The Griffin Hospital and Subsidiary

Consolidated Financial Statements and Consolidating Information
September 30, 2012 and 2011

The Griffin Hospital and Subsidiary
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September 30, 2012 and 2011

Report of Independent Auditors

To the Board of Trustees of
The Griffin Hospital:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets and of cash flows present fairly, in all material respects, the financial position of The Griffin Hospital and Subsidiary (the "Hospital") at September 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 18, 2013

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The Griffin Hospital and Subsidiary
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 8,167,417	$ 5,607,752
Investments	5,371,978	7,625,803
Assets limited as to use	700,398	704,176
Patient accounts receivable, less allowance for doubtful accounts of approximately $4,593,000 and $5,806,000, respectively	13,110,545	17,300,192
Other current assets	5,665,669	6,392,598
Total current assets	33,016,007	37,630,521
Assets limited as to use		
Board-designated investments	10,001	31,384
Under indenture agreement	4,288,627	4,288,799
Total assets limited as to use	4,298,628	4,320,183
Long-term investments	1,147,841	1,030,970
Property, plant and equipment, net	60,325,720	62,284,936
Interest in net assets of affiliate	5,952,786	5,415,314
Due from affiliates	7,998,375	5,411,702
Beneficial interest in trusts	3,650,093	3,367,120
Estimated third party settlements, long term	1,203,411	457,830
Other long-term assets and insurance recoverable	12,635,039	12,654,401
	92,913,265	90,622,273
Total assets	$ 130,227,900	$ 132,572,977

The Griffin Hospital and Subsidiary
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Liabilities and Net Deficit		
Current liabilities		
Current portion of long-term debt and capital lease obligations	$ 6,418,425	$ 6,380,271
Accounts payable	20,201,504	19,825,537
Accrued expenses	8,406,735	7,105,100
Accrued interest payable	347,111	365,713
Accrued postretirement benefit liability	435,000	525,000
Deferred revenue	40,179	33,048
Due to affiliates	196,466	67,621
Total current liabilities	36,045,420	34,302,290
Estimated third party settlements	3,179,514	1,203,129
Professional and general liability loss reserves	10,488,070	10,493,026
Workers compensation loss reserves	2,108,091	1,514,632
Accrued pension liability	42,427,930	52,424,095
Accrued postretirement benefit liability, net of current portion	8,484,801	7,469,095
Asset retirement obligation	119,709	125,216
Long-term debt, net of current portion	46,957,600	48,524,613
Capital lease obligations, net of current portion	1,299,057	3,205,611
Interest rate swap agreements	9,153,353	7,973,902
Total liabilities	160,263,545	167,235,609
Net deficit		
Unrestricted operating	13,419,944	20,659,590
Cumulative unrecognized pension charges	(51,468,946)	(62,729,753)
Total unrestricted	(38,049,002)	(42,070,163)
Temporarily restricted	2,203,003	1,880,150
Permanently restricted	5,810,354	5,527,381
Total net deficit	(30,035,645)	(34,662,632)
Total liabilities and net deficit	$ 130,227,900	$ 132,572,977

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

The Griffin Hospital and Subsidiary
Consolidated Statements of Operations
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues		
Net patient service revenue	$123,980,407	$124,691,401
Other operating revenue	5,743,384	6,101,588
Net assets released from restrictions used for operations	5,000	27,869
Total operating revenues	129,728,791	130,820,858
Operating expenses		
Employee compensation and related expenses	76,243,963	73,723,186
Supplies and other expenses	48,809,594	45,693,455
Depreciation and amortization	5,999,975	5,837,895
Interest	2,709,709	2,618,102
Provision for doubtful accounts, net of recoveries	1,101,989	3,461,056
Total operating expenses	134,865,230	131,333,694
Loss from operations	(5,136,439)	(512,836)
Nonoperating gains (losses)		
Investment income	998,665	218,353
Net realized and unrealized losses on interest rate swaps	(2,523,551)	(2,527,906)
Grant revenues	2,234,902	2,414,954
Grant expenses	(2,259,698)	(2,141,922)
	(1,549,682)	(2,036,521)
Deficiency of revenues over expenses	(6,686,121)	(2,549,357)
Other changes in unrestricted net assets		
Change in interest in net assets of affiliate	331,491	(4,721)
Transfers between affiliates, net	335,400	3,221,665
Pension and other post-retirement related charges other than net periodic benefit cost	10,040,391	(17,771,550)
Increase (decrease) in unrestricted net assets	$ 4,021,161	$ (17,103,963)

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

The Griffin Hospital and Subsidiary
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets		
Deficiency of revenues over expenses	$ (6,686,121)	$ (2,549,357)
Change in interest in net assets of affiliate	331,491	(4,721)
Other changes	335,400	3,221,665
Pension and other post-retirement related charges other than net periodic benefit cost	10,040,391	(17,771,550)
Increase (decrease) in unrestricted net assets	4,021,161	(17,103,963)
Temporarily restricted net assets		
Change in interest in net assets of affiliate	205,982	(103,900)
Investment income	46,808	33,862
Unrealized gain (loss) on investments	75,063	(36,393)
Net assets released from restrictions used for operations	(5,000)	(27,869)
Increase (decrease) in temporarily restricted net assets	322,853	(134,300)
Permanently restricted net assets		
Change in beneficial interest in trusts	282,973	(277,108)
Increase (decrease) in permanently restricted net assets	282,973	(277,108)
Increase (decrease) in net assets	4,626,987	(17,515,371)
Net deficit		
Beginning of year	(34,662,632)	(17,147,261)
End of year	$ (30,035,645)	$ (34,662,632)

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

The Griffin Hospital and Subsidiary
Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Decrease in net assets	$ 4,626,987	$ (17,515,371)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Pension and other post-retirement changes other than net periodic benefit cost	(10,040,391)	17,771,550
Depreciation and amortization	6,154,192	5,985,361
Change in unrealized and realized gains and losses on investments	647,012	(161,977)
Change in beneficial interest in trusts	(282,973)	277,108
Change in fair value of interest rate swap	1,179,451	1,151,798
Provision for doubtful accounts, net of recoveries	1,101,989	3,461,056
Transfers between affiliates, net	335,400	3,221,655
Change in interest in net assets of affiliate	(537,472)	108,621
Changes in assets and liabilities		
Patient accounts receivable	3,087,657	(5,204,290)
Other current and long-term assets	535,512	(2,773,322)
Due from affiliates, net	(2,457,828)	906,341
Accounts payable, accrued expenses and other	1,667,633	2,322,907
Estimated amounts due to third-party settlements	1,230,804	370,670
Deferred revenue	7,131	16,418
Accrued pension and postretirement benefit liabilities	969,932	(448,585)
Total adjustments	3,598,049	27,005,311
Net cash provided by operating activities	8,225,036	9,489,940
Cash flows from investing activities		
Purchases of property, plant and equipment, net	(3,476,398)	(4,413,041)
Purchases of investments	(11,098,922)	(10,537,500)
Proceeds from sales and maturities of investments	12,614,197	13,086,765
Transfers between affiliates, net	(335,400)	(3,221,655)
Net cash used in investing activities	(2,296,523)	(5,085,431)
Cash flows from financing activities		
Proceeds from borrowing	362,048	700,000
Principal payments on debt	(1,900,000)	(1,790,000)
Principal payments on capital lease obligations	(1,830,896)	(1,733,194)
Net cash used in financing activities	(3,368,848)	(2,823,194)
Net increase in cash and cash equivalents	2,559,665	1,581,315
Cash and cash equivalents		
Beginning of year	5,607,752	4,026,437
End of year	$ 8,167,417	$ 5,607,752
Supplemental disclosures of cash flow information		
Interest paid	$ 4,072,410	$ 4,020,108
Supplemental disclosure of noncash financing activities		
Property, plant and equipment included in accounts payable and and accrued expenses	1,173,836	599,466

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

1. Organization

The Griffin Hospital (the "Hospital") is a licensed 160-bed acute care hospital located in Derby, Connecticut and is part of an affiliated group which consists of its parent corporation, Griffin Health Services Corporation ("GHSC"), including Griffin Pharmacy and Gifts ("GP&G"), and certain other affiliates, primarily the Griffin Hospital Development Fund ("GHDF"), the fund-raising organization for GHSC and the other tax-exempt subsidiaries; G.H. Ventures, Inc. ("GHV"), a for profit organization currently managing medical office buildings; Planetree Inc. ("Planetree"), a not-for-profit entity assisting hospitals and other health care facilities in the development and implementation of a patient centered model of care; the Griffin Faculty Practice Plan, Inc. ("FPP"), a not-for-profit entity incorporated for the purpose of providing medical services and to charge for services performed by physicians as supervisors of interns, and Healthcare Alliance Insurance Company, Ltd. ("HAIC"), a for profit off-shore captive insurance company.

In February 2008, the Hospital and GHV entered into a joint venture with TOPCO Associates, LLC, to form a company called NuVal. The purpose of this company is to commercialize an "Overall Nutrition Quality Index" system, developed by the Hospital for promoting healthy eating habits among the general population. The Hospital's ownership interest in NuVal was transferred to GHV in 2008 and as such all amounts related to NuVal are recorded in the GHV and consolidated GHSC financial statements.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital and its wholly owned subsidiary, FPP. All significant intercompany accounts and transactions are eliminated in consolidation.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets have been reported as follows:

Permanently Restricted

Net assets subject to explicit donor-imposed stipulations that they be maintained by the Hospital in perpetuity are classified as permanently restricted. Generally, the donors of these assets permit the Hospital to use all or part of the investment return on these assets for operating purposes.

Temporarily Restricted

Net assets whose use by the Hospital is subject to explicit donor-imposed stipulations that can be fulfilled upon incurrence of expenses by the Hospital pursuant to those stipulations or that expire by the passage of time are classified as temporarily restricted.

Unrestricted

Net assets that are not subject to explicit donor-imposed stipulations are classified as unrestricted. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Revenues from sources other than contributions are reported in unrestricted net assets. Contributions are reported as increases in the applicable category of net assets, consistent with donor designation. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Grant revenues and expenses relating to Hospital operations are included within operating revenues and expenses. Grant revenues and expenses relating to research are included within nonoperating gains and losses.

Contributions, including unconditional promises to give, are recognized as increases in net assets at the date the gift or promise is received. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed stipulations, if any, on the contributions.

Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted support. These contributions are reclassified to unrestricted net assets when the capital asset is acquired or placed in service.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Hospital's and FPP's significant estimates include the allowances for patient accounts receivable contractual allowances and estimated final settlements due to or from third party payors, professional and general liability loss reserves and pension assumptions.

Cash and Cash Equivalents
Cash and cash equivalents include investments in highly liquid instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by the Board of Trustees or other restrictive arrangements.

The majority of the Hospital's banking activity, including cash and cash equivalents, is maintained with a regional bank and from time to time exceeds federal insurance limits. It is the Hospital's policy to monitor the bank's financial strength on an ongoing basis.

Beneficial Interest in Trusts
The fair value of contributions received from perpetual trust assets held by third parties is measured at the Hospital's proportionate share of the fair value of the trust's assets at the time the Hospital is notified of the trust's existence and periodically adjusted for changes in value. Distributions received by the Hospital may be restricted by the donor. These assets are classified as permanently restricted net assets.

Inventories
Inventories, which are included in other current assets, are stated at the lower of cost, using the first-in, first-out method, or market. Inventories are included in other current assets.

Fair Value Measurements
Fair value standards define fair value and establish a framework for measuring fair value. The framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this principle are as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of the Hospital's and FPP's investments is based on quoted market values.

The fair value of the Hospital's interest rate swaps liability is based on observable inputs other than quoted prices for similar instruments.

Investments and Investment Income
Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Investments of donor restricted funds are classified as long-term investments. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the deficiency of revenues over expenses unless the income or loss is restricted by donor or law.

Assets Limited as to Use
Assets limited as to use include assets set aside by the Board of Trustees in a depreciation fund for future capital improvements; and assets held by a trustee under an indenture agreement.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or in the case of donated property at the fair value at the date of gift. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method with one-half year of depreciation expense recorded in the year of acquisition. Uniform useful lives assigned to assets are based upon the American Hospital Association estimated useful lives of depreciable hospital assets guidelines and range from 5 to 50 years. Maintenance and repairs are charged to expense as incurred, and betterments and major renewals are capitalized. Upon sale or disposal of property, plant or equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Equipment under capital leases is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense. Interest cost incurred on borrowed funds during the construction period of capital assets is capitalized as a component of the cost of acquiring those assets.

The Hospital performed a review of certain building improvement and construction assets during the course of last year. The review determined that certain assets were being depreciated over a term that was shorter than the assets' expected life. As such the useful lives were adjusted and the corresponding depreciation was prospectively adjusted as appropriate. The changes in the useful lives lead to a decrease in depreciation expense of approximately $461,000 during 2011.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the deficiency of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Asset Retirement Obligation

The Hospital accrues for asset retirement obligations, primarily asbestos related removal costs, in the period in which they are incurred if sufficient information is available to reasonably estimate the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Hospital will recognize a gain or loss for any difference between the settlement amount and the liability recorded.

Interest in Net Assets of Affiliate

Interest in net assets of affiliate represents the Hospital's interest in the net assets of GHDF.

Cost of Borrowing

Issuance costs related to the Hospital's bond issuance are being amortized using the effective interest method over the life of the debt. Amortization expense, which is included in interest expense, was $66,926 and $69,382 for 2012 and 2011, respectively.

The discount from face value at which debt has been issued is reflected as a reduction of the carrying value of such debt. The premium from face value at which debt has been issued is reflected as an addition to the carrying value of such debt. Discounts and premiums are amortized or accreted over the life of the debt, using the effective interest method.

Professional and General Liability Loss Reserves

The liability for claims is determined by management based on data processed by independent loss adjusters. The liability for adverse claims development and the liability for claims incurred but not reported are determined by management based on actuarial studies of related data prepared by independent actuaries.

Due to the nature of the underlying insurance risks and the general uncertainty surrounding medical malpractice claims settlement, the liability for losses is an estimate and could vary significantly from the amount ultimately paid. However, the liability for losses reflects the best estimate of ultimate loss based on historical experience and actuarial projections.

Deficiency of Revenues Over Expenses

The statement of operations includes a deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include changes in interests in net assets of affiliate, transfers of assets to and from affiliates for other than goods and services, and pension and other post-retirement related changes other than net periodic benefit cost.

Net Patient Service Revenue

The Hospital and FPP have agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, fee schedule payments and capitated fees. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors due to future audits, reviews and investigations.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews or investigations. Contracts, loans and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the future. During 2012 and 2011, the Hospital recorded several adjustments for amounts recognized related to prior years, including adjustments to prior year estimates. The net effect of such adjustments was decrease in net patient service revenue of approximately $553,459 in 2012 and a decrease of approximately $156,824 in 2011.

Free Care

The Hospital provides care to patients who meet certain criteria under its free care policy without charge or at amounts less than its established and contractual rates. Because the Hospital does not pursue collection of amounts determined to qualify as free care, they are not reported as net patient service revenue. Free care of approximately $6,785,000 and $7,580,000 measured at the Hospital’s respective established rates was provided in fiscal year 2012 and 2011, respectively.

Income Taxes

The Hospital and FPP are not-for-profit organizations, exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

Subsequent Events

Management has evaluated subsequent events for the period after September 30, 2012 through April 18, 2013, the date the financial statements were issued.

Reclassifications

Certain amounts in the 2011 consolidated financial statement have been reclassified to conform to the 2012 financial statement presentation.

3. Net Patient Service Revenue

Net patient service revenue for the years ended September 30, 2012 and 2011 is comprised as follows:

	2012			2011		
	Hospital	**FPP**	**Total**	**Hospital**	**FPP**	**Total**
Patient service charges	$ 411,206,017	$ 5,471,322	$ 416,677,339	$ 384,534,584	$ 5,881,174	$ 390,415,758
Contractual allowances	(290,144,702)	(2,552,230)	(292,696,932)	(262,536,240)	(3,188,117)	(265,724,357)
Net patient service revenue	$ 121,061,315	$ 2,919,092	$ 123,980,407	$ 121,998,344	$ 2,693,057	$ 124,691,401

The Hospital and FPP have agreements with the Federal Medicare Program ("Medicare"), the State of Connecticut ("State") Medicaid Program ("Medicaid"), and certain indemnity and managed care programs that determine payments for services rendered to patients covered by these programs.

A summary of the payment arrangements with major third-party payors is as follows:

Medicare

The Hospital is reimbursed for services rendered to nonpsychiatric inpatients under the prospective payment system ("PPS"), under which payments are based on standard national and regional amounts depending on patient diagnosis (Diagnosis Related Group or "DRG") and without regard to the Hospital's actual costs. PPS permits additional payments, within specified limitations, to be made for atypical cases (outliers) and graduate medical education. Inpatient psychiatric services are also paid under a prospective per diem payment system established by Medicare.

The Hospital is reimbursed for most outpatient services under a prospective payment methodology based on ambulatory payment classifications ("APC") which are paid on standard national and regional amounts for procedures rendered to the patients and without regard to the Hospital's actual costs. The remaining outpatient services (e.g., routine clinical lab, physical therapy) are reimbursed on a fee schedule.

The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year the examination is substantially complete. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2007.

Medicaid
Inpatient services rendered to Medicaid program beneficiaries, except for those beneficiaries in the State's Aid to Families with Dependent Children ("AFDC") population, are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the State. Outpatient services are reimbursed at predetermined fee schedules or percent of charges. In addition, the State also contracts with various managed care organizations to provide services to the State's AFDC population. The Hospital contracts with one or more of these managed care organizations and provide services on a per diem rate for inpatient and fee schedules or percent of charges for outpatients.

Other Payers
The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, fee schedule payments and capitated fees.

Future Reimbursement
Current trends in the health care industry include mergers and other forms of affiliations among providers, increasing shifts to managed care, an overall reduction in inpatient average length of stay, increasingly restrictive reimbursement policies by governmental and private payors, and the prospect of significant changes in legislation at the State and national level. The Hospital cannot assess or project the ultimate effect of these or other items that may have an impact on the future operations of the Hospital.

4. Investments

Investments
Investments, at fair value, at September 30 include:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities	$ 3,602,337	$ 3,611,174	$ 5,406,886	$ 5,001,889
Marketable equity securities	2,891,762	2,908,645	3,419,266	3,654,884
	$ 6,494,099	$ 6,519,819	$ 8,826,152	$ 8,656,773

Assets Limited as to Use

The composition of assets limited as to use at September 30, 2012 and 2011 is as follows:

	2012		2011	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Board-designated				
For capital acquisition				
Cash and cash equivalents	$ 10,001	$ 10,001	$ 20,507	$ 20,507
For postretirement benefits				
Cash and cash equivalents	-	-	10,877	10,877
	10,001	10,001	31,384	31,384
Held by trustee under indenture agreement				
U.S. Treasury obligations	4,988,754	4,988,194	4,992,520	4,991,621
Accrued interest receivable	831	831	1,354	1,354
	4,989,585	4,989,025	4,993,874	4,992,975
Less: Current portion	(700,398)	(700,398)	(704,176)	(704,176)
	4,289,187	4,288,627	4,289,698	4,288,799
	$ 4,299,188	$ 4,298,628	$ 4,321,082	$ 4,320,183

Investment income and unrealized gains and losses for assets limited as to use, cash equivalents and other investments are comprised of the following for 2012 and 2011:

	2012	2011
Income		
Interest and dividend income	$ 351,715	$ 380,331
Net realized gain	112,285	75,984
Change in unrealized gains and losses on investments	534,665	(237,961)
	$ 998,665	$ 218,353

The following table represents the Hospital's financial assets and liabilities by fair value hierarchy as of September 30, 2012:

	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Investments				
Fixed income	$ 3,611,174	$ -	$ -	$ 3,611,174
Equity securities	2,908,645			2,908,645
Total investments	6,519,819	-	-	6,519,819
Remainder trusts			109,818	$ 109,818
Perpetual trusts			3,540,275	3,540,275
Total assets at fair value	$ 6,519,819	$ -	$ 3,650,093	$ 10,169,912
Liabilities				
Interest rate swaps liability		$ 9,153,353	$ -	$ 9,153,353
Total liabilities at fair value	$ -	$ 9,153,353	$ -	$ 9,153,353

The following table sets forth a summary of changes in the fair value of the Hospital's Level 3 assets for the year ended September 30, 2012:

Balance at September 30, 2011	$ 3,367,120
Change in unrealized value of interest in trusts	282,973
Balance at September 30, 2012	$ 3,650,093

There were no transfers between levels during 2012 or 2011.

The following table represents the Hospital's financial assets and liabilities by fair value hierarchy as of September 30, 2011:

	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Investments				
Fixed income	$ 5,001,889	$ -	$ -	$ 5,001,889
Equity securities	3,654,884	-	-	3,654,884
Total investments	8,656,773	-	-	8,656,773
Remainder trusts	-	-	101,612	101,612
Perpetual trusts	-	-	3,265,508	3,265,508
Total assets at fair value	$ 8,656,773	$ -	$ 3,367,120	$ 12,023,893
Liabilities				
Interest rate swaps liability	$ -	$ 7,973,902	$ -	$ 7,973,902
Total liabilities at fair value	$ -	$ 7,973,902	$ -	$ 7,973,902

The following table sets forth a summary of changes in the fair value of the Hospital's Level 3 assets for the year ended September 30, 2011:

Balance at September 30, 2010	$ 3,644,228
Change in unrealized value of interest in trusts	(277,108)
Balance at September 30, 2011	$ 3,367,120

5. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation as of September 30, 2012 and 2011 are summarized as follows:

	2012	2011
Land and improvements	$ 5,107,308	$ 5,107,308
Buildings and improvements	71,833,837	70,300,374
Fixed and movable equipment	71,898,214	69,071,589
	148,839,359	144,479,271
Less: Accumulated depreciation	(88,643,415)	(82,909,524)
	60,195,944	61,569,747
Construction-in-progress	129,776	715,189
	$ 60,325,720	$ 62,284,936

Depreciation expense was $4,698,788 and $3,871,478 for 2012 and 2011, respectively.

Included in property, plant and equipment as of September 30, 2012 and 2011 are capital lease assets for major movable equipment with a cost of $8,901,170. Accumulated amortization on the respective capital lease assets was $4,488,949 and $3,187,762 as of September 30, 2012 and 2011, respectively.

Amortization expense on capital lease assets was $1,301,187 and $1,966,417 for 2012 and 2011, respectively.

6. Insurance Liability Loss Reserves

HAIC insures the professional and general liabilities of the Hospital under a claims-made policy with a retroactive date of October 1, 1986. 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 has utilized independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice reserves for professional and general liability have been discounted at 3.5% at September 30, 2012 and 3.5% at September 30, 2011. In management's opinion these reserves provide an adequate reserve for loss. The Hospital has purchased excess insurance coverage to cover claims in excess of $1,500,000 and $4,500,000 in the aggregate. An independent actuary has been utilized to estimate the ultimate cost of claims incurred contingencies.

Effective January 1, 2003 Griffin Hospital began retaining the first $250,000 of all loss and allocated loss adjustment expense per accident for its workers compensation exposure. Excess coverage above $250,000 per accident was purchased. Beginning January 1, 2007 the per occurrence retention was increased to $300,000. Annual aggregate coverage was also purchased which provides $1 million of coverage above a maximum limit of retained losses within the per occurrence retention. Beginning October 1, 2010 the per occurrence retention was increased to $400,000 and the annual aggregate coverage was discontinued. The workers' compensation reserves have been discounted at 2.5% and 3.0% at September 30, 2012 and 2011, respectively, and in management's opinion provide an adequate reserve for loss contingencies.

The Hospital also has recorded self-insurance reserves for its employee health plan, for the deductible portion of workers' compensation indemnity losses from January 1, 1999 and prior, and for the medical cost component of its workers' compensation losses prior to January 1, 2003, subject to certain umbrella and stop-loss coverage limits. The Hospital accrues its best estimate of its retained liability for occurrences through each balance sheet date.

7. Long-Term Debt

Long-term consists of the following at September 30, 2012 and 2011:

	2012	2011
State of Connecticut Health and Educational Facilities Authority		
Series B	$ 17,200,000	$ 18,375,000
Series C	22,100,000	22,625,000
Series D	10,550,000	10,750,000
Loan payable	1,062,048	700,000
Premium and discount on bonds, net of accumulated accretion and amortization of $321,484 and $254,924, respectively	520,552	587,113
	51,432,600	53,037,113
Less: Current portion	(4,475,000)	(4,512,500)
	$ 46,957,600	$ 48,524,613

The State of Connecticut Health and Educational Facilities Authority ("CHEFA") Revenue Bonds, The Griffin Hospital Issue, Series B, totaling $24,800,000 were issued in February 2005. The Series B bonds bear interest at rates ranging from 2.4% to 5.0%. Interest is due semi-annually on January 1 and July 1. A bond premium of $969,815 and bond issuance costs of $1,196,512 are amortized over the life of the bond using the effective interest rate method. The Series B bonds are insured by Radian Asset Guaranty Corporation. The bonds are payable annually each July 1 through 2015 and on July 1, 2020 and July 1, 2023 in the amounts of $7,750,000 and $5,640,000, respectively. The Series B bonds maturing after July 1, 2015 are subject to redemption prior to maturity commencing July 1, 2015. The estimated fair value of the Series B bond was approximately $17,820,000 and $18,161,000 at September 30, 2012 and 2011, respectively.

In May 2007, CHEFA issued $23,125,000 revenue bonds, The Griffin Hospital Issue, Series C and $10,925,000 variable rate revenue bonds, The Griffin Hospital Issue, Series D.

In May 2008, the Hospital refunded The Griffin Hospital Issue 2007 Series C and The Griffin Hospital Issue 2007 Series D bonds, which were initially issued as auction rate bonds, and issued $23,125,000 Griffin Hospital Issue 2008 Series C Variable Rate Demand bonds and $10,925,000 Griffin Hospital Issue 2008 Series D Variable Rate Demand Bonds (together referred to as "Series 2008 Bonds"). The Series 2008 Bonds are insured by Radian Asset Guaranty Corporation.

In order to provide liquidity for the Series 2008 Bonds, the Hospital has a standby letter of credit with Wells Fargo Bank N.A. for $34,050,000 which expires in May 2013. As of September 30, 2012 the Hospital was in violation of the letter of credit's required debt service coverage ratio and capitalization ratio. In April 2013, Wells Fargo amended the letter of credit agreement to allow, as of September 30, 2012, the calculation of these ratios to exclude certain non-recurring expenditures for consulting expenses. The consulting expenditures were incurred to help the Hospital identify and implement cost reductions and put in place software and controls designed to monitor and continue the cost containment process. In connection with the amendment the Hospital has obtained an extension of this letter of credit to May 2014. Should the Series 2008 Bonds be put back, and the standby letter of credit be called, the Hospital would be required to repay the principal ratably over a 5-year period, beginning 180 days following the put.

Under the terms of the CHEFA bonds, the Obligated Group (the Hospital, GHSC and GHDF) are required to maintain 50 days operating cash on hand and a debt service coverage ratio of 1.2 to 1. Additionally, the Obligated Group is required to maintain a capitalization ratio of less than .65. As of September 30, 2012 the Obligated Group failed to meet the debt service coverage and capitalization ratios. As a result of the covenant violations, the Obligated Group entered into a Forbearance Agreement in April 2013 with Radian Asset Assurance, Inc., the bond insurer. The Forbearance Agreement waives the covenant violations as of September 30, 2012 and modifies the debt to equity ratio calculation going forward to allow exclusion of any realized or unrealized gains (losses) on the interest rate swap. In addition, the forbearance agreement added an additional loan covenant that beginning March 31, 2013 requires the Obligated Group to maintain an average payment period days of less than 110 days.

Under both the letter of credit agreement and the CHEFA bonds there was a requirement to provide audited financial statements within 120 days of year end which was not met for the September 30, 2012 year end. In April 2013, both Wells Fargo Bank and Radian have provided a waiver of this covenant violation.

The CHEFA bonds are collateralized by the gross receipts of the Obligated Group and certain real property of the Hospital.

Aggregate scheduled principal payments on all long-term debt are as follows:

2013	$ 1,935,000
2014	2,040,000
2015	2,135,000
2016	2,225,000
2017	2,345,000
Thereafter	40,232,048
	$ 50,912,048

To the extent the Hospital is unable to remarket the Series 2008 bonds, the Hospital would be obligated to repurchase these bonds from the proceeds of the Hospital's standby letter of credit. The previous debt maturities table reflects the payment of principal on these bonds according to their scheduled maturity dates. If the Series 2008 bonds were fully tendered by the bondholders to the Hospital as of September 30, 2012, the table of annual principal payments would become:

2012	$ 4,475,000
2013	7,795,000
2014	7,865,000
2015	7,930,000
2016	8,000,000
Thereafter	14,847,048
	$ 50,912,048

Under the terms of the bond agreements, the Hospital is required to maintain certain funds with a trustee for specified purposes and time periods. Required payments to the trustee are made by the Hospital in amounts sufficient to provide for the payment of principal, interest and sinking fund installments as they become due, and certain other payments. Assets held by the trustees pursuant to the indentures as of September 30, 2012 and 2011 are as follows:

	2012	2011
Debt service reserve fund	$ 4,287,910	$ 4,288,344
Debt service fund	215,120	225,970
Principal fund	485,164	477,307
Accrued interest receivable	831	1,354
	$ 4,989,025	$ 4,992,975

The Hospital borrowed $1,062,048 and $700,000 of the net cash value of certain officer universal life insurance policies for working capital purposes in fiscal years 2011 and 2010 respectively. The fiscal year 2010 borrowing was paid back in fiscal year 2011. There is no repayment requirement relative to the borrowing.

Derivative Instruments

The Hospital initially issued its Series 2007 Series C and 2007 Series D bonds bearing interest at a variable rate. In May 2007, the Hospital entered into two interest rate swap agreements to manage interest rate risk. These agreements involve payment of fixed rate interest payments by the Hospital in exchange for the receipt of variable rate interest payments from the counterparties, based on a percentage of the London Interbank Offered Rate (LIBOR). In 2008, the Hospital refinanced the Series 2007 bonds and issued the Series 2008 Bonds. These bonds also bear interest at a variable rate. The two original swap agreements continue to be utilized by the Hospital to manage its interest rate risk. At September 30, 2012, the notional amount of the derivative financial instruments was $22,100,000 (Series 2008 Issue C nontaxable bonds) and $10,550,000 (Series 2008 Issue D taxable bonds), respectively.

Upon the occurrence of certain events of default or termination events identified in the derivative contracts, either the Hospital or the counterparty could terminate the contract in accordance with its terms. Termination would result in the payment of a termination amount by one party to compensate the other party for its economic losses. The cost of termination would depend, in major part, on the then current interest rate levels, and if the interest rate levels were then lower than those specified in the derivative contract, the cost of termination to the Hospital could be significant.

The fair value of these derivatives was a liability of $9,153,353 and $7,973,902 as of September 30, 2012 and 2011, respectively, which is included in long-term liabilities. The impact of the change in fair value was $1,179,451 and $1,151,797 for the years ended September 30, 2012 and 2011, respectively. This change is included in the net realized and unrealized losses on interest rate swap agreements, which also includes the net periodic settlement payments related to the swap agreements of $1,344,099 and $1,376,109 for 2012 and 2011, respectively.

The following table lists the fair value of derivatives by contract type included in the consolidated balance sheets at September 30, 2012 and 2011.

	2012	
	Initial Notional	**Fair Value**
Derivatives not designated as hedging instruments		
Interest rate swaps	$ 34,050,000	$ (9,153,353)

	2011	
	Initial Notional	**Fair Value**
Derivatives not designated as hedging instruments		
Interest rate swaps	$ 34,050,000	$ (7,973,902)

The following table indicates the realized and unrealized losses by contract type, as included in the consolidated statements of operations for the years ended September 30, 2012 and 2011:

	2012	
	Location of Gain or (Loss) on Derivatives	**Gain or (Loss) on Derivatives**
Derivatives not designated for hedging Instruments		
Interest rate swaps	Net realized and unrealized losses on interest rate swaps	$ (2,523,551)

	2011	
	Location of Gain or (Loss) on Derivatives	**Gain or (Loss) on Derivatives**
Derivatives not designated for hedging Instruments		
Interest rate swaps	Net realized and unrealized losses on interest rate swaps	$ (2,527,906)

8. Lease Commitments

Capital Leases

The Hospital leases certain equipment under capital leases which extend through 2015.

Future minimum rental payments, by year and in aggregate, under capital leases consist of the following as of September 30, 2012:

2013	$ 2,024,967
2014	1,214,035
2015	110,886
	3,349,888
Less: Amounts representing interest	144,274
Present value of minimum lease payments	3,205,614
Less: Current portion	1,906,557
Capital lease obligation, net current portion	$ 1,299,057

Operating Leases

The Hospital leases various equipment and office space under operating leases, expiring at various dates through 2017. Some of these leases contain renewal options. Rent expense under such leases was approximately $994,100 and $779,000 for the years ended September 30, 2012 and 2011, respectively.

Future minimum rental payments as of September 30, 2012 under noncancelable operating leases are as follows:

2013	$ 1,048,456
2014	1,042,802
2015	1,036,385
2016	1,015,173
2017	573,833
	$ 4,716,649

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of September 30, 2012 and 2011:

	2012	2011
Unspent income and appreciation on endowment funds expendable for specified healthcare services	$ 730,489	$ 613,618
Change in the unspent income and (depreciation) appreciation on GHDF endowment funds	316,479	(20,928)
Restricted for purchase of equipment	324,977	813,033
Restricted specified healthcare services	831,058	474,427
	$ 2,203,003	$ 1,880,150

Permanently restricted net assets at September 30, 2012 and 2011 are comprised as follows:

	2012	2011
Investments to be held in perpetuity, the income of which is expendable to support health care services	$ 417,645	$ 417,645
Interest in permanently restricted net assets of GHDF's endowment, the income of which is expendable for specified health care services	1,742,616	1,742,616
Beneficial interest in trusts	3,650,093	3,367,120
	$ 5,810,354	$ 5,527,381

10. Other Debt Arrangements and Guarantees

On March 5, 2005, the Hospital entered into a $262,500 letter of credit agreement with Wells Fargo Bank. On February 23, 2009, the Hospital also entered into an additional $750,000 letter of credit agreement with Wells Fargo Bank. On January 21, 2010, the letter of credit agreement for $262,500 was reduced to $50,000. No borrowings had been made on either letter of credit as of September 30, 2012 or 2011.

11. Transactions with Affiliated Corporations

Due from affiliates represents amounts receivable for various monthly operating expenses and other operating purposes paid by the Hospital. The following summarizes the due from affiliates as of September 30:

	2012	2011
Health Alliance Insurance Company, Ltd. (HAIC)	$ 5,169,742	$ 4,252,041
G.H. Ventures, Inc. (GHV)	1,542,941	1,159,661
Planetree	644,696	-
GHSC	315,007	-
Griffin Pharmacy and Gift Shop (GP&GS)	325,989	-
	$ 7,998,375	$ 5,411,702

The following summarizes the due to affiliates as of September 30:

	2012	2011
Planetree, Inc.	$ -	$ 5,633
The Griffin Hospital Development Fund, Inc.	196,466	-
Griffin Pharmacy and Gift Shop (GP&GS)	-	61,988
	$ 196,466	$ 67,621

The Hospital incurs charges related to various administrative and operating expenses, including salaries and related costs for all affiliated entities. The Hospital allocates such amounts to the affiliated entities based on actual costs incurred.

G. H. Ventures, Inc.
The Hospital advances funds to pay certain operating expenses for GHV which totaled approximately $383,280 and $318,000 in 2012 and 2011, respectively.

Griffin Hospital Development Fund
The Hospital paid operating expenses for GHDF totaling approximately $546,936 and $498,000 in 2012 and 2011, respectively. Additionally, GHDF made a transfer to the Hospital of $885,000 and $825,000 in 2012 and 2011 respectively.

Griffin Pharmacy and Gifts
The Hospital advanced operating expenses for GP&G totaling approximately $387,977 and $433,000 in 2012 and 2011, respectively. GP&G reimbursed the Hospital approximately $800,000 during 2011.

Healthcare Alliance Insurance Company, Ltd.
The Hospital obtains professional and general liability coverage under a policy between GHSC and HAIC (note 6). Total premiums incurred for this insurance coverage in 2012 and 2011 were approximately $2,313,443 and $2,991,260, respectively. The Hospital pays claims processing expenses on behalf of HAIC and is subsequently reimbursed for these expenses. As of September 30, 2012 and 2011, the Hospital was due $5,169,741 and $2,574,461, respectively, from HAIC for favorable claim development net of insurance premiums due.

Griffin Health Services Corporation
The Hospital paid operating expenses of approximately $3,000 for both 2012 and 2011. GHSC transferred to the Hospital approximately $120,000 and $5,315,000 in 2012 and 2011, respectively. The Hospital made cash advances to GHSC of approximately $1,000,000 in 2011.

Planetree, Inc.
The Hospital advanced operating expenses for Planetree totaling approximately $2,685,450 and $1,653,000 in 2012 and 2011, respectively. Planetree reimbursed the Hospital approximately $2,035,121 and $1,745,000 in 2012 and 2011, respectively. Planetree transferred $1,800,000 to the Hospital during 2011 which represented a return of capital.

12. Pension and Other Postretirement Benefits

Pension Benefits
The Hospital sponsors a noncontributory defined benefit pension plan that covers substantially all of its employees and provides for retirement and death benefits. The Hospital's policy is to fund actuarially determined pension costs as accrued.

Effective May 1, 2010, credited service accruals under the retirement plans for employees of the Griffin Hospital were frozen for the April 1, 2010 to March 31, 2012 plan year. Participants continue to earn vesting service during the freeze period and pay increases during the freeze period will be reflected in participant's final earnings calculation however no credited service will be earned for the period from April 1, 2010 to March 31, 2012. Effective April 1, 2012 the plan freeze was terminated and credit service accruals were reestablished at a reduced rate.

The Hospital's accumulated benefit obligation was $100,786,846 and $88,758,523 at September 30, 2012 and 2011, respectively.

Other Postretirement Benefits

The Hospital also provides certain health care and life insurance benefits for eligible retired employees and their dependents. Substantially all of the Hospital's full-time employees may become eligible for these benefits upon retirement if certain age and service criteria are met. Effective January 1, 2004, employees will need to be at least age 62 at retirement to be eligible for coverage. Employees who are eligible for these benefits at the time of their retirement and who meet the requirements to receive an immediate pension plan benefit are provided continued health and life insurance coverage throughout their retirement. The plan is unfunded.

Pertinent information relating to these plans is as follows, based on a September 30 measurement date:

	Pension Benefits		Other Benefits	
	2012	**2011**	**2012**	**2011**
Change in benefit obligation				
Benefit obligation at beginning of year	$100,960,773	$ 86,252,605	$ 7,994,095	$ 6,819,956
Service cost	1,123,268	100,000	242,639	225,851
Interest cost	4,255,880	4,228,200	350,023	330,609
Amendments	(10,194,555)	-	-	-
Actuarial loss	8,206,927	14,114,413	1,168,473	1,128,017
Benefits paid	(3,372,846)	(3,734,445)	(835,429)	(510,338)
Benefit obligation at end of year	$100,979,447	$100,960,773	$ 8,919,801	$ 7,994,095
Change in plan assets				
Fair value of plan assets at beginning of year	$ 48,539,678	$ 49,977,336	$ -	$ -
Actual return on plan assets	9,507,095	(1,353,510)		-
Employer contributions	3,880,590	3,647,297	835,429	510,338
Benefits paid	(3,372,846)	(3,734,445)	(835,429)	(510,338)
Fair value of plan assets at end of year	$ 58,554,517	$ 48,536,678	$ -	$ -
Unfunded status - recognized as a liability	$ (42,424,930)	$ (52,424,095)	$ (8,919,801)	$ (7,994,095)

Components of net periodic benefit cost are as follows:

	Pension Benefits		Other Benefits	
	2012	**2011**	**2012**	**2011**
Service cost	$ 1,123,268	$ 100,000	$ 242,639	$ 225,851
Interest cost	4,255,880	4,228,200	350,023	330,609
Expected return on plan assets	(4,147,333)	(4,272,234)	-	-
Amortization of unrecognized prior service credit	-	-	(389,620)	(523,414)
Amortization of transition obligation	(654,432)	-	-	10,104
Net actuarial loss	4,567,849	3,308,346	337,677	301,588
Net periodic benefit cost	$ 5,145,232	$ 3,364,312	$ 540,719	$ 344,738

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Current liabilities	$ -	$ -	$ 435,000	$ 525,000
Noncurrent liabilities	42,427,930	52,424,095	8,484,801	7,469,095
	$ 42,427,930	$ 52,424,095	$ 8,919,801	$ 7,994,095

Pension Plan

Amounts in consolidated unrestricted net assets that are not yet recognized as a component of net periodic benefit cost are as follows:

	2012	2011
Net actuarial loss	$ 57,213,849	$ 58,934,533
	$ 57,213,849	$ 58,934,533

Other changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets:

	2012	2011
Net actuarial loss	$ 2,847,165	$ 19,740,157
Amortization of Actuarial loss	(4,567,849)	(3,308,346)
	$ (1,720,684)	$ 16,431,811

Expected amounts to be amortized from unrestricted net assets into net periodic benefit cost for the next fiscal year:

Actuarial loss	$ 4,187,550

Post-Retirement Plan

Amounts recognized in unrestricted net assets that are not yet recognized on a component of net periodic benefit cost are as follows:

	2012	2011
Net transition obligation	$ -	$ -
Net prior service credit	(502,612)	(892,232)
Net actuarial loss	5,518,248	4,687,452
	$ 5,015,636	$ 3,795,220

Other changes in plan assets and benefit obligations included in unrestricted net assets not yet recognized in periodic benefit cost are:

	2012	2011
Net actuarial loss	$ 1,168,473	$ 1,128,017
Amortization of		
Transition obligation	-	(10,104)
Prior service cost	389,620	523,414
Actuarial gain	(337,677)	(301,588)
	$ 1,220,416	$ 1,339,739

Expected amounts to be amortized from unrestricted net assets into net periodic benefit cost for the next fiscal year:

Transition obligation	$ -
Prior service credit	(389,620)
Actuarial loss	830,796

Actuarial assumptions are as follows:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Weighted average assumptions used to determine year end benefit obligation				
Discount rate	3.91%	4.54%	3.91%	4.54%
Rate of compensation increase	4.00%	4.00%	N/A	N/A

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Weighted average assumptions used to determine net periodic benefit cost				
Discount rate	4.54%	5.00%	4.54%	5.00%
Expected long-term return on plan assets	7.89%	8.50%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A

	Pre-65		Post-65	
	2012	2011	2012	2011
Health care cost trend rate assumed for next year	8.00%	8.00%	8.00%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2019	2018	2019	2018

A one-percentage-point change in assumed health care cost trend rates would have the following effects on:

	(in 000's)			
	1-Percentage Point Increase		1-Percentage Point Decrease	
Service and interest cost components	$	23,197	$	(19,981)
Postretirement benefit obligation		200,155		(176,390)

Contributions
The Hospital expects to contribute approximately $4,908,843 to its pension plan and $435,000 to its other postretirement benefit plan in fiscal year 2013.

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service, are expected to be paid as of September 30:

	Pension Benefits		Other Benefits	
2013	$	3,852,000	$	435,000
2014		4,107,000		461,000
2015		4,373,000		491,000
2016		4,703,000		546,000
2017		4,960,000		594,000
2018-2022		28,582,000		3,161,000

Pension plan assets are invested as follows:

	2012	2011
Asset category		
Cash and cash equivalents	95 %	1 %
U.S. Large cap	-	36
U.S. Small cap	-	7
International equity	-	18
Alternative investment	5	-
Fixed income	-	29
Real estate	-	9
	100 %	100 %

	2012	2011
Target asset allocations		
Cash	100 %	0 %
U.S. Large cap	-	38
U.S. Small cap	-	7
International equity	-	20
Fixed income	-	25
Real estate	-	10
	100 %	100 %

The fair value of plan assets as of September 30, 2012, by asset category was as follows:

(in thousands)	September 30, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 55,293	$ -	$ -	$ 55,293
U.S. Large cap	-	-	-	-
U.S. Small cap	-	-	-	-
International equity	-	-	-	-
Alternative investments	-	-	2,619	2,619
Fixed income	643	-	-	643
Real estate mutual funds	-	-	-	-
	$ 55,936	$ -	$ 2,619	$ 58,555

The fair value of plan assets as of September 30, 2011, by asset category was as follows:

(in thousands)	September 30, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 617	$ -	$ -	$ 617
U.S. Large cap	17,607	-	-	17,607
U.S. Small cap	3,200	-	-	3,200
International equity	8,547	-	-	8,547
Fixed income	679	-	13,601	14,280
Real estate mutual funds	-	-	4,331	4,331
	$ 30,650	$ -	$ 17,932	$ 48,582

Asset Investment Strategy

The Hospital has adopted a liability driven investment ("LDI") strategy. Primary focus is to minimize the volatility of the funding ratio by aligning the Plan's assets with its liabilities in terms of how both respond to interest rate changes; this is then followed by an investment objective strategy to achieve a satisfactory rate of return based on the asset allocation profile in the long term and satisfy the plan's benefit obligations, while incurring an acceptable pension cost to the sponsor in the long run. The objective will result in a prescribed asset mix between return seeking assets and a LDI bond portfolio.

13. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix in patient accounts receivable as of September 30, 2012 and 2011 before allowances for doubtful accounts, consisted of the following:

	2012	2011
Medicare and Medicaid	13 %	18 %
Commercial insurance	21	17
Managed care	27	29
Self-pay patients	37	34
City Welfare	2	2
	100 %	100 %

14. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses relating to providing these services at September 30, 2012 and 2011 are as follows:

	2012	2011
Patient care and clinical	$ 112,399,993	$ 112,943,128
General and administrative	22,465,237	18,758,730
	$ 134,865,230	$ 131,701,858

15. Endowments

The Hospital's endowment funds consist of donor restricted funds to be invested in perpetuity to provide a permanent source of income. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The Hospital has interpreted the Connecticut UPMIFA statute as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate 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

(7) The investment policies of the Hospital.

Endowment net asset composition by type of fund as of September 30 is as follows:

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 772,072	$ 2,160,261	$ 2,932,333
Investment income and net depreciation (realized and unrealized)	322,207	-	322,207
Appropriation of endowment assets for expenditure for healthcare services	(5,000)	-	(5,000)
Endowment net assets at end of year	$ 1,089,279	$ 2,160,261	$ 3,249,540

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 793,000	$ 2,160,261	$ 2,953,261
Investment income and net depreciation (realized and unrealized)	(1,478)	-	(1,478)
Appropriation of endowment assets for expenditure for healthcare services	(19,450)	-	(19,450)
Endowment net assets at end of year	$ 772,072	$ 2,160,261	$ 2,932,333

The primary long-term management objective for the Hospital's endowment funds is to maintain the permanent nature of each endowment fund, while providing a predictable, stable, and constant stream of earnings. Consistent with that objective, the primary investment goal is to earn annual interest and dividends.

16. Commitments and Contingencies

The Hospital is involved in various legal matters arising in the normal course of activities. Although the ultimate outcome is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolution of these pending matters will not have a material adverse effect, individually or in the aggregate, upon the consolidated financial statements.

17. Subsequent Events

On March 28, 2013 the Hospital entered into an agreement to transfer its malpractice loss portfolio to an insurance company by making a one time payment of $7,400,000. The loss portfolio transfer effectively transfers the liabilities and subsequent risk to a third party insurer. As a result of the transaction, cash of $3,900,000 was freed up and transferred from HAIC to the Hospital.

Consolidating Information

Report of Independent Auditors on Accompanying Consolidating Information

To the Board of Trustees of
The Griffin Hospital:

The report on our audits of the consolidated financial statements of The Griffin Hospital and Subsidiary as of September 30, 2012 and 2011 and for the years then ended appears on page 1 of this document. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 18, 2013

PricewaterhouseCoopers LLP, 185 Asylum Street, Suite 2400, Hartford, CT 06103-3404
T: (860) 241 7000, F: (860) 241 7590, www.pwc.com/us

The Griffin Hospital and Subsidiary
Consolidating Balance Sheet
September 30, 2012

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 8,071,213	$ 96,204	$ -	$ 8,167,417
Investments	5,371,978	-	-	5,371,978
Assets limited as to use	700,398	-	-	700,398
Patient accounts receivable, net	12,754,987	355,558	-	13,110,545
Other current assets	5,557,652	108,017	-	5,665,669
Total current assets	32,456,228	559,779	-	33,016,007
Assets limited as to use				
Board-designated investments	10,001	-	-	10,001
Under indenture agreement	4,288,627	-	-	4,288,627
Total assets limited as to use	4,298,628	-	-	4,298,628
Long-term investments	1,147,841	-	-	1,147,841
Property, plant and equipment, net	59,966,717	359,003	-	60,325,720
Interest in net assets of affiliate	5,952,786	-	-	5,952,786
Due from affiliates	7,998,375	-	-	7,998,375
Investment in affiliate	611,099	-	(611,099)	-
Estimated third party settlements, long-term	1,203,411	-	-	1,203,411
Beneficial interest in trusts	3,650,093	-	-	3,650,093
Other long-term assets and insurance recoverable	12,635,039	-	-	12,635,039
	93,165,361	359,003	(611,099)	92,913,265
Total assets	$ 129,920,217	$ 918,782	$ (611,099)	$ 130,227,900

The Griffin Hospital and Subsidiary
Consolidating Balance Sheet
September 30, 2012

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Liabilities and Net (Deficit) Assets				
Current liabilities				
Current portion of long-term debt and capital lease obligations	$ 6,418,425	$ -	$ -	$ 6,418,425
Accounts payable	20,044,364	157,140	-	20,201,504
Accrued expenses	8,256,192	150,543	-	8,406,735
Accrued interest payable	347,111	-	-	347,111
Deferred revenue	40,179	-	-	40,179
Due to affiliates	196,466	-	-	196,466
Accrued postretirement benefit liability	435,000	-	-	435,000
Total current liabilities	35,737,737	307,683	-	36,045,420
Estimated third party settlements, long term	3,179,514	-	-	3,179,514
Professional and general liability loss reserves	10,488,070	-	-	10,488,070
Workers compensation loss reserves, net of current portion	2,108,091	-	-	2,108,091
Accrued pension liability	42,427,930	-	-	42,427,930
Accrued postretirement benefit liability, net of current portion	8,484,801	-	-	8,484,801
Conditional asset retirement obligations	119,709	-	-	119,709
Long-term debt, net of current portion	46,957,600	-	-	46,957,600
Capital leases, net of current portion	1,299,057	-	-	1,299,057
Interest rate swap agreements	9,153,353	-	-	9,153,353
Total liabilities	159,955,862	307,683	-	160,263,545
Net (deficit) assets				
Unrestricted operating	13,419,944	611,099	(611,099)	13,419,944
Cumulative unrecognized pension changes	(51,468,946)	-	-	(51,468,946)
Total unrestricted	(38,049,002)	611,099	(611,099)	(38,049,002)
Temporarily restricted	2,203,003	-	-	2,203,003
Permanently restricted	5,810,354	-	-	5,810,354
Total net (deficit) assets	(30,035,645)	611,099	(611,099)	(30,035,645)
Total liabilities and net (deficit) assets	$ 129,920,217	$ 918,782	$ (611,099)	$ 130,227,900

The Griffin Hospital and Subsidiary
Consolidating Balance Sheet
September 30, 2011

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 5,513,612	$ 94,140	$ -	$ 5,607,752
Investments	7,625,803	-	-	7,625,803
Assets limited as to use	704,176	-	-	704,176
Patient accounts receivable, net	17,025,431	274,761	-	17,300,192
Other current assets	6,294,570	98,028	-	6,392,598
Total current assets	37,163,592	466,929	-	37,630,521
Assets limited as to use				
Board-designated investments	31,384	-	-	31,384
Under indenture agreement	4,288,799	-	-	4,288,799
Total assets limited as to use	4,320,183	-	-	4,320,183
Long-term investments	1,030,970	-	-	1,030,970
Property, plant and equipment, net	62,082,187	202,749	-	62,284,936
Interest in net assets of affiliate	5,415,314	-	-	5,415,314
Due from affiliates	5,411,702	-	-	5,411,702
Investment in affiliate	374,891	-	(374,891)	-
Estimated third party settlements, long-term	457,830	-	-	457,830
Beneficial interest in trusts	3,367,120	-	-	3,367,120
Other long-term assets and insurance recoverable	12,654,401	-	-	12,654,401
	90,794,415	202,749	(374,891)	90,622,273
Total assets	$ 132,278,190	$ 669,678	$ (374,891)	$ 132,572,977

The Griffin Hospital and Subsidiary
Consolidating Balance Sheet
September 30, 2011

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Liabilities and Net (Deficit) Assets				
Current liabilities				
Current portion of long-term debt and capital lease obligations	$ 6,380,271	$ -	$ -	$ 6,380,271
Accounts payable	19,696,544	128,993	-	19,825,537
Accrued expenses	6,939,306	165,794	-	7,105,100
Accrued interest payable	365,713	-	-	365,713
Deferred revenue	33,048	-	-	33,048
Due to affiliates	67,621	-	-	67,621
Accrued postretirement benefit liability	525,000	-	-	525,000
Total current liabilities	34,007,503	294,787	-	34,302,290
Estimated third party settlements, long term	1,203,129	-	-	1,203,129
Professional and general liability loss reserves	10,493,026	-	-	10,493,026
Workers compensation loss reserves, net of current portion	1,514,632	-	-	1,514,632
Accrued pension liability	52,424,095	-	-	52,424,095
Accrued postretirement benefit liability, net of current portion	7,469,095	-	-	7,469,095
Conditional asset retirement obligations	125,216	-	-	125,216
Long-term debt, net of current portion	48,524,613	-	-	48,524,613
Capital leases, net of current portion	3,205,611	-	-	3,205,611
Interest rate swap agreements	7,973,902	-	-	7,973,902
Total liabilities	166,940,822	294,787	-	167,235,609
Net (deficit) assets				
Unrestricted operating	20,659,590	374,891	(374,891)	20,659,590
Cumulative unrecognized pension changes	(62,729,753)	-	-	(62,729,753)
Total unrestricted	(42,070,163)	374,891	(374,891)	(42,070,163)
Temporarily restricted	1,880,150	-	-	1,880,150
Permanently restricted	5,527,381	-	-	5,527,381
Total net (deficit) assets	(34,662,632)	374,891	(374,891)	(34,662,632)
Total liabilities and net (deficit) assets	$ 132,278,190	$ 669,678	$ (374,891)	$ 132,572,977

The Griffin Hospital and Subsidiary
Consolidating Statement of Operations
September 30, 2012

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Operating revenues				
Net patient service revenue	$ 121,061,315	$ 2,919,092	$ -	$ 123,980,407
Other operating revenue	5,743,384	772,102	(772,102)	5,743,384
Net assets released from restrictions for operations	5,000	-	-	5,000
Total operating revenues	126,809,699	3,691,194	(772,102)	129,728,791
Operating expenses				
Employee compensation and related expenses	72,639,969	3,603,994	-	76,243,963
Supplies and other expenses	46,867,207	2,714,489	(772,102)	48,809,594
Depreciation	5,913,216	86,759	-	5,999,975
Interest	2,709,709	-	-	2,709,709
Provision for doubtful accounts, net of recoveries	985,612	116,377	-	1,101,989
Total operating expenses	129,115,713	6,521,619	(772,102)	134,865,230
Gain (loss) from operations	(2,306,014)	(2,830,425)	-	(5,136,439)
Nonoperating gains (losses)				
Investment income	998,665	-	-	998,665
Change in fair value of interest rate swaps	(2,523,551)	-	-	(2,523,551)
Research grant revenues	2,234,902	-	-	2,234,902
Research grant expenses	(2,259,698)	-	-	(2,259,698)
	(1,549,682)	-	-	(1,549,682)
Deficiency of revenues over expenses	(3,855,696)	(2,830,425)	-	(6,686,121)
Change in interest in net assets of affiliate	567,699	-	(236,208)	331,491
Transfers between affiliates	(2,731,234)	3,066,634		335,400
Pension and other post-retirement related changes other than net periodic benefit cost	10,040,391	-	-	10,040,391
Increase (decrease) in unrestricted net assets	$ 4,021,160	$ 236,209	$ (236,208)	$ 4,021,161

The Griffin Hospital and Subsidiary
Consolidating Statement of Operations
Year Ended September 30, 2011

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Operating revenues				
Net patient service revenue	$ 121,998,344	$ 2,693,057	$ -	$ 124,691,401
Other operating revenue	5,999,588	819,206	(717,206)	6,101,588
Net assets released from restrictions for operations	27,869	-	-	27,869
Total operating revenues	128,025,801	3,512,263	(717,206)	130,820,858
Operating expenses				
Employee compensation and related expenses	70,585,175	3,138,011	-	73,723,186
Supplies and other expenses	43,868,190	2,542,471	(717,206)	45,693,455
Depreciation	5,747,143	90,752	-	5,837,895
Interest	2,618,102	-	-	2,618,102
Provision for doubtful accounts, net of recoveries	3,349,408	111,648	-	3,461,056
Total operating expenses	126,168,018	5,882,882	(717,206)	131,333,694
Gain (loss) from operations	1,857,783	(2,370,619)	-	(512,836)
Nonoperating gains (losses)				
Investment income	218,353	-	-	218,353
Change in fair value of interest rate swaps	(2,527,906)	-	-	(2,527,906)
Research grant revenues	2,414,954	-	-	2,414,954
Research grant expenses	(2,141,922)	-	-	(2,141,922)
	(2,036,521)	-	-	(2,036,521)
Deficiency of revenues over expenses	(178,738)	(2,370,619)	-	(2,549,357)
Change in interest in net assets of affiliate	47,054	-	(51,775)	(4,721)
Transfers between affiliates	799,271	2,422,394	-	3,221,665
Pension and other post-retirement related changes other than net periodic benefit cost	(17,771,550)	-	-	(17,771,550)
(Decrease) increase in unrestricted net assets	$ (17,103,963)	$ 51,775	$ (51,775)	$ (17,103,963)