# Gaylord Farm Association, Inc.

## Independent Auditors' Report, Consolidated Financial Statements and Supplemental Information

## As of and for the Years Ended September 30, 2009 and 2008

**Gaylord Farm Association, Inc.**
**Independent Auditors' Report, Consolidated Financial Statements**
**and Supplemental Information**
**As of and for the Years Ended September 30, 2009 and 2008**

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Saslow Lufkin & Buggy, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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, 2009 and 2008, and the related consolidated statements of operations, 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 $4,838,777 as of September 30, 2009, and total revenues of $717,500 and $393,051 of net income for the year then ended. 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, 2009 and 2008, 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 basic consolidated financial statements taken as a whole. The consolidating information listed within the Table of Contents has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and 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. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows of the individual companies. However, in our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Saslow Lufkin & Buggy, LLP

January 7, 2010

10 Tower Lane
Avon CT 06001
Telephone (860) 678-9200
FAX (860) 678-9202

30 Main Street
Burlington, VT 05401
Telephone (802) 865-9300
FAX (802) 865-9302

email: information@slbcpa.com

# Gaylord Farm Association, Inc.
# Consolidated Balance Sheets
# September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 2,251,036** | $ 3,963,322 |
| Patient accounts receivable (less allowance for doubtful accounts of $1,191,000 in 2009 and $1,648,000 in 2008) | **9,693,724** | 9,245,905 |
| Assets whose use is limited: | | |
| Assets held under bond indenture agreement | **165,242** | 193,862 |
| Pledges receivable | **580,943** | 563,169 |
| Other current assets | **1,579,387** | 1,137,319 |
| Total current assets | **14,270,332** | 15,103,577 |
| Assets whose use is limited: | | |
| Pledges receivable | **1,202,392** | 1,269,292 |
| Board-designated investments | **15,830,048** | 17,060,539 |
| Donor restricted investments | **5,351,607** | 5,503,211 |
| Beneficial interest in trusts held by others | **9,943,906** | 10,226,304 |
| | **32,327,953** | 34,059,346 |
| Property, plant and equipment, net | **46,412,564** | 46,352,355 |
| Investments held for captive insurance liabilities | **3,124,034** | 2,767,030 |
| Reinsurance recoverable relating to captive insurance liabilities | **698,135** | 616,096 |
| Other assets (Note 6) | **1,084,773** | 1,279,584 |
| Total assets | **$ 97,917,791** | $ 100,177,988 |
| **Liabilities, Net Assets and Shareholder's Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 6,624,703** | $ 7,689,995 |
| Accrued payroll and related taxes | **3,285,598** | 3,566,742 |
| Line of credit | **1,625,000** | 3,000,000 |
| Estimated amounts due to third-party payers | **246,806** | 246,806 |
| Current portion of long-term debt and capital lease obligations | **1,399,430** | 891,247 |
| Total current liabilities | **13,181,537** | 15,394,790 |
| Long-term debt and capital lease obligations, less current portion | **22,263,901** | 20,463,122 |
| Accrued pension obligation | **13,649,806** | 5,779,503 |
| Captive insurance reserves | **3,005,963** | 2,673,816 |
| Interest rate swap liability | **2,632,838** | 1,136,775 |
| Total liabilities | **54,734,045** | 45,448,006 |
| Net assets and shareholder's equity: | | |
| Unrestricted net assets | **24,307,925** | 35,367,363 |
| Temporarily restricted net assets | **2,148,726** | 2,913,872 |
| Permanently restricted net assets | **14,930,122** | 15,164,507 |
| Shareholder's equity | **1,796,973** | 1,284,240 |
| Total net assets and shareholder's equity | **43,183,746** | 54,729,982 |
| Total liabilities, net assets and shareholder's equity | **$ 97,917,791** | $ 100,177,988 |

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

**Gaylord Farm Association, Inc.**
**Consolidated Statements of Operations**
**For the Years Ended September 30, 2009 and 2008**

| | 2009 | 2008 |
|---|---|---|
| Revenues: | | |
| Net patient service revenue | **$ 66,829,960** | $ 65,464,206 |
| Contributions and bequests | **695,886** | 1,262,805 |
| Ceded premium | **(389,199)** | (292,500) |
| Other operating revenue | **635,021** | 913,145 |
| Net assets released from | | |
| restrictions used for operations | **225,494** | 599,786 |
| Total revenues | **67,997,162** | 67,947,442 |
| Expenses: | | |
| Salaries and related expenses | **46,610,184** | 47,173,063 |
| Other operating expenses | **5,008,972** | 5,635,948 |
| Professional fees and contract services | **5,308,794** | 5,857,546 |
| Supplies | **4,975,353** | 4,732,673 |
| Depreciation and amortization | **3,709,051** | 2,889,543 |
| Occupancy costs | **2,203,004** | 1,778,381 |
| Provision for bad debts | **616,185** | 1,244,318 |
| Interest | **914,053** | 563,397 |
| Losses and loss adjustment expenses | **252,379** | 321,975 |
| Total expenses | **69,597,975** | 70,196,844 |
| Loss from operations | **(1,600,813)** | (2,249,402) |
| Other (losses) gains: | | |
| Dividend and interest income | **648,145** | 860,159 |
| Net realized (losses) gains on investments | **(1,255,984)** | 71,769 |
| Loss from equity investment in CHCP | **-** | (40,000) |
| Loss from equity investment in Fitness & Wellness | **(223,957)** | (185,831) |
| Change in fair value of interest rate swap agreement | **(1,496,063)** | (313,555) |
| Loss on lease abandonment | **(92,035)** | - |
| Other than temporary impairment of unrealized losses | **-** | (1,386,663) |
| Total other (losses) gains | **(2,419,894)** | (994,121) |
| Excess of revenues (under) over expenses | **$ (4,020,707)** | $ (3,243,523) |

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

## Gaylord Farm Association, Inc.
## Consolidated Statements of Changes in Net Assets and Shareholder's Equity
## For the Years Ended September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Unrestricted net assets: | | |
| Excess of revenues (under) over expenses | **$ (4,020,707)** | $ (3,243,523) |
| Net unrealized gains (losses) on investments | **766,643** | (6,388,087) |
| Pension related changes other than net periodic pension cost | **(8,671,657)** | (4,041,644) |
| Transfer to GRS | **-** | (1,432,343) |
| Net income of GRS | **(393,051)** | (52,188) |
| Asset retirement obligations | **-** | (219,273) |
| Net assets released from restrictions used for purchases of property, plant and equipment | **1,259,334** | 129,863 |
| Change in unrestricted net assets | **(11,059,438)** | (15,247,195) |
| | | |
| Temporarily restricted net assets: | | |
| Restricted pledges and contributions | **719,682** | 2,289,241 |
| Net assets released from restrictions | **(1,484,828)** | (729,649) |
| Change in temporarily restricted net assets | **(765,146)** | 1,559,592 |
| | | |
| Permanently restricted net assets: | | |
| Restricted contributions and bequests | **48,013** | 242,971 |
| Change in beneficial interest in trusts held by others | **(282,398)** | (2,160,949) |
| Change in permanently restricted net assets | **(234,385)** | (1,917,978) |
| | | |
| Shareholder's equity: | | |
| Contributed capital | **-** | 1,432,343 |
| Net income of GRS | **393,051** | 52,188 |
| Net unrealized gains (losses) on investments of GRS | **119,682** | (200,291) |
| Change in shareholder's equity | **512,733** | 1,284,240 |
| | | |
| Change in net assets and shareholder's equity | **(11,546,236)** | (14,321,341) |
| | | |
| Net assets and shareholder's equity, beginning of year | **54,729,982** | 69,051,323 |
| | | |
| Net assets and shareholder's equity, end of year | **$ 43,183,746** | $ 54,729,982 |

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, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Operating activities: | | |
| Change in net assets and shareholder's equity | **$ (11,546,236)** | $ (14,321,341) |
| Adjustments to reconcile change in net assets and shareholder's equity to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | **3,709,051** | 2,889,543 |
| Pension income | **(38,936)** | (348,010) |
| Pension related changes other than net periodic pension cost | **8,671,657** | 4,041,644 |
| Change in fair value of interest rate swap | **1,496,063** | 313,555 |
| Net realized and unrealized losses on investments | **489,341** | 7,702,981 |
| Loss from equity investment in CHCP | **-** | 40,000 |
| Loss from equity investment in Fitness & Wellness | **223,957** | 185,831 |
| Change in beneficial interest in trusts held by others | **282,398** | 2,160,949 |
| Restricted contributions and bequests received | **(767,695)** | (2,532,212) |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | **(447,819)** | 1,830,425 |
| Other current assets | **(442,068)** | (260,523) |
| Pledges receivable | **49,126** | (1,180,815) |
| Investments held for captive insurance liabilities | **(357,004)** | (2,767,030) |
| Reinsurance recoverable relating to captive insurance | **(82,039)** | (616,096) |
| Other assets | **33,150** | 1,577,114 |
| Accounts payable and accrued expenses | **(1,827,710)** | 1,123,599 |
| Accrued payroll and related taxes | **(281,144)** | 160,449 |
| Captive insurance liabilities | **332,147** | 2,673,816 |
| Net cash (used in) provided by operating activities | **(503,761)** | 2,673,879 |
| Investing activities: | | |
| Assets held under bond indenture agreement | **28,620** | 8,027,970 |
| Investment in Fitness & Wellness | **(62,296)** | (108,000) |
| Purchases of property, plant and equipment | **(3,168,260)** | (17,465,963) |
| Sales and purchases of investments, net | **892,754** | 7,876,858 |
| Net cash used in investing activities | **(2,309,182)** | (1,669,135) |
| Financing activities: | | |
| Principal payments on long-term debt | **(990,000)** | (550,000) |
| Net payments on lines of credit | **(1,375,000)** | - |
| Proceeds from borrowings on term note | **3,000,000** | - |
| Principal payments on capital lease obligations | **(302,038)** | (667,446) |
| Restricted contributions and bequests received | **767,695** | 2,532,212 |
| Net cash provided by financing activities | **1,100,657** | 1,314,766 |
| Change in cash and cash equivalents | **(1,712,286)** | 2,319,510 |
| Cash and cash equivalents, beginning of year | **3,963,322** | 1,643,812 |
| Cash and cash equivalents, end of year | **$ 2,251,036** | $ 3,963,322 |

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

## Note 1 - General

***Organization*** - Gaylord Farm Association, Inc. (the Association) is a not-for-profit corporation, which is 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. 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 accounting principles generally accepted in the United States of America 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*** - The Association considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. At times, the Association maintains cash balances that are in excess of the $250,000 insured Federal Depository Insurance Corporation (FDIC) limits. In addition, FDIC coverage for balances in non-interest bearing transaction deposit accounts is unlimited if the bank elects to participate. As of September 30, 2009, the Association had $1,854,174 with Bank of America and $354,888 with EFG - Bahamas.

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

***Property, Plant and Equipment*** **-** Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset 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.

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

The Association has a fifty percent ownership interest in North Haven Fitness & Wellness, LLC (Fitness & Wellness). In addition, the Association had a fifty percent ownership interest in Connecticut Health Care Partners Reciprocal Risk Retention Group (CHCP). During 2008, CHCP was dissolved and the Association transferred the value of its ownership interest to GRS. 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).

Effective October 1, 2008, the Association adopted Accounting Standard Codification No. 820-10, "*Fair Value Measurements and Disclosures*". For financial statement elements currently required to be measured at fair value, ASC 820-10 redefines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability which is referred to as the exit price. ASC 820-10 provides guidance on how to measure fair value, when required, under existing accounting standards.

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

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2, and 3).

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Association has the ability to access at the measurement date.

Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.

Level 3 - Unobservable inputs reflecting the Association's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

***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.

***Other Than Temporary Impairments on Investments*** **-** When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings and the cost basis of that investment is reduced.

For equity securities, the Association's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and the Association's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

The Association adopted ASC 320-10, Investments - Debt and Equity Securities (which encompassed FSP FAS115-2 and FAS 124-2, "*Recognition and Presentation of Other-Than-Temporary Impairments*" (FSP FAS 115-2/124-2), which relates to fixed income securities. This guidance requires the Association to evaluate whether it intends to sell an impaired fixed income security or whether it is more likely than not that it will be required to sell an impaired fixed income security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the fixed income security's amortized cost and its fair value is recognized in earnings.

For impaired fixed income securities that do not meet these criteria, the Association determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment is recognized in earnings and the remaining portion of the impairment is recognized as a component of unrestricted net assets.

During 2009, there were no impairment losses recorded. During 2008, impairment losses of $1,386,663 were recognized relating to investments that were deemed to be other than temporarily impaired.

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

***Temporarily and Permanently Restricted Net Assets -*** Temporarily restricted net assets are those whose use by the Association has been limited by donors to a specific time frame or purpose and are included in investments. Temporarily restricted net assets are available primarily for health care services, including cancer and pediatric programs and capital replacement. Permanently restricted net assets consist of the Association's permanently restricted endowments, which are included in investments and in beneficial interest trusts held by others. Permanently restricted net assets are restricted primarily for investments to be held in perpetuity, the income from which is expendable to support health care services and restricted beneficial interest trusts held by others, the income from which is expendable to support health care services.

***Donor Restricted Gifts -*** Unconditional promises to give cash and other assets to the Association are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations 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 (Under) Over Expenses -*** The consolidated statements of operations includes excess of revenues (under) over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues (under) over 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.

Effective October 1, 2008, the Association adopted certain provisions of Accounting Standards Codification 740-10, "*Income Taxes*" (ASC 740-10), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of Association's tax position taken or expected to be taken in a tax return. ASC 740-10 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of ASC 740-10 did not have any impact on the accompanying consolidated financial statements as the Association does not believe that it has any uncertain tax positions.

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

***Goodwill* -** The Association recorded the excess of the purchase price of a New Haven based sleep center over the fair value of the assets acquired as goodwill. On an annual basis, management reviews the goodwill for impairment by considering the estimated fair value of the business acquired as compared to the net assets of the business. An impairment adjustment was recognized of $18,219 for fiscal years 2009 and 2008.

***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 charitable remainder trusts 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. Charity care of $107,276 and $170,002, as measured at the Association's respective established rates, was provided in fiscal years 2009 and 2008, respectively.

***Estimated Malpractice Costs* -** The Association maintains malpractice insurance coverage under claims made policies through GRS in 2009 and 2008. 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 approximately $1,014,000 and $975,000 as of September 30, 2009 and 2008, respectively, and include estimates for claim obligations related to claims through September 30, 2009 and 2008.

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

***Unpaid Losses and Loss Adjustment Expenses -*** The reserve for unpaid losses and loss adjustment expenses and 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 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 Accounting Standards Codification No. 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.

***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.

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

***Subsequent events*** **-** Subsequent events have been evaluated through January 7, 2010, the date through which procedures were performed to prepare the consolidated financial statements for issuance.

***Recent Accounting Pronouncement*** **-** In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *"FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162"*. This guidance establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative GAAP for nongovernmental entities. The Codification supersedes all existing non-SEC accounting and reporting standards. Rules and interpretive releases of the SEC under authority of federal securities laws will remain authoritative GAAP for SEC registrants. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As the Codification will not change existing GAAP, the adoption of this guidance did not have an impact on the consolidated financial condition or results of consolidated operations of the Association.

## 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:

***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. The Association's Medicare cost reports had been audited by the Medicare fiscal intermediary through 2003.

***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.

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

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, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|---|---|---|
| Gross patient service revenue | **$ 185,349,209** | $ 172,138,691 |
| Contractual allowances and adjustments | **(118,519,249)** | (106,674,485) |
| Net revenue from services to patients | **$ 66,829,960** | $ 65,464,206 |

Revenue from the Medicare and Medicaid programs accounted for approximately 42% and 19%, respectively, of the Association's net patient revenue for 2009 and 45% and 11%, respectively, for 2008. Revenue from Blue Cross accounted for approximately 17% in 2009 and 2008. No other payer accounted for more than 10% of revenue in 2009 and 2008. 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, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Medicare | **39%** | 40% |
| Medicaid | **14%** | 14% |
| Blue Cross | **16%** | 16% |

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.

## Note 4 - Investments

Board-designated and restricted investments are invested as follows as of September 30, 2009 and 2008:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Cost | Market Value | Cost | Market Value |
| Cash and money market | **$ 700,603** | **$ 700,603** | $ 4,373,380 | $ 4,373,380 |
| Certificate of deposit | **-** | **-** | 138,774 | 138,774 |
| Other securities | **2,375,164** | **2,055,128** | 3,069,668 | 2,861,981 |
| Equity securities | **3,102,554** | **3,454,664** | 3,228,509 | 3,222,418 |
| Mutual funds | **15,902,784** | **14,971,260** | 13,419,512 | 11,967,197 |
| | **$ 22,081,105** | **$ 21,181,655** | $ 24,229,843 | $ 22,563,750 |

Investment balances that have been restricted by donors as of September 30, 2009 and 2008 are $5,351,607 and $5,503,211, respectively. The Board of Directors of the Association has restricted all other investments. Mutual fund balances are comprised of 56% and 66%, of equity funds and 44% and 34%, of fixed income funds as of September 30, 2009 and 2008, respectively. On January 30, 2009, the Association entered into agreement with Bank of America to pledge one of the Association's board restricted investment accounts, which had a fair market value of $5,486,923 as of September 30, 2009. The pledge agreement was executed in conjunction with certain line of credit agreements, which were entered into on January 30, 2009 and are further discussed in Note 7.

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 captive insurance liabilities of $3,124,034 and $2,767,030 as of September 30, 2009 and 2008, respectively, are invested in bonds and fixed income mutual funds.

There were no impairment losses recorded during 2009. Included within the consolidated statements of operations for 2008 is $1,386,663 of impairment losses that the Association recognized to reflect what was determined to be an other than temporary decline in market value of certain securities.

## Note 4 - Investments (continued)

The following table shows the investments' gross unrealized losses (which have been adjusted for the other than temporary impairment adjustments) 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, 2009 and 2008:

| **2009** | **Less than 12 months** | | **Greater than 12 months** | | **Total** | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| Equity securities | **$ 103,884** | **$ (5,528)** | **$ 507,367** | **$ (81,010)** | **$ 611,251** | **$ (86,538)** |
| Other securities | **-** | **-** | **2,055,128** | **(333,863)** | **2,055,128** | **(333,863)** |
| Mutual funds | **4,023,151** | **(440,442)** | **9,427,987** | **(756,742)** | **13,451,138** | **(1,197,184)** |
| | **$ 4,127,035** | **$ (445,970)** | **$ 11,990,482** | **$ (1,171,615)** | **$ 16,117,517** | **$ (1,617,585)** |

| **2008** | **Less than 12 months** | | **Greater than 12 months** | | **Total** | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| Equity securities | $ 1,474,496 | $ (279,647) | $ 234,840 | $ (25,109) | $ 1,709,336 | $ (304,756) |
| Other securities | 2,861,981 | (538,019) | - | - | 2,861,981 | (538,019) |
| Mutual funds | 3,245,382 | (39,708) | 8,721,815 | (1,082,275) | 11,967,197 | (1,121,983) |
| | $ 7,581,859 | $ (857,374) | $ 8,956,655 | $ (1,107,384) | $ 16,538,514 | $ (1,964,758) |

Investment income is comprised of the following for the years ended September 30, 2009 and 2008:

| | **2009** | **2008** |
|---|---|---|
| Income: | | |
| Net realized (losses) gains on investments | **$ (1,255,984)** | $ 71,769 |
| Dividend and interest income | **648,145** | 860,159 |
| Total investment return | **$ (607,839)** | $ 931,928 |
| Other changes in unrestricted net assets: | | |
| Unrealized gains (losses) on other than trading securities | **$ 766,643** | $ (6,388,087) |

## Note 4 - Investments (continued)

***Other Investments -*** The Association has a fifty percent ownership interest in Fitness & Wellness and had a fifty percent ownership interest in CHCP up through April 30, 2008. The Association accounts for its investment interest in these entities using the equity method of accounting. The Association's share of CHCP's net loss for the year ended September 30, 2008 was $40,000. During 2008, CHCP was dissolved and the Association transferred its remaining equity in CHCP to GRS. The Association's share of Fitness & Wellness's net loss for the years ended September 30, 2009 and 2008 was $223,957 and $185,831, respectively. In addition, the Association made a capital contribution to Fitness & Wellness of $62,296 and $108,000 during the fiscal years ending September 30, 2009, and 2008, respectively. The carrying amount of the Fitness & Wellness investment was $524,903 and $670,915 as of September 30, 2009 and 2008, respectively and is included in other assets.

## Note 5 - Property, Plant and Equipment

Property, plant and equipment consist of the following as of September 30, 2009 and 2008:

| | **2009** | **2008** |
|---|---|---|
| Land and improvements | **$ 3,667,551** | $ 3,446,281 |
| Buildings and improvements | **56,858,114** | 37,489,702 |
| Fixed and moveable equipment | **30,423,786** | 26,780,109 |
| | **90,949,451** | 67,716,092 |
| Less: accumulated depreciation and amortization | **(44,565,847)** | (41,230,449) |
| | **46,383,604** | 26,485,643 |
| Construction in progress | **28,960** | 19,866,712 |
| | **$ 46,412,564** | $ 46,352,355 |

Depreciation expense for the years ended September 30, 2009 and 2008 amounted to $3,335,398 and $2,642,357, respectively. Amortization expense for equipment under capital lease obligations was $355,435 and $247,186 as of September 30, 2009 and 2008, respectively.

## Note 6 - Other Assets

Other assets as of September 30, 2009 and 2008 are as follows:

| | 2009 | 2008 |
|---|---|---|
| Investment in Fitness & Wellness | **$ 524,903** | $ 670,915 |
| Deferred finance costs, net of accumulated amortization of $12,153 and $6,204, respectively | **399,802** | 386,973 |
| Goodwill | **140,459** | 158,678 |
| Deposits | **19,609** | 63,018 |
| | **$ 1,084,773** | $ 1,279,584 |

## Note 7 - Long-term Debt, Lines of Credit and Lease Arrangements

***Lines of Credit*** **-** The Association had a $3,000,000 line of credit agreement, which was renewable on an annual basis. At the Association's option, the line of credit bore interest at the bank's prime rate, as defined, or LIBOR plus 75 basis points. There was $3,000,000 in borrowings outstanding as of September 30, 2008. 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 balloon payment of $1,250,000 on January 31, 2012. 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.

The Association also 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. There were no borrowings outstanding as of September 30, 2008. 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, 2009, the Association had $1,625,000 outstanding on this line of credit note. Borrowings on the line of credit note will be 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*** **-** 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 defease the amounts outstanding on the CHEFA Series A revenue bonds and for the construction of a 36-bed addition.

**Note 7 - Long-term Debt, Lines of Credit and Lease Arrangements (continued)**

The Series B Bonds bear interest at a variable rate as determined by a re-marketing agent (approximately 0.3% and 1.8% as of September 30, 2009 and 2008, 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 July 3, 2012, 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. The Series B loan and letter of credit agreements include certain financial covenants including a minimum debt service coverage ratio of 1.1 to 1, a liquidity to debt ratio of 30% (for 2009) and 80% (for 2008) , and other restrictions, including limitations on future indebtedness and liens. The Association was not in compliance with the CHEFA debt service coverage ratio covenant for 2009, and has received a waiver. The Association was in compliance with the covenants for 2008, except for the liquidity to debt ratio covenant, which has been waived by the bank.

***Lease Abandonment Obligations*** **-** During 2006, the Association had an abandonment of a long-term rental property. The lease was previously accounted for as an operating lease and the Association was no longer utilizing and unable to sublease the rental property. Consequently, the Association's liability represents the present value of future minimum lease payments under this lease of $140,799 as of September 30, 2008. The lease expired in February 2009.

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 $92,035 as of September 30, 2009. 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 $550,000 as of September 30, 2009 and 2008. As of September 30, 2009 and 2008, there was no outstanding balances on the letter of credit.

## Note 7 - Long-term Debt, Lines of Credit and Lease Arrangements (continued)

***Capital Lease Obligations*** **-** The Association leases certain equipment and software under capital lease obligations, expiring through December 2013. Future payments, including interest are as follows:

| | |
|---|---|
| 2010 | $ 210,448 |
| 2011 | 155,677 |
| 2012 | 141,094 |
| 2013 | 152,852 |
| Less: interest | (78,775) |
| | $ 581,296 |

A summary of long-term debt and capital lease obligations as of September 30, 2009 and 2008 are as follows:

| | **2009** | **2008** |
|---|---|---|
| Long-term debt obligation | **$ 20,390,000** | $ 20,980,000 |
| Term loan promissory note | **2,600,000** | - |
| Capital lease obligations | **581,296** | 232,570 |
| Lease abandonment obligation | **92,035** | 141,799 |
| | **23,663,331** | 21,354,369 |
| Less: current portion | **(1,399,430)** | (891,247) |
| | **$ 22,263,901** | $ 20,463,122 |

Scheduled principal repayments on the long-term debt and capital lease obligations are as follows:

| | |
|---|---|
| 2010 | $ 1,399,430 |
| 2011 | 1,404,887 |
| 2012 | 2,219,140 |
| 2013 | 864,344 |
| 2014 | 735,530 |
| Thereafter | 17,040,000 |
| | $ 23,663,331 |

## Note 7 - Long-term Debt, Lines of Credit and Lease Arrangements (continued)

On August 1, 2007, the Association entered into an interest rate swap agreement with an initial notional amount of $21,530,000 to reduce the exposure to fluctuations in interest rates related to its CHEFA debt. The swap agreement, which expires in June 2027, requires that the Association make monthly payments to the counter-party, Bank of America, N.A., based upon a fixed interest rate of 4.28% and in return receives monthly payments from Bank of America, N.A. based on the Bond Index Association Municipal Swap Rate Index rate (0.24% and 5.74% as of September 30, 2009 and 2008, 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 $2,632,838 and $1,136,775 as of September 30, 2009 and 2008, respectively.

***Operating Leases*** - The Association leases various equipment and space under operating leases, expiring at various dates. Some of these leases contain renewal options. Rent expense under such operating leases was $946,586 and $787,937, in 2009 and 2008, respectively.

The following is a schedule of future minimum payments under non-cancellable operating leases as of September 30, 2009:

| | | |
|---|---|---|
| 2010 | $ | 389,315 |
| 2011 | | 296,292 |
| 2012 | | 301,322 |
| 2013 | | 308,292 |
| 2014 | | 308,292 |
| Thereafter | | 894,656 |
| | $ | 2,498,169 |

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 $233,583 and $211,212 for 2009 and 2008, respectively and is included in other operating revenue in the accompanying consolidated statements of operations.

## Note 8 - Endowment and Restricted Funds

The Association’s endowment consists of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment fund, funds designated by the Board of Directors to function as endowments and funds held in trust by others. As required by accounting principles generally accepted in the United States of America, 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.

**Note 8 - Endowment and Restricted Funds (continued)**

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 Agency 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.

The net asset composition of the Association's endowment and restricted funds as of September 30, 2009 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Board restricted | **$ 15,830,048** | **$ -** | **$ -** | **$ 15,830,048** |
| Beneficial trusts | **-** | **-** | **9,943,906** | **9,943,906** |
| Donor restricted | **-** | **365,391** | **4,986,216** | **5,351,607** |
| Total funds | **$ 15,830,048** | **$ 365,391** | **$ 14,930,122** | **$ 31,125,561** |

The net asset composition of the Association's endowment and restricted funds as of September 30, 2008 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Board restricted | $ 17,060,539 | $ - | $ - | $ 17,060,539 |
| Beneficial trusts | - | - | 10,226,304 | 10,226,304 |
| Donor restricted | - | 565,008 | 4,938,203 | 5,503,211 |
| Total funds | $ 17,060,539 | $ 565,008 | $ 15,164,507 | $ 32,790,054 |

**Note 8 - Endowment and Restricted Funds (continued)**

Changes in net assets for endowments and restricted funds for the year ended September 30, 2009 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Balance at October 1, 2008 | $ 17,060,539 | $ 565,008 | $ 15,164,507 | $ 32,790,054 |
| Investment return: | | | | |
| Investment income | 648,145 | - | - | 648,145 |
| Net change in market value | (503,636) | - | (282,398) | (786,034) |
| Contributions | - | 76,575 | 48,013 | 124,588 |
| Expenditures | (1,375,000) | (276,192) | - | (1,651,192) |
| Balance at September 30, 2009 | $ 15,830,048 | $ 365,391 | $ 14,930,122 | $ 31,125,561 |

Temporarily restricted net assets are available for the following purposes as of September 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Health care services: | | |
| Patient special needs | **$ 22,735** | $ 40,645 |
| Other restricted purposes | **342,926** | 524,364 |
| Capital campaign | **1,783,065** | 2,348,863 |
| | **$ 2,148,726** | $ 2,913,872 |

Permanently restricted net assets are restricted to the following purposes as of September 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services | **$ 4,986,216** | $ 4,938,203 |
| Beneficial interest in trusts held by others, the income of which is expendable to support other health care services | **9,943,906** | 10,226,304 |
| | **$ 14,930,122** | $ 15,164,507 |

## Note 8 - Endowment and Restricted Funds (continued)

***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, 2009 and 2008, there were no funds that were below the level required by donor or law.

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

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

***Spending Policy*** - During its annual budgeting process, the Association appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. During the year ended September 30, 2009, the Board appropriated $1,375,000 of funds for expenditure from its board restricted endowment funds. During the year ended September 30, 2008, the Board did not appropriate funds for expenditure from its board restricted endowment funds. The Board has appropriated $1,484,828 and $729,649 of temporary restricted funds for the years ending September 30, 2009 and 2008. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Association.

## Note 9 - 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.

## Note 9 - Pension Plans (continued)

The following table summarizes significant disclosures relating to the Plan as of September 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| **Change in benefit obligations:** | | |
| Benefit obligations at beginning of year | **$ 26,397,163** | $ 30,230,695 |
| Interest cost | **1,794,873** | 1,774,513 |
| Service cost | **100,000** | 50,000 |
| Actuarial loss (gain) | **6,812,468** | (3,336,305) |
| Expected administrative expenses | **(100,000)** | (50,000) |
| Benefits and plan expenses paid | **(2,441,646)** | (2,271,740) |
| Benefit obligations at end of year | **$ 32,562,858** | $ 26,397,163 |
| **Change in plan assets:** | | |
| Fair value of plan assets at beginning of year | **$ 20,135,544** | $ 27,662,710 |
| Actual return on plan assets | **193,430** | (5,205,426) |
| Benefits and plan expenses paid | **(2,441,646)** | (2,271,740) |
| Administrative expenses | **(218,810)** | (50,000) |
| Fair value of plan assets at end of year | **$ 17,668,518** | $ 20,135,544 |
| **Accrued pension liability:** | | |
| Unfunded status | **$ (14,894,340)** | $ (6,261,619) |
| Accrued pension liability* | **$ (14,894,340)** | $ (6,261,619) |

* Included within accounts payable and accrued expenses are $1,244,534 and $482,116, which represents the current portion of the Plan liability expected to be funded of September 30, 2009 and 2008, respectively.

**Note 9 - Pension Plans (continued)**

The following summarizes the components of net periodic pension benefit income recorded by the Association for the years ended September 30, 2009 and 2008:

| | **2009** | **2008** |
|---|---|---|
| Interest cost | **$ (1,794,873)** | $ (1,774,513) |
| Service cost | **(100,000)** | (50,000) |
| Expected return on plan assets | **1,933,809** | 2,172,523 |
| Net periodic benefit income | **$ 38,936** | $ 348,010 |

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

| | |
|---|---|
| 2010 | $ 3,016,253 |
| 2011 | $ 2,397,466 |
| 2012 | $ 1,809,333 |
| 2013 | $ 2,598,016 |
| 2014 | $ 2,518,831 |
| Years 2014-2018 | $ 12,021,298 |

Amounts recorded in unrestricted net assets as of September 30, 2009 and 2008, not yet amortized as components of net periodic benefit (income) cost is as follows:

| | **2009** | **2008** |
|---|---|---|
| Unamortized actuarial loss | **$ 14,189,125** | $ 5,517,468 |

The amortization of the above items expected to be recognized in net periodic benefit income for the year ended September 30, 2010 is $235,375.

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

| | **2009** | **2008** |
|---|---|---|
| **Benefit obligations** | | |
| Discount rate | **5.50%** | 7.10% |
| **Net periodic benefit cost** | | |
| Discount rate | **7.10%** | 6.03% |
| Expected long-term return on plan assets | **7.80%** | 8.50% |

**Note 9 - Pension Plans (continued)**

The Plan's investments are allocated as follows as of September 30, 2009, and 2008:

| | 2009 | 2008 |
|---|---|---|
| Equity securities | **53%** | 55% |
| Debt securities | **42%** | 33% |
| Cash equivalents | **2%** | 3% |
| Other | **3%** | 9% |

The fair values of the Association's Plan assets, by asset category are as follows, for the year ending September 30, 2009:

| | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) |
|---|---|---|
| Cash equivalents | $ 427,925 | $ - |
| Equity securities | 9,304,694 | - |
| Debt securities | 7,370,735 | - |
| Other | - | 565,164 |
| | $ 17,103,354 | $ 565,164 |

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 $329,191 and $1,131,135 in 2009 and 2008, 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.

### Note 9 - Pension Plans (continued)

The Association also has a supplemental retirement plan agreement with a senior executive. The obligation related to this agreement is approximately $612,000 and $420,000 as of September 30, 2009 and 2008, respectively, and is recorded within accounts payable and accrued expenses within the accompanying consolidated balance sheets.

### Note 10 - 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, 2009 and 2008 is as follows:

| | **2009** | **2008** |
|---|---|---|
| Health care services | **$ 55,026,206** | $ 55,485,890 |
| General and administrative | **13,995,560** | 13,861,806 |
| Fundraising | **576,209** | 849,148 |
| | **$ 69,597,975** | $ 70,196,844 |

### Note 11 - 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.

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.

## Note 11 - Captive Insurance Activities (continued)

A reconciliation of direct to net premiums on a written and earned basis is summarized as follows for year ended September 30, 2009 and 2008:

| | Premium Written | | Premium Earned | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Direct premiums | **$ 1,226,164** | $ 1,040,000 | **$ 1,106,699** | $ 780,000 |
| Ceded premiums | **(486,164)** | (390,000) | **(389,199)** | (292,500) |
| | **$ 740,000** | $ 650,000 | **$ 717,500** | $ 487,500 |

The liability for unpaid losses and loss adjustment expenses is included within captive insurance reserves on the accompanying consolidated balance sheets. Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows for the year ended September 30, 2009 and 2008:

| | **2009** | **2008** |
|---|---|---|
| Balance at beginning of the year | **$ 2,413,816** | $ - |
| Less: reinsurance recoverables | **616,096** | - |
| Net balance beginning of the year | **1,797,720** | - |
| Loss portfolio transfer | **-** | 1,482,688 |
| Incurred related to: | | |
| Current year | **615,929** | 491,671 |
| Prior years | **(363,550)** | (169,696) |
| Total incurred | **252,379** | 321,975 |
| Paid related to: | | |
| Current year | **-** | - |
| Prior years | **(121,736)** | (6,943) |
| Total paid | **(121,736)** | (6,943) |
| Net balance at end of year | **1,928,363** | 1,797,720 |
| Plus: reinsurance recoverables | **698,135** | 616,096 |
| Balance at the end of the year | **$ 2,626,498** | $ 2,413,816 |

## Note 11 - 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 $363,550 and $169,696 in 2009 and 2008, respectively.

The above liability for loss and loss adjustment expenses have been determined using a 4% discount rate and have been included within other captive insurance reserves as of September 30, 2009 and 2008. 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 $698,135 and $616,096 as of September 30, 2009 and 2008, 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 12 - 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, 2009 and 2008, 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. However, during fiscal 2008, during construction of the new addition, the Association incurred asbestos abatement expenses of $219,273, which was recorded as a reduction in net assets on the consolidated statements of changes in net assets and shareholder's equity. 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 13 - 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, 2009:

| | |
|---|---|
| Due within one year | $ 580,943 |
| Due in one to five years | 1,400,540 |
| | 1,981,483 |
| Less: allowance for uncollectible pledges | (198,148) |
| | $ 1,783,335 |

## Note 14 - Fair Value of Financial Instruments

The Association's board designated and restricted investments consist of money market funds, equity securities, mutual funds and other securities as of September 30, 2009 and are recorded at fair value in accordance with ASC 820-10 as further descried in Note 2. The Association measures the fair value of these securities as of September 30, 2009 as follows:

| | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) |
|---|---|---|
| Cash and money market | $ 700,603 | $ - |
| Other securities | - | 2,055,128 |
| Equity securities | 3,454,664 | - |
| Mutual funds | 14,971,260 | - |
| | $ 19,126,527 | $ 2,055,128 |

The following methods and assumptions were used by the Association in estimating the fair value of its consolidated financial instruments:

*Cash and cash equivalents:* The carrying amounts reported in the consolidated balance sheets approximate the fair value.

*Assets held under bond indenture agreement:* The carrying amounts reported in the consolidated balance sheets approximate the fair value.

*Beneficial interest in trusts held by others:* These assets consist primarily of cash, short and long-term investments. Fair values, which are the amounts reported in the consolidated balance sheets, are based on quoted market prices (Level 1).

**Note 14 - Fair Value of Financial Instruments (continued)**

*Investments held for captive insurance liabilities:* These assets consist primarily of bonds and fixed income mutual funds. Fair values, which are the amounts reported in the consolidated balance sheets, are based on quoted market prices (Level 1).

*Accounts payable and salaries and wages payable*: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

*Due to third-party payers*: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

*Long-term debt and capital lease obligations*: The carrying amounts reported in the consolidated balance sheets approximate the fair values. The carrying value of the Association's debt, approximates fair value based on current traded values. The fair value of the Association's long-term debt is estimated using discounted cash flow analyses, based on the Association's current incremental borrowing rates for similar types of borrowing arrangements (Level 3).

**Note 15 - Supplemental Cash Flow Disclosures**

The Association paid interest in the amount of $1,013,196 and $1,107,897 for the years ended September 30, 2009 and 2008, respectively. Of these amounts, $68,469 and $511,405 represent interest that has been capitalized as part of the 36-bed addition for the years ended September 30, 2009 and 2008, respectively. In addition, the Association acquired equipment by incurring capital lease obligations of $601,000 during the year ended September 30, 2009.

# Gaylord Farm Association, Inc.

## Consolidating Balance Sheet
## September 30, 2009

| | Gaylord Hospital, Inc. | Gaylord Risk Solutions, Ltd. | Gaylord Farm Rehabilitation Center | Gaylord Research Institute, Inc. | Eliminations | Gaylord Farm Association, Inc. |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 1,853,446 | $ 395,492 | $ - | $ 2,098 | $ - | $ 2,251,036 |
| Patient accounts receivable (less allowance of $1,191,000) | 9,693,724 | - | - | - | - | 9,693,724 |
| Assets whose use is limited: | | | | | | |
| Assets held under bond indenture agreement | 165,242 | - | - | - | - | 165,242 |
| Pledges receivable | 580,943 | - | - | - | - | 580,943 |
| Due from affiliates | 1,559,245 | - | - | - | (1,559,245) | - |
| Other current assets | 958,271 | 621,116 | - | - | - | 1,579,387 |
| Total current assets | 14,810,871 | 1,016,608 | - | 2,098 | (1,559,245) | 14,270,332 |
| Assets whose use is limited: | | | | | | |
| Pledges receivable | 1,202,392 | - | - | - | - | 1,202,392 |
| Board-designated investments | 15,830,048 | - | - | - | - | 15,830,048 |
| Donor restricted investments | 5,351,607 | - | - | - | - | 5,351,607 |
| Beneficial interest in trusts held by others | 9,943,906 | - | - | - | - | 9,943,906 |
| | 32,327,953 | - | - | - | - | 32,327,953 |
| Property, plant and equipment, net | 46,412,564 | - | - | - | - | 46,412,564 |
| Investments held for captive insurance liabilities | - | 3,124,034 | - | - | - | 3,124,034 |
| Reinsurance recoverable relating to captive insurance liabilities | - | 698,135 | - | - | - | 698,135 |
| Other assets | 1,084,773 | - | - | - | - | 1,084,773 |
| Total assets | $ 94,636,161 | $ 4,838,777 | $ - | $ 2,098 | $ (1,559,245) | $ 97,917,791 |
| **Liabilities, Net Assets and Shareholder’s Equity** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | $ 6,588,862 | $ 35,841 | $ - | $ - | $ - | $ 6,624,703 |
| Accrued payroll and related taxes | 3,285,598 | - | - | - | - | 3,285,598 |
| Line of credit | 1,625,000 | - | - | - | - | 1,625,000 |
| Due to affiliates | - | - | 1,559,245 | - | (1,559,245) | - |
| Estimated amounts due to third-party payers | 246,806 | - | - | - | - | 246,806 |
| Current portion of long-term debt and capital lease obligations | 1,399,430 | - | - | - | - | 1,399,430 |
| Total current liabilities | 13,145,696 | 35,841 | 1,559,245 | - | (1,559,245) | 13,181,537 |
| Long-term debt and capital lease obligations, less current portion | 22,263,901 | - | - | - | - | 22,263,901 |
| Accrued pension obligation | 13,649,806 | - | - | - | - | 13,649,806 |
| Captive insurance reserves | - | 3,005,963 | - | - | - | 3,005,963 |
| Interest rate swap liability | 2,632,838 | - | - | - | - | 2,632,838 |
| Total liabilities | 51,692,241 | 3,041,804 | 1,559,245 | - | (1,559,245) | 54,734,045 |
| Net assets and shareholder’s equity: | | | | | | |
| Unrestricted | 25,865,072 | - | (1,559,245) | 2,098 | - | 24,307,925 |
| Temporarily restricted | 2,148,726 | - | - | - | - | 2,148,726 |
| Permanently restricted | 14,930,122 | - | - | - | - | 14,930,122 |
| Shareholder's equity | - | 1,796,973 | - | - | - | 1,796,973 |
| Total net assets and shareholder’s equity | 42,943,920 | 1,796,973 | (1,559,245) | 2,098 | - | 43,183,746 |
| Total liabilities, net assets and shareholder’s equity | $ 94,636,161 | $ 4,838,777 | $ - | $ 2,098 | $ (1,559,245) | $ 97,917,791 |

See accompanying Independent Auditors’ Report.

# Gaylord Farm Association, Inc.

## Consolidating Balance Sheet
## September 30, 2008

| | Gaylord Hospital, Inc. | Gaylord Risk Solutions, Ltd. | Gaylord Farm Rehabilitation Center | Gaylord Research Institute, Inc. | Eliminations | Gaylord Farm Association, Inc. |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 3,131,677 | $ 829,456 | $ - | $ 2,189 | $ - | $ 3,963,322 |
| Patient accounts receivable (less allowance of $1,648,000) | 9,245,905 | - | - | - | - | 9,245,905 |
| Assets whose use is limited: | | | | | | |
| Assets held under bond indenture agreement | 193,862 | - | - | - | - | 193,862 |
| Pledges receivable | 563,169 | - | - | - | - | 563,169 |
| Due from affiliates | 1,769,562 | - | - | - | (1,769,562) | - |
| Other current assets | 862,595 | 274,724 | - | - | - | 1,137,319 |
| Total current assets | 15,766,770 | 1,104,180 | - | 2,189 | (1,769,562) | 15,103,577 |
| Assets whose use is limited: | | | | | | |
| Pledges receivable | 1,269,292 | - | - | - | - | 1,269,292 |
| Board-designated investments | 17,060,539 | - | - | - | - | 17,060,539 |
| ` Donor restricted investments | 5,503,211 | - | - | - | - | 5,503,211 |
| Beneficial interest in trusts held by others | 10,226,304 | - | - | - | - | 10,226,304 |
| | 34,059,346 | - | - | - | - | 34,059,346 |
| Property, plant and equipment, net | 46,352,355 | - | - | - | - | 46,352,355 |
| Investments held for captive insurance liabilities | - | 2,767,030 | - | - | - | 2,767,030 |
| Reinsurance recoverable relating to captive insurance liabilities | - | 616,096 | - | - | - | 616,096 |
| Other assets | 1,279,584 | - | - | - | - | 1,279,584 |
| Total assets | $ 97,458,055 | $ 4,487,306 | $ - | $ 2,189 | $ (1,769,562) | $ 100,177,988 |
| **Liabilities, Net Assets and Shareholder's Equity** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | $ 7,660,745 | $ 29,250 | $ - | $ - | $ - | $ 7,689,995 |
| Accrued payroll and related taxes | 3,566,742 | - | - | - | - | 3,566,742 |
| Line of credit | 3,000,000 | - | - | - | - | 3,000,000 |
| Due to affiliates | - | 500,000 | 1,269,562 | - | (1,769,562) | - |
| Estimated amounts due to third-party payers | 246,806 | - | - | - | - | 246,806 |
| Current portion of long-term debt and capital lease obligations | 891,247 | - | - | - | - | 891,247 |
| Total current liabilities | 15,365,540 | 529,250 | 1,269,562 | - | (1,769,562) | 15,394,790 |
| Long-term debt and capital lease obligations, less current portion | 20,463,122 | - | - | - | - | 20,463,122 |
| Accrued pension obligation | 5,779,503 | - | - | - | - | 5,779,503 |
| Captive insurance reserves | - | 2,673,816 | - | - | - | 2,673,816 |
| Interest rate swap liability | 1,136,775 | - | - | - | - | 1,136,775 |
| Total liabilities | 42,744,940 | 3,203,066 | 1,269,562 | - | (1,769,562) | 45,448,006 |
| Net assets and shareholder's equity: | | | | | | |
| Unrestricted | 36,634,736 | - | (1,269,562) | 2,189 | - | 35,367,363 |
| Temporarily restricted | 2,913,872 | - | - | - | - | 2,913,872 |
| Permanently restricted | 15,164,507 | - | - | - | - | 15,164,507 |
| Shareholder's equity | - | 1,284,240 | - | - | - | 1,284,240 |
| Total net assets and shareholder's equity | 54,713,115 | 1,284,240 | (1,269,562) | 2,189 | - | 54,729,982 |
| Total liabilities, net assets and shareholder's equity | $ 97,458,055 | $ 4,487,306 | $ - | $ 2,189 | $ (1,769,562) | $ 100,177,988 |

See accompanying Independent Auditors' Report.

## Gaylord Farm Association, Inc.
## Consolidating Statement of Operations
## For the Year Ended September 30, 2009

| | Gaylord Hospital, Inc. | Gaylord Risk Solutions, Ltd. | Gaylord Farm Rehabilitation Center | Gaylord Research Institute, Inc. | Eliminations | Gaylord Farm Association, Inc. |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Net patient service revenue | $ 66,535,150 | $ - | $ 294,810 | $ - | $ - | $ 66,829,960 |
| Contributions and bequests | 695,886 | - | - | - | - | 695,886 |
| Earned written premium | - | 1,106,699 | - | - | (1,106,699) | - |
| Ceded premium | - | (389,199) | - | - | - | (389,199) |
| Other operating revenue | 500,634 | - | 134,387 | - | - | 635,021 |
| Net assets released from restrictions used for operations | 225,494 | - | - | - | - | 225,494 |
| Total revenues | 67,957,164 | 717,500 | 429,197 | - | (1,106,699) | 67,997,162 |
| Expenses: | | | | | | |
| Salaries and related expenses | 46,051,927 | - | 558,257 | - | - | 46,610,184 |
| Other operating expenses | 5,868,628 | 139,720 | 107,323 | - | (1,106,699) | 5,008,972 |
| Professional fees and contract services | 5,308,794 | - | - | - | - | 5,308,794 |
| Supplies | 4,975,353 | - | - | - | - | 4,975,353 |
| Depreciation and amortization | 3,665,561 | - | 43,490 | - | - | 3,709,051 |
| Occupancy costs | 2,203,004 | - | - | - | - | 2,203,004 |
| Provision for bad debts | 616,185 | - | - | - | - | 616,185 |
| Interest | 904,243 | - | 9,810 | - | - | 914,053 |
| Loss and loss adjustment expenses | - | 252,379 | - | - | - | 252,379 |
| Total expenses | 69,593,695 | 392,099 | 718,880 | - | (1,106,699) | 69,597,975 |
| (Loss) income from operations | (1,636,531) | 325,401 | (289,683) | - | - | (1,600,813) |
| Other gains (losses): | | | | | | |
| Dividend and interest income | 580,495 | 67,650 | - | - | - | 648,145 |
| Net realized losses on investments | (1,255,984) | - | - | - | - | (1,255,984) |
| Loss from equity investment in Fitness & Wellness | (223,957) | - | - | - | - | (223,957) |
| Change in fair value of interest rate swap agreement | (1,496,063) | - | - | - | - | (1,496,063) |
| Loss on lease abandonment | (92,035) | - | - | - | - | (92,035) |
| Total other losses | (2,487,544) | 67,650 | - | - | - | (2,419,894) |
| Excess of revenues (under) over expenses | $ (4,124,075) | $ 393,051 | $ (289,683) | $ - | $ - | $ (4,020,707) |

See accompanying Independent Auditors' Report.

# Gaylord Farm Association, Inc.
## Consolidating Statement of Operations
## For the Year Ended September 30, 2008

| | Gaylord Hospital, Inc. | Gaylord Risk Solutions, Ltd. | Gaylord Farm Rehabilitation Center | Gaylord Research Institute, Inc. | Eliminations | Gaylord Farm Association, Inc. |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Net patient service revenue | $ 65,097,663 | $ - | $ 366,543 | $ - | $ - | $ 65,464,206 |
| Contributions and bequests | 1,262,805 | - | - | - | - | 1,262,805 |
| Earned written premium | - | 780,000 | - | - | (780,000) | - |
| Ceded premium | - | (292,500) | - | - | - | (292,500) |
| Other operating revenue | 777,785 | - | 135,360 | - | - | 913,145 |
| Net assets released from restrictions used for operations | 599,786 | - | - | - | - | 599,786 |
| Total revenues | 67,738,039 | 487,500 | 501,903 | - | (780,000) | 67,947,442 |
| Expenses: | | | | | | |
| Salaries and related expenses | 46,684,070 | - | 488,993 | - | - | 47,173,063 |
| Other operating expenses | 6,201,095 | 147,376 | 67,477 | - | (780,000) | 5,635,948 |
| Professional fees and contract services | 5,857,546 | - | - | - | - | 5,857,546 |
| Supplies | 4,732,673 | - | - | - | - | 4,732,673 |
| Depreciation and amortization | 2,856,882 | - | 32,661 | - | - | 2,889,543 |
| Occupancy costs | 1,778,381 | - | - | - | - | 1,778,381 |
| Provision for bad debts | 1,244,318 | - | - | - | - | 1,244,318 |
| Interest | 551,796 | - | 11,601 | - | - | 563,397 |
| Loss and loss adjustment expenses | - | 321,975 | - | - | - | 321,975 |
| Total expenses | 69,906,761 | 469,351 | 600,732 | - | (780,000) | 70,196,844 |
| (Loss) income from operations | (2,168,722) | 18,149 | (98,829) | - | - | (2,249,402) |
| Other gains (losses): | | | | | | |
| Dividend and interest income | 826,120 | 34,039 | - | - | - | 860,159 |
| Net realized gains on investments | 71,769 | - | - | - | - | 71,769 |
| Loss from equity investment in CHCP | (40,000) | - | - | - | - | (40,000) |
| Loss from equity investment in Fitness & Wellness | (185,831) | - | - | - | - | (185,831) |
| Change in fair value of interest rate swap agreement | (313,555) | - | - | - | - | (313,555) |
| Other than temporary impairment of unrealized losses | (1,386,663) | - | - | - | - | (1,386,663) |
| Total other gains (losses) | (1,028,160) | 34,039 | - | - | - | (994,121) |
| Excess of revenues (under) over expenses | $ (3,196,882) | $ 52,188 | $ (98,829) | $ - | $ - | $ (3,243,523) |

See accompanying Independent Auditors' Report.