Griffin Health Services Corporation and Subsidiaries

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

Griffin Health Services Corporation and Subsidiaries
Index
September 30, 2013 and 2012

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Independent Auditors Report

To the Board of Directors of
Griffin Health Services Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Griffin Health Services Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations, consolidated statements of changes in net assets and consolidated statements 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 Corporation'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 Corporation'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 Health Services Corporation and its subsidiaries 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

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Griffin Health Services Corporation and Subsidiaries
Consolidated Balance Sheets
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 10,022,977	$ 10,631,688
Investments	33,424,704	42,693,844
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	8,105,659	11,882,606
Total current assets	67,007,519	79,019,081
Assets limited as to use		
Board-designated investments	1,191,763	1,090,073
Collateral deposit	855,461	850,000
Under indenture agreement	4,289,166	4,288,627
Total assets limited as to use	6,336,390	6,228,700
Reinsurance recoverable	10,921,703	8,253,085
Contributions receivable	858,521	841,813
Long-term investments	3,413,527	2,770,764
Property, plant and equipment, net	60,381,974	64,715,710
Estimated third party settlements, long-term	480,486	1,203,411
Beneficial interest in trusts	3,670,942	3,650,093
Other long-term assets	3,121,105	3,348,809
	82,848,258	84,783,685
Total assets	$ 156,192,167	$ 170,031,466

	2013	2012
Liabilities and Net Deficit		
Current liabilities		
Current portion of long-term debt and capital lease obligations	$ 5,724,617	$ 6,510,397
Accounts payable	20,262,935	22,694,927
Accrued expenses	7,913,382	8,921,678
Accrued interest payable	316,307	347,111
Deferred revenue	2,499,799	2,859,880
Accrued postretirement benefit liability	389,000	435,000
Total current liabilities	37,106,040	41,768,993
Estimated third party settlements	3,424,484	3,179,514
Professional and general liability loss reserves	32,175,028	37,000,141
Workers compensation loss reserves	2,317,779	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
Conditional asset retirement obligations	114,445	119,709
Long-term debt, net of current portion	46,821,566	49,929,639
Capital lease obligations, net of current portion	110,886	1,299,057
Deferred revenue, long term	2,288,213	3,276,633
Interest rate swap agreements	6,022,007	9,153,353
Total liabilities	168,626,664	198,747,861
Net deficit		
Unrestricted operating	17,677,818	14,387,609
Minority interest in HAIC	(565,562)	1,520,178
Cumulative unrecognized pension charges	(38,051,834)	(52,689,361)
Total unrestricted	(20,939,578)	(36,781,574)
Temporarily restricted	2,673,878	2,254,825
Permanently restricted	5,831,203	5,810,354
Total net deficit	(12,434,497)	(28,716,395)
Total liabilities and net deficit	$ 156,192,167	$ 170,031,466

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

Griffin Health Services Corporation and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues		
Net patient service revenue	$ 131,528,811	$ 123,980,407
Other operating revenue	14,910,925	22,435,649
Net assets released from restrictions for operations	947,997	993,057
Total operating revenues	147,387,733	147,409,113
Operating expenses		
Employee compensation and related expenses	81,540,212	81,644,731
Supplies and other expenses	58,800,407	62,880,064
Depreciation and amortization	6,333,451	6,170,889
Interest	2,680,812	2,945,202
Provision for doubtful accounts, net of recoveries	2,517,760	1,156,738
Total operating expenses	151,872,642	154,797,624
Loss from operations	(4,484,909)	(7,388,511)
Nonoperating gains (losses)		
Investment income	2,475,312	2,389,209
Net realized and unrealized gains (losses) on interest rate swaps	1,803,353	(2,523,551)
Net gain on equity investment	1,042,119	1,028,123
Unrestricted contributions, gifts and bequests	519,852	233,021
Fund raising expenses	(821,438)	(698,852)
Research grant revenues	2,258,246	2,315,885
Research grant expenses	(2,212,379)	(2,262,548)
Total nonoperating gains	5,065,065	481,287
Minority interest	574,943	539,645
Excess (deficiency) of revenues over expenses	1,155,099	(6,367,579)
Other changes in unrestricted net assets		
Change in net unrealized gains and losses on investments	(450,630)	2,166,916
Net assets released from restrictions for capital	500,000	685,000
Pension and other post-retirement related charges other than net periodic benefit cost	14,637,527	10,040,391
Increase in unrestricted net assets	$ 15,841,996	$ 6,524,728

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

Griffin Health Services Corporation and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2013 and 2012

	2013	2012
Unrestricted net assets		
Excess (deficiency) of revenues over expenses	$ 1,155,099	$ (6,367,579)
Change in net unrealized gains and losses on investments	(450,630)	2,166,916
Net assets released from restrictions for capital	500,000	685,000
Pension and other post-retirement related charges other than net periodic benefit cost	14,637,527	10,040,391
Increase in unrestricted net assets	15,841,996	6,524,728
Temporarily restricted net assets		
Contributions and private grants	1,040,790	998,703
Investment income	183,002	320,443
Net assets released from restrictions for capital	(500,000)	(685,000)
Net assets released from restrictions for operations	(304,739)	(323,657)
Increase in temporarily restricted net assets	419,053	310,489
Permanently restricted net assets		
Change in beneficial interest in trusts	20,849	282,973
Increase in permanently restricted net assets	20,849	282,973
Increase in net assets	16,281,898	7,118,190
Net deficit		
Beginning of year	(29,755,275)	(36,873,465)
End of year	$ (13,473,377)	$ (29,755,275)

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

Griffin Health Services Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 16,281,898	$ 7,118,190
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Pension and other post-retirement related changes other than net periodic benefit cost	(14,637,517)	(10,040,391)
Depreciation and amortization	5,333,762	4,965,086
Change in unrealized and realized gains and losses on investments	770,563	3,622,713
Loss on joint venture investment	57,884	71,878
Change in beneficial interest in trusts	(20,849)	(282,973)
Minority interest	-	1,038,881
Provision for bad debts, net of recoveries	2,517,760	1,156,738
Change in fair value of interest rate swap	(3,131,346)	1,179,451
Changes in assets and liabilities		
Patient accounts receivable	(4,150,789)	3,032,909
Other current assets	3,776,947	1,653,905
Contributions receivable and other	(1,041,160)	(526,166)
Reinsurance recoverable	(2,668,618)	430,341
Accounts payable, accrued expenses and other liabilities	(7,417,598)	5,251,548
Estimated third-party settlements	967,895	1,230,804
Deferred revenue	(306,381)	(941,697)
Accrued pension and postretirement benefit liabilities	1,925,002	969,932
Total adjustments	(18,024,445)	12,812,959
Net cash (used in) provided by operating activities	(1,742,547)	19,931,149
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(2,629,674)	(3,282,163)
Purchases of investments	(18,918,855)	(68,668,056)
Proceeds from sales and maturities of investments	26,656,772	57,832,481
Net cash provided by (used) in investing activities	5,108,243	(14,117,738)
Cash flows from financing activities		
Contributions restricted for capital acquisitions	1,027,777	543,940
Proceeds from borrowing	-	362,048
Principal payments on debt	(3,092,505)	(1,990,021)
Principal payments on capital lease obligations	(1,909,679)	(1,830,900)
Net cash used in financing activities	(3,974,407)	(2,914,933)
Net (decrease) increased in cash and cash equivalents	(608,711)	2,898,478
Cash and cash equivalents		
Beginning of year	10,631,688	7,733,210
End of year	$ 10,022,977	$ 10,631,688
Supplemental disclosures of cash flow information		
Interest paid	$ 4,039,610	$ 4,307,903
Supplemental disclosure of noncash financing activities		
Property, plant and equipment included in accounts payable and accrued expenses	587,722	1,173,836

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

1. Organization

Griffin Hospital Services Corporation ("GHSC") is the parent corporation for a group of subsidiaries which consists of The Griffin Hospital (the "Hospital"), a licensed 160-bed acute care hospital located in Derby, Connecticut; the Griffin Hospital Development Fund ("GHDF"), the fund raising organization for GHSC and the other GHSC 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 and subsidiary of the Hospital, 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 GHSC controlled off-shore captive insurance company.

Healthcare Alliance Insurance Company, Ltd.
HAIC offers professional and general liability coverage to the Hospital and to the Greater Waterbury Health Network and its subsidiaries (including Waterbury Hospital), and to nonemployed attending physicians on the medical staffs of Griffin and Waterbury Hospitals.

Effective July 1, 2013, HAIC and Milford Hospital entered into a share redemption agreement under which HAIC redeemed all of the shares issued to Milford of $1 per share. Additionally, contributed surplus and retained deficit attributed to Milford were extinguished as part of the transaction.

GHSC holds 120,000 shares of Class A Stock and maintains seven seats on the HAIC Board of Directors and the Great Waterbury Health Network holds 120,000 shares of Class C Stock and maintains three seats on the HAIC Board of Directors. GHSC is responsible for management of the HAIC's operations as the managing partner.

2. Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of GHSC and its subsidiaries (the "Corporation"). All significant intercompany accounts and transactions are eliminated in consolidation. Minority interest represents Waterbury's proportionate share of their equity in HAIC.

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 assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been reported as follows:

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

Temporarily Restricted
Net assets whose use by the Corporation is subject to explicit donor-imposed stipulations that can be fulfilled upon incurrence of expenses by the Corporation 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 Directors or may otherwise be limited by contractual agreements with outside parties.

Revenues from sources other than contributions are reported as increases to 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 the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Grants revenues and expenses relating to Corporation 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. Accretion 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 Corporation’s significant estimates include 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 Corporation’s Board of Trustees designation or other restrictive arrangements.

The majority of the Corporation'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 Corporation'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 Corporation's proportionate share of the fair value of the trust's assets at the time the Corporation is notified of the trust's existence and periodically adjusted for changes in value. Distributions received by the Corporation 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 Corporation has 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 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 Corporation's investments is determined based on quoted market values or significant observable or unobservable inputs.

The fair value of the Corporation'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 gains and losses, interest and dividends and unrealized gains and losses of GHSC, the Hospital and GHDF) is included in the excess 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 Corporation's Board of Trustees in a depreciation fund for future capital improvements, restricted cash, 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. 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 lease assets 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. 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.

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.

Equity Method Joint Venture Investment

The Hospital, through its Prevention Research Center, developed a nutritional food scoring algorithm, Overall Nutritional Quality Index ("ONQI"). The algorithm is patent pending, and all intellectual property rights associated with ONQI belong to the Hospital.

In February 2008, G. H. Ventures entered into a joint venture arrangement, NuVal, LLC (“NuVal”) with Topco Associates, LLC (“Topco”), an unrelated company, for the purpose of pursuing commercial opportunities associated with the ONQI technology. The Hospital and Topco agreed that the Hospital would capitalize the joint venture by granting NuVal an exclusive, worldwide license (agreed-upon fair value of $11,000,000) and Topco would contribute $5,500,000 in cash. Both the Hospital and Topco would have initial 50% ownership interests in NuVal. During 2008, the Hospital transferred its interest in this investment to GHV. As GHV does not have control, but does exercise significant influence, this investment is recorded using the equity method. GHV’s ownership was approximately 1.1% and 2.2% as of September 30, 2013 and 2012, respectively.

The Corporation recorded its initial investment at its cost of the contributed ONQI technology which was $0. During 2008, the Corporation received a return of its investment of $2,200,000 in cash and $800,000 to be held in escrow by Topco in the event the joint venture requires additional financing. These amounts were recorded as a reduction of its investment in NuVal. This resulted in a difference between the amount at which the investment is carried and the amount of the underlying equity in net assets of NuVal of $11,000,000. The Corporation is amortizing this difference over the estimated life of the intellectual property of ten years. Approximately $1,100,000 was amortized in both 2013 and 2012, which was included in nonoperating gains (losses) in the consolidated statement of operations.

In 2013 and 2012, the Corporation recorded its proportionate loss on its equity investment in NuVal of approximately $58,000 and $72,000 respectively, (included in nonoperating gains (losses) in the consolidated statement of operations. As a result of the above, the Corporation’s investment in NuVal at September 30, 2013 and 2012 is a liability of approximately $2,306,000 and $3,348,000, respectively. This amount is reported in the consolidated balance sheet in deferred revenue.

Asset Retirement Obligation

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

Cost of Borrowing

Issuance costs related to the Hospital’s bonds 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 of 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.

Reinsurance Recoverable

HAIC records amounts recoverable from reinsurers for claims submitted to reinsurers and the reinsured portion of reserves for losses and loss adjustment expenses on the reinsured policies. Reinsurance receivables reflect only the amount ultimately recoverable from the reinsurer.

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 settlements, 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.

Included in the 2013 and 2012 balance sheet is an increase in assets and liabilities attributed to the recognition of both an accrued liability and a receivable relative to claim exposure in excess of excess liability coverage.

Excess 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 net unrealized gains and losses on investments for HAIC, pension and other post retirement related changes other than net periodic benefit cost, capital infusion, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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 Corporation has 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.

Contractual allowance 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 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 Corporation 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 $554,000 in 2013 and 2012, respectively.

Free Care
The Corporation 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 Corporation does not pursue collection of amounts determined to qualify as free care, they are not reported as revenue. Free care of approximately $4,850,000 and $6,785,000 measured at the Corporation's respective established rates was provided in fiscal 2013 and 2012, respectively.

Income Taxes
The Corporation and its subsidiaries, with the exception of GHV, are not-for-profit organizations and are exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

GHV has unused net operating loss carry forwards of approximately $4,819,000 and $4,162,000 available to offset future taxable income as of September 30, 2013 and 2012, respectively. These carry forwards expire in various years through 2015. Deferred tax assets relate primarily to the tax effects of this net operating loss carry forwards. Because there is no assurance that GHV will have taxable income in the future, the deferred tax assets have been fully offset by a valuation allowance. There is no current tax provision in fiscal 2013 and 2012.

HAIC, located in the Cayman Islands, is not subject to income, estate, corporation, capital gains or other taxes payable under current Cayman Islands law.

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 consolidating 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
Patient service charges	$ 445,038,123	$ 416,677,339
Less contractual allowances	(313,509,312)	(292,696,932)
	$ 131,528,811	$ 123,980,407

The Corporation has 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 Corporation 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 Corporation'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 Corporation 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 Corporation's actual costs. The remaining outpatient services (e.g., routine clinical lab, physical therapy) are reimbursed on a fee schedule.

The Corporation 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 Corporation'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 Corporation 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 Corporation contracts with one or more of these managed care organizations and provides services on a per diem rate for inpatient and fee schedules or percent of charges for outpatients.

Other Payors
The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation 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 Corporation cannot assess or project the ultimate effect of these or other items that may have an impact on the future operations of the Corporation.

4. Investments

Assets Limited as to Use

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

	2013 Cost	2013 Fair Value	2012 Cost	2012 Fair Value
Board designated				
Internally designated for capital acquisition				
Cash and cash equivalents	$ 43,179	$ 43,179	$ 10,001	$ 10,001
Cash collateral deposits	855,461	855,461	850,000	850,000
Internally designated for scholarships, professional and general liabilities				
Cash and cash equivalents	1,026,794	1,148,584	995,879	1,080,072
	1,925,434	2,047,224	1,855,880	1,940,073
Held by trustee under indenture agreement				
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
	5,000,393	4,999,771	4,989,585	4,989,025
Less: Current portion	(710,605)	(710,605)	(700,398)	(700,398)
	4,289,788	4,289,166	4,289,187	4,288,627
	$ 6,215,222	$ 6,336,390	$ 6,145,067	$ 6,228,700

Investments

Investments, at fair value, at September 30 include:

	2013 Cost	2013 Fair Value	2012 Cost	2012 Fair Value
Cash and cash equivalents	$ 2,811,818	$ 2,811,818	$ 2,660,658	$ 2,660,658
Fixed income securities	19,941,364	19,754,062	26,839,516	27,749,891
Marketable equity securities	12,146,175	14,272,351	13,760,648	15,054,059
	$ 34,899,357	$ 36,838,231	$ 43,260,822	$ 45,464,608

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
Income		
Interest and dividend income	$ 971,974	$ 933,412
Net realized gain	1,182,132	449,718
Change in net unrealized gains and loss on investments	321,206	1,006,079
	$ 2,475,312	$ 2,389,209
Other changes in unrestricted net assets		
Change in net unrealized gains and losses on HAIC investments	$ (450,630)	$ 2,166,916

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

		Fair Value Measurements		
September 30, 2013	**Fair Value**	**Quoted Prices in in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Cash and cash equivalents	$ 2,811,818	$ 2,811,818	$ -	$ -
Fixed income securities	19,754,062	7,052,011	12,702,051	-
Marketable equity securities	14,272,351	8,996,247	5,276,104	-
Total investments	36,838,231	18,860,076	17,978,155	-
Beneficial interest in trusts	3,670,942	-	-	3,670,942
Contributions receivable	858,521	-	-	858,521
Total assets at fair value	$ 41,367,694	$ 18,860,076	$ 17,978,155	$ 4,529,463
Liabilities				
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 Corporation's Level 3 assets for the year ended September 30, 2013:

Beginning balance at September 30, 2012	$ 4,491,906
Net change in unrealized value of interest in trusts	131,432
New contributions	1,027,777
Payments on contributions receivable	(1,030,092)
Assets released from restriction	(110,582)
Change in discount and allowance on contributions receivable	19,022
Balance at September 30, 2013	$ 4,529,463

There were no transfers between any levels during 2013 or 2012.

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

		Fair Value Measurements		
September 30, 2012	**Fair Value**	**Quoted Prices in in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Cash and cash equivalents	$ 2,660,658	$ 2,660,658	$ -	$ -
Fixed income securities	27,749,891	5,551,910	22,197,981	-
Marketable equity securities	15,054,059	5,662,666	9,391,393	-
Total investments	45,464,608	13,875,234	31,589,374	-
Remainder trusts	109,818	-	-	109,818
Beneficial interest in trusts	3,540,275	-	-	3,540,275
Contributions receivable	841,813	-	-	841,813
Total assets at fair value	$ 49,956,514	$ 13,875,234	$ 31,589,374	$ 4,491,906
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 Corporation's Level 3 assets for the year ended September 30, 2012:

Beginning balance at September 30, 2011	$ 4,456,227
Net change in unrealized value of interest in trusts	282,973
New contributions	543,940
Payments on contributions receivable	(901,460)
Change in discount and allowance on contributions receivable	110,226
Balance at September 30, 2012	$ 4,491,906

5. Contributions Receivable

Unconditional promises to give in the gross amount of $900,991 and $903,305 were outstanding as of September 30, 2013 and 2012, respectively. The discount rate used to calculate the present value of contributions receivable was 4% at September 30, 2013 and September 30, 2012.

Contributions receivable, net, at September 30, 2013 and 2012 are as follows:

	2013	**2012**
Contributions receivable	$ 900,991	$ 903,305
Less		
Allowance for uncollectible pledges	(24,363)	(43,385)
Discounts on pledges receivable	(18,107)	(18,107)
	$ 858,521	$ 841,813

6. 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	$ 5,633,473	$ 5,633,473
Buildings and improvements	78,588,394	78,287,659
Fixed and movable equipment	74,149,376	72,574,337
	158,371,243	156,495,469
Less: Accumulated amortization and depreciation	(98,199,515)	(91,910,289)
	60,171,728	64,585,180
Construction-in-progress	210,246	130,530
	$ 60,381,974	$ 64,715,710

Depreciation and amortization expense was $5,095,249 and $4,869,702 in 2013 and 2012, respectively.

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.

7. 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. The Hospital has purchased insurance coverage to cover claims in excess of $1,500,000 and $4,500,000 in the aggregate. In management's opinion these reserves provide an adequate reserve for loss 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.

8. Long-Term Debt

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

	2013	2012
Mortgage note payable in monthly installments of $ 4,376, including interest at 6.25%, through August 2013	$ -	$ 46,666
Mortgage note payable in monthly installments of $7,866, including interest at 7.5%, through December 2037	1,035,034	1,054,524
Mortgage note payable in monthly installments of $14,642, including interest at 7.5%, through December 2037	1,933,520	1,962,821
Loan payable	-	1,062,048
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
Premiums and discount on bonds, net of accumulated accretion and amortization of $401,323 and $321,484, respectively	440,712	520,552
	51,324,266	54,496,611
Less: Current portion	(4,502,700)	(4,566,972)
	$ 46,821,566	$ 49,929,639

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 the Term bonds mature 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 $15,960,000 and $17,820,000 at September 30, 2013 and 2012, respectively.

In May 2007, CHEFA issued $23,125,000 variable rate 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 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.

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 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.

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 approximately as follows:

2014	$ 2,085,200
2015	2,187,640
2016	2,281,727
2017	2,406,130
2018	2,540,876
Thereafter	39,381,981
	$ 50,883,554

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:

2014	$ 4,502,700
2015	7,772,640
2016	7,841,727
2017	7,916,130
2018	8,000,876
Thereafter	14,849,481
	$ 50,883,554

Under the terms of the bond agreements, the Hospital is required to maintain certain funds with a trustee for specified purposes and time periods. These funds can be used only for the purposes specified in the Trust Indenture. 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:

	2013	**2012**
Debt service reserve fund	$ 4,288,126	$ 4,287,910
Debt service fund	199,829	215,120
Principal fund	511,955	484,717
Accrued interest receivable	1,107	831
	$ 5,001,017	$ 4,988,578

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 payments of fixed rate interest payments by the Hospital in exchange for 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 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 for currently outstanding debt entered into by the Hospital 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 following table lists the fair value of derivatives by contract type included in the consolidated balance sheet at September 30, 2013 and 2012.

September 30, 2013	**Notional**	**Fair Value**
Derivatives not designated as hedging instruments interest rate swaps	$ 34,050,000	$ (6,022,007)

September 30, 2012	**Notional**	**Fair Value**
Derivatives not designated as hedging instruments interest rate swaps	$ 34,050,000	$ (9,153,353)

The following table indicates the realized and unrealized gains and losses by contract type, as included in the consolidated statements of operations for the years ended September 30, 2013 and 2012.

Year ended September 30, 2013	**Location of Gain or (Loss) on Derivatives**	**Gain or (Loss) on Derivatives**
Derivatives not designated as hedging instruments interest rate swaps	Net realized and unrealized gains on interest rate swaps	$ 1,803,353

Year ended September 30, 2012	**Location of Gain or (Loss) on Derivatives**	**Gain or (Loss) on Derivatives**
Derivatives not designated as hedging instruments interest rate swaps	Net realized and unrealized losses on interest rate swaps	$ (2,523,551)

9. 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, 2013:

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

Operating Leases
The Corporation 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 $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	963,670
	$ 4,852,483

10. Temporarily and Permanently Restricted Net Assets

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

	2013	2012
Unspent income and appreciation on endowment funds to be used for specified healthcare service	$ 769,249	$ 730,489
Change in the unspent income and appreciation on GHDF endowment funds	183,001	317,207
Restricted for purchase of equipment	885,564	509,977
Restricted for health education	68,569	68,569
Restricted for specified healthcare services	767,495	628,583
	$ 2,673,878	$ 2,254,825

Permanently restricted net assets at September 30, 2013 and 2012 are comprised as follows:

	2013	2012
Investments to be held in perpetuity, the income of which is expendable to support health care services	$ 2,160,261	$ 2,160,261
Beneficial interest in trusts	3,670,942	3,650,093
	$ 5,831,203	$ 5,810,354

11. 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 with Wells Fargo Bank. On January 21, 2010, the letter of credit agreement for $262,500 was reduced to $50,000.

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 will be reflected in participants' final earnings calculations; 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.

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	
	2013	2012	2013	2012
Change in benefit obligation				
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
Adjustments	-	(10,194,555)	-	-
Actuarial (gain) loss	(8,810,774)	8,206,927	(1,065,776)	1,168,473
Benefits paid	(3,782,502)	(3,372,846)	(506,378)	(835,429)
Benefit obligation at end of year	$ 93,895,229	$ 100,982,447	$ 7,994,700	$ 8,919,801
Change in plan assets				
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	(3,782,502)	(3,372,846)	(506,378)	(835,429)
Fair value of plan assets at end of year	63,254,713	58,554,517	-	-
Unfunded status - recognized as a liability	$ (30,640,516)	$ (42,427,930)	$ (7,994,700)	$ (8,919,801)

Components of net periodic benefit cost are as follows:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
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 cost (credit)	-	-	(389,620)	(389,620)
Amortization of transition obligation	(1,121,883)	(654,432)	-	-
Net actuarial loss	5,309,432	4,567,849	413,974	337,677
Net periodic benefit cost	$ 4,802,295	$ 5,145,232	$ 671,407	$ 540,719

Amounts in the consolidated balance sheets consist of:

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

Pension Plan

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

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

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

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

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

Actuarial loss	$ 2,059,401

Post-Retirement Plan

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

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

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

	2013	2012
Net actuarial (gain) loss	$ (1,065,776)	$ 1,168,473
Negative plan amendment	-	(10,194,555)
Amortization of		
Prior service cost	389,620	389,620
Actuarial loss	(413,974)	(337,677)
	$ (1,090,130)	$ (8,974,139)

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 loss	(1,479,750)

Actuarial assumptions are as follows:

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	Pension Benefits		Other Benefits	
	2013	**2012**	**2013**	**2012**
Weighted average assumptions used to determine net periodic benefit cost				
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

	Pre-65		Post-65	
	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

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

	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, as appropriate, 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 investments	7	5
Fixed income	29	-
Real estate	4	-
	100 %	100 %

Plan assets at September 30, 2013 were primarily invested in cash due to the uncertain equity market environment. The targeted asset allocation was restored on October 5, 2012.

	2013	2012
Target asset allocations		
U.S. Large Cap	0 %	100 %
U.S. Small Cap	27	-
International equity	7	-
Fixed income	12	-
Commodities/TIPS	10	-
Alternatives	40	-
Real estate	4	-
	100 %	100 %

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

	September 30, 2013			
(in thousand)	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	$ 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
	$ 60,543	$ -	$ 2,712	$ 63,255

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

	September 30, 2012			
(in thousand)	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

Asset Investment Strategy

Investments shall be made solely in the interest of the participants and beneficiaries of the Trust, 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.

Concentrations of Credit Risk

The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The mix in patient accounts receivable as of September 30, 2013 and 2012 before allowances for doubtful accounts, consisted of the following:

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

13. Functional Expenses

The Corporation provides general healthcare services to residents within its geographic location. Expenses relating to providing these services at September 30, 2013 and 2012 are as follows:

	2013	2012
Patient care and clinical	$ 115,173,502	$ 112,399,993
General and administrative	36,699,140	42,397,631
	$ 151,872,642	$ 154,797,624

14. Endowments

The Corporation'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 Corporation 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 Corporation 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 Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation 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 Corporation 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 corporation.

(7) The investment policies of the corporation.

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

	2013		
	Temporarily Restricted	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 974,579	$ 2,160,261	$ 3,134,840
Total endowment funds	$ 974,579	$ 2,160,261	$ 3,134,840

	2012		
	Temporarily Restricted	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 912,340	$ 2,160,261	$ 3,072,601
Total endowment funds	$ 912,340	$ 2,160,261	$ 3,072,601

	2013		
	Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 912,340	$ 2,160,261	$ 3,072,601
Investment return			
Investment income and net appreciation (realized and unrealized)	85,718	-	85,718
Appropriation of endowment assets for expenditure			
Healthcare services	(23,479)	-	(23,479)
Endowment net assets, end of year	$ 974,579	$ 2,160,261	$ 3,134,840

	2012		
	Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 790,469	$ 2,160,261	$ 2,950,730
Investment return			
Investment income and net appreciation (realized and unrealized)	126,871	-	126,871
Appropriation of endowment assets for expenditure			
Healthcare services	(5,000)	-	(5,000)
Endowment net assets, end of year	$ 912,340	$ 2,160,261	$ 3,072,601

The primary long-term management objective for the Corporation'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.

15. Commitments and Contingencies

The Corporation 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 Directors of
Griffin Health Services Corporation and Subsidiaries

The report on our audits of the consolidated financial statements of Griffin Health Services Corporation and subsidiaries 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 following consolidating information as of September 30, 2013 and 2012 and for the years then ended 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

Griffin Health Services Corporation and Subsidiaries
Consolidating Balance Sheet
September 30, 2013

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Assets											
Current assets											
Cash and cash equivalents	$ 774,626	$ 5,178,405	$ 1,724,583	$ -	$ 7,677,614	$ 1,081,922	$ 1,034,597	$ 130,706	$ 98,138	$ -	$ 10,022,977
Investments	1,696,122	9,040,563	2,211,342	-	12,948,027	-	20,476,677	-	-	-	33,424,704
Assets limited as to use	-	710,605	-	-	710,605	-	-	-	-	-	710,605
Patient accounts receivable, net	-	14,419,423	-	-	14,419,423	-	-	324,151	-	-	14,743,574
Other current assets	1,040,640	5,290,594	17,855	-	6,349,089	1,183,669	246,686	135,985	190,230	-	8,105,659
Total current assets	3,511,388	34,639,590	3,953,780	-	42,104,758	2,265,591	21,757,960	590,842	288,368	-	67,007,519
Assets limited as to use											
Board-designated investments	-	43,179	-	-	43,179	1,148,584	-	-	-	-	1,191,763
Collateral deposit	855,461		-	-	855,461	-	-	-	-	-	855,461
Under indenture agreement	-	4,289,166	-	-	4,289,166	-	-	-	-	-	4,289,166
Total assets limited as to use	855,461	4,332,345	-	-	5,187,806	1,148,584	-	-	-	-	6,336,390
Reinsurance recoverable	-	5,984,563	-	-	5,984,563	-	10,921,703	-	-	(5,984,563)	10,921,703
Contributions receivable	-	-	858,521	-	858,521	-	-	-	-	-	858,521
Long-term investments	-	1,186,601	2,226,926	-	3,413,527	-	-	-	-	-	3,413,527
Property, plant and equipment, net	260,377	55,610,872	-	-	55,871,249	554,173	-	457,829	3,498,723	-	60,381,974
Due from affiliates	-	3,659,921	-	(420,543)	3,239,378	-	-	-	-	(3,239,378)	-
Interest in net assets of affiliate	-	6,969,447	-	(6,969,447)	-	-	-	-	-	-	-
Investment in affiliate	1,350,156	465,940	-	-	1,816,096	-	-	-	-	(1,816,096)	-
Estimated third party settlements, long-term	-	480,486	-	-	480,486	-	-	-	-	-	480,486
Beneficial interest in trusts	-	3,670,942	-	-	3,670,942	-	-	-	-	-	3,670,942
Other long-term assets	-	2,856,215	-	-	2,856,215	-	-	-	264,890	-	3,121,105
	1,610,533	80,884,987	3,085,447	(7,389,990)	78,190,977	554,173	10,921,703	457,829	3,763,613	(11,040,037)	82,848,258
Total assets	$ 5,977,382	$ 119,856,922	$ 7,039,227	$ (7,389,990)	$ 125,483,541	$ 3,968,348	$ 32,679,663	$ 1,048,671	$ 4,051,981	$ (11,040,037)	$ 156,192,167

Griffin Health Services Corporation and Subsidiaries
Consolidating Balance Sheet, Continued
September 30, 2013

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Liabilities and Net (Deficit) Assets											
Current liabilities											
Current portion of long-term debt and capital lease obligations	$ -	$ 5,679,417	$ -	$ -	$ 5,679,417	$ -	$ -	$ -	$ 45,200	$ -	$ 5,724,617
Accounts payable	880,274	18,863,416	45,184	-	19,788,874	31,997	71,828	265,642	104,594	-	20,262,935
Accrued interest payable	-	316,307	-	-	316,307	-	-	-	-	-	316,307
Accrued expenses	6,837	7,094,150	24,595	-	7,125,582	196,510	197,709	302,797	90,784	-	7,913,382
Deferred revenue	-	194,930	-	-	194,930	2,304,869	-	-	-	-	2,499,799
Accrued postretirement benefit liability	-	389,000	-	-	389,000	-	-	-	-	-	389,000
Due to affiliates	420,542	-	-	(420,542)	-	897,177	-	14,292	1,965,441	(2,876,910)	-
Total current liabilities	1,307,653	32,537,220	69,779	(420,542)	33,494,110	3,430,553	269,537	582,731	2,206,019	(2,876,910)	37,106,040
Estimated third party settlements payable, long-term	-	3,424,484	-	-	3,424,484	-		-	-	-	3,424,484
Professional and general liability loss reserves	-	6,892,848	-	-	6,892,848	-	31,629,211	-	-	(6,347,031)	32,175,028
Workers compensation loss reserves	-	2,317,779	-	-	2,317,779	-	-	-	-	-	2,317,779
Accrued pension liability	-	30,640,516	-	-	30,640,516	-	-	-	-	-	30,640,516
Accrued postretirement benefit liability, net of	-	-	-	-	-	-	-	-	-	-	-
current portion	-	7,605,700	-	-	7,605,700	-	-	-	-	-	7,605,700
Conditional asset retirement obligations	-	114,445	-	-	114,445	-	-	-	-	-	114,445
Long-term debt, net of current portion	-	43,898,212	-	-	43,898,212	-	-	-	2,923,354	-	46,821,566
Capital lease obligations, net of current portion	-	110,886	-	-	110,886	-	-	-	-	-	110,886
Deferred revenue, long term	-	-	-	-	-	-	-	-	2,288,213	-	2,288,213
Interest rate swap agreements	-	6,022,007	-	-	6,022,007	-	-	-	-	-	6,022,007
Total liabilities	1,307,653	133,564,097	69,779	(420,542)	134,520,987	3,430,553	31,898,748	582,731	7,417,586	(9,223,941)	168,626,664
Net (deficit) assets											
Unrestricted operating	4,669,729	15,872,075	3,354,700	(3,354,700)	20,541,804	505,298	780,915	465,940	(3,365,605)	(1,250,534)	17,677,818
Minority interest in HAIC	-	-	-	-	-	-	-	-	-	(565,562)	(565,562)
Cumulative pension adjustment	-	(38,051,834)	-	-	(38,051,834)	-	-	-	-		(38,051,834)
Total unrestricted	4,669,729	(22,179,759)	3,354,700	(3,354,700)	(17,510,030)	505,298	780,915	465,940	(3,365,605)	(1,816,096)	(20,939,578)
Temporarily restricted	-	2,641,381	1,872,132	(1,872,132)	2,641,381	32,497	-	-	-	-	2,673,878
Permanently restricted	-	5,831,203	1,742,616	(1,742,616)	5,831,203		-	-	-	-	5,831,203
Total net (deficit) assets	4,669,729	(13,707,175)	6,969,448	(6,969,448)	(9,037,446)	537,795	780,915	465,940	(3,365,605)	(1,816,096)	(12,434,497)
Total liabilities and net (deficit) assets	$ 5,977,382	$ 119,856,922	$ 7,039,227	$ (7,389,990)	$ 125,483,541	$ 3,968,348	$ 32,679,663	$ 1,048,671	$ 4,051,981	$ (11,040,037)	$ 156,192,167

Griffin Health Services Corporation and Subsidiaries
Consolidating Balance Sheet
September 30, 2012

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Assets											
Current assets											
Cash and cash equivalents	$ 528,672	$ 8,071,213	$ 921,146	$ -	$ 9,521,031	$ 168,769	$ 815,650	$ 96,204	$ 30,034	$ -	$ 10,631,688
Investments	1,587,992	5,371,978	2,479,430	-	9,439,400	-	33,254,444	-	-	-	42,693,844
Assets limited as to use	-	700,398	-	-	700,398	-	-	-	-	-	700,398
Patient accounts receivable, net	-	12,754,987	-	-	12,754,987	-	-	355,558	-	-	13,110,545
Other current assets	951,002	5,557,652	35,212	-	6,543,866	2,169,155	2,872,793	108,017	188,775	-	11,882,606
Total current assets	3,067,666	32,456,228	3,435,788	-	38,959,682	2,337,924	36,942,887	559,779	218,809	-	79,019,081
Assets limited as to use											
Board-designated investments	-	10,001	-	-	10,001	1,080,072	-	-	-	-	1,090,073
Collateral deposit	850,000	-	-	-	850,000	-	-	-	-	-	850,000
Under indenture agreement	-	4,288,627	-	-	4,288,627	-	-	-	-	-	4,288,627
Total assets limited as to use	850,000	4,298,628	-	-	5,148,628	1,080,072	-	-	-	-	6,228,700
Reinsurance recoverable	-	9,611,433	-	-	9,611,433	-	8,253,085	-	-	(9,611,433)	8,253,085
Contributions receivable	-	-	841,813	-	841,813	-	-	-	-	-	841,813
Long-term investments	-	1,147,841	1,622,923	-	2,770,764	-	-	-	-	-	2,770,764
Property, plant and equipment, net	265,604	59,966,717	-	-	60,232,321	607,939	-	359,003	3,516,447	-	64,715,710
Due from affiliates	-	7,998,375	196,466	(837,462)	7,357,379	-	-	-	-	(7,357,379)	-
Interest in net assets of affiliate	-	5,952,786	-	(5,952,786)	-	-	-	-	-	-	-
Investment in affiliate	1,350,156	611,099	-	-	1,961,255	-	-	-	-	(1,961,255)	-
Estimated third party settlements, long-term	-	1,203,411	-	-	1,203,411	-	-	-	-	-	1,203,411
Beneficial interest in trusts	-	3,650,093	-	-	3,650,093	-	-	-	-	-	3,650,093
Other long-term assets	-	3,023,606	-	-	3,023,606	-	-	-	325,203	-	3,348,809
	1,615,760	93,165,361	2,661,202	(6,790,248)	90,652,075	607,939	8,253,085	359,003	3,841,650	(18,930,067)	84,783,685
Total assets	$ 5,533,426	$ 129,920,217	$ 6,096,990	$ (6,790,248)	$ 134,760,385	$ 4,025,935	$ 45,195,972	$ 918,782	$ 4,060,459	$ (18,930,067)	$ 170,031,466

Griffin Health Services Corporation and Subsidiaries
Consolidating Balance Sheet, Continued
September 30, 2012

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	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	$ -	$ -	$ -	$ 91,972	$ -	$ 6,510,397
Accounts payable	466,385	20,044,364	66,559	-	20,577,308	163,381	1,704,756	157,140	92,342	-	22,694,927
Accrued interest payable	-	347,111	-	-	347,111	-	-	-	-	-	347,111
Accrued expenses	3,705	8,256,192	-	-	8,259,897	266,300	163,535	150,543	81,403	-	8,921,678
Deferred revenue	-	40,179	77,645	-	117,824	2,742,056	-	-	-	-	2,859,880
Accrued postretirement benefit liability	-	435,000	-	-	435,000	-	-	-	-	-	435,000
Due to affiliates	640,996	196,466	-	(837,462)	-	644,696	-	-	1,542,941	(2,187,637)	-
Total current liabilities	1,111,086	35,737,737	144,204	(837,462)	36,155,565	3,816,433	1,868,291	307,683	1,808,658	(2,187,637)	41,768,993
Estimated third party settlements payable, long-term	-	3,179,514	-	-	3,179,514	-	-	-	-	-	3,179,514
Professional and general liability loss reserves	-	10,488,070	-	-	10,488,070	-	41,293,246	-	-	(14,781,175)	37,000,141
Workers compensation loss reserves	-	2,108,091	-	-	2,108,091	-	-	-	-	-	2,108,091
Accrued pension liability	-	42,427,930	-	-	42,427,930	-	-	-	-	-	42,427,930
Accrued postretirement benefit liability, net of current portion	-	8,484,801	-	-	8,484,801	-	-	-	-	-	8,484,801
Conditional asset retirement obligations	-	119,709	-	-	119,709	-	-	-	-	-	119,709
Long-term debt, net of current portion	-	46,957,600	-	-	46,957,600	-	-	-	2,972,039	-	49,929,639
Capital lease obligations, net of current portion	-	1,299,057	-	-	1,299,057	-	-	-	-	-	1,299,057
Deferred revenue, long term	-	-	-	-	-	-	-	-	3,276,633	-	3,276,633
Interest rate swap agreements	-	9,153,353	-	-	9,153,353	-	-	-	-	-	9,153,353
Total liabilities	1,111,086	159,955,862	144,204	(837,462)	160,373,690	3,816,433	43,161,537	307,683	8,057,330	(16,968,812)	198,747,861
Net (deficit) assets											
Unrestricted operating	4,422,340	14,640,359	2,737,657	(2,737,657)	19,062,699	157,680	2,034,435	611,099	(3,996,871)	(3,481,433)	14,387,609
Minority interest in HAIC	-	-	-	-	-	-	-	-	-	1,520,178	1,520,178
Cumulative pension adjustment	-	(52,689,361)	-	-	(52,689,361)	-	-	-	-	-	(52,689,361)
Total unrestricted	4,422,340	(38,049,002)	2,737,657	(2,737,657)	(33,626,662)	157,680	2,034,435	611,099	(3,996,871)	(1,961,255)	(36,781,574)
Temporarily restricted	-	2,203,003	1,472,513	(1,472,513)	2,203,003	51,822	-	-	-	-	2,254,825
Permanently restricted	-	5,810,354	1,742,616	(1,742,616)	5,810,354	-	-	-	-	-	5,810,354
Total net (deficit) assets	4,422,340	(30,035,645)	5,952,786	(5,952,786)	(25,613,305)	209,502	2,034,435	611,099	(3,996,871)	(1,961,255)	(28,716,395)
Total liabilities and net (deficit) assets	$ 5,533,426	$ 129,920,217	$ 6,096,990	$ (6,790,248)	$ 134,760,385	$ 4,025,935	$ 45,195,972	$ 918,782	$ 4,060,459	$ (18,930,067)	$ 170,031,466

Griffin Health Services Corporation and Subsidiaries
Consolidating Statement of Operations
Year Ended September 30, 2013

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Operating revenues											
Net patient service revenue	$ -	$ 128,179,238	$ -	$ -	$ 128,179,238	$ -	$ -	$ 3,349,573	$ -	$ -	$ 131,528,811
Other operating revenue	4,097,057	3,603,467	127,270	-	7,827,794	6,419,366	2,115,634	630,773	537,314	(2,619,956)	14,910,925
Net assets released from restrictions for operations	-	110,583	837,414	-	947,997	-	-	-	-	-	947,997
Total operating revenues	4,097,057	131,893,288	964,684	-	136,955,029	6,419,366	2,115,634	3,980,346	537,314	(2,619,956)	147,387,733
Operating expenses											
Employee compensation and related expenses	387,091	72,402,054	-	-	72,789,145	4,362,952	-	4,388,115	-	-	81,540,212
Supplies and other expenses	3,598,851	46,423,483	837,415	-	50,859,749	1,807,405	5,946,466	3,017,836	607,121	(3,438,170)	58,800,407
Depreciation and amortization	-	6,099,345	-	-	6,099,345	45,713	-	76,501	111,892	-	6,333,451
Interest	-	2,451,658	-	-	2,451,658	-	-	-	229,154	-	2,680,812
Provision for doubtful accounts, net of recoveries	-	2,373,418	-	-	2,373,418	30,000	-	114,342		-	2,517,760
Total operating expenses	3,985,942	129,749,958	837,415	-	134,573,315	6,246,070	5,946,466	7,596,794	948,167	(3,438,170)	151,872,642
Gain (loss) from operations	111,115	2,143,330	127,269	-	2,381,714	173,296	(3,830,832)	(3,616,448)	(410,853)	818,214	(4,484,909)
Nonoperating (losses) gains											
Investment income	133,610	436,170	202,149	-	771,929	68,598	1,634,785	-	-	-	2,475,312
Net realized and unrealized losses on interest rate swaps	-	1,803,353	-	-	1,803,353	-	-	-	-	-	1,803,353
Net gain on equity investment	-	-	-	-	-	-	-	-	1,042,119	-	1,042,119
Unrestricted contributions, gifts and bequests	-	-	519,852	-	519,852	-	-	-	-	-	519,852
Fund raising expenses	-	-	(821,438)	-	(821,438)	-	-	-	-	-	(821,438)
Research grant revenues	-	2,147,984	-	-	2,147,984	110,262	-	-	-	-	2,258,246
Research grant expenses	-	(2,207,841)	-	-	(2,207,841)	(4,538)	-	-	-	-	(2,212,379)
Total nonoperating (losses) gains	133,610	2,179,666	(99,437)	-	2,213,839	174,322	1,634,785	-	1,042,119	-	5,065,065
Minority interest					-					574,943	574,943
(Deficiency) excess of revenues over expenses	244,725	4,322,996	27,832	-	4,595,553	347,618	(2,196,047)	(3,616,448)	631,266	1,393,157	1,155,099
Other changes in unrestricted net assets											
Change in net unrealized gains and losses	-	-	-	-	-	-	(450,630)	-	-		(450,630)
Change in interest in net assets of affiliate	-	471,884	-	(617,043)	(145,159)	-	-	-	-	145,159	-
Net assets released from restrictions for capital	-	-	500,000	-	500,000	-	-	-	-	-	500,000
Redemption of Shares							564,835			(564,835)	-
Capital infusion	-	-	-	-	-	-	828,322	-	-	(828,322)	-
Transfers between affiliates	2,664	(3,563,164)	89,211	-	(3,471,289)	-	-	3,471,289	-	-	-
Pension and other post-retirement related charges other than net periodic benefit cost	-	14,637,527	-	-	14,637,527	-	-	-	-	-	14,637,527
Increase (decrease) in unrestricted net assets	$ 247,389	$ 15,869,243	$ 617,043	$ (617,043)	$ 16,116,632	$ 347,618	$ (1,253,520)	$ (145,159)	$ 631,266	$ 145,159	$ 15,841,996

Griffin Health Services Corporation and Subsidiaries
Consolidating Statement of Operations
Year Ended September 30, 2012

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Operating revenues											
Net patient service revenue	$ -	$ 121,061,315	$ -	$ -	$ 121,061,315	$ -	$ -	$ 2,919,092	$ -	$ -	$ 123,980,407
Other operating revenue	3,742,046	5,743,384	109,950	-	9,595,380	7,486,115	7,079,548	772,102	588,049	(3,085,545)	22,435,649
Net assets released from restrictions for operations	-	5,000	988,057	-	993,057	-	-	-	-	-	993,057
Total operating revenues	3,742,046	126,809,699	1,098,007	-	131,649,752	7,486,115	7,079,548	3,691,194	588,049	(3,085,545)	147,409,113
Operating expenses											
Employee compensation and related expenses	334,870	72,639,969	-	-	72,974,839	5,065,898	-	3,603,994	-	-	81,644,731
Supplies and other expenses	3,581,292	46,867,207	988,057	-	51,436,556	2,726,383	8,474,119	2,714,489	614,062	(3,085,545)	62,880,064
Depreciation and amortization	-	5,913,216	-	-	5,913,216	43,811	-	86,759	127,103	-	6,170,889
Interest	-	2,709,709	-	-	2,709,709	3,421	-	-	232,072	-	2,945,202
Provision for doubtful accounts, net of recoveries	(799)	985,612	25,548	-	1,010,361	30,000	-	116,377	-	-	1,156,738
Total operating expenses	3,915,363	129,115,713	1,013,605	-	134,044,681	7,869,513	8,474,119	6,521,619	973,237	(3,085,545)	154,797,624
Gain (loss) from operations	(173,317)	(2,306,014)	84,402	-	(2,394,929)	(383,398)	(1,394,571)	(2,830,425)	(385,188)	-	(7,388,511)
Nonoperating (losses) gains											
Investment income	209,062	998,665	365,983		1,573,710	94,268	721,231	-	-	-	2,389,209
Net realized and unrealized losses on interest rate swaps	-	(2,523,551)	-	-	(2,523,551)	-	-	-	-	-	(2,523,551)
Net gain on equity investment	-	-	-	-	-	-	-	-	1,028,123	-	1,028,123
Unrestricted contributions, gifts and bequests	-	-	233,021	-	233,021	-	-	-	-	-	233,021
Fund raising expenses	-	-	(698,852)	-	(698,852)	-	-	-	-	-	(698,852)
Research grant revenues	-	2,234,902	-	-	2,234,902	80,983	-	-	-	-	2,315,885
Research grant expenses	-	(2,259,698)	-	-	(2,259,698)	(2,850)	-	-	-	-	(2,262,548)
Total nonoperating (losses) gains	209,062	(1,549,682)	(99,848)	-	(1,440,468)	172,401	721,231	-	1,028,123	-	481,287
Minority interest	-	-	-	-	-	-	-	-	-	539,645	539,645
(Deficiency) excess of revenues over expenses	35,745	(3,855,696)	(15,446)	-	(3,835,397)	(210,997)	(673,340)	(2,830,425)	642,935	539,645	(6,367,579)
Other changes in unrestricted net assets											
Change in net unrealized gains and losses	-	-	-	-	-	-	2,166,916	-	-	-	2,166,916
Change in interest in net assets of affiliate	-	567,699	-	(331,490)	236,209	-	-	-	-	(236,209)	-
Net assets released from restrictions for capital	-	-	685,000	-	685,000	-	-	-	-	-	685,000
Capital infusion	-	-	-	-	-	-	2,004,199	-	-	(2,004,199)	-
Transfers between affiliates	2,664	(2,731,234)	(338,064)	-	(3,066,634)	-	-	3,066,634	-	-	-
Pension and other post-retirement related charges	-	-	-	-	-	-	-	-	-	-	-
other than net periodic benefit cost	-	10,040,391	-	-	10,040,391	-	-	-	-	-	10,040,391
Increase (decrease) in unrestricted net assets	$ 38,409	$ 4,021,160	$ 331,490	$ (331,490)	$ 4,059,569	$ (210,997)	$ 3,497,775	$ 236,209	$ 642,935	$ (1,700,763)	$ 6,524,728