

THE GRIFFIN HOSPITAL AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS
AND CONSOLIDATING INFORMATION**

SEPTEMBER 30, 2016 AND 2015

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONTENTS

Independent Auditors' Report	1-2
---	-----

Consolidated Financial Statements

Consolidated Balance Sheets	3-4
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7-8

Notes to the Consolidated Financial Statements	9-49
---	------

Independent Auditors' Report on Accompanying Consolidating Information	50
---	----

Consolidating Information

Consolidating Balance Sheets	51-56
Consolidating Statements of Operations	57-60



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Griffin Hospital

We have audited the accompanying financial statements of The Griffin Hospital and its Subsidiary (the Hospital), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Griffin Hospital and its Subsidiary as of September 30, 2016 and 2015, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
January 27, 2017

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2016 AND 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 8,673,106	\$ 6,845,485
Investments	7,871,187	7,914,147
Assets limited as to use	757,551	724,768
Patient accounts receivable, less allowance for doubtful accounts of approximately \$4,767,000 and \$4,773,000, respectively	13,857,567	13,863,865
Other current assets	<u>3,054,737</u>	<u>4,802,369</u>
Total Current Assets	<u>34,214,148</u>	<u>34,150,634</u>
Assets Limited as to Use		
Board-designated investments	32,847	23,986
Under indenture agreement	<u>4,235,986</u>	<u>4,289,023</u>
Total Assets Limited as to Use	<u>4,268,833</u>	<u>4,313,009</u>
Other Assets		
Long-term investments	1,324,584	1,233,522
Property, plant and equipment, net	53,781,976	53,228,409
Interest in net assets of affiliate	7,834,670	8,800,729
Due from affiliates	7,841,990	6,348,704
Beneficial interest in trusts	3,581,854	3,450,227
Other long-term assets and insurance recoverable	<u>5,046,027</u>	<u>5,335,406</u>
Total Other Assets	<u>79,411,101</u>	<u>78,396,997</u>
Total Assets	<u>\$ 117,894,082</u>	<u>\$ 116,860,640</u>

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2016 AND 2015

	2016	2015
Liabilities and Net Deficit		
Current Liabilities		
Current portion of long-term debt	\$ 5,028,090	\$ 5,013,100
Accounts payable	15,299,641	16,475,015
Accrued expenses	8,444,119	9,143,833
Estimated third-party settlements	357,083	1,153,146
Accrued interest payable	266,810	280,977
Accrued postretirement benefit liability	572,000	496,000
Deferred revenue	430,074	157,449
Due to affiliates	276,634	311,783
Total Current Liabilities	30,674,451	33,031,303
Other Liabilities		
Estimated third-party settlements	5,996,213	5,664,953
Professional and general liability loss reserves	2,927,302	3,172,632
Workers' compensation loss reserves	1,906,731	1,827,843
Accrued pension liability	49,234,443	45,060,464
Accrued postretirement benefit liability, net of current portion	9,794,769	8,770,609
Conditional asset retirement obligation	95,831	104,600
Long-term debt, net of current portion	38,276,877	41,160,778
Interest rate swap agreements	9,122,953	7,643,841
Total Other Liabilities	117,355,119	113,405,720
Total Liabilities	148,029,570	146,437,023
Net Deficit		
Unrestricted operating net assets	28,293,859	16,891,260
Cumulative unrecognized pension and other postretirement changes	(66,904,091)	(56,145,702)
Total unrestricted	(38,610,232)	(39,254,442)
Temporarily restricted net assets	2,732,629	4,067,571
Permanently restricted net assets	5,742,115	5,610,488
Total Net Deficit	(30,135,488)	(29,576,383)
Total Liabilities and Net Deficit	\$ 117,894,082	\$ 116,860,640

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Operating Revenues		
Net patient service revenue	\$ 172,577,357	\$ 153,616,747
Provision for doubtful accounts, net of recoveries	<u>(2,179,430)</u>	<u>(1,951,079)</u>
Net patient service revenue less provision for doubtful accounts	170,397,927	151,665,668
Net assets released from restriction for operations	423,387	--
State supplemental revenue	4,948,647	1,899,613
Other operating revenues	<u>3,668,146</u>	<u>3,589,047</u>
Total Operating Revenues	<u>179,438,107</u>	<u>157,154,328</u>
Operating Expenses		
Employee compensation and related expenses	95,128,955	89,545,101
Supplies and other expenses	57,823,887	52,602,047
State hospital tax expense	7,583,772	6,283,833
Depreciation	4,529,189	4,682,072
Interest	<u>2,128,918</u>	<u>2,123,883</u>
Total Operating Expenses	<u>167,194,721</u>	<u>155,236,936</u>
Income from Operations	<u>12,243,386</u>	<u>1,917,392</u>
Nonoperating Gains (Losses)		
Investment income	728,488	180,955
Net realized and unrealized losses on interest rate swaps	(2,666,937)	(2,480,754)
Grant revenues	2,004,694	1,942,304
Grant expenses	<u>(2,103,848)</u>	<u>(2,039,194)</u>
Total Nonoperating Losses	<u>(2,037,603)</u>	<u>(2,396,689)</u>
Excess (Deficiency) of Revenues Over Expenses	10,205,783	(479,297)
Other Changes in Unrestricted Net Assets		
Change in interest in net assets of affiliate	459,944	23,586
Net assets released from restriction for capital	1,455,655	--
Transfers to affiliates	(718,783)	(650,792)
Pension and other postretirement related changes other than net periodic benefit cost	<u>(10,758,389)</u>	<u>(12,041,404)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 644,210</u>	<u>\$ (13,147,907)</u>

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 10,205,783	\$ (479,297)
Change in interest in net assets of affiliate	459,944	23,586
Net assets released from restriction for capital	1,455,655	--
Transfers to affiliates	(718,783)	(650,792)
Pension and other postretirement related changes other than net periodic benefit cost	<u>(10,758,389)</u>	<u>(12,041,404)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>644,210</u>	<u>(13,147,907)</u>
Temporarily Restricted Net Assets		
Change in interest in net assets of affiliate	451,038	588,957
Investment income	26,869	30,858
Unrealized gains (losses) on investments	66,193	(71,788)
Net assets released from restrictions	<u>(1,879,042)</u>	<u>--</u>
(Decrease) Increase in Temporarily Restricted Net Assets	<u>(1,334,942)</u>	<u>548,027</u>
Permanently Restricted Net Assets		
Change in beneficial interest in trusts	<u>131,627</u>	<u>(309,944)</u>
Increase (Decrease) in Permanently Restricted Net Assets	<u>131,627</u>	<u>(309,944)</u>
Decrease in Net Assets	(559,105)	(12,909,824)
Net Deficit - Beginning	<u>(29,576,383)</u>	<u>(16,666,559)</u>
Net Deficit - End	<u><u>\$ (30,135,488)</u></u>	<u><u>\$ (29,576,383)</u></u>

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (559,105)	\$ (12,909,824)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension and other postretirement changes other than net periodic benefit cost	10,758,389	12,041,404
Depreciation and amortization	4,660,965	4,818,832
Change in unrealized and realized (gains) losses on investments	(480,599)	(506,380)
Change in beneficial interest in trusts	(131,627)	309,944
Change in fair value of interest rate swap	1,479,112	1,207,342
Provision for doubtful accounts, net of recoveries	2,179,430	1,951,079
Transfers to affiliates	718,783	650,792
Change in interest in net assets of affiliate	966,059	(612,543)
Changes in assets and liabilities:		
Patient accounts receivable	(2,173,132)	(2,648,711)
Other current and long-term assets	1,838,363	1,006,980
Due from affiliates	(1,528,435)	154,299
Accounts payable, accrued expenses and other	(1,782,550)	(696,580)
Estimated third-party settlements	(464,803)	1,885,701
Deferred revenue	272,625	118,160
Accrued pension and postretirement benefit liabilities	(5,484,250)	(1,709,771)
Net Cash Provided by Operating Activities	<u>10,269,225</u>	<u>5,060,724</u>
Cash Flows from Investing Activities		
Purchases of property, plant and equipment, net	(5,364,672)	(3,689,493)
Purchases of investments	(3,921,269)	(6,817,284)
Proceeds from sales and maturities of investments	4,365,159	7,514,120
Transfers to affiliates	(718,783)	(650,792)
Net Cash Used in Investing Activities	<u>(5,639,565)</u>	<u>(3,643,449)</u>

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Cash Flows from Financing Activities		
Proceeds from borrowing	\$ --	\$ 1,820,000
Principal payments on debt	(2,802,039)	(2,549,420)
Principal payments on capital lease obligations	<u>--</u>	<u>(1,586,264)</u>
Net Cash Used in Financing Activities	<u>(2,802,039)</u>	<u>(2,315,684)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,827,621	(898,409)
Cash and Cash Equivalents - Beginning	<u>6,845,485</u>	<u>7,743,894</u>
Cash and Cash Equivalents - End	<u>\$ 8,673,106</u>	<u>\$ 6,845,485</u>
Supplemental Cash Flow Information		
Cash paid during the year:		
Interest	<u>\$ 3,377,579</u>	<u>\$ 3,412,146</u>
Supplemental Disclosure of Noncash Financing Activities		
Property, plant and equipment included in accounts payable and accrued expenses	<u>\$ 709,367</u>	<u>\$ 991,283</u>

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

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

PRINCIPLES OF CONSOLIDATION

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

BASIS OF PRESENTATION

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

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

Permanently Restricted

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

Temporarily Restricted

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

Unrestricted

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

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

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

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

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

The majority of the Hospital's banking activity, including cash and cash equivalents, is maintained with a regional bank and exceeds federal insurance limits. It is the Hospital's policy to monitor the bank's financial strength on an ongoing basis. At September 30, 2016, there was approximately \$8,500,000 of uninsured deposits.

BENEFICIAL INTEREST IN TRUSTS

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

INVENTORIES

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

FAIR VALUE MEASUREMENTS

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

The fair values of Level 1 securities were determined through quoted market prices, while fair values of Level 2 securities were determined primarily through prices obtained from third party pricing sources, where quoted market prices for such securities are not available. The fair values of Level 3 assets were determined primarily through information obtained from the relevant counterparties for such assets, as information on which these fair values are based is generally not readily available in the market. During the years ended September 30, 2016 and 2015, there were no changes in the methods and assumptions utilized to estimate fair value.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of investments are provided by the investment managers and are determined as follows:

- (i) The fair values of marketable equity securities and mutual funds are generally determined based on quoted market prices from recognized exchanges using data provided by third party pricing vendors.
- (ii) The fair values of fixed income securities are generally based on quoted prices in active markets or recently executed transactions. When quoted prices are not available, fair value is determined based on a valuation model that uses observable inputs that include interest rates, bond and credit default swap spreads and volatility. Where asset backed and mortgage backed securities are valued using cash flow models, inputs include default rates, conditional prepayment rates, loss severity, expected yield to maturity and other inputs specific to each security.

The fair value of the interest rate swap liability was determined based on an estimate of the net present value of the expected cash flows using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

Reference is made to Note 3 for a summary table of financial instruments recorded at fair value and Note 11 for the fair value of the defined benefit pension plan's financial instruments.

INVESTMENTS AND INVESTMENT INCOME

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

ASSETS LIMITED AS TO USE

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost or in the case of donated property at the fair value at the date of gift. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method with one-half year of depreciation expense recorded in the year of acquisition. Uniform useful lives assigned to assets are based upon the American Hospital Association estimated useful lives of depreciable hospital assets guidelines and range from 3 to 40 years. Maintenance and repairs are charged to expense as incurred, and betterments and major renewals are capitalized. Upon sale or disposal of property, plant or equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the construction period of capital assets is capitalized as a component of the cost of acquiring those assets.

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

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses recorded in 2016 and 2015.

ASSET RETIREMENT OBLIGATION

The Hospital accrues for asset retirement obligations, primarily asbestos related removal costs, in the period in which they are identified if sufficient information is available to reasonably estimate the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Hospital will recognize a gain or loss for any difference between the settlement amount and the liability recorded. There are no assets that are legally restricted for purposes of settling asset retirement obligations. Conditional asset retirement obligations totaling \$95,831 and \$104,600 were recorded as of September 30, 2016 and 2015, respectively, and have been fully accreted to their estimated settlement values.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INTEREST IN NET ASSETS OF AFFILIATE

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

COST OF BORROWING

Issuance costs and premiums related to the Hospital's bonds are being amortized/accreted using the effective interest method over the life of the debt. Net amortization expense, which is included in interest expense, was \$131,776 and \$136,760 for 2016 and 2015, respectively.

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

PROFESSIONAL AND GENERAL LIABILITY LOSS RESERVES

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

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

Included in the 2016 and 2015 balance sheets is an increase in assets and liabilities attributed to the recognition of both an accrued liability and a receivable relative to claim exposure in excess of the excess liability coverage.

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenues over expenses, consistent with industry practice, include changes in interest in net assets of affiliate, net assets released from restriction for capital, transfers of assets to and from affiliates for other than goods and services, and pension and other postretirement related changes other than net periodic benefit cost.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

NET PATIENT SERVICE REVENUE

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

Contractual allowance adjustments and third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews or investigations. Contracts, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the future. During 2016 and 2015, the Hospital recorded certain adjustments for amounts recognized related to prior years, including adjustments to prior year estimates. The net effect of such adjustments was a decrease in net patient service revenue of approximately \$22,000 and \$221,000 in fiscal years 2016 and 2015, respectively.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Hospital's estimation of the allowance for doubtful accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Hospital's collection efforts. The Hospital's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as the charges are recorded. On a monthly basis, the Hospital reviews its accounts receivable balances, the effectiveness of the Hospital's reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Various allowance coverage statistics.

The Hospital regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for doubtful accounts.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

MEASURING CHARITY CARE

The Hospital provides care to patients who meet certain criteria under its free care policy without charge or at amounts less than its established and contractual rates. Because the Hospital does not pursue collection of amounts determined to qualify as free care, they are not reported as net patient service revenue.

A patient is classified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized federal poverty income levels, but also includes certain cases where incurred charges are significant when compared to incomes and assets.

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The Hospital evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Hospital's policy for charity care. For the years ended September 30, 2016 and 2015, the Hospital estimates that its costs of care provided under its charity care programs approximated \$1,016,129 and \$822,647, respectively.

The Hospital's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Hospital's gross charity care charges provided. The Hospital's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Hospital's charity care policy. To the extent the Hospital receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Hospital does not include these patients' charges in its cost of care provided under its charity care program. Additionally, the Hospital does not report a charity care patient's charges in revenues or in the provision for doubtful accounts as it is the Hospital's policy not to pursue collection of amounts related to these patients.

INCOME TAXES

The Hospital and GFP are not-for-profit organizations, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Hospital and GFP account for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INCOME TAXES (CONTINUED)

Management has analyzed the tax positions taken and has concluded that as of September 30, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Hospital and GFP are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

INTEREST RATE SWAP AGREEMENTS

The Hospital utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. Interest rate swap agreements are reported at fair value. The Hospital is exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap agreements. The Hospital is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable rate payments do not equal variable interest payments on the bonds, there will be a net loss or net benefit to the Hospital.

RECLASSIFICATIONS

Certain prior year amounts were reclassified to conform to the current year's presentation.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for the period after September 30, 2016 through January 27, 2017, the date the accompanying consolidated financial statements were available to be issued.

On January 20, 2017, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued \$40,652,000 of the Hospital's Issue 2017 Series E Variable Rate Revenue Bonds and \$7,930,000 of the Hospital's Issue 2017 Series F Variable Rate Revenue Bonds.

The proceeds of the bonds were used to refund the Hospital's Issue 2005 Series B, the Hospital's Issue 2008 Series C and the Hospital's Issue 2008 Series D bonds totaling \$41,515,000. In addition the bond proceeds were used to retire two existing interest rate swaps and provide \$2,500,000 of new project funds to be used to fund capital projects.

The Series E Variable Rate Revenue Bonds are indexed to 72% of the one month LIBOR plus 1.85%. The Series F Variable Rate Revenue Bonds are indexed to 100% of the one month LIBOR plus 2.78%.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

SUBSEQUENT EVENTS (CONTINUED)

The term of the new bonds is for five years based on a twenty five year amortization.

In conjunction with the refunding, the Hospital retired the existing interest rate swaps and entered into two new swap instruments. The cost to retire the existing swaps was approximately \$7,967,000 and a gain related to the difference between this settlement amount and the fair value of \$9,122,953 as of September 30, 2016 will be recorded in the 2017 statement of operations.

There were no other material subsequent events that required recognition or disclosure in the consolidated financial statements.

NOTE 2 – NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended September 30, 2016 and 2015 is comprised as follows:

	2016			2015		
	Hospital	GFP	Total	Hospital	GFP	Total
Patient service charges	\$ 548,504,191	\$ 29,587,982	\$ 578,092,173	\$ 508,687,133	\$ 23,873,610	\$ 532,560,743
Contractual allowances	(387,565,935)	(17,948,881)	(405,514,816)	(363,953,668)	(14,990,328)	(378,943,996)
Patient service revenue less contractals	160,938,256	11,639,101	172,577,357	144,733,465	8,883,282	153,616,747
Provision for doubtful accounts, net of recoveries	(1,923,631)	(255,799)	(2,179,430)	(1,784,106)	(166,973)	(1,951,079)
Net patient service revenue	<u>\$ 159,014,625</u>	<u>\$ 11,383,302</u>	<u>\$ 170,397,927</u>	<u>\$ 142,949,359</u>	<u>\$ 8,716,309</u>	<u>\$ 151,665,668</u>

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 – NET PATIENT SERVICE REVENUE (CONTINUED)

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

Medicare

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

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

The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year the examination is substantially complete. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries admitted prior to January 1, 2015, except for those beneficiaries in the State's Aid to Families with Dependent Children (AFDC) population, were reimbursed under a cost reimbursement methodology. The Hospital was reimbursed a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the State. For inpatients admitted on or after January 1, 2015, the Hospital was reimbursed under an All Patient Refined Diagnosis Related Group System (APR-DRG) where payments were established prospectively. Outpatient services were reimbursed at predetermined fee schedules or based on a percentage of charges. Effective July 1, 2016, Medicaid outpatient services are paid under a Medicaid APC payment system.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 – NET PATIENT SERVICE REVENUE (CONTINUED)

Other Payors

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

Future Reimbursement

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

NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

INVESTMENTS

Investments, at fair value, at September 30 include:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities	\$ 4,314,157	\$ 4,180,357	\$ 4,076,671	\$ 3,791,406
Marketable equity securities	<u>4,275,539</u>	<u>5,015,414</u>	<u>5,144,625</u>	<u>5,356,263</u>
	<u>\$ 8,589,696</u>	<u>\$ 9,195,771</u>	<u>\$ 9,221,296</u>	<u>\$ 9,147,669</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

ASSETS LIMITED AS TO USE

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Board-designated				
For capital acquisition				
Cash and cash equivalents	\$ 59	\$ 59	\$ 59	\$ 59
For postretirement benefits				
Cash and cash equivalents	<u>32,788</u>	<u>32,788</u>	<u>23,927</u>	<u>23,927</u>
	<u>32,847</u>	<u>32,847</u>	<u>23,986</u>	<u>23,986</u>
Held by trustee under indenture agreement				
U.S. Treasury obligations	4,992,434	4,992,434	5,013,750	5,013,750
Accrued interest receivable	<u>1,103</u>	<u>1,103</u>	<u>41</u>	<u>41</u>
	4,993,537	4,993,537	5,013,791	5,013,791
Less current portion	<u>(757,551)</u>	<u>(757,551)</u>	<u>(724,768)</u>	<u>(724,768)</u>
	<u>4,235,986</u>	<u>4,235,986</u>	<u>4,289,023</u>	<u>4,289,023</u>
	<u>\$ 4,268,833</u>	<u>\$ 4,268,833</u>	<u>\$ 4,313,009</u>	<u>\$ 4,313,009</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

INVESTMENT RETURN

Investment income and unrealized gains and losses for assets limited as to use, cash equivalents and investments are comprised of the following for 2016 and 2015:

	2016	2015
Income - Unrestricted		
Interest and dividend income	\$ 314,082	\$ 615,547
Net realized gains	11,483	60,127
Changes in unrealized gains (losses) on investments	402,923	(494,719)
	\$ 728,488	\$ 180,955
Income - Temporarily Restricted		
Interest and dividend income	\$ 26,869	\$ 30,858
Changes in unrealized gains (losses)	66,193	(71,788)
	\$ 93,062	\$ (40,930)

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE

The following table represents the Hospital's financial assets and liabilities by fair value hierarchy at September 30, 2016:

	Fair Value Measurements			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Fixed income securities	\$ 4,180,357	\$ --	\$ --	\$ 4,180,357
Marketable equity securities	<u>5,015,414</u>	<u>--</u>	<u>--</u>	<u>5,015,414</u>
Total investments	9,195,771	--	--	9,195,771
Beneficial interest in trusts	<u>--</u>	<u>--</u>	<u>3,581,854</u>	<u>3,581,854</u>
Total assets at fair value	<u>\$ 9,195,771</u>	<u>\$ --</u>	<u>\$ 3,581,854</u>	<u>\$ 12,777,625</u>
Liabilities				
Interest rate swap liability	<u>\$ --</u>	<u>\$ 9,122,953</u>	<u>\$ --</u>	<u>\$ 9,122,953</u>
Total liabilities at fair value	<u>\$ --</u>	<u>\$ 9,122,953</u>	<u>\$ --</u>	<u>\$ 9,122,953</u>

The following table sets forth a summary of changes in the fair value of the Hospital's Level 3 assets for the year ended September 30, 2016:

Balance at September 30, 2015	\$ 3,450,227
Change in unrealized value of interest in trusts	<u>131,627</u>
Balance at September 30, 2016	<u>\$ 3,581,854</u>

There were no transfers between levels during 2016 or 2015.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE (CONTINUED)

The following table represents the Hospital's financial assets and liabilities by fair value hierarchy at September 30, 2015:

	Fair Value Measurements			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Fixed income securities	\$ 3,791,406	\$ --	\$ --	\$ 3,791,406
Marketable equity securities	<u>5,356,263</u>	<u>--</u>	<u>--</u>	<u>5,356,263</u>
Total investments	9,147,669	--	--	9,147,669
Beneficial interest in trusts	<u>--</u>	<u>--</u>	<u>3,450,227</u>	<u>3,450,227</u>
Total assets at fair value	<u>\$ 9,147,669</u>	<u>\$ --</u>	<u>\$ 3,450,227</u>	<u>\$ 12,597,896</u>
Liabilities				
Interest rate swap liability	<u>\$ --</u>	<u>\$ 7,643,841</u>	<u>\$ --</u>	<u>\$ 7,643,841</u>
Total liabilities at fair value	<u>\$ --</u>	<u>\$ 7,643,841</u>	<u>\$ --</u>	<u>\$ 7,643,841</u>

The following table sets forth a summary of changes in the fair value of the Hospital's Level 3 assets for the year ended September 30, 2015:

Balance at September 30, 2014	\$ 3,760,171
Change in unrealized value of interest in trusts	<u>(309,944)</u>
Balance at September 30, 2015	<u>\$ 3,450,227</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation as of September 30, 2016 and 2015 are summarized as follows:

	2016	2015
Land and improvements	\$ 5,177,783	\$ 5,159,808
Buildings and improvements	77,754,260	73,899,137
Fixed and movable equipment	<u>74,373,195</u>	<u>75,185,308</u>
	157,305,238	154,244,253
Less accumulated depreciation	<u>(103,776,511)</u>	<u>(102,293,531)</u>
	53,528,727	51,950,722
Construction-in-progress	<u>253,249</u>	<u>1,277,687</u>
	<u>\$ 53,781,976</u>	<u>\$ 53,228,409</u>

Depreciation expense was \$4,529,189 and \$4,682,072 for 2016 and 2015, respectively.

There are no capital lease assets in property, plant and equipment at September 30, 2016 or 2015.

NOTE 5 – INSURANCE LIABILITY LOSS RESERVES

HAIC insures the professional and general liabilities of the Hospital under a claims-made policy with a retroactive date of October 1, 1986. There are known claims and incidents that may result in the assertion of additional claims as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital has utilized independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice reserves for professional and general liability, have been discounted at 3.00% at September 30, 2016 and 2015. In management's opinion, these reserves provide an adequate reserve for losses. The Hospital has purchased excess insurance coverage to cover claims in excess of \$1,500,000 and \$4,500,000 in the aggregate.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 5 – INSURANCE LIABILITY LOSS RESERVES (CONTINUED)

Effective January 1, 2003, the Hospital began retaining the first \$250,000 of all loss and allocated loss adjustment expense per accident for its workers' compensation exposure. Excess coverage above \$250,000 per accident was purchased. Beginning January 1, 2007, the per occurrence retention was increased to \$300,000. Annual aggregate coverage was also purchased which provides \$1 million of coverage above a maximum limit of retained losses within the per occurrence retention. Beginning October 1, 2010, the per occurrence retention was increased to \$400,000 and the annual aggregate coverage was discontinued. As of October 1, 2014, the per occurrence retention was increased to \$450,000. The workers' compensation reserves have been discounted at 2.5% at September 30, 2016 and 2015 and in management's opinion provide an adequate reserve for loss contingencies.

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

Effective March 28, 2013, the Hospital entered into a novation agreement with American Insurance Group Inc., where it legally transferred all exposure relating to primary layer professional liability and physicians' professional liability policies issued to the Hospital in the years 2006/07, 2007/08, 2009/10, 2010/11 and 2011/12, by making a onetime premium payment of \$7,400,000. The loss portfolio transfer effectively transfers the liabilities and subsequent adverse claim development risk to a third-party insurer.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 6 – LONG-TERM DEBT

Long-term debt consists of the following at September 30, 2016 and 2015:

	2016	2015
State of Connecticut Health and Educational Facilities Authority		
Series B	\$ 11,990,000	\$ 13,390,000
Series C	19,850,000	20,450,000
Series D	9,675,000	9,900,000
Loans payable	1,563,519	2,140,557
Premium and discount on bonds, net of accumulated accretion and amortization of \$614,841 and \$548,706, respectively	226,448	293,321
	43,304,967	46,173,878
Less current portion	(5,028,090)	(5,013,100)
	\$ 38,276,877	\$ 41,160,778

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, The Griffin Hospital Issue, Series B, totaling \$24,800,000 were issued in February 2005. The Series B bonds bear interest at rates ranging from 2.4% to 5.0%. Interest is due semi-annually on January 1 and July 1. A bond premium of \$969,815 and bond issuance costs of \$1,196,512 are being amortized over the life of the bond using the effective interest rate method. The Series B bonds are insured by Radian Asset Guaranty Corporation. The bonds are payable annually each July 1 through July 1, 2023. The Series B bonds are subject to redemption prior to maturity. The estimated fair values of the Series B bonds were approximately \$12,000,000 and \$13,426,000 at September 30, 2016 and 2015, respectively, based on discounted cash flow analysis.

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

In May 2008, the Hospital refunded The Griffin Hospital Issue 2007 Series C and The Griffin Hospital Issue 2007 Series D bonds, which were initially issued as auction rate bonds, and issued \$23,125,000 Griffin Hospital Issue 2008 Series C Variable Rate Demand bonds and \$10,925,000 Griffin Hospital Issue 2008 Series D Variable Rate Demand Bonds (together referred to as Series 2008 Bonds). The Series 2008 Bonds are insured by Radian Asset Guaranty Corporation. The interest rate on the Series C and Series D bonds was .77% and .63%, respectively, as of September 30, 2016.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The estimated fair values of the Series C and Series D bonds were approximately \$19,850,000 and \$9,675,000 at September 30, 2016, respectively, and \$20,450,000 and \$9,900,000 at September 30, 2015, respectively, based on discounted cash flow analysis.

In order to provide liquidity for the Series 2008 Bonds, the Hospital has a standby letter of credit with Wells Fargo Bank N.A. for \$34,050,000 which expires in May 2017. Should the Series 2008 Bonds be put back, and the standby letter of credit be called, the Hospital would be required to repay the principal ratably over a 5-year period, beginning 180 days following the put.

Under the terms of the CHEFA bonds, the Obligated Group (the Hospital, GHSC and GHDF) are required to maintain 50 days operating cash on hand, an average payment period days of less than 110 days and a debt service coverage ratio of 1.2 to 1. Additionally, the Obligated Group is required to maintain a capitalization ratio excluding any realized or unrealized gains or losses on the interest rate swap instrument of less than .65.

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

In August 2014, the Hospital entered into a loan in the amount of \$735,000 to finance certain diagnostic equipment. The loan is for five years at a rate of 4.5% payable monthly in a fixed amount of \$13,703 per month.

In December 2014, the Hospital entered into a loan in the amount of \$1,820,000 to retire a capital lease obligation related to an air handler. The loan is for five years at a rate of 4.5% payable monthly in a fixed amount of \$41,550 per month.

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

2017	\$ 2,950,590
2018	3,107,623
2019	2,900,306
2020	2,705,000
2021	2,840,000
Thereafter	<u>28,575,000</u>
	<u>\$ 43,078,519</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 6 – LONG-TERM DEBT (CONTINUED)

To the extent the Hospital is unable to remarket the Series 2008 bonds, the Hospital would be obligated to repurchase these bonds from the proceeds of the Hospital's standby letter of credit. The previous debt maturities table reflects the payment of principal on these bonds according to their scheduled maturity dates. If the Series 2008 bonds were fully tendered by the bondholders to the Hospital as of September 30, 2016, the table of annual principal payments would become:

2017		\$ 5,028,090
2018		8,087,623
2019		7,855,306
2020		7,610,000
2021		7,695,000
Thereafter		<u>6,802,500</u>
		<u>\$ 43,078,519</u>

On January 20, 2017, the Hospital refunded its Series B, C and D CHEFA debt when CHEFA issued \$40,652,000 Griffin Hospital Issue 2017 Series E Variable Rate Revenue Bonds and \$7,930,000 Griffin Hospital Issue 2017 Series F Variable Rate Revenue Bonds. (See Note 1 for additional information). The schedules of principal payments above do not reflect the impact of the CHEFA debt issued subsequent to September 30, 2016.

Under the terms of the bond agreements, the Hospital is required to maintain certain funds with a trustee for specified purposes and time periods. Required payments to the trustee are made by the Hospital in amounts sufficient to provide for the payment of principal, interest and sinking fund installments as they become due, and certain other payments. Assets held by the trustee pursuant to the indentures as of September 30, 2016 and 2015 are as follows:

	2016	2015
Debt service reserve fund	\$ 4,214,895	\$ 4,288,982
Debt service fund	189,519	167,491
Principal fund	588,020	557,277
Accrued interest receivable	<u>1,103</u>	<u>41</u>
	4,993,537	5,013,791
Less current portion	<u>(757,551)</u>	<u>(724,768)</u>
	<u>\$ 4,235,986</u>	<u>\$ 4,289,023</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 6 – LONG-TERM DEBT (CONTINUED)

DERIVATIVE INSTRUMENTS

The Hospital initially issued its Series 2007 Series C and 2007 Series D bonds bearing interest at a variable rate. In May 2007, the Hospital entered into two interest rate swap agreements to manage interest rate risk. These agreements involve payment of fixed rate interest payments by the Hospital in exchange for the receipt of variable rate interest payments from the counterparties, based on a percentage of the London Interbank Offered Rate (LIBOR). In 2008, the Hospital refinanced the Series 2007 bonds and issued the Series 2008 Bonds. These bonds also bear interest at a variable rate. The two original swap agreements continue to be utilized by the Hospital to manage its interest rate risk. At September 30, 2016, the notional amounts and the fixed interest rates of the derivative financial instruments were \$19,850,000 at 3.7% (Series 2008 Issue C nontaxable bonds) and \$9,675,000 at 5.4% (Series 2008 Issue D taxable bonds), respectively.

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

The fair value of these derivatives was a liability of \$9,122,953 and \$7,643,841 as of September 30, 2016 and 2015, respectively, which is included in long-term liabilities. Reference is made to Note 1 regarding the methods utilized to determine the fair value of the interest rate swaps which have been categorized as Level 2 in the fair value hierarchy. The impact of the change in fair value was a loss of \$1,479,112 and \$1,207,342 for the years ended September 30, 2016 and 2015, respectively. This change is included in the net realized and unrealized losses on interest rate swap agreements, which also includes the net periodic settlement payments related to the swap agreements of \$1,187,825 and \$1,273,412 for 2016 and 2015, respectively.

The following table lists the fair value of derivatives by contract type included in the consolidated balance sheets at September 30, 2016 and 2015.

	2016	
	Initial Notional	Fair Value
Derivatives not designed as hedging instruments		
Interest rate swaps	\$ 34,050,000	\$ (9,122,953)

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 6 – LONG-TERM DEBT (CONTINUED)

DERIVATIVE INSTRUMENTS (CONTINUED)

	2015	
	Initial Notional	Fair Value
Derivatives not designed as hedging instruments		
Interest rate swaps	\$ 34,050,000	\$ (7,643,841)

The following table indicates the realized and unrealized losses by contract type, as included in the consolidated statements of operations for the years ended September 30, 2016 and 2015:

	2016	
	Location of Loss on Derivatives	Loss on Derivatives
Derivatives not designed as hedging instruments		
Interest rate swaps	Net realized and unrealized losses on interest rate swaps	\$ (2,666,937)

	2015	
	Location of Loss on Derivatives	Loss on Derivatives
Derivatives not designed as hedging instruments		
Interest rate swaps	Net realized and unrealized losses on interest rate swaps	\$ (2,480,754)

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 7 – OTHER DEBT ARRANGEMENTS AND GUARANTEES

On March 5, 2005, the Hospital entered into a \$262,500 letter of credit agreement with Wells Fargo Bank which was reduced to \$50,000 on January 21, 2010. On December 8, 2014, the Hospital entered into a \$800,000 letter of credit with Atlantic Specialty Insurance Company. No borrowings have been made on either letter of credit as of September 30, 2016 or 2015.

NOTE 8 – LEASE COMMITMENTS

CAPITAL LEASES

The Hospital leased certain equipment under capital leases which ended in 2015.

OPERATING LEASES

The Hospital leases various equipment and office space under operating leases, expiring at various dates through 2021. Some of these leases contain renewal options. Rent expense is recorded on a straight-line basis over the terms of the leases. Rent expense under such leases was approximately \$1,299,339 and \$1,225,881 for the years ended September 30, 2016 and 2015, respectively.

Future minimum rental payments as of September 30, 2016 under noncancellable operating leases are as follows:

2017		\$ 1,473,984
2018		1,373,551
2019		1,340,594
2020		1,073,153
2021		<u>881,605</u>
		<u><u>\$ 6,142,887</u></u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 9 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of September 30, 2016 and 2015:

	2016	2015
Unspent income and appreciation on endowment funds expendable for specified health care services	\$ 906,943	\$ 775,251
Restricted for purchase of equipment	596,310	1,927,141
Restricted specified health care services	<u>1,229,376</u>	<u>1,365,179</u>
	<u>\$ 2,732,629</u>	<u>\$ 4,067,571</u>

Permanently restricted net assets at September 30, 2016 and 2015 are comprised as follows:

	2016	2015
Investments to be held in perpetuity, the income of which is expendable to support health care services	\$ 417,645	\$ 417,645
Interest in permanently restricted net assets of GHDF's endowment, the income of which is expendable for specified health care services	1,742,616	1,742,616
Beneficial interest in trusts	<u>3,581,854</u>	<u>3,450,227</u>
	<u>\$ 5,742,115</u>	<u>\$ 5,610,488</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 10 – TRANSACTIONS WITH AFFILIATED CORPORATIONS

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

	2016	2015
Healthcare Alliance Insurance Company, Ltd.	\$ 4,279,512	\$ 2,744,414
G.H. Ventures, Inc.	1,826,832	1,979,739
Planetree, Inc.	1,520,939	1,518,117
Griffin Hospital Development Fund	35,991	21,117
Griffin Pharmacy and Gifts	178,716	85,317
	<u>\$ 7,841,990</u>	<u>\$ 6,348,704</u>

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

	2016	2015
Griffin Health Services Corporation	\$ 276,634	\$ 276,634
G.H. Ventures, Inc.	<u>--</u>	<u>35,149</u>
	<u>\$ 276,634</u>	<u>\$ 311,783</u>

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

G. H. VENTURES, INC.

The Hospital paid certain operating expenses for GHV which totaled approximately \$565,484 and \$305,707 in 2016 and 2015, respectively. These payments were recorded as transfers to affiliates in the consolidated statements of changes in net assets. GHV repaid the Hospital approximately \$182,906 in 2016 related to the amount that it owed to the Hospital.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 10 – TRANSACTIONS WITH AFFILIATED CORPORATIONS (CONTINUED)

GRIFFIN HOSPITAL DEVELOPMENT FUND

The Hospital paid operating expenses for GHDF totaling approximately \$466,298 and \$345,085 in 2016 and 2015, respectively. These payments were recorded as transfers to affiliates in the consolidated statements of changes in net assets.

GRIFFIN PHARMACY AND GIFTS

The Hospital advanced operating expenses for GP&G totaling approximately \$841,185 and \$486,335 in 2016 and 2015, respectively. GP&G reimbursed the Hospital approximately \$434,786 and \$598,628 in 2016 and 2015, respectively, for these expenses. During the year ended September 30, 2016, GP&G transferred net assets of \$313,000 to the Hospital which is included in the net transfers to affiliates in the consolidated statements of changes in net assets.

HEALTHCARE ALLIANCE INSURANCE COMPANY, LTD.

The Hospital obtains professional and general liability coverage under a policy between GHSC and HAIC (Note 5). Total premiums incurred for this insurance coverage in 2016 and 2015 were approximately \$2,839,763 and \$2,412,307, respectively. The Hospital pays claims processing expenses on behalf of HAIC and is subsequently reimbursed for these expenses. As of September 30, 2016 and 2015, the Hospital was due \$4,279,512 and \$2,744,414, respectively, from HAIC for favorable claim development net of insurance premiums due. GHSC is a one half owner of HAIC that controls HAIC.

PLANETREE, INC.

The Hospital advanced operating expenses for Planetree totaling approximately \$663,583 and \$700,940 in 2016 and 2015, respectively. Planetree reimbursed the Hospital approximately \$660,761 and \$688,646 in 2016 and 2015, respectively.

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS

PENSION BENEFITS

The Hospital sponsors a noncontributory defined benefit pension plan that covered substantially all of its employees until the plan was frozen in March 2016 and provides for retirement and death benefits. The Hospital's policy is to fund actuarially determined pension costs as accrued.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

PENSION BENEFITS (CONTINUED)

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

The Hospital froze the defined benefit pension plan effective March 31, 2016 and introduced an employer 403(b) match and core contribution to the existing Griffin Hospital 403(b) Retirement Savings Plan. Effective with the freeze, no further benefits will accrue to plan participants. The freezing of the plan constituted a curtailment, the recognition of which was reflected in the year ended September 30, 2016. The curtailment resulted in recognition of 100% of the negative prior service cost of \$5,613,532 which offset the net periodic benefit cost of \$3,074,644 resulting in a net pension credit to expense of \$2,538,888 for the year ended September 30, 2016.

The Hospital's accumulated benefit obligation was \$119,951,154 and \$112,007,558 at September 30, 2016 and 2015, respectively.

Subsequent to the freezing of the defined benefit pension plan, the plan was amended to offer eligible participants the option to receive a one-time lump sum payout of their vested benefit. The election period of this one-time lump sum payment began July 6, 2016 and ended August 26, 2016. The elected payments were completed as of September 30, 2016. Of those eligible participants, 224 or 60.8% elected to take the lump sum option which amounted to a total payout of \$4,335,382.

OTHER POSTRETIREMENT BENEFITS

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

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

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Change in projected benefit obligation				
Benefit obligation,				
beginning of year	\$ 113,727,413	\$ 104,391,793	\$ 9,266,609	\$ 8,964,526
Service cost	990,183	1,752,336	267,685	296,143
Interest cost	4,655,647	4,212,467	380,618	360,246
Effect of curtailment	(2,502,421)	--	--	--
Actuarial loss	12,019,444	7,749,339	852,197	81,643
Benefits paid	<u>(8,939,102)</u>	<u>(4,378,522)</u>	<u>(400,340)</u>	<u>(435,949)</u>
Benefit obligation,				
end of year	<u>119,951,164</u>	<u>113,727,413</u>	<u>10,366,769</u>	<u>9,266,609</u>
Change in plan assets				
Fair value of plan assets,				
beginning of year	68,666,949	69,360,879	--	--
Actual return on plan assets	7,474,067	(1,320,392)	--	--
Employer contributions	3,514,807	5,004,985	400,340	435,949
Benefits paid	<u>(8,939,102)</u>	<u>(4,378,523)</u>	<u>(400,340)</u>	<u>(435,949)</u>
Fair value of plan assets,				
end of year	<u>70,716,721</u>	<u>68,666,949</u>	<u>--</u>	<u>--</u>
Unfunded status -				
recognized as a liability	<u>\$ (49,234,443)</u>	<u>\$ (45,060,464)</u>	<u>\$ (10,366,769)</u>	<u>\$ (9,266,609)</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

Components of net periodic benefit cost are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 990,183	\$ 1,752,336	\$ 267,685	\$ 296,143
Interest cost	4,655,647	4,212,467	380,618	360,246
Expected return on plan assets	(5,234,938)	(5,519,056)	--	--
Amortization of unrecognized transition obligation	(560,942)	(1,121,883)	--	--
Net actuarial loss	<u>3,224,694</u>	<u>3,416,353</u>	<u>321,482</u>	<u>334,556</u>
Net periodic benefit cost	3,074,644	2,740,217	969,785	990,945
Amount recognized from curtailment	<u>(5,613,532)</u>	--	--	--
(Credit) expense recorded in the statement of operations	<u>\$ (2,538,888)</u>	<u>\$ 2,740,217</u>	<u>\$ 969,785</u>	<u>\$ 990,945</u>

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Current liabilities	\$ --	\$ --	\$ 572,000	\$ 496,000
Noncurrent liabilities	<u>49,234,443</u>	<u>45,060,464</u>	<u>9,794,769</u>	<u>8,770,609</u>
Total liabilities	<u>\$ 49,234,443</u>	<u>\$ 45,060,464</u>	<u>\$ 10,366,769</u>	<u>\$ 9,266,609</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

PENSION PLAN

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

	2016	2015
Negative prior service cost	\$ --	\$ (6,174,474)
Net actuarial loss	<u>62,103,337</u>	<u>58,050,137</u>
	<u>\$ 62,103,337</u>	<u>\$ 51,875,663</u>

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

	2016	2015
Net actuarial loss	\$ 9,780,315	\$ 14,588,787
Amortization of actuarial loss	<u>(3,224,694)</u>	<u>(3,416,353)</u>
	<u>\$ 6,555,621</u>	<u>\$ 11,172,434</u>

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

Actuarial loss	<u>\$ 1,642,710</u>
----------------	---------------------

Effective September 30, 2015, the Hospital updated the mortality assumptions to align with the mortality tables and improvement scales released by the Society of Actuaries in the fall of 2015. This update resulted in an increase to the Hospital's projected benefit obligation of approximately \$7,830,229 in 2015 which is included in the accrued pension liability in the consolidated balance sheets.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

POSTRETIREMENT PLAN

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

	2016	2015
Net prior service credit	\$ --	\$ --
Net actuarial loss	4,800,754	4,270,039
	\$ 4,800,754	\$ 4,270,039

Other changes in benefit obligations recognized in other changes in unrestricted net assets are:

	2016	2015
Net actuarial loss	\$ 852,197	\$ 81,642
Amortization of		
Prior service cost	--	--
Actuarial gain	(321,482)	(334,556)
	\$ 530,715	\$ (252,914)

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

Actuarial loss	\$ 366,691
----------------	------------

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

ACTUARIAL ASSUMPTIONS

Actuarial assumptions are as follows:

	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Weighted average assumptions used to determine year end benefit obligation:				
Discount rate	3.43%	4.23%	3.43%	4.23%
Rate of compensation increase	N/A	4.00%	N/A	N/A
	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	4.23%	4.13%	4.23%	4.13%
Expected long-term return on plan assets	7.50%	7.85%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A
	Pre-65		Post-65	
	2016	2015	2016	2015
Health care cost trend rate assumed for next year	6.00%	6.50%	6.00%	6.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	3.84%	5.00%	3.84%	5.00%
Year that the rate reaches the ultimate trend rate	2076	2019	2076	2019

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

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

<i>(in 000's)</i>	1-Percentage Point Increase	1-Percentage Point Decrease
Service and interest cost components	\$ 20,618	\$ (18,044)
Postretirement benefit obligation	192,279	(176,952)

CONTRIBUTIONS

The Hospital expects to contribute approximately \$3,547,000 to its pension plan and \$572,000 to its other postretirement benefit plan in fiscal year 2017.

ESTIMATED FUTURE BENEFIT PAYMENTS

The following benefit payments, which reflect expected future service, are expected to be paid during the years ending September 30:

	Pension Benefits	Other Benefits
2017	\$ 5,011,000	\$ 572,000
2018	5,379,000	655,000
2019	5,589,000	627,000
2020	5,883,000	632,000
2021	6,136,000	636,000
2022 - 2026	32,785,000	3,394,000

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

PLAN ASSETS

Pension plan assets are invested as follows:

	2016	2015
Asset category		
Cash and cash equivalents	1%	1%
U.S. Large cap	34%	36%
U.S. Small cap	8%	8%
International equity	12%	11%
Alternative investments	7%	7%
Fixed income	34%	33%
Real estate	4%	4%
	100%	100%
	2016	2015
Target asset allocations		
U.S. Large cap	27%	27%
U.S. Small cap	7%	7%
International equity	12%	12%
Alternative investments	10%	10%
Fixed income	40%	40%
Real estate	4%	4%
	100%	100%

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

PLAN ASSETS (CONTINUED)

The fair value of plan assets as of September 30, 2016, by asset category was as follows:

<i>(in thousands)</i>	September 30, 2016			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 437	\$ --	\$ --	\$ 437
U.S. Large cap	24,288	--	--	24,288
U.S. Small cap	5,687	--	--	5,687
International equity	8,453	--	--	8,453
Alternative investments	2,129	--	2,959	5,088
Fixed income	23,954	--	--	23,954
Real estate mutual funds	2,810	--	--	2,810
	\$ 67,758	\$ --	\$ 2,959	\$ 70,717

The fair value of plan assets as of September 30, 2015, by asset category was as follows:

<i>(in thousands)</i>	September 30, 2015			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 714	\$ --	\$ --	\$ 714
U.S. Large cap	24,552	--	--	24,552
U.S. Small cap	5,262	--	--	5,262
International equity	7,861	--	--	7,861
Alternative investments	1,878	--	2,910	4,788
Fixed income	22,631	--	--	22,631
Real estate mutual funds	2,859	--	--	2,859
	\$ 65,757	\$ --	\$ 2,910	\$ 68,667

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

ASSET INVESTMENT STRATEGY

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

NOTE 12 – CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix in patient accounts receivable as of September 30, 2016 and 2015 before allowances for doubtful accounts consisted of the following:

	2016	2015
Medicare and Medicaid	29%	26%
Commercial insurance	22%	21%
Managed care	37%	35%
Self-pay patients	12%	18%
	<u>100%</u>	<u>100%</u>

NOTE 13 – FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location. Expenses relating to providing these services at September 30, 2016 and 2015 are as follows:

	2016	2015
Patient care and clinical	\$ 142,111,651	\$ 126,502,723
General and administrative	<u>25,083,070</u>	<u>28,734,213</u>
	<u>\$ 167,194,721</u>	<u>\$ 155,236,936</u>

THE GRIFFIN HOSPITAL AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 14 – ENDOWMENTS

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

The Hospital has interpreted the Connecticut UPMIFA statute as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Hospital and the donor restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Hospital.
- (7) The investment policies of the Hospital.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 14 – ENDOWMENTS (CONTINUED)

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

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,240,428	\$ 2,160,261	\$ 3,400,689
Investment income and net appreciation (realized and unrealized)	252,030	--	252,030
Assets released from restriction	<u>(373,002)</u>	<u>--</u>	<u>(373,002)</u>
	<u>\$ 1,119,456</u>	<u>\$ 2,160,261</u>	<u>\$ 3,279,717</u>
	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,357,469	\$ 2,160,261	\$ 3,517,730
Investment income and net depreciation (realized and unrealized)	<u>(117,041)</u>	<u>--</u>	<u>(117,041)</u>
	<u>\$ 1,240,428</u>	<u>\$ 2,160,261</u>	<u>\$ 3,400,689</u>

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

THE GRIFFIN HOSPITAL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Hospital is involved in various legal matters arising in the normal course of activities. The ultimate outcome is not determinable at this time.

During May 2014, the Hospital became aware of a safety concern related to the use of multi-dose insulin pens on more than one patient. On investigation, it was discovered that in a small number of cases, multi-dose insulin pen cartridges intended for single patient use may have been used for more than one patient, either after installing a new, sterile safety needle on the cartridge, or by drawing up insulin with a new sterile syringe. Through improper use of the insulin pens there is a remote possibility that patients could have been exposed to certain blood-borne infections.

In response, the Hospital decided to offer all of the approximately 2,636 patients for whom an insulin pen was ordered during their hospitalization on or after September 1, 2008 and before May 7, 2014, free and confidential testing for hepatitis B, hepatitis C, and HIV. The testing protocol was determined after consultation with the Infectious Disease and Gastroenterology division chiefs and in accordance with the current CDC guidelines.

There is a pending lawsuit attempting to organize a putative class on behalf of all patients who were offered testing and subsequently elected to have the testing performed for certain blood-borne infections. Almost all members of this potential class tested negative for blood-borne infections. The Hospital is working with defense counsel to defend its interests in this matter.

The Hospital has established a reserve for the total expenses associated with notification, testing, treatment, and resolution of all insulin pen related claims.



**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING CONSOLIDATING INFORMATION**

To the Board of Trustees
The Griffin Hospital

We have audited the consolidated financial statements of The Griffin Hospital and its Subsidiary as of and for the years ended September 30, 2016 and 2015, and have issued our report dated thereon January 27, 2017, which contains an unmodified opinion on those consolidated financial statements and which appears on page 1. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets, and the consolidating statements of operations are presented for the purpose of additional analysis and are 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 information has been subjected to the auditing procedures applied in the audits 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 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
January 27, 2017



THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2016

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 8,419,689	\$ 253,417	\$ --	\$ 8,673,106
Investments	7,871,187	--	--	7,871,187
Assets limited as to use	757,551	--	--	757,551
Patient accounts receivable, net	13,410,622	446,945	--	13,857,567
Other current assets	2,900,738	153,999	--	3,054,737
Total Current Assets	<u>33,359,787</u>	<u>854,361</u>	<u>--</u>	<u>34,214,148</u>
Assets Limited as to Use				
Board-designated investments	32,847	--	--	32,847
Under indenture agreement	4,235,986	--	--	4,235,986
Total Assets Limited as to Use	<u>4,268,833</u>	<u>--</u>	<u>--</u>	<u>4,268,833</u>
Other Assets				
Long-term investments	1,324,584	--	--	1,324,584
Property, plant and equipment, net	51,966,374	1,815,602	--	53,781,976
Interest in net assets of affiliate	7,834,670	--	--	7,834,670
Due from affiliates	7,841,990	--	--	7,841,990
Investment in affiliate	1,895,137	--	(1,895,137)	--
Beneficial interest in trusts	3,581,854	--	--	3,581,854
Other long-term assets and insurance recoverable	5,046,027	--	--	5,046,027
Total Other Assets	<u>79,490,636</u>	<u>1,815,602</u>	<u>(1,895,137)</u>	<u>79,411,101</u>
Total Assets	<u>\$ 117,119,256</u>	<u>\$ 2,669,963</u>	<u>\$ (1,895,137)</u>	<u>\$ 117,894,082</u>

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2016

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Liabilities and Net Assets (Deficit)				
Current Liabilities				
Current portion of long-term debt	\$ 5,028,090	\$ --	\$ --	\$ 5,028,090
Accounts payable	15,046,368	253,273	--	15,299,641
Accrued expenses	7,922,566	521,553	--	8,444,119
Estimated third-party settlements	357,083	--	--	357,083
Accrued interest payable	266,810	--	--	266,810
Accrued postretirement benefit liability	572,000	--	--	572,000
Deferred revenue	430,074	--	--	430,074
Due to affiliates	276,634	--	--	276,634
Total Current Liabilities	29,899,625	774,826	--	30,674,451
Other Liabilities				
Estimated third-party settlements	5,996,213	--	--	5,996,213
Professional and general liability loss reserves	2,927,302	--	--	2,927,302
Workers' compensation loss reserves	1,906,731	--	--	1,906,731
Accrued pension liability	49,234,443	--	--	49,234,443
Accrued postretirement benefit liability, net of current portion	9,794,769	--	--	9,794,769
Conditional asset retirement obligations	95,831	--	--	95,831
Long-term debt, net of current portion	38,276,877	--	--	38,276,877
Interest rate swap agreements	9,122,953	--	--	9,122,953
Total Other Liabilities	117,355,119	--	--	117,355,119
Total Liabilities	147,254,744	774,826	--	148,029,570

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2016

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Net Assets (Deficit)				
Unrestricted operating net assets	\$ 28,293,859	\$ 1,895,137	\$ (1,895,137)	\$ 28,293,859
Cumulative unrecognized pension and other postretirement changes	(66,904,091)	--	--	(66,904,091)
Total unrestricted	(38,610,232)	1,895,137	(1,895,137)	(38,610,232)
Temporarily restricted net assets	2,732,629	--	--	2,732,629
Permanently restricted net assets	5,742,115	--	--	5,742,115
Total Net (Deficit) Assets	<u>(30,135,488)</u>	<u>1,895,137</u>	<u>(1,895,137)</u>	<u>(30,135,488)</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 117,119,256</u>	<u>\$ 2,669,963</u>	<u>\$ (1,895,137)</u>	<u>\$ 117,894,082</u>

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2015

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 6,748,148	\$ 97,337	\$ --	\$ 6,845,485
Investments	7,914,147	--	--	7,914,147
Assets limited as to use	724,768	--	--	724,768
Patient accounts receivable, net	13,268,952	594,913	--	13,863,865
Other current assets	4,682,980	119,389	--	4,802,369
Total Current Assets	<u>33,338,995</u>	<u>811,639</u>	<u>--</u>	<u>34,150,634</u>
Assets Limited as to Use				
Board-designated investments	23,986	--	--	23,986
Under indenture agreement	4,289,023	--	--	4,289,023
Total Assets Limited as to Use	<u>4,313,009</u>	<u>--</u>	<u>--</u>	<u>4,313,009</u>
Other Assets				
Long-term investments	1,233,522	--	--	1,233,522
Property, plant and equipment, net	51,622,810	1,605,599	--	53,228,409
Interest in net assets of affiliate	8,800,729	--	--	8,800,729
Due from affiliates	6,476,494	--	(127,790)	6,348,704
Investment in affiliate	1,361,825	--	(1,361,825)	--
Beneficial interest in trusts	3,450,227	--	--	3,450,227
Other long-term assets and insurance recoverable	5,335,406	--	--	5,335,406
Total Other Assets	<u>78,281,013</u>	<u>1,605,599</u>	<u>(1,489,615)</u>	<u>78,396,997</u>
Total Assets	<u>\$ 115,933,017</u>	<u>\$ 2,417,238</u>	<u>\$ (1,489,615)</u>	<u>\$ 116,860,640</u>

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2015

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Liabilities and Net (Deficit) Assets				
Current Liabilities				
Current portion of long-term debt	\$ 5,013,100	\$ --	\$ --	\$ 5,013,100
Accounts payable	16,229,224	245,791	--	16,475,015
Accrued expenses	8,497,150	646,683	--	9,143,833
Estimated third-party settlements	1,153,146	--	--	1,153,146
Accrued interest payable	280,977	--	--	280,977
Accrued postretirement benefit liability	496,000	--	--	496,000
Deferred revenue	157,449	--	--	157,449
Due to affiliates	276,634	162,939	(127,790)	311,783
Total Current Liabilities	<u>32,103,680</u>	<u>1,055,413</u>	<u>(127,790)</u>	<u>33,031,303</u>
Other Liabilities				
Estimated third-party settlements	5,664,953	--	--	5,664,953
Professional and general liability loss reserves	3,172,632	--	--	3,172,632
Workers' compensation loss reserves	1,827,843	--	--	1,827,843
Accrued pension liability	45,060,464	--	--	45,060,464
Accrued postretirement benefit liability, net of current portion	8,770,609	--	--	8,770,609
Conditional asset retirement obligations	104,600	--	--	104,600
Long-term debt, net of current portion	41,160,778	--	--	41,160,778
Interest rate swap agreements	7,643,841	--	--	7,643,841
Total Other Liabilities	<u>113,405,720</u>	<u>--</u>	<u>--</u>	<u>113,405,720</u>
Total Liabilities	<u>145,509,400</u>	<u>1,055,413</u>	<u>(127,790)</u>	<u>146,437,023</u>

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2015

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Net (Deficit) Assets				
Unrestricted operating net assets	\$ 16,891,260	\$ 1,361,825	\$ (1,361,825)	\$ 16,891,260
Cumulative unrecognized pension and other postretirement changes	(56,145,702)	--	--	(56,145,702)
Total unrestricted	(39,254,442)	1,361,825	(1,361,825)	(39,254,442)
Temporarily restricted net assets	4,067,571	--	--	4,067,571
Permanently restricted net assets	5,610,488	--	--	5,610,488
Total Net (Deficit) Assets	<u>(29,576,383)</u>	<u>1,361,825</u>	<u>(1,361,825)</u>	<u>(29,576,383)</u>
Total Liabilities and Net (Deficit) Assets	<u>\$ 115,933,017</u>	<u>\$ 2,417,238</u>	<u>\$ (1,489,615)</u>	<u>\$ 116,860,640</u>

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 160,938,256	\$ 11,639,101	\$ --	\$ 172,577,357
Provision for doubtful accounts, net of recoveries	<u>(1,923,631)</u>	<u>(255,799)</u>	<u>--</u>	<u>(2,179,430)</u>
Net patient service revenue less provision for doubtful accounts	159,014,625	11,383,302	--	170,397,927
Net assets released from restrictions for operations	423,387	--	--	423,387
State supplemental revenue	4,948,647	--	--	4,948,647
Other operating revenues	<u>3,722,615</u>	<u>824,929</u>	<u>(879,398)</u>	<u>3,668,146</u>
Total Operating Revenues	<u>168,109,274</u>	<u>12,208,231</u>	<u>(879,398)</u>	<u>179,438,107</u>
Operating Expenses				
Employee compensation and related expenses	80,599,355	14,529,600	--	95,128,955
Supplies and other expenses	55,712,295	2,990,990	(879,398)	57,823,887
State hospital tax expense	7,583,772	--	--	7,583,772
Depreciation	4,253,885	275,304	--	4,529,189
Interest	<u>2,128,918</u>	<u>--</u>	<u>--</u>	<u>2,128,918</u>
Total Operating Expenses	<u>150,278,225</u>	<u>17,795,894</u>	<u>(879,398)</u>	<u>167,194,721</u>
Income (Loss) from Operations	<u>17,831,049</u>	<u>(5,587,663)</u>	<u>--</u>	<u>12,243,386</u>

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Nonoperating Gains (Losses)				
Investment income	\$ 728,488	\$ --	\$ --	\$ 728,488
Net realized and unrealized losses on interest rate swaps	(2,666,937)	--	--	(2,666,937)
Grant revenues	2,004,694	--	--	2,004,694
Grant expenses	<u>(2,103,848)</u>	<u>--</u>	<u>--</u>	<u>(2,103,848)</u>
Total Nonoperating Losses	<u>(2,037,603)</u>	<u>--</u>	<u>--</u>	<u>(2,037,603)</u>
Excess (Deficiency) of Revenues over Expenses	15,793,446	(5,587,663)	--	10,205,783
Other Changes in Unrestricted Net Assets				
Change in interest in net assets of affiliate	993,256	--	(533,312)	459,944
Assets released from restriction for capital	1,455,655	--	--	1,455,655
Transfers (to) from affiliates	(6,839,758)	6,120,975	--	(718,783)
Pension and other postretirement related changes other than net periodic benefit cost	<u>(10,758,389)</u>	<u>--</u>	<u>--</u>	<u>(10,758,389)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 644,210</u>	<u>\$ 533,312</u>	<u>\$ (533,312)</u>	<u>\$ 644,210</u>

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 144,733,465	\$ 8,883,282	\$ --	\$ 153,616,747
Provision for doubtful accounts, net of recoveries	<u>(1,784,106)</u>	<u>(166,973)</u>	<u>--</u>	<u>(1,951,079)</u>
Net patient service revenue less provision for doubtful accounts	142,949,359	8,716,309	--	151,665,668
State supplemental revenue	1,899,613	--	--	1,899,613
Other operating revenues	<u>3,792,297</u>	<u>649,593</u>	<u>(852,843)</u>	<u>3,589,047</u>
Total Operating Revenues	<u>148,641,269</u>	<u>9,365,902</u>	<u>(852,843)</u>	<u>157,154,328</u>
Operating Expenses				
Employee compensation and related expenses	77,228,070	12,317,031	--	89,545,101
Supplies and other expenses	51,076,972	2,377,918	(852,843)	52,602,047
State hospital tax expense	6,283,833	--	--	6,283,833
Depreciation	4,440,683	241,389	--	4,682,072
Interest	<u>2,123,883</u>	<u>--</u>	<u>--</u>	<u>2,123,883</u>
Total Operating Expenses	<u>141,153,441</u>	<u>14,936,338</u>	<u>(852,843)</u>	<u>155,236,936</u>
Income (Loss) from Operations	<u>7,487,828</u>	<u>(5,570,436)</u>	<u>--</u>	<u>1,917,392</u>

See independent auditors' report on accompanying consolidating information.

THE GRIFFIN HOSPITAL AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	The Griffin Hospital	Griffin Faculty Practice Plan	Eliminations	Total
Nonoperating Gains (Losses)				
Investment income	\$ 180,955	\$ --	\$ --	\$ 180,955
Net realized and unrealized losses on interest rate swaps	(2,480,754)	--	--	(2,480,754)
Grant revenues	1,942,304	--	--	1,942,304
Grant expenses	<u>(2,039,194)</u>	<u>--</u>	<u>--</u>	<u>(2,039,194)</u>
Total Nonoperating Losses	<u>(2,396,689)</u>	<u>--</u>	<u>--</u>	<u>(2,396,689)</u>
Excess (Deficiency) of Revenues over Expenses	5,091,139	(5,570,436)	--	(479,297)
Other Changes in Unrestricted Net Assets				
Change in interest in net assets of affiliate	102,275	--	(78,689)	23,586
Transfers (to) from affiliates	(6,299,917)	5,649,125	--	(650,792)
Pension and other postretirement related changes other than net periodic benefit cost	<u>(12,041,404)</u>	<u>--</u>	<u>--</u>	<u>(12,041,404)</u>
(Decrease) Increase in Unrestricted Net Assets	<u>\$ (13,147,907)</u>	<u>\$ 78,689</u>	<u>\$ (78,689)</u>	<u>\$ (13,147,907)</u>

See independent auditors' report on accompanying consolidating information.