

# **The Griffin Hospital and Subsidiary**

**Consolidated Financial Statements and  
Consolidating Information  
September 30, 2013 and 2012**

# The Griffin Hospital and Subsidiary

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September 30, 2013 and 2012

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## Independent Auditors Report

To the Board of Trustees of  
Griffin Hospital

We have audited the accompanying consolidated financial statements of Griffin Hospital and its subsidiary (the "Hospital"), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statement of operations, consolidated statement of changes in net assets and consolidated statement of cash flows for the years then ended.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Griffin Hospital and its subsidiary at September 30, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

January 30, 2014

**The Griffin Hospital and Subsidiary**  
**Consolidated Balance Sheets**  
**September 30, 2013 and 2012**

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	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,309,111	\$ 8,167,417
Investments	9,040,563	5,371,978
Assets limited as to use	710,605	700,398
Patient accounts receivable, less allowance for doubtful accounts of approximately \$5,256,000 and \$4,593,000, respectively	14,743,574	13,110,545
Other current assets	<u>5,426,579</u>	<u>5,665,669</u>
Total current assets	<u>35,230,432</u>	<u>33,016,007</u>
Assets limited as to use		
Board-designated investments	43,179	10,001
Under indenture agreement	<u>4,289,166</u>	<u>4,288,627</u>
Total assets limited as to use	<u>4,332,345</u>	<u>4,298,628</u>
Long-term investments	1,186,601	1,147,841
Property, plant and equipment, net	56,068,701	60,325,720
Interest in net assets of affiliate	6,969,447	5,952,786
Due from affiliates	3,659,921	7,998,375
Beneficial interest in trusts	3,670,942	3,650,093
Estimated third party settlements, long term	480,486	1,203,411
Other long-term assets and insurance recoverable	<u>8,840,778</u>	<u>12,635,039</u>
	<u>80,876,876</u>	<u>92,913,265</u>
Total assets	<u>\$ 120,439,653</u>	<u>\$ 130,227,900</u>

**The Griffin Hospital and Subsidiary**  
**Consolidated Balance Sheets**  
**September 30, 2013 and 2012**

	2013	2012
<b>Liabilities and Net Deficit</b>		
Current liabilities		
Current portion of long-term debt and capital lease obligations	\$ 5,679,417	\$ 6,418,425
Accounts payable	19,129,038	20,201,504
Accrued expenses	7,396,947	8,406,735
Accrued interest payable	316,307	347,111
Accrued postretirement benefit liability	389,000	435,000
Deferred revenue	194,930	40,179
Due to affiliates	14,292	196,466
Total current liabilities	<u>33,119,931</u>	<u>36,045,420</u>
Estimated third party settlements	3,424,484	3,179,514
Professional and general liability loss reserves	6,892,848	10,488,070
Workers compensation loss reserves	2,317,799	2,108,091
Accrued pension liability	30,640,516	42,427,930
Accrued postretirement benefit liability, net of current portion	7,605,700	8,484,801
Asset retirement obligation	114,445	119,709
Long-term debt, net of current portion	43,898,212	46,957,600
Capital lease obligations, net of current portion	110,886	1,299,057
Interest rate swap agreements	6,022,007	9,153,353
Total liabilities	<u>134,146,828</u>	<u>160,263,545</u>
Net deficit		
Unrestricted operating	15,872,075	14,640,360
Cumulative unrecognized pension charges	<u>(38,051,834)</u>	<u>(52,689,362)</u>
Total unrestricted	<u>(22,179,759)</u>	<u>(38,049,002)</u>
Temporarily restricted	2,641,381	2,203,003
Permanently restricted	<u>5,831,203</u>	<u>5,810,354</u>
Total net deficit	<u>(13,707,175)</u>	<u>(30,035,645)</u>
Total liabilities and net deficit	<u>\$ 120,439,653</u>	<u>\$ 130,227,900</u>

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, 2013 and 2012**

	2013	2012
<b>Operating revenues</b>		
Net patient service revenue	\$ 131,528,811	\$ 123,980,407
Provision for doubtful accounts, net of recoveries	<u>(2,487,760)</u>	<u>(1,101,989)</u>
Net patient service revenue less provision for doubtful accounts	129,041,051	122,878,418
Other operating revenue	3,603,467	5,743,384
Net assets released from restrictions used for operations	<u>110,583</u>	<u>5,000</u>
Total operating revenues	<u>132,755,101</u>	<u>128,626,802</u>
<b>Operating expenses</b>		
Employee compensation and related expenses	76,790,169	76,243,963
Supplies and other expenses	48,810,546	48,809,594
Depreciation and amortization	6,175,846	5,999,975
Interest	<u>2,451,658</u>	<u>2,709,709</u>
Total operating expenses	<u>134,228,219</u>	<u>133,763,241</u>
Loss from operations	<u>(1,473,118)</u>	<u>(5,136,439)</u>
<b>Nonoperating gains (losses)</b>		
Investment income	436,170	998,665
Net realized and unrealized gains (losses) on interest rate swaps	1,803,353	(2,523,551)
Grant revenues	2,231,692	2,234,902
Grant expenses	<u>(2,291,549)</u>	<u>(2,259,698)</u>
Total nonoperating gains (losses)	<u>2,179,666</u>	<u>(1,549,682)</u>
Excess (deficiency) of revenues over expenses	706,548	(6,686,121)
<b>Other changes in unrestricted net assets</b>		
Change in interest in net assets of affiliate	617,043	331,491
Transfers between affiliates, net	(91,875)	335,400
Pension and other post-retirement related charges other than net periodic benefit cost	<u>14,637,527</u>	<u>10,040,391</u>
Increase in unrestricted net assets	<u>\$ 15,869,243</u>	<u>\$ 4,021,161</u>

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, 2013 and 2012**

	2013	2012
<b>Unrestricted net assets</b>		
Excess (deficiency) of revenues over expenses	\$ 706,548	\$ (6,686,121)
Change in interest in net assets of affiliate	617,043	331,491
Other changes	(91,875)	335,400
Pension and other post-retirement related charges other than net periodic benefit cost	<u>14,637,527</u>	<u>10,040,391</u>
Increase in unrestricted net assets	<u>15,869,243</u>	<u>4,021,161</u>
<b>Temporarily restricted net assets</b>		
Change in interest in net assets of affiliate	399,619	205,982
Investment income	16,727	46,808
Unrealized gain on investments	45,512	75,063
Net assets released from restrictions used for operations	<u>(23,479)</u>	<u>(5,000)</u>
Increase in temporarily restricted net assets	<u>438,379</u>	<u>322,853</u>
<b>Permanently restricted net assets</b>		
Change in beneficial interest in trusts	<u>20,849</u>	<u>282,973</u>
Increase in permanently restricted net assets	<u>20,849</u>	<u>282,973</u>
Increase in net assets	16,328,471	4,626,987
<b>Net deficit</b>		
Beginning of year	<u>(30,035,645)</u>	<u>(34,662,632)</u>
End of year	<u>\$ (13,707,174)</u>	<u>\$ (30,035,645)</u>

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, 2013 and 2012**

	2013	2012
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 16,328,471	\$ 4,626,987
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	(14,637,517)	(10,040,391)
Depreciation and amortization	6,320,384	6,154,192
Change in unrealized and realized gains and losses on investments	135,507	647,012
Change in beneficial interest in trusts	(20,850)	(282,973)
Change in fair value of interest rate swap	(3,131,346)	1,179,451
Provision for doubtful accounts, net of recoveries	2,487,760	1,101,989
Transfers between affiliates, net	(91,875)	335,400
Change in interest in net assets of affiliate	(1,016,661)	(537,472)
Changes in assets and liabilities		
Patient accounts receivable	(4,120,789)	3,087,657
Other current and long-term assets	3,808,972	535,512
Due from affiliates, net	4,156,280	(2,457,828)
Accounts payable, accrued expenses and other	(4,829,649)	1,667,633
Estimated amounts due to third-party settlements	967,895	1,230,804
Deferred revenue	154,751	7,131
Accrued pension and postretirement benefit liabilities	1,925,002	969,932
Total adjustments	<u>(7,892,136)</u>	<u>3,598,049</u>
Net cash provided by operating activities	<u>8,436,335</u>	<u>8,225,036</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment, net	(2,593,009)	(3,476,398)
Purchases of investments	(17,341,757)	(11,098,922)
Proceeds from sales and maturities of investments	13,454,981	12,614,197
Transfers between affiliates, net	91,875	(335,400)
Net cash used in investing activities	<u>(6,387,910)</u>	<u>(2,296,523)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowing	-	362,048
Principal payments on debt	(2,997,048)	(1,900,000)
Principal payments on capital lease obligations	(1,909,683)	(1,830,896)
Net cash used in financing activities	<u>(4,906,731)</u>	<u>(3,368,848)</u>
Net (decrease) increase in cash and cash equivalents	(2,858,306)	2,559,665
<b>Cash and cash equivalents</b>		
Beginning of year	<u>8,167,417</u>	<u>5,607,752</u>
End of year	<u>\$ 5,309,111</u>	<u>\$ 8,167,417</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 3,810,455	\$ 4,072,410
<b>Supplemental disclosure of noncash financing activities</b>		
Property, plant and equipment included in accounts payable and and accrued expenses	499,653	1,173,836

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

# The Griffin Hospital and Subsidiary

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### 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.

#### 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.

# **The Griffin Hospital and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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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.

# The Griffin Hospital and Subsidiary

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### **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.

# **The Griffin Hospital and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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#### **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.

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 \$79,839 and \$66,926 for 2013 and 2012, 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.

# The Griffin Hospital and Subsidiary

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### **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.

#### **Excess of Revenues Over Expenses**

The statement of operations includes an excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess 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.

#### **New Accounting Pronouncement**

The Corporation adopted Accounting Standard Update (“ASU”) No. 2011-7, which requires health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally those health care entities are required to provide enhanced disclosures about their policies for recognizing revenue, assessing bad debts, and disclosures of patient service revenue (net of contractual allowances and discounts).

#### **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 2013 and 2012, 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 a decrease in net patient service revenue of approximately \$196,000 and a decrease of approximately \$554,000 in fiscal years 2013 and 2012, respectively.

# The Griffin Hospital and Subsidiary

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

#### 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 \$4,850,000 and \$6,785,000 measured at the Hospital's respective established rates was provided in fiscal year 2013 and 2012, 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, 2013 through January 30, 2014, the date the financial statements were issued.

#### Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 financial statement presentation.

### 3. Net Patient Service Revenue

Net patient service revenue for the years ended September 30, 2013 and 2012 is comprised as follows:

	2013			2012		
	Hospital	FPP	Total	Hospital	FPP	Total
Patient service charges	\$ 438,847,354	\$ 6,190,769	445,038,123	\$ 411,206,017	\$ 5,471,322	\$ 416,677,339
Contractual allowances	(310,668,116)	(2,841,196)	(313,509,312)	(290,144,702)	(2,552,230)	(292,696,932)
Net patient service revenue (less contractuals)	128,179,238	3,349,573	131,528,811	121,061,315	2,919,092	123,980,407
Provision for doubtful accounts, net of recoveries	(2,373,418)	(114,342)	(2,487,760)	(985,612)	(116,377)	(1,101,989)
Net patient service revenue	\$ 125,805,820	\$ 3,235,231	\$ 129,041,051	\$ 120,075,703	\$ 2,802,715	\$ 122,878,418

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 Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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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, 2009.

**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:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities	\$ 5,445,810	\$ 5,270,018	\$ 3,602,337	\$ 3,611,174
Marketable equity securities	4,629,469	4,957,146	2,891,762	2,908,645
	<u>\$ 10,075,279</u>	<u>\$ 10,227,164</u>	<u>\$ 6,494,099</u>	<u>\$ 6,519,819</u>

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
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**Assets Limited as to Use**

The composition of assets limited as to use at September 30, 2013 and 2012 is as follows:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
<b>Board-designated</b>				
For capital acquisition				
Cash and cash equivalents	\$ 10,644	\$ 10,644	\$ 10,001	\$ 10,001
For postretirement benefits				
Cash and cash equivalents	32,535	32,535	-	-
	<u>43,179</u>	<u>43,179</u>	<u>10,001</u>	<u>10,001</u>
<b>Held by trustee under indenture agreement</b>				
U.S. Treasury obligations	4,999,286	4,998,664	4,988,754	4,988,194
Accrued interest receivable	1,107	1,107	831	831
	<u>5,000,393</u>	<u>4,999,771</u>	<u>4,989,585</u>	<u>4,989,025</u>
Less: Current portion	<u>(710,605)</u>	<u>(710,605)</u>	<u>(700,398)</u>	<u>(700,398)</u>
	<u>4,289,788</u>	<u>4,289,166</u>	<u>4,289,187</u>	<u>4,288,627</u>
	<u>\$ 4,332,967</u>	<u>\$ 4,332,345</u>	<u>\$ 4,299,188</u>	<u>\$ 4,298,628</u>

Investment income and unrealized gains and losses for assets limited as to use, cash equivalents and other investments are comprised of the following for 2013 and 2012:

	2013	2012
<b>Income</b>		
Interest and dividend income	\$ 300,663	\$ 351,715
Net realized gain	53,818	112,285
Change in unrealized gains and losses on investments	<u>81,689</u>	<u>534,665</u>
	<u>\$ 436,170</u>	<u>\$ 998,665</u>

**The Griffin Hospital and Subsidiary**  
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The following table represents the Hospital's financial assets and liabilities by fair value hierarchy as of September 30, 2013:

	Fair Value Measurements			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments</b>				
Fixed income	\$ 5,270,018	\$ -	\$ -	\$ 5,270,018
Equity securities	4,957,146	-	-	4,957,146
Total investments	10,227,164	-	-	10,227,164
Remainder trusts			-	-
Perpetual trusts	-	-	3,670,942	3,670,942
Total assets at fair value	\$ 10,227,164	\$ -	\$ 3,670,942	\$ 13,898,106
<b>Liabilities</b>				
Interest rate swaps liability	\$ -	\$ 6,022,007	\$ -	6,022,007
Total liabilities at fair value	\$ -	\$ 6,022,007	\$ -	\$ 6,022,007

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, 2013:

<b>Balance at September 30, 2012</b>	\$ 3,650,093
Change in unrealized value of interest in trusts	131,432
Assets released from restriction	(110,583)
<b>Balance at September 30, 2013</b>	<b>\$ 3,670,942</b>

There were no transfers between levels during 2013 or 2012.

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

	Fair Value Measurements			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments</b>				
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
<b>Liabilities</b>				
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:

<b>Balance at September 30, 2011</b>	\$ 3,367,120
Change in unrealized value of interest in trusts	282,973
<b>Balance at September 30, 2012</b>	<u>\$ 3,650,093</u>

**5. Property, Plant and Equipment**

Property, plant and equipment and accumulated depreciation as of September 30, 2013 and 2012 are summarized as follows:

	2013	2012
Land and improvements	\$ 5,107,308	\$ 5,107,308
Buildings and improvements	72,126,472	71,833,837
Fixed and movable equipment	73,479,349	71,898,214
	150,713,129	148,839,359
Less: Accumulated amortization and depreciation	(94,769,810)	(88,643,415)
	55,943,319	60,195,944
Construction-in-progress	125,382	129,776
	<u>\$ 56,068,701</u>	<u>\$ 60,325,720</u>

Depreciation expense was \$4,937,644 and \$4,698,788 for 2013 and 2012, respectively.

# The Griffin Hospital and Subsidiary

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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Included in property, plant and equipment as of September 30, 2013 and 2012 are capital lease assets for major movable equipment with a cost of \$8,901,170. Accumulated amortization on the respective capital lease assets was \$5,727,151 and \$4,488,949 as of September 30, 2013 and 2012, respectively.

Amortization expense on capital lease assets was \$1,238,202 and \$1,301,187 for 2013 and 2012, 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, 2013 and 3.5% at September 30, 2012. 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 2.5% at September 30, 2013 and 2012, 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.

Effective March 28, 2013 the Hospital entered into a novation agreement with American Insurance Group Inc., where it legally transfed all exposure relating to primary layer professional liability and physicians professional liability policies issued to the Hospital in the years 2006/07, 2007/08, 2009/10, 2010/11 and 2011/12, by making a onetime premium payment of \$7,400,000. The loss portfolio transfer effectively transfers the liabilities and subsequent adverse claim development risk to a third party insurer. As a result of the transaction, cash of \$3,900,000 became unrestricted and was transferred from HAIC to the Hospital. In addition, a loss of \$818,214 was realized on the transaction. The loss was the result of the premium payment exceeding the amount of loss reserves previously recorded at HAIC. The loss is included in the fiscal year 2013 operating expenses of the Hospital.

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
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**7. Long-Term Debt**

Long-term consists of the following at September 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
State of Connecticut Health and Educational Facilities Authority		
Series B	\$ 15,990,000	\$ 17,200,000
Series C	21,575,000	22,100,000
Series D	10,350,000	10,550,000
Loan payable	-	1,062,048
Premium and discount on bonds, net of accumulated accretion and amortization of \$401,323 and \$321,484, respectively	<u>440,712</u>	<u>520,552</u>
	48,355,712	51,432,600
Less: Current portion	<u>(4,457,500)</u>	<u>(4,475,000)</u>
	<u>\$ 43,898,212</u>	<u>\$ 46,957,600</u>

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 \$21,575,000 and \$17,820,000 at September 30, 2013 and 2012, 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 2015. 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 nonrecurring 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. 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.

# The Griffin Hospital and Subsidiary

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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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 waived the covenant violations as of September 30, 2012 and modified the debt to equity ratio calculation going forward to allow exclusion of any realized or unrealized gain or loss 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.

The obligated group was in compliance with all debt covenants in fiscal year 2013.

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:

2014	\$ 2,040,000
2015	2,135,000
2016	2,225,000
2017	2,345,000
2018	2,475,000
Thereafter	<u>36,695,000</u>
	<u>\$ 47,915,000</u>

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, 2013, the table of annual principal payments would become:

2013	\$ 4,457,500
2014	7,720,000
2015	7,785,000
2016	7,855,000
2017	7,935,000
Thereafter	<u>12,162,500</u>
	<u>\$ 47,915,000</u>

**The Griffin Hospital and Subsidiary**  
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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, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Debt service reserve fund	\$ 4,288,126	\$ 4,287,910
Debt service fund	199,829	215,120
Principal fund	511,955	485,164
Accrued interest receivable	<u>1,107</u>	<u>831</u>
	<u>\$ 5,001,017</u>	<u>\$ 4,989,025</u>

In fiscal year 2012 the Hospital borrowed \$1,062,048 of the net cash value of certain officer universal life insurance policies for working capital purposes. The fiscal year 2012 borrowing was repaid in fiscal year 2013. There were no borrowings in fiscal year 2013.

**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, 2013, the notional amount of the derivative financial instruments was \$21,575,000 (Series 2008 Issue C nontaxable bonds) and \$10,350,000 (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 \$6,022,007 and \$9,153,353 as of September 30, 2013 and 2012, respectively, which is included in long-term liabilities. The impact of the change in fair value was income of \$3,131,346 and expense of \$1,179,451 for the years ended September 30, 2013 and 2012, 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 \$1,327,993 and \$1,344,099 for 2013 and 2012, respectively.

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
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The following table lists the fair value of derivatives by contract type included in the consolidated balance sheets at September 30, 2013 and 2012.

	<b>2013</b>	
	<b>Initial Notional</b>	<b>Fair Value</b>
Derivatives not designated as hedging instruments		
Interest rate swaps	\$ 34,050,000	\$ (6,022,007)
	<b>2012</b>	
	<b>Initial Notional</b>	<b>Fair Value</b>
Derivatives not designated as hedging instruments		
Interest rate swaps	\$ 34,050,000	\$ (9,153,353)

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, 2013 and 2012:

	<b>2013</b>	
	<b>Location of Gain or (Loss) on Derivatives</b>	<b>Gain or (Loss) on Derivatives</b>
Derivatives not designated for hedging Instruments		
Interest rate swaps	Net realized and unrealized gains on interest rate swaps	\$ 1,803,353
	<b>2012</b>	
	<b>Location of Gain or (Loss) on Derivatives</b>	<b>Gain or (Loss) on Derivatives</b>
Derivatives not designated for hedging Instruments		
Interest rate swaps	Net realized and unrealized losses on interest rate swaps	\$ (2,523,551)

**8. Lease Commitments**

**Capital Leases**

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

**The Griffin Hospital and Subsidiary**  
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Future minimum rental payments, by year and in aggregate, under capital leases consist of the following as of September 30, 2013:

2014	\$ 1,214,035
2015	110,886
	<u>1,324,921</u>
Less: Amounts representing interest	25,864
Present value of minimum lease payments	<u>1,299,057</u>
Less: Current portion	1,188,171
Capital lease obligation, net current portion	<u>\$ 110,886</u>

**Operating Leases**

The Hospital leases various equipment and office space under operating leases, expiring at various dates through 2018. Some of these leases contain renewal options. Rent expense under such leases was approximately \$985,323 and \$994,100 for the years ended September 30, 2013 and 2012, respectively.

Future minimum rental payments as of September 30, 2013 under noncancelable operating leases are as follows:

2014	\$ 985,323
2015	976,150
2016	963,670
2017	963,670
2018	693,670
	<u>\$ 4,582,483</u>

**9. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of September 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Unspent income and appreciation on endowment funds expendable for specified healthcare services	\$ 769,249	\$ 730,489
Change in the unspent income and (depreciation) appreciation on GHDF endowment funds	62,240	316,479
Restricted for purchase of equipment	885,564	324,977
Restricted specified healthcare services	924,328	831,058
	<u>\$ 2,641,381</u>	<u>\$ 2,203,003</u>

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
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Permanently restricted net assets at September 30, 2013 and 2012 are comprised as follows:

	<b>2013</b>	<b>2012</b>
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	<u>3,670,942</u>	<u>3,650,093</u>
	<u>\$ 5,831,203</u>	<u>\$ 5,810,354</u>

**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, 2013 or 2012.

**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:

	<b>2013</b>	<b>2012</b>
Health Alliance Insurance Company, Ltd. (HAIC)	\$ 362,462	\$ 5,169,742
G.H. Ventures, Inc. (GHV)	1,979,739	1,542,941
Planetree	897,177	644,696
GHSC	306,847	315,007
Griffin Pharmacy and Gift Shop (GP&GS)	<u>113,696</u>	<u>325,989</u>
	<u>\$ 3,659,921</u>	<u>\$ 7,998,375</u>

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

	<b>2013</b>	<b>2012</b>
Griffin Health Ventures	\$ 14,292	\$ -
The Griffin Hospital Development Fund, Inc.	<u>-</u>	<u>196,466</u>
	<u>\$ 14,292</u>	<u>\$ 196,466</u>

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.

# The Griffin Hospital and Subsidiary

## Notes to Consolidated Financial Statements

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#### **G. H. Ventures, Inc.**

The Hospital advances funds to pay certain operating expenses for GHV which totaled approximately \$436,798 and \$383,280 in 2013 and 2012, respectively.

#### **Griffin Hospital Development Fund**

The Hospital paid operating expenses for GHDF totaling approximately \$589,211 and \$546,936 in 2013 and 2012, respectively. Additionally, GHDF made a transfer to the Hospital of \$500,000 and \$885,000 in 2013 and 2012 respectively.

#### **Griffin Pharmacy and Gifts**

The Hospital advanced operating expenses for GP&G totaling approximately \$463,062 and \$387,977 in 2013 and 2012, respectively. GP&G reimbursed the Hospital approximately \$675,354 during 2013.

#### **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 2013 and 2012 were approximately \$2,807,397 and \$2,313,443, respectively. The Hospital pays claims processing expenses on behalf of HAIC and is subsequently reimbursed for these expenses. As of September 30, 2013 and 2012, the Hospital was due \$362,462 and \$5,169,741, 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 2013 and 2012. GHSC transferred to the Hospital approximately \$120,000 in 2012.

#### **Planetree, Inc.**

The Hospital advanced operating expenses for Planetree totaling approximately \$1,195,401 and \$1,337,418 in 2013 and 2012, respectively. Planetree reimbursed the Hospital approximately \$942,919 and \$687,089 in 2013 and 2012, respectively.

## **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 period. Participants continued to earn vesting service during the freeze period and pay increases during the freeze period was reflected in participant's final earnings calculation however no credited service was 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 \$93,064,814 and \$100,786,846 at September 30, 2013 and 2012, respectively.

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**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:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 100,982,447	\$ 100,963,773	\$ 8,919,801	\$ 7,994,095
Service cost	1,639,334	1,123,268	307,509	242,639
Interest cost	3,866,724	4,255,880	339,544	350,023
Amendments	-	(10,194,555)	-	-
Actuarial (gain) loss	(8,810,774)	8,206,927	(1,065,776)	1,168,473
Benefits paid	<u>(3,782,502)</u>	<u>(3,372,846)</u>	<u>(506,378)</u>	<u>(835,429)</u>
Benefit obligation at end of year	\$ <u>93,895,229</u>	\$ <u>100,982,447</u>	\$ <u>7,994,700</u>	\$ <u>8,919,801</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 58,554,517	\$ 48,539,678	\$ -	\$ -
Actual return on plan assets	5,440,386	9,507,095	-	-
Employer contributions	3,042,312	3,880,590	506,378	835,429
Benefits paid	<u>(3,782,502)</u>	<u>(3,372,846)</u>	<u>(506,378)</u>	<u>(835,429)</u>
Fair value of plan assets at end of year	\$ <u>63,254,713</u>	\$ <u>58,554,517</u>	\$ <u>-</u>	\$ <u>-</u>
<b>Unfunded status - recognized as a liability</b>	\$ <u>(30,640,516)</u>	\$ <u>(42,427,930)</u>	\$ <u>(7,994,700)</u>	\$ <u>(8,919,801)</u>

Components of net periodic benefit cost are as follows:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Service cost	\$ 1,639,334	\$ 1,123,268	\$ 307,509	\$ 242,639
Interest cost	3,866,724	4,255,880	339,544	350,023
Expected return on plan assets	(4,891,312)	(4,147,333)	-	-
Amortization of unrecognized prior service credit	-	-	(389,620)	(389,620)
Amortization of transition obligation	(1,121,883)	(654,432)	-	-
Net actuarial loss	<u>5,309,432</u>	<u>4,567,849</u>	<u>413,974</u>	<u>337,677</u>
Net periodic benefit cost	\$ <u>4,802,295</u>	\$ <u>5,145,232</u>	\$ <u>671,407</u>	\$ <u>540,719</u>

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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Amounts recognized in the consolidated balance sheets consist of:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Current liabilities	\$ -	\$ -	\$ 389,000	\$ 435,000
Noncurrent liabilities	<u>30,640,516</u>	<u>42,427,930</u>	<u>7,605,700</u>	<u>8,484,801</u>
	<u>\$ 30,640,516</u>	<u>\$ 42,427,930</u>	<u>\$ 7,994,700</u>	<u>\$ 8,919,801</u>

**Pension Plan**

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

	<b>2013</b>	<b>2012</b>
Negative prior service cost	\$ (8,418,240)	\$ (9,540,123)
Net actuarial loss	<u>42,544,569</u>	<u>57,213,849</u>
	<u>\$ 34,126,329</u>	<u>\$ 47,673,726</u>

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

	<b>2013</b>	<b>2012</b>
Net actuarial (gain) loss	\$ (9,359,848)	\$ 2,847,165
Amortization of Actuarial loss	<u>(5,309,432)</u>	<u>(4,567,849)</u>
	<u>\$ (14,669,280)</u>	<u>\$ (1,720,684)</u>

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

Actuarial loss	\$ 2,059,401
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**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:

	<b>2013</b>	<b>2012</b>
Net prior service credit	\$ (112,992)	\$ (502,612)
Net actuarial loss	<u>4,038,498</u>	<u>5,518,248</u>
	<u>\$ 3,925,506</u>	<u>\$ 5,015,636</u>

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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

	<b>2013</b>	<b>2012</b>
Net actuarial (gain) loss	\$ (1,065,776)	\$ 1,168,473
Amortization of		
Prior service cost	389,620	389,620
Actuarial gain	<u>(413,974)</u>	<u>(337,677)</u>
	<u>\$ (1,090,130)</u>	<u>\$ 1,220,416</u>

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

Prior service credit	\$ (389,620)
Actuarial gain	(1,479,750)

Actuarial assumptions are as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	2013	2012	2013	2012
<b>Weighted average assumptions used to determine year end benefit obligation</b>				
Discount rate	4.72%	3.91%	4.72%	3.91%
Rate of compensation increase	4.00%	4.00%	N/A	N/A

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	2013	2012	2013	2012
<b>Weighted average assumptions used to determine net periodic benefit cost</b>				
Discount rate	3.91%	4.54%	3.91%	4.54%
Expected long-term return on plan assets	8.22%	7.89%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A

	<u>Pre-65</u>		<u>Post-65</u>	
	2013	2012	2013	2012
Health care cost trend rate assumed for next year	7.50%	8.00%	7.50%	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	2019	2019	2019

**The Griffin Hospital and Subsidiary**  
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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	\$ 26,557	\$ (22,843)
Postretirement benefit obligation	184,711	(166,473)

**Contributions**

The Hospital expects to contribute approximately \$4,124,000 to its pension plan and \$389,000 to its other postretirement benefit plan in fiscal year 2014.

**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
2014	\$ 4,124,000	\$ 389,000
2015	4,344,000	442,000
2016	4,671,000	513,000
2017	4,915,000	571,000
2018	5,239,000	626,000
2019-2023	29,666,000	3,026,000

Pension plan assets are invested as follows:

	2013	2012
Asset category		
Cash and cash equivalents	2 %	95 %
U.S. Large cap	37	-
U.S. Small cap	8	-
International equity	13	-
Alternative investment	7	5
Fixed income	29	-
Real estate	4	-
	<u>100 %</u>	<u>100 %</u>

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

	2013	2012
Target asset allocations		
Cash	0 %	100 %
U.S. Large cap	27	-
U.S. Small cap	7	-
International equity	12	-
Alternative investment	10	-
Fixed income	40	-
Real estate	4	-
	<u>100 %</u>	<u>100 %</u>

The fair value of plan assets as of September 30, 2013, by asset category was as follows:

*(in thousands)*

	<u>September 30, 2013</u>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Cash and cash equivalents	\$ 1,206	\$ -	\$ -	\$ 1,206
U.S. Large cap	23,116	-	-	23,116
U.S. Small cap	5,047	-	-	5,047
International equity	8,103	-	-	8,103
Alternative investments	1,807	-	2,712	4,519
Fixed income	18,767	-	-	18,767
Real estate mutual funds	2,497	-	-	2,497
	<u>\$ 60,543</u>	<u>\$ -</u>	<u>\$ 2,712</u>	<u>\$ 63,255</u>

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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

(in thousands)

	<b>September 30, 2012</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
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	-	-	-	-
	<u>\$ 55,936</u>	<u>\$ -</u>	<u>\$ 2,619</u>	<u>\$ 58,555</u>

**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, 2013 and 2012 before allowances for doubtful accounts, consisted of the following:

	<b>2013</b>	<b>2012</b>
Medicare and Medicaid	18 %	13 %
Commercial insurance	19	21
Managed care	27	27
Self-pay patients	33	37
City Welfare	3	2
	<u>100 %</u>	<u>100 %</u>

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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**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, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Patient care and clinical	\$ 115,173,502	\$ 112,399,993
General and administrative	<u>21,542,477</u>	<u>22,465,237</u>
	<u>\$ 136,715,979</u>	<u>\$ 134,865,230</u>

**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.

**The Griffin Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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

	<b>2013</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 1,089,279	\$ 2,160,261	\$ 3,249,540
Investment income and net depreciation (realized and unrealized)	183,001	-	183,001
Appropriation of endowment assets for expenditure for healthcare services	<u>(23,479)</u>	<u>-</u>	<u>(23,479)</u>
Endowment net assets at end of year	<u>\$ 1,248,801</u>	<u>\$ 2,160,261</u>	<u>\$ 3,409,062</u>
	<b>2012</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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	<u>(5,000)</u>	<u>-</u>	<u>(5,000)</u>
Endowment net assets at end of year	<u>\$ 1,089,279</u>	<u>\$ 2,160,261</u>	<u>\$ 3,249,540</u>

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.

## **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, 2013 and 2012 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

January 30, 2014

**The Griffin Hospital and Subsidiary**  
**Consolidating Balance Sheet**  
**September 30, 2013**

	<b>The Griffin Hospital</b>	<b>Griffin Faculty Practice Plan</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 5,178,405	\$ 130,706	\$ -	\$ 5,309,111
Investments	9,040,563	-	-	9,040,563
Assets limited as to use	710,605	-	-	710,605
Patient accounts receivable, net	14,419,423	324,151	-	14,743,574
Other current assets	5,290,594	135,985	-	5,426,579
Total current assets	<u>34,639,590</u>	<u>590,842</u>	<u>-</u>	<u>35,230,432</u>
Assets limited as to use				
Board-designated investments	43,179	-	-	43,179
Under indenture agreement	4,289,166	-	-	4,289,166
Total assets limited as to use	<u>4,332,345</u>	<u>-</u>	<u>-</u>	<u>4,332,345</u>
Long-term investments	1,186,601			1,186,601
Property, plant and equipment, net	55,610,872	457,829	-	56,068,701
Interest in net assets of affiliate	6,969,447	-	-	6,969,447
Due from affiliates	3,659,921	-	-	3,659,921
Investment in affiliate	465,940	-	(465,940)	-
Estimated third party settlements, long-term	480,486	-	-	480,486
Beneficial interest in trusts	3,670,942	-	-	3,670,942
Other long-term assets and insurance recoverable	8,840,778	-	-	8,840,778
	<u>80,884,987</u>	<u>457,829</u>	<u>(465,940)</u>	<u>80,876,876</u>
Total assets	<u>\$ 119,856,922</u>	<u>\$ 1,048,671</u>	<u>\$ (465,940)</u>	<u>\$ 120,439,653</u>

**The Griffin Hospital and Subsidiary**  
**Consolidating Balance Sheet**  
**September 30, 2013**

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
<b>Liabilities and Net (Deficit) Assets</b>				
Current liabilities				
Current portion of long-term debt and capital lease obligations	\$ 5,679,417	\$ -	\$ -	\$ 5,679,417
Accounts payable	18,863,396	265,642	-	19,129,038
Accrued expenses	7,094,150	302,797	-	7,396,947
Accrued interest payable	316,307	-	-	316,307
Deferred revenue	194,930	-	-	194,930
Due to affiliates	-	14,292	-	14,292
Accrued postretirement benefit liability	389,000	-	-	389,000
Total current liabilities	<u>32,537,200</u>	<u>582,731</u>	<u>-</u>	<u>33,119,931</u>
Estimated third party settlements, long term	3,424,484	-	-	3,424,484
Professional and general liability loss reserves	6,892,848	-	-	6,892,848
Workers compensation loss reserves, net of current portion	2,317,799	-	-	2,317,799
Accrued pension liability	30,640,516	-	-	30,640,516
Accrued postretirement benefit liability, net of current portion	7,605,700	-	-	7,605,700
Conditional asset retirement obligations	114,445	-	-	114,445
Long-term debt, net of current portion	43,898,212	-	-	43,898,212
Capital leases, net of current portion	110,886	-	-	110,886
Interest rate swap agreements	6,022,007	-	-	6,022,007
Total liabilities	<u>133,564,097</u>	<u>582,731</u>	<u>-</u>	<u>134,146,828</u>
Net (deficit) assets				
Unrestricted operating	15,872,075	465,940	(465,940)	15,872,075
Cumulative unrecognized pension changes	(38,051,834)	-	-	(38,051,834)
Total unrestricted	<u>(22,179,759)</u>	<u>465,940</u>	<u>(465,940)</u>	<u>(22,179,759)</u>
Temporarily restricted	2,641,381	-	-	2,641,381
Permanently restricted	5,831,203	-	-	5,831,203
Total net (deficit) assets	<u>(13,707,175)</u>	<u>465,940</u>	<u>(465,940)</u>	<u>(13,707,175)</u>
Total liabilities and net (deficit) assets	<u>\$ 119,856,922</u>	<u>\$ 1,048,671</u>	<u>\$ (465,940)</u>	<u>\$ 120,439,653</u>

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

	<b>The Griffin Hospital</b>	<b>Griffin Faculty Practice Plan</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>				
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	<u>32,456,228</u>	<u>559,779</u>	<u>-</u>	<u>33,016,007</u>
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	<u>4,298,628</u>	<u>-</u>	<u>-</u>	<u>4,298,628</u>
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
	<u>93,165,361</u>	<u>359,003</u>	<u>(611,099)</u>	<u>92,913,265</u>
Total assets	<u>\$ 129,920,217</u>	<u>\$ 918,782</u>	<u>\$ (611,099)</u>	<u>\$ 130,227,900</u>

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

	<b>The Griffin Hospital</b>	<b>Griffin Faculty Practice Plan</b>	<b>Eliminations</b>	<b>Total</b>
<b>Liabilities and Net (Deficit) Assets</b>				
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	<u>35,737,737</u>	<u>307,683</u>	<u>-</u>	<u>36,045,420</u>
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	<u>159,955,862</u>	<u>307,683</u>	<u>-</u>	<u>160,263,545</u>
Net (deficit) assets				
Unrestricted operating	14,640,360	611,099	(611,099)	14,640,360
Cumulative unrecognized pension changes	(52,689,362)	-	-	(52,689,362)
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	<u>(30,035,645)</u>	<u>611,099</u>	<u>(611,099)</u>	<u>(30,035,645)</u>
Total liabilities and net (deficit) assets	<u>\$ 129,920,217</u>	<u>\$ 918,782</u>	<u>\$ (611,099)</u>	<u>\$ 130,227,900</u>

**The Griffin Hospital and Subsidiary  
Consolidating Statement of Operations  
Year Ended September 30, 2013**

	<b>The Griffin Hospital</b>	<b>Griffin Faculty Practice Plan</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating revenues</b>				
Net patient service revenue	\$ 128,179,238	\$ 3,349,573	\$ -	\$ 131,528,811
Provision for doubtful accounts, net of recoveries	(2,373,418)	(114,342)	-	(2,487,760)
Net patient service revenue less provision for doubtful accounts	125,805,820	3,235,231	-	129,041,051
Other operating revenue	3,603,467	630,773	(630,773)	3,603,467
Net assets released from restrictions for operations	110,583	-	-	110,583
Total operating revenues	<u>129,519,870</u>	<u>3,866,004</u>	<u>(630,773)</u>	<u>132,755,101</u>
<b>Operating expenses</b>				
Employee compensation and related expenses	72,402,054	4,388,115	-	76,790,169
Supplies and other expenses	46,423,483	3,017,836	(630,773)	48,810,546
Depreciation	6,099,345	76,501	-	6,175,846
Interest	2,451,658	-	-	2,451,658
Total operating expenses	<u>127,376,540</u>	<u>7,482,452</u>	<u>(630,773)</u>	<u>134,228,219</u>
Gain (loss) from operations	<u>2,143,330</u>	<u>(3,616,448)</u>	<u>-</u>	<u>(1,473,118)</u>
<b>Nonoperating gains (losses)</b>				
Investment income	436,170	-	-	436,170
Change in fair value of interest rate swaps	1,803,353	-	-	1,803,353
Research grant revenues	2,231,692	-	-	2,231,692
Research grant expenses	(2,291,549)	-	-	(2,291,549)
Deficiency of revenues over expenses	<u>4,322,996</u>	<u>(3,616,448)</u>	<u>-</u>	<u>706,548</u>
Change in interest in net assets of affiliate	471,884	-	145,159	617,043
Transfers between affiliates	(3,563,164)	3,471,289	-	(91,875)
Pension and other post-retirement related changes other than net periodic benefit cost	<u>14,637,527</u>	<u>-</u>	<u>-</u>	<u>14,637,527</u>
Increase (decrease) in unrestricted net assets	<u>\$ 15,869,243</u>	<u>\$ (145,159)</u>	<u>\$ 145,159</u>	<u>\$ 15,869,243</u>

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

	<b>The Griffin Hospital</b>	<b>Griffin Faculty Practice Plan</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating revenues</b>				
Net patient service revenue	\$ 121,061,315	\$ 2,919,092	\$ -	\$ 123,980,407
Provision for doubtful accounts, net of recoveries	(985,612)	(116,377)	-	(1,101,989)
Net patient service revenue less provision for doubtful accounts	120,075,703	2,802,715	-	122,878,418
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	<u>125,824,087</u>	<u>6,377,532</u>	<u>(772,102)</u>	<u>128,626,802</u>
<b>Operating expenses</b>				
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
Total operating expenses	<u>128,130,101</u>	<u>6,405,242</u>	<u>(772,102)</u>	<u>133,763,241</u>
Gain (loss) from operations	<u>(2,306,014)</u>	<u>(27,710)</u>	<u>-</u>	<u>(5,136,439)</u>
<b>Nonoperating gains (losses)</b>				
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)
Deficiency of revenues over expenses	<u>(3,855,696)</u>	<u>(27,710)</u>	<u>-</u>	<u>(6,686,121)</u>
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	<u>\$ 4,021,160</u>	<u>\$ 3,038,924</u>	<u>\$ (236,208)</u>	<u>\$ 4,021,161</u>