10,000,000, which was secured by the land and buildings owned by the Hospital. Interest was charged monthly at a rate of 7.15%. In December 2010, the line-of-credit agreement was modified to include an interest rate of 5.25% and an extension of the term to 10 years from the modification. In September 2012, the line-of-credit agreement was modified again to extend the 10-year term an additional year. The modified line revolves for a period of four years, with interest payments due monthly based on the balance outstanding. On December 31, 2015, the line was scheduled to convert to a permanent commercial mortgage for the remaining six years of the term.

There were no additional borrowings in fiscal year 2015; therefore, the outstanding balance on the line of credit, net of deferred financing costs of $47,676, was $80,004 as of February 28, 2015. The Hospital repaid the balance outstanding on the line of credit in December 2015 and the line of credit has been terminated. Interest incurred on the line was $5,418 in 2016 and $6,796, in 2015.

As part of the line-of-credit and loan agreements (mortgages) (note 5), the Hospital must maintain a compensating balance at the bank of $500,000. The line-of-credit and loan agreements (mortgages) require an aggregate liquid reserve of $1,500,000 to be maintained over the term of the debt, which is included in assets limited or restricted as to use.

(7) Lease Obligations

The Hospital has noncancelable operating leases, which expire through March 2020. Future minimum lease payments under these noncancelable operating leases are as follows:

Year ending February 29:		
2017	$	224,717
2018		213,708
2019		213,708
2020		213,090
2021		17,500
	$	882,723

Rental expense for all operating leases totaled approximately $303,509 in 2016 and $329,193 in 2015. Rental expenses are included in supplies and services expenses on the statements of operations.

(8) Commitments and Contingencies

(a) Insurance

As of February 29, 2016, the Hospital maintains professional and general liability insurance coverage on a claims-made basis. The claims-made policy, which is subject to renewal on an annual basis, covers only claims made during the term of the policy but not those occurrences for which claims may be made after expiration of the policy. Coverage under the policy is $1 million per occurrence, with an aggregate limit of $3 million. The Hospital also maintains excess umbrella policies to cover claims in excess of primary coverage.

The Hospital engaged an actuary to determine an undiscounted estimate of losses from both asserted claims and unasserted claims and incidents that may have occurred but have not been reported as of February 29, 2016 and February 28, 2015, respectively. The actuarial evaluation is based on the Hospital's historical experience, industry data, and other considerations. Insurance claims receivable are measured on the same basis as the liability subject to the need for valuation allowance for uncollectible amounts. At February 29, 2016 and February 28, 2015, no valuation allowance was considered necessary. As of February 29, 2016 and February 28, 2015, the Hospital has accrued the following for both losses from asserted claims and unasserted claims and incidents that may have occurred but have not been reported:

		2016	2015
Professional liability reserve	$	1,341,913	2,617,355
Insurance claims receivable		(515,191)	(2,013,583)

(b) Litigation

The Hospital is party to routine litigation arising in the ordinary course of business. Although some of the matters are still in a preliminary stage and definite conclusions cannot be made as to those matters, the Hospital is of the opinion that based on information presently available, the lawsuits will not have a materially adverse effect on the financial position or results of operations of the Hospital.

(c) Dining Services Contract

The Hospital contracts with a vendor to provide food service to its patients. The contract is cancelable by either party if the other party fails to perform all of its material obligations as outlined in the agreement. The annual cost is variable and the contract expires on July 31, 2022. Total expenses for the years ended February 29, 2016 and February 28, 2015 were $1,517,000 and $1,516,700, respectively. The expenses are included within supplies and services in the accompanying statements of operations.

(9) Retirement Plan

The Hospital has a 401(k) defined-contribution plan (401(k) Plan) that covers all full-time employees who have both attained age 21 and completed at least 1,000 hours of service during the first year of employment. The 401(k) Plan provides for an employer-based contribution allowing the Hospital to make contributions ranging from 2.5% to 7.5% of each participant's annual compensation, depending on years of vested service. Employees may also make annual contributions up to the amount permitted by law. Expenses related to the 401(k) Plan were approximately $811,313 and $750,286 for the years ended February 29, 2016 and February 28, 2015, respectively, and are included within employee benefits expense within the accompanying statements of operations.

(10) Functional Expenses

The Hospital provides psychiatric and substance use healthcare services to residents within its geographic location. Expenses related to providing these services included in the statements of operations are as follows:

	2016	2015
Healthcare services	$ 32,352,835	31,305,431
Development	642,980	517,975
General and administrative	6,189,706	6,075,580
	$ 39,185,521	37,898,986

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of February 29, 2016 and February 28, 2015:

	2016	2015
Scholarship fund	$ 1,202,541	830,319
Employee assistance fund	17,015	16,267
Other funds	14,418	23,943
	$ 1,233,974	870,529

(Continued)

Permanently restricted net assets of $213,000 at February 29, 2016 and February 28, 2015 consist of donor-restricted funds to be maintained by the Hospital in perpetuity. The income generated from permanently restricted funds is expendable for purposes designated by donors, including adolescent and chemical dependency program services.

(12) Subsequent Events

The Hospital has evaluated and disclosed subsequent events from the statement of financial position date of February 29, 2016 through July 15, 2016, which is the date the financial statements were available to be issued, and concluded that no additional disclosures were required.