Gaylord Farm Association, Inc.

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2013 and 2012

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Gaylord Farm Association, Inc. (the Association), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and shareholder's equity, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Gaylord Risk Solutions, Ltd., a wholly-owned subsidiary, whose statements reflect total assets of $5,640,641 and $5,243,107, total liabilities of $3,803,904 and $3,783,397 as of September 30, 2013 and 2012, and total revenues of $455,485 and ($415,079) and net gain (loss) of $418,483 and ($702,372), respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gaylord Risk Solutions, Ltd., is solely based on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gaylord Farm Association, Inc. as of September 30, 2013 and 2012, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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

Saslow Lufkin & Buggy, LLP

December 3, 2013

Gaylord Farm Association, Inc.
Consolidated Balance Sheets
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,520,734**	$ 635,238
Patient accounts receivable (less allowance for doubtful accounts of $501,000 in 2013 and $458,000 in 2012)	**9,382,054**	10,522,310
Assets whose use is limited:		
Assets held under bond indenture agreement	**193,927**	189,467
Pledges receivable	**46,984**	90,046
Other current assets	**1,755,571**	1,631,831
Total current assets	**17,899,270**	13,068,892
Assets whose use is limited:		
Pledges receivable, net	**132,552**	231,120
Board-designated investments	**14,714,402**	14,349,648
Donor restricted investments	**5,590,085**	5,555,747
Beneficial interest in trusts held by others	**11,668,231**	11,240,066
	32,105,270	31,376,581
Property, plant and equipment, net	**36,720,749**	38,177,394
Investments held for captive insurance liabilities	**3,889,212**	3,846,709
Reinsurance recoverable relating to captive insurance liabilities	**931,885**	663,930
Other assets	**612,591**	946,160
Total assets	**$ 92,158,977**	$ 88,079,666
Liabilities, Net Assets and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued expenses	**$ 2,356,001**	$ 2,811,631
Accrued payroll and related taxes	**5,066,866**	4,730,818
Estimated amounts due to third-party payers	**246,805**	246,805
Current portion of accrued pension obligation	**2,245,685**	1,493,193
Current portion of long-term debt and capital lease obligations	**1,341,013**	1,526,815
Total current liabilities	**11,256,370**	10,809,262
Long-term debt and capital lease obligations, less current portion	**17,417,812**	18,153,360
Accrued pension obligation	**10,600,150**	16,609,410
Captive insurance losses and other reserves	**2,611,314**	2,448,013
Interest rate swap liability	**2,993,142**	4,712,094
Total liabilities	**44,878,788**	52,732,139
Net assets and shareholder's equity:		
Unrestricted net assets	**27,105,794**	15,942,540
Temporarily restricted net assets	**1,079,342**	1,149,464
Permanently restricted net assets	**17,258,316**	16,795,813
Shareholder's equity	**1,836,737**	1,459,710
Total net assets and shareholder's equity	**47,280,189**	35,347,527
Total liabilities, net assets and shareholder's equity	**$ 92,158,977**	$ 88,079,666

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

Gaylord Farm Association, Inc.
Consolidated Statements of Operations and
Changes in Net Assets and Shareholder's Equity
For the Years Ended September 30, 2013 and 2012

	2013	2012
Revenues:		
Net patient service revenues	**$ 77,215,090**	$ 70,326,743
Provision for bad debts	**509,728**	420,830
Net patient service revenues less provision for bad debts	**76,705,362**	69,905,913
Contributions and bequests	**847,258**	1,076,207
Ceded premium	**(325,000)**	(325,000)
Other operating revenue	**933,665**	725,080
Net assets released from restrictions used for operations	**176,568**	279,175
Total revenues	**78,337,853**	71,661,375
Expenses:		
Salaries and related expenses	**50,573,437**	49,528,781
Other operating expenses	**5,112,469**	5,606,698
Professional fees and contract services	**7,391,400**	8,060,127
Supplies	**5,370,890**	5,034,738
Depreciation and amortization	**3,962,759**	3,900,452
Occupancy costs	**2,540,306**	2,145,309
Interest	**833,185**	882,966
Losses and loss adjustment expenses	**26,102**	164,137
Total expenses	**75,810,548**	75,323,208
Gain (loss) from operations	**2,527,305**	(3,661,833)
Non-operating gains (losses), net:		
Dividend and interest income	**480,450**	522,282
Net realized gains on investments	**800,686**	515,365
Loss on equity investments	**(219,718)**	(75,252)
Net loss on lease abandonments	**(448,214)**	-
Change in fair value of interest rate swap agreement	**1,718,952**	(556,872)
Total non-operating gains, net	**2,332,156**	405,523
Excess of revenues over (under) expenses	**$ 4,859,461**	$ (3,256,310)

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

Gaylord Farm Association, Inc.
Consolidated Statements of Operations and
Changes in Net Assets and Shareholder's Equity (continued)
For the Years Ended September 30, 2013 and 2012

	2013	2012
Unrestricted net assets:		
Excess of revenues under expenses	**$ 4,859,461**	$ (3,256,310)
Net unrealized gains on investments	**1,416,012**	2,557,046
Pension related changes other than net periodic pension cost	**5,009,717**	(1,708,412)
Net (gain) loss of GRS	**(418,483)**	702,372
Net assets released from restrictions used for purchases of property, plant and equipment	**296,547**	889,976
Change in unrestricted net assets	**11,163,254**	(815,328)
Temporarily restricted net assets:		
Restricted pledges and contributions	**118,232**	719,251
Investment income and realized gains on investments	**113,506**	74,943
Net unrealized gains on investments	**171,255**	317,187
Net assets released from restrictions	**(473,115)**	(1,169,151)
Change in temporarily restricted net assets	**(70,122)**	(57,770)
Permanently restricted net assets:		
Restricted contributions and bequests	**34,338**	25,958
Change in beneficial interest in trusts held by others	**428,165**	1,491,110
Change in permanently restricted net assets	**462,503**	1,517,068
Shareholder's equity:		
Net gain (loss) of GRS	**418,483**	(702,372)
Net unrealized (losses) gains on investments of GRS	**(41,456)**	358,966
Change in shareholder's equity	**377,027**	(343,406)
Change in net assets and shareholder's equity	**11,932,662**	300,564
Net assets and shareholder's equity, beginning of year	**35,347,527**	35,046,963
Net assets and shareholder's equity, end of year	**$ 47,280,189**	$ 35,347,527

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

Gaylord Farm Association, Inc.
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2013 and 2012

	2013	2012
Operating activities:		
Change in net assets and shareholder's equity	**$ 11,932,662**	$ 300,564
Adjustments to reconcile change in net assets and shareholder's equity to net cash provided by (used in) operating activities:		
Depreciation and amortization	**3,962,759**	3,900,452
Pension related changes other than net periodic pension cost	**(5,009,717)**	1,708,412
Change in fair value of interest rate swap	**(1,718,952)**	556,872
Net realized and unrealized gains on investments	**(2,501,459)**	(3,464,541)
Loss from equity investments	**219,718**	75,252
Net loss on lease abandonments	**448,214**	-
Change in beneficial interest in trusts held by others	**(428,165)**	(1,491,110)
Restricted contributions and bequests received	**(152,570)**	(745,209)
Changes in operating assets and liabilities:		
Patient accounts receivable	**1,140,256**	(520,495)
Other current assets	**(123,740)**	(58,465)
Pledges receivable	**141,630**	375,596
Investments held for captive insurance liabilities	**(42,503)**	(329,485)
Reinsurance recoverable relating to captive insurance	**(267,955)**	14,991
Other assets	**228,851**	109,677
Accounts payable and accrued expenses	**(455,630)**	(2,042,360)
Accrued payroll and related taxes	**336,048**	911,328
Accrued pension obligation	**(247,051)**	(1,048,429)
Captive insurance losses and other reserves	**163,301**	(7,585)
Net cash provided by (used in) operating activities	**7,625,697**	(1,754,535)
Investing activities:		
Assets held under bond indenture agreement	**(4,460)**	(9,687)
Investments in joint ventures	**(115,000)**	(45,000)
Purchases of property, plant and equipment	**(2,303,220)**	(140,260)
Sales and purchases of investments, net	**2,102,367**	2,782,192
Net cash (used in) provided by investing activities	**(320,313)**	2,587,245
Financing activities:		
Principal payments on long-term debt	**(1,345,000)**	(1,220,000)
Net payments on lines of credit	**-**	(450,000)
Principal payments on capital lease obligations	**(227,458)**	(157,376)
Restricted contributions and bequests received	**152,570**	745,209
Net cash used in financing activities	**(1,419,888)**	(1,082,167)
Change in cash and cash equivalents	**5,885,496**	(249,457)
Cash and cash equivalents, beginning of year	**635,238**	884,695
Cash and cash equivalents, end of year	**$ 6,520,734**	$ 635,238

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

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 1 - General

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

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

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

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

GSME was purchased by the Association effective January 1, 2013. Prior to the purchase, the Association had a fifty percent ownership in Gaylord Sleep HealthCenters of Connecticut, LLC (GSHC), which is now doing business as Gaylord Sleep Medicine Equipment, LLC. Prior to January 1, 2013, the Association accounted for its investment interest in the entity using the equity method of accounting.

Note 2 - Summary of Significant Accounting Policies

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

***Other Than Temporary Impairments on Investments* -** The Association accounts for other than temporary impairments in accordance with FASB ASC 320-10 *"Investments - Debt and Equity Securities"* and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2013 or 2012.

***Equity Investments* -** The Association has a fifty percent ownership interest in North Haven Fitness & Wellness, LLC (Fitness & Wellness). The Association accounts for its investment interest in this entity using the equity method of accounting. As such, the Association adjusts its investment by its share of the investees net income (loss). As previously mentioned in Note 1, the Association had a fifty percent ownership in GSHC through January 1, 2013. The Association purchased the remaining fifty percent interest on January 1, 2013.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

The Association accounts for uncertain tax positions with provisions of FASB ASC 740, *"Income Taxes"* which provide a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Association does not have any uncertain tax positions as of September 30, 2013 and 2012. As of September 30, 2013 and 2012, the Association did not record any penalties or interest associated with uncertain tax positions. The Association's prior three tax years are open and subject to examination by the Internal Revenue Service.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

Charity Care **-** The Association provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Association does not pursue collection of amounts determined to qualify as charity care, the charges related to charity care services are offset within net patient service revenues. The amount of traditional charity care provided, determined on the basis of cost, was approximately $118,207 and $47,698 for the years ended September 30, 2013 and 2012, respectively.

Estimated Malpractice Costs **-** The Association maintains malpractice insurance coverage under claims made policies through GRS in 2013 and 2012. A provision for estimated medical malpractice claims includes estimates of the ultimate costs for claims incurred but not reported and is included within accounts payable and accrued expenses on the Association's consolidated balance sheets.

Workers Compensation Costs **-** The Association is self-insured for workers' compensation. Estimated self-insurance liabilities are included within accrued payroll and related taxes and are $1,145,539 and $1,102,510 as of September 30, 2013 and 2012, respectively, and include estimates for claim obligations related to claims occurring through September 30, 2013 and 2012.

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

Accounting Pronouncements Adopted **-** In May 2011, FASB issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US. GAAP and IFRS,* which amends ASC 820, *Fair Value Measurements and Disclosures.* ASU 2011-04 amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements, but for which the fair value is required to be disclosed. This guidance became effective for the Association beginning on October 1, 2012. The adoption of this guidance had no significant impact on the consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision of Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.* This guidance establishes accounting and disclosure requirements for health care entities that recognize significant amounts of patient service revenue at the time services are rendered even though the entity does not assess a patient's ability to pay. Specifically, the guidance requires that health care entities present bad debt expense associated with net patient service revenue as an offset to net patient service revenue within the consolidated statements of operations and changes in net assets. Additionally, the guidance requires enhanced disclosure of the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance requires retrospective application to all prior periods presented. This guidance became effective for the Association beginning on October 1, 2012. The adoption of this guidance had no impact on the Association's excess of revenues over expenses in the consolidated statements of operations and changes in net assets and stockholder's equity, but resulted in additional disclosures in Note 3. All periods included have been presented in accordance with the provisions of ASU 2011-07.

Accounting Pronouncements Pending Adoption **-** In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities.* This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance is effective for the Association beginning October 1, 2013, and retrospective application is required. The Association does not expect this guidance to have an impact on its consolidated financial statements.

In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance is effective for the Association beginning October 1, 2013, with early adoption permitted. The Association does not expect this guidance to have a material impact on its consolidated financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

In January 2013, the FASB issued ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This guidance provides clarification on the scope of the offsetting disclosure requirements in ASU 2011-11. This guidance is effective for the Association beginning October 1, 2013, with early adoption permitted. The Association does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This guidance is effective for the Association beginning October 1, 2014, with early adoption permitted. The Association does not believe this guidance will significantly impact its consolidated financial statements.

Reclassification **-** Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications had no material effect on the 2012 consolidated financial statements.

Subsequent Events **-** Subsequent events have been evaluated through December 3, 2013 the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Note 3 - Net Patient Service Revenues

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

> ***Medicare*** **-** Inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient payments are made based on a per discharge amount under the LTCH-DRG inpatient payment system. Outpatient payments are made based on a per encounter amount under the APC outpatient payment system. The Association is reimbursed under the prospective payment system and files annual cost reports, which are subject to audit.
>
> ***Medicaid*** **-** Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospective rates per day of hospitalization. These rates are not subject to retroactive adjustment. Outpatient services are reimbursed based on a fee schedule or percent of charges based on the services provided.
>
> ***Blue Cross*** **-** Services rendered to Blue Cross beneficiaries are reimbursed on a per diem basis based on contracted rates.

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

Note 3 - Net Patient Service Revenues (continued)

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

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

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

For uninsured patients, the amounts not collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Association's allowance for doubtful accounts for self-pay patients was approximately 64% and 51% of self-pay accounts receivable as of September 30, 2013 and, 2012, respectively. The Association's self-pay write-offs totaled $380,142 and $466,102 for fiscal year 2013 and 2012, respectively. The Association did not change its charity care or financial assistance policy during fiscal 2013 or 2012. The Association does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

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

Note 3 - Net Patient Service Revenues (continued)

Net patient service revenues for the years ended September 30, 2013 and 2012 is as follows:

	2013	2012
Gross patient service revenues	**$ 201,193,749**	$ 195,997,746
Contractual allowances and adjustments	**(123,978,659)**	(125,671,003)
Net patient service revenues	**$ 77,215,090**	$ 70,326,743

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 10%, respectively, of the Association's net patient revenue for 2013 and 37% and 10%, respectively, for 2012. Revenue from Blue Cross accounted for approximately 17% and 22% in 2013 and 2012, respectively. No other payer accounted for more than 10% of revenue in 2013 and 2012. Net patient service revenues are based upon complex payment systems and include estimates of amounts yet to be collected. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. Any changes to estimates are recorded within current year operations.

The Association grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The following summarizes payers that account for more than 10% of patient accounts receivable as of September 30, 2013 and 2012:

	2013	2012
Medicare	**37%**	38%
Medicaid	**13%**	10%
Blue Cross	**12%**	19%

Note 4 - Investments

Board-designated and donor restricted investments as of September 30, 2013 and 2012 are invested as follows:

	2013		2012	
	Cost	Market Value	Cost	Market Value
Cash and money market funds	**$ 60,861**	**$ 60,861**	$ 81,275	$ 81,275
Alternative investment funds	**1,976,043**	**2,511,674**	2,080,608	2,224,716
Equity securities	**1,473,624**	**1,987,651**	4,258,787	5,324,232
Mutual funds - fixed income	**5,709,415**	**5,694,241**	5,642,829	5,901,987
Mutual funds - equity	**6,942,671**	**10,050,060**	5,287,290	6,373,185
Total	**$ 16,162,614**	**$ 20,304,487**	$ 17,350,789	$ 19,905,395

Note 4 - Investments (continued)

Investment balances that have been restricted by donors as of September 30, 2013 and 2012 are $5,590,085 and $5,555,747, respectively. The Board of Directors of the Association has restricted all other investments.

Current assets that are held under a bond indenture agreement, are deposited with a trustee for debt service funds. Such amounts are invested in United States treasury notes. In addition, investments held for funding of captive insurance liabilities of $3,889,212 and $3,846,709 as of September 30, 2013 and 2012, respectively, are invested in bonds and fixed income mutual funds.

The Association also has a beneficial interest in trusts held by others of $11,668,231 and $11,240,066 as of September 30, 2013 and 2012, respectively. These funds are managed by the trustees of each fund and are invested primarily in cash equivalents, fixed income and equity securities.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2013 and 2012:

	Less than 12 Months		Greater than 12 Months		Total	
2013	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Equity securities	$ -	$ -	$ 1,031,303	$ (109,697)	$ 1,031,303	$ (109,697)
Alternative investment funds	58,028	(4,013)	-	-	58,028	(4,013)
Mutual funds	3,782,195	(89,613)	-	-	3,782,195	(89,613)
Total	$ 3,840,223	$ (93,626)	$ 1,031,303	$ (109,697)	$ 4,871,526	$ (203,323)

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

In 2013 and 2012, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

Note 4 - Investments (continued)

Investment income is comprised of the following for the years ended September 30, 2013 and 2012:

	2013	2012
Income:		
Dividend and interest income	**$ 480,450**	$ 522,282
Net realized gains on investments	**800,686**	515,365
Total investment return	**$ 1,281,136**	$ 1,037,647
Other changes in unrestricted net assets:		
Unrealized gains on other than trading securities	**$ 1,416,012**	$ 2,557,046

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

The Association's share of Fitness & Wellness's net loss for the years ended September 30, 2013 and 2012 was $194,409 and $195,647, respectively. In addition, the Association made a capital contribution to Fitness & Wellness of $115,000 and $45,000 during the fiscal years ended September 30, 2013 and 2012, respectively. The carrying amount of the Fitness & Wellness investment was $256,510 and $335,919 as of September 30, 2013 and 2012, respectively, and is included in other assets.

During 2013, the Association purchased the remaining 50% ownership interest of GSHC and consequently, the activity of GSHC for 2013 has been consolidated within the accompanying consolidated financial statements. Prior to 2013, the Association accounted for its ownership interest in GSHC under the equity method of accounting. The Association's share of GSHC's net gain for the year ended September 30, 2012 was $120,396 and the carrying amount of the GSHC investment was $125,323 as of September 30, 2012, and is included in other assets. The Association had a receivable of $95,635 due from GSHC for a capital distribution as of September 30, 2012, which is included within other current assets on the accompanying consolidated balance sheets.

Note 5 - Fair Value Measurements

FASB ASC 820-10, *"Fair Value Measurements and Disclosures"*, provides a framework for measuring fair value. That framework provides a fair value hierarch that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

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

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

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

Note 5 - Fair Value Measurements (continued)

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

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

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

The following is a description of the valuation methodologies for assets and liabilities measured at fair value. There have been no changes in methodologies used as of September 30, 2013 and 2012:

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

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

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

Limited partnerships - Valued based on net asset value (NAV) as calculated separately for each class and subclass of shares and for each series within a class of shares equal to the value of gross assets less gross liabilities at the date of determination divided by the total number of outstanding shares. Certain investments may not have readily available market values and may be subject to certain withdrawal restrictions. Liquidity can vary based on various factors and may include lock-up periods as well as redemption fees and/or restrictions. Audited financial statements were obtained as of December 31, 2012 and 2011, which reported unqualified opinions. Values as of September 30, 2013 and 2012 were determined utilizing the same methodologies as those reported in the audited financial statements as of December 31, 2012 and 2011. The following are the major categories of limited partnerships:

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

Limited liability companies - Valued periodically based on the NAV per share. The NAV is determined by the investee company's investment manager or custodian by deducting from the value of assets of the investee company all its liabilities and the resulting number is divided by the outstanding number of shares or units. The NAV per share is then multiplied by the total number of shares held by the Association at the fiscal year end. Certain investments may not have readily available market values and may be subject to certain withdrawal restrictions. Liquidity can vary based on various factors and may include lock-up periods as well as redemption fees and/or restrictions. Audited financial statements were obtained as of December 31, 2012 and 2011, which reported unqualified opinions. Values as of September 30, 2013 and 2012 were determined utilizing the same methodologies as those reported in the audited financial statements as of December 31, 2012 and 2011. The following are the major categories of limited liability companies:

Note 5 - Fair Value Measurements (continued)

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

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

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

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

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

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

Investments measured at NAV are subject to various management, incentive and other fees based on NAV, classes, capital account balances and/or capital commitments. Investments may also be subject to lock up periods. The following table outlines restrictions on investments valued at NAV as of September 30, 2013 and 2012:

	Fair Value 2013	Fair Value 2012	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Limited partnerships - REITs	$ 552,139	$ 511,599	Monthly	15 business days prior to month end
Limited liability companies - domestic equity	$ 1,417,138	$ 1,151,558	Daily	Not applicable
Registered investment companies - REITs	$ 479,164	$ 485,172	Daily	Not applicable

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

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2013, by the valuation hierarchy:

2013	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash and money market funds	$ 60,861	$ -	$ -	$ 60,861
Limited partnerships - REITs	-	552,139	-	552,139
Limited liability companies - domestic equity	-	1,417,138	-	1,417,138
Registered investment companies - REITs	-	479,164	-	479,164
Public REITs	-	63,233	-	63,233
Equity securities:				
U.S. large cap	1,624,272	-	-	1,624,272
U.S. mid cap	297,887	-	-	297,887
International developed	65,492	-	-	65,492
Mutual funds - fixed income:				
Investment grade taxable	3,768,567	-	-	3,768,567
International developed	1,925,674	-	-	1,925,674
Mutual funds - equity:				
International developed	5,882,172	-	-	5,882,172
Domestic	3,268,406	-	-	3,268,406
Emerging markets	899,482	-	-	899,482
Total	17,792,813	2,511,674	-	20,304,487
Investments held for captive insurance liabilities:				
Mutual funds - fixed income	-	2,993,357	-	2,993,357
Mutual funds - equity	895,855	-	-	895,855
Total	895,855	2,993,357	-	3,889,212
Funds held under bond indenture agreements	193,927	-	-	193,927
Beneficial interest in trusts held by others	-	-	11,668,231	11,668,231
Total	$ 18,882,595	$ 5,505,031	$ 11,668,231	$ 36,055,857
Liabilities:				
Interest rate swap liability	$ -	$ 2,993,142	$ -	$ 2,993,142

Note 5 - Fair Value Measurements (continued)

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

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Investments:				
Cash and money market funds	$ 81,275	$ -	$ -	$ 81,275
Limited partnerships - REITs	-	511,599	-	511,599
Limited liability companies - domestic equity	-	1,151,558	-	1,151,558
Registered investment companies - REITs	-	485,172	-	485,172
Public REITs	-	76,387	-	76,387
Equity securities:				
U.S. large cap	1,578,851	-	-	1,578,851
U.S. mid cap	427,710	-	-	427,710
International developed	60,820	-	-	60,820
Emerging markets	24,225	-	-	24,225
Mutual funds - fixed income:				
Investment grade taxable	3,901,578	-	-	3,901,578
International developed	2,000,409	-	-	2,000,409
Mutual funds - equity:				
International developed	5,440,914	-	-	5,440,914
Domestic	3,232,626			3,232,626
Emerging markets	932,271	-	-	932,271
Total	17,680,679	2,224,716	-	19,905,395
Investments held for captive insurance liabilities:				
Mutual funds - fixed income	52,476	979,871	-	1,032,347
Mutual funds - equity	424,542	-	-	424,542
Fixed income securities	-	2,389,820	-	2,389,820
Total	477,018	3,369,691	-	3,846,709
Funds held under bond indenture agreements	189,467	-	-	189,467
Beneficial interest in trusts held by others	-	-	11,240,066	11,240,066
Total	$ 18,347,164	$ 5,594,407	$ 11,240,066	$ 35,181,637
Liabilities:				
Interest rate swap liability	$ -	$ 4,712,094	$ -	$ 4,712,094

As of September 30, 2013 and 2012, the Association's other financial instruments included accounts receivable, pledges receivable, accounts payable and accrued expenses, line of credit, estimated third-party payer settlements, captive insurance reserves, long-term debt and capital lease obligations. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Note 5 - Fair Value Measurements (continued)

The following are the changes within the beneficial interest in trusts held by others for the years ended September 30, 2013 and 2012, which are classified as Level 3 instruments within the fair value hierarchy:

	2013
Balance as of October 1, 2012	$ 11,240,066
Net change in market value	853,909
Distributions	(425,744)
Balance as of September 30, 2013	$ 11,668,231

	2012
Balance as of October 1, 2011	$ 9,748,956
Net change in market value	1,960,344
Distributions	(469,234)
Balance as of September 30, 2012	$ 11,240,066

Note 6 - Property, Plant and Equipment

Property, plant and equipment consists of the following as of September 30, 2013 and 2012:

	2013	**2012**
Land and improvements	**$ 1,820,966**	$ 1,820,966
Buildings and improvements	**57,425,317**	57,491,710
Fixed and moveable equipment	**34,503,487**	33,563,642
	93,749,770	92,876,318
Less: accumulated depreciation and amortization	**(58,312,633)**	(54,894,036)
	35,437,137	37,982,282
Construction in progress	**1,283,612**	195,112
Total	**$ 36,720,749**	$ 38,177,394

Depreciation expense for the years ended September 30, 2013 and 2012 amounted to $3,516,079 and $3,487,125, respectively. Amortization expense for equipment under capital lease obligations was $446,680 and $395,108 as of September 30, 2013 and 2012, respectively.

Note 7 - Other Assets

Other assets as of September 30, 2013 and 2012 are as follows:

	2013	2012
Investment in Fitness & Wellness	**$ 256,510**	$ 355,919
Investment in GSHC	**-**	125,323
Deferred financing costs	**321,261**	336,390
Deposits and other	**34,820**	128,528
Total	**$ 612,591**	$ 946,160

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

Long-term Obligations **-** The Association had a $3,000,000 line of credit agreement, which was renewable on an annual basis. On January 30, 2009, the Association converted this line of credit into a term loan promissory note whereby the $3,000,000 is payable in equal monthly installments of $50,000 with a final payment on January 31, 2014. At the Association's option, the term loan promissory note bears interest at the bank's prime rate, as defined, or LIBOR plus 100 basis points. As of September 30, 2013 and 2012, the Association had $200,000 and $850,000, respectively, outstanding on this term loan.

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

The Series B Bonds bear interest at a variable rate as determined by a re-marketing agent (approximately 0.18% and 0.23% as of September 30, 2013 and 2012, respectively), which is adjusted weekly, and matures on July 1, 2037. For as long as the bonds are variable rate, the bond holders have the option to tender their bonds for repayment. The Association has a letter of credit from Bank of America, N.A., which is available to support its obligations under the Series B Bonds during this period. The letter of credit expires on January 3, 2014, subject to extension or earlier termination upon the occurrence of certain events set forth in the letter of credit agreement. At that time, the letter of credit can be renewed, at the bank's discretion, the Association can convert the bonds to a fixed rate or repurchase the bonds outstanding on that date at their par value. Tenders made by bond holders will be remarketed or, if necessary, paid by the drawdowns on the letter of credit. Any tender drawings made under the letter of credit are to be repaid by the Association on the expiration date of the letter of credit. As of September 30, 2013 and 2012, the Association had $17,770,000 and $18,465,000, respectively, outstanding on the Series B Bonds.

The Series B loan and letter of credit agreements include certain financial covenants including a minimum debt service coverage ratio of 1.25 to 1, a minimum required amount of unrestricted liquid assets of $10.0 million, and other restrictions, including limitations on future indebtedness and liens. The Association was in compliance with all covenants for 2013 and 2012.

Lease Abandonment Obligations **-** During 2013, the Association recorded a loss on abandonment of long-term rental properties in the amount of $448,214. The leases were previously accounted for as operating leases. The Association's liability represents the present value of future minimum lease payments under these leases and other lease abandonments of $555,677 as of September 30, 2013.

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

Letter of Credit - As a result of being self-funded for its workers' compensation program, the Association is required by the State of Connecticut Workers' Compensation Commission to hold a letter of credit in the aggregate amount of $650,000 as of September 30, 2013 and 2012. As of September 30, 2013 and 2012, there are no outstanding balances on the letter of credit.

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

2014	$ 139,479
2015	64,001
2016	25,136
2017	20,638
2018	7,143
Thereafter	1,099
Less: interest	(24,348)
Total	$ 233,148

A summary of long-term debt and capital lease obligations as of September 30, 2013 and 2012 are as follows:

	2013	**2012**
Long-term debt obligation	**$ 17,770,000**	$ 18,465,000
Term loan promissory note	**200,000**	850,000
Capital lease obligations	**233,148**	336,077
Lease abandonment obligation	**555,677**	29,098
	18,758,825	19,680,175
Less: current portion	**(1,341,013)**	(1,526,815)
Total	**$ 17,417,812**	$ 18,153,360

Scheduled principal repayments on the long-term debt and capital lease obligations as of September 30, 2013, are as follows:

2014	$ 1,341,013
2015	914,880
2016	908,649
2017	908,171
2018	872,143
Thereafter	13,813,969
Total	$ 18,758,825

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

Operating Leases **-** The Association leases various equipment and space under operating leases expiring at various dates and month-to-month agreements. Some of these leases contain renewal options. Rent expense under such operating leases and agreements is $1,042,967 and $495,570, for the year ended September 30, 2013 and 2012, respectively. The following is a schedule of future minimum payments under non-cancellable operating leases as of September 30, 2013:

2014	$	175,526
2015		58,027
2016		58,027
2017		58,027
2018		58,027
Thereafter		159,574
Total	$	567,208

In addition, the Association leases land under a long-term lease agreement through 2106 to a third-party. Rental income is based on a percentage of the gross income earned by the lessee. Total rental income from this property was $212,593 and $196,124 for 2013 and 2012, respectively, and is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets and shareholder's equity.

Note 9 - Derivatives

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

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

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

On August 1, 2007, the Association entered into an interest rate swap agreement with an initial notional amount of $21,530,000 to reduce the exposure to fluctuations in interest rates related to its CHEFA debt. The swap agreement, which expires in June 2027, requires that the Association make monthly payments to the counter-party, Bank of America, N.A., based upon a fixed interest rate of 4.28% and in return receives monthly payments from Bank of America, N.A. based on the Bond Index Association Municipal Swap Rate Index rate (0.07% and 0.18% as of September 30, 2013 and 2012, respectively).

Note 9 - Derivatives (continued)

The notional amount is scheduled to decrease as principal is paid on the CHEFA debt. Net amounts paid under the swap is recorded as additional interest expense. Based on information received from the counter-party, the swap agreement had an unfavorable fair value of $2,993,142 and $4,712,094 as of September 30, 2013 and 2012, respectively.

Management has not designated the swap agreement as a hedging instrument. The change in fair value of the interest rate swap of $1,718,952 and ($556,872) for the years ended September 30, 2013 and 2012, respectively, is recorded in the consolidated statements of operations and changes in net assets as a component of non-operating income.

Note 10 - Net Assets

Temporarily restricted net assets are available for the following purposes as of September 30, 2013 and 2012:

	2013	2012
Health care services:		
Patient special needs	**$ 3,555**	$ 6,789
Other restricted purposes	**896,251**	821,509
Capital campaign	**179,536**	321,166
Total	**$ 1,079,342**	$ 1,149,464

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

Permanently restricted net assets are restricted to the following purposes as of September 30, 2013 and 2012:

	2013	2012
Investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services	**$ 5,590,085**	$ 5,555,747
Beneficial interest in trusts held by others, the income of which is expendable to support other health care services	**11,668,231**	11,240,066
Total	**$ 17,258,316**	$ 16,795,813

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

Note 10 - Net Assets (continued)

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

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

Changes in net assets for endowments and temporary restricted funds for the years ended September 30, 2013 and 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of October 1, 2011	$ 13,693,257	$ 510,472	$ 5,529,789	$ 19,733,518
Investment return:				
Investment income	522,282	74,943	-	597,225
Net change in market value	3,357,842	317,187	-	3,675,029
Contributions	-	719,251	25,958	745,209
Expenditures	(3,223,733)	(793,555)	-	(4,017,288)
Balance as of September 30, 2012	14,349,648	828,298	5,555,747	20,733,693
Investment return:				
Investment income	480,450	113,506	-	593,956
Net change in market value	2,227,497	171,255	-	2,398,752
Contributions	-	118,232	34,338	152,570
Expenditures	(2,343,193)	(331,485)	-	(2,674,678)
Balance as of September 30, 2013	$ 14,714,402	$ 899,806	$ 5,590,085	$ 21,204,293

Funds with Deficiencies - From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2013 and 2012, there were no funds that were below the level required by donor or law.

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

Note 10 - Net Assets (continued)

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

Spending Policy - During its annual budgeting process, the Association appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. During the year ended September 30, 2013 and 2012, the Board appropriated $2,343,193 and $3,223,733, respectively of funds for expenditure from its board restricted endowment funds. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Association.

Note 11 - Pension Plans

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

The following summarizes significant disclosures relating to the Plan as of September 30, 2013 and 2012:

	2013	2012
Change in benefit obligations:		
Benefit obligations at beginning of year	**$ 39,918,325**	$ 36,167,672
Interest cost	**1,489,616**	1,664,730
Service cost	**300,000**	280,000
Actuarial loss	**(3,815,503)**	4,540,807
Administrative expenses	**(218,149)**	(247,351)
Benefits paid	**(2,157,174)**	(2,487,533)
Benefit obligations at end of year	**$ 35,517,115**	$ 39,918,325
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 21,815,722**	$ 18,725,052
Actual return on plan assets	**1,737,688**	3,616,821
Employer contributions	**1,493,193**	2,208,733
Benefits paid	**(2,157,174)**	(2,487,533)
Administrative expenses	**(218,149)**	(247,351)
Fair value of plan assets at end of year	**$ 22,671,280**	$ 21,815,722
Accrued pension liability:		
Unfunded status	**$ (12,845,835)**	$ (18,102,603)

Note 11 - Pension Plans (continued)

	2013	2012
Net periodic benefit cost:		
Interest cost	**$ 1,489,616**	$ 1,664,730
Service cost	**300,000**	280,000
Actuarial loss recognized	**638,042**	446,966
Expected return on plan assets	**(1,181,516)**	(1,231,392)
Net periodic benefit cost	**$ 1,246,142**	$ 1,160,304

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

2014	$ 2,932,987
2015	$ 2,477,739
2016	$ 2,455,488
2017	$ 2,603,378
2018	$ 2,706,309
Years 2019-2023	$ 11,794,719

Amounts recorded in unrestricted net assets as of September 30, 2013 and 2012, not yet amortized as components of net periodic benefit cost are as follows:

	2013	2012
Unamortized actuarial loss	**$ 14,867,007**	$ 19,876,724

The amortization of the above items expected to be recognized in net periodic benefit income for the year ended September 30, 2014 is $482,209.

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

	2013	2012
Benefit obligations:		
Discount rate	**4.70%**	3.85%
Net periodic benefit cost:		
Discount rate	**3.85%**	4.75%
Expected long-term return on plan assets	**6.00%**	6.00%

Note 11 - Pension Plans (continued)

The fair values of the Association's plan assets, by asset category for the years ended September 30, 2013 and 2012, are as follows:

2013	Level 1	Level 2	Level 3	Total
Money market funds	$ 875,485	$ -	$ -	$ 875,485
Mutual funds - fixed income	9,198,258	-	-	9,198,258
Mutual funds - equities	8,682,935	-	-	8,682,935
Equity securities:				
Consumer discretionary	689,147	-	-	689,147
Consumer staples	310,298	-	-	310,298
Energy	189,675	-	-	189,675
Financial	145,424	-	-	145,424
Health care	362,798	-	-	362,798
Industrials	352,983	-	-	352,983
Information technology	926,177	-	-	926,177
Other	27,104	-	-	27,104
Limited liability company	-	815,442	-	815,442
REIT	-	95,554	-	95,554
Total	$ 21,760,284	$ 910,996	$ -	$ 22,671,280

2012	Level 1	Level 2	Level 3	Total
Money market funds	$ 750,129	$ -	$ -	$ 750,129
Mutual funds - fixed income	9,541,727	-	-	9,541,727
Mutual funds - equities	7,911,780	-	-	7,911,780
Equity securities:				
Consumer discretionary	502,451	-	-	502,451
Consumer staples	269,917	-	-	269,917
Energy	174,229	-	-	174,229
Financial	218,765	-	-	218,765
Health care	331,953	-	-	331,953
Industrials	140,853	-	-	140,853
Information technology	954,988	-	-	954,988
Other	168,623	-	-	168,623
Limited liability company	-	749,504	-	749,504
REIT	-	100,803	-	100,803
Total	$ 20,965,415	$ 850,307	$ -	$ 21,815,722

Note 11 - Pension Plans (continued)

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

The Association has a defined contribution benefit plan, which became effective January 1, 2005. Substantially all full time employees are eligible to participate in the defined contribution plan. The Association made contributions to this plan totaling $224,407 and $194,812 in 2013 and 2012, respectively. Employees become vested in the Association's contributions in three to five years. The portion of the employees contributions unvested upon termination are forfeited and used to reduce future contributions made by the Association on a dollar-for-dollar basis.

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

The Association also has supplemental retirement plan agreements with certain former and current senior executives. The obligation related to this agreement is approximately $143,000 and $50,000 as of September 30, 2013 and 2012, respectively, and is recorded within accounts payable and accrued expenses within the accompanying consolidated balance sheets.

Note 12 - Functional Expenses

The Association provides health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2013 and 2012, is as follows:

	2013	**2012**
Health care services	**$ 60,150,565**	$ 57,381,203
General and administrative	**14,947,980**	17,130,839
Fundraising	**712,003**	811,166
Total	**$ 75,810,548**	$ 75,323,208

Note 13 - Captive Insurance Activities

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

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

Note 13 - Captive Insurance Activities (continued)

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

During the years ended September 30, 2013 and 2012, GRS issued a return premium in the amount of $692,800 and $900,000, respectively, to the Association. This return premium remains unpaid as of September 30, 2013 and 2012 and is reflected within due from affiliates on the accompanying consolidating balance sheet of the Association and is eliminated in consolidation.

A reconciliation of direct to net premiums on a written and earned basis for years ended September 30, 2013 and 2012, is summarized as follows:

	Premium Written		Premium Earned	
	2013	**2012**	**2013**	**2012**
Direct premiums	**$ 818,000**	$ (157,031)	**$ 780,485**	$ (90,079)
Ceded premiums	**(325,000)**	(325,000)	**(325,000)**	(325,000)
Total	**$ 493,000**	$ (482,031)	**$ 455,485**	$ (415,079)

The liability for unpaid losses and loss adjustment expenses is included within captive insurance loss and other reserves on the accompanying consolidated balance sheets. Activity in the liability for unpaid losses and loss adjustment expenses for the years ended September 30, 2013 and 2012, is summarized as follows:

	2013	**2012**
Balance at beginning of the year	**$ 2,448,013**	$ 2,388,646
Less: reinsurance recoverables	**(663,930)**	(678,921)
Net balance beginning of the year	**1,784,083**	1,709,725
Incurred related to:		
Current year	**39,897**	290,301
Prior years	**(13,795)**	(126,164)
Total incurred	**26,102**	164,137
Paid related to:		
Current year	**(3,660)**	-
Prior years	**(127,096)**	(89,779)
Total paid	**(130,756)**	(89,779)
Net balance end of the year	**1,679,429**	1,784,083
Plus: reinsurance recoverables	**931,885**	663,930
Balance at end of the year	**$ 2,611,314**	$ 2,448,013

Note 13 - Captive Insurance Activities (continued)

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased for favorable loss development by $13,795 and $126,164 in 2013 and 2012, respectively.

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

Included on the accompanying consolidated balance sheets is a reinsurance recoverable of $931,885 and $663,930 as of September 30, 2013 and 2012, respectively, which is due from one reinsurer. GRS continually evaluates the reinsurer's financial condition. There can be no assurance that reinsurance will continue to be available to GRS to the same extent, and at the same cost, as it has in the past. GRS may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to reinsurers.

Note 14 - Commitments and Contingencies

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

ASC 410-20 *"Accounting for Asset Retirement Obligations"* addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as facilities containing asbestos, when the amount of the liability can be reasonably estimated. No Asset Retirement Obligation (ARO) has been established as of September 30, 2013 and 2012, as no plans to renovate or sell any facility, or area within, with significant asbestos have been identified and therefore no settlement date has been determined. Management will continue to evaluate its exposure to asbestos removal and establish an ARO for the fair value of the associated costs once sufficient information has been obtained and a settlement date has been determined. Management does not believe that the liability is material to the overall consolidated financial results of the Association.

Note 15 - Risks and Uncertainties

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

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

Note 16 - Pledges Receivable

Pledges receivable represent unconditional promises to give. The following pledges are due to the Association as of September 30, 2013:

Due within one year	$	46,984
Due in one to five years		152,500
		199,484
Less: allowance for uncollectible pledges		(19,948)
Total	$	179,536

Note 17 - Supplemental Cash Flow Disclosures

The Association paid interest in the amount of $833,185 and $882,966 for the years ended September 30, 2013 and 2012, respectively.

Gaylord Farm Association, Inc.
Consolidating Balance Sheet
September 30, 2013

	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Gaylord Sleep Medicine Equipment, LLC	Eliminations	Gaylord Farm Association, Inc.
Assets							
Current assets:							
Cash and cash equivalents	$ 6,369,676	$ 149,474	$ -	$ -	$ 1,584	$ -	$ 6,520,734
Patient accounts receivable (less allowance of $501,000)	8,949,218	-	-	-	432,836	-	9,382,054
Assets whose use is limited:							
Assets held under bond indenture agreement	193,927	-	-	-	-	-	193,927
Pledges receivable	46,984	-	-	-	-	-	46,984
Due from affiliates	3,290,593	-	-	1,972	-	(3,292,565)	-
Other current assets	1,466,409	670,070	-	-	28,092	(409,000)	1,755,571
Total current assets	20,316,807	819,544	-	1,972	462,512	(3,701,565)	17,899,270
Assets whose use is limited:							
Pledges receivable, net	132,552	-	-	-	-	-	132,552
Board-designated investments	14,714,402	-	-	-	-	-	14,714,402
Donor restricted investments	5,590,085	-	-	-	-	-	5,590,085
Beneficial interest in trusts held by others	11,668,231	-	-	-	-	-	11,668,231
	32,105,270	-	-	-	-	-	32,105,270
Property, plant and equipment, net	36,720,749	-	-	-	-	-	36,720,749
Investments held for captive insurance liabilities	-	3,889,212	-	-	-	-	3,889,212
Reinsurance recoverable relating to captive insurance liabilities	-	931,885	-	-	-	-	931,885
Other assets	681,973	-	-	-	-	(69,382)	612,591
Total assets	$ 89,824,799	$ 5,640,641	$ -	$ 1,972	$ 462,512	$ (3,770,947)	$ 92,158,977
Liabilities, Net Assets and Shareholder's Equity							
Current liabilities:							
Accounts payable and accrued expenses	$ 2,187,254	$ 90,790	$ -	$ -	$ 77,957	$ -	$ 2,356,001
Accrued payroll and related taxes	5,066,866	-	-	-	-	-	5,066,866
Due to affiliates	1,972	692,800	2,282,620	-	315,173	(3,292,565)	-
Estimated amounts due to third-party payers	246,805	-	-	-	-	-	246,805
Current portion of accrued pension obligation	2,245,685	-	-	-	-	-	2,245,685
Current portion of long-term debt and capital lease obligations	1,341,013	-	-	-	-	-	1,341,013
Total current liabilities	11,089,595	783,590	2,282,620	-	393,130	(3,292,565)	11,256,370
Long-term debt and capital lease obligations, less current portion	17,417,812	-	-	-	-	-	17,417,812
Accrued pension obligation	10,600,150	-	-	-	-	-	10,600,150
Captive insurance losses and other reserves	-	3,020,314	-	-	-	(409,000)	2,611,314
Interest rate swap liability	2,993,142	-	-	-	-	-	2,993,142
Total liabilities	42,100,699	3,803,904	2,282,620	-	393,130	(3,701,565)	44,878,788
Net assets and shareholder's equity:							
Unrestricted	29,386,442	-	(2,282,620)	1,972	69,382	(69,382)	27,105,794
Temporarily restricted	1,079,342	-	-	-	-	-	1,079,342
Permanently restricted	17,258,316	-	-	-	-	-	17,258,316
Shareholder's equity	-	1,836,737	-	-	-	-	1,836,737
Total net assets and shareholder's equity	47,724,100	1,836,737	(2,282,620)	1,972	69,382	(69,382)	47,280,189
Total liabilities, net assets and shareholder's equity	$ 89,824,799	$ 5,640,641	$ -	$ 1,972	$ 462,512	$ (3,770,947)	$ 92,158,977

See accompanying Independent Auditors' Report.

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

	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Gaylord Farm Association, Inc.
Assets						
Current assets:						
Cash and cash equivalents	$ 392,491	$ 242,747	$ -	$ -	$ -	$ 635,238
Patient accounts receivable (less allowance of $458,000)	10,522,310	-	-	-	-	10,522,310
Assets whose use is limited:						
Assets held under bond indenture agreement	189,467	-	-	-	-	189,467
Pledges receivable	90,046	-	-	-	-	90,046
Due from affiliates	3,143,230	-	-	1,972	(3,145,202)	-
Other current assets	1,513,595	489,721	-	-	(371,485)	1,631,831
Total current assets	15,851,139	732,468	-	1,972	(3,516,687)	13,068,892
Assets whose use is limited:						
Pledges receivable, net	231,120	-	-	-	-	231,120
Board-designated investments	14,349,648	-	-	-	-	14,349,648
` Donor restricted investments	5,555,747	-	-	-	-	5,555,747
Beneficial interest in trusts held by others	11,240,066	-	-	-	-	11,240,066
	31,376,581	-	-	-	-	31,376,581
Property, plant and equipment, net	38,177,394	-	-	-	-	38,177,394
Investments held for captive insurance liabilities	-	3,846,709	-	-	-	3,846,709
Reinsurance recoverable relating to captive insurance liabilities	-	663,930	-	-	-	663,930
Other assets	946,160	-	-	-	-	946,160
Total assets	$ 86,351,274	$ 5,243,107	$ -	$ 1,972	$ (3,516,687)	$ 88,079,666
Liabilities, Net Assets and Shareholder's Equity						
Current liabilities:						
Accounts payable and accrued expenses	$ 2,747,732	$ 63,899	$ -	$ -	$ -	$ 2,811,631
Accrued payroll and related taxes	4,730,818	-	-	-	-	4,730,818
Due to affiliates	-	900,000	2,245,202	-	(3,145,202)	-
Estimated amounts due to third-party payers	246,805	-	-	-	-	246,805
Current portion of accrued pension obligation	1,493,193	-	-	-	-	1,493,193
Current portion of long-term debt and capital lease obligations	1,526,815	-	-	-	-	1,526,815
Total current liabilities	10,745,363	963,899	2,245,202	-	(3,145,202)	10,809,262
Long-term debt and capital lease obligations, less current portion	18,153,360	-	-	-	-	18,153,360
Accrued pension obligation	16,609,410	-	-	-	-	16,609,410
Captive insurance losses and other reserves	-	2,819,498	-	-	(371,485)	2,448,013
Interest rate swap liability	4,712,094	-	-	-	-	4,712,094
Total liabilities	50,220,227	3,783,397	2,245,202	-	(3,516,687)	52,732,139
Net assets and shareholder's equity:						
Unrestricted	18,185,770	-	(2,245,202)	1,972	-	15,942,540
Temporarily restricted	1,149,464	-	-	-	-	1,149,464
Permanently restricted	16,795,813	-	-	-	-	16,795,813
Shareholder's equity	-	1,459,710	-	-	-	1,459,710
Total net assets and shareholder's equity	36,131,047	1,459,710	(2,245,202)	1,972	-	35,347,527
Total liabilities, net assets and shareholder's equity	$ 86,351,274	$ 5,243,107	$ -	$ 1,972	$ (3,516,687)	$ 88,079,666

See accompanying Independent Auditors' Report.

Gaylord Farm Association, Inc.
Consolidating Statement of Operations
For the Year End September 30, 2013

	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Gaylord Sleep Medicine Equipment, LLC	Eliminations	Gaylord Farm Association, Inc.
Revenues:							
Net patient service revenues	$ 76,356,213	$ -	$ 424,853	$ -	$ 434,024	$ -	$ 77,215,090
Provision for bad debts	422,924	-	-	-	86,804	-	509,728
Net patient service revenues less provision for bad debts	75,933,289	-	424,853	-	347,220	-	76,705,362
Contributions and bequests	847,258	-	-	-	-	-	847,258
Earned written premium	-	780,485	-	-	-	(780,485)	-
Ceded premium	-	(325,000)	-	-	-	-	(325,000)
Other operating revenue	808,249	-	125,416	-	-	-	933,665
Net assets released from restrictions used for operations	176,568	-	-	-	-	-	176,568
Total revenues	77,765,364	455,485	550,269	-	347,220	(780,485)	78,337,853
Expenses:							
Salaries and related expenses	50,064,894	-	508,543	-	-	-	50,573,437
Other operating expenses	5,586,810	250,524	50,956	-	4,664	(780,485)	5,112,469
Professional fees and contract services	7,234,039	-	-	-	157,361	-	7,391,400
Supplies	5,118,270	-	-	-	252,620	-	5,370,890
Depreciation and amortization	3,937,041	-	25,718	-	-	-	3,962,759
Occupancy costs	2,533,886	-	-	-	6,420	-	2,540,306
Interest	830,715	-	2,470	-	-	-	833,185
Losses and loss adjustment expenses	-	26,102	-	-	-	-	26,102
Total expenses	75,305,655	276,626	587,687	-	421,065	(780,485)	75,810,548
Gain from operations	2,459,709	178,859	(37,418)	-	(73,845)	-	2,527,305
Non-operating gains (losses), net:							
Dividend and interest income	464,481	15,969	-	-	-	-	480,450
Net realized gains on investments	577,031	223,655	-	-	-	-	800,686
Loss on equity investments	(219,718)	-	-	-	-	-	(219,718)
Loss on wholly owned subsidiary	(73,845)	-	-	-	-	73,845	-
Net loss on lease abandonments	(448,214)	-	-	-	-	-	(448,214)
Change in fair value of interest rate swap agreement	1,718,952	-	-	-	-	-	1,718,952
Total non-operating gains, net	2,018,687	239,624	-	-	-	73,845	2,332,156
Excess of revenues over expenses	$ 4,478,396	$ 418,483	$ (37,418)	$ -	$ (73,845)	$ 73,845	$ 4,859,461

See accompanying Independent Auditors' Report.

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

	Gaylord Hospital, Inc.	Gaylord Risk Solutions, Ltd.	Gaylord Farm Rehabilitation Center	Gaylord Research Institute, Inc.	Eliminations	Gaylord Farm Association, Inc.
Revenues:						
Net patient service revenues	$ 70,082,884	$ -	$ 243,859	$ -	$ -	$ 70,326,743
Provision for bad debts	420,830	-	-	-	-	420,830
Net patient service revenues less provision for bad debts	69,662,054	-	243,859	-	-	69,905,913
Contributions and bequests	1,076,207	-	-	-	-	1,076,207
Earned written premium	-	(90,079)	-	-	90,079	-
Ceded premium	-	(325,000)	-	-	-	(325,000)
Other operating revenue	599,996	-	125,084	-	-	725,080
Net assets released from restrictions used for operations	279,175	-	-	-	-	279,175
Total revenues	71,617,432	(415,079)	368,943	-	90,079	71,661,375
Expenses:						
Salaries and related expenses	48,881,575	-	647,206	-	-	49,528,781
Other operating expenses	5,263,601	203,897	49,121	-	90,079	5,606,698
Professional fees and contract services	8,060,127	-	-	-	-	8,060,127
Supplies	5,034,738	-	-	-	-	5,034,738
Depreciation and amortization	3,857,816	-	42,636	-	-	3,900,452
Occupancy costs	2,145,309	-	-	-	-	2,145,309
Interest	877,821	-	5,145	-	-	882,966
Losses and loss adjustment expenses	-	164,137	-	-	-	164,137
Total expenses	74,120,987	368,034	744,108	-	90,079	75,323,208
Loss from operations	(2,503,555)	(783,113)	(375,165)	-	-	(3,661,833)
Non-operating gains (losses), net:						
Dividend and interest income	441,541	80,741	-	-	-	522,282
Net realized gains on investments	515,365	-	-	-	-	515,365
Loss on equity investments	(75,252)	-	-	-	-	(75,252)
Change in fair value of interest rate swap agreement	(556,872)	-	-	-	-	(556,872)
Total non-operating gains, net	324,782	80,741	-	-	-	405,523
Excess of revenues under expenses	$ (2,178,773)	$ (702,372)	$ (375,165)	$ -	$ -	$ (3,256,310)

See accompanying Independent Auditors' Report.