GAYLORD FARM ASSOCIATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

As of and for the Years Ended
September 30, 2015 and 2014

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AND SUPPLEMENTAL INFORMATION
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Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gaylord Farm Association, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gaylord Farm Association, Inc. (the Association), which comprise the consolidated balance sheets as of September 30, 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 these consolidated financial statements based on our audit. We did not audit the financial statements of Gaylord Risk Solutions, Ltd., a wholly-owned subsidiary, whose statements reflect total assets constituting 4% of consolidated total assets as of September 30, 2015, and total revenues constituting .6% of consolidated total revenues for the year then ended. Those statements were audited by other auditors in accordance with International Standards on Auditing Standards, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gaylord Risk Solutions, Ltd., is based solely on the report of, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by, the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the Association'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 Association'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 estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

(Continued)

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

Opinion

In our opinion, based on our audit and the report of, and additional procedures performed by, the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gaylord Farm Association, Inc. as of September 30, 2015, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Gaylord Farm Association, Inc. as of September 30, 2014, were audited by Saslow Lufkin & Buggy, LLP who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated December 2, 2014, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the 2015 consolidated financial statements as a whole. The consolidating information listed within the Table of Contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 2015 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of the other auditors, the 2015 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole. The 2014 consolidating information is presented for purposes of additional analysis and is not a required part of the 2014 financial statements. The 2014 consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. The information has been subjected to the auditing procedures applied by other auditors in the audit of the 2014 financial statements and certain additional procedures, including comparing and reconciling other information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and whose report dated December 2, 2014, expressed an opinion that such information was fairly stated in all material respects in relation to the 2014 financial statements as a whole.

Crowe Horwath LLP

Simsbury, Connecticut
January 19, 2016

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATED BALANCE SHEETS
September 30, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,221,884	$ 7,484,842
Patient accounts receivable (less allowance for doubtful accounts of $779,000 in 2015 and $632,000 in 2014)	10,448,595	9,050,124
Assets whose use is limited		
Assets held under bond indenture agreement	198,798	191,621
Pledges receivable	95,000	49,020
Other current assets	1,576,829	1,969,428
Total current assets	21,541,106	18,745,035
Assets whose use is limited:		
Pledges receivable, net	31,000	87,348
Board-designated investments	12,897,749	14,600,052
Donor restricted investments	5,641,991	5,615,294
Beneficial interest in trusts held by others	11,071,571	12,022,757
	29,642,311	32,325,451
Property, plant and equipment, net	34,129,850	36,126,947
Investments held for captive insurance liabilities	2,556,908	2,909,008
Reinsurance recoverable relating to captive insurance liabilities	213,134	322,401
Other assets	541,206	559,650
Total assets	$ 88,624,515	$ 90,988,492
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,862,122	$ 2,585,008
Accrued payroll and related taxes	4,047,219	3,774,538
Estimated amounts due to third-party payers	252,194	246,805
Current portion of interest rate swap liability	611,874	640,923
Current portion of long-term debt and capital lease obligations	1,077,542	1,018,682
Total current liabilities	7,850,951	8,265,956
Long-term debt and capital lease obligations, less current portion	16,110,228	16,857,650
Other long-term liabilities	230,000	-
Accrued pension obligation	15,059,724	13,040,318
Captive insurance losses and other reserves	927,815	1,166,804
Interest rate swap liability, less current portion	3,107,842	2,425,319
Total liabilities	43,286,560	41,756,047
Net assets:		
Unrestricted net assets	27,534,000	30,514,665
Temporarily restricted net assets	1,090,393	1,079,729
Permanently restricted net assets	16,713,562	17,638,051
Total net assets	45,337,955	49,232,445
Total liabilities and net assets	$ 88,624,515	$ 90,988,492

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

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
For the Years Ended September 30, 2015 and 2014

	2015	2014
Changes in unrestricted net assets		
Unrestricted revenue		
Net patient service revenues	$ 72,692,267	$ 75,169,260
Net patient service revenues	72,692,267	75,169,260
Contributions and bequests	1,190,558	985,043
Ceded premium	(325,000)	(325,000)
Other operating revenue	571,098	580,250
Net assets released from restrictions used for operations	312,796	510,832
Total revenues	74,441,719	76,920,385
Expenses		
Salaries and related expenses	48,932,990	51,305,577
Other operating expenses	5,662,320	5,620,865
Professional fees and contract services	7,026,435	6,708,250
Supplies	4,885,588	5,060,093
Depreciation and amortization	3,801,217	3,968,978
Occupancy costs	1,456,585	2,105,322
Interest	757,942	789,512
Provision for bad debts	593,515	902,526
Losses and loss adjustment expenses	(101,532)	43,334
Total expenses	73,015,060	76,504,457
Operating income	1,426,659	415,928
Non-operating gains (losses), net		
Dividend and interest income	518,643	445,578
Net realized gains on investments	880,171	2,566,591
Loss on equity method investments	(193,907)	(199,977)
Gain on sale of land	-	1,564,005
Net loss on lease abandonments	-	(375,809)
Change in fair value of interest rate swap agreement	(653,474)	(73,100)
Total non-operating gains, net	551,433	3,927,288
Excess of revenues over expenses before discontinued operations	1,978,092	4,343,216
Loss on sale of wholly owned subsidiary	-	(127,246)
Loss on discontinued operations	(134,687)	-
Accelerated depreciation on discontinued operations	(64,051)	(265,540)
Excess of revenues over expenses	$ 1,779,354	$ 3,950,430

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

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS (CONTINUED)
For the Years Ended September 30, 2015 and 2014

	2015	2014
Other changes in unrestricted net assets		
Excess of revenues over expenses	$ 1,779,354	$ 3,950,430
Net unrealized losses on investments	(2,128,757)	(1,541,001)
Pension related changes other than net periodic pension cost	(2,719,290)	(940,466)
Net assets released from restrictions used for purchases of property, plant and equipment	88,028	103,171
Change in unrestricted net assets	(2,980,665)	1,572,134
Changes in temporarily restricted net assets		
Restricted pledges and contributions	411,484	391,746
Investment income and realized gains on investments	-	378,737
Net unrealized losses on investments	-	(156,093)
Net assets released from restrictions	(400,820)	(614,003)
Change in temporarily restricted net assets	10,664	387
Changes in permanently restricted net assets		
Restricted contributions and bequests	26,697	25,209
Change in beneficial interest in trusts held by others	(951,186)	354,526
Change in permanently restricted net assets	(924,489)	379,735
Change in net assets	(3,894,490)	1,952,256
Net assets, beginning of year	49,232,445	47,280,189
Net assets, end of year	$ 45,337,955	$ 49,232,445

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

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	$ (3,894,490)	$ 1,952,256
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,801,217	3,968,978
Pension related changes other than net periodic pension cost	2,719,290	940,466
Provision for bad debts	593,515	902,526
Restricted contributions and bequests received	(438,181)	(416,955)
Change in fair value of interest rate swap	653,474	73,100
Net realized and unrealized gains (losses) on investments	1,248,586	(1,161,011)
Loss from equity investments	193,907	199,977
Gain on sale of land	-	(1,564,005)
Net loss on lease abandonments	-	375,809
Change in beneficial interest in trusts held by others	951,186	(354,526)
Loss on discontinued operations	134,687	-
Loss on sale of wholly owned subsidiary	-	127,246
Accelerated depreciation on discontinued operations	64,051	265,540
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,991,986)	(570,596)
Other current assets	392,599	(213,857)
Pledges receivable	10,368	43,168
Reinsurance recoverable relating to captive insurance	109,267	609,484
Other assets	4,537	32,964
Accounts payable and accrued expenses	(487,497)	229,007
Accrued payroll and related taxes	272,681	(1,292,328)
Accrued pension obligation	(699,884)	(745,983)
Captive insurance losses and other reserves	(238,989)	(1,444,510)
Net cash provided by operating activities	3,398,338	1,956,750
Cash flows from investing activities		
Change in assets held under bond indenture agreement	(7,177)	2,306
Capital contribution to joint ventures	(180,000)	(180,000)
Purchases of property, plant and equipment	(2,574,934)	(3,809,408)
Sales of property, plant and equipment	814,286	1,791,574
Purchases of investments	(1,966,820)	(208,971)
Sales of investments	2,745,940	2,295,204
Net cash used in investing activities	(1,168,705)	(109,295)
Cash flows from financing activities		
Principal payments on long-term debt	(760,000)	(930,000)
Acquisition of long-term debt	84,584	-
Principal payments on capital lease obligations	(255,356)	(370,302)
Restricted contributions and bequests received	438,181	416,955
Net cash used in financing activities	(492,591)	(883,347)
Change in cash and cash equivalents	1,737,042	964,108
Cash and cash equivalents, beginning of year	7,484,842	6,520,734
Cash and cash equivalents, end of year	$ 9,221,884	$ 7,484,842

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

NOTE 1 - GENERAL

Organization: Gaylord Farm Association, Inc. (the Association) is a not-for-profit corporation, which is the sole member of Gaylord Hospital, Inc. (Gaylord), Gaylord Research Institute, Inc. (GRI), The Gaylord Foundation, Inc. (TGF), Farm Properties, Inc. (FP), Gaylord Farm Rehabilitation Center (GFRC), and Gaylord Risk Solutions, Ltd. (GRS).

Gaylord Sleep Medicine Equipment, LLC (GSME) was purchased by the Association effective July 23, 2013. Prior to the purchase, the Association had a fifty percent ownership in Gaylord Sleep HealthCenters of Connecticut, LLC (GSHC), which was doing business as Gaylord Sleep Medicine Equipment, LLC. Prior to July 23, 2013, the Association accounted for its investment interest in the entity using the equity method of accounting. Effective April 8, 2014, the Association sold 100% of its membership interest in GSME to Nationwide Sleep Holdings, Inc. (see Note 4).

Gaylord operates a chronic disease hospital that specializes in the care and treatment of people with medically complex conditions and rehabilitation including brain and spinal cord injury, pulmonary illness, stroke, neurological and orthopedic conditions. In addition, Gaylord runs outpatient clinics to provide physical therapy, occupational therapy, speech therapy as well as physiatry services.

GRI, TGF and FP are dormant corporations with no activity and GFRC is the supporting corporation for the Traurig House, which is a component of the Association's traumatic brain injury care and treatment department.

GRS was incorporated on December 12, 2007 and operates subject to the provisions of the Companies Law of the Cayman Islands. GRS was granted an Unrestricted Class "B" Insurer's license on December 28, 2007, which it holds subject to the provisions of the Insurance Law of the Cayman Islands. GRS is a wholly owned subsidiary of the Association.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from those estimates. Significant accounts that are impacted by such estimates and assumptions are the allowance for doubtful accounts, allowances for third-party payer discounts and settlements, accrued pension liabilities, malpractice loss reserves and the reserves for workers' compensation insurance.

Cash and Cash Equivalents: Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. In general, the Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. It is the Association's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Association maintains cash balances in excess of the FDIC insurance limit.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment: Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Maintenance and repairs are charged to expense as incurred.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over (under) 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 those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over (under) expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over (under) expenses unless the investments are trading securities. Unrealized losses that have been deemed to be other than temporarily impaired are included within excess of revenues over (under) expenses.

Other Than Temporary Impairments on Investments: The Association accounts for other than temporary impairments in accordance with FASB ASC 320-10 “Investments - Debt and Equity Securities” and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2015 or 2014.

Equity Investments: The Association has a fifty percent ownership interest in North Haven Fitness & Wellness, LLC (Fitness & Wellness). The Association accounts for its investment interest in this entity using the equity method of accounting. As such, the Association adjusts its investment by its share of the investee’s net income (loss). As previously mentioned in Note 1, the Association had a fifty percent ownership in GSHC through July 23, 2013. The Association purchased the remaining fifty percent interest on July 23, 2013. The Association sold all of its interest in this entity during fiscal year 2014.

Deferred Financing Costs: Deferred financing costs have been recorded as an asset on the accompanying consolidated balance sheets and are being amortized using the effective interest method over the term of the related financing agreement.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use by the Association has been limited by donors to a specific time frame or purpose and are included in investments. Temporarily restricted net assets are available primarily for health care services, including cancer and pediatric programs and capital replacement.

Permanently restricted net assets consist of funds held in trust by others and the Association's permanently restricted endowments, which are included in donor restricted investments. Permanently restricted endowments are investments to be held in perpetuity, the income from which is expendable to support health care services. The income from funds held in trust by others is expendable to support health care services.

Donor Restricted Gifts: Unconditional promises to give cash and other assets to the Association are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Excess of Revenues Over (Under) Expenses: The consolidated statements of operations and changes in net assets includes excess of revenues over (under) expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include net unrealized losses on investments, pension related changes other than net periodic pension cost, and net assets released from restrictions used for purchases of property, plant and equipment.

Income Taxes: The Association is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. GSME is a disregarded entity for tax purposes and GRS is a not-for-profit captive insurance company organized under the laws of the Cayman Islands.

The Association accounts for uncertain tax positions with provisions of FASB ASC 740, "Income Taxes" which provide a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Association does not have any uncertain tax positions as of September 30, 2015 and 2014. The Association recognizes interest and/or penalties related to income tax matters within other operating expenses. As of September 30, 2015 and 2014, the Association did not record any penalties or interest associated with uncertain tax positions. The Association's prior three tax years are open and subject to examination by the Internal Revenue Service.

Assets Whose Use is Limited: Assets which have limited use include assets deposited with a trustee for debt service, pledges, assets set aside by the Board of Directors for future capital improvements and the Association's beneficial interest in funds held in trust held by others.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Rate Swap Agreement: The Association uses an interest rate swap agreement to modify its variable interest rate debt to a fixed interest rate, thereby reducing the Association's exposure to interest rate market fluctuations. The interest rate swap agreement involves the exchange of amounts based on a fixed interest rate for amounts based on variable rates over the life of the agreement without the exchange of the notional amount upon which payments are based. The differential of amounts paid and received during the year is charged to interest expense and the amounts payable or receivable from the counter-party is included as an adjustment to accrued interest.

Net Patient Service Revenues: Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period in which the related services are rendered and adjusted in the future periods as final settlements are determined.

Charity Care: The Association provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Association does not pursue collection of amounts determined to qualify as charity care, the charges related to charity care services are offset within net patient service revenues. The amount of traditional charity care provided, determined on the basis of cost, was approximately $55,722 and $248,346 for the years ended September 30, 2015 and 2014, respectively.

Estimated Malpractice Costs: The Association maintains malpractice insurance coverage under claims made policies through GRS in 2015 and 2014. A provision for estimated medical malpractice claims includes estimates of the ultimate costs for claims incurred but not reported and is included within accounts payable and accrued expenses on the Association's consolidated balance sheets.

Workers Compensation Costs: The Association is self-insured for workers' compensation. Estimated self-insurance liabilities are included within accrued payroll and related taxes and are $1,350,952 and $1,081,372 as of September 30, 2015 and 2014, respectively, and include estimates for claim obligations related to claims occurring through September 30, 2015 and 2014.

Unpaid Losses and Loss Adjustment Expenses: The reserve for unpaid losses and loss adjustment expenses and the related reinsurance recoverable includes case basis estimates of reported losses, plus supplemental amounts calculated based upon loss projections utilizing actuarial studies, Gaylord's own historical data and industry data. In establishing this reserve and the related reinsurance recoverable, GRS utilizes the findings of an independent consulting actuary. Management believes that its aggregate reserve for unpaid losses and loss adjustment expenses and the related reinsurance recoverable at year-end represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses; however, because of the nature of the insured risks and limited historical experience, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such asset and liability at the consolidated balance sheet date. Accordingly, the ultimate asset and liability could be significantly in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Recognition of Premium Revenues: Premiums written related to GRS are earned on a pro-rata basis over the related policy period. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance: In the normal course of business, GRS seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944-20, "*Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*". Premiums ceded are expensed over the term of their related policies and recorded as a reduction of revenues.

Legislation: The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Association is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no known regulatory inquiries are pending, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Reclassifications: Certain reclassifications to the 2014 consolidated financial statements have been made in order to conform with the 2015 presentation. Such reclassifications did not have any impact to total net assets or the change in net assets.

Accounting Pronouncements Adopted: In February 2013, the FASB issued ASU 2013-04, "*Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*". This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. The Association adopted this ASU beginning October 1, 2014. This ASU did not have a material impact on the Association's consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, "*Services Received from Personnel of an Affiliate*". The amendments in this update require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The Association adopted this ASU beginning October 1, 2014. This ASU did not have a material impact on the Association's consolidated financial statements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2014, the FASB issued (ASU) 2014-09, "*Revenue from Contracts with Customers: Topic 606*". This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2017. The Association has not yet implemented this ASU or determined the impact of adoption.

NOTE 3 - NET PATIENT SERVICE REVENUES

The Association has agreements with third-party payers that provide for payments to the Association at amounts different from its established rates. Contractual payment rates are subject to final determination by reimbursement agencies under each program. A summary of the payment arrangements with major third-party payers follows:

Medicare - Inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient payments are made based on a per discharge amount under the LTCH-DRG inpatient payment system. Outpatient payments are made based on a per encounter amount under the APC outpatient payment system. The Association is reimbursed under the prospective payment system and files annual cost reports, which are subject to audit.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospective rates per day of hospitalization. These rates are not subject to retroactive adjustment. Outpatient services are reimbursed based on a fee schedule or percent of charges based on the services provided.

Blue Cross - Services rendered to Blue Cross beneficiaries are reimbursed on a per diem basis based on contracted rates.

The Association has also entered into payment agreements with certain other commercial insurance carriers and health maintenance organizations. The basis for payment to the Association under these agreements includes prompt payment provisions and discounts from established charges.

The Association recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. On the basis of historical experience, a significant portion of the Association's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Association records a significant provision for bad debts related to uninsured patients in the period the services are provided.

(Continued)

NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

Patient accounts receivable are based on gross charges and stated at net realizable value. Accounts receivable are reduced by an allowance for contractual adjustments, based on expected payment rates from payers under current reimbursement methodologies, and also by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Association analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate appropriate allowance for doubtful accounts and provision for bad debts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Association analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts (for example, for expected uncollectible deductibles and co-payments on accounts for which the third-party payor has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), the Association records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

For uninsured patients, the amounts not collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Association's allowance for doubtful accounts for self-pay patients was approximately 67% and 64% of self-pay accounts receivable as of September 30, 2015 and 2014, respectively. The Association's self-pay write-offs totaled $446,625 and $717,198 for fiscal year 2015 and 2014, respectively. The Association did not change its charity care or financial assistance policy during fiscal year 2015 or 2014. The Association does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

It is an inherent part of the Association's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenue. Patients who would otherwise qualify for charity care but who do not provide adequate information would be characterized as bad debt and included in the provision for bad debts.

(Continued)

NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

Net patient service revenues for the years ended September 30, 2015 and 2014 is as follows:

2015	Medicare	Medicaid	Other Payers	Self-Pay	Total
Gross patient service revenues	$ 97,860,553	$ 22,708,833	$ 67,713,972	$ 316,680	$ 188,600,038
Contractual allowances and adjustments	(47,887,827)	(16,910,314)	(50,862,838)	(246,792)	(115,907,771)
Net patient service revenues	$ 49,972,726	$ 5,798,519	$ 16,851,134	$ 69,888	$ 72,692,267

2014	Medicare	Medicaid	Other Payers	Self-Pay	Total
Gross patient service revenues	$ 82,999,925	$ 34,337,562	$ 85,531,828	$ 367,228	$ 203,236,543
Contractual allowances and adjustments	(50,164,136)	(25,813,822)	(51,722,398)	(366,927)	(128,067,283)
Net patient service revenues	$ 32,835,789	$ 8,523,740	$ 33,809,430	$ 301	$ 75,169,260

The amounts above do not include net patient service revenue related to the Association's sleep facilities for fiscal year 2015, as those amounts are included within the loss from discontinued operations within the consolidated statements of operations and changes in net assets.

Revenue from the Medicare and Medicaid programs accounted for approximately 68% and 8%, respectively, of the Association's net patient revenue for 2015 and 44% and 11%, respectively, for 2014. Revenue from Blue Cross accounted for approximately 17% and 15% in 2015 and 2014, respectively. No other payer accounted for more than 10% of revenue in 2015 and 2014. Net patient service revenues are based upon complex payment systems and include estimates of amounts yet to be collected. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. Any changes to estimates are recorded within current year operations.

The Association grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The following summarizes payers that account for more than 10% of patient accounts receivable as of September 30, 2015 and 2014:

	2015	2014
Medicare	46%	39%
Medicaid	8%	12%
Blue Cross	14%	13%

(Continued)

NOTE 4 - INVESTMENTS

Board-designated and donor restricted investments as of September 30, 2015 and 2014 are invested as follows:

	2015		2014	
	Cost	Market Value	Cost	Market Value
Alternative investment funds	$ 954,912	$ 973,923	$ 818,678	$ 976,943
Mutual funds - fixed income	5,848,376	5,588,936	6,236,827	6,208,870
Mutual funds - equity	11,507,653	11,976,881	10,802,285	13,029,533
	$ 18,310,941	$ 18,539,740	$ 17,857,790	$ 20,215,346

Investment balances that have been restricted by donors as of September 30, 2015 and 2014 are $5,641,991 and $5,615,294, respectively. The Board of Directors of the Association has restricted all other investments.

Current assets that are held under a bond indenture agreement, are deposited with a trustee for debt service funds. Such amounts are invested in United States treasury notes. In addition, investments held for funding of captive insurance liabilities of $2,556,908 and $2,909,008 as of September 30, 2015 and 2014, respectively, are invested in bonds and fixed income mutual funds.

The Association also has a beneficial interest in trusts held by others of $11,077,469 and $12,022,757 as of September 30, 2015 and 2014, respectively. These funds are managed by the trustees of each fund and are invested primarily in cash equivalents, fixed income and equity securities.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2015 and 2014:

	Less than 12 Months		Greater than 12 Months		Total	
2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Alternative investment funds	$ 482,064	$ (19,011)	$ -	$ -	$ 482,064	$ (19,011)
Mutual funds	7,749,944	(464,572)	1,860,969	(291,347)	9,610,913	(755,919)
Total	$ 8,232,008	$ (483,583)	$ 1,860,969	$ (291,347)	$ 10,092,977	$ (774,930)

(Continued)

NOTE 4 - INVESTMENTS (Continued)

	Less than 12 Months		Greater than 12 Months		Total	
2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Alternative investment funds	$ -	$ -	$ 480,478	$ (61,267)	$ 480,478	$ (61,267)
Mutual funds	4,659	(15)	4,115,528	(100,569)	4,120,187	(100,584)
Total	$ 4,659	$ (15)	$ 4,596,006	$ (161,836)	$ 4,600,665	$ (161,851)

In 2015 and 2014, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

Investment income is comprised of the following for the years ended September 30, 2015 and 2014:

	2015	2014
Income		
Dividend and interest income	$ 518,643	$ 445,578
Net realized gains on investments	880,171	2,566,591
Total investment return	$ 1,398,814	$ 3,012,169
Other changes in unrestricted net assets:		
Unrealized losses on other than trading securities	$ (2,128,757)	$ (1,541,001)

Investments in Joint Ventures: The Association has a fifty percent ownership interest in Fitness & Wellness and a fifty percent ownership interest in GSHC (prior to January 1, 2013). The Association accounts for its investment interest in these entities using the equity method of accounting.

The Association’s share of Fitness & Wellness’s net loss for the years ended September 30, 2015 and 2014 was $193,907 and $199,977, respectively. In addition, the Association made a capital contribution to Fitness & Wellness of $180,000 during both fiscal years ended September 30, 2015 and 2014. The carrying amount of the Fitness & Wellness investment was $222,626 and $236,533 as of September 30, 2015 and 2014, respectively, and is included in other assets.

During 2014, the Association sold 100% of its ownership interest of GSME (formerly GSHC) to Nationwide Sleep Holdings, Inc. for $300,000 to be paid through a promissory note. As of September 30, 2014, $50,912 has been received by the Association, with the remaining amount due by March 15, 2015. As such, $249,088 was recorded as a note receivable and is included within “other current assets” on the accompanying consolidated balance sheet as of September 30, 2014. This transaction resulted in a loss of $127,246 for the Association, which was accounted for as a non-operating loss on discontinued operations for the year ended September 30, 2014. The Association wrote off the balance of the note receivable during fiscal year 2015 as management determined the note was uncollectible.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10, “Fair Value Measurements and Disclosures”, provides a framework for measuring fair value. That framework provides a fair value hierarch 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 FASB ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association 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 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 specified (contractual) terms, 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 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.

If quoted prices in active markets for identical assets and liabilities are not available, then quoted prices for similar assets and liabilities, quoted prices for identical assets or liabilities in inactive markets or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, will be used to determine fair value (Level 2 inputs). Securities typically priced using Level 2 inputs include certain fixed income securities.

The following is a description of the valuation methodologies for assets and liabilities measured at fair value. There have been no changes in methodologies used as of September 30, 2015 and 2014:

Mutual funds - Valued at the closing price reported on the active market on which the individual securities are traded.

REITs - This asset class seeks to provide the diversification and total return potential of investments in real estate by investing primarily in companies whose business is to own, operate, develop and manage real estate.

Beneficial interest in trusts held by others - The value of the Association’s assets is based on total fund values and the Association’s corresponding beneficiary percentage.

Interest rate swap liability - The interest rate swap agreement is valued using third-party models that use observable market conditions as their input.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

Investments measured at NAV are subject to various management, incentive and other fees based on NAV, classes, capital account balances and/or capital commitments. Investments may also be subject to lock up periods. The following table outlines restrictions on investments valued at NAV as of September 30, 2015 and 2014:

	Fair Value 2015	Fair Value 2014	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Registered investment companies - REITs	$ 973,923	$ 976,943	Daily	Not applicable

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the financial instruments, carried at fair value as of September 30, 2015, by the valuation hierarchy:

2015	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Registered investment companies - REITs	$ -	$ 973,923	$ -	$ 973,923
Mutual funds - fixed income				
Intermediate term bond	1,862,039	-	-	1,862,039
Short term bond	3,955	-	-	3,955
International developed	3,722,942	-	-	3,722,942
Mutual funds - equity				
International developed	5,085,632	-	-	5,085,632
Domestic	6,047,060	-	-	6,047,060
Emerging markets	844,189	-	-	844,189
Total	17,565,817	973,923	-	18,539,740
Investments held for captive insurance liabilities				
Mutual funds - fixed income	-	2,025,777	-	2,025,777
Mutual funds - equity	531,131	-	-	531,131
Total	531,131	2,025,777	-	2,556,908
Funds held under bond indenture agreements	198,798	-	-	198,798
Beneficial interest in trusts held by others	-	-	11,071,571	11,071,571
Total	$ 18,295,746	$ 2,999,700	$ 11,071,571	$ 32,367,017
LIABILITIES				
Interest rate swap liability	$ -	$ 3,107,842	$ -	$ 3,107,842

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2014, by the valuation hierarchy:

2014	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Registered investment companies - REITs	$ -	$ 976,943	$ -	$ 976,943
Mutual funds - fixed income:				
Intermediate term bond	4,121,335	-	-	4,121,335
Short term bond	4,659	-	-	4,659
International developed	2,082,876	-	-	2,082,876
Mutual funds - equity:				
International developed	5,251,343	-	-	5,251,343
Domestic	6,780,556	-	-	6,780,556
Emerging markets	997,634	-	-	997,634
Total	19,238,403	976,943	-	20,215,346
Investments held for captive insurance liabilities:				
Mutual funds - fixed income	-	2,258,476	-	2,258,476
Mutual funds - equity	650,532	-	-	650,532
Total	650,532	2,258,476	-	2,909,008
Funds held under bond indenture agreements	191,621	-	-	191,621
Beneficial interest in trusts held by others	-	-	12,022,757	12,022,757
Total	$ 20,080,556	$ 3,235,419	$ 12,022,757	$ 35,338,732
LIABILITIES				
Interest rate swap liability	$ -	$ 3,066,242	$ -	$ 3,066,242

As of September 30, 2015 and 2014, the Association's other financial instruments included cash and cash equivalents, accounts receivable, pledges receivable, accounts payable, estimated third-party payer settlements, captive insurance reserves, long-term debt and capital lease obligations. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

The following are the changes within the beneficial interest in trusts held by others for the years ended September 30, 2015 and 2014, which are classified as Level 3 instruments within the fair value hierarchy:

	2015	2014
Balance at beginning of year	$ 12,022,757	$ 11,668,231
Net change in market value	(293,186)	868,213
Distributions	(658,000)	(513,687)
Balance at end of year	$ 11,071,571	$ 12,022,757

(Continued)

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of September 30, 2015 and 2014:

	2015	2014
Land and improvements	$ 1,989,288	$ 1,803,516
Buildings and improvements	58,663,153	59,772,741
Fixed and moveable equipment	36,923,280	35,935,016
	97,575,721	97,511,273
Less: accumulated depreciation and amortization	(63,639,296)	(62,181,872)
	33,936,425	35,329,401
Construction in progress	193,425	797,546
Total	$ 34,129,850	$ 36,126,947

Depreciation expense for the years ended September 30, 2015 and 2014 amounted to $3,566,893 and $3,603,697, respectively. Amortization expense for equipment under capital lease obligations was $234,324 and $365,281 as of September 30, 2015 and 2014, respectively.

During fiscal year 2014, the Association sold 148 acres of land to The Farms Country Club, Inc., which generated a gain on the sale of land for the amount of $1,564,005, which is recorded as a non-operating gain in the accompanying consolidated statements of operations and changes in net assets.

In addition, during fiscal year 2014, the Association discontinued operations on various sleep facility sites. Therefore, the Association recorded accelerated depreciation of $265,540, which is recorded as a non-operating loss on discontinued operations in the accompanying consolidated statements of operations and changes in net assets.

On November 17, 2014, Gaylord transferred the North Haven sleep facilities lease and personnel to Yale-New Haven Hospital, Inc. (Yale). Gaylord also entered into an Asset Purchase Agreement with Yale, in which Gaylord sold the North Haven sleep facilities assets to Yale. Subsequently, Gaylord entered into a Facilities, Equipment and Personnel Use Agreement with Yale to ensure no interruption to patient care or services and to continue sleep services until Yale received approval from the Department of Public Health (DPH) to take over operations. These transactions were made so that DPH required facility upgrades could be completed by Yale. Yale received DPH approval on February 25, 2015, at which time, the final transfer of services took place. Yale was granted an operating license and Gaylord ceased its management services to Yale. The resulting loss from operations, which included a loss on the sale of assets and lease abandonments totaled $198,738 and is recorded as a non-operating loss on discontinued operations in the accompanying consolidated statements of operations and changes in net assets for the year ended September 30, 2015.

(Continued)

NOTE 7 - OTHER ASSETS

Other assets as of September 30, 2015 and 2014 are as follows:

	2015	2014
Investment in Fitness & Wellness	$ 222,626	$ 236,533
Deferred financing costs	295,663	298,450
Deposits and other	22,917	24,667
Total	$ 541,206	$ 559,650

NOTE 8 - LONG-TERM DEBT, LINES OF CREDIT AND LEASE ARRANGEMENTS

Long-term Obligations: The Association had a $3,000,000 line of credit agreement, which was renewable on an annual basis. On January 30, 2009, the Association converted this line of credit into a term loan promissory note whereby the $3,000,000 is payable in equal monthly installments of $50,000 with a final payment on January 31, 2014. At the Association's option, the term loan promissory note bears interest at the bank's prime rate, as defined, or LIBOR plus 100 basis points. As of September 30, 2013, the Association had $200,000 outstanding on this term loan. The term loan promissory note was fully paid during fiscal year 2014, and no amount was outstanding as of September 30, 2014.

In July 2007, Gaylord, in conjunction with the State of Connecticut Health and Educational Facilities Authority (CHEFA), issued $21,530,000 of Gaylord Hospital Series B variable rate demand revenue bonds (the Series B Bonds). The bond proceeds were used to refinance the amounts outstanding on the CHEFA Series A revenue bonds and for the construction of a 36-bed addition.

The Series B Bonds bear interest at a variable rate as determined by a re-marketing agent (approximately 0.07% and 0.22% as of September 30, 2015 and 2014, respectively), which is adjusted weekly, and matures on July 1, 2037. For as long as the bonds are variable rate, the bond holders have the option to tender their bonds for repayment. Gaylord has a letter of credit from Bank of America, N.A., which is available to support its obligations under the Series B Bonds during this period. The letter of credit expires on February 3, 2016, subject to extension or earlier termination upon the occurrence of certain events set forth in the letter of credit agreement. At that time, the letter of credit can be renewed, at the bank's discretion, Gaylord can convert the bonds to a fixed rate or repurchase the bonds outstanding on that date at their par value. Tenders made by bond holders will be remarketed or, if necessary, paid by the drawdowns on the letter of credit. Any tender drawings made under the letter of credit are to be repaid by Gaylord on the expiration date of the letter of credit. As of September 30, 2015 and 2014, Gaylord had $16,280,000 and $17,040,000, respectively, outstanding on the Series B Bonds.

The Series B loan and letter of credit agreements include certain financial covenants including a minimum debt service coverage ratio of 1.25 to 1, a minimum required amount of unrestricted liquid assets of $10.5 million, and other restrictions, including limitations on future indebtedness and liens. Gaylord was in compliance with all covenants for 2015 and 2014.

Lease Abandonment Obligations: The Association recorded a loss on abandonment of long-term rental properties in the amount of $375,809 in 2014. The leases were previously accounted for as operating leases. The Association's liability represents the present value of future minimum lease payments under these leases and other lease abandonments of $602,017 and $698,488 as of September 30, 2015 and 2014, respectively.

(Continued)

NOTE 8 - LONG-TERM DEBT, LINES OF CREDIT AND LEASE ARRANGEMENTS (Continued)

Letter of Credit: As a result of being self-funded for its workers' compensation program, the Association is required by the State of Connecticut Workers' Compensation Commission to hold a letter of credit in the aggregate amount of $375,000 as of September 30, 2015 and 2014. As of September 30, 2015 and 2014, there are no outstanding balances on the letter of credit.

Capital Lease Obligations: The Association leases certain equipment and software under capital lease obligations, expiring through December 2019.

A summary of long-term debt and capital lease obligations as of September 30, 2015 and 2014 are as follows:

	2015	2014
Long-term debt obligation	$ 16,364,584	$ 17,040,000
Capital lease obligations	221,169	137,844
Lease abandonment obligation	602,017	698,488
	17,187,770	17,876,332
Less: current portion	(1,077,542)	(1,018,682)
Total	$ 16,110,228	$ 16,857,650

Scheduled principal repayments on the long-term debt and capital lease obligations as of September 30, 2015, are as follows:

2016	$ 1,077,542
2017	1,056,609
2018	991,605
2019	1,021,624
2020	997,380
Thereafter	12,043,010
Total	$ 17,187,770

(Continued)

NOTE 8 - LONG-TERM DEBT, LINES OF CREDIT AND LEASE ARRANGEMENTS (Continued)

Operating Leases: The Association leases various equipment and space under operating leases expiring at various dates and month-to-month agreements. Some of these leases contain renewal options. Rent expense under such operating leases and agreements is $278,265 and $756,878, for the year ended September 30, 2015 and 2014, respectively. The following is a schedule of future minimum payments under non-cancellable operating leases as of September 30, 2015:

2016	$ 84,441
2017	84,441
2018	84,441
2019	84,441
2020	153,501
Total	$ 491,265

In addition, the Association leased land under a long-term lease agreement to a third-party until the land was sold during fiscal year 2015. Rental income was based on a percentage of the gross income earned by the lessee. Total rental income from this property was $54,708 for 2014, and is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

NOTE 9 - DERIVATIVES

The Association uses derivative instruments, specifically an interest rate swap, to manage its exposure to changes in the interest rate on its CHEFA debt. The use of derivative instruments exposes the Association to additional risks related to the derivative instrument, including market risk, credit risk and termination risk as described below, and the Association has defined risk management practices to mitigate these risks, as appropriate.

Market risk represents the potential adverse effect on the fair value and cash flow of a derivative instrument due to changes in interest rates or rate spreads. Market risk is managed through ongoing monitoring of interest rate exposure based on set parameters regarding the type and degree of market risk that the Association will accept. Credit risk is the risk that the counterparty on a derivative instrument may be unable to perform its obligation during the term of the contract. When the fair value of a derivative contract is positive, the counterparty owes the Association, which creates credit risk. Credit risk is managed by setting stringent requirements for qualified counterparties at the date of execution of a derivative transaction and requiring counterparties to post collateral in the event of a credit rating downgrade or if the fair value of the derivative contract exceeds a negotiated threshold.

Termination risk represents the risk that the Association may be required to make a significant payment to the counterparty, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to the Association's ability to meets its debts or liquidity covenants.

(Continued)

NOTE 9 - DERIVATIVES (Continued)

On August 1, 2007, the Association entered into an interest rate swap agreement with an initial notional amount of $21,530,000 to reduce the exposure to fluctuations in interest rates related to its CHEFA debt. The swap agreement, which expires in June 2027, requires that the Association make monthly payments to the counter-party, Bank of America, N.A., based upon a fixed interest rate of 4.28% and in return receives monthly payments from Bank of America, N.A. based on the Bond Index Association Municipal Swap Rate Index rate (0.02% and 0.04% as of September 30, 2015 and 2014, respectively). The current notional amount was $16,280,000 and 17,040,000 as of September 30, 2015 and 2014, respectively.

The notional amount is scheduled to decrease as principal is paid on the CHEFA debt. Net amounts paid under the swap is recorded as additional interest expense. Based on information received from the counter-party, the swap agreement had an unfavorable fair value of $3,719,716 and $3,066,242 as of September 30, 2015 and 2014, respectively.

Management has not designated the swap agreement as a hedging instrument. The change in fair value of the interest rate swap of $(653,474) and $(73,100) for the years ended September 30, 2015 and 2014, respectively, is recorded in the consolidated statements of operations and changes in net assets as a component of non-operating gains and (losses).

NOTE 10 - NET ASSETS

Temporarily restricted net assets are available for the following purposes as of September 30, 2015 and 2014:

	2015	2014
Health care services		
Patient special needs	$ 35,649	$ 26,375
Other restricted purposes	928,744	916,986
Capital campaign	126,000	136,368
Total	$ 1,090,393	$ 1,079,729

The assets in the above table restricted for health care services are included within cash and cash equivalents on the accompanying consolidated balance sheets.

(Continued)

NOTE 10 - NET ASSETS (Continued)

Permanently restricted net assets are restricted to the following purposes as of September 30, 2015 and 2014:

	2015	2014
Investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services	$ 5,641,991	$ 5,615,294
Beneficial interest in trusts held by others, the income of which is expendable to support other health care services	11,071,571	12,022,757
Total	$ 16,713,562	$ 17,638,051

The Association's endowment consists of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment fund and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, included funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

The Association has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association during its annual budgeting process.

The Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Association 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 Association; and (7) the investment policies of the Association.

(Continued)

NOTE 10 - NET ASSETS (Continued)

Changes in net assets for endowments for the years ended September 30, 2015 and 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of October 1, 2013	$ 14,714,402	$ 477,156	$ 5,590,085	$ 20,781,643
Investment return:				
Investment income	445,578	378,737	-	824,315
Net change in market value	1,114,848	(156,093)	-	958,755
Contributions	-	-	25,209	25,209
Expenditures	(1,674,776)	(429,698)	-	(2,104,474)
Balance as of September 30, 2014	14,600,052	270,102	5,615,294	20,485,448
Investment return:				
Investment income	518,643	-	-	518,643
Net change in market value	(1,248,586)	-	-	(1,248,586)
Contributions	-	-	26,697	26,697
Expenditures	(972,360)	(270,102)	-	(1,242,462)
Balance as of September 30, 2015	$ 12,897,749	$ -	$ 5,641,991	$ 18,539,740

Funds with Deficiencies: From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2015 and 2014, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters: The Association's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Board targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy: During its annual budgeting process, the Association appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Association.

(Continued)

NOTE 11 - PENSION PLANS

The Association has a noncontributory, defined benefit plan (the Plan). The benefits are based on years of service and an average of the five consecutive calendar years of highest compensation during the last ten years of employment. The Association makes contributions in amounts sufficient to fund the Plan as required by ERISA. The Plan was frozen effective October 31, 2004.

The following summarizes significant disclosures relating to the Plan as of September 30, 2015 and 2014:

	2015	2014
Change in benefit obligations:		
Benefit obligations at beginning of year	$ 36,927,230	$ 35,517,115
Interest cost	1,477,064	1,601,171
Service cost	300,000	135,000
Actuarial loss	1,925,459	2,824,770
Administrative expenses	(569,312)	(169,510)
Benefits paid	(2,345,435)	(2,981,316)
Benefit obligations at end of year	$ 37,715,006	$ 36,927,230
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 23,886,912	$ 22,671,280
Actual return on plan assets	(62,429)	2,630,173
Employer contributions	1,745,546	1,736,285
Benefits paid	(2,345,435)	(2,981,316)
Administrative expenses	(569,312)	(169,510)
Fair value of plan assets at end of year	$ 22,655,282	$ 23,886,912
Accrued pension liability:		
Unfunded status	$ (15,059,724)	$ (13,040,318)

	2015	2014
Net periodic benefit cost		
Interest cost	$ 1,477,064	$ 1,601,171
Service cost	300,000	135,000
Actuarial loss recognized	540,028	482,209
Expected return on plan assets	(1,271,430)	(1,228,078)
Net periodic benefit cost	$ 1,045,662	$ 990,302

(Continued)

NOTE 11 - PENSION PLANS (Continued)

Benefits expected to be paid over the next five years are as follows:

2016	$ 2,916,607
2017	2,670,424
2018	2,899,016
2019	2,573,565
2020	2,680,175

Amounts recorded in unrestricted net assets as of September 30, 2015 and 2014, not yet amortized as components of net periodic benefit cost are as follows:

	2015	2014
Unamortized actuarial loss	$ 18,526,763	$ 15,807,473

The amortization of the above items expected to be recognized in net periodic benefit cost for the year ended September 30, 2016 is $530,061.

The following summarizes the key weighted-average actuarial assumptions used in determining the Plan's benefit obligation and net benefit income:

	2015	2014
Benefit obligations		
Discount rate	4.20%	4.15%
Net periodic benefit cost		
Discount rate	4.15%	4.70%
Expected long-term return on plan assets	6.00%	6.00%

The fair values of the Association's plan assets, by asset category for the years ended September 30, 2015 and 2014, are as follows:

2015	Level 1	Level 2	Level 3	Total
Mutual funds - fixed income	$ 10,178,094	$ -	$ -	$ 10,178,094
Mutual funds - equities	12,477,188	-	-	12,477,188
Total	$ 22,655,282	$ -	$ -	$ 22,655,282

2014	Level 1	Level 2	Level 3	Total
Mutual funds - fixed income	$ 10,683,166	$ -	$ -	$ 10,683,166
Mutual funds - equities	13,203,746	-	-	13,203,746
Total	$ 23,886,912	$ -	$ -	$ 23,886,912

(Continued)

NOTE 11 - PENSION PLANS (Continued)

The Association's investment policy is to minimize risk by balancing investments between equity securities and fixed income debt securities, utilizing a weighted average approach with a target allocation of 55% equity securities and 45% fixed income debt securities. The expected return on plan assets assumption was determined based on a review of the Plan's asset mix, capital market assumptions, and a review of the actual return on plan assets over the past ten years.

The Association also has a defined contribution benefit plan, which became effective January 1, 2005. Substantially all full time employees are eligible to participate in the defined contribution plan. The Association made contributions to this plan totaling $522,237 and $454,409 in 2015 and 2014, respectively. Employees become vested in the Association's contributions in three to five years. The portion of the employees contributions unvested upon termination are forfeited and used to reduce future contributions made by the Association on a dollar-for-dollar basis.

The Association also has established a 403(b) plan. Participants may elect to contribute a specific percentage of their compensation in pre-tax deferrals subject to established Internal Revenue Code limitations. Currently, the Association does not contribute to this plan.

The Association also has supplemental retirement plan agreements with certain former and current senior executives. The obligation related to this agreement is approximately $55,300 and $204,000 as of September 30, 2015 and 2014, respectively, and is recorded within accounts payable and accrued expenses within the accompanying consolidated balance sheets.

NOTE 12 - FUNCTIONAL EXPENSES

The Association provides health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2015 and 2014, is as follows:

	2015	2014
Health care services	$ 60,154,881	$ 62,705,989
General and administrative	12,238,064	13,256,129
Fundraising	622,115	542,339
Total	$ 73,015,060	$ 76,504,457

NOTE 13 - CAPTIVE INSURANCE ACTIVITIES

Effective January 1, 2008, GRS provides healthcare professional and commercial general liability coverage on a claims made basis to the Association. The healthcare professional liability coverage limits for the Association are $1,000,000 per claim with an annual aggregate of $4,000,000. The commercial general liability coverage limits for the Association are $1,000,000 per claim, except in the event of property damage by fire, when the limit becomes $100,000 per claim. There is no aggregate limit for the commercial general liability.

(Continued)

NOTE 13 - CAPTIVE INSURANCE ACTIVITIES (Continued)

Effective January 1, 2008, GRS provides an umbrella liability claims-made policy with a limit of $10,000,000 each claim and in the aggregate. GRS has fully reinsured this coverage with a highly rated commercial reinsurance carrier.

Effective January 1, 2008, GRS assumed through a loss portfolio transfer the outstanding loss obligations for incidents of healthcare professional liability and commercial general liability occurring at the Association from April 1, 2003 through December 31, 2007. The amount of the loss portfolio transfer was $1,482,688.

A reconciliation of direct to net premiums on a written and earned basis for years ended September 30, 2015 and 2014, is summarized as follows:

	Premium Written		Premium Earned	
	2015	2014	2015	2014
Direct premiums	$ 800,812	$ 748,250	$ 774,531	$ 783,125
Ceded premiums	(325,000)	(325,000)	(325,000)	(325,000)
Total	$ 475,812	$ 423,250	$ 449,531	$ 458,125

The liability for unpaid losses and loss adjustment expenses is included within captive insurance loss and other reserves on the accompanying consolidated balance sheets. Activity in the liability for unpaid losses and loss adjustment expenses for the years ended September 30, 2015 and 2014 is summarized as follows:

	2015	2014
Balance at beginning of the year	$ 1,166,804	$ 2,611,314
Less: reinsurance recoverables	(322,401)	(931,885)
Net balance beginning of the year	844,403	1,679,429
Incurred related to:		
Current year	147,551	332,091
Prior years	(249,083)	(288,757)
Total incurred	(101,532)	43,334
Paid related to		
Current year	-	-
Prior years	(28,190)	(878,360)
Total paid	(28,190)	(878,360)
Net balance end of the year	714,681	844,403
Plus: reinsurance recoverables	213,134	322,401
Balance at end of the year	$ 927,815	$ 1,166,804

(Continued)

NOTE 13 - CAPTIVE INSURANCE ACTIVITIES (Continued)

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased for favorable loss development by $249,083 and $288,757 in 2015 and 2014, respectively.

The above liability for loss and loss adjustment expenses have been determined using a discount rate of 3.5% for both 2015 and 2014. The ultimate settlement of losses may vary significantly from the reserves recorded. In particular, ultimate settlements on medical malpractice claims depend, among other things, on the resolution of litigation, the outcome of which is difficult to predict. Also, since the reserves have been discounted, there is the possibility that the timing of loss payments and income earned on invested assets will be significantly different than anticipated.

Included on the accompanying consolidated balance sheets is a reinsurance recoverable of $213,134 and $322,401 as of September 30, 2015 and 2014, respectively, which is due from one reinsurer. GRS continually evaluates the reinsurer's financial condition. There can be no assurance that reinsurance will continue to be available to GRS to the same extent, and at the same cost, as it has in the past. GRS may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to reinsurers.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Association is involved in various legal actions 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 Association's financial condition.

ASC 410-20 *"Accounting for Asset Retirement Obligations"* addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as facilities containing asbestos, when the amount of the liability can be reasonably estimated. No Asset Retirement Obligation (ARO) has been established as of September 30, 2015 and 2014, as sufficient information has not been obtained and the liability cannot be reasonably estimated. Additionally, the Association has no plans to renovate or sell any facility, or area within, with significant asbestos have been identified. Management will continue to evaluate its exposure to asbestos removal and establish an ARO for the fair value of the associated costs once sufficient information has been obtained. Management does not believe that the liability is material to the overall consolidated financial results of the Association.

NOTE 15 - RISKS AND UNCERTAINTIES

Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets.

In addition, the Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets.

(Continued)

NOTE 16 - PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give. The following pledges are due to the Association as of September 30, 2015:

Due within one year	$ 95,000
Due in one to five years	45,000
	140,000
Less: allowance for uncollectible pledges	(14,000)
Total	$ 126,000

NOTE 17 - SUPPLEMENTAL CASH FLOW DISCLOSURES

The Association paid interest in the amount of $757,942 and $789,512 for the years ended September 30, 2015 and 2014, respectively.

NOTE 18 - SUBSEQUENT EVENTS

The Association evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date or disclosure in the notes to the consolidated financial statements. As of October 1, 2015, the letter of credit related to the Association's self-funded workers' compensation program increased from $375,000 to $900,000. Additionally, as of October 1, 2015, long-term acute-care hospitals will be subject to reimbursement changes implemented by the Centers for Medicare and Medicaid Services. Long-term acute-care providers will only receive the full prospective payment system rate if patients spend at least three days in an intensive-care unit or at least 96 hours on a ventilator. Other lower-acuity stays will be reimbursed under a per diem "site-neutral" payment rate. The Association has evaluated subsequent events through January 19, 2016, the date the consolidated financial statements were issued.

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATING BALANCE SHEET
September 30, 2015

	Gaylord Farm Association, Inc.	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Consolidated
ASSETS							
Current assets							
Cash and cash equivalents	$ -	$ 8,820,723	$ 401,161	$ -	$ -	$ -	$ 9,221,884
Patient accounts receivable (less allowance of $779,000)	-	10,448,595	-	-	-	-	10,448,595
Assets whose use is limited:							
Assets held under bond indenture agreement	-	198,798	-	-	-	-	198,798
Pledges receivable	-	95,000	-	-	-	-	95,000
Investments							
Interest in net assets of Gaylord Hospital, Inc. (100%)	45,465,587	-	-	-	-	(45,465,587)	-
Interest in net assets of Gaylord Risk Solutions, Ltd. (100%)	2,385,324	-	-	-	-	(2,385,324)	-
Interest in net assets of Gaylord Farm Rehabilitation Center (100%)	(2,512,956)	-	-	-	-	2,512,956	-
Interest in net assets of Gaylord Research Institute, Inc. (100%)	-	1,972	-	-	-	(1,972)	-
Due from Affiliates	-	2,512,956	-	-	1,972	(2,514,928)	-
Other current assets	-	1,381,243	595,992	-	-	(400,406)	1,576,829
Total current assets	45,337,955	23,459,287	997,153	-	1,972	(48,255,261)	21,541,106
Assets whose use is limited:							
Pledges receivable, net	-	31,000	-	-	-	-	31,000
Board-designated investments	-	12,897,749	-	-	-	-	12,897,749
Donor restricted investments	-	5,641,991	-	-	-	-	5,641,991
Beneficial interest in trusts held by others	-	11,071,571	-	-	-	-	11,071,571
	-	29,642,311	-	-	-	-	29,642,311
Property, plant and equipment, net	-	34,129,850	-	-	-	-	34,129,850
Investments held for captive insurance liabilities	-	-	2,556,908	-	-	-	2,556,908
Reinsurance recoverable relating to captive insurance liabilities	-	-	213,134	-	-	-	213,134
Other assets	-	541,206	-	-	-	-	541,206
Total assets	$ 45,337,955	$ 87,772,654	$ 3,767,195	$ -	$ 1,972	$ (48,255,261)	$ 88,624,515

See accompanying Independent Auditors' Report.

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATING BALANCE SHEET
September 30, 2015

	Gaylord Farm Association, Inc.	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Consolidated
LIABILITIES, NET ASSETS AND SHAREHOLDER'S EQUITY							
Current liabilities							
Accounts payable and accrued expenses	$ -	$ 1,808,472	$ 53,650	$ -	$ -	$ -	$ 1,862,122
Accrued payroll and related taxes	-	4,047,219	-	-	-	-	4,047,219
Line of credit		-	-	-	-	-	-
Due to affiliates	-	1,972	-	2,512,956	-	(2,514,928)	-
Estimated amounts due to third-party payers	-	252,194	-	-	-	-	252,194
Current portion of interest rate swap liability	-	611,874	-	-	-	-	611,874
Current portion of long-term debt and capital lease obligations	-	1,077,542	-	-	-	-	1,077,542
Total current liabilities	-	7,799,273	53,650	2,512,956	-	(2,514,928)	7,850,951
Long-term debt and capital lease obligations, less current portion	-	16,110,228	-	-	-	-	16,110,228
Other long-term liabilities	-	230,000	-	-	-	-	230,000
Accrued pension obligation	-	15,059,724	-	-	-	-	15,059,724
Captive insurance losses and other reserves	-	-	1,328,221	-	-	(400,406)	927,815
Interest rate swap liability, less current portion	-	3,107,842	-	-	-	-	3,107,842
Total liabilities	-	42,307,067	1,381,871	2,512,956	-	(2,915,334)	43,286,560
Net assets and shareholder's equity:							
Unrestricted	27,534,000	27,661,632	-	(2,512,956)	1,972	(25,150,648)	27,534,000
Temporarily restricted	1,090,393	1,090,393	-	-	-	(1,090,393)	1,090,393
Permanently restricted	16,713,562	16,713,562	-	-	-	(16,713,562)	16,713,562
Shareholder's equity	-	-	2,385,324	-	-	(2,385,324)	-
Total net assets and shareholder's equity	45,337,955	45,465,587	2,385,324	(2,512,956)	1,972	(45,339,927)	45,337,955
Total liabilities, net assets and shareholder's equity	$ 45,337,955	$ 87,772,654	$ 3,767,195	$ -	$ 1,972	$ (48,255,261)	$ 88,624,515

See accompanying Independent Auditors' Report.

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATING BALANCE SHEET
September 30, 2014

	Gaylord Farm Association, Inc.	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Consolidated
ASSETS							
Current assets							
Cash and cash equivalents	$ -	$ 7,393,448	$ 91,394	$ -	$ -	$ -	$ 7,484,842
Patient accounts receivable (less allowance of $632,000)	-	9,050,124	-	-	-	-	9,050,124
Assets whose use is limited:							
Assets held under bond indenture agreement	-	191,621	-	-	-	-	191,621
Pledges receivable	-	49,020	-	-	-	-	49,020
Investments							
Interest in net assets of Gaylord Hospital, Inc. (100%)	49,571,642	-	-	-	-	(49,571,642)	-
Interest in net assets of Gaylord Risk Solutions, Ltd. (100%)	2,117,233	-	-	-	-	(2,117,233)	-
Interest in net assets of Gaylord Farm Rehabilitation Center (100%)	(2,456,430)	-	-	-	-	2,456,430	-
Interest in net assets of Gaylord Research Institute, Inc. (100%)	-	1,972	-	-	-	(1,972)	-
Due from affiliates	-	2,456,430	-	-	1,972	(2,458,402)	-
Other current assets	-	1,969,535	374,018	-	-	(374,125)	1,969,428
Total current assets	49,232,445	21,112,150	465,412	-	1,972	(52,066,944)	18,745,035
Assets whose use is limited							
Pledges receivable, net	-	87,348	-	-	-	-	87,348
Board-designated investments	-	14,600,052	-	-	-	-	14,600,052
Donor restricted investments	-	5,615,294	-	-	-	-	5,615,294
Beneficial interest in trusts held by others	-	12,022,757	-	-	-	-	12,022,757
	-	32,325,451	-	-	-	-	32,325,451
Property, plant and equipment, net	-	36,126,947	-	-	-	-	36,126,947
Investments held for captive insurance liabilities	-	-	2,909,008	-	-	-	2,909,008
Reinsurance recoverable relating to captive insurance liabilities	-	-	322,401	-	-	-	322,401
Other assets	-	559,650	-	-	-	-	559,650
Total assets	$ 49,232,445	$ 90,124,198	$ 3,696,821	$ -	$ 1,972	$ (52,066,944)	$ 90,988,492

See accompanying Independent Auditors' Report.

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATING BALANCE SHEET
September 30, 2014

	Gaylord Farm Association, Inc.	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Consolidated
LIABILITIES, NET ASSETS AND SHAREHOLDER'S EQUITY							
Current liabilities							
Accounts payable and accrued expenses	$ -	$ 2,546,349	$ 38,659	$ -	$ -	$ -	$ 2,585,008
Accrued payroll and related taxes	-	3,774,538	-	-	-	-	3,774,538
Line of credit		-	-	-	-	-	-
Due to affiliates	-	1,972	-	2,456,430	-	(2,458,402)	-
Estimated amounts due to third-party payers	-	246,805	-	-	-	-	246,805
Current portion of interest rate swap liability	-	640,923	-	-	-	-	640,923
Current portion of long-term debt and capital lease obligations	-	1,018,682	-	-	-	-	1,018,682
Total current liabilities	-	8,229,269	38,659	2,456,430	-	(2,458,402)	8,265,956
Long-term debt and capital lease obligations, less current portion	-	16,857,650	-	-	-	-	16,857,650
Accrued pension obligation	-	13,040,318	-	-	-	-	13,040,318
Captive insurance losses and other reserves	-	-	1,540,929	-	-	(374,125)	1,166,804
Interest rate swap liability, less current portion	-	2,425,319	-	-	-	-	2,425,319
Total liabilities	-	40,552,556	1,579,588	2,456,430	-	(2,832,527)	41,756,047
Net assets and shareholder's equity:							
Unrestricted	30,514,665	30,853,862	-	(2,456,430)	1,972	(28,399,404)	30,514,665
Temporarily restricted	1,079,729	1,079,729	-	-	-	(1,079,729)	1,079,729
Permanently restricted	17,638,051	17,638,051	-	-	-	(17,638,051)	17,638,051
Shareholder's equity	-	-	2,117,233	-	-	(2,117,233)	-
Total net assets and shareholder's equity	49,232,445	49,571,642	2,117,233	(2,456,430)	1,972	(49,234,417)	49,232,445
Total liabilities, net assets and shareholder's equity	$ 49,232,445	$ 90,124,198	$ 3,696,821	$ -	$ 1,972	$ (52,066,944)	$ 90,988,492

See accompanying Independent Auditors' Report.

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended September 30, 2015

	Gaylord Farm Association, Inc.	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Research Institute, Inc.	Eliminations	Consolidated
Revenues							
Net patient service revenues	$ -	$ 72,275,169	$ -	$ 417,098	$ -	$ -	$ 72,692,267
Net patient service revenues	-	72,275,169	-	417,098	-	-	72,692,267
Contributions and bequests	-	1,190,558	-	-	-	-	1,190,558
Earned written premium	-	-	774,531	-	-	(774,531)	-
Ceded premium	-	-	(325,000)	-	-	-	(325,000)
Other operating revenue	-	452,113	-	118,985	-	-	571,098
Net assets released from restrictions used for operations	-	312,796	-	-	-	-	312,796
Change in equity method investments	1,779,354	-	-	-	-	(1,779,354)	-
Total revenues	1,779,354	74,230,636	449,531	536,083	-	(2,553,885)	74,441,719
Expenses							
Salaries and related expenses	-	48,416,631	-	516,359	-	-	48,932,990
Other operating expenses	-	6,165,241	222,579	49,031	-	(774,531)	5,662,320
Professional fees and contract services	-	7,026,435	-	-	-	-	7,026,435
Supplies	-	4,885,588	-	-	-	-	4,885,588
Depreciation and amortization	-	3,776,384	-	24,833	-	-	3,801,217
Occupancy costs	-	1,456,585	-	-	-	-	1,456,585
Interest	-	755,556	-	2,386	-	-	757,942
Provision for bad debts	-	593,515	-	-	-	-	593,515
Losses and loss adjustment expenses	-	-	(101,532)	-	-	-	(101,532)
Total expenses	-	73,075,935	121,047	592,609	-	(774,531)	73,015,060
Gain from operations	1,779,354	1,154,701	328,484	(56,526)	-	(1,779,354)	1,426,659
Non-operating gains (losses), net							
Dividend and interest income	-	459,745	58,898	-	-	-	518,643
Net realized gains on investments	-	880,171	-	-	-	-	880,171
Loss on equity method investments	-	(193,907)	-	-	-	-	(193,907)
Change in fair value of interest rate swap agreement	-	(653,474)	-	-	-	-	(653,474)
Total non-operating gains, net	-	492,535	58,898	-	-	-	551,433
Excess of revenues over expenses before discontinued operations	1,779,354	1,647,236	387,382	(56,526)	-	(1,779,354)	1,978,092
Loss on discontinued operations	-	(134,687)	-	-	-	-	(134,687)
Accelerated depreciation on discontinued operations	-	(64,051)	-	-	-	-	(64,051)
Excess of revenues over expenses	$ 1,779,354	$ 1,448,498	$ 387,382	$ (56,526)	$ -	$ (1,779,354)	$ 1,779,354

See accompanying Independent Auditors' Report.

GAYLORD FARM ASSOCIATION, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended September 30, 2014

	Gaylord Farm Association, Inc.	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Gaylord Sleep Medicine Equipment, Inc.	Eliminations	Consolidated
Revenues								
Net patient service revenues	$ -	$ 74,668,499	$ -	$ 306,134	$ -	$ 194,627	$ -	$ 75,169,260
Net patient service revenues	-	74,668,499	-	306,134	-	194,627	-	75,169,260
Contributions and bequests	-	985,043	-	-	-	-	-	985,043
Earned written premium	-	-	783,125	-	-	-	(783,125)	-
Ceded premium	-	-	(325,000)	-	-	-	-	(325,000)
Other operating revenue	-	455,494	-	124,756	-	-	-	580,250
Net assets released from restrictions used for operations	-	510,832	-	-	-	-	-	510,832
Change in equity method investments	3,895,343	-	-	-	-	-	(3,895,343)	-
Total revenues	3,895,343	76,619,868	458,125	430,890	-	194,627	(4,678,468)	76,920,385
Expenses								
Salaries and related expenses	-	50,776,621	-	528,956	-	-	-	51,305,577
Other operating expenses	-	6,115,411	242,457	45,608	-	514	(783,125)	5,620,865
Professional fees and contract services	-	6,649,911	-	-	-	58,339	-	6,708,250
Supplies	-	4,926,402	-	-	-	133,691	-	5,060,093
Depreciation and amortization	-	3,941,327	-	27,651	-	-	-	3,968,978
Occupancy costs	-	2,102,402	-	-	-	2,920	-	2,105,322
Interest	-	787,027	-	2,485	-	-	-	789,512
Provision for bad debts	-	848,276	-	-	-	54,250	-	902,526
Losses and loss adjustment expenses	-	-	43,334	-	-	-	-	43,334
Total expenses	-	76,147,377	285,791	604,700	-	249,714	(783,125)	76,504,457
Gain from operations	3,895,343	472,491	172,334	(173,810)	-	(55,087)	(3,895,343)	415,928
Non-operating gains (losses), net:								
Dividend and interest income	-	424,639	20,939	-	-	-	-	445,578
Net realized gains on investments	-	2,566,591	-	-	-	-	-	2,566,591
Loss on equity method investments	-	(199,977)	-	-	-	-	-	(199,977)
Loss on wholly owned subsidiary	-	(55,087)	-	-		-	55,087	-
Gain on sale of land	-	1,564,005	-	-	-	-	-	1,564,005
Net loss on lease abandonments	-	(375,809)	-	-		-	-	(375,809)
Change in fair value of interest rate swap agreement	-	(73,100)	-	-	-	-	-	(73,100)
Total non-operating gains, net	-	3,851,262	20,939	-	-	-	55,087	3,927,288
Excess of revenues over expenses before discontinued operations	3,895,343	4,323,753	193,273	(173,810)	-	(55,087)	(3,840,256)	4,343,216
Loss on sale of wholly owned subsidiary	-	(127,246)	-	-	-	-	-	(127,246)
Accelerated depreciation on discontinued operations	-	(265,540)	-	-	-	-	-	(265,540)
Excess of revenues over expenses	$ 3,895,343	$ 3,930,967	$ 193,273	$ (173,810)	$ -	$ (55,087)	$ (3,840,256)	$ 3,950,430

See accompanying Independent Auditors' Report.