

**Griffin Health Services
Corporation and Subsidiaries**
Consolidated Financial Statements and
Consolidating Information
September 30, 2012 and 2011

Griffin Health Services Corporation and Subsidiaries

Index

September 30, 2012 and 2011

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets and of cash flows present fairly, in all material respects, the financial position of Griffin Health Services Corporation and subsidiary (the "Corporation") at September 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 18, 2013

Griffin Health Services Corporation and Subsidiaries
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011		2012	2011
Assets			Liabilities and Net Deficit		
Current assets			Current liabilities		
Cash and cash equivalents	\$ 10,631,688	\$ 7,733,210	Current portion of long-term debt and capital lease obligations	\$ 6,510,397	\$ 6,470,292
Investments	42,693,844	36,220,671	Accounts payable	22,694,927	20,822,673
Assets limited as to use	700,398	704,176	Accrued expenses	8,921,678	7,657,607
Patient accounts receivable, less allowance for doubtful accounts of approximately \$4,593,000 and \$5,806,000, respectively	13,110,545	17,300,192	Accrued interest payable	347,111	365,713
Other current assets	<u>11,882,606</u>	<u>13,536,511</u>	Deferred revenue	2,859,880	3,730,028
			Accrued postretirement benefit liability	<u>435,000</u>	<u>525,000</u>
			Total current liabilities	<u>41,768,993</u>	<u>39,571,313</u>
Total current assets	<u>79,019,081</u>	<u>75,494,760</u>	Estimated third party settlements	3,179,514	1,203,129
			Professional and general liability loss reserves	37,000,141	34,879,907
Assets limited as to use			Workers compensation loss reserves	2,108,091	1,514,632
Board-designated investments	1,090,073	692,803	Accrued pension liability	42,427,930	52,424,095
Collateral deposit	850,000	850,000	Accrued postretirement benefit liability, net of current portion	8,484,801	7,469,095
Under indenture agreement	<u>4,288,627</u>	<u>4,288,799</u>	Conditional asset retirement obligations	119,709	125,216
Total assets limited as to use	<u>6,228,700</u>	<u>5,831,602</u>	Long-term debt, net of current portion	49,929,639	51,588,624
Reinsurance recoverable	8,253,085	8,683,426	Capital lease obligations, net of current portion	1,299,057	3,205,611
Contributions receivable	841,813	1,089,107	Deferred revenue, long term	3,276,633	4,376,308
Long-term investments	2,770,764	2,424,396	Interest rate swap agreements	<u>9,153,353</u>	<u>7,973,902</u>
Property, plant and equipment, net	64,715,710	66,773,990	Total liabilities	<u>198,747,861</u>	<u>204,331,832</u>
Estimated third party settlements, long-term	1,203,411	457,830	Net deficit		
Beneficial interest in trusts	3,650,093	3,367,120	Unrestricted operating	13,167,194	19,423,452
Other long-term assets	<u>3,348,809</u>	<u>3,336,136</u>	Minority interest in HAIC	1,520,178	(1,038,881)
	84,783,685	86,132,005	Cumulative unrecognized pension charges	<u>(51,468,946)</u>	<u>(62,729,753)</u>
Total assets	<u>\$ 170,031,466</u>	<u>\$ 167,458,367</u>	Total unrestricted	<u>(36,781,574)</u>	<u>(44,345,182)</u>
			Temporarily restricted	2,254,825	1,944,336
			Permanently restricted	<u>5,810,354</u>	<u>5,527,381</u>
			Total net deficit	<u>(28,716,395)</u>	<u>(36,873,465)</u>
			Total liabilities and net deficit	<u>\$ 170,031,466</u>	<u>\$ 167,458,367</u>

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

Griffin Health Services Corporation and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues		
Net patient service revenue	\$ 123,980,407	\$ 124,691,401
Other operating revenue	22,435,649	23,556,460
Net assets released from restrictions for operations	993,057	848,839
Total operating revenues	<u>147,409,113</u>	<u>149,096,700</u>
Operating expenses		
Employee compensation and related expenses	81,644,731	77,998,350
Supplies and other expenses	62,880,064	61,087,935
Depreciation and amortization	6,170,889	5,994,793
Interest	2,945,202	2,856,137
Provision for doubtful accounts, net of recoveries	1,156,738	3,490,779
Total operating expenses	<u>154,797,624</u>	<u>151,427,994</u>
Loss from operations	<u>(7,388,511)</u>	<u>(2,331,294)</u>
Nonoperating gains (losses)		
Investment income	2,389,209	1,109,064
Net realized and unrealized losses on interest rate swaps	(2,523,551)	(2,527,906)
Net gain on equity investment	1,028,123	830,110
Unrestricted contributions, gifts and bequests	233,021	161,281
Fund raising expenses	(698,852)	(749,928)
Research grant revenues	2,315,885	2,536,346
Research grant expenses	(2,262,548)	(2,225,536)
Total nonoperating gains (losses)	481,287	(866,569)
Minority interest	539,645	1,060,590
Deficiency of revenues over expenses	(6,367,579)	(2,137,273)
Other changes in unrestricted net assets		
Change in net unrealized gains and losses on investments	2,166,916	(1,145,045)
Net assets released from restrictions for capital	685,000	825,000
Pension and other post-retirement related charges other than net periodic benefit cost	10,040,391	(17,771,550)
Increase (decrease) in unrestricted net assets	<u>\$ 6,524,728</u>	<u>\$ (20,228,868)</u>

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

Griffin Health Services Corporation and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets		
Deficiency of revenues over expenses	\$ (6,367,579)	\$ (2,137,273)
Change in net unrealized gains and losses on investments	2,166,916	(1,145,045)
Net assets released from restrictions for capital	685,000	825,000
Pension and other post-retirement related charges other than net periodic benefit cost	10,040,391	(17,771,550)
Increase (decrease) in unrestricted net assets	<u>6,524,728</u>	<u>(20,228,868)</u>
Temporarily restricted net assets		
Contributions and private grants	998,703	935,468
Investment income (loss)	320,443	(17,910)
Net assets released from restrictions for capital	(685,000)	(825,000)
Net assets released from restrictions for operations	(323,657)	(245,440)
Increase (decrease) in temporarily restricted net assets	<u>310,489</u>	<u>(152,882)</u>
Permanently restricted net assets		
Change in beneficial interest in trusts	282,973	(277,108)
Increase (decrease) in permanently restricted net assets	<u>282,973</u>	<u>(277,108)</u>
Increase (decrease) in net assets	7,118,190	(20,658,858)
Net deficit		
Beginning of year	<u>(36,873,465)</u>	<u>(16,214,607)</u>
End of year	<u>\$ (29,755,275)</u>	<u>\$ (36,873,465)</u>

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

Griffin Health Services Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 7,118,190	\$ (20,658,858)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Pension and other post-retirement related changes other than net periodic benefit cost	(10,040,391)	17,771,550
Depreciation and amortization	4,965,086	4,810,214
Change in unrealized and realized gains and losses on investments	3,622,713	(1,404,854)
Loss on joint venture investment	71,878	269,894
Change in beneficial interest in trusts	(282,973)	277,108
Minority interest	1,038,881	(592,664)
Provision for bad debts, net of recoveries	1,156,738	3,490,779
Change in fair value of interest rate swap	1,179,451	1,151,798
Changes in assets and liabilities		
Patient accounts receivable	3,032,909	(5,234,014)
Other current assets	1,653,905	(6,190,241)
Contributions receivable and other	(526,166)	(164,076)
Reinsurance recoverable	430,341	(1,552,089)
Accounts payable, accrued expenses and other liabilities	5,251,548	8,962,662
Estimated third-party settlements	1,230,804	370,670
Deferred revenue	(941,697)	1,388,292
Accrued pension and postretirement benefit liabilities	969,932	(448,585)
Total adjustments	<u>12,812,959</u>	<u>22,906,444</u>
Net cash provided by operating activities	<u>19,931,149</u>	<u>2,247,586</u>
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(3,282,163)	(4,345,101)
Purchases of investments	(68,668,056)	(20,565,130)
Proceeds from sales and maturities of investments	57,832,481	23,946,289
Net cash used in investing activities	<u>(14,117,738)</u>	<u>(963,942)</u>
Cash flows from financing activities		
Contributions restricted for capital acquisitions	543,940	335,106
Proceeds from borrowing	362,048	700,000
Principal payments on debt	(1,990,021)	(1,874,092)
Principal payments on capital lease obligations	(1,830,900)	(1,733,191)
Net cash used in financing activities	<u>(2,914,933)</u>	<u>(2,572,177)</u>
Net increase (decrease) in cash and cash equivalents	2,898,478	(1,288,533)
Cash and cash equivalents		
Beginning of year	<u>7,733,210</u>	<u>9,021,743</u>
End of year	<u>\$ 10,631,688</u>	<u>\$ 7,733,210</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 4,307,903	\$ 4,237,572
Supplemental disclosure of noncash financing activities		
Property, plant and equipment included in accounts payable and accrued expenses	1,173,836	599,466

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

Griffin Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

1. Organization

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

In February 2008, G. H. Ventures entered into a joint venture with TOPCO Associates, LLC to form a company called NuVal. The purpose of this company is to commercialize an "Overall Nutrition Quality Index" system, developed by the Hospital, for promoting healthy eating habits among the general population.

Healthcare Alliance Insurance Company, Ltd.

HAIC offers professional and general liability coverage to the Hospital, to Milford Health and Medical, Inc. and its subsidiaries (including Milford Hospital), to Greater Waterbury Health Network and its subsidiaries (including Waterbury Hospital), and to nonemployed attending physicians on the medical staffs of Griffin, Milford, and Waterbury Hospitals.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Basis of Presentation

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

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

Permanently Restricted

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

Griffin Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Temporarily Restricted

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

Unrestricted

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

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

Grants revenues and expenses relating to Corporation operations are included within operating revenues and expenses. Grant revenues and expenses relating to research are included within nonoperating gains and losses.

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Griffin Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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The majority of the Corporation's banking activity, including cash and cash equivalents, is maintained with a regional bank and from time to time exceeds federal insurance limits. It is the Corporation's policy to monitor the bank's financial strength on an ongoing basis.

Beneficial Interest in Trusts

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

Inventories

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

Fair Value Measurements

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

The fair value of the Corporation's investments is determined based on quoted market values or significant observable or unobservable inputs.

Griffin Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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The fair value of the Corporation's interest rate swaps liability is based on observable inputs other than quoted prices for similar instruments.

Investments and Investment Income

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

Assets Limited as to Use

Assets limited as to use include assets set aside by the Corporation's Board of Trustees in a depreciation fund for future capital improvements, restricted cash, and assets held by a trustee under an indenture agreement.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or in the case of donated property at the fair value at the date of gift. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Uniform useful lives assigned to assets are based upon the American Hospital Association estimated useful lives of depreciable hospital assets guidelines and range from 5 to 50 years. Maintenance and repairs are charged to expense as incurred, and betterments and major renewals are capitalized. Upon sale or disposal of property, plant or equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Equipment under capital lease assets is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization. Interest cost incurred on borrowed funds during the construction period of capital assets is capitalized as a component of the cost of acquiring those assets.

The Corporation performed a review of certain building improvement and construction assets during 2011. The review determined that certain assets were being depreciated over a term that was shorter than the assets' expected life. As such the useful lives were adjusted and the corresponding depreciation will be prospectively adjusted as appropriate. The change in the useful lives lead to a decrease in depreciation expense of approximately \$461,000 during 2011.

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

Equity Method Joint Venture Investment

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

In February 2008, G. H. Ventures entered into a joint venture arrangement, NuVal, LLC ("NuVal") with Topco Associates, LLC ("Topco"), an unrelated company, for the purpose of pursuing

Griffin Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

commercial opportunities associated with the ONQI technology. The Hospital and Topco agreed that the Hospital would capitalize the joint venture by granting NuVal an exclusive, worldwide license (agreed-upon fair value of \$11,000,000) and Topco would contribute \$5,500,000 in cash. Both the Hospital and Topco would have initial 50% ownership interests in NuVal. During 2008, the Hospital transferred its interest in this investment to GHV. As GHV does not have control, but does exercise significant influence, this investment is recorded using the equity method. GHV's ownership was approximately 2.2% and 3% as of September 30, 2012 and 2011, respectively.

The Corporation recorded its initial investment at its cost of the contributed ONQI technology which was \$0. During 2008, the Corporation received a return of its investment of \$2,200,000 in cash and \$800,000 to be held in escrow by Topco in the event the joint venture requires additional financing. These amounts were recorded as a reduction of its investment in NuVal. This resulted in a difference between the amount at which the investment is carried and the amount of the underlying equity in net assets of NuVal of \$11,000,000. The Corporation is amortizing this difference over the estimated life of the intellectual property of ten years. Approximately \$1,100,000 was amortized in both 2012 and 2011, which was included in nonoperating gains (losses) in the consolidated statement of operations.

In 2012 and 2011, the Corporation recorded its proportionate loss on its equity investment in NuVal of approximately \$71,878 and \$269,894, respectively, (included in nonoperating gains (losses) in the consolidated statement of operations. As a result of the above, the Corporation's investment in NuVal at September 30, 2012 and 2011 is a liability of approximately \$3,348,185 and \$4,376,308, respectively. This amount is reported in the consolidated balance sheet in deferred revenue.

Asset Retirement Obligation

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

Cost of Borrowing

Issuance costs related to the Hospital's bonds are being amortized using the effective interest method over the life of the debt. Amortization expense, which is included in interest expense, was \$66,926 and \$69,382 for 2012 and 2011, respectively.

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

Reinsurance Recoverable

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

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Notes to Consolidated Financial Statements

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Professional and General Liability Loss Reserves

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

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

Included in the 2012 and 2011 balance sheet is an increase in assets and liabilities attributed to the recognition of both an accrued liability and a receivable relative to claim exposure in excess of excess liability coverage.

Deficiency of Revenues Over Expenses

The statement of operations includes a deficiency of revenues over expenses. Changes in unrestricted net assets, which are excluded from deficiency of revenues over expenses, consistent with industry practice, include net unrealized gains and losses on investments for HAIC, pension and other post retirement related changes other than net periodic benefit cost, capital infusion, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

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

Contractual allowance adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews or investigations. Contracts and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the future. During 2012 and 2011, the Corporation recorded several adjustments for amounts recognized related to prior years, including adjustments to prior year estimates. The net effect of such adjustments was an increase in net patient service revenue of approximately \$553,459 and \$156,824 in 2012 and 2011, respectively.

Free Care

The Corporation provides care to patients who meet certain criteria under its free care policy without charge or at amounts less than its established and contractual rates. Because the Corporation does not pursue collection of amounts determined to qualify as free care, they are not reported as revenue. Free care of approximately \$6,785,000 and \$7,580,000 measured at the Corporation's respective established rates was provided in fiscal 2012 and 2011, respectively.

Griffin Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

Income Taxes

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

GHV has unused net operating loss carry forwards of approximately \$4,162,000 and \$2,369,000 available to offset future taxable income as of September 30, 2012 and 2011, respectively. These carry forwards expire in various years through 2015. Deferred tax assets relate primarily to the tax effects of this net operating loss carry forwards. Because there is no assurance that GHV will have taxable income in the future, the deferred tax assets have been fully offset by a valuation allowance. There is no current tax provision in fiscal 2012 and 2011.

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

Subsequent Events

Management has evaluated subsequent events for the period after September 30, 2012 through April 18, 2013, the date the financial statements were issued.

Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 consolidated financial statement presentation.

3. Net Patient Service Revenue

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

	2012	2011
Patient service charges	\$ 416,677,339	\$ 390,415,758
Less contractual allowances	<u>(292,696,932)</u>	<u>(265,724,357)</u>
	<u>\$ 123,980,407</u>	<u>\$ 124,691,401</u>

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

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

Medicare

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

The Corporation is reimbursed for most outpatient services under a prospective payment methodology based on ambulatory payment classifications ("APC") which are paid on standard

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national and regional amounts for procedures rendered to the patients and without regard to the Corporation's actual costs. The remaining outpatient services (e.g., routine clinical lab, physical therapy) are reimbursed on a fee schedule.

The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year the examination is substantially complete. The Corporation's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2007.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries, except for those beneficiaries in the State's Aid to Families with Dependent Children ("AFDC") population, are reimbursed under a cost reimbursement methodology. The Corporation is reimbursed a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the State. Outpatient services are reimbursed at predetermined fee schedules or percent of charges. In addition, the State also contracts with various managed care organizations to provide services to the State's AFDC population. The Corporation contracts with one or more of these managed care organizations and provides services on a per diem rate for inpatient and fee schedules or percent of charges for outpatients.

Other Payors

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

Future Reimbursement

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

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4. Investments

Assets Limited as to Use

The composition of assets limited as to use at September 30, 2012 and 2011 is set forth as follows:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Board designated				
Internally designated for capital acquisition				
Cash and cash equivalents	\$ 10,001	\$ 10,001	\$ 20,507	\$ 20,507
Cash collateral deposits	850,000	850,000	850,000	850,000
Internally designated for scholarships, professional and general liabilities				
Cash and cash equivalents	995,879	1,080,072	665,329	672,296
	<u>1,855,880</u>	<u>1,940,073</u>	<u>1,535,836</u>	<u>1,542,803</u>
Held by trustee under indenture agreement				
U.S. Treasury obligations	4,988,754	4,988,194	4,992,520	4,991,621
Accrued interest receivable	831	831	1,354	1,354
	<u>4,989,585</u>	<u>4,989,025</u>	<u>4,993,874</u>	<u>4,992,975</u>
Less: Current portion	(700,398)	(700,398)	(704,176)	(704,176)
	<u>4,289,187</u>	<u>4,288,627</u>	<u>4,289,698</u>	<u>4,288,799</u>
	<u>\$ 6,145,067</u>	<u>\$ 6,228,700</u>	<u>\$ 5,825,534</u>	<u>\$ 5,831,602</u>

Investments

Investments, at fair value, at September 30 include:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 2,660,658	\$ 2,660,658	\$ 1,459,210	\$ 1,459,210
Fixed income securities	26,839,516	27,749,891	25,312,942	25,201,396
Marketable equity securities	13,760,648	15,054,059	12,003,802	11,984,461
	<u>\$ 43,260,822</u>	<u>\$ 45,464,608</u>	<u>\$ 38,775,954</u>	<u>\$ 38,645,067</u>

Investment income and unrealized gains and losses for assets limited as to use, cash equivalents and other investments are comprised of the following for 2012 and 2011:

	2012	2011
Income		
Interest and dividend income	\$ 933,412	\$ 1,368,873
Net realized gain	449,718	134,118
Change in net unrealized gains and loss on investments	1,006,079	(393,927)
	<u>\$ 2,389,209</u>	<u>\$ 1,109,064</u>
Other changes in unrestricted net assets		
Change in net unrealized gains and losses on HAIC investments	\$ 2,166,916	\$ (1,145,045)

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

September 30, 2012	Fair Value	Fair Value Measurements		
		Quoted Prices in in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash and cash equivalents	\$ 2,660,658	\$ 2,660,658	\$ -	\$ -
Fixed income securities	27,749,891	5,551,910	22,197,981	-
Marketable equity securities	15,054,059	5,662,666	9,391,393	-
Total investments	45,464,608	13,875,234	31,589,374	-
Remainder trusts	109,818	-	-	109,818
Beneficial interest in trusts	3,540,275	-	-	3,540,275
Contributions receivable	841,813	-	-	841,813
Total assets at fair value	49,956,514	\$ 13,875,234	\$ 31,589,374	\$ 4,491,906
Liabilities				
Interest rate swaps liability	\$ 9,153,353	\$ -	\$ 9,153,353	\$ -
Total liabilities at fair value	\$ 9,153,353	\$ -	\$ 9,153,353	\$ -

The following table sets forth a summary of changes in the fair value of the Corporation's Level 3 assets for the year ended September 30, 2012:

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

There were no transfers between any levels during 2012 or 2011.

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The following table represents the Corporation's financial assets and liabilities by fair value hierarchy as of September 30, 2011:

September 30, 2011	Fair Value	Fair Value Measurements		
		Quoted Prices in in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash and cash equivalents	\$ 1,459,210	\$ 1,459,210	\$ -	\$ -
Fixed income securities	25,201,396	9,018,182	16,183,214	-
Marketable equity securities	11,984,461	6,236,632	5,747,829	-
Total investments	<u>38,645,067</u>	<u>16,714,024</u>	<u>21,931,043</u>	<u>-</u>
Remainder trusts	101,612	-	-	101,612
Beneficial interest in trusts	3,265,508	-	-	3,265,508
Contributions receivable	1,089,107	-	-	1,089,107
Total assets at fair value	<u>\$ 43,101,294</u>	<u>\$ 16,714,024</u>	<u>\$ 21,931,043</u>	<u>\$ 4,456,227</u>
Liabilities				
Interest rate swaps liability	\$ 7,973,902	\$ -	\$ 7,973,902	\$ -
Total liabilities at fair value	<u>\$ 7,973,902</u>	<u>\$ -</u>	<u>\$ 7,973,902</u>	<u>\$ -</u>

The following table sets forth a summary of changes in the fair value of the Corporation's Level 3 assets for the year ended September 30, 2011:

Beginning balance at September 30, 2010	\$ 5,016,623
Net change in unrealized value of interest in trusts	(277,108)
New contributions	335,105
Payments on contributions receivable	(826,385)
Change in discount and allowance on contributions receivable	207,992
Balance at September 30, 2011	<u>\$ 4,456,227</u>

5. Contributions Receivable

Unconditional promises to give in the gross amount of \$903,305 and \$1,260,827 were outstanding as of September 30, 2012 and 2011, respectively. The discount rate used to calculate the present value of contributions receivable was 4.0% at September 30, 2012 and 5% at September 30, 2011.

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Contributions receivable, net, at September 30, 2012 and 2011 are as follows:

	2012	2011
Contributions receivable	\$ 903,305	\$ 1,260,827
Less		
Allowance for uncollectible pledges	(43,385)	(125,168)
Discounts on pledges receivable	<u>(18,107)</u>	<u>(46,552)</u>
	<u>\$ 841,813</u>	<u>\$ 1,089,107</u>

6. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation as of September 30, 2012 and 2011 are summarized as follows:

	2012	2011
Land and improvements	\$ 5,633,473	\$ 5,633,473
Buildings and improvements	78,287,659	76,716,942
Fixed and movable equipment	<u>72,574,337</u>	<u>69,699,759</u>
	156,495,469	152,050,174
Less: Accumulated depreciation	<u>(91,910,289)</u>	<u>(86,002,871)</u>
	64,585,180	66,047,303
Construction-in-progress	<u>130,530</u>	<u>726,687</u>
	<u>\$ 64,715,710</u>	<u>\$ 66,773,990</u>

Depreciation expense was \$4,869,702 and \$4,028,376 in 2012 and 2011, respectively.

Included in property, plant and equipment as of September 30, 2012 and 2011 are capital lease assets for major movable equipment with a cost of \$8,901,170. Accumulated amortization on the respective capital lease assets was \$4,488,949 and \$3,187,762 as of September 30, 2012 and 2011, respectively.

Amortization expense on capital lease assets was \$1,301,187 and \$1,966,417 for 2012 and 2011, respectively.

7. Insurance Liability Loss Reserves

HAIC insures the professional and general liabilities of the Hospital under a claims-made policy with a retroactive date of October 1, 1986. There are known claims and incidents that may result in the assertion of additional claims as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital has utilized independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice reserves for professional and general liability have been discounted at 3.5% at September 30, 2012 and 3.5% at September 30, 2011. The Hospital has purchased insurance coverage to cover claims in excess of \$1,500,000 and \$4,500,000 in the aggregate. In management's opinion these reserves provide an adequate reserve for loss contingencies.

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Effective January 1, 2003 Griffin Hospital began retaining the first \$250,000 of all loss and allocated loss adjustment expense per accident for its workers compensation exposure. Excess coverage above \$250,000 per accident was purchased. Beginning January 1, 2007 the per occurrence retention was increased to \$300,000. Annual aggregate coverage was also purchased which provides \$1 million of coverage above a maximum limit of retained losses within the per occurrence retention. Beginning October 1, 2010 the per occurrence retention was increased to \$400,000 and the annual aggregate coverage was discontinued. The workers' compensation reserves have been discounted at 2.5% and 3.0% at September 30, 2012 and 2011 respectively, and in management's opinion provide an adequate reserve for loss contingencies.

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

8. Long-Term Debt

Long-term debt consists of the following at September 30, 2012 and 2011:

	2012	2011
Mortgage note payable in monthly installments of \$ 4,376, including interest at 6.25%, through August 2013	\$ 46,666	\$ 94,622
Mortgage note payable in monthly installments of \$7,866, including interest at 7.5%, through December 2037	1,054,524	1,069,225
Mortgage note payable in monthly installments of \$14,642, including interest at 7.5%, through December 2037	1,962,821	1,990,184
Loan payable	1,062,048	700,000
State of Connecticut Health and Educational Facilities Authority		
Series B	17,200,000	18,375,000
Series C	22,100,000	22,625,000
Series D	10,550,000	10,750,000
Premiums and discount on bonds, net of accumulated accretion and amortization of \$321,484 and \$254,923, respectively	<u>520,552</u>	<u>587,114</u>
	54,496,611	56,191,145
Less: Current portion	<u>(4,566,972)</u>	<u>(4,602,521)</u>
	<u>\$ 49,929,639</u>	<u>\$ 51,588,624</u>

The State of Connecticut Health and Educational Facilities Authority ("CHEFA") Revenue Bonds, The Griffin Hospital Issue, Series B, totaling \$24,800,000 were issued in February 2005. The Series B bonds bear interest at rates ranging from 2.4% to 5.0%. Interest is due semi-annually on January 1 and July 1. A bond premium of \$969,815 and bond issuance costs of \$1,196,512 are amortized over the life of the bond using the effective interest rate method. The Series B bonds are insured by Radian Asset Guaranty Corporation. The bonds are payable annually each July 1 through 2015 and the Term bonds mature on July 1, 2020 and July 1, 2023 in the amounts of \$7,750,000 and \$5,640,000, respectively. The Series B bonds maturing after July 1, 2015 are subject to redemption prior to maturity commencing July 1, 2015. The estimated fair value of the Series B bond was approximately \$17,820,000 and \$18,161,000 at September 30, 2012 and 2011, respectively.

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

In May 2008, the Hospital refunded The Griffin Hospital Issue 2007 Series C and The Griffin Hospital Issue 2007 Series D bonds, which were initially issued as auction rate bonds and issued \$23,125,000 Griffin Hospital Issue 2008 Series C Variable Rate Demand Bonds and \$10,925,000 Griffin Hospital 2008 Series D Variable Rate Demand Bonds (together referred to as "Series 2008 Bonds"). The Series 2008 Bonds are insured by Radian Asset Guaranty Corporation.

In order to provide liquidity for the Series 2008 Bonds, the Hospital has a standby letter of credit with Wells Fargo Bank N.A. for \$34,050,000 which expires in May 2013. As of September 30, 2012 the Hospital was in violation of the letter of credit's required debt service coverage ratio and capitalization ratio. In April 2013, Wells Fargo amended the letter of credit agreement to allow, as of September 30, 2012, the calculation of these ratios to exclude certain non-recurring expenditures for consulting expenses. The consulting expenditures were incurred to help the Hospital identify and implement cost reductions and put in place software and controls designed to monitor and continue the cost containment process. In connection with the amendment the Hospital has obtained an extension of this letter of credit to May 2014. Should the Series 2008 Bonds be put back, and the standby letter of credit be called, the Hospital would be required to repay the principal ratably over a 5-year period, beginning 180 days following the put.

Under the terms of the CHEFA bonds, the Obligated Group (the Hospital, GHSC and GHDF) are required to maintain 50 days operating cash on hand and a debt service coverage ratio of 1.2 to 1. Additionally, the Obligated Group is required to maintain a capitalization ratio of less than .65. As of September 30, 2012 the Obligated Group failed to meet the debt service coverage and capitalization ratios. As a result of the covenant violations, the Obligated Group entered into a Forbearance Agreement in April 2013 with Radian Asset Assurance, Inc., the bond insurer. The Forbearance Agreement waives the covenant violations as of September 30, 2012 and modifies the debt to equity ratio calculation going forward to allow exclusion of any realized or unrealized gains (losses) on the interest rate swap. In addition, the forbearance agreement added an additional loan covenant that beginning March 31, 2013 requires the Obligated Group to maintain an average payment period days of less than 110 days.

Under both the letter of credit agreement and the CHEFA bonds there was a requirement to provide audited financial statements within 120 days of year end which was not met for the September 30, 2012 year end. In April 2013, both Wells Fargo Bank and Radian have provided a waiver of this covenant violation.

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

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

2013	\$ 2,026,994
2014	2,088,848
2015	2,187,640
2016	2,281,727
2017	2,406,130
Thereafter	42,984,719
	<u>\$ 53,976,058</u>

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To the extent the Hospital is unable to remarket the Series 2008 bonds, the Hospital would be obligated to repurchase these bonds from the proceeds of the Hospital's standby letter of credit. The previous debt maturities table reflects the payment of principal on these bonds according to their scheduled maturity dates. If the Series 2008 bonds were fully tendered by the bondholders to the Hospital as of September 30, 2012, the table of annual principal payments would become:

2013	\$ 4,566,994
2014	7,843,848
2015	7,917,640
2016	7,986,727
2017	8,061,130
Thereafter	<u>17,599,719</u>
	<u>\$ 53,976,058</u>

Under the terms of the bond agreements, the Hospital is required to maintain certain funds with a trustee for specified purposes and time periods. These funds can be used only for the purposes specified in the Trust Indenture. Required payments to the trustee are made by the Hospital in amounts sufficient to provide for the payment of principal, interest and sinking fund installments as they become due, and certain other payments. Assets held by the trustees pursuant to the indentures as of September 30, 2012 and 2011 are as follows:

	2012	2011
Debt service reserve fund	\$ 4,287,910	\$ 4,288,344
Debt service fund	215,120	225,970
Principal fund	484,717	477,307
Accrued interest receivable	<u>831</u>	<u>1,354</u>
	<u>\$ 4,988,578</u>	<u>\$ 4,992,975</u>

The Hospital borrowed \$1,062,048 and \$700,000 of the net cash value of certain officer universal life insurance policies for working capital purposes in fiscal years 2012 and 2011 respectively. The fiscal year 2011 borrowing was repaid in fiscal year 2012. There is no repayment requirement relative to the borrowing.

9. Derivative Instruments

The Hospital initially issued its Series 2007 Series C and 2007 Series D bonds bearing interest at a variable rate. In May 2007, the Hospital entered into two interest rate swap agreements to manage interest rate risk. These agreements involve payments of fixed rate interest payments by the Hospital in exchange for receipt of variable rate interest payments from the counterparties, based on a percentage of the London Interbank Offered Rate (LIBOR). In 2008, the Hospital refinanced the Series 2007 bonds and issued Series 2008 Bonds. These bonds also bear interest at a variable rate. The two original swap agreements continue to be utilized by the Hospital to manage its interest rate risk. At September 30, 2012, the notional amount of the derivative financial instruments for currently outstanding debt entered into by the Hospital was \$22,625,000 (Series

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2008 Issue C nontaxable bonds) and \$10,750,000 (Series 2008 Issue D taxable bonds), respectively.

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

The fair value of these derivatives was a liability of \$9,153,353 and \$7,973,902 as of September 30, 2012 and 2011, respectively, which is included as a long-term liability. The fair value of the derivatives includes a credit value adjustment which takes into consideration the relative credit rating of each of the parties in the swap agreement. The impact of the change in fair value was \$1,179,451 and \$1,151,797 for the years ended September 30, 2012 and 2011, respectively. This change is included in the net realized and unrealized losses on interest rate swap agreements, which also includes the net periodic settlement related to the swap agreements of \$1,344,099 and \$1,376,109 for 2012 and 2011, respectively.

The following table lists the fair value of derivatives by contract type included in the consolidated balance sheet at September 30, 2012 and 2011.

September 30, 2012	Notional	Fair Value
Derivatives not designated as hedging instruments		
interest rate swaps	\$ 34,050,000	\$ (9,153,353)
September 30, 2011	Notional	Fair Value
Derivatives not designated as hedging instruments		
interest rate swaps	\$ 34,050,000	\$ (7,973,902)

The following table indicates the realized and unrealized gains and losses by contract type, as included in the consolidated statements of operations for the years ended September 30, 2012 and 2011.

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Year ended September 30, 2012	Location of Gain or (Loss) on Derivatives	Gain or (Loss) on Derivatives
Derivatives not designated as hedging instruments interest rate swaps	Net realized and unrealized losses on interest rate swaps	\$ (2,523,551)
Year ended September 30, 2011	Location of Gain or (Loss) on Derivatives	Gain or (Loss) on Derivatives
Derivatives not designated as hedging instruments interest rate swaps	Net realized and unrealized losses on interest rate swaps	\$ (2,527,906)

10. Lease Commitments

Capital Leases

The Hospital leases certain equipment under capital leases which extend through 2015.

Future minimum rental payments, by year and in aggregate, under capital leases consist of the following as of September 30, 2012:

2013	\$ 2,024,967
2014	1,214,035
2015	110,886
	<u>3,349,888</u>
Less: Amounts representing interest	107,406
Present value of minimum lease payments	<u>3,242,482</u>
Less: Current portion	1,943,425
Capital lease obligation, net of current portion	<u>\$ 1,299,057</u>

Operating Leases

The Corporation leases various equipment and office space under operating leases, expiring at various dates through 2017. Some of these leases contain renewal options. Rent expense under such leases was \$994,100 and \$778,601 for the years ended September 30, 2012 and 2011, respectively.

Future minimum rental payments as of September 30, 2012 under noncancelable operating leases are as follows:

2013	\$ 1,048,456
2014	1,042,802
2015	1,036,385
2016	1,015,173
2017	573,833
	<u>\$ 4,716,649</u>

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11. Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Unspent income and appreciation on endowment funds to be used for specified healthcare service	\$ 730,489	\$ 613,618
Change in the unspent income and appreciation (depreciation) on GHDF endowment funds	317,207	(20,928)
Restricted for purchase of equipment	509,977	813,034
Restricted for health education	68,569	68,569
Restricted for specified healthcare services	628,583	470,043
	<u>\$ 2,254,825</u>	<u>\$ 1,944,336</u>

Permanently restricted net assets at September 30, 2012 and 2011 are comprised as follows:

	2012	2011
Investments to be held in perpetuity, the income of which is expendable to support health care services	\$ 2,160,261	\$ 2,160,261
Beneficial interest in trusts	3,650,093	3,367,120
	<u>\$ 5,810,354</u>	<u>\$ 5,527,381</u>

12. Other Debt Arrangements and Guarantees

On March 5, 2005, the Hospital entered into a \$262,500 letter of credit agreement with Wells Fargo Bank. On February 23, 2009, the Hospital also entered into an additional \$750,000 letter of credit with Wells Fargo Bank. On January 21, 2010, the letter of credit agreement for \$262,500 was reduced to \$50,000.

13. Pension and Other Postretirement Benefits

Pension Benefits

The Hospital sponsors a noncontributory defined benefit pension plan that covers substantially all of its employees and provides for retirement and death benefits. The Hospital's policy is to fund actuarially determined pension costs as accrued.

Effective May 1, 2010, credited service accruals under the Retirement Plans for Employees of the Griffin Hospital were frozen for the April 1, 2010 to March 31, 2012 plan year. Participants continue to earn vesting service during the freeze period and pay increases during the freeze period will be reflected in participants' final earnings calculations, however no credited service will be earned for the period from April 1, 2010 to March 31, 2012. Effective April 1, 2012 the plan freeze was terminated and credit service accruals were reestablished at a reduced rate.

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The Hospital's accumulated benefit obligation was \$100,786,846 and \$88,758,523 at September 30, 2012 and 2011, respectively.

Other Postretirement Benefits

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

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

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 100,960,773	\$ 86,252,605	\$ 7,994,095	\$ 6,819,956
Service cost	1,123,268	100,000	242,639	225,851
Interest cost	4,255,880	4,228,200	350,023	330,609
Adjustments	(10,194,555)	-	-	-
Actuarial loss	8,206,927	14,114,413	1,168,473	1,128,017
Benefits paid	(3,372,846)	(3,734,445)	(835,429)	(510,338)
Benefit obligation at end of year	<u>\$ 100,979,447</u>	<u>\$ 100,960,773</u>	<u>\$ 8,919,801</u>	<u>\$ 7,994,095</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 48,536,678	\$ 49,977,336	\$ -	\$ -
Actual return on plan assets	9,507,095	(1,353,510)	-	-
Employer contributions	3,880,590	3,647,297	835,429	510,338
Benefits paid	(3,372,846)	(3,734,445)	(835,429)	(510,338)
Fair value of plan assets at end of year	<u>58,551,517</u>	<u>48,536,678</u>	<u>-</u>	<u>-</u>
Unfunded status - recognized as a liability	<u>\$ (42,427,930)</u>	<u>\$ (52,424,095)</u>	<u>\$ (8,919,801)</u>	<u>\$ (7,994,095)</u>

Components of net periodic benefit cost are as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Service cost	\$ 1,123,268	\$ 100,000	\$ 242,639	\$ 225,851
Interest cost	4,255,880	4,228,200	350,023	330,609
Expected return on plan assets	(4,147,333)	(4,272,234)	-	-
Amortization of unrecognized prior service cost (credit)	-	-	(389,620)	(523,414)
Amortization of transition obligation	(654,432)	-	-	10,104
Net actuarial loss	<u>4,567,849</u>	<u>3,308,346</u>	<u>337,677</u>	<u>301,588</u>
Net periodic benefit cost	<u>\$ 5,145,232</u>	<u>\$ 3,364,312</u>	<u>\$ 540,719</u>	<u>\$ 344,738</u>

Griffin Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

Amounts in the consolidated balance sheets consist of:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Current liabilities	\$ -	\$ -	\$ 435,000	\$ 525,000
Noncurrent liabilities	<u>42,427,930</u>	<u>52,424,095</u>	<u>8,484,801</u>	<u>7,469,095</u>
	<u>\$ 42,427,930</u>	<u>\$ 52,424,095</u>	<u>\$ 8,919,801</u>	<u>\$ 7,994,095</u>

Pension Plan

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

	2012	2011
Negative prior service cost	\$ (9,540,123)	\$ -
Net actuarial loss	<u>57,213,849</u>	<u>58,934,533</u>
	<u>\$ 57,213,849</u>	<u>\$ 58,934,533</u>

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

	2012	2011
Net actuarial loss	\$ 2,847,165	\$ 19,740,157
Amortization of Actuarial loss	<u>(4,567,849)</u>	<u>(3,308,346)</u>
	<u>\$ (1,720,684)</u>	<u>\$ 16,431,811</u>

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

Actuarial loss	\$ 4,187,550
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Post-Retirement Plan

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

	2012	2011
Net transition obligation	\$ -	\$ -
Net prior service credit	(502,612)	(892,232)
Net actuarial loss	<u>5,518,248</u>	<u>4,687,452</u>
	<u>\$ 5,015,636</u>	<u>\$ 3,795,220</u>

Griffin Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

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

	2012	2011
Net actuarial loss	\$ 1,168,473	\$ 1,128,017
Negative plan amendment	(10,194,555)	-
Amortization of		
Transition obligation	-	(10,104)
Prior service cost	389,620	523,414
Actuarial loss	(337,677)	(301,588)
	<u>\$ (8,974,139)</u>	<u>\$ 1,339,739</u>

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

Prior service cost	\$ (1,121,883)
Prior service credit	(389,620)
Actuarial loss	830,796

Actuarial assumptions are as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	2012	2011	2012	2011
Weighted average assumptions used to determine year end benefit obligation				
Discount rate	3.91 %	4.54 %	3.91 %	4.54 %
Rate of compensation increase	4.00 %	4.00 %	N/A	N/A

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	2012	2011	2012	2011
Weighted average assumptions used to determine net periodic benefit cost				
Discount rate	4.54 %	5.00 %	4.54 %	5.00 %
Expected long-term return on plan assets	7.89 %	8.50 %	N/A	N/A
Rate of compensation increase	4.00 %	4.00 %	N/A	N/A

	<u>Pre-65</u>		<u>Post-65</u>	
	2012	2011	2012	2011
Health care cost trend rate assumed for next year	8.00 %	8.00 %	8.00 %	8.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2019	2018	2019	2018

Griffin Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

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

	1-Percentage Point Increase	1-Percentage Point Decrease
Service and interest cost components	\$ 23,197	\$ (19,981)
Postretirement benefit obligation	200,155	(176,390)

Contributions

The Hospital expects to contribute approximately \$4,909,000 to its pension plan and \$435,000 to its other postretirement benefit plan in fiscal year 2013.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of September 30:

	Pension Benefits	Other Benefits
2013	\$ 3,852,000	\$ 435,000
2014	4,107,000	461,000
2015	4,373,000	491,000
2016	4,703,000	546,000
2017	4,960,000	594,000
2018-2021	28,582,000	3,161,000

Pension plan assets are invested as follows:

	2012	2011
Asset category		
Cash and cash equivalents	94 %	1 %
U.S. Large Cap	-	36
U.S. Small Cap	-	7
International equity	-	18
Alternative investments	5	-
Fixed income	1	29
Real estate	-	9
	<u>100 %</u>	<u>100 %</u>

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

Griffin Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

	2012	2011
Target asset allocations		
U.S. Large Cap	27 %	38 %
U.S. Small Cap	7	7
International equity	12	20
Fixed income	40	25
Commodities/TIPS	4	-
Alternatives	6	-
Real estate	4	10
	<u>100 %</u>	<u>100 %</u>

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

<u>September 30, 2012</u>				
(in thousand)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 55,293	\$ -	\$ -	\$ 55,293
U.S. Large Cap	-	-	-	-
U.S. Small Cap	-	-	-	-
International equity	-	-	-	-
Alternative investments	-	-	2,619	2,619
Fixed income	639	-	-	639
Real estate mutual funds	-	-	-	-
	<u>\$ 55,932</u>	<u>\$ -</u>	<u>\$ 2,619</u>	<u>\$ 58,551</u>

The fair value of plan assets as of September 30, 2011, by asset category were as follows:

<u>September 30, 2011</u>				
(in thousand)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 617	\$ -	\$ -	\$ 617
U.S. Large Cap	17,607	-	-	17,607
U.S. Small Cap	3,200	-	-	3,200
International equity	8,547	-	-	8,547
Fixed income	679	-	13,601	14,280
Real estate mutual funds	-	-	4,331	4,331
	<u>\$ 30,650</u>	<u>\$ -</u>	<u>\$ 17,932</u>	<u>\$ 48,582</u>

Griffin Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

Asset Investment Strategy

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

Concentrations of Credit Risk

The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The mix in patient accounts receivable as of September 30, 2012 and 2011 before allowances for doubtful accounts, consisted of the following:

	2012	2011
Medicare and Medicaid	13 %	18 %
Commercial insurance	21	17
Managed care	27	29
Self-pay patients	37	34
City Welfare	2	2
	<u>100 %</u>	<u>100 %</u>

14. Functional Expenses

The Corporation provides general healthcare services to residents within its geographic location. Expenses relating to providing these services at September 30, 2012 and 2011 are as follows:

	2012	2011
Patient care and clinical	\$ 112,399,993	\$ 112,574,964
General and administrative	<u>42,397,631</u>	<u>38,853,030</u>
	<u>\$ 154,797,624</u>	<u>\$ 151,427,994</u>

15. Endowments

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

The Corporation has interpreted the Connecticut UPMIFA statute as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c)

Griffin Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

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

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 912,340	\$ 2,160,261	\$ 3,072,601
Total endowment funds	<u>\$ 912,340</u>	<u>\$ 2,160,261</u>	<u>\$ 3,072,601</u>

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 790,469	\$ 2,160,261	\$ 2,950,730
Total endowment funds	<u>\$ 790,469</u>	<u>\$ 2,160,261</u>	<u>\$ 2,950,730</u>

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

Griffin Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 793,000	\$ 2,160,261	\$ 2,953,261
Investment return			
Investment income and net appreciation (realized and unrealized)	16,919	-	16,919
Appropriation of endowment assets for expenditure			
Healthcare services	(19,450)	-	(19,450)
Endowment net assets, end of year	<u>\$ 790,469</u>	<u>\$ 2,160,261</u>	<u>\$ 2,950,730</u>

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

16. Commitments and Contingencies

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

17. Subsequent Events

On March 28, 2013 the Hospital entered into an agreement to transfer its malpractice loss portfolio to an insurance company by making a one time payment of \$7,400,000. The loss portfolio transfer effectively transfers the liabilities and subsequent risk to a third party insurer. As a result of the transaction, cash of \$3,900,000 was freed up and transferred from HAIC to the Hospital.

Consolidating Information



**Report of Independent Auditors
on Accompanying Consolidating Information**

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

The report on our audits of the consolidated financial statements of Griffin Health Services Corporation and subsidiaries as of September 30, 2012 and 2011 and for the years then ended appears on page 1 of this document. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating information as of September 30, 2012 and 2011 and for the years then ended is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 18, 2013

Griffin Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2012

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

Griffin Health Services Corporation and Subsidiaries

Consolidating Balance Sheet, Continued

September 30, 2012

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Liabilities and Net (Deficit) Assets											
Current liabilities											
Current portion of long-term debt and capital lease obligations											
	\$ -	\$ 6,418,425	\$ -	\$ -	\$ 6,418,425	\$ -	\$ -	\$ -	\$ 91,972	\$ -	\$ 6,510,397
Accounts payable	466,385	20,044,364	66,559	-	20,577,308	163,381	1,704,756	157,140	92,342	-	22,694,927
Accrued interest payable	-	347,111	-	-	347,111	-	-	-	-	-	347,111
Accrued expenses	3,705	8,256,192	-	-	8,259,897	266,300	163,535	150,543	81,403	-	8,921,678
Deferred revenue	-	40,179	77,645	-	117,824	2,742,056	-	-	-	-	2,859,880
Accrued postretirement benefit liability	-	435,000	-	-	435,000	-	-	-	-	-	435,000
Due to affiliates	640,996	196,466	-	(837,462)	-	644,696	-	-	1,542,941	(2,187,637)	-
Total current liabilities	1,111,086	35,737,737	144,204	(837,462)	36,155,565	3,816,433	1,868,291	307,683	1,808,658	(2,187,637)	41,768,993
Estimated third party settlements payable, long-term	-	3,179,514	-	-	3,179,514	-	-	-	-	-	3,179,514
Professional and general liability loss reserves	-	10,488,070	-	-	10,488,070	-	41,293,246	-	-	(14,781,175)	37,000,141
Workers compensation loss reserves	-	2,108,091	-	-	2,108,091	-	-	-	-	-	2,108,091
Accrued pension liability	-	42,427,930	-	-	42,427,930	-	-	-	-	-	42,427,930
Accrued postretirement benefit liability, net of current portion	-	8,484,801	-	-	8,484,801	-	-	-	-	-	8,484,801
Conditional asset retirement obligations	-	119,709	-	-	119,709	-	-	-	-	-	119,709
Long-term debt, net of current portion	-	46,957,600	-	-	46,957,600	-	-	-	2,972,039	-	49,929,639
Capital lease obligations, net of current portion	-	1,299,057	-	-	1,299,057	-	-	-	-	-	1,299,057
Deferred revenue, long term	-	-	-	-	-	-	-	-	3,276,633	-	3,276,633
Interest rate swap agreements	-	9,153,353	-	-	9,153,353	-	-	-	-	-	9,153,353
Total liabilities	1,111,086	159,955,862	144,204	(837,462)	160,373,690	3,816,433	43,161,537	307,683	8,057,330	(16,968,812)	198,747,861
Net (deficit) assets											
Unrestricted operating	4,422,340	13,419,944	2,737,657	(2,737,657)	17,842,284	157,680	2,034,435	611,099	(3,996,871)	(3,481,433)	13,167,194
Minority interest in HAIC	-	-	-	-	-	-	-	-	-	1,520,178	1,520,178
Cumulative pension adjustment	-	(51,468,946)	-	-	(51,468,946)	-	-	-	-	-	(51,468,946)
Total unrestricted	4,422,340	(38,049,002)	2,737,657	(2,737,657)	(33,626,662)	157,680	2,034,435	611,099	(3,996,871)	(1,961,255)	(36,781,574)
Temporarily restricted	-	2,203,003	1,472,513	(1,472,513)	2,203,003	51,822	-	-	-	-	2,254,825
Permanently restricted	-	5,810,354	1,742,616	(1,742,616)	5,810,354	-	-	-	-	-	5,810,354
Total net (deficit) assets	4,422,340	(30,035,645)	5,952,786	(5,952,786)	(25,613,305)	209,502	2,034,435	611,099	(3,996,871)	(1,961,255)	(28,716,395)
Total liabilities and net (deficit) assets	\$ 5,533,426	\$ 129,920,217	\$ 6,096,990	\$ (6,790,248)	\$ 134,760,385	\$ 4,025,935	\$ 45,195,972	\$ 918,782	\$ 4,060,459	\$ (18,930,067)	\$ 170,031,466

Griffin Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Assets											
Current assets											
Cash and cash equivalents	\$ 499,412	\$ 5,513,612	\$ 887,374	\$ -	\$ 6,900,398	\$ 449,751	\$ 245,592	\$ 94,140	\$ 43,329	\$ -	\$ 7,733,210
Investments	1,397,889	7,625,803	2,138,022	-	11,161,714	-	25,058,957	-	-	-	36,220,671
Assets limited as to use	-	704,176	-	-	704,176	-	-	-	-	-	704,176
Patient accounts receivable, net	-	17,025,431	-	-	17,025,431	-	-	274,761	-	-	17,300,192
Other current assets	844,497	6,294,570	26,436	-	7,165,503	2,786,380	3,252,786	98,028	233,814	-	13,536,511
Total current assets	<u>2,741,798</u>	<u>37,163,592</u>	<u>3,051,832</u>	<u>-</u>	<u>42,957,222</u>	<u>3,236,131</u>	<u>28,557,335</u>	<u>466,929</u>	<u>277,143</u>	<u>-</u>	<u>75,494,760</u>
Assets limited as to use											
Board-designated investments	850,000	31,384	-	-	881,384	661,419	-	-	-	-	1,542,803
Under indenture agreement	-	4,288,799	-	-	4,288,799	-	-	-	-	-	4,288,799
Total assets limited as to use	<u>850,000</u>	<u>4,320,183</u>	<u>-</u>	<u>-</u>	<u>5,170,183</u>	<u>661,419</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,831,602</u>
Reinsurance recoverable	-	9,643,780	-	-	9,643,780	-	8,683,426	-	-	(9,643,780)	8,683,426
Contributions receivable	-	-	1,089,107	-	1,089,107	-	-	-	-	-	1,089,107
Long-term investments	-	1,030,970	1,393,426	-	2,424,396	-	-	-	-	-	2,424,396
Property, plant and equipment, net	242,085	62,082,187	-	-	62,324,272	604,069	-	202,749	3,642,900	-	66,773,990
Due from affiliates	61,988	5,411,702	-	-	5,473,690	5,633	-	-	-	(5,479,323)	-
Interest in net assets of affiliate	-	5,415,314	-	(5,415,314)	-	-	-	-	-	-	-
Investment in affiliate	909,309	374,891	-	-	1,284,200	-	-	-	-	(1,284,200)	-
Estimated third party settlements, long-term	-	457,830	-	-	457,830	-	-	-	-	-	457,830
Beneficial interest in trusts	-	3,367,120	-	-	3,367,120	-	-	-	-	-	3,367,120
Other long-term assets	-	3,010,621	-	-	3,010,621	-	-	-	325,515	-	3,336,136
	<u>1,213,382</u>	<u>90,794,415</u>	<u>2,482,533</u>	<u>(5,415,314)</u>	<u>89,075,016</u>	<u>609,702</u>	<u>8,683,426</u>	<u>202,749</u>	<u>3,968,415</u>	<u>(16,407,303)</u>	<u>86,132,005</u>
Total assets	<u>\$ 4,805,180</u>	<u>\$ 132,278,190</u>	<u>\$ 5,534,365</u>	<u>\$ (5,415,314)</u>	<u>\$ 137,202,421</u>	<u>\$ 4,507,252</u>	<u>\$ 37,240,761</u>	<u>\$ 669,678</u>	<u>\$ 4,245,558</u>	<u>\$ (16,407,303)</u>	<u>\$ 167,458,367</u>

Griffin Health Services Corporation and Subsidiaries
Consolidating Balance Sheet, Continued
September 30, 2011

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Liabilities and Net (Deficit) Assets											
Current liabilities											
Current portion of long-term debt and capital lease obligations	\$ -	\$ 6,380,271	\$ -	\$ -	\$ 6,380,271	\$ -	\$ -	\$ -	\$ 90,021	\$ -	\$ 6,470,292
Accounts payable	418,526	19,696,544	70,260	-	20,185,330	295,994	93,302	128,993	119,054	-	20,822,673
Accrued interest payable	-	365,713	-	-	365,713	-	-	-	-	-	365,713
Accrued expenses	2,722	6,939,306	4,911	-	6,946,939	140,468	328,097	165,794	76,309	-	7,657,607
Deferred revenue	-	33,048	43,880	-	76,928	3,653,100	-	-	-	-	3,730,028
Accrued postretirement benefit liability	-	525,000	-	-	525,000	-	-	-	-	-	525,000
Due to affiliates	-	67,621	-	-	67,621	-	-	-	1,159,661	(1,227,282)	-
Total current liabilities	421,248	34,007,503	119,051	-	34,547,802	4,089,562	421,399	294,787	1,445,045	(1,227,282)	39,571,313
Estimated third party settlements payable, long-term	-	1,203,129	-	-	1,203,129	-	-	-	-	-	1,203,129
Professional and general liability loss reserves	-	10,493,026	-	-	10,493,026	-	38,282,702	-	-	(13,895,821)	34,879,907
Workers compensation loss reserves	-	1,514,632	-	-	1,514,632	-	-	-	-	-	1,514,632
Accrued pension liability	-	52,424,095	-	-	52,424,095	-	-	-	-	-	52,424,095
Accrued postretirement benefit liability, net of current portion	-	7,469,095	-	-	7,469,095	-	-	-	-	-	7,469,095
Conditional asset retirement obligations	-	125,216	-	-	125,216	-	-	-	-	-	125,216
Long-term debt, net of current portion	-	48,524,613	-	-	48,524,613	-	-	-	3,064,011	-	51,588,624
Capital lease obligations, net of current portion	-	3,205,611	-	-	3,205,611	-	-	-	-	-	3,205,611
Deferred revenue, long term	-	-	-	-	-	-	-	-	4,376,308	-	4,376,308
Interest rate swap agreements	-	7,973,902	-	-	7,973,902	-	-	-	-	-	7,973,902
Total liabilities	421,248	166,940,822	119,051	-	167,481,121	4,089,562	38,704,101	294,787	8,885,364	(15,123,103)	204,331,832
Net (deficit) assets											
Unrestricted operating	4,383,932	20,659,590	2,406,166	(2,406,166)	25,043,522	353,504	(1,463,340)	374,891	(4,639,806)	(245,319)	19,423,452
Minority interest in HAIC	-	-	-	-	-	-	-	-	-	(1,038,881)	(1,038,881)
Cumulative pension adjustment	-	(62,729,753)	-	-	(62,729,753)	-	-	-	-	-	(62,729,753)
Total unrestricted	4,383,932	(42,070,163)	2,406,166	(2,406,166)	(37,686,231)	353,504	(1,463,340)	374,891	(4,639,806)	(1,284,200)	(44,345,182)
Temporarily restricted	-	1,880,150	1,266,532	(1,266,532)	1,880,150	64,186	-	-	-	-	1,944,336
Permanently restricted	-	5,527,381	1,742,616	(1,742,616)	5,527,381	-	-	-	-	-	5,527,381
Total net (deficit) assets	4,383,932	(34,662,632)	5,415,314	(5,415,314)	(30,278,700)	417,690	(1,463,340)	374,891	(4,639,806)	(1,284,200)	(36,873,465)
Total liabilities and net (deficit) assets	\$ 4,805,180	\$ 132,278,190	\$ 5,534,365	\$ (5,415,314)	\$ 137,202,421	\$ 4,507,252	\$ 37,240,761	\$ 669,678	\$ 4,245,558	\$ (16,407,303)	\$ 167,458,367

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

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

Griffin Health Services Corporation and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2011

	Griffin Health Services Corporation	The Griffin Hospital	The Griffin Hospital Development Fund, Inc.	Eliminations	Total Obligated Group	Planetree Inc.	Healthcare Alliance Insurance Company, Ltd.	Griffin Faculty Practice Plan	G.H. Ventures, Inc.	Eliminations	Total
Operating revenues											
Net patient service revenue	\$ -	\$ 121,998,344	\$ -	\$ -	\$ 121,998,344	\$ -	\$ -	\$ 2,693,057	\$ -	\$ -	\$ 124,691,401
Other operating revenue	3,962,313	5,999,588	104,517	-	10,066,418	7,721,463	8,088,038	819,206	671,798	(3,810,463)	23,556,460
Net assets released from restrictions for operations	-	27,869	820,970	-	848,839	-	-	-	-	-	848,839
Total operating revenues	<u>3,962,313</u>	<u>128,025,801</u>	<u>925,487</u>	<u>-</u>	<u>132,913,601</u>	<u>7,721,463</u>	<u>8,088,038</u>	<u>3,512,263</u>	<u>671,798</u>	<u>(3,810,463)</u>	<u>149,096,700</u>
Operating expenses											
Employee compensation and related expenses	378,967	70,585,175	-	-	70,964,142	3,896,197	-	3,138,011	-	-	77,998,350
Supplies and other expenses	3,560,283	43,868,190	820,970	-	48,249,443	2,453,641	11,010,000	2,542,471	642,843	(3,810,463)	61,087,935
Depreciation and amortization	-	5,747,143	-	-	5,747,143	35,589	-	90,752	121,309	-	5,994,793
Interest	-	2,618,102	-	-	2,618,102	-	-	-	238,035	-	2,856,137
Provision for doubtful accounts, net of recoveries	(277)	3,349,408	-	-	3,349,131	30,000	-	111,648	-	-	3,490,779
Total operating expenses	<u>3,938,973</u>	<u>126,168,018</u>	<u>820,970</u>	<u>-</u>	<u>130,927,961</u>	<u>6,415,427</u>	<u>11,010,000</u>	<u>5,882,882</u>	<u>1,002,187</u>	<u>(3,810,463)</u>	<u>151,427,994</u>
Gain (loss) from operations	<u>23,340</u>	<u>1,857,783</u>	<u>104,517</u>	<u>-</u>	<u>1,985,640</u>	<u>1,306,036</u>	<u>(2,921,962)</u>	<u>(2,370,619)</u>	<u>(330,389)</u>	<u>-</u>	<u>(2,331,294)</u>
Nonoperating (losses) gains											
Investment income	12,342	218,353	(19,010)	-	211,685	(20,386)	917,765	-	-	-	1,109,064
Net realized and unrealized losses on interest rate swaps	-	(2,527,906)	-	-	(2,527,906)	-	-	-	-	-	(2,527,906)
Net gain on equity investment	-	-	-	-	-	-	-	-	830,110	-	830,110
Unrestricted contributions, gifts and bequests	-	-	161,281	-	161,281	-	-	-	-	-	161,281
Fund raising expenses	-	-	(749,928)	-	(749,928)	-	-	-	-	-	(749,928)
Research grant revenues	-	2,414,954	-	-	2,414,954	121,392	-	-	-	-	2,536,346
Research grant expenses	-	(2,141,922)	-	-	(2,141,922)	(83,614)	-	-	-	-	(2,225,536)
Total nonoperating (losses) gains	<u>12,342</u>	<u>(2,036,521)</u>	<u>(607,657)</u>	<u>-</u>	<u>(2,631,836)</u>	<u>17,392</u>	<u>917,765</u>	<u>-</u>	<u>830,110</u>	<u>-</u>	<u>(866,569)</u>
Minority interest	-	-	-	-	-	-	-	-	-	1,060,590	1,060,590
(Deficiency) excess of revenues over expenses	<u>35,682</u>	<u>(178,738)</u>	<u>(503,140)</u>	<u>-</u>	<u>(646,196)</u>	<u>1,323,428</u>	<u>(2,004,197)</u>	<u>(2,370,619)</u>	<u>499,721</u>	<u>1,060,590</u>	<u>(2,137,273)</u>
Other changes in unrestricted net assets											
Change in net unrealized gains and losses	-	-	-	-	-	-	(1,145,045)	-	-	-	(1,145,045)
Change in interest in net assets of affiliate	-	47,054	-	4,721	51,775	-	-	-	-	(51,775)	-
Net assets released from restrictions for capital	-	-	825,000	-	825,000	-	-	-	-	-	825,000
Capital infusion	-	-	-	-	-	-	467,927	-	-	(467,927)	-
Transfers between affiliates	(1,095,084)	799,271	(326,581)	-	(622,394)	(1,800,000)	-	2,422,394	-	-	-
Pension and other post-retirement related charges other than net periodic benefit cost	-	(17,771,550)	-	-	(17,771,550)	-	-	-	-	-	(17,771,550)
Increase (decrease) in unrestricted net assets	<u>\$ (1,059,402)</u>	<u>\$ (17,103,963)</u>	<u>\$ (4,721)</u>	<u>\$ 4,721</u>	<u>\$ (18,163,365)</u>	<u>\$ (476,572)</u>	<u>\$ (2,681,315)</u>	<u>\$ 51,775</u>	<u>\$ 499,721</u>	<u>\$ 540,888</u>	<u>\$ (20,228,868)</u>