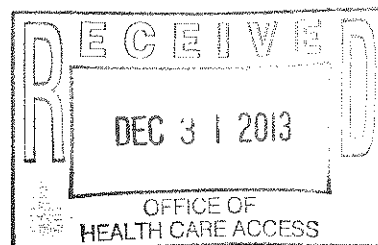


Application Checklist



Instructions:

1. Please check each box below, as appropriate; and
2. The completed checklist *must* be submitted as the first page of the CON application.

Attached is the CON application filing fee in the form of a certified, cashier or business check made out to the "Treasurer State of Connecticut" in the amount of \$500.

For OHCA Use Only:

Docket No.: 13-31885 CON Check No.: 73835  
OHCA Verified by: KR Date: 12-31-13

Attached is evidence demonstrating that public notice has been published in a suitable newspaper that relates to the location of the proposal, 3 days in a row, at least 20 days prior to the submission of the CON application to OHCA. (OHCA requests that the Applicant fax a courtesy copy to OHCA (860) 418-7053, at the time of the publication)

Attached is a paginated hard copy of the CON application including a completed affidavit, signed and notarized by the appropriate individuals.

Attached are completed Financial Attachments I and II.

Submission includes one (1) original and four (4) hard copies with each set placed in 3-ring binders.

Note: A CON application may be filed with OHCA electronically through email, if the total number of pages submitted is 50 pages or less. In this case, the CON Application must be emailed to the following email addresses:

steven.lazarus@ct.gov and leslie.greer@ct.gov.

Important: For CON applications (less than 50 pages) filed electronically through email, the signed affidavit and the check in the amount of \$500 must be delivered to OHCA in hardcopy.

The following have been submitted on a CD

1. A scanned copy of each submission in its entirety, including all attachments in Adobe (.pdf) format.
2. An electronic copy of the documents in MS Word and MS Excel as appropriate.

**AFFIDAVIT**

Applicant: Gaylord Specialty HealthCare

Project Title: Termination of Service, Gaylord Sleep Medicine-Glastonbury

I, Janine Epright, CFO  
(Individual's Name) (Position Title – CEO or CFO)

of Gaylord Hospital, being duly sworn, depose and state that  
(Hospital or Facility Name)

Gaylord Sleep Medicine, Glastonbury's information submitted in this  
Certificate of  
(Hospital or Facility Name)

Need Application is accurate and correct to the best of my knowledge.

Janine Epright 12/30/13  
Signature Date

Subscribed and sworn to before me on 12/30/13

M. Wall

Notary Public/Commissioner of Superior Court

My commission expires: MAR 31 2016



**State of Connecticut  
Office of Health Care Access  
Certificate of Need Application**

**Instructions:** Please complete all sections of the Certificate of Need ("CON") application. If any section or question is not relevant to your project, a response of "Not Applicable" may be deemed an acceptable answer. If there is more than one applicant, identify the name and all contact information for each applicant. OHCA will assign a Docket Number to the CON application once the application is received by OHCA.

**Docket Number:**

**Applicant:** *Gaylord Hospital*

**Contact Person:** Janine Epright

**Contact Person's  
Title:** CFO

**Contact Person's  
Address:** Gaylord Hospital, P.O. Box 400, Gaylord Farms Road, Wallingford,  
CT 06492

**Contact Person's  
Phone Number:** 203-284-2800

**Contact Person's  
Fax Number:** *203-741-3408*

**Contact Person's  
Email Address:** jepright@gaylord.org

**Project Town:** Glastonbury

**Project Name:** Gaylord Sleep Medicine-Glastonbury

**Statute Reference:** Section 19a-638, C.G.S.

**Estimated Total**

**Capital Expenditure: \$0**

**1. Project Description: Service Termination**

- a. **For each of the Applicant's programs, identify the location, population served, hours of operation, and whether the program is proposed for termination.**

**Response:** Gaylord Hospital is a long term acute care hospital (LTACH) that provides health care services for patients requiring care for spinal cord injury, traumatic brain injury, stroke, pulmonary disease and other medically complex illnesses and sleep medicine. Gaylord Hospital's services include both inpatient and outpatient care. Gaylord Sleep Medicine-Glastonbury is located at 676 Hebron Avenue, Glastonbury, Connecticut 06033. Patients are referred to Gaylord Sleep Medicine-Glastonbury by a referring physician or may schedule an appointment with Gaylord Sleep Medicine-Glastonbury directly. Gaylord Sleep Medicine-Glastonbury provides outpatient sleep medicine services only. The patient population served by Gaylord Sleep Medicine-Glastonbury resides predominately in the following towns: Glastonbury, Hartford, East Hartford, Manchester, Windsor, West Hartford, and Rocky Hill. Patient census information can be found in the Appendix.

- b. **Describe the history of the services proposed for termination, including when they were begun and whether CON authorization was received.**

**Response:** The hospital received authorization to establish a sleep medicine service at Glastonbury under docket number 06-30877 on May 9, 2007. On January 26, 2007, the Office of Health Care Access ("OHCA") received the Certificate of Need ("CON") application of Gaylord Hospital, Inc. seeking authorization to terminate sleep laboratory services located at 836 Farmington, Suite 119, West Hartford, establish sleep laboratory services at 676 Hebron Avenue, Glastonbury, Connecticut, and increase the capacity from three to six beds. The practice was opened in 2007.

- c. **Explain in detail the Applicant's rationale for this termination of services, and the process undertaken by the Applicant in making the decision to terminate.**

**Response:** The decision to discontinue Gaylord Sleep Medicine-Glastonbury was made in response to changes in the practice of sleep medicine from office and lab-based to home care settings. Additionally, Gaylord Hospital is focusing its resources on those services that support its core services for complex rehabilitation and medically complex patients. The decision to terminate the service was made by management at Gaylord Specialty Healthcare.

- d. **Did the proposed termination require the vote of the Board of Directors of the Applicant? If so, provide copy of the minutes (excerpted for other unrelated material) for the meeting(s) the proposed termination was discussed and voted.**

**Response:** The decision to discontinue Gaylord Sleep Medicine - Glastonbury did not require a vote of the Board of Directors of Gaylord Hospital.

- e. **Explain why there is a clear public need for the proposal. Provide evidence that demonstrates this need.**

**Response:** The decision to discontinue Gaylord Sleep Medicine-Glastonbury was made in response to changes in the practice of sleep medicine from office and lab-based to home care settings. Additionally, Gaylord Hospital is focusing its resources on those services that support its core services for complex rehabilitation and medically complex patients.

**2. Termination's Impact on Patients and Provider Community**

- a. **List all existing providers (name, address, services provided, hours and days of operation, and current utilization) of the services proposed for termination in the towns served by the Applicant, and in nearby towns.**

**Response:** Hartford Hospital currently provides sleep medicine services in the town of Wethersfield at the Hartford Hospital Sleep Center, 1260 Silas Deane Highway, Wethersfield, CT. Additionally, sleep medicine services are also provided by Saint Francis Hospital Sleep Center in Hartford, ECHN Sleep Disorder Center, Manchester, Middlesex Hospital, at the Sleep Disorder Center at Middlesex Hospital in Middletown, ProHealth Sleep Center, 631 Quaker Lane, West Hartford, Connecticut 06110 and at CCMC, 282 Washington Street, Hartford Connecticut.

Because these are outpatient facilities, patient volume and utilization rates are unavailable.

- b. **Discuss what steps the Applicant has undertaken to ensure continued access to the services proposed for termination for the Applicant's patients.**

**Response:** Gaylord Sleep Medicine-Glastonbury will notify adult patients of the availability of sleep medicine services provided by the sleep program affiliated with the YNH for adult patients and CCMC for pediatric patients.

- c. **For each provider to whom the Applicant proposes to transfer or refer clients, provide the current available capacity, as well as the total capacity and actual utilization for the current year and last completed year.**

**Response:** Since these are outpatient facilities, patient volume, utilization and available capacity are not available.

- d. **Identify any special populations that utilize the services and explain how these clients will continue to access this service after the service location closes.**
- e.

**Response:** Not applicable.

- f. **Provide evidence (e.g. written agreements or memorandum of understanding) that other providers in the area are willing and able to absorb the displaced patients.**

**Response:** Gaylord Sleep Medicine-Glastonbury has a written agreement with YNHH for the smooth transition of its adult patients and with CCMC for the transition of its pediatric patients.

- g. **Describe how clients will be notified about the termination and transferred to other providers.**

**Response:** Patients will be sent a letter informing them of treatment options available in the area. (Appendix)

### 3. Actual and Projected Volume

- a. **Provide volumes for the most recently completed FY by town.**

Attended Patient Visits	
<b>TOWN</b>	<b>2013</b>
Amston	17
Andover	4
Ashford	12
Avon	23
Baltic	5
Barkhamsted	8
Berlin	33
Bloomfield	45
Bolton	3
Boyton Beach	3
Bridgeport	2
Bristol	84
Broadbrook	11
Brooklyn	1
Burlington	16
Canton	14
Centerbrook	1
Cheshire	19
Chester	1
Cobalt	6
Colchester	87
Columbia	7
Coventry	30
Cromwell	52
Danbury	1
Danielson	1
Dayville	5
Durham	2
E. Hartford	2

East Berlin	7
East Granby	3
East Haddam	5
East Hampton	89
East Hartford	226
East Hartland	1
East Lyme	1
East Windsor	3
Eastford	3
Ellington	16
Elmira	1
Enfield	33
Essex	12
Falls Village	1
Farmington	20
Glastonbury	208
Granby	10
Griswold	2
Haddam	3
Hampton	4
Hartford	481
Hebron	42
Higganum	1
Hope Valley	1
Jewett City	15
Kensington	2
Killingworth	1
Lakeville	2
Lebanon	25
Lisbon	7
Madison	2
Manchester	137
Mansfield	17
Marlborough	52
Meriden	22
Middlefield	2
Middletown	72
Moodus	15
Moosup	4
Mystic	5
Naugatuck	5
New Britain	186
New Britian	9
New Hartford	3
New Haven	5
New London	3
Newington	54
Niantic	6
North Windham	1
Northfield	1



Norwich	14
Oakdale	1
Old Lyme	8
Old Saybrook	2
Ormond Beach	3
Plainfield	1
Plainville	19
Plantsville	3
Plymouth	5
Portland	35
Prescott Valley	2
Preston	2
Providence	2
Putnam	7
Quaker Hill	1
Rockville	21
Rocky Hill	82
S. Lyme	1
Salem	15
Shelton	1
Simsbury	7
So. Windsor	3
Somers	9
South Glastonbury	27
South Windham	3
South Windsor	46
Southbury	1
Southington	26
Stafford Springs	13
Storrs	4
Suffield	19
Taftville	3
Tariffville	2
Terryville	13
Thomaston	2
Tolland	23
Torrington	34
Uncasville	8
Union	2
Unionville	11
Vernon	28
Voluntown	6
Wallingford	3
Waterbury	8
Waterford	1
Watertown	8
Weatogue	5
West Hartford	77
West Haven	1
West Simsbury	13

West Suffield	3
Westfield	1
Wethersfield	76
Wilamantic	1
Willamantic	64
Willimantic	2
Willington	5
Windham	14
Windsor	86
Windsor Locks	14
Winsted	2
Wolcott	5
Woodbury	4

- b. Complete the following table for the past three fiscal years ("FY") and current fiscal year ("CFY"), for both number of visits and number of admissions, by service.

**Table 1: Historical and Current Visits & Admissions (MSLT and Sleep Studies)**

	Actual Volume (Last 3 Completed FYs)			CFY Volume*
	FY 2011	FY 2012	FY 2103	FY2014
Sleep Medicine	1129	1339	973	86
<b>Total</b>	<b>1129</b>	<b>1339</b>	<b>973</b>	<b>86</b>

Gaylord fiscal year (October 1-September 30)

- c. Explain any increases and/or decreases in volume seen in the tables above.

**Response:** The volume of sleep medicine patients in Glastonbury has been declining for both physician referrals and direct patient referrals. Sleep services are provided by several other practices in the area.

For DMHAS-funded programs only, provide a report that provides the following information for the last three full FYs and the current FY to-date:

- i. Average daily census;
- ii. Number of clients on the last day of the month;
- iii. Number of clients admitted during the month; and
- iv. Number of clients discharged during the month.

**Response:** Not applicable

#### 4. Quality Measures

- a. **Submit a list of all key professional, administrative, clinical, and direct service personnel related to the proposal. Attach a copy of their Curriculum Vitae.**

**Response:** The Curriculum Vitae for the following sleep medicine physician practicing at the Glastonbury location has been included in the Attachment: Drs. Kenare and Schneeberg and Vicki Gerdon, PA.

- b. **Explain how the proposal contributes to the quality of health care delivery in the region.**

**Response:** The decision to discontinue sleep medicine services in Glastonbury does not impact the quality of health care services being delivered since sleep medicine services are available in the area.

- c. **Identify when the Applicants' funding and/or licensing agencies (e.g. DPH, DMHAS) were notified of the proposed termination, and when the Applicants' licenses will be returned.**

**Response:** Gaylord Hospital is licensed to operate and maintain an long term acute care hospital through the Department of Public Health (DPH). DPH does not separately specify the types of services that are provided under that license. The termination of this service will not result in any changes to Gaylord Hospital's license from DPH.

#### 5. Organizational and Financial Information

- a. **Identify the Applicant's ownership type(s) (e.g. Corporation, PC, LLC, etc.).**

**Response:** Gaylord Specialty HealthCare is a corporation.

- b. **Does the Applicant have non-profit status?**  
X  Yes (Provide documentation)  No

**Response:** Documentation provided in the Appendix

- c. **Financial Statements**

- i. **If the Applicant is a Connecticut hospital: Pursuant to Section 19a-644, C.G.S., each hospital licensed by the Department of Public Health is required to file with OHCA copies of the hospital's audited financial statements. If the hospital has filed its most recently completed fiscal year audited financial statements, the hospital may reference that filing for this proposal.**

**Response:** The Audited Financial Statement is provided in the Appendix

- ii. **If the Applicant is not a Connecticut hospital (other health care facilities): Audited financial statements for the most recently completed fiscal year. If audited financial statements do not exist, in lieu of audited financial statements, provide other financial documentation (e.g. unaudited balance sheet, statement of operations, tax return, or other set of books.)**

Not Applicable

- d. **Submit a final version of all capital expenditures/costs.**

**Response:** There are no capital expenditures/costs to be incurred by Gaylord Hospital as a result of discontinuing this program.

- e. **List all funding or financing sources for the proposal and the dollar amount of each. Provide applicable details such as interest rate; term; monthly payment; pledges and funds received to date; letter of interest or approval from a lending institution.**

**Response:** Not Applicable

- f. **Demonstrate how this proposal will affect the financial strength of the state's health care system.**

**Response:** This proposal will have no effect on the current financial state of the health care system.

## 6. Financial Attachments I & II

- a. **Provide a summary of revenue, expense, and volume statistics, without the CON project, incremental to the CON project, and with the CON project. Complete *Financial Attachment I*. (Note that the actual results for the fiscal year reported in the first column must agree with the Applicant's audited financial statements.) The projections must include the first three full fiscal years of the project.**

**Response:** Please see **Attachment** for Financial Attachment I.

- b. **Provide a three year projection of incremental revenue, expense, and volume statistics attributable to the proposal by payer. Complete Financial Attachment II. The projections must include the first three full fiscal years of the project.**

**Response:** Financial Attachment II has been provided as an **Attachment** however it should

be noted that there are no incremental revenue, expense, or volume statistics attributable to the termination of sleep medicine services at Glastonbury.

- c. Provide the assumptions utilized in developing both Financial Attachments I and II (e.g., full-time equivalents, volume statistics, other expenses, revenue and expense % increases, project commencement of operation date, etc.).**

**Response:** The assumptions utilized to develop Financial Attachment I and Financial Attachment II are as follows:

There is minimal impact on FTEs as a result of discontinuing sleep medicine services at Glastonbury.

All inpatient volumes for Gaylord Hospital will remain constant at FY2013 levels with or without the approval of the CON. Gaylord Sleep Medicine-Glastonbury is a physician office which provides evaluations and follow up consultations and does not provide inpatient services.

Operating expenses for Gaylord Hospital will increase 3 % each year through FY2015 from the levels experienced in FY2013 due to inflation and assumes no changes in operations that would contribute to an increase or decrease in expenses beyond the impact of inflation. The overall Payer Mix for the System will remain constant at the percentage distribution reported in the FY2012 audited financial statement.

- d. Provide documentation or the basis to support the proposed rates for each of the FYs as reported in Financial Attachment II. Provide a copy of the rate schedule for the proposed service(s).**

**Response:** Not Applicable

- e. Was the Applicant being reimbursed by payers for these services? Did reimbursement levels enter into the determination to terminate?**

**Response:** Gaylord Sleep Medicine-Glastonbury was reimbursed for sleep services, however the decision to terminate services was not dependent on reimbursement levels but on declining volume and leasing considerations.

- f. Provide the minimum number of units required to show an incremental gain from operations for each fiscal year.**

**Response:** Not applicable

- g. Explain any projected incremental losses from operations contained in the financial projections that result from the implementation and operation of the CON proposal.**

**Response:** There is no anticipated operating revenue increases with or without this proposal.

**h. Describe how this proposal is cost effective.**

**Response:** This proposal will have no effect on the current financial state of the health care system.

## APPENDIX

### Contents

- A. CV s for Drs. Lynelle Schneeberg and Jay Kenkare and Vickie Gerdon, PA
- B. Not-For-Profit Certificate
- C. Financial Attachments 1 and 2
- D. Patient Census
- E. Financial Statement
- F. Newspaper Notification
- G. Patient Notification
- H. Agreement between Gaylord and CCMC

# Jay D. Kenkare, M.D.

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## Education

Fellowship: Sleep Medicine  
Gaylord Sleep Medicine, Research and Education  
June 2007 to Present

Residency: Yale Internal Medicine Primary Care Program  
2002 - 2005

M.D. U.M.D.N.J. – Robert Wood Johnson Medical School  
May 2001

B.A. Rutgers College – Rutgers University  
Major: Biological Science: 1996  
Graduated with High Honors

## Employment

Academic Hospitalist: Waterbury Hospital June 2005 – June 2007  
Responsibilities include clinical inpatient medicine, consultative  
medicine, teaching attending for the Yale Primary Care residency,  
voting membership on multiple hospital committees.

## Professional activities

North East Sleep Society Planning Committee

Clinical Instructor of Medicine: Yale School of Medicine

Resident Recruitment Committee: Yale Internal Medicine Program

Consult Curriculum: Designed and implemented the Consult Rotation  
for the IM Residency Program

## Research experience

Research Associate: Cytogen Corporation

Henry Rutgers Scholar: Evolutionary Molecular Biology

## Certifications

Board Certified American Board of Internal Medicine 2005





**Honors and  
Awards**

Intern of the Year Award 2002: Awarded to the one Intern who best exemplifies the qualities of a conscientious, dependable, and dedicated physician to the residency program and patient population

National Science Foundation Research Fellowship Award

S. Oakley Van der Poel, Merck Index, Award for Bacteriology and Medical Chemistry

Henry Rutgers Scholar Award: Evolutionary Molecular Biology

**Community  
Service**

Adopt a Classroom: Mentoring 4<sup>th</sup> grade and high school students at underprivileged school in Waterbury, CT

Soccer and Baseball Coach: Age 5-6 Cheshire CT

**LYNELLE M. SCHNEEBERG**

**BUSINESS ADDRESS**

Gaylord Hospital  
Department of Sleep Medicine  
P.O. Box 400  
Gaylord Farm Road  
Wallingford, CT 06492  
(203) 284-2812

**EDUCATION**

Diplomate, American Board of Sleep Medicine (ABSM)  
Licensed by the State of Connecticut, License number 001943

University of Denver, Denver, Colorado  
School of Professional Psychology (APA approved)  
Psy.D. granted August 1993 (4.0 GPA)

Texas A&M University, College Station, Texas  
Bachelor of Arts, cum laude, 1980  
Major: English; Minors: Technical Writing and Spanish

**ACADEMIC HONORS AND AWARDS**

Recipient of the West Haven VA Medical Center's Jacob Levine Intern Award for  
Outstanding Clinical Scholarship  
Psi Chi National Honor Society in Psychology  
Dean's Tuition Scholarship, School of Professional Psychology, Univ. of Denver  
Dean's Scholar, Texas A&M University

**CLINICAL EXPERIENCE**

**Gaylord Hospital, Wallingford, Connecticut, August 1993-present.**

**Director of Behavioral Sleep Medicine Program:** Provide initial evaluations and follow-up care for adults and adolescents with a variety of sleep disorders including obstructive sleep apnea, psychophysiological insomnia, narcolepsy, delayed sleep phase syndrome, and so on. Also treat pediatric patients and their parents who present with limit-setting sleep disorders, sleep-onset association disorders and so on. As a diplomate of the American Board of Sleep Medicine, I am credentialed to review and interpret sleep studies and provide the necessary patient follow-up.

**West Haven VA Medical Center, West Haven, Connecticut, September 1992-present. Predoctoral Psychology Intern (APA approved site, Yale affiliated training institution):** As a psychology intern, completed two six month rotations in cardiovascular behavioral medicine and chronic pain. Cardiovascular rotation involved

responsibility for intake and follow-up on psychosocial evaluations and co-leading outpatient post-MI/CABG education and support groups; chronic pain rotation involved responsibilities for case management, treatment plan development, and individual therapy. Additional clinical activities included evaluating and treating sexual dysfunction, leading health promotion groups in smoking cessation and stress management, providing inpatient consult/liaison services to medical units (with a special focus in the renal dialysis unit) for patients experiencing psychological sequelae to medical problems. Also completed a twelve month rotation in the Mental Hygiene Clinic providing outpatient treatment for a variety of psychological disorders.

**A.F. Williams Family Medicine Center, Denver, Colorado, July 1991-July 1992.**

**Clinical Faculty Instructor:** For the School of Medicine's Department of Family Medicine, provided individual psychotherapy to pediatric, adolescent, adult, and geriatric patients as well as family therapy to clients with identified social, psychological and health concerns: also address health promotion/disease prevention, pain management, and stress management, and provided consultation services to medical staff.

**Neurobehavioral Institute of the Rockies, Boulder, Colorado, August 1990-**

**November 1990. Staff therapist:** Conducted group therapy (social and communication skills) and neuropsychological assessments for neurologically impaired inpatients.

**RESEARCH AND PROGRAM EVALUATION EXPERIENCE**

**West Haven VA Medical Center, West Haven, Connecticut**

**Supervisor: Matthew Burg, Ph.D.**

Evaluated a cognitive-behavioral stress management program for its effectiveness in reducing cardiovascular reactivity.

**School of Professional Psychology, University of Denver, Denver, Colorado.**

For my doctoral paper, Helping Psychologists Put the "Bio" Back into the Biopsychosocial Model: Medical Screenings To Be Conducted Early in Psychological Treatment, delineated potential medical bases for psychological problems and investigated the specific roles that relevant organismic variables (such as cardiovascular, endocrinologic, and neurologic) play in psychological and medical problems, evaluated and recommended an instrument to gather medical data from clients, and discussed strategies for using the obtained data when developing a treatment plan.

**OTHER PROFESSIONAL EXPERIENCE**

**AT&T Bell Laboratories, Denver, Colorado, January 1981-August 1992.**

**Senior Technical Writer:** Planned, researched, wrote, edited, and produced on-line and hardcopy technical documentation, newsletters, tutorials, and training materials. Presented papers at national conferences on technical documentation. Published technical articles and books, three of which won the Society for Technical Communications Award of Merit.

**PRESENTATIONS AND PUBLICATIONS**

Schneeberg, L.M. (February 2009). How to Get the Best Sleep of Your Life. Lecture presented to undergraduate psychology students at Quinnipiac University, Hamden, Connecticut.

Plummer, J.K. Cline, J. C., Schneeberg, L.M., Rubman, S. (October 2006). Psychology and Sleep Medicine. Symposium presented at the annual convention of the Connecticut Psychological Association in Hartford, Connecticut.

Schneeberg, L.M., Kerns, R.D., Jacob M.D., Ohlin, R., Greene, B. (May 1993). Health Psychology Training at the West Haven VA Medical Center: Preparing Psychologists for Future Roles in Health Care Settings. Symposium presented at the annual convention of the Connecticut Psychological Association in Stamford, Connecticut.

Schneeberg, L.M., Ohlin, R., and Greene, B. (March 1993). Health Psychology Training at the West Haven VA Medical Center: Preparing Psychologists for Future Careers in Health Psychology. Invited address at the Department of Psychology, Yale University.

Schneeberg, L.M. and Rainwater, N. (September 1991). Helping children cope with noxious medical procedures. Paper presented at the third annual convention of the Colorado Society for Behavioral Analysis and Therapy, Denver, Colorado.

Schneeberg, L.M., (August 1991), Women's historical contributions to psychology. Invited lecture for History and Systems of Psychology course at University of Denver.

Published articles in scientific journals, corporate journals and newsletters, and technical manuals.

#### **PROFESSIONAL MEMBERSHIPS, ACTIVITIES, AND CERTIFICATIONS**

Ad hoc reviewer, Journal of Behavioral Medicine  
Society of Behavioral Sleep Medicine  
American Academy of Sleep Medicine  
American Psychological Association  
Connecticut Psychological Association  
Association for the Advancement of Behavior Therapy  
Society of Behavioral Medicine

**CV-Vickie Gerdon, P.A.-C**

**NAME: Vickie C. Gerdon, P.A.-C.**

RESIDENCE: 1303 Aspen Glen Drive  
Hamden, CT 06518  
Home: 203/288-3683 Cell: 860-830-6011  
CERTIFICATION: NCCPA, December, 1993  
Recertified December, 2005  
LICENSURE: Connecticut: #000428

**EDUCATION:**

1971: Purdue University  
Bachelor of Science: Psychology  
1981: University of Evansville  
Master of Business Administration  
1993: Yale University  
Physician Associate Certificate

**PROFESSIONAL EXPERIENCE:**

2010-present Center for Medical Weight Loss, Middletown, CT  
Physician Assistant  
2010-present Right Now Urgent Care, Southington, CT  
Per Diem Physician Assistant  
2011-present Connecticut Orthopedic Specialists, Hamden, CT  
Per Diem Physician Assistant  
2007-2010 Medical Weight Loss Centers, East Haven, CT  
Physician Assistant  
1993-2007 Pediatric & Medical Associates, New Haven, CT.  
Physician Assistant  
1995-2006 Middlesex Hospital Emergency Department, Marlborough and Essex, CT Staff  
Physician Assistant (Per Diem)  
1993-1996 Yale New Haven Hospital Emergency Department, New Haven, CT  
Staff Physician Assistant (Per Diem)  
1995-2007 Yale University Physician Associate Program, New Haven, CT.  
Preceptor, Physical Examination Course-1994-96  
Preceptor, Clinical Pediatric Rotations-1998-2007  
1985-91: Division of Radiation Oncology, Allegheny General Hospital,  
Pittsburgh, PA. Administrative Director  
1981-84: Division of Radiation Oncology, University of Wisconsin Hospital and Clinics,  
Madison, WI. Program Administrator  
1974-76: Adult Basic Education Program, Vincennes University-Jasper Center,  
Jasper, IN. Program Coordinator, Volunteer--English As A Second  
Language, Instructor: Business Mathematics Course  
1972-73: Rowan County Department of Social Services,  
Salisbury, NC. Eligibility Specialist.

1971: Northern Illinois University, Dekalb, IL. Statistical Clerk.

**HONORS AND PRESENTATIONS:**

Honors awarded by Yale Physician Associate Program for medical review paper entitled "Etiology and Development of Sequelae in Adult Survivors with Previously Undisclosed History of Childhood Sexual Abuse"  
Oral presentation given July, 1993.

**INTERESTS AND MEMBERSHIPS:**

ConnAPA

American Society of Bariatric Physicians—Associate member

Greater New Haven Community Chorus— Chair, Fundraising and Grants Committee

Waterbury Chorale

Sawdust Clowns Alley 66—Treasurer

Newsletter Editor—Warren Street Social and Athletic Club-CT

## B. Not-For-Profit Certificate

Internal Revenue Service

Gaylord Farm Association, Inc.  
Gaylord Farm Road, Box 400  
Wallingford, CT 06492

Department of the Treasury

Washington, DC 20224

Person to Contact: Mr. Gillette

Telephone Number: (202) 566-3586

Refer Reply to: E:EO:R:2-5

Date: JUN 10 1991

Legend: H = Gaylord Hospital, Inc.  
P = Gaylord Farm Association, Inc.  
S = Farm Properties Incorporated

Dear Applicant:

This is in reply to your request of August 22, 1990, and subsequent correspondence for rulings concerning a proposed reorganization.

H is a nonstock not-for-profit hospital. H has been recognized as exempt from federal income taxes under section 501(c)(3) of the Code and classified as a public charity under sections 509(a)(1) and 170(b)(1)(A)(iii).

P is a nonstock not-for-profit corporation. P's Certificate of Incorporation provides that its principal purpose is to benefit, perform the functions of, carry out the purposes of and uphold, promote and further the welfare, programs and activities of H. It has been recognized as exempt from federal income taxes under section 501(c)(3) of the Code and a supporting organization within the meaning of section 509(a)(3).

S is a stock corporation with P as its sole shareholder. S is a for-profit corporation and will be subject to federal income taxes. It is not anticipated that P or H will provide services to S, although some personnel and facilities may be shared in the beginning in an effort to reduce costs. If services are provided, an arms-length fee will be charged. The primary purpose of S is to perform real estate development and management functions for P and H.

In addition to its operation of a hospital, H has significant operational and administrative responsibilities in areas not directly related to the providing of medical care to hospital patients. The complexities of operating H's general acute care hospital and H's associated activities have become increasingly burdensome in recent years. At the same time, the demands on the time of persons on the Board of Trustees and Executive Committee of H have also increased. Furthermore, H's commitment to make its services available to all who may need them requires that some of these services be performed at

## C. Financial Worksheets



**FINANCIAL ATTACHMENT DESCRIPTIONS**

**Financial Attachment A – Long Form Total Facility Not-for-Profit**

**Financial Attachment B – Long Form Total Facility For-Profit**

**Financial Attachment C – Long Form Total Hospital Health System Not-for-Profit**

**Financial Attachment D – Long Form Total Hospital Health System For-Profit**

12. C (f). Please provide one year of actual results and three years of projections of Total Facility revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

Total Facility: Description	FY 2013 Actual Results	FY 2014		FY 2014		FY 2015		FY 2015		FY 2016		FY 2016	
		Projected Without CON	Projected With CON	Projected Incremental	Projected With CON	Projected Without CON	Projected Incremental	Projected With CON	Projected Without CON	Projected Incremental	Projected With CON	Projected Incremental	Projected With CON
<b>NET PATIENT REVENUE</b>													
Non-Government	\$896,568	\$879,566	\$0	(\$879,566)	\$0	\$879,566	(\$879,566)	\$0	\$879,566	(\$879,566)	\$0	\$879,566	(\$879,566)
Medicare	\$72,164	\$72,164	\$0	(\$72,164)	\$0	\$72,164	(\$72,164)	\$0	\$72,164	(\$72,164)	\$0	\$72,164	(\$72,164)
Medicaid and Other Medical Assistance	\$409,801	\$409,801	\$0	(\$409,801)	\$0	\$409,801	(\$409,801)	\$0	\$409,801	(\$409,801)	\$0	\$409,801	(\$409,801)
Other Government	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Net Patient Patient Revenue	\$1,378,533	\$1,361,531	\$0	(\$1,361,531)	\$0	\$1,361,531	(\$1,361,531)	\$0	\$1,361,531	(\$1,361,531)	\$0	\$1,361,531	(\$1,361,531)
Other Operating Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revenue from Operations	\$1,378,533	\$1,361,531	\$0	(\$1,361,531)	\$0	\$1,361,531	(\$1,361,531)	\$0	\$1,361,531	(\$1,361,531)	\$0	\$1,361,531	(\$1,361,531)
<b>OPERATING EXPENSES</b>													
Salaries and Fringe Benefits	\$543,143	\$554,005	\$0	(\$554,005)	\$0	\$554,005	(\$554,005)	\$0	\$554,005	(\$554,005)	\$0	\$554,005	(\$554,005)
Professional / Contracted Services	\$34,725	\$34,726	\$0	(\$34,726)	\$0	\$34,726	(\$34,726)	\$0	\$34,726	(\$34,726)	\$0	\$34,726	(\$34,726)
Supplies and Drugs	\$22,864	\$22,865	\$0	(\$22,865)	\$0	\$22,865	(\$22,865)	\$0	\$22,865	(\$22,865)	\$0	\$22,865	(\$22,865)
Bad Debts	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Expense	\$87,182	\$87,183	\$0	(\$87,183)	\$0	\$87,183	(\$87,183)	\$0	\$87,183	(\$87,183)	\$0	\$87,183	(\$87,183)
Subtotal	\$687,914	\$698,779	\$0	(\$698,779)	\$0	\$698,779	(\$698,779)	\$0	\$698,779	(\$698,779)	\$0	\$698,779	(\$698,779)
Depreciation/Amortization	\$52,189	\$52,189	\$0	(\$52,189)	\$0	\$52,189	(\$52,189)	\$0	\$52,189	(\$52,189)	\$0	\$52,189	(\$52,189)
Interest Expense	\$16,513	\$16,513	\$0	(\$16,513)	\$0	\$16,513	(\$16,513)	\$0	\$16,513	(\$16,513)	\$0	\$16,513	(\$16,513)
Lease Expense	\$128,480	\$124,000	\$0	(\$124,000)	\$0	\$127,720	(\$127,720)	\$0	\$127,720	(\$127,720)	\$0	\$131,552	(\$131,552)
Total Operating Expense	\$885,096	\$891,481	\$0	(\$891,481)	\$0	\$912,330	(\$912,330)	\$0	\$912,330	(\$912,330)	\$0	\$927,463	(\$927,463)
Gain/(Loss) from Operations	\$493,437	\$470,050	\$0	(\$470,050)	\$0	\$449,201	(\$449,201)	\$0	\$449,201	(\$449,201)	\$0	\$434,068	(\$434,068)
Plus: Non-Operating Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revenue Over/(Under) Expense	\$493,437	\$470,050	\$0	(\$470,050)	\$0	\$449,201	(\$449,201)	\$0	\$449,201	(\$449,201)	\$0	\$434,068	(\$434,068)
FTEs	5.50	5.50	-	(5.50)	-	5.50	(5.50)	-	5.50	(5.50)	-	5.50	(5.50)
Volume Sleep Studies	973	961	0	(961)	0	961	(961)	0	961	(961)	0	961	(961)

\*Volume Statistics: Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.

**D. Patient Census-Gaylord Sleep Medicine-Glastonbury**

<b>Row Labels</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Grand Total</b>
Amston	31	33	17		81
Andover	7	5	4		16
Ashford	9	13	12	1	35
Avon	10	34	23		67
Baltic	2	12	5		19
Barkhamsted	8	1	8		17
Beacon Falls		1			1
Belmont	3	4			7
Berlin	12	16	33		61
Bethany	1				1
Bloomfield	35	49	45	4	133
Bolton	4	7	3		14
Boyton Beach			3		3
Bridgeport			2		2
Bristol	69	76	84	3	232
Broad Brook	2	8			10
Broadbrook	8	20	11	1	40
Brookline		1			1
Brooklyn	1	2	1		4
Burlington	4	1	16	3	24
Canaan	1	6			7
Canterbury	3	1			4
Canton	10	17	14		41
Centerbrook			1		1
Chaplin		27			27
Cheshire	7	14	19		40
Chester	2	1	1		4
Clinton		2			2
Cobalt	1	2	6		9
Colchester	50	102	87	7	246
Columbia	5	25	7	2	39
Coventry	42	35	30	1	108
Cromwell	33	44	52	4	133
Danbury			1		1
Danielson	4		1		5
Dayville			5	1	6
Deep River	6				6
Durham			2		2
E. Hartford		3	2		5
East Berlin		9	7		16
East Granby	8	17	3		28
East Haddam	6	19	5	2	32
East Hampton	31	58	89	12	190
East Hartford	235	358	226	10	829
East Hartland			1		1

East Haven		1			1
East Heartland	3				3
East Lyme			1		1
East Windsor	13	17	3		33
Eastford			3		3
Ellington	20	37	16	2	75
Elmira			1		1
Enfield	16	36	33	2	87
Essex	4	7	12		23
Fairfield	2				2
Falls Village			1		1
Farifield	1				1
Farmington	18	18	20		56
Gales Ferry	2	4			6
Glastonbury	192	183	208	8	591
Glatonbury	1	2			3
Granby	3	2	10	4	19
Griswold			2	2	4
Groton	5	2			7
Guilford		1			1
Haddam	6	6	3		15
Hamden	1				1
Hampton			4		4
Hartford	607	655	481	49	1792
Harwington		4			4
Harwinton	1				1
Hebron	24	56	42	4	126
Higganum	2	4	1		7
Hillsborough	1				1
Hope Valley			1		1
Ivoryton	1	2			3
Jewett City	7	10	15		32
Kensington	2		2		4
Killingworth			1		1
Lakeville			2		2
Lebanon	7	11	25	3	46
Ledyard	8	6			14
Lisbon		8	7		15
Longmeadow	2				2
Madison		8	2		10
Manchester	206	368	137	5	716
Manfield Center		1			1
Mansfield	12	17	17	1	47
Marlborough	9	13			22
Marlborough	34	60	52	4	150
Meriden	6	25	22		53
Middle Haddam		5			5
Middlefield	1	4	2		7
Middletown	52	68	72	8	200
Milford		2			2

Monson	1				1
Moodus	9	13	15	1	38
Moosup	2		4	1	7
Morris	1	2			3
Munson	5				5
Mystic		2	5	1	8
Naugatuck			5		5
New Britain	132	192	186	12	522
New Britian	2	2	9		13
New Hartford	13	1	3		17
New Haven	7	3	5		15
New London	2	1	3		6
New Milford	2				2
New York	1				1
Newington	59	77	54	4	194
Niantic		7	6	1	14
North Branford	5	4			9
North Granby	3	5			8
North Haven	1	2			3
North Windham	5	11	1		17
Northfield	2	9	1		12
Norwich	22	27	14	2	65
Oakdale	6		1		7
Old Lyme	4	7	8	1	20
Old Saybrook	4	16	2		22
Orange		1			1
Ormond Beach			3		3
Pawatuck	1	2			3
Pine Meadow		2			2
Plainfield	3	1	1	1	6
Plainville	11	27	19	2	59
Plantsville		9	3		12
Pleasant Valley		3			3
Plymouth		2	5		7
Pomfret		3			3
Portland	37	44	35	1	117
Prescott Valley			2		2
Preston	9		2		11
Prospect	1	1			2
Providence		10	2		12
Putnam	4		7		11
Quaker Hill	3	12	1		16
Rockville	15	7	21		43
Rocky Hill	72	109	82	1	264
Rowe	6	1			7
S. Lyme		5	1		6
Saco		5			5
Salem	6	10	15	2	33
Salisbury				2	2
Sandy Hook		1			1

Saunderstown		5			5
Scotland	2	5			7
Sharon		3			3
Shelton			1		1
Simsbury	19	17	7		43
So. Windsor			3		3
Somers	3	11	9	1	24
South Glastonbury	29	34	27	5	95
South Meriden		1			1
South Windham			3		3
South Windsor	98	115	46	2	261
Southbury			1		1
Southington	12	39	26	3	80
Springfield	1				1
Stafford Spring	2				2
Stafford Springs	20	13	13	1	47
Storrs	2	2	4		8
Suffield	3	10	19		32
Taftville	1		3		4
Tariffville			2		2
Tarifville		2			2
Terryville	8	14	13		35
Thomaston		3	2		5
Thompson		3			3
Tolland	41	31	23	2	97
Toronoto	1				1
Torrington	26	27	34	1	88
Trumbull	1	1			2
Uncasville	7	3	8		18
Union			2		2
Unionville	5	19	11	2	37
Vernon	49	88	28		165
Voluntown		1	6	2	9
Wallingford	2	7	3		12
Wapiti	1				1
Waterbury	9	13	8	2	32
Waterford	1	2	1		4
Watertown		2	8		10
Weatogue		1	5		6
West Hartford	88	162	77	7	334
West Haven	5	1	1		7
West Simsbury	5	6	13	3	27
West Suffield	3	4	3		10
Westbook	1				1
Westbrook	1				1
Westfield			1		1
Wethersfield	51	87	76	3	217
Weymouth	2				2
Wilamantic	2		1		3
Willamantic	35	49	64	3	151

Williamantic		6			6
Willimantic			2		2
Willington	3	3	5	1	12
Windham	3	1	14		18
Windsor	81	130	86	11	308
Windsor Locks	12	31	14		57
Winsted	14	11	2	2	29
Wolcott	2	7	5	1	15
Woodbridge		1			1
Woodbury		4	4		8
Woodstock		1			1
Woodstock Valley		1			1
Yardley		5			5
<b>Grand Total</b>	<b>3026</b>	<b>4284</b>	<b>3229</b>	<b>227</b>	<b>10766</b>

**E. Financial Statement**



**Gaylord Farm Association, Inc.**  
**Independent Auditors' Report, Consolidated Financial Statements**  
**and Supplemental Information**  
**As of and for the Years Ended September 30, 2012 and 2011**

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Gaylord Farm Association, Inc. (the Association) as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and shareholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Gaylord Risk Solutions, Ltd., a wholly-owned subsidiary, whose statements reflect total assets of \$5,243,107 and \$5,354,067, total liabilities of \$3,783,397 and \$3,550,951 as of September 30, 2012 and 2011, and total revenues of (\$415,079) and (\$135,312) and net loss of (\$702,372) and (\$121,844) for the years then ended, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gaylord Risk Solutions, Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gaylord Farm Association, Inc. as of September 30, 2012 and 2011, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Saslow Lufkin & Buggy, LLP*

January 8, 2013  
Avon, Connecticut

**Gaylord Farm Association, Inc.**  
**Consolidated Balance Sheets**  
**September 30, 2012 and 2011**

	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 635,238	\$ 884,695
Patient accounts receivable (less allowance for doubtful accounts of \$458,000 in 2012 and \$503,000 in 2011)	10,522,310	10,001,815
Assets whose use is limited:		
Assets held under bond indenture agreement	189,467	179,780
Pledges receivable, net	90,046	386,657
Other current assets	2,003,316	1,944,851
Total current assets	13,440,377	13,397,798
Assets whose use is limited:		
Pledges receivable	231,120	310,105
Board-designated investments	14,349,648	13,693,257
Donor restricted investments	5,555,747	5,529,789
Beneficial interest in trusts held by others	11,240,066	9,748,956
	31,376,581	29,282,107
Property, plant and equipment, net	38,177,394	41,937,586
Investments held for captive insurance liabilities	3,846,709	3,517,224
Reinsurance recoverable relating to captive insurance liabilities	663,930	678,921
Other assets (Notes 4 and 7)	946,160	1,086,089
	\$ 88,451,151	\$ 89,899,725
<b>Liabilities, Net Assets and Shareholder's Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,811,631	\$ 4,853,991
Accrued payroll and related taxes	4,730,818	3,819,490
Line of credit	-	450,000
Estimated amounts due to third-party payers	246,805	246,805
Current portion of accrued pension obligation	1,493,193	2,743,352
Current portion of long-term debt and capital lease obligations	1,526,815	1,487,242
Total current liabilities	10,809,262	13,600,880
Long-term debt and capital lease obligations, less current portion	18,153,360	19,570,309
Accrued pension obligation	16,609,410	14,699,268
Captive insurance losses and other reserves	2,819,498	2,827,083
Interest rate swap liability	4,712,094	4,155,222
Total liabilities	53,103,624	54,852,762
Net assets and shareholder's equity:		
Unrestricted net assets	15,942,540	16,757,868
Temporarily restricted net assets	1,149,464	1,207,234
Permanently restricted net assets	16,795,813	15,278,745
Shareholder's equity	1,459,710	1,803,116
Total net assets and shareholder's equity	35,347,527	35,046,963
	\$ 88,451,151	\$ 89,899,725

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

**Gaylord Farm Association, Inc.**  
**Consolidated Statements of Operations and**  
**Changes in Net Assets and Shareholder's Equity**  
**For the Years Ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Revenues:		
Net patient service revenue	\$ 70,326,743	\$ 67,064,747
Contributions and bequests	1,076,207	913,165
Ceded premium	(325,000)	(332,500)
Other operating revenue	725,080	637,668
Net assets released from restrictions used for operations	<u>279,175</u>	<u>145,235</u>
Total revenues	<u>72,082,205</u>	<u>68,428,315</u>
Expenses:		
Salaries and related expenses	49,528,721	46,823,400
Other operating expenses	5,606,698	5,531,291
Professional fees and contract services	8,060,187	6,818,453
Supplies	5,034,738	5,064,540
Depreciation and amortization	3,900,452	3,890,429
Occupancy costs	2,145,309	2,099,698
Provision for bad debts	420,830	344,715
Interest	882,966	919,764
Losses and loss adjustment expenses (recoveries)	<u>164,137</u>	<u>(141,200)</u>
Total expenses	<u>75,744,038</u>	<u>71,351,090</u>
Loss from operations	<b>(3,661,833)</b>	<b>(2,922,775)</b>
Other gains, net:		
Dividend and interest income	522,282	586,562
Net realized gains on investments	515,365	140,830
Loss on equity investments	(75,252)	(5,304)
Change in fair value of interest rate swap agreement	<u>(556,872)</u>	<u>(508,193)</u>
Total other gains, net	<u>405,523</u>	<u>213,895</u>
Excess of revenues under expenses	<u>\$ (3,256,310)</u>	<u>\$ (2,708,880)</u>

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

**Gaylord Farm Association, Inc.**  
**Consolidated Statements of Operations and**  
**Changes in Net Assets and Shareholder's Equity (continued)**  
**For the Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Unrestricted net assets:		
Excess of revenues under expenses	\$ (3,256,310)	\$ (2,708,880)
Net unrealized gains (losses) on investments	2,557,046	(1,132,499)
Pension related changes other than net periodic pension cost	(1,708,412)	(3,183,532)
Net loss of GRS	702,372	121,844
Net assets released from restrictions used for purchases of property, plant and equipment	889,976	616,837
Change in unrestricted net assets	(815,328)	(6,286,230)
Temporarily restricted net assets:		
Restricted pledges and contributions	719,251	187,488
Investment income and realized gains on investments	74,943	-
Net unrealized gains on investments	317,187	-
Net assets released from restrictions	(1,169,151)	(762,072)
Change in temporarily restricted net assets	(57,770)	(574,584)
Permanently restricted net assets:		
Restricted contributions and bequests	25,958	29,320
Change in beneficial interest in trusts held by others	1,491,110	(419,464)
Change in permanently restricted net assets	1,517,068	(390,144)
Shareholder's equity:		
Net loss of GRS	(702,372)	(121,844)
Net unrealized gains (losses) on investments of GRS	358,966	(260,304)
Change in shareholder's equity	(343,406)	(382,148)
Change in net assets and shareholder's equity	300,564	(7,633,106)
Net assets and shareholder's equity, beginning of year	35,046,963	42,680,069
Net assets and shareholder's equity, end of year	\$ 35,347,527	\$ 35,046,963

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

**Gaylord Farm Association, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Operating activities:		
Change in net assets and shareholder's equity	\$ 300,564	\$ (7,633,106)
Adjustments to reconcile change in net assets and shareholder's equity to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,900,452	3,890,429
Pension related changes other than net periodic pension cost	1,708,412	3,183,532
Change in fair value of interest rate swap	556,872	508,193
Net realized and unrealized (gains) losses on investments	(3,464,541)	991,669
Loss from equity investments	75,252	5,304
Change in beneficial interest in trusts held by others	(1,491,110)	419,464
Restricted contributions and bequests received	(745,209)	(216,808)
Changes in operating assets and liabilities:		
Patient accounts receivable	(520,495)	(885,966)
Other current assets	(58,465)	(219,834)
Pledges receivable	375,596	487,544
Investments held for captive insurance liabilities	(329,485)	392,772
Reinsurance recoverable relating to captive insurance	14,991	78,729
Other assets	109,677	121,120
Accounts payable and accrued expenses	(2,042,360)	(246,346)
Accrued payroll and related taxes	911,328	444,036
Accrued pension obligation	(1,048,429)	(830,029)
Captive insurance losses and other reserves	(7,585)	(222,216)
Net cash (used in) provided by operating activities	(1,754,535)	268,487
Investing activities:		
Assets held under bond indenture agreement	(9,687)	(7,997)
Investments in joint ventures	(45,000)	(30,601)
Purchases of property, plant and equipment	(140,260)	(1,625,423)
Sales and purchases of investments, net	2,782,192	1,744,509
Net cash provided by investing activities	2,587,245	80,488
Financing activities:		
Principal payments on long-term debt	(1,220,000)	(640,000)
Net payments on lines of credit	(450,000)	(575,000)
Principal payments on capital lease obligations	(157,376)	(842,100)
Restricted contributions and bequests received	745,209	216,808
Net cash used in financing activities	(1,082,167)	(1,840,292)
Change in cash and cash equivalents	(249,457)	(1,491,317)
Cash and cash equivalents, beginning of year	884,695	2,376,012
Cash and cash equivalents, end of year	\$ 635,238	\$ 884,695

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

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 1 - General**

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

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

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

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

**Note 2 - Summary of Significant Accounting Policies**

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

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

**Cash and Cash Equivalents** - Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. In general, the Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. The FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. Unlimited coverage on non-interest bearing accounts extends until December 31, 2012. It is the Association's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Association maintains cash balances in excess of the FDIC insurance limit.

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

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

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

**Other Than Temporary Impairments on Investments** - The Association accounts for other than temporary impairments in accordance with FASB ASC 320-10 "*Investments - Debt and Equity Securities*" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2012 or 2011.

**Equity Investments** - The Association has a fifty percent ownership interest in North Haven Fitness & Wellness, LLC (Fitness & Wellness). In addition, the Association has a fifty percent ownership in Gaylord Sleep HealthCenters of Connecticut, LLC (GSHC). The Association accounts for its investment interest in these entities using the equity method of accounting. As such, the Association adjusts its investments by its share of the investees net income (loss).

**Deferred Financing Costs** - Deferred financing costs have been recorded as an asset and are being amortized using the effective interest method over the term of the related financing agreement.

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

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

**Donor Restricted Gifts** - Unconditional promises to give cash and other assets to the Association are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.



**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

**Excess of Revenues Over (Under) Expenses** - The consolidated statements of operations and changes in net assets includes excess of revenues over (under) expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, assets released from restrictions for purchase of property, plant and equipment and certain changes in the pension liability.

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

The Association accounts for uncertain tax positions with provisions of FASB ASC 740, "Income Taxes" which provide a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Association does not have any uncertain tax positions as of September 30, 2012 and 2011. As of September 30, 2012 and 2011, the Association did not record any penalties or interest associated with uncertain tax positions. The Association's prior three tax years are open and subject to examination by the Internal Revenue Service.

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

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

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

**Charity Care** - The Association provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Association does not pursue collection of amounts determined to qualify as charity care, the charges related to charity care services are offset within net patient service revenue.

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

The amount of traditional charity care provided, determined on the basis of cost, was approximately \$19,019 and \$19,524 for the years ended September 30, 2012 and 2011, respectively. Previously, the Association reported its estimates of services provided under its charity care programs based on gross charges. In connection with the Association's adoption of Accounting Standards Update (ASU) 2010-23, "*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*," amounts previously reported for care provided under its charity care programs have been restated to reflect the Association's estimates of its direct and indirect cost of providing these services. This change had no impact on the Association's consolidated results of operations.

**Estimated Malpractice Costs** - The Association maintains malpractice insurance coverage under claims made policies through GRS in 2012 and 2011. A provision for estimated medical malpractice claims includes estimates of the ultimate costs for claims incurred but not reported and is included within accounts payable and accrued expenses on the Association's consolidated balance sheets.

**Workers Compensation Costs** - The Association is self-insured for workers' compensation. Estimated self-insurance liabilities are included within accrued payroll and related taxes and are \$1,102,510 and \$1,092,336 as of September 30, 2012 and 2011, respectively, and include estimates for claim obligations related to claims occurring through September 30, 2012 and 2011.

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

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

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

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

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Accounting Pronouncements Adopted** - In August 2010, the FASB issued ASU No. 2010-23, "*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*". ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for fiscal years beginning after December 15, 2010, with retrospective application required. The Association's adoption of ASU 2010-23 did not have a material impact on its overall consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-24, "*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*". ASU No. 2010-24 clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010. The Association's adoption of ASU 2010-24 did not have an impact on its overall consolidated financial statements.

**Pending Accounting Pronouncements** - In May 2011, the FASB issued ASU No. 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRs*". ASU No. 2011-04 amends certain guidance in ASC 820, "*Fair Value Measurement*". ASU 2011-04 expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011 and will be applied on a prospective basis. The Association is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Association's consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, "*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*". ASU 2011-07 requires a health care entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012. The Association does not believe adoption of ASU 2011-07 will have a material impact on its overall consolidated financial statements.

**Reclassification** - Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no material effect on the 2011 consolidated financial statements.

**Subsequent Events** - Subsequent events have been evaluated through January 8, 2013, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

**Note 3 - Net Patient Service Revenue**

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

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 3 - Net Patient Service Revenue (continued)**

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

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

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

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

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

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$ 195,997,746	\$ 195,812,053
Contractual allowances and adjustments	<u>(125,671,003)</u>	<u>(128,747,306)</u>
Net patient service revenue	<u>\$ 70,326,743</u>	<u>\$ 67,064,747</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 37% and 10%, respectively, of the Association's net patient revenue for 2012 and 40% and 9%, respectively, for 2011. Revenue from Blue Cross accounted for approximately 22% and 19% in 2012 and 2011, respectively. No other payer accounted for more than 10% of revenue in 2012 and 2011. Net patient service revenues are based upon complex payment systems and include estimates of amounts yet to be collected. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. Any changes to estimates are recorded within current year operations.

The Association grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The following summarizes payers that account for more than 10 percent of patient accounts receivable as of September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Medicare	38%	46%
Medicaid	10%	11%
Blue Cross	19%	14%

Monthly, management reviews accounts receivable for uncollectible amounts and records an allowance for doubtful accounts based on specifically identified accounts, as well as an amount for expected bad debt based on historical losses.

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 4 - Investments**

Board-designated and donor restricted investments are invested as follows as of September 30, 2012 and 2011:

	2012		2011	
	Cost	Market Value	Cost	Market Value
Cash and money market funds	\$ 81,275	\$ 81,275	\$ 318,590	\$ 318,590
Alternative investment funds	2,080,608	2,224,716	2,519,488	2,047,429
Equity securities	4,258,787	5,324,232	5,116,350	5,164,432
Mutual funds - fixed income	5,642,829	5,901,987	5,840,852	5,786,021
Mutual funds - equity	5,287,290	6,373,185	5,747,393	5,906,574
<b>Total</b>	<b>\$ 17,350,789</b>	<b>\$ 19,905,395</b>	<b>\$ 19,542,673</b>	<b>\$ 19,223,046</b>

Investment balances that have been restricted by donors as of September 30, 2012 and 2011 are \$5,555,747 and \$5,529,789, respectively. The Board of Directors of the Association has restricted all other investments.

Current assets that are held under a bond indenture agreement, are deposited with a trustee for debt service funds. Such amounts are invested in United States treasury notes. In addition, investments held for funding of captive insurance liabilities of \$3,846,709 and \$3,517,224 as of September 30, 2012 and 2011, respectively, are invested in bonds and fixed income mutual funds.

The Association also has a beneficial interest in trusts held by others of \$11,240,066 and \$9,748,956 as of September 30, 2012 and 2011, respectively. These funds are managed by the trustees of each fund and are invested primarily in cash equivalents, fixed income and equity securities.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2012 and 2011:

2012	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	\$ 88,786	\$ (13,811)	\$ 159,203	\$ (25,459)	\$ 247,989	\$ (39,270)
Alternative investment funds	-	-	996,770	(186,230)	996,770	(186,230)
Mutual funds	-	-	932,271	(21,926)	932,271	(21,926)
<b>Total</b>	<b>\$ 88,786</b>	<b>\$ (13,811)</b>	<b>\$ 2,088,244</b>	<b>\$ (233,615)</b>	<b>\$ 2,177,030</b>	<b>\$ (247,426)</b>

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 4 - Investments (continued)**

2011	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	\$ 641,790	\$ (141,811)	\$ 105,990	\$ (18,418)	\$ 747,780	\$ (160,229)
Alternative investment funds	-	-	1,543,651	(430,058)	1,543,651	(430,058)
Mutual funds	3,788,645	(140,895)	5,542,242	(884,964)	9,330,887	(1,025,859)
<b>Total</b>	<b>\$ 4,430,435</b>	<b>\$ (282,706)</b>	<b>\$ 7,191,883</b>	<b>\$ (1,333,440)</b>	<b>\$ 11,622,318</b>	<b>\$ (1,616,146)</b>

In 2012 and 2011, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

Investment income is comprised of the following for the years ended September 30, 2012 and 2011:

	2012	2011
Income:		
Dividend and interest income	\$ 522,282	\$ 586,562
Net realized gains on investments	515,365	140,830
Total investment return	<u>\$ 1,037,647</u>	<u>\$ 727,392</u>
Other changes in unrestricted net assets:		
Unrealized gains (losses) on other than trading securities	<u>\$ 2,557,046</u>	<u>\$ (1,132,499)</u>

**Investments in Joint Ventures** - The Association has a fifty percent ownership interest in Fitness & Wellness and a fifty percent ownership interest in GSHC. The Association accounts for its investment interest in these entities using the equity method of accounting.

The Association's share of Fitness & Wellness's net loss for the years ended September 30, 2012 and 2011 was \$195,647 and \$118,629, respectively. In addition, the Association made a capital contribution to Fitness & Wellness of \$45,000 and \$30,601 during the fiscal years ended September 30, 2012 and 2011, respectively. The carrying amount of the Fitness & Wellness investment was \$335,919 and \$486,566 as of September 30, 2012 and 2011, respectively, and is included in other assets.

The Association's share of GSHC's net gain for the year ended September 30, 2012 and 2011 was \$120,396 and \$113,325, respectively. The Association has a receivable of \$95,635 and \$102,213 due from GSHC for a capital distribution as of September 30, 2012 and 2011, respectively, which is included within other current assets on the accompanying consolidated balance sheets. The carrying amount of the GSHC investment was \$125,323 and \$100,562 as of September 30, 2012 and 2011, respectively and is included in other assets.

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 5 - Fair Value Measurements**

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

*Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

*Level 2* - Inputs to the valuation methodology include:

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

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

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

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

The following is a description of the valuation methodologies for assets and liabilities measured at fair value. There have been no changes in methodologies used as of September 30, 2012 and 2011:

*Cash and money market funds* - Valued at the closing price reported on the active market on which the individual securities are traded.

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

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

*Limited partnerships* - Valued based on net asset value (NAV) as calculated separately for each class and subclass of shares and for each series within a class of shares equal to the value of gross assets less gross liabilities at the date of determination divided by the total number of outstanding shares. Certain investments may not have readily available market values and may be subject to certain withdrawal restrictions. Liquidity can vary based on various factors and may include lock-up periods as well as redemption fees and/or restrictions. Audited financial statements were obtained as of December 31, 2011 and 2010, which reported unqualified opinions. Values as of September 30, 2012 and 2011 were determined utilizing the same methodologies as those reported in the audited financial statements as of December 31, 2011 and 2010. The following are the major categories of limited partnerships:

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 5 - Fair Value Measurements (continued)**

*REITs* - This asset class seeks to generate net returns in excess of the UBS Global Real Estate Investor Index through the creation and active management of a portfolio of publicly traded securities issued by real estate investment trusts and other publicly held real estate company in North America, Europe, Australia and Asia.

*Limited liability companies* - Valued periodically based on the NAV per share. The NAV is determined by the investee company's investment manager or custodian by deducting from the value of assets of the investee company all its liabilities and the resulting number is divided by the outstanding number of shares or units. The NAV per share is then multiplied by the total number of shares held by the Fund at the fiscal year end. Certain investments may not have readily available market values and may be subject to certain withdrawal restrictions. Liquidity can vary based on various factors and may include lock-up periods as well as redemption fees and/or restrictions. Audited financial statements were obtained as of December 31, 2011 and 2010, which reported unqualified opinions. Values as of September 30, 2012 and 2011 were determined utilizing the same methodologies as those reported in the audited financial statements as of December 31, 2011 and 2010. The following are the major categories of limited liability companies:

*Domestic equity* - This asset class seeks to achieve long-term capital appreciation by investing in a portfolio of small and medium capitalization companies defined as companies whose market capitalizations fall within the range of the Russell 2500 index at the time of purchase.

*Registered investment companies* - Shares of registered investment companies are valued at the NAV of the shares held by the Fund at year end, where NAV is based on the fair value of the underlying assets in each fund. The following are the major categories of registered investment companies:

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

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

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

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

Investments measured at NAV are subject to various management, incentive and other fees based on NAV, classes, capital account balances and/or capital commitments. Investments may also be subject to lock up periods. The following table outlines restrictions on investments valued at NAV as of September 30, 2012 and 2011:

	Fair Value		Redemption Frequency (if Currently Eligible)	Redemption Notice Period
	2012	2011		
Limited partnerships - REITs	\$ 511,599	\$ 525,469	Monthly	15 business days prior to month end
Limited liability companies - domestic equity	\$ 1,151,558	\$ 1,018,182	Daily	Not applicable
Registered investment companies - REITs	\$ 485,172	\$ 503,778	Daily	Not applicable



**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 5 - Fair Value Measurements (continued)**

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

The following table presents the financial instruments carried at fair value as of September 30, 2012 by the valuation hierarchy:

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and money market funds	\$ 81,275	\$ -	\$ -	\$ 81,275
Limited partnerships - REITs	-	511,599	-	511,599
Limited liability companies - domestic equity	-	1,151,558	-	1,151,558
Registered investment companies - REITs	-	485,172	-	485,172
Public REITs	-	76,387	-	76,387
Equity securities:				
U.S. large cap	3,724,618	-	-	3,724,618
U.S. mid cap	1,514,569	-	-	1,514,569
International developed	60,820	-	-	60,820
Emerging markets	24,225	-	-	24,225
Mutual funds - fixed income:				
Investment grade taxable	3,901,578	-	-	3,901,578
International developed	2,000,409	-	-	2,000,409
Mutual funds - equity:				
International developed	5,440,914	-	-	5,440,914
Emerging markets	932,271	-	-	932,271
Total	<u>17,680,679</u>	<u>2,224,716</u>	<u>-</u>	<u>19,905,395</u>
Investments held for captive insurance liabilities:				
Mutual funds - fixed income	52,476	979,871	-	1,032,347
Mutual funds - equity	424,542	-	-	424,542
Fixed income securities	-	2,389,820	-	2,389,820
Total	<u>477,018</u>	<u>3,369,691</u>	<u>-</u>	<u>3,846,709</u>
Funds held under bond indenture agreements	189,467	-	-	189,467
Beneficial interest in trusts held by others	-	-	11,240,066	11,240,066
Total	<u>\$ 18,347,164</u>	<u>\$ 5,594,407</u>	<u>\$ 11,240,066</u>	<u>\$ 35,181,637</u>
Liabilities:				
Interest rate swap liability	\$ -	\$ 4,712,094	\$ -	\$ 4,712,094
Total	<u>\$ -</u>	<u>\$ 4,712,094</u>	<u>\$ -</u>	<u>\$ 4,712,094</u>

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 5 - Fair Value Measurements (continued)**

The following table presents the financial instruments carried at fair value as of September 30, 2011 by the valuation hierarchy:

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and money market funds	\$ 318,590	\$ -	\$ -	\$ 318,590
Limited partnerships - REITs	-	525,469	-	525,469
Limited liability companies - domestic equity	-	1,018,182	-	1,018,182
Registered investment companies - REITs	-	503,778	-	503,778
Equity securities:				
U.S. large cap	3,815,823	-	-	3,815,823
U.S. mid cap	1,320,396	-	-	1,320,396
Emerging markets	28,213	-	-	28,213
Mutual funds - fixed income:				
Investment grade taxable	3,955,053	-	-	3,955,053
International developed	1,830,968	-	-	1,830,968
Mutual funds - equity:				
International developed	4,995,026	-	-	4,995,026
Emerging markets	911,548	-	-	911,548
Total	<u>17,175,617</u>	<u>2,047,429</u>	<u>-</u>	<u>19,223,046</u>
Investments held for captive insurance liabilities:				
Mutual funds - fixed income	47,232	896,974	-	944,206
Mutual funds - equity	269,369	-	-	269,369
Fixed income securities	-	2,303,649	-	2,303,649
Total	<u>316,601</u>	<u>3,200,623</u>	<u>-</u>	<u>3,517,224</u>
Funds held under bond indenture agreements	179,780	-	-	179,780
Beneficial interest in trusts held by others	-	-	9,748,956	9,748,956
Total	<u>\$ 17,671,998</u>	<u>\$ 5,248,052</u>	<u>\$ 9,748,956</u>	<u>\$ 32,669,006</u>
Liabilities:				
Interest rate swap liability	\$ -	\$ 4,155,222	\$ -	\$ 4,155,222
Total	<u>\$ -</u>	<u>\$ 4,155,222</u>	<u>\$ -</u>	<u>\$ 4,155,222</u>

As of September 30, 2012 and 2011, the Association's other financial instruments included accounts receivable, pledges receivable, accounts payable and accrued expenses, line of credit, estimated third-party payer settlements, captive insurance reserves, long-term debt and capital lease obligations. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 5 - Fair Value Measurements (continued)**

The following are the changes within the beneficial interest in trusts held by others for the years ended September 30, 2012 and 2011, which are classified as Level 3 within the fair value hierarchy:

	<b>2012</b>
Balance as of October 1, 2011	\$ 9,748,956
Net change in market value	1,960,344
Distributions	(469,234)
Balance as of September 30, 2012	\$ 11,240,066
	<b>2011</b>
Balance as of October 1, 2010	\$ 10,168,420
Net change in market value	48,072
Distributions	(467,536)
Balance as of September 30, 2011	\$ 9,748,956

**Note 6 - Property, Plant and Equipment**

Property, plant and equipment consists of the following as of September 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Land and improvements	\$ 1,820,966	\$ 3,567,551
Buildings and improvements	57,491,710	57,358,538
Fixed and moveable equipment	33,563,642	32,234,859
	92,876,318	93,160,948
Less: accumulated depreciation and amortization	(54,894,036)	(51,406,912)
	37,982,282	41,754,036
Construction in progress	195,112	183,550
Total	\$ 38,177,394	\$ 41,937,586

Depreciation expense for the years ended September 30, 2012 and 2011 amounted to \$3,487,125 and \$3,455,220, respectively. Amortization expense for equipment under capital lease obligations was \$395,108 and \$416,990 as of September 30, 2012 and 2011, respectively.

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 7 - Other Assets**

Other assets as of September 30, 2012 and 2011 are as follows:

	2012	2011
Investment in Fitness & Wellness	\$ 355,919	\$ 486,566
Investment in GSHC	125,323	100,562
Deferred financing costs	336,390	352,214
Deposits and other	128,528	146,747
Total	\$ 946,160	\$ 1,086,089

**Note 8 - Long-Term Debt, Lines of Credit and Lease Arrangements**

**Lines of Credit** - The Association had available a \$5,000,000 line of credit agreement, which was available for payment of costs associated with the construction of the 36-bed inpatient pavilion. On January 30, 2009, the Association converted this line of credit to a line of credit note in the amount of \$1,625,000. As of September 30, 2012 and 2011, the Association had \$0 and \$450,000, respectively, outstanding on this line of credit note. Borrowings on the line of credit note were payable in annual installments with the final payment due on July 3, 2012. At the Association's option, the line of credit note bears interest at the bank's prime rate, as defined, plus 150 basis points or LIBOR plus 175 basis points.

**Long-term Obligations** - The Association also had a \$3,000,000 line of credit agreement, which was renewable on an annual basis. On January 30, 2009, the Association converted this line of credit into a term loan promissory note whereby the \$3,000,000 is payable in equal monthly installments of \$50,000 with a final payment on January 31, 2014. At the Association's option, the term loan promissory note bears interest at the bank's prime rate, as defined, or LIBOR plus 100 basis points. As of September 30, 2012 and 2011, the Association had \$850,000 and \$1,400,000, respectively, outstanding on this term loan.

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

The Series B Bonds bear interest at a variable rate as determined by a re-marketing agent (approximately 0.2% and 0.3% as of September 30, 2012 and 2011, respectively), which is adjusted weekly, and matures on July 1, 2037. For as long as the bonds are variable rate, the bond holders have the option to tender their bonds for repayment. The Association has a letter of credit from Bank of America, N.A., which is available to support its obligations under the Series B Bonds during this period. The letter of credit expires on January 3, 2014, subject to extension or earlier termination upon the occurrence of certain events set forth in the letter of credit agreement. At that time, the letter of credit can be renewed, at the bank's discretion, the Association can convert the bonds to a fixed rate or repurchase the bonds outstanding on that date at their par value. Tenders made by bond holders will be remarketed or, if necessary, paid by the drawdowns on the letter of credit. Any tender drawings made under the letter of credit are to be repaid by the Association on the expiration date of the letter of credit. As of September 30, 2012 and 2011, the Association had \$18,465,000 and \$19,135,000, respectively, outstanding on the Series B Bonds.

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 8 - Long-Term Debt, Lines of Credit and Lease Arrangements (continued)**

The Series B loan and letter of credit agreements include certain financial covenants including a minimum debt service coverage ratio of 1.25 to 1, a minimum required amount of unrestricted liquid assets of \$10.0 million, and other restrictions, including limitations on future indebtedness and liens. The Association was in compliance with all covenants for 2012 and 2011.

*Lease Abandonment Obligations* - During 2010, the Association recorded a loss on abandonment of a long-term rental property in the amount of \$147,543. The lease was previously accounted for as an operating lease and the Association was no longer utilizing the rental property and is unable to sublease the property. Consequently, the Association's liability represents the present value of future minimum lease payments under this lease of \$23,568 as of September 30, 2012. The lease expires in January 2013.

During 2009, the Association recorded a loss on abandonment of a long-term rental property in the amount of \$92,035. The lease was previously accounted for as an operating lease and the Association was no longer utilizing the rental property and is unable to sublease the property. Consequently, the Association's liability represents the present value of future minimum lease payments under this lease of \$5,530 as of September 30, 2012. The lease expires in December 2013.

*Letter of Credit* - As a result of being self-funded for its workers' compensation program, the Association is required by the State of Connecticut Workers' Compensation Commission to hold a letter of credit in the aggregate amount of \$650,000 as of September 30, 2012 and 2011. As of September 30, 2012 and 2011, there are no outstanding balances on the letter of credit.

*Capital Lease Obligations* - The Association leases certain equipment and software under capital lease obligations, expiring through December 2019. Future payments, including interest are as follows:

2013	\$	173,687
2014		56,108
2015		32,593
2016		32,593
2017		29,045
Thereafter		55,059
Less: interest		(43,008)
Total	\$	336,077

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 8 - Long-Term Debt, Lines of Credit and Lease Arrangements (continued)**

A summary of long-term debt and capital lease obligations as of September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Long-term debt obligation	\$ 18,465,000	\$ 19,135,000
Term loan promissory note	850,000	1,400,000
Capital lease obligations	336,077	416,044
Lease abandonment obligation	29,098	106,507
	<u>19,680,175</u>	<u>21,057,551</u>
Less: current portion	<u>(1,526,815)</u>	<u>(1,487,242)</u>
Total	<u>\$ 18,153,360</u>	<u>\$ 19,570,309</u>

Scheduled principal repayments on the long-term debt and capital lease obligations as of September 30, 2012 are as follows:

2013	\$ 1,526,815
2014	983,500
2015	785,919
2016	817,286
2017	850,129
Thereafter	<u>14,716,526</u>
Total	<u>\$ 19,680,175</u>

**Operating Leases** - The Association leases various equipment and space under operating leases expiring at various dates and month-to-month agreements. Some of these leases contain renewal options. Rent expense under such operating leases and agreements is \$495,570 and \$490,304, in 2012 and 2011, respectively. The following is a schedule of future minimum payments under non-cancellable operating leases as of September 30, 2012:

2013	\$ 421,727
2014	422,506
2015	401,315
2016	360,003
2017	198,333
Thereafter	<u>394,222</u>
Total	<u>\$ 2,198,106</u>

In addition, the Association leases land under a long-term lease agreement through 2106 to a third-party. Rental income is based on a percentage of the gross income earned by the lessee. Total rental income from this property was \$196,124 and \$182,096 for 2012 and 2011, respectively, and is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets and shareholder's equity.

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 9 - Derivatives**

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

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

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

On August 1, 2007, the Association entered into an interest rate swap agreement with an initial notional amount of \$21,530,000 to reduce the exposure to fluctuations in interest rates related to its CHEFA debt. The swap agreement, which expires in June 2027, requires that the Association make monthly payments to the counter-party, Bank of America, N.A., based upon a fixed interest rate of 4.28% and in return receives monthly payments from Bank of America, N.A. based on the Bond Index Association Municipal Swap Rate Index rate (0.18% and 0.16% as of September 30, 2012 and 2011, respectively). The notional amount is scheduled to decrease as principal is paid on the CHEFA debt. Net amounts paid under the swap is recorded as additional interest expense. Based on information received from the counter-party, the swap agreement had an unfavorable fair value of \$4,712,094 and \$4,155,222 as of September 30, 2012 and 2011, respectively.

Management has not designated the swap agreement as a hedging instrument. The change in fair value of the interest rate swap of \$556,872 and \$508,193 for the years ended September 30, 2012 and 2011, respectively, is recorded in the consolidated statements of operations and changes in net assets as a component of non-operating income.

**Note 10 - Net Assets**

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

	<u>2012</u>	<u>2011</u>
Health care services:		
Patient special needs	\$ 6,789	\$ 11,506
Other restricted purposes	821,509	498,966
Capital campaign	<u>321,166</u>	<u>696,762</u>
Total	<u>\$ 1,149,464</u>	<u>\$ 1,207,234</u>

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 10 - Net Assets (continued)**

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

Permanently restricted net assets are restricted to the following purposes as of September 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services	\$ 5,555,747	\$ 5,529,789
Beneficial interest in trusts held by others, the income of which is expendable to support other health care services	11,240,066	9,748,956
Total	\$ 16,795,813	\$ 15,278,745

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

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

The Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Association and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Association; and (7) the investment policies of the Association.



**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 10 - Net Assets (continued)**

Changes in net assets for endowments and temporary restricted funds for the year ended September 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of October 1, 2011	\$ 13,693,257	\$ 510,472	\$ 5,529,789	\$ 19,733,518
Investment return:				
Investment income	522,282	74,943	-	597,225
Net change in market value	3,357,842	317,187	-	3,675,029
Contributions	-	719,251	25,958	745,209
Expenditures	(3,223,733)	(793,555)	-	(4,017,288)
Balance as of September 30, 2012	<u>\$ 14,349,648</u>	<u>\$ 828,298</u>	<u>\$ 5,555,747</u>	<u>\$ 20,733,693</u>

Changes in net assets for endowments and temporary restricted funds for the year ended September 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of October 1, 2010	\$ 16,458,755	\$ 597,512	\$ 5,500,469	\$ 22,556,736
Investment return:				
Investment income	586,562	-	-	586,562
Net change in market value	(1,321,431)	-	-	(1,321,431)
Contributions	-	187,488	29,320	216,808
Expenditures	(2,030,629)	(274,528)	-	(2,305,157)
Balance as of September 30, 2011	<u>\$ 13,693,257</u>	<u>\$ 510,472</u>	<u>\$ 5,529,789</u>	<u>\$ 19,733,518</u>

**Funds with Deficiencies** - From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2012 and 2011, there were no funds that were below the level required by donor or law.

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

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

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 10 - Net Assets (continued)**

**Spending Policy** - During its annual budgeting process, the Association appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. During the year ended September 30, 2012 and 2011, the Board appropriated \$3,223,733 and \$2,030,629, respectively of funds for expenditure from its board restricted endowment funds. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Association.

**Note 11 - Pension Plans**

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

The following summarizes significant disclosures relating to the Plan as of September 30, 2012 and 2011:

	2012	2011
<b>Change in benefit obligations:</b>		
Benefit obligations at beginning of year	\$ 36,167,672	\$ 34,102,808
Interest cost	1,664,730	1,712,734
Service cost	280,000	250,000
Actuarial loss	4,540,807	2,410,259
Expected administrative expenses	(247,351)	(250,000)
Benefits and plan expenses paid	(2,487,533)	(2,058,129)
Benefit obligations at end of year	\$ 39,918,325	\$ 36,167,672
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 18,725,052	\$ 19,013,691
Actual return on plan assets	3,616,821	418,501
Employer contributions	2,208,733	1,669,458
Benefits and plan expenses paid	(2,487,533)	(2,058,129)
Administrative expenses	(247,351)	(318,469)
Fair value of plan assets at end of year	\$ 21,815,722	\$ 18,725,052
<b>Accrued pension liability:</b>		
Unfunded status	\$ (18,102,603)	\$ (17,442,620)

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 11 - Pension Plans (continued)**

	2012	2011
<b>Net periodic benefit cost:</b>		
Interest cost	\$ 1,664,730	\$ 1,712,734
Service cost	280,000	250,000
Actuarial loss recognized	446,966	302,929
Expected return on plan assets	(1,231,392)	(1,426,234)
Net periodic benefit cost	\$ 1,160,304	\$ 839,429

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

2013	\$ 2,477,396
2014	\$ 2,749,163
2015	\$ 2,538,032
2016	\$ 2,489,282
2017	\$ 2,698,586
Years 2018-2022	\$ 12,769,366

Amounts recorded in unrestricted net assets as of September 30, 2012 and 2011, not yet amortized as components of net periodic benefit cost are as follows:

	2012	2011
Unamortized actuarial loss	\$ 19,876,724	\$ 18,168,312

The amortization of the above items expected to be recognized in net periodic benefit income for the year ended September 30, 2012 is \$638,042.

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

	2012	2011
<b>Benefit obligations:</b>		
Discount rate	3.85%	4.75%
<b>Net periodic benefit cost:</b>		
Discount rate	4.75%	5.25%
Expected long-term return on plan assets	6.00%	6.80%

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 11 - Pension Plans (continued)**

The fair values of the Association's plan assets, by asset category are as follows, for the year ended September 30, 2012 and 2011:

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 750,129	\$ -	\$ -	\$ 750,129
Mutual funds - fixed income	9,541,727	-	-	9,541,727
Mutual funds - equities	7,911,780	-	-	7,911,780
Equity securities:				
Consumer discretionary	502,451	-	-	502,451
Consumer staples	269,917	-	-	269,917
Energy	174,229	-	-	174,229
Financial	218,765	-	-	218,765
Health care	331,953	-	-	331,953
Industrials	140,853	-	-	140,853
Information technology	954,988	-	-	954,988
Other	168,623	-	-	168,623
Limited liability company	-	749,504	-	749,504
REIT	-	100,803	-	100,803
	<u>\$ 20,965,415</u>	<u>\$ 850,307</u>	<u>\$ -</u>	<u>\$ 21,815,722</u>
<b>Total</b>	<b>\$ 20,965,415</b>	<b>\$ 850,307</b>	<b>\$ -</b>	<b>\$ 21,815,722</b>
<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 634,938	\$ -	\$ -	\$ 634,938
Mutual funds - fixed income	8,943,175	-	-	8,943,175
Mutual funds - equities	6,302,610	-	-	6,302,610
Equity securities:				
Consumer discretionary	357,790	-	-	357,790
Consumer staples	233,928	-	-	233,928
Energy	193,891	-	-	193,891
Financial	173,403	-	-	173,403
Health care	228,892	-	-	228,892
Industrials	96,075	-	-	96,075
Information technology	773,860	-	-	773,860
Other	208,820	-	-	208,820
Limited liability company	-	577,670	-	577,670
	<u>\$ 18,147,382</u>	<u>\$ 577,670</u>	<u>\$ -</u>	<u>\$ 18,725,052</u>
<b>Total</b>	<b>\$ 18,147,382</b>	<b>\$ 577,670</b>	<b>\$ -</b>	<b>\$ 18,725,052</b>

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 11 - Pension Plans (continued)**

The Association's investment policy is to minimize risk by balancing investments between equity securities and fixed income debt securities, utilizing a weighted average approach with a minimum split of 60% equity securities and 40% fixed income debt securities and a maximum split of 80% equity securities and 20% fixed income debt securities. The expected return on plan assets assumption was determined based on a review of the Plan's asset mix, capital market assumptions, and a review of the actual return on plan assets over the past ten years.

The Association has a defined contribution benefit plan, which became effective January 1, 2005. Substantially all full time employees are eligible to participate in the defined contribution plan. The Association made contributions to this plan totaling \$194,812 and \$131,973 in 2012 and 2011, respectively. Employees become vested in the Association's contributions in three to five years. The portion of the employees contributions unvested upon termination are forfeited and used to reduce future contributions made by the Association on a dollar-for-dollar basis.

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

The Association also has supplemental retirement plan agreements with certain former and current senior executives. The obligation related to this agreement is approximately \$50,000 and \$1,067,000 as of September 30, 2012 and 2011, respectively, and is recorded within accounts payable and accrued expenses within the accompanying consolidated balance sheets. During 2012, the Association made a payment of approximately \$1,230,000 related to these agreements.

**Note 12 - Functional Expenses**

The Association provides health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2012 and 2011 is as follows:

	2012	2011
Health care services	\$ 57,381,203	\$ 54,890,641
General and administrative	17,551,669	15,821,689
Fundraising	811,166	638,760
Total	\$ 75,744,038	\$ 71,351,090

**Note 13 - Captive Insurance Activities**

Effective January 1, 2008, GRS provided commercial and general liability coverage on a claims made basis to the Association. The coverage limits for the Association were \$1,000,000 per claim with an annual aggregate of \$4,000,000, plus \$100,000 each incident in the event the aggregate is fully eroded. There is no aggregate limit for the commercial general liability.

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

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 13 - Captive Insurance Activities (continued)**

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

During the years ended September 30, 2012 and 2011, GRS issued a return premium in the amount of \$900,000 and \$675,000, respectively, to the Association. This return premium remains unpaid as of September 30, 2012 and 2011 and is reflected within due from affiliates on the accompanying consolidating balance sheet of the Association and is eliminated in consolidation.

A reconciliation of direct to net premiums on a written and earned basis is summarized as follows for years ended September 30, 2012 and 2011:

	Premium Written		Premium Earned	
	2012	2011	2012	2011
Direct premiums	\$ (157,031)	\$ 201,875	\$ (90,079)	\$ 197,188
Ceded premiums	<u>(325,000)</u>	<u>(325,000)</u>	<u>(325,000)</u>	<u>(332,500)</u>
Total	<u>\$ (482,031)</u>	<u>\$ (123,125)</u>	<u>\$ (415,079)</u>	<u>\$ (135,312)</u>

The liability for unpaid losses and loss adjustment expenses is included within captive insurance loss and other reserves on the accompanying consolidated balance sheets. Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows for the years ended September 30, 2012 and 2011:

	2012	2011
Balance at beginning of the year	\$ 2,388,646	\$ 2,615,549
Less: reinsurance recoverables	<u>(678,921)</u>	<u>(757,650)</u>
Net balance beginning of the year	1,709,725	1,857,899
Incurred related to:		
Current year	290,301	333,402
Prior years	<u>(126,164)</u>	<u>(474,602)</u>
Total incurred	164,137	(141,200)
Paid related to:		
Current year	-	-
Prior years	<u>(89,779)</u>	<u>(6,974)</u>
Total paid	<u>(89,779)</u>	<u>(6,974)</u>
Net balance end of the year	1,784,083	1,709,725
Plus: reinsurance recoverables	<u>663,930</u>	<u>678,921</u>
Balance at end of the year	<u>\$ 2,448,013</u>	<u>\$ 2,388,646</u>

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 13 - Captive Insurance Activities (continued)**

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by \$126,164 and \$474,602 in 2012 and 2011, respectively.

The above liability for loss and loss adjustment expenses have been determined using a 4% discount rate. The ultimate settlement of losses may vary significantly from the reserves recorded. In particular, ultimate settlements on medical malpractice claims depend, among other things, on the resolution of litigation, the outcome of which is difficult to predict. Also, since the reserves have been discounted, there is the possibility that the timing of loss payments and income earned on invested assets will be significantly different than anticipated.

Included on the accompanying consolidated balance sheets is a reinsurance recoverable of \$663,930 and \$678,921 as of September 30, 2012 and 2011, respectively, which is due from one reinsurer. GRS continually evaluates the reinsurer's financial condition. There can be no assurance that reinsurance will continue to be available to GRS to the same extent, and at the same cost, as it has in the past. GRS may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to reinsurers.

**Note 14 - Commitments and Contingencies**

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

ASC 410-20 "*Accounting for Asset Retirement Obligations*" addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as facilities containing asbestos, when the amount of the liability can be reasonably estimated. No Asset Retirement Obligation (ARO) has been established as of September 30, 2012 and 2011, as no plans to renovate or sell any facility, or area within, with significant asbestos have been identified and therefore no settlement date has been determined. Management will continue to evaluate its exposure to asbestos removal and establish an ARO for the fair value of the associated costs once sufficient information has been obtained and a settlement date has been determined. Management does not believe that the liability is material to the overall consolidated financial results of the Association.

**Note 15 - Risks and Uncertainties**

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

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

**Gaylord Farm Association, Inc.**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 16 - Pledges Receivable**

Pledges receivable represent unconditional promises to give for the 36-bed addition. The following pledges are due to the Association as of September 30, 2012:

Due within one year	\$ 90,046
Due in one to five years	<u>266,805</u>
	356,851
Less: allowance for uncollectible pledges	<u>(35,685)</u>
Total	<u><u>\$ 321,166</u></u>

**Note 17 - Supplemental Cash Flow Disclosures**

The Association paid interest in the amount of \$882,966 and \$919,764 for the years ended September 30, 2012 and 2011, respectively.



**Gaylord Farm Association, Inc.**  
**Consolidating Balance Sheet**  
**September 30, 2012**

Assets	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Gaylord Farm Association, Inc.
Current assets:	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	392,491	242,747	-	-	-	635,238
Patient accounts receivable (less allowance of \$438,000)	10,522,310	-	-	-	-	10,522,310
Assets whose use is limited:						
Assets held under bond indenture agreement	189,467	-	-	-	-	189,467
Pledges receivable, net	90,046	-	-	-	-	90,046
Due from affiliates	3,143,230	-	-	1,972	(3,145,202)	-
Other current assets	1,513,595	489,721	-	-	-	2,003,316
Total current assets	15,851,139	732,468	-	1,972	(3,145,202)	13,440,377
Assets whose use is limited:						
Pledges receivable	231,120	-	-	-	-	231,120
Board-designated investments	14,349,648	-	-	-	-	14,349,648
Donor restricted investments	5,555,747	-	-	-	-	5,555,747
Beneficial interest in trusts held by others	11,240,066	-	-	-	-	11,240,066
	31,376,581	-	-	-	-	31,376,581
Property, plant and equipment, net	38,177,394	-	-	-	-	38,177,394
Investments held for captive insurance liabilities	-	3,846,709	-	-	-	3,846,709
Reinsurance recoverable relating to captive insurance liabilities	-	663,930	-	-	-	663,930
Other assets	946,160	-	-	-	-	946,160
Total assets	\$ 86,351,274	\$ 5,243,107	\$ -	\$ 1,972	\$ (3,145,202)	\$ 88,451,151
<b>Liabilities, Net Assets and Shareholder's Equity</b>						
Current liabilities:	\$	\$	\$	\$	\$	\$
Accounts payable and accrued expenses	2,747,732	63,899	-	-	-	2,811,631
Accrued payroll and related taxes	4,730,818	-	-	-	-	4,730,818
Line of credit	-	-	-	-	-	-
Due to affiliates	-	900,000	2,245,202	-	(3,145,202)	-
Estimated amounts due to third-party payers	246,805	-	-	-	-	246,805
Current portion of accrued pension obligation	1,493,193	-	-	-	-	1,493,193
Current portion of long-term debt and capital lease obligations	1,526,815	-	-	-	-	1,526,815
Total current liabilities	10,745,363	963,899	2,245,202	-	(3,145,202)	10,809,262
Long-term debt and capital lease obligations, less current portion	18,153,360	-	-	-	-	18,153,360
Accrued pension obligation	16,609,410	-	-	-	-	16,609,410
Captive insurance losses and other reserves	-	2,819,498	-	-	-	2,819,498
Interest rate swap liability	4,712,094	-	-	-	-	4,712,094
Total liabilities	50,220,227	3,783,397	2,245,202	-	(3,145,202)	53,103,624
Net assets and shareholder's equity:						
Unrestricted	18,185,770	-	(2,245,202)	1,972	-	15,942,540
Temporarily restricted	1,149,464	-	-	-	-	1,149,464
Permanently restricted	16,795,813	-	-	-	-	16,795,813
Shareholder's equity	-	1,459,710	-	-	-	1,459,710
Total net assets and shareholder's equity	36,131,047	1,459,710	(2,245,202)	1,972	-	35,347,527
Total liabilities, net assets and shareholder's equity	\$ 86,351,274	\$ 5,243,107	\$ -	\$ 1,972	\$ (3,145,202)	\$ 88,451,151

See accompanying Independent Auditors' Report.

**Gaylord Farm Association, Inc.**  
**Consolidating Balance Sheet**  
**September 30, 2011**

Assets	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Gaylord Farm Association, Inc.
Current assets:						
Cash and cash equivalents	\$ 487,626	\$ 397,069	\$ -	\$ -	\$ -	\$ 884,695
Patient accounts receivable, (less allowance of \$540,000)	10,001,815	-	-	-	-	10,001,815
Assets whose use is limited:						
Assets held under bond indenture agreement	179,780	-	-	-	-	179,780
Pledges receivable, net	386,657	-	-	-	-	386,657
Due from affiliates	2,543,065	-	-	1,972	(2,545,037)	-
Other current assets	1,183,998	760,853	-	-	-	1,944,851
Total current assets	<u>14,782,941</u>	<u>1,157,922</u>	<u>-</u>	<u>1,972</u>	<u>(2,545,037)</u>	<u>13,397,798</u>
Assets whose use is limited:						
Pledges receivable	310,105	-	-	-	-	310,105
Board-designated investments	13,693,257	-	-	-	-	13,693,257
Donor restricted investments	5,529,789	-	-	-	-	5,529,789
Beneficial interest in trusts held by others	9,748,956	-	-	-	-	9,748,956
	<u>29,282,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,282,107</u>
Property, plant and equipment, net	41,937,586	-	-	-	-	41,937,586
Investments held for captive insurance liabilities	-	3,517,224	-	-	-	3,517,224
Reinsurance recoverable relating to captive insurance liabilities	-	678,921	-	-	-	678,921
Other assets	1,086,089	-	-	-	-	1,086,089
Total assets	<u>\$ 87,088,723</u>	<u>\$ 5,354,067</u>	<u>\$ -</u>	<u>\$ 1,972</u>	<u>\$ (2,545,037)</u>	<u>\$ 89,899,725</u>
Liabilities, Net Assets and Shareholder's Equity						
Current liabilities:						
Accounts payable and accrued expenses	\$ 4,805,123	\$ 48,868	\$ -	\$ -	\$ -	\$ 4,853,991
Accrued payroll and related taxes	3,819,490	-	-	-	-	3,819,490
Line of credit	450,000	-	-	-	-	450,000
Due to affiliates	-	675,000	1,870,037	-	(2,545,037)	-
Estimated amounts due to third-party payers	246,805	-	-	-	-	246,805
Current portion of accrued pension obligation	2,743,352	-	-	-	-	2,743,352
Current portion of long-term debt and capital lease obligations	1,487,242	-	-	-	-	1,487,242
Total current liabilities	<u>13,552,012</u>	<u>723,868</u>	<u>1,870,037</u>	<u>-</u>	<u>(2,545,037)</u>	<u>13,600,880</u>
Long-term debt and capital lease obligations, less current portion	19,570,309	-	-	-	-	19,570,309
Accrued pension obligation	14,699,268	-	-	-	-	14,699,268
Captive insurance reserves	-	2,827,083	-	-	-	2,827,083
Interest rate swap liability	4,155,222	-	-	-	-	4,155,222
Total liabilities	<u>51,976,811</u>	<u>3,550,951</u>	<u>1,870,037</u>	<u>-</u>	<u>(2,545,037)</u>	<u>54,852,762</u>
Net assets and shareholder's equity:						
Unrestricted	18,625,933	-	(1,870,037)	1,972	-	16,757,868
Temporarily restricted	1,207,234	-	-	-	-	1,207,234
Permanently restricted	15,278,745	-	-	-	-	15,278,745
Shareholder's equity	-	1,803,116	-	-	-	1,803,116
Total net assets and shareholder's equity	<u>35,111,912</u>	<u>1,803,116</u>	<u>(1,870,037)</u>	<u>1,972</u>	<u>-</u>	<u>35,046,963</u>
Total liabilities, net assets and shareholder's equity	<u>\$ 87,088,723</u>	<u>\$ 5,354,067</u>	<u>\$ -</u>	<u>\$ 1,972</u>	<u>\$ (2,545,037)</u>	<u>\$ 89,899,725</u>

See accompanying Independent Auditors' Report.

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**Gaylord Farm Association, Inc.**  
**Consolidating Statement of Operations**  
**For the Year End September 30, 2012**

	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Gaylord Farm Association, Inc.
<b>Revenues:</b>						
Net patient service revenue	\$ 70,082,884	\$ -	\$ 243,859	\$ -	\$ -	\$ 70,326,743
Contributions and bequests	1,076,207	-	-	-	-	1,076,207
Earned written premium	-	(90,079)	-	-	90,079	-
Ceded premium	-	(325,000)	-	-	-	(325,000)
Other operating revenue	599,996	-	125,084	-	-	725,080
Net assets released from restrictions used for operations	279,175	-	-	-	-	279,175
Total revenues	72,038,262	(415,079)	368,943	-	90,079	72,082,205
<b>Expenses:</b>						
Salaries and related expenses	48,881,515	-	647,206	-	-	49,528,721
Other operating expenses	5,263,601	203,897	49,121	-	90,079	5,606,698
Professional fees and contract services	8,060,187	-	-	-	-	8,060,187
Supplies	5,034,738	-	-	-	-	5,034,738
Depreciation and amortization	3,857,816	-	42,636	-	-	3,900,452
Occupancy costs	2,145,309	-	-	-	-	2,145,309
Provision for bad debts	420,830	-	-	-	-	420,830
Interest	877,821	164,137	5,145	-	-	882,966
Loss and loss adjustment expenses	-	-	-	-	-	164,137
Total expenses	74,541,817	368,034	744,108	-	90,079	75,744,038
Loss from operations	(2,503,555)	(783,113)	(375,165)	-	-	(3,661,833)
<b>Other gains, net:</b>						
Dividend and interest income	441,541	80,741	-	-	-	522,282
Net realized gains on investments	515,365	-	-	-	-	515,365
Loss on equity investments	(75,252)	-	-	-	-	(75,252)
Change in fair value of interest rate swap agreement	(556,872)	-	-	-	-	(556,872)
Total other gains, net	324,782	80,741	-	-	-	405,523
Excess of revenues under expenses	\$ (2,178,773)	\$ (702,372)	\$ (375,165)	\$ -	\$ -	\$ (3,256,310)

See accompanying Independent Auditors' Report.

**Gaylord Farm Association, Inc.**  
**Consolidating Statement of Operations**  
**For the Year Ended September 30, 2011**

	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Gaylord Farm Association, Inc.
<b>Revenues:</b>						
Net patient service revenue	\$ 66,776,439	\$ -	\$ 288,308	\$ -	\$ -	\$ 67,064,747
Contributions and bequests	913,165	-	-	-	-	913,165
Earned written premium	-	197,188	-	-	(197,188)	-
Ceded premium	-	(332,500)	-	-	-	(332,500)
Other operating revenue	507,069	-	130,599	-	-	637,668
Net assets released from restrictions used for operations	145,235	-	-	-	-	145,235
<b>Total revenues</b>	<b>68,341,908</b>	<b>(135,312)</b>	<b>418,907</b>	<b>-</b>	<b>(197,188)</b>	<b>68,428,315</b>
<b>Expenses:</b>						
Salaries and related expenses	46,226,061	-	597,339	-	-	46,823,400
Other operating expenses	5,490,261	178,205	60,013	-	(197,188)	5,531,291
Professional fees and contract services	6,818,453	-	-	-	-	6,818,453
Supplies	5,064,540	-	-	-	-	5,064,540
Depreciation and amortization	3,825,731	-	64,698	-	-	3,890,429
Occupancy costs	2,099,698	-	-	-	-	2,099,698
Provision for bad debts	344,715	-	-	-	-	344,715
Interest	912,115	-	7,649	-	-	919,764
Loss and loss adjustment expenses	-	(141,200)	-	-	-	(141,200)
<b>Total expenses</b>	<b>70,781,574</b>	<b>37,005</b>	<b>729,699</b>	<b>-</b>	<b>(197,188)</b>	<b>71,351,090</b>
Loss from operations	(2,439,666)	(172,317)	(310,792)	-	-	(2,922,775)
<b>Other gains, net:</b>						
Dividend and interest income	536,089	50,473	-	-	-	586,562
Net realized gains on investments	140,830	-	-	-	-	140,830
Loss on equity investments	(5,304)	-	-	-	-	(5,304)
Change in fair value of interest rate swap agreement	(508,193)	-	-	-	-	(508,193)
Total other gains, net	163,422	50,473	-	-	-	213,895
Excess of revenues under expenses	<u>\$ (2,276,244)</u>	<u>\$ (121,844)</u>	<u>\$ (310,792)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,708,880)</u>

See accompanying Independent Auditors' Report.

# HARTFORD COURANT PROOF

Customer: CASHMAN & KATZ/ANN BRICKLEY  
Contact: ERIC SCHWEIGHOFFER Phone: 8606520300

Ad Number: **2565753**

Insert Dates: 11/20/2013 11/21/2013 11/22/2013

Price: 119.61  
Section: CL Class: 2174; CONNECTICUT Size: 1 x 0.75  
Printed By: RFELGEN Date: 11/19/2013

Signature of Approval: \_\_\_\_\_ Date: \_\_\_\_\_

Gaylord Hospital is applying for a certificate of need pursuant to section 19a-633 of the general statutes for the termination of its lease and closure of its Sleep Medicine site located at 676 Hebron Ave. Glastonbury. There is no capital expenditure associated with this closing as it is a termination of the lease.

**G. NOTICE TO PATIENT**

Date

To All Our Patients:

We are writing to inform you of an upcoming change at Gaylord Sleep Medicine-Glastonbury. As of (Date), Gaylord Sleep Medicine will be closing its Glastonbury location. We understand that you may still require sleep medicine services, and your Gaylord provider and Manager of Sleep Services will work collaboratively to ensure a smooth transition for your care. Their contact information is listed below.

Should you have any questions, would like a copy of your medical records, or if you prefer to select another sleep medicine provider, please contact us at 203-284-2756. We thank you for the opportunity to serve your health care needs.

Sincerely,

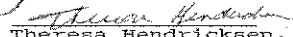
Margaret Kelley  
Manager, Outpatient Medical Services and Sleep Medicine  
Gaylord Farm Road  
Wallingford, CT 06492

## H. Agreement between Gaylord and CCMC

### Agreement between Gaylord Hospital, its Sleep Medicine Division and Connecticut Children's Medical Center

The Applicant, Gaylord Hospital, its Sleep Medicine Division and Connecticut Children's Medical Center have agreed to work collaboratively in the implementation of external communications and outreach activities to ensure that pediatric patients have access to necessary sleep medicine services. Gaylord Sleep lab in Glastonbury shall send all pediatric patients within the prior two years a written communication (See Below). It is understood between the Parties that nothing in this Agreement is intended to require nor provides payment or benefits of any kind for the referral of individuals to Connecticut Children's Medical Center.

  
Janine L. Epright, CFO  
Gaylord Hospital

  
Theresa Hendricksen, EVP & COO  
Connecticut Children's Medical Center



**STATE OF CONNECTICUT**  
DEPARTMENT OF PUBLIC HEALTH  
*Office of Health Care Access*

January 29, 2014

VIA FAX ONLY

Janine Epright  
CFO  
Gaylord Hospital  
P.O. Box 400  
Gaylord Farms Road  
Wallingford, CT 06492

RE: Certificate of Need Application, Docket Number 13-31885-CON  
Gaylord Hospital  
Termination of Gaylord Sleep Medicine Services in Glastonbury, CT

Dear Ms. Epright:

On December 31, 2013, the Office of Health Care Access ("OHCA") received your initial Certificate of Need application filing on behalf of Gaylord Hospital ("Applicant") for the termination of Gaylord Sleep Medicine Services in Glastonbury, CT, with no associated capital expenditure.

OHCA has reviewed the CON application pursuant to Section 19a-639a(c) and requests the following additional information:

1. Please provide the written agreement that the Applicant has with Yale-New Haven Hospital for the transition of its adult patients from the Glastonbury location.
2. Please provide the current utilization (October 1, 2013 – to the present) for sleep studies performed at the Glastonbury location.
3. Please confirm that the total patient visits by town for FY 2013 provided on page 10 of the CON Application is 3,229.
4. On page 10 of the CON Application, the Applicant states a total of 3,229 patient visits by town for the most recently completed FY and 973 as the number of sleep studies for FY 2013. Please provide an explanation as to why these two numbers are different.

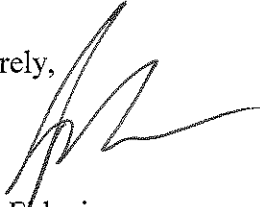


5. Please report the patient/payer mix for the last two fiscal years and the current fiscal year.
6. Please address the following regarding the Applicant's Medicaid population:
  - a. Provide evidence as to how the Applicant has demonstrated how this proposal will improve or maintain quality, accessibility and cost effectiveness of health care delivery in the region, including but not limited to:
    - i. Provision of any change in the access to services for Medicaid recipients and indigent persons, and
    - ii. The impact upon the cost effectiveness of providing access to services provided under the Medicaid program.
7. Provide the Applicant's past and proposed provision of health care services to relevant patient populations and payer mix, including, but not limited to, access to services by Medicaid recipients and indigent persons.
8. If the Applicant has failed to provide or reduced access to services to Medicaid recipients or indigent persons, demonstrate how the Applicant has done this due to good cause or demonstrate that it was not solely on the basis of differences in reimbursement rates between Medicaid and other health care payers.
9. Has the Applicant considered an alternative to closing the Glastonbury location (e.g., reducing hours, etc.)? Please provide supporting documentation.

In responding to the questions contained in this letter, please repeat each question before providing your response. Paginate and date your response, i.e., each page in its entirety. Information filed after the initial CON application submission (e.g., completeness response letter, prefile testimony, late file submissions and the like) must be numbered sequentially from the Applicant's document preceding it. Please begin your submission using Page 43 and reference "Docket Number: 13-31885-CON." Submit one (1) original and two (2) hard copies of your response. In addition, please submit a scanned copy of your response, in an Adobe format (.pdf) including all attachments on CD. If available, a copy of the response in MS Word should also be copied to the CD.

Pursuant to Section 19a-639a(c) of the Connecticut General Statutes, you must submit your response to this request for additional information not later than sixty days after the date that this request was transmitted. Therefore, please provide your written responses to OHCA no later than March 30, 2014, otherwise your application will be automatically considered withdrawn. If you have any questions concerning this letter, please feel free to contact me by email or at (860) 418-7035.

Sincerely,

A handwritten signature in black ink, appearing to read 'Paolo Fiducia', written over the word 'Sincerely,'.

Paolo Fiducia  
Associate Health Care Analyst

\* \* \* COMMUNICATION RESULT REPORT ( JAN. 29. 2014 10:14AM ) \* \* \*

FAX HEADER:

TRANSMITTED/STORED : JAN. 29. 2014 10:13AM  
FILE MODE OPTION

ADDRESS

RESULT

PAGE

014 MEMORY TX

912037413408

OK

4/4

REASON FOR ERROR  
E-1) HANG UP OR LINE FAIL  
E-3) NO ANSWER

E-2) BUSY  
E-4) NO FACSIMILE CONNECTION



STATE OF CONNECTICUT  
DEPARTMENT OF PUBLIC HEALTH  
OFFICE OF HEALTH CARE ACCESS

FAX SHEET

TO: JANINE EPRIGHT  
FAX: 12037413408  
AGENCY: GAYLORD HOSPITAL  
FROM: PAOLO FIDUCIA  
DATE: 01/29/2014 Time: 10:15 am  
NUMBER OF PAGES: 4  
*(including transmittal sheet)*

Comments:  
13-31885-  
CON  
Completeness  
Letter

PLEASE PHONE IF THERE ARE ANY TRANSMISSION PROBLEMS.

Phone: (860) 418-7001

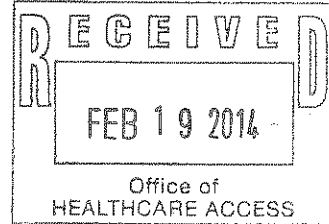
Fax: (860) 418-7053

410 Capitol Ave., MS#13HCA  
P.O.Box 340308  
Hartford, CT 06134

GAYLORD SLEEP MEDICINE GLASTONBURY  
RESPONSE TO ADDITIONAL QUESTIONS

DOCKET NUMBER 13-31885-CON

February 6, 2014



1. Please provide written agreement that the Applicant has with Yale-New Haven Hospital for the transition of its adult patients from the Glastonbury location.

Response

Agreement: Gaylord Sleep Medicine and Yale New Haven Hospital

February 10, 2014

George Kyriacou  
President & Chief Executive Officer  
Gaylord Hospital, Inc.  
Gaylord Farm Road  
P.O. Box 400  
Wallingford, Connecticut 06492

RE: Sleep Medicine Patient Transition

Dear George,

This letter confirms Yale-New Haven Hospital's ("YNHH") commitment to accept Gaylord Hospital's Sleep Medicine patients after Gaylord's termination of its Sleep Medicine service line.

YNHH and Gaylord Hospital's Sleep Division will work collaboratively to implement external communications and outreach activities to ensure that Gaylord patients have access to the necessary sleep medicine services. Prior to the closing of the sleep medicine asset purchase transaction contemplated between YNHH and Gaylord Hospital, Gaylord will send every adult patient seen within the last two years at its North Haven, Glastonbury, Guilford and Trumbull sites a written communication notifying them that they can continue to receive treatment from YNHH. Similarly for pediatric patients, a notification will be sent that informs patients that they can be served by either YNHH or Connecticut Children's Medical Center. An example of the communication is attached to this letter.

It is understood by YNHH and Gaylord hospital that nothing in this letter is intended to require or provide payment or benefits of any kind for the referral of patients to YNHH.

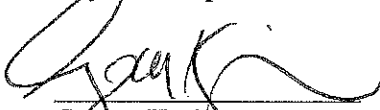
Please countersign below indicating your acceptance of this plan of transition.

Sincerely,



Richard D. Aquila  
President & Chief Operating Officer

Agreed upon and accepted by:  
Gaylord Hospital, Inc.



George Kyriacou  
President & Chief Executive Officer

Attachment: Example Patient Communication

**NOTICE TO OUR SLEEP MEDICINE PATIENTS**

[DATE]

To Our Sleep Medicine Patients:

We are writing to inform you that Gaylord Hospital's Sleep Medicine Division is closing its operations. As of [DATE], Gaylord Hospital will be selling the assets of its North Haven laboratory to Yale-New Haven Hospital, and closing its Glastonbury, Trumbull and Guilford locations. We understand that you may still require sleep medicine services, and Yale-New Haven Hospital and Connecticut Children's Medical Center have agreed to work collaboratively to ensure a smooth transition for your care. You may contact their Sleep Medicine departments at [INSERT NUMBERS].

Should you have any questions, would like a copy of your medical records, or if you prefer to select another sleep medicine provider, please contact us at [INSERT NUMBER]. We thank you for the opportunity to serve your health care needs.

Sincerely,

Gaylord Hospital, Inc.

2. Please provide the current utilization (October 1, 2013-to the present) for sleep studies performed at the Glastonbury location.

Response

**Sleep Studies, October 1, 2013-Current**

<b>Glastonbury</b>	
<b>2013</b>	3,229
<b>YTD 2014</b>	656
<b>TOTAL</b>	3,885



3. Confirm the total patient visits by town on page 10 of the CON application is 3,229.

**Response**

**The total patient visits by town for Gaylord Sleep Medicine Glastonbury is 3,229.**

4. On page 10 of the CON application, the Applicant states a grand total of 3,229 patient visits by town for the most recently completed FY, and 973 as the number of sleep studies for FY2013. Please provide an explanation as to why these two numbers are different.

Response

The two numbers are different because the grand total of patient visits reported on page 10 reflects all patient visits to the Glastonbury Center. The 973 represents visits for sleep studies only. The financial worksheet has been amended to reflect all patient visits for FY2013 and is included in the Appendix.

5. Please report the patient/payer mix for the last two fiscal years and the current fiscal year.

Response

<b>PAYOR</b>	<b>2012</b>	<b>2013</b>	<b>YTD 2014</b>
<b>Medicare</b>	9%	6%	8%
<b>Medicaid</b>	41%	46%	44%
<b>Commercial</b>	50%	48%	44%
<b>Other</b>	0	0%	0
<b>TOTAL</b>	100%	100%	100%

6. Please address the following regarding the Applicant's Medicaid population:
- a. Provide evidence as to how the Applicant has demonstrated how this proposal will improve or maintain quality, accessibility and cost effectiveness of health care delivery in the region, including but not limited to:
    - i. Provision of any change in the access to services for Medicaid recipients and indigent persons, and
    - ii. The impact upon the cost effectiveness of providing access to services provided under the Medicaid program.

Response

There will be no adverse impact on the quality and access of sleep medicine services for Medicaid recipients. Medicaid patients can continue to be referred by their physicians, and Gaylord has made arrangements with Yale-New Haven Hospital for the transition of its adult patients and with Connecticut Children's Medical Center for the transition of its pediatric patients. Both organizations have sleep medicine programs accredited by the American Academy of Sleep Medicine.

<b>PAYOR</b>	<b>2012</b>	<b>2013</b>	<b>YTD 2014</b>
<b>Medicare</b>	9%	6%	8%
<b>Medicaid</b>	41%	46%	44%
<b>Commercial</b>	50%	48%	44%
<b>Other</b>	0	0%	0
<b>TOTAL</b>	100%	100%	100%

7. Provide the Applicant's past and proposed provision of health care services to relevant patient populations and payer mix, including but not limited to access to services by Medicaid recipients and indigent persons.

Response

Gaylord Sleep Medicine Glastonbury has accepted patient referrals, including Medicaid patients, for sleep services. (Payor Mix table). There will be no adverse impact on the Medicaid population, and the termination of services will not impact access to services for Medicaid recipients. Gaylord has made arrangements with Yale-New Haven Hospital for the transition of its adult patients and with Connecticut Children's Medical Center for the transition of its pediatric patients.

PAYOR	2012	2013	YTD 2014
Medicare	9%	6%	8%
Medicaid	41%	46%	44%
Commercial	50%	48%	44%
Other	0	0%	0
TOTAL	100%	100%	100%

8. If the Applicant has failed to provide or reduce access to services to Medicaid recipients or indigent persons, demonstrate how the Applicant has done thus due to good cause or demonstrate that it was not solely on the basis of difference in reimbursement rates between Medicaid and other health payers.

Response

Gaylord has provided sleep services to Medicaid recipients. (Payor Mix Table) The decision to terminate sleep medicine services at Glastonbury was not based in any measure on differences in reimbursement rates between Medicaid and other health payers. Changes in the practice of sleep medicine including new technology used to diagnose sleep disorders has resulted in declining in-lab volumes toward home studies. This, coupled with the need to provide high quality, cost-effective care to patients with spinal cord injuries, brain injuries, complex pulmonary diseases, and medically complex patients influenced the decision to terminate sleep services in Glastonbury.

There will be no adverse impact on the Medicaid population, and the termination of services will not impact access to services for Medicaid recipients. Gaylord has made arrangements with Yale-New Haven Hospital for the transition of its adult patients and with Connecticut Children’s Medical Center for the transition of its pediatric patients. Additionally, there are other providers in the area that provide sleep medicine services.

<b>PAYOR</b>	<b>2012</b>	<b>2013</b>	<b>YTD 2014</b>
<b>Medicare</b>	9%	6%	8%
<b>Medicaid</b>	41%	46%	44%
<b>Commercial</b>	50%	48%	44%
<b>Other</b>	0	0%	0
<b>TOTAL</b>	100%	100%	100%

9. Has the Applicant considered an alternative to closing the Glastonbury location (e.g., reducing hours, etc.)? Please provide documentation.

Response

As part of Gaylord's strategic planning process, the decision was made to concentrate scarce resources on Gaylord's core health care services which did not include sleep medicine services. Gaylord made the decision to close its Glastonbury sleep medicine services and did not consider alternatives to closing the Glastonbury location.

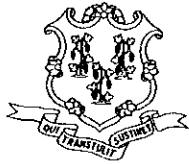
## APPENDIX



FINANCIAL WORKSHEET

12. C (i). Please provide one year of actual results and three years of projections of Total Facility revenue, expense and without, incremental to and with the CON proposal in the following reporting format:

<u>Description</u>	<u>FY 2013 Actual Results</u>		<u>FY 2014 Projected W/out CON</u>		<u>FY 2014 Projected Incremental</u>		<u>FY 2014 FY 2015 Projected With C/W/out CON</u>		<u>FY 2015 Projected Incremental</u>		<u>FY 2016 Projected Incremental</u>	
<b>NET PATIENT REVENUE</b>												
Non-Government	\$896,568	\$879,566	\$879,566	\$0	\$879,566	(\$879,566)	\$879,566	\$879,566	(\$879,566)	\$0	\$879,566	(\$879,566)
Medicare	\$72,164	\$72,164	\$72,164	\$0	\$72,164	(\$72,164)	\$72,164	\$72,164	(\$72,164)	\$0	\$72,164	(\$72,164)
Medicaid and Other Medical As	\$409,801	\$409,801	\$409,801	\$0	\$409,801	(\$409,801)	\$409,801	\$409,801	(\$409,801)	\$0	\$409,801	(\$409,801)
Other Government	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Net Patient Patient Reven	\$1,378,533	\$1,361,531	\$1,361,531	\$0	\$1,361,531	(\$1,361,531)	\$1,361,531	\$1,361,531	(\$1,361,531)	\$0	\$1,361,531	(\$1,361,531)
Other Operating Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revenue from Operations	\$1,378,533	\$1,361,531	\$1,361,531	\$0	\$1,361,531	(\$1,361,531)	\$1,361,531	\$1,361,531	(\$1,361,531)	\$0	\$1,361,531	(\$1,361,531)
<b>OPERATING EXPENSES</b>												
Salaries and Fringe Benefits	\$543,143	\$554,005	\$554,005	\$0	\$554,005	(\$54,862)	\$554,005	\$554,005	(\$54,862)	\$0	\$554,005	(\$54,862)
Professional / Contracted Serv	\$34,725	\$34,726	\$34,726	\$0	\$34,726	(\$1,001)	\$34,726	\$34,726	(\$1,001)	\$0	\$34,726	(\$1,001)
Supplies and Drugs	\$22,864	\$22,865	\$22,865	\$0	\$22,865	(\$1,001)	\$22,865	\$22,865	(\$1,001)	\$0	\$22,865	(\$1,001)
Bad Debts	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Expense	\$87,182	\$87,183	\$87,183	\$0	\$87,183	(\$1,001)	\$87,183	\$87,183	(\$1,001)	\$0	\$87,183	(\$1,001)
Subtotal	\$687,914	\$698,779	\$698,779	\$0	\$698,779	(\$10,865)	\$698,779	\$698,779	(\$10,865)	\$0	\$698,779	(\$10,865)
Depreciation/Amortization	\$52,189	\$52,189	\$52,189	\$0	\$52,189	\$0	\$52,189	\$52,189	\$0	\$0	\$52,189	\$0
Interest Expense	\$16,513	\$16,513	\$16,513	\$0	\$16,513	\$0	\$16,513	\$16,513	\$0	\$0	\$16,513	\$0
Lease Expense	\$128,480	\$124,000	\$124,000	\$0	\$124,000	(\$4,480)	\$124,000	\$124,000	(\$4,480)	\$0	\$124,000	(\$4,480)
Total Operating Expense	\$885,096	\$891,481	\$891,481	\$0	\$891,481	(\$6,485)	\$891,481	\$891,481	(\$6,485)	\$0	\$891,481	(\$6,485)
Gain/(Loss) from Operations	\$493,437	\$470,050	\$470,050	\$0	\$470,050	(\$23,383)	\$470,050	\$470,050	(\$23,383)	\$0	\$470,050	(\$23,383)
Plus: Non-Operating Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revenue Over/(Under) Expens	\$493,437	\$470,050	\$470,050	\$0	\$470,050	(\$23,383)	\$470,050	\$470,050	(\$23,383)	\$0	\$470,050	(\$23,383)
FTEs	5.50	5.50	5.50	0	5.50	0	5.50	5.50	0	0	5.50	0
Volume Sleep Studies	3,229	3,261	3,261	0	3,261	32	3,261	3,261	32	0	3,261	32



**STATE OF CONNECTICUT**  
 DEPARTMENT OF PUBLIC HEALTH  
*Office of Health Care Access*

April 22, 2014

VIA FAX ONLY

Janine Epright  
 CFO  
 Gaylord Hospital  
 P.O. Box 400  
 Gaylord Farms Road  
 Wallingford, CT 06492

RE: Certificate of Need Application, Docket Number 13-31883-CON, 13-31884-CON, 13-31885-Con, and 14-31902-CON  
 Gaylord Hospital  
 Additional Questions

Dear Ms. Epright:

Please complete the following two questions for Docket Number 13-31883-CON, Docket Number 13-31884-CON, Docket Number 13-31885-CON, and Docket Number 14-31902-CON:

1.

**Table 1: Gaylord Sleep Medicine's Historical and Current Services Volume**

Service	FY 2011	FY 2012	FY 2013	FY 2014*
<b>Total</b>				

\*(October 1, 2013 – April 30, 2014)

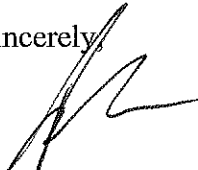
**2. Table 2: Gaylord Sleep Medicine’s Historical and Current Payer Mix by volume and by %**

Description	FY 2011		FY 2012		FY 2013		FY 2014**	
	Volume	%	Volume	%	Volume	%	Volume	%
Medicare*								
Medicaid*								
CHAMPUS & TriCare								
<b>Total Government</b>								
Commercial Insurers								
Uninsured								
Workers Compensation								
<b>Total Non-Government</b>								
<b>Total Payer Mix</b>								

\*Includes managed care activity

\*\* (October 1, 2013 – April 30, 2014)

Please respond by May 6, 2014. If you have any questions regarding the above, please contact me at (860) 418-7035..

Sincerely,  


Paolo Fiducia  
Associate Health Care Analyst

\* \* \* COMMUNICATION RESULT REPORT ( APR. 22. 2014 2:39PM ) \* \* \*

FAX HEADER:

TRANSMITTED/STORED : APR. 22. 2014 2:38PM  
FILE MODE OPTION

ADDRESS

RESULT

PAGE

240 MEMORY TX

912037413408

OK

3/3

REASON FOR ERROR  
E-1) HANG UP OR LINE FAIL  
E-3) NO ANSWER

E-2) BUSY  
E-4) NO FACSIMILE CONNECTION



STATE OF CONNECTICUT  
DEPARTMENT OF PUBLIC HEALTH  
OFFICE OF HEALTH CARE ACCESS

FAX SHEET

TO: JANINE EPRIGHT

FAX: 12037413408

AGENCY: GAYLORD HOSPITAL

FROM: PAOLO FIDUCIA

DATE: 04/22/2014 Time: 2:45 pm

NUMBER OF PAGES: 3  
*(including transmittal sheet)*

Comments:  
Additional  
Questions

**PLEASE PHONE IF THERE ARE ANY TRANSMISSION PROBLEMS.**

Phone: (860) 418-7001

Fax: (860) 418-7055

410 Capitol Ave., MS#13HCA  
P.O.Box 340308  
Hartford, CT 06134

## Greer, Leslie

---

**From:** Fiducia, Paolo  
**Sent:** Wednesday, June 04, 2014 11:39 AM  
**To:** Olejarz, Barbara  
**Cc:** Greer, Leslie  
**Subject:** FW: Additional Questions  
**Attachments:** Volumes and Services for CON Request-OCHA.xlsx

FYI

---

**From:** Sitler, Michele [<mailto:msitler@gaylord.org>]  
**Sent:** Tuesday, May 27, 2014 4:19 PM  
**To:** Riggott, Kaila  
**Cc:** Fiducia, Paolo  
**Subject:** RE: Additional Questions

Kaila,

Attached is the information you requested this morning.  
Please let me know if you need anything else.

Regards,

**Michele Sitler**  
**Executive Assistant**  
Gaylord Hospital  
Gaylord Farm Road, Box 400  
Wallingford, Connecticut 06492  
203-284-2741 -Phone  
203-741-3408- Fax  
[Msitler@gaylord.org](mailto:Msitler@gaylord.org)



---

**From:** Riggott, Kaila [<mailto:Kaila.Riggott@ct.gov>]  
**Sent:** Tuesday, May 27, 2014 9:56 AM  
**To:** Sitler, Michele  
**Cc:** Fiducia, Paolo  
**Subject:** RE: Additional Questions

Thank you very much Michele.

---

**From:** Sitler, Michele [<mailto:msitler@gaylord.org>]  
**Sent:** Tuesday, May 27, 2014 9:34 AM  
**To:** Riggott, Kaila  
**Subject:** RE: Additional Questions

Kaila,

I can see from the email address used below that Janine never received this email. The email address is incorrect. It was [Janine.Epright@gaylord.org](mailto:Janine.Epright@gaylord.org). I will need to see who can help with this information. I will get back to you to let you know when it will be done.

Regards,

**Michele Sitler**  
**Executive Assistant**  
Gaylord Hospital  
Gaylord Farm Road, Box 400  
Wallingford, Connecticut 06492  
203-284-2741 -Phone  
203-741-3408- Fax  
[Msitler@gaylord.org](mailto:Msitler@gaylord.org)



---

**From:** Riggott, Kaila [<mailto:Kaila.Riggott@ct.gov>]  
**Sent:** Tuesday, May 27, 2014 9:23 AM  
**To:** Sitler, Michele  
**Cc:** Fiducia, Paolo  
**Subject:** FW: Additional Questions

Here is the file that was sent to Janine on 4/22. Thanks very much for your help.

---

**From:** Fiducia, Paolo  
**Sent:** Tuesday, April 22, 2014 2:25 PM  
**To:** [epright@gaylord.org](mailto:epright@gaylord.org)  
**Cc:** Riggott, Kaila; Carney, Brian  
**Subject:** Additional Questions

Hi Janine,

Please complete the following two questions for Docket Number 13-31883-CON, Docket Number 13-31884-CON, Docket Number 13-31885-CON, and Docket Number 14-31902-CON:

1.

**Table 1: Gaylord Sleep Medicine's Historical and Current Services Volume**

Service	FY 2011	FY 2012	FY 2013	FY 2014*

<b>Total</b>				
--------------	--	--	--	--

\*(October 1, 2013 – April 30, 2014)

**2. Table 2: Gaylord Sleep Medicine’s Historical and Current Payer Mix by volume and by %**

Description	FY 2011		FY 2012		FY 2013		FY 2014**	
	Volume	%	Volume	%	Volume	%	Volume	%
Medicare*								
Medicaid*								
CHAMPUS & TriCare								
<b>Total Government</b>								
Commercial Insurers								
Uninsured								
Workers Compensation								
<b>Total Non-Government</b>								
<b>Total Payer Mix</b>								

\*Includes managed care activity

\*\* (October 1, 2013 – April 30, 2014)

Please respond by May 6, 2014. If you have any questions regarding the above please contact me.

Sincerely,

Paolo Fiducia  
Associate Health Care Analyst  
Office of Health Care Access  
A DIVISION OF DEPARTMENT OF PUBLIC HEALTH  
[paolo.fiducia@po.state.ct.us](mailto:paolo.fiducia@po.state.ct.us)  
860.418.7035 Direct Line  
860.418.7053 Fax

Our Mission is to preserve and enhance a person's health and function. **CONFIDENTIALITY NOTICE:** This e-mail transmission, together with any attachments, is intended for the use of the individual or entity to which it is addressed and may contain personal information that is subject to federal, state and other regulatory agency privacy regulations. The authorized recipient of this information should refrain from further disclosure, unless required to do so by law. If you are not the intended recipient, you are hereby notified that any disclosure, dissemination, saving, printing, copying, or action taken in reliance on contents and/or attachment(s) of this message is strictly prohibited, and the original sender should be promptly notified.



Gaylord Hospital, Inc.  
 Sleep Volume Data - Glastonbury  
 FY 2011,2012,2013, FYTD 2014

Provided Services

Service	FY 2011	FY 2012	FY 2013	FY 2014
Study/Interp	1,129	1,339	973	489
Initial Eval	791	953	855	461
Follow Up	459	992	476	194
PAP NAP	-	4	17	6
CLINIC	605	872	749	270
Other	42	124	159	73
Total	3,026	4,284	3,229	1,493

Volume and Payor Mix	Volume	%	Volume	%	Volume	%	Volume	%
	<u>FY 11</u>	<u>FY 11</u>	<u>FY 12</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 13</u>	<u>FY 14</u>	<u>FY 14</u>
Medicare	349	12%	554	13%	275	9%	133	9%
Medicaid	943	31%	1,665	39%	1,238	38%	592	40%
Tricare	18	1%	4	0%	16	0%	13	1%
<b>Total Government</b>	<b>1,310</b>	<b>43%</b>	<b>2,223</b>	<b>52%</b>	<b>1,529</b>	<b>47%</b>	<b>738</b>	<b>49%</b>
Commercial	1,709	56%	2,051	48%	1,696	53%	750	50%
Uninsured	7	0%	10	0%	4	0%	5	0%
Worker's Comp	-	0%	-	0%	-	0%	-	0%
<b>Total Non-Government</b>	<b>1,716</b>	<b>57%</b>	<b>2,061</b>	<b>48%</b>	<b>1,700</b>	<b>53%</b>	<b>755</b>	<b>51%</b>
<b>Total All</b>	<b>3,026</b>	<b>100%</b>	<b>4,284</b>	<b>100%</b>	<b>3,229</b>	<b>100%</b>	<b>1,493</b>	<b>100%</b>



**STATE OF CONNECTICUT**  
DEPARTMENT OF PUBLIC HEALTH  
*Office of Health Care Access*

July 11, 2014

**IN THE MATTER OF:**

An Application for a Certificate of Need filed  
Pursuant to Section 19a-638, C.G.S. by:

Notice of Agreed Settlement  
Office of Health Care Access  
Docket Number: 13-31885-CON

**Gaylord Hospital**

**Termination of Gaylord Sleep Medicine  
Services in Glastonbury**

To:

Art Tedesco  
Interim Chief Executive Officer  
Gaylord Hospital  
P.O. Box 400  
Gaylord Farms Rd.  
Wallingford, CT 06492

RE: Certificate of Need Application, Docket Number 13-31885-CON  
Gaylord Hospital  
Termination of Gaylord Sleep Medicine Services in Glastonbury

Dear Mr. Tedesco:

This letter will serve as notice of the approved Certificate of Need Application in the above-referenced matter. On July 11, 2014, the Agreed Settlement, attached hereto, was adopted and issued as an Order by the Department of Public Health, Office of Health Care Access.

A handwritten signature in black ink, appearing to read "Kimberly R. Martone".

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Kimberly R. Martone  
Director of Operations

Enclosure  
KRM:lkg



**Department of Public Health  
Office of Health Care Access  
Certificate of Need Application**

**Agreed Settlement**

**Applicant:** Gaylord Hospital  
Gaylord Farms Road, Wallingford, CT 06492

**Docket Number:** 13-31885-CON

**Project Title:** Termination of Gaylord Sleep Medicine Services in  
Glastonbury, Connecticut

**Project Description:** Gaylord Hospital (“Hospital” or “Applicant”) seeks authorization to terminate Gaylord Sleep Medicine Services in Glastonbury, Connecticut, with no associated capital expenditure.

**Procedural History:** The Applicant published notice of its intent to file the Certificate of Need (“CON”) application in the *New Haven Register* on November 20, 21 and 22, 2013. On December 31, 2013, the Office of Health Care Access (“OHCA”) received the CON application from the Applicant for the above-referenced project and deemed the application complete on March 10, 2014. OHCA received no responses from the public concerning the Applicant’s proposal and no hearing requests were received from the public pursuant to Connecticut General Statutes (“Conn. Gen. Stat.”) § 19a-639a. Deputy Commissioner Davis considered the entire record in this matter.

To the extent the findings of fact actually represent conclusions of law, they should be so considered, and vice versa. *SAS Inst., Inc., v. S & H Computer Systems, Inc.*, 605 F.Supp. 816 (Md. Tenn. 1985).

## Findings of Fact and Conclusions of Law

1. The Applicant is a long term acute care hospital located at Gaylord Farms Road, Wallingford, Connecticut. Ex. A, p. 5.
2. The Hospital provides health care services for patients requiring care for spinal cord injury, traumatic brain injury, stroke, pulmonary disease and other medically complex illnesses and sleep medicine. It includes both inpatient and outpatient care. Ex. A, p. 5.
3. Gaylord Sleep Medicine-Glastonbury (“Sleep Center”) is located at 676 Hebron Avenue, Glastonbury, Connecticut and utilizes six beds in its sleep laboratory. Ex. A, p. 5.
4. On May 9, 2007, OHCA granted Gaylord Hospital approval (DN: 06-30877-CON) to terminate sleep laboratory services located at 836 Farmington Avenue, West Hartford, and establish Gaylord Sleep Medicine-Glastonbury, increasing bed capacity from three to six beds. Ex. A, p. 5.
5. The Applicant, who currently provides outpatient sleep medicine services at its Glastonbury location, is now proposing the termination of all services at that location. Ex. A, p. 5.
6. Three quarters (75%) of patient visits originated from 25 towns in FY 2013:

**TABLE 1  
GAYLORD SLEEP MEDICINE GLASTONBURY  
PATIENT VISITS (FY 2013\*)**

Town	Visits	%	Town	Visits	%	Town	Visits	%
Hartford	481	14.9%	West Hartford	77	2.4%	Portland	35	1.1%
East Hartford	226	7.0%	Wethersfield	76	2.4%	Torrington	34	1.1%
Glastonbury	208	6.4%	Middletown	72	2.2%	Berlin	33	1.0%
New Britain	186	5.8%	Willimantic	64	2.0%	Enfield	33	1.0%
Manchester	137	4.2%	Newington	54	1.7%	Coventry	30	0.9%
East Hampton	89	2.8%	Cromwell	52	1.6%	<b>Top 25 Towns</b>	<b>2,411</b>	<b>74.7%</b>
Colchester	87	2.7%	Marlborough	52	1.6%	All Other	818	25.3%
Windsor	86	2.7%	South Windsor	46	1.4%	<b>Total</b>	<b>3,229</b>	<b>100%</b>
Bristol	84	2.6%	Bloomfield	45	1.4%			
Rocky Hill	82	2.5%	Hebron	42	1.3%			

\*Gaylord Hospital fiscal year (October 1-September 30)  
Ex. A, pp. 7-10.

7. The following table shows the existing sleep medicine service providers in the Applicant's service area:

**TABLE 2**  
**EXISTING SLEEP LAB FACILITIES IN THE APPLICANT'S SERVICE AREA**

<b>Service</b>	<b>Provider Name and Location</b>
Sleep Laboratory	Hartford Hospital Sleep Center Wethersfield, CT
Sleep Laboratory	Saint Francis Hospital Sleep Center Hartford, CT
Sleep Laboratory	ECHN Sleep Disorder Center Manchester, CT
Sleep Laboratory	Sleep Disorder Center Middlesex Hospital Middletown, CT
Sleep Laboratory	ProHealth Sleep Center West Hartford, CT
Sleep Laboratory	Connecticut Children's Medical Center Hartford, CT

Ex. A, p. 6.

8. The Applicant's decision to terminate sleep medicine services in Glastonbury was in response to changes in the practice of sleep medicine, including new technology used to diagnose sleep disorders. Ex. A, p. 6, Ex. C. p. 50.
9. The shift toward home versus lab-based studies and associated volume declines, coupled with the need to provide high-quality, cost-effective care for spinal cord and brain injuries, complex pulmonary diseases and medically complex patients, influenced the decision to terminate sleep services in Glastonbury. Ex. C, p. 50.

10. The overall decline in sleep medicine visits at the Sleep Center is illustrated in the table below:

**TABLE 3  
HOSPITAL'S HISTORICAL AND CURRENT VISITS**

Visit Description	Fiscal Year			
	2011	2012	2013	2014* (annualized)
Sleep Medicine Study (full service study with physician interpretation)	1,129	1,339	973	838
Initial Consultation with Medical Staff	791	953	855	790
Follow-up visit to review study results and plan of care	459	992	476	333
PAP NAP **	---	4	17	10
Clinic***	605	872	749	463
Other****	42	124	159	125
<b>Total</b>	<b>3,026</b>	<b>4,284</b>	<b>3,229</b>	<b>2,559</b>

\* October 1, 2013 – April 2014

\*\* Day time visit of 3-4 hours to help patients learn to use marks and improve patient compliance.

\*\*\* CPAP set up; working with patients on compliance or mask issues.

\*\*\*\*Includes in-home sleep studies; HST rental; psychology visits for insomnia management.

Ex. F, p. 88.

11. Overnight sleep lab volume dropped from 1,129 in FY2011 to 838 (annualized) in FY14, representing a 25% decrease. Ex. F, p. 88
12. The decision was also based on an evaluation of how the Hospital could best meet the complex medical and rehabilitation needs of its patients. Ex. A, p. 6.
13. As part of the Hospital's strategic planning process, the decision was made to concentrate resources on the Hospital's core health care services, which do not include sleep medicine services. Ex. C, p. 51.
14. The Applicant will implement external communications and outreach activities to help transition patients to alternative clinical services following the termination of Gaylord Sleep Medicine-Glastonbury. Ex. C, p. 75.
15. The Applicant will notify patients seen within the last two years, in writing, about the availability of sleep medicine services at Yale-New Haven Hospital (adult and pediatric patients) and Connecticut Children's Medical Center (pediatric patients). The Applicant will also provide copies of medical records upon request and help patients transition to alternative providers of their choice. Ex. A, p. 6, Ex. C, p. 76.
16. No capital expenditures/costs will be incurred from termination of sleep medicine services at the Sleep Center. Ex. A, p. 12.
17. The decision to terminate the Sleep Center services was not dependent on reimbursement levels, but on declining volume and leasing considerations. Ex. A, p. 13.

18. In FY 2013, Gaylord Sleep Medicine-Glastonbury posted a \$493,437 gain from operations. Ongoing gains are projected in FY 2014 through FY 2016; however, they are projected to decline in each consecutive year.

**TABLE 4  
APPLICANT'S GAIN / (LOSS) FROM OPERATIONS**

	<b>FY 2013* (Actual)</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Revenue from Operations	\$1,378,533	\$1,361,531	\$1,361,531	\$1,361,531
Total Operating Expenses	\$885,096	\$891,481	\$912,330	\$927,463
Gain/(Loss) from Operations	<b>\$493,437</b>	<b>\$470,050</b>	<b>\$449,201</b>	<b>\$434,068</b>

\*Gaylord Hospital fiscal year (October 1-September 30)

Assumptions: Gaylord Sleep Medicine Services-Glastonbury projects decreasing operational gains from FY 2014 through FY 2016 as a result of flat revenues and rising operating costs. The volume of sleep medicine patients in Glastonbury has been declining for both physician referrals and direct patient referrals and sleep services are provided by several other practices in the area.

Ex. A, p. 10, p. 25.

19. The Applicant's historical and current payer mix is as follows:

**TABLE 5  
APPLICANT'S HISTORICAL AND CURRENT PAYER MIX**

<b>Payer</b>	<b>FY 2011</b>		<b>FY 2012</b>		<b>FY 2013</b>		<b>FY 2014*</b>	
	<b>Volume</b>	<b>%</b>	<b>Volume</b>	<b>%</b>	<b>Volume</b>	<b>%</b>	<b>Volume</b>	<b>%</b>
Medicare*	349	12%	554	13%	275	9%	133	9%
Medicaid*	943	31%	1,665	39%	1,238	38%	592	40%
CHAMPUS & TriCare	18	1%	4	<1%	16	<1%	13	1%
<b>Total Government</b>	<b>1,310</b>	<b>43%</b>	<b>2,223</b>	<b>52%</b>	<b>1,529</b>	<b>47%</b>	<b>738</b>	<b>49%</b>
Commercial Insurers	1,709	56%	2,051	48%	1,696	53%	750	50%
Uninsured	7	<1%	10	<1%	4	<1%	5	<1%
Workers Compensation	---	0%	---	0	---	0%	---	0%
<b>Total Non-Government</b>	<b>1,716</b>	<b>57%</b>	<b>2,061</b>	<b>48%</b>	<b>1,700</b>	<b>53%</b>	<b>755</b>	<b>51%</b>
<b>Total Payer Mix</b>	<b>3,026</b>	<b>100%</b>	<b>4,284</b>	<b>100%</b>	<b>3,229</b>	<b>100%</b>	<b>1,493</b>	<b>100%</b>

\*(October 1, 2013 – to April 2014)

Ex. F, p. 88

20. OHCA is currently in the process of establishing its policies and standards as regulations. Therefore, OHCA has not made any findings as to this proposal's relationship to any regulations not yet adopted by OHCA. (Conn. Gen. Stat. § 19a-639(a)(1)).
21. This CON application is consistent with the overall goals of the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
22. The Applicant has established that there is a clear public need for its proposal. (Conn. Gen. Stat. § 19a-639(a)(3)).
23. The Applicant has demonstrated that the proposal will not impact the financial strength of the health care system in Connecticut. (Conn. Gen. Stat. § 19a-639(a)(4)).
24. The Applicant has satisfactorily demonstrated that quality and access to services in the region will be maintained for all relevant patient populations and that the proposal will reduce overall system costs by eliminating duplicative services and allowing for the greater use of a more cost-efficient diagnostic method with the potential to reach a broader population. (Conn. Gen. Stat. § 19a-639(a)(5))
25. The Applicant has shown that there would be no adverse change in the provision of health care services to the relevant populations and payer mix, including Medicaid patients and indigent persons. (Conn. Gen. Stat. § 19a-639(a)(6)).
26. The Applicant has satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7)).
27. The declining historical utilization of sleep medicine visits in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8)).
28. The Applicant has satisfactorily demonstrated that this proposal would not result in an unnecessary duplication of existing services in the area. (Conn. Gen. Stat. § 19a-639(a)(9)).
29. The Applicant has demonstrated good cause for the reduction in access to services by Medicaid recipients or indigent persons. (Conn. Gen. Stat. § 19a-639(a)(10)).



## Discussion

CON applications are decided on a case by case basis and do not lend themselves to general applicability due to the uniqueness of the facts in each case. In rendering its decision, OHCA considers the factors set forth in § 19a-639(a) of the Statutes. The Applicants bear the burden of proof in this matter by a preponderance of the evidence. *Jones v. Connecticut Medical Examining Board*, 309 Conn. 727 (2013).

The Hospital is a long term acute care hospital located at Gaylord Farms Road, Wallingford, Connecticut. *FF1* The Hospital, which began offering sleep medicine services in 2007, is proposing to terminate all sleep medicine services at Gaylord Sleep Medicine-Glastonbury ("Sleep Center"), located at 676 Hebron Avenue, Hebron, Connecticut. *FF3-6*

The Applicant's request to terminate services at the Sleep Center is in response to changes in the practice of sleep medicine, including new technology used to diagnose sleep disorders. *FF6* Notably, overnight sleep studies have declined 25% between FY2011 and FY2014. *FF12,13* The decline in volume is attributed to the recent trend toward delivering sleep medicine testing in the home as opposed to lab-based testing. According to the Journal of Clinical Sleep Medicine, home-based sleep testing (HST) is likely to play an increasingly larger role in the practice of sleep medicine in the next several years, in large part due to changes in insurance practices around HST devices used in the diagnosis of obstructive sleep apnea (OSA). As prior authorization programs run by utilization management companies have begun to proliferate, many patients have been shunted from sleep laboratories into home testing. Portable, home-based testing appears to be a cost-efficient diagnostic measure at a time when medical costs are being closely scrutinized. Additionally, HST may reach a larger number of patients when not limited to a physical location of a sleep laboratory. *CON DN 13-31883, p. 4; Journal of Clinical Sleep Medicine Vol. 10, No. 5, pp. 5-7.* The trend toward moving sleep medicine testing to the home evidences forward thinking in an effort to reduce the cost of providing this service thereby strengthening the financial stability of Connecticut's health care system while maintaining access to this service for the patient population. In fact, this trend makes it easier for the patient to receive sleep medicine services by eliminating the need to travel to, and stay overnight at, the hospital.

As part of the closure, the Applicant will implement external communications and outreach activities to help transition patients to alternative clinical services following the termination of services at the Sleep Center. Specifically, the Applicant will notify patients seen within the last two years, in writing, about the availability of sleep medicine services at Yale-New Haven Hospital (adult and pediatric patients) and Connecticut Children's Medical Center (pediatric patients). The Applicant will also provide copies of medical records upon request and help patients transition to alternative providers of their choice. *FF14&15.* The Applicant has provided evidence that there are six other providers within its service area that are able to provide sleep medicine services to the patient population. Based upon the foregoing, the Applicant has satisfactorily demonstrated that access to sleep medicine services will be maintained for the relevant patient population, including Medicaid patients.

The shift toward home versus lab-based studies, volume declines and the Applicant's evaluation of how to best provide high-quality, cost-effective core services for patients with spinal cord and brain injuries, complex pulmonary diseases and medically complex needs influenced the decision to terminate sleep services in Glastonbury. *FF8-10*. The decision was not based on reimbursement levels, but rather was predicated on declining volume and leasing considerations. *FF17* While ongoing gains from operations are projected for FY2014-FY2016, they are also projected to decline in each consecutive year. *FF18* No capital expenditures/costs will be incurred from the termination. *FF16* Therefore, OHCA finds that this proposal will not negatively impact the financial strength of the state's health care system.

One of the overarching goals of the Statewide Health Care Facilities and Services Plan is the use of health care facility resources in an efficient, cost-effective manner while maintaining or improving patients' access to quality health care services. This proposal will allow for sleep medicine services to be provided in a more cost-effective setting and eliminate the duplication of services in the Applicant's service area. It is also reflective of the changing model of sleep medicine service delivery that has the potential to reach a larger number of patients. Thus, the Applicant has sufficiently demonstrated a clear public need for this proposal.

## Order

NOW, THEREFORE, the Department of Public Health, Office of Health Care Access ("OHCA") and Gaylord Hospital ("Hospital") hereby stipulate and agree to the terms of settlement with respect to the termination of services of Gaylord Sleep Medicine Services at 676 Hebron Avenue, Glastonbury, Connecticut, as follows:

1. Gaylord Hospital's request to termination of service at Gaylord Sleep Medicine Services, 676 Hebron Avenue, Glastonbury, Connecticut, is **approved**.
2. Gaylord Hospital shall release a one-time notification to all current patients, and those seen within the last two years, of the Gaylord Sleep Medicine Services that clearly identifies all existing providers of sleep medicine services in the service area where patients can receive the same services. A copy of such notification shall be filed with OHCA within (10) days of the signing of this Agreed Settlement.
3. Gaylord Hospital shall assist former Gaylord Sleep Medicine Services patients in transitioning to alternative providers of their choice and provide copies of medical records upon request.
4. This Agreed Settlement is an order of OHCA with all rights and obligations attendant thereto, and OHCA may enforce this Agreed Settlement under the provisions of Conn. Gen. Stat. §§ 19a-642 and 19a-653 with all fees and costs of such enforcement being the responsibility of the Hospital.
5. OHCA and Gaylord Hospital agree that this Agreed Settlement represents a final agreement between OHCA and all parties with respect to this Application. The signing of this Agreed Settlement resolves all objections, claims, and disputes that may have been raised by the Applicant with regard to Docket Number: 13-31885-CON.
6. This Agreed Settlement shall be binding upon Gaylord Hospital and its successors and assigns.


Signed by George M. Kyriacou, CEO  
(Print name) (Title)

7/8/14  
Date

  
Duly Authorized Agent for  
Gaylord Hospital

The above Agreed Settlement is hereby accepted and so ordered by the Department of Public Health Office of Health Care Access on July 14, 2014.

7/11/14  
Date:

  
Lisa A. Davis, MBA, BS, RN  
Deputy Commissioner

\* \* \* COMMUNICATION RESULT REPORT ( JUL. 15. 2014 9:51AM ) \* \* \*

FAX HEADER:

TRANSMITTED/STORED : JUL. 15. 2014 9:48AM  
FILE MODE OPTION

ADDRESS

RESULT

PAGE

467 MEMORY TX

912037413408

OK

12/12

REASON FOR ERROR  
E-1) HANG UP OR LINE FAIL  
E-3) NO ANSWERE-2) BUSY  
E-4) NO FACSIMILE CONNECTION

STATE OF CONNECTICUT  
DEPARTMENT OF PUBLIC HEALTH  
OFFICE OF HEALTH CARE ACCESS

FAX SHEET

TO: Art Tedesco

FAX: (203) 741-3408

AGENCY: Gaylord Hospital

FROM: Paolo Fiducia

DATE: 7/15/14

NUMBER OF PAGES: 12  
*(including transmittal sheet)*

**Comments:**

Please see the attached Agreed Settlement in the matter of 13-31885-  
CON: Termination of Gaylord Sleep Medicine Services in Glastonbury

**PLEASE PHONE IF THERE ARE ANY TRANSMISSION PROBLEMS.**

Phone: (860) 418-7001

Fax: (860) 418-7053

410 Capitol Ave., MS#13HCA  
P.O.Box 340308  
Hartford, CT 06134

## Huber, Jack

---

**From:** Huber, Jack  
**Sent:** Tuesday, September 02, 2014 5:57 PM  
**To:** 'gkyriacou@gaylord.org'  
**Cc:** Roberts, Karen  
**Subject:** RE: Notices of CON Expiration Dates for the Decisions Rendered under **Docket Numbers: 13-31883-CON, 13-31885-CON and 14-31902-CON**  
**Attachments:** A.S. Orders for Gaylord Hospital.pdf

Dear Mr. Kyriacou:

On July 11, 2014, in separate agreed settlements under Docket Numbers: 13-31883-CON, 13-31885-CON and 14-31902-CON, the Office of Health Care Access authorized three separate Certificate of Needs ("CONs") to Gaylord Hospital for the termination of the Hospital's sleep medicine services at 101 Merritt Boulevard in Trumbull, 676 Hebron Avenue in Glastonbury and 37 Soundview Road in Guilford, respectively. Pursuant to Section 19a-639b of the Connecticut General Statutes ("C.G.S."), *"a certificate of need shall be valid for two years from the date of issuance by this office."*

With this letter, please be advised that pursuant to Section 19a-639b, C.G.S., the current CON authorizations issued under Docket Numbers: 13-31883-CON, 13-31885-CON and 14-31902-CON will each expire on July 11, 2016. Please contact me at (860) 418-7069 or Karen Roberts, Principal Health Analyst at (860) 418-7041, if you have any questions regarding this notification.

Additionally, please provide OHCA with a copy of the one-time notification release pursuant to the agreed-upon Stipulation Number 2 in each of the three agreed settlements. Copies of each agreed settlement order are attached for your convenience. Thank you for your assistance in this matter.

Sincerely,

*Jack A. Huber*

Jack A. Huber  
Health Care Analyst  
Department of Public Health  
Office of Health Care Access  
410 Capitol Avenue  
P.O. Box 340308 MS #13HCA,  
Hartford, CT 06134  
Office: (860) 418-7069  
Fax: (860) 418-7053  
Email: [Jack.Huber@ct.gov](mailto:Jack.Huber@ct.gov)

## Huber, Jack

---

**From:** Huber, Jack  
**Sent:** Monday, December 01, 2014 11:59 AM  
**To:** John D. Blair (john@blairlawllc.com)  
**Cc:** Roberts, Karen; Riggott, Kaila; Lazarus, Steven  
**Subject:** RE: Gaylord Patient Notification Letters in Accordance with Stipulation Number 2 of Each Respective Agreed Settlement

Good morning John - This is to inform you that OHCA is in receipt of the patient notification letters that were distributed by Gaylord Hospital to its former sleep medicine patients. The letters were required to be filed with OHCA in accordance with agreed-upon Stipulation Number 2 of each agreed settlement, which allowed for the service termination of the Gaylord Hospital sleep medicine services located in the following communities: Trumbull, Glastonbury, North Haven and Guilford. Each patient notification letter has been reviewed in relationship with its agreed-upon Stipulation Number 2.

Please be advised that Gaylord Hospital is deemed to be compliant with the reporting requirements of the following Certificate of Need authorizations:

1. Sleep medicine service site at 101 Merritt Boulevard in Trumbull under DN: 13-31883-CON, authorized by OHCA on July 11, 2014;
2. Sleep medicine service site at 676 Hebron Avenue in Glastonbury under DN: 13-31884-CON, authorized by OHCA on September 8, 2014;
3. Sleep medicine service site at 8 Devine Street in North Haven under DN: 13-31885-CON, authorized by OHCA on July 11, 2014; and
4. Sleep medicine service site at 37 Soundview Road in Guilford under DN: 13-31902-CON, authorized by OHCA on July 11, 2014.

Thank you for your attention to these matters. With receipt of the aforementioned information, Gaylord Hospital will no longer be required to file information with OHCA regarding the Certificate of Need authorizations cited above.

Should you have any questions, please let me know. Regards, Jack

Jack A. Huber  
DPH - OHCA Health Care Analyst

**Huber, Jack**

Docket Number: 14-31885-CON

Greater Glastonbury/Hartford

**From:** Lazarus, Steven  
**Sent:** Tuesday, November 18, 2014 3:18 PM  
**To:** Roberts, Karen; Huber, Jack  
**Subject:** RE: Gaylord Patient Notification Letters

Oh okay good. (Don't know why) John Blair left me a voice mail end of last week and sent the email to Kaila and Paolo back on 10/2 (again, don't know why). Perhaps Jack can call him back.

Thank you,

Steve

Steven W. Lazarus  
Associate Health Care Analyst  
Division of Office of Health Care Access Connecticut Department of Public Health  
410 Capitol Avenue  
Hartford, CT 06134  
Phone: 860-418-7012  
Fax: 860-418-7053

-----Original Message-----

**From:** Roberts, Karen  
**Sent:** Tuesday, November 18, 2014 3:15 PM  
**To:** Lazarus, Steven; Huber, Jack  
**Subject:** RE: Gaylord Patient Notification Letters

I think Jack has been waiting for Gaylord to answer some emails - this seems to be it.

-----Original Message-----

**From:** Lazarus, Steven  
**Sent:** Tuesday, November 18, 2014 3:14 PM  
**To:** Huber, Jack  
**Cc:** Roberts, Karen  
**Subject:** FW: Gaylord Patient Notification Letters

Jack,

Do you know if this is Compliance related?

Steve

Steven W. Lazarus  
Associate Health Care Analyst  
Division of Office of Health Care Access Connecticut Department of Public Health



410 Capitol Avenue  
Hartford, CT 06134  
Phone: 860-418-7012  
Fax: 860-418-7053

-----Original Message-----

From: Riggott, Kaila  
Sent: Tuesday, November 18, 2014 3:09 PM  
To: Lazarus, Steven  
Subject: FW: Gaylord Patient Notification Letters

-----Original Message-----

From: John D. Blair [mailto:john@blairlawllc.com]  
Sent: Thursday, October 02, 2014 12:12 PM  
To: Fiducia, Paolo  
Cc: Riggott, Kaila  
Subject: Gaylord Patient Notification Letters



Paolo and Kaila,

Please see enclosed patient notification letters sent out by Gaylord Hospital. I believe you had asked for these per the orders.

Please confirm receipt and be sure to let me know if there is anything more you need at this time.

John

John D. Blair

Blair Law  
P.O. Box 141  
Rocky Hill, CT 06067

c: 860.280.4059  
[john@blairlawllc.com](mailto:john@blairlawllc.com)

[www.blairlawllc.com](http://www.blairlawllc.com) <<http://www.blairlawllc.com/>>

On 9/30/14, 3:32 PM, "LaBarbera, Sonja" <[slabarbera@gaylord.org](mailto:slabarbera@gaylord.org)> wrote:

>Hi John. Attached are copies of the notification letters we sent to  
>sleep patients for all 4 locations. It is my understanding that OCHA  
>is requesting these.  
>Can you get them to the right place, please?

>Thanks!

>Sonja

>

>-----Original Message-----

>From: [savin-copier@gaylord.org](mailto:savin-copier@gaylord.org) [mailto:[savin-copier@gaylord.org](mailto:savin-copier@gaylord.org)]

>Sent: Tuesday, September 30, 2014 3:23 PM

>To: LaBarbera, Sonja

>Subject: Message from "RNP0026733B4C16"

>

>This E-mail was sent from "RNP0026733B4C16" (MP 5002).

>

>Scan Date: 09.30.2014 15:22:54 (-0400)

>Queries to: [savin-copier@gaylord.org](mailto:savin-copier@gaylord.org)

>

>

>Our Mission is to preserve and enhance a person's health and function.

>

>

>

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Gaylord Specialty Healthcare

P.O. Box 400  
Gaylord Farm Road  
Wallingford, CT  
06492  
203 284-2800 tel  
203 284-2894 fax  
www.gaylord.org



September 30, 2014

Dear Patient,

I am writing to inform you of an upcoming change at Gaylord Sleep Medicine. As of now, we are no longer accepting new patients for consultations at the Glastonbury site, and will close the clinic for all business on October 31, 2014.

It has been our privilege to serve the **greater Glastonbury/Hartford community** for the past ten years.

We understand that you may still require sleep medicine services, and would be happy to schedule visits for you at our North Haven location.

If Gaylord Sleep Medicine North Haven site is not convenient for you, we are happy to provide a list of other area resources (attached). Your Gaylord provider will work collaboratively with your new provider to ensure a smooth transition for your care.

Should you have any questions or would like a copy of your medical records, please contact Gaylord Sleep Medicine at (203) 741-3469. We thank you for the opportunity to serve your healthcare needs.

Sincerely,

Margaret Kelley  
Manager of Sleep Medicine

**Gaylord Sleep Medicine**  
**North Haven Site**  
8 Devine Street  
North Haven, CT 06473  
(203) 284-2818

**Sleep Disorder Center**  
**Hartford Hospital**  
80 Seymour Street  
Hartford, CT 06106  
(203) 545-2996

**Sleep Disorders Center**  
**University of Connecticut Health Center**  
263 Farmington Avenue  
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**The Sleep Disorders Center**  
**Prime Healthcare, PC**  
20 Isham Road, Suite 100  
West Hartford, CT 06107  
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**Sleep Disorders Center at Manchester Memorial Hospital**  
**Eastern Connecticut Health Network**  
71 Haynes Street  
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**The Sleep Disorders Center at Saint Francis Hospital**  
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**The ProHealth Sleep Center**

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**The ProHealth Sleep Center**

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**The ProHealth Sleep Center**

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**Connecticut Children's Sleep Center**

505 Farmington Avenue  
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(860) 837-6643