

Gaylord Farm Association, Inc.

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2014 and 2013



Saslow Lufkin & Buggy, LLP
Accounting • Tax • Advisory

Gaylord Farm Association, Inc.
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and Supplemental Information
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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, 2014 and 2013, 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

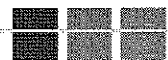
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Gaylord Risk Solutions, Ltd., a wholly-owned subsidiary, whose statements reflect total assets of \$3,696,821 and \$5,640,641, total liabilities of \$1,579,588 and \$3,803,904 as of September 30, 2014 and 2013, and total revenues of \$458,125 and \$455,485 and net gain of \$193,273 and \$418,483, 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.

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, 2014 and 2013, 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.





Other Matter

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 consolidating 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 2, 2014

Gaylord Farm Association, Inc.
Consolidated Balance Sheets
September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,484,842	\$ 6,520,734
Patient accounts receivable (less allowance for doubtful accounts of \$632,000 in 2014 and \$501,000 in 2013)	9,050,124	9,382,054
Assets whose use is limited:		
Assets held under bond indenture agreement	191,621	193,927
Pledges receivable	49,020	46,984
Other current assets	1,969,428	1,755,571
Total current assets	18,745,035	17,899,270
Assets whose use is limited:		
Pledges receivable, net	87,348	132,552
Board-designated investments	14,600,052	14,714,402
Donor restricted investments	5,615,294	5,590,085
Beneficial interest in trusts held by others	12,022,757	11,668,231
	32,325,451	32,105,270
Property, plant and equipment, net	36,126,947	36,720,749
Investments held for captive insurance liabilities	2,909,008	3,889,212
Reinsurance recoverable relating to captive insurance liabilities	322,401	931,885
Other assets	559,650	612,591
	\$ 90,988,492	\$ 92,158,977
Liabilities, Net Assets and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,585,008	\$ 2,356,001
Accrued payroll and related taxes	3,774,538	5,066,866
Estimated amounts due to third-party payers	246,805	246,805
Current portion of accrued pension obligation	1,600,954	2,245,685
Current portion of long-term debt and capital lease obligations	1,018,682	1,341,013
Total current liabilities	9,225,987	11,256,370
Long-term debt and capital lease obligations, less current portion	16,857,650	17,417,812
Accrued pension obligation	11,439,364	10,600,150
Captive insurance losses and other reserves	1,166,804	2,611,314
Interest rate swap liability	3,066,242	2,993,142
Total liabilities	41,756,047	44,878,788
Net assets and shareholder's equity:		
Unrestricted net assets	28,397,432	27,105,794
Temporarily restricted net assets	1,079,729	1,079,342
Permanently restricted net assets	17,638,051	17,258,316
Shareholder's equity	2,117,233	1,836,737
Total net assets and shareholder's equity	49,232,445	47,280,189
	\$ 90,988,492	\$ 92,158,977

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, 2014 and 2013

	2014	2013
Revenues:		
Net patient service revenues	\$ 75,169,260	\$ 77,215,090
Provision for bad debts	902,526	509,728
	74,266,734	76,705,362
Contributions and bequests	985,043	847,258
Ceded premium	(325,000)	(325,000)
Other operating revenue	580,250	933,665
Net assets released from restrictions used for operations	510,832	176,568
Total revenues	76,017,859	78,337,853
Expenses:		
Salaries and related expenses	51,305,577	50,602,498
Other operating expenses	5,620,865	5,112,469
Professional fees and contract services	6,708,250	7,362,339
Supplies	5,060,093	5,370,890
Depreciation and amortization	3,968,978	3,962,759
Occupancy costs	2,105,322	2,540,306
Interest	789,512	833,185
Losses and loss adjustment expenses	43,334	26,102
Total expenses	75,601,931	75,810,548
Gain from operations	415,928	2,527,305
Non-operating gains (losses), net:		
Dividend and interest income	445,578	480,450
Net realized gains on investments	2,566,591	800,686
Loss on equity method investments	(199,977)	(219,718)
Gain on sale of land	1,564,005	-
Net loss on lease abandonments	(375,809)	(448,214)
Change in fair value of interest rate swap agreement	(73,100)	1,718,952
Total non-operating gains, net	3,927,288	2,332,156
Excess of revenues over expenses before discontinued operations	4,343,216	4,859,461
Loss on sale of wholly owned subsidiary	(127,246)	-
Accelerated depreciation on discontinued operations	(265,540)	-
Excess of revenues over expenses	\$ 3,950,430	\$ 4,859,461

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, 2014 and 2013

	2014	2013
Unrestricted net assets:		
Excess of revenues over expenses	\$ 3,950,430	\$ 4,859,461
Net unrealized (losses) gains on investments	(1,628,224)	1,416,012
Pension related changes other than net periodic pension cost	(940,466)	5,009,717
Net gain of GRS	(193,273)	(418,483)
Net assets released from restrictions used for purchases of property, plant and equipment	103,171	296,547
Change in unrestricted net assets	1,291,638	11,163,254
Temporarily restricted net assets:		
Restricted pledges and contributions	391,746	118,232
Investment income and realized gains on investments	378,737	113,506
Net unrealized (losses) gains on investments	(156,093)	171,255
Net assets released from restrictions	(614,003)	(473,115)
Change in temporarily restricted net assets	387	(70,122)
Permanently restricted net assets:		
Restricted contributions and bequests	25,209	34,338
Change in beneficial interest in trusts held by others	354,526	428,165
Change in permanently restricted net assets	379,735	462,503
Shareholder's equity:		
Net gain of GRS	193,273	418,483
Net unrealized gains (losses) on investments of GRS	87,223	(41,456)
Change in shareholder's equity	280,496	377,027
Change in net assets and shareholder's equity	1,952,256	11,932,662
Net assets and shareholder's equity, beginning of year	47,280,189	35,347,527
Net assets and shareholder's equity, end of year	\$ 49,232,445	\$ 47,280,189

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, 2014 and 2013

	2014	2013
Operating activities:		
Change in net assets and shareholder's equity	\$ 1,952,256	\$ 11,932,662
Adjustments to reconcile change in net assets and shareholder's equity to net cash provided by operating activities:		
Depreciation and amortization	3,968,978	3,962,759
Pension related changes other than net periodic pension cost	940,466	(5,009,717)
Change in fair value of interest rate swap	73,100	(1,718,952)
Net realized and unrealized gains on investments	(1,161,011)	(2,501,459)
Loss from equity investments	199,977	219,718
Gain on sale of land	(1,564,005)	-
Net loss on lease abandonments	375,809	448,214
Change in beneficial interest in trusts held by others	(354,526)	(428,165)
Restricted contributions and bequests received	(416,955)	(152,570)
Loss on sale of wholly owned subsidiary	127,246	-
Accelerated depreciation on discontinued operations	265,540	-
Changes in operating assets and liabilities:		
Patient accounts receivable	331,930	1,140,256
Other current assets	(213,857)	(123,740)
Pledges receivable	43,168	141,630
Investments held for captive insurance liabilities	980,204	(42,503)
Reinsurance recoverable relating to captive insurance	609,484	(267,955)
Other assets	32,964	228,851
Accounts payable and accrued expenses	229,007	(455,630)
Accrued payroll and related taxes	(1,292,328)	336,048
Accrued pension obligation	(745,983)	(247,051)
Captive insurance losses and other reserves	(1,444,510)	163,301
Net cash provided by operating activities	2,936,954	7,625,697
Investing activities:		
Change in assets held under bond indenture agreement	2,306	(4,460)
Capital contribution to joint ventures	(180,000)	(115,000)
Net purchases of property, plant and equipment	(2,161,957)	(2,303,220)
Sales and purchases of investments, net	1,250,152	2,102,367
Net cash used in investing activities	(1,089,499)	(320,313)
Financing activities:		
Principal payments on long-term debt	(930,000)	(1,345,000)
Principal payments on capital lease obligations	(370,302)	(227,458)
Restricted contributions and bequests received	416,955	152,570
Net cash used in financing activities	(883,347)	(1,419,888)
Change in cash and cash equivalents	964,108	5,885,496
Cash and cash equivalents, beginning of year	6,520,734	635,238
Cash and cash equivalents, end of year	\$ 7,484,842	\$ 6,520,734

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, 2014 and 2013

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 July 23, 2013. Prior to the purchase, the Association had a fifty percent ownership in Gaylord Sleep HealthCenters of Connecticut, LLC (GSHC), which was doing business as Gaylord Sleep Medicine Equipment, LLC. Prior to July 23, 2013, the Association accounted for its investment interest in the entity using the equity method of accounting. Effective April 8, 2014, the Association sold 100% of its membership interest in GSME to Nationwide Sleep Holdings, Inc. (see Note 4).

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.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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 costs 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 2014 or 2013.

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 July 23, 2013. The Association purchased the remaining fifty percent interest on July 23, 2013. The Association sold all of its interest in this entity during fiscal year 2014.

Deferred Financing Costs - Deferred financing costs have been recorded as an asset on the accompanying consolidated balance sheets 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.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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, gains (losses) on sale of land, losses on investments carried on the equity method, losses on sales of wholly owned subsidiary, certain changes in the pension liability and change in fair value of interest rate swap agreement.

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, 2014 and 2013. As of September 30, 2014 and 2013, 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.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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 \$248,346 and \$118,207 for the years ended September 30, 2014 and 2013, respectively.

Estimated Malpractice Costs - The Association maintains malpractice insurance coverage under claims made policies through GRS in 2014 and 2013. 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 \$1,081,372 and \$1,145,539 as of September 30, 2014 and 2013, respectively, and include estimates for claim obligations related to claims occurring through September 30, 2014 and 2013.

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 related to GRS 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.

Reclassifications - Certain reclassifications to the 2013 consolidated financial statements have been made in order to conform with the 2014 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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 statutes 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 December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "*Disclosures about Offsetting Assets and Liabilities*", which was later clarified by ASU 2013-01, "*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*". This guidance contained 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 became effective for the Association beginning on October 1, 2013, and did not 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 became effective for the Association beginning on October 1, 2013, and did not have an impact on its consolidated statements of cash flows.

In April 2014, the FASB issued ASU 2014-08, "*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*". This update changes the definition of a discontinued operation and requires new disclosures of discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This guidance is effective December 15, 2014, with early adoption permitted. The Association adopted this guidance during fiscal year 2014.

Accounting Pronouncements Pending Adoption - 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 has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, "*Services Received from Personnel of an Affiliate*". The amendments in this update require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. This guidance is effective for the Association for fiscal years beginning after July 15, 2014, with early adoption permitted. The Association does not expect this guidance to have a material impact on its consolidated financial statements.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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.

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.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
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Note 3 - Net Patient Service Revenues (continued)

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% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively. The Association's self-pay write-offs totaled \$717,198 and \$380,142 for fiscal year 2014 and 2013, respectively. The Association did not change its charity care or financial assistance policy during fiscal year 2014 or 2013. 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.

Net patient service revenues for the years ended September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenues	\$ 203,236,543	\$ 201,193,749
Contractual allowances and adjustments	<u>(128,067,283)</u>	<u>(123,978,659)</u>
Net patient service revenues	<u>\$ 75,169,260</u>	<u>\$ 77,215,090</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 44% and 11%, respectively, of the Association's net patient revenue for 2014 and 39% and 10%, respectively, for 2013. Revenue from Blue Cross accounted for approximately 15% and 17% in 2014 and 2013, respectively. No other payer accounted for more than 10% of revenue in 2014 and 2013. 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Medicare	39%	37%
Medicaid	12%	13%
Blue Cross	13%	12%

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
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Note 4 - Investments

Board-designated and donor restricted investments as of September 30, 2014 and 2013 are invested as follows:

	2014		2013	
	Cost	Market Value	Cost	Market Value
Cash and money market funds	\$ -	\$ -	\$ 60,861	\$ 60,861
Alternative investment funds	818,678	976,943	1,976,043	2,511,674
Equity securities	-	-	1,473,624	1,987,651
Mutual funds - fixed income	6,236,827	6,208,870	5,709,415	5,694,241
Mutual funds - equity	10,802,285	13,029,533	6,942,671	10,050,060
Total	\$ 17,857,790	\$ 20,215,346	\$ 16,162,614	\$ 20,304,487

Investment balances that have been restricted by donors as of September 30, 2014 and 2013 are \$5,615,294 and \$5,590,085, 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 \$2,909,008 and \$3,889,212 as of September 30, 2014 and 2013, respectively, are invested in bonds and fixed income mutual funds.

The Association also has a beneficial interest in trusts held by others of \$12,022,757 and \$11,668,231 as of September 30, 2014 and 2013, 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, 2014 and 2013:

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2014						
Alternative investment funds	\$ -	\$ -	\$ 480,478	\$ (61,267)	\$ 480,478	\$ (61,267)
Mutual funds	4,659	(15)	4,115,528	(100,569)	4,120,187	(100,584)
Total	\$ 4,659	\$ (15)	\$ 4,596,006	\$ (161,836)	\$ 4,600,665	\$ (161,851)

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
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Note 4 - Investments (continued)

2013	Less than 12 Months		Greater than 12 Months		Total	
	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)

In 2014 and 2013, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

Investment income is comprised of the following for the years ended September 30, 2014 and 2013:

	2014	2013
Income:		
Dividend and interest income	\$ 445,578	\$ 480,450
Net realized gains on investments	2,566,591	800,686
Total investment return	<u>\$ 3,012,169</u>	<u>\$ 1,281,136</u>
Other changes in unrestricted net assets:		
Unrealized (losses) gains on other than trading securities	<u>\$ (1,628,224)</u>	<u>\$ 1,416,012</u>

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, 2014 and 2013 was \$199,977 and \$194,409, respectively. In addition, the Association made a capital contribution to Fitness & Wellness of \$180,000 and \$115,000 during the fiscal years ended September 30, 2014 and 2013, respectively. The carrying amount of the Fitness & Wellness investment was \$236,533 and \$256,510 as of September 30, 2014 and 2013, 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.

During 2014, the Association sold 100% of its ownership interest of GSME (formerly GSHC) to Nationwide Sleep Holdings, Inc. for \$300,000 to be paid through a promissory note. As of September 30, 2014, \$50,912 has been received by the Association, with the remaining amount due by March 15, 2015. As such, \$249,088 has been recorded as a note receivable and is included within "other current assets" on the accompanying consolidated balance sheet as of September 30, 2014. This transaction resulted in a loss of \$127,246 for the Association, which is accounted for as a non-operating loss on discontinued operations.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

The following is a description of the valuation methodologies for assets and liabilities measured at fair value. There have been no changes in methodologies used as of September 30, 2014 and 2013:

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 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.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

Audited financial statements were obtained as of December 31, 2012, which reported an unqualified opinion. Values as of September 30, 2013 were determined utilizing the same methodologies as those reported in the audited financial statements as of December 31, 2012. The following are the major categories of limited liability companies:

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

Registered investment companies - Shares of registered investment companies are valued at the NAV of the shares held by the 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, 2014 and 2013:

	Fair Value		Redemption Frequency (If Currently Eligible)	Redemption Notice Period
	2014	2013		
Limited partnerships - REITs	\$ -	\$ 552,139	Monthly	15 business days prior to month end
Limited liability companies - domestic equity	\$ -	\$ 1,417,138	Daily	Not applicable
Registered investment companies - REITs	\$ 976,943	\$ 479,164	Daily	Not applicable

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
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Note 5 - Fair Value Measurements (continued)

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

The following table presents the financial instruments, carried at fair value as of September 30, 2014, by the valuation hierarchy:

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Registered investment companies - REITs	\$ -	\$ 976,943	\$ -	\$ 976,943
Mutual funds - fixed income:				
Intermediate term bond	4,121,335	-	-	4,121,335
Short term bond	4,659	-	-	4,659
International developed	2,082,876	-	-	2,082,876
Mutual funds - equity:				
International developed	5,251,343	-	-	5,251,343
Domestic	6,780,556	-	-	6,780,556
Emerging markets	997,634	-	-	997,634
Total	<u>19,238,403</u>	<u>976,943</u>	<u>-</u>	<u>20,215,346</u>
Investments held for captive insurance liabilities:				
Mutual funds - fixed income	-	2,258,476	-	2,258,476
Mutual funds - equity	650,532	-	-	650,532
Total	<u>650,532</u>	<u>2,258,476</u>	<u>-</u>	<u>2,909,008</u>
Funds held under bond indenture agreements	191,621	-	-	191,621
Beneficial interest in trusts held by others	-	-	12,022,757	12,022,757
Total	<u>\$ 20,080,556</u>	<u>\$ 3,235,419</u>	<u>\$ 12,022,757</u>	<u>\$ 35,338,732</u>
Liabilities:				
Interest rate swap liability	<u>\$ -</u>	<u>\$ 3,066,242</u>	<u>\$ -</u>	<u>\$ 3,066,242</u>

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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:

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>17,792,813</u>	<u>2,511,674</u>	<u>-</u>	<u>20,304,487</u>
Investments held for captive insurance liabilities:				
Mutual funds - fixed income	-	2,993,357	-	2,993,357
Mutual funds - equity	895,855	-	-	895,855
Total	<u>895,855</u>	<u>2,993,357</u>	<u>-</u>	<u>3,889,212</u>
Funds held under bond indenture agreements	193,927	-	-	193,927
Beneficial interest in trusts held by others	-	-	11,668,231	11,668,231
Total	<u>\$ 18,882,595</u>	<u>\$ 5,505,031</u>	<u>\$ 11,668,231</u>	<u>\$ 36,055,857</u>
Liabilities:				
Interest rate swap liability	<u>\$ -</u>	<u>\$ 2,993,142</u>	<u>\$ -</u>	<u>\$ 2,993,142</u>

As of September 30, 2014 and 2013, the Association's other financial instruments included accounts receivable, pledges receivable, accounts payable and accrued expenses, estimated third-party payer settlements, captive insurance reserves, long-term debt and capital lease obligations. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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, 2014 and 2013, which are classified as Level 3 instruments within the fair value hierarchy:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 11,668,231	\$ 11,240,066
Net change in market value	868,213	853,909
Distributions	<u>(513,687)</u>	<u>(425,744)</u>
Balance at end of year	<u>\$ 12,022,757</u>	<u>\$ 11,668,231</u>

Note 6 - Property, Plant and Equipment

Property, plant and equipment consists of the following as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 1,803,516	\$ 1,820,966
Buildings and improvements	59,772,741	57,425,317
Fixed and moveable equipment	<u>35,935,016</u>	<u>34,503,487</u>
	97,511,273	93,749,770
Less: accumulated depreciation and amortization	<u>(62,181,872)</u>	<u>(58,312,633)</u>
	35,329,401	35,437,137
Construction in progress	<u>797,546</u>	<u>1,283,612</u>
Total	<u>\$ 36,126,947</u>	<u>\$ 36,720,749</u>

Depreciation expense for the years ended September 30, 2014 and 2013 amounted to \$3,603,697 and \$3,516,079, respectively. Amortization expense for equipment under capital lease obligations was \$365,281 and \$446,680 as of September 30, 2014 and 2013, respectively.

During fiscal year 2014, the Association sold 148 acres of land to The Farms Country Club, Inc., which generated a gain on the sale of land for the amount of \$1,564,005, which is recorded as a non-operating gain in the accompanying consolidated statements of operations and changes in net assets and shareholder's equity.

In addition, during fiscal year 2014, the Association discontinued operations on various sleep facility sites. Therefore, the Association recorded accelerated depreciation of \$265,540, which is recorded as a non-operating loss on discontinued operations in the accompanying consolidated statements of operations and changes in net assets and shareholder's equity.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 7 - Other Assets

Other assets as of September 30, 2014 and 2013 are as follows:

	2014	2013
Investment in Fitness & Wellness	\$ 236,533	\$ 256,510
Deferred financing costs	298,450	321,261
Deposits and other	24,667	34,820
Total	\$ 559,650	\$ 612,591

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, the Association had \$200,000 outstanding on this term loan. The term loan was promissory note was fully paid during fiscal year 2014, and no amount was outstanding as of September 30, 2014.

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 0.22% and 0.18% as of September 30, 2014 and 2013, 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 February 3, 2015, 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, 2014 and 2013, the Association had \$17,040,000 and \$17,770,000, 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 \$10.5 million, and other restrictions, including limitations on future indebtedness and liens. The Association was in compliance with all covenants for 2014 and 2013.

Lease Abandonment Obligations - The Association recorded a loss on abandonment of long-term rental properties in the amount of \$375,809 and \$448,214 in 2014 and 2013, respectively. 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 \$698,488 and \$555,677 as of September 30, 2014 and 2013, respectively.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 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 \$375,000 as of September 30, 2014 and 2013. As of September 30, 2014 and 2013, 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.

A summary of long-term debt and capital lease obligations as of September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Long-term debt obligation	\$ 17,040,000	\$ 17,770,000
Term loan promissory note	-	200,000
Capital lease obligations	137,844	233,148
Lease abandonment obligation	<u>698,488</u>	<u>555,677</u>
	<u>17,876,332</u>	<u>18,758,825</u>
Less: current portion	<u>(1,018,682)</u>	<u>(1,341,013)</u>
Total	<u>\$ 16,857,650</u>	<u>\$ 17,417,812</u>

Scheduled principal repayments on the long-term debt and capital lease obligations as of September 30, 2014, are as follows:

2015	\$ 1,018,682
2016	997,870
2017	993,822
2018	957,794
2019	986,750
Thereafter	<u>12,921,414</u>
Total	<u>\$ 17,876,332</u>

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
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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 \$756,878 and \$1,042,967, for the year ended September 30, 2014 and 2013, respectively. The following is a schedule of future minimum payments under non-cancellable operating leases as of September 30, 2014:

2015	\$	254,543
2016		212,018
2017		84,441
2018		84,441
2019		84,441
Thereafter		153,501
Total	\$	873,385

In addition, the Association leased land under a long-term lease agreement to a third-party until the land was sold during fiscal year 2014. Rental income was based on a percentage of the gross income earned by the lessee. Total rental income from this property was \$54,708 and \$212,593 for 2014 and 2013, 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 meet its debts or liquidity covenants.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 9 - Derivatives (continued)

On August 1, 2007, the Association entered into an interest rate swap agreement with an initial notional amount of \$21,530,000 to reduce the exposure to fluctuations in interest rates related to its CHEFA debt. The swap agreement, which expires in June 2027, requires that the Association make monthly payments to the counter-party, Bank of America, N.A., based upon a fixed interest rate of 4.28% and in return receives monthly payments from Bank of America, N.A. based on the Bond Index Association Municipal Swap Rate Index rate (0.04% and 0.07% as of September 30, 2014 and 2013, respectively).

The notional amount is scheduled to decrease as principal is paid on the CHEFA debt. Net amounts paid under the swap is recorded as additional interest expense. Based on information received from the counter-party, the swap agreement had an unfavorable fair value of \$3,066,242 and \$2,993,142 as of September 30, 2014 and 2013, respectively.

Management has not designated the swap agreement as a hedging instrument. The change in fair value of the interest rate swap of \$(73,100) and \$1,718,952 for the years ended September 30, 2014 and 2013, respectively, is recorded in the consolidated statements of operations and changes in net assets as a component of non-operating gains and (losses).

Note 10 - Net Assets

Temporarily restricted net assets are available for the following purposes as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Health care services:		
Patient special needs	\$ 26,375	\$ 3,555
Other restricted purposes	916,986	896,251
Capital campaign	<u>136,368</u>	<u>179,536</u>
 Total	 <u>\$ 1,079,729</u>	 <u>\$ 1,079,342</u>

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services	\$ 5,615,294	\$ 5,590,085
 Beneficial interest in trusts held by others, the income of which is expendable to support other health care services	 <u>12,022,757</u>	 <u>11,668,231</u>
 Total	 <u>\$ 17,638,051</u>	 <u>\$ 17,258,316</u>

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Net Assets (continued)

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

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

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

Changes in net assets for endowments and temporary restricted funds for the years ended September 30, 2014 and 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of October 1, 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	<u>(2,343,193)</u>	<u>(331,485)</u>	<u>-</u>	<u>(2,674,678)</u>
Balance as of September 30, 2013	14,714,402	899,806	5,590,085	21,204,293
Investment return:				
Investment income	445,578	378,737	-	824,315
Net change in market value	1,114,848	(156,093)	-	958,755
Contributions	-	391,746	25,209	416,955
Expenditures	<u>(1,674,776)</u>	<u>(570,835)</u>	<u>-</u>	<u>(2,245,611)</u>
Balance as of September 30, 2014	<u>\$ 14,600,052</u>	<u>\$ 943,361</u>	<u>\$ 5,615,294</u>	<u>\$ 21,158,707</u>

Funds with Deficiencies - From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2014 and 2013, there were no funds that were below the level required by donor or law.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Net Assets (continued)

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

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

Spending Policy - During its annual budgeting process, the Association appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. During the year ended September 30, 2014 and 2013, the Board appropriated \$1,674,776 and \$2,343,193, 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, 2014 and 2013:

	2014	2013
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 35,517,115	\$ 39,918,325
Interest cost	1,601,171	1,489,616
Service cost	135,000	300,000
Actuarial loss (gain)	2,824,770	(3,815,503)
Administrative expenses	(169,510)	(218,149)
Benefits paid	(2,981,316)	(2,157,174)
Benefit obligations at end of year	\$ 36,927,230	\$ 35,517,115
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 22,671,280	\$ 21,815,722
Actual return on plan assets	2,630,173	1,737,688
Employer contributions	1,736,285	1,493,193
Benefits paid	(2,981,316)	(2,157,174)
Administrative expenses	(169,510)	(218,149)
Fair value of plan assets at end of year	\$ 23,886,912	\$ 22,671,280
Accrued pension liability:		
Unfunded status	\$ (13,040,318)	\$ (12,845,835)

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 11 - Pension Plans (continued)

	2014	2013
Net periodic benefit cost:		
Interest cost	\$ 1,601,171	\$ 1,489,616
Service cost	135,000	300,000
Actuarial loss recognized	482,209	638,042
Expected return on plan assets	(1,228,078)	(1,181,516)
Net periodic benefit cost	\$ 990,302	\$ 1,246,142

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

2015	\$ 2,698,077
2016	\$ 2,664,054
2017	\$ 2,619,178
2018	\$ 2,838,740
2019	\$ 2,505,015
Years 2020-2024	\$ 11,902,594

Amounts recorded in unrestricted net assets as of September 30, 2014 and 2013, not yet amortized as components of net periodic benefit cost are as follows:

	2014	2013
Unamortized actuarial loss	\$ 15,807,473	\$ 14,867,007

The amortization of the above items expected to be recognized in net periodic benefit cost for the year ended September 30, 2015 is \$540,028.

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

	2014	2013
Benefit obligations:		
Discount rate	4.15%	4.70%
Net periodic benefit cost:		
Discount rate	4.70%	3.85%
Expected long-term return on plan assets	6.00%	6.00%

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 11 - Pension Plans (continued)

The fair values of the Association's plan assets, by asset category for the years ended September 30, 2014 and 2013, are as follows:

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - fixed income	\$ 10,683,166	\$ -	\$ -	\$ 10,683,166
Mutual funds - equities	13,203,746	-	-	13,203,746
Total	<u>\$ 23,886,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,886,912</u>
<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>\$ 21,760,284</u>	<u>\$ 910,996</u>	<u>\$ -</u>	<u>\$ 22,671,280</u>

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 target allocation of 55% equity securities and 45% 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 also 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 \$454,409 and \$224,407 in 2014 and 2013, 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.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 11 - Pension Plans (continued)

The Association also has supplemental retirement plan agreements with certain former and current senior executives. The obligation related to this agreement is approximately \$204,000 and \$143,000 as of September 30, 2014 and 2013, 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, 2014 and 2013, is as follows:

	2014	2013
Health care services	\$ 61,803,463	\$ 60,150,565
General and administrative	13,256,129	14,947,980
Fundraising	542,339	712,003
Total	\$ 75,601,931	\$ 75,810,548

Note 13 - Captive Insurance Activities

Effective January 1, 2008, GRS provides healthcare professional and commercial general liability coverage on a claims made basis to the Association. The healthcare professional liability coverage limits for the Association are \$1,000,000 per claim with an annual aggregate of \$4,000,000. The commercial general liability coverage limits for the Association are \$1,000,000 per claim, except in the event of property damage by fire, when the limit becomes \$100,000 per claim. There is no aggregate limit for the commercial general liability.

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

Effective January 1, 2008, GRS assumed through a loss portfolio transfer the outstanding loss obligations 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 year ended September 30, 2013, GRS issued a return premium in the amount of \$692,800, to the Association. This return premium was unpaid as of September 30, 2013 and was reflected within due from affiliates on the accompanying consolidating balance sheet of the Association and was eliminated in consolidation. This amount was subsequently paid to Gaylord during fiscal year 2014.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 13 - Captive Insurance Activities (continued)

A reconciliation of direct to net premiums on a written and earned basis for years ended September 30, 2014 and 2013, is summarized as follows:

	<u>Premium Written</u>		<u>Premium Earned</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Direct premiums	\$ 748,250	\$ 818,000	\$ 783,125	\$ 780,485
Ceded premiums	<u>(325,000)</u>	<u>(325,000)</u>	<u>(325,000)</u>	<u>(325,000)</u>
Total	<u>\$ 423,250</u>	<u>\$ 493,000</u>	<u>\$ 458,125</u>	<u>\$ 455,485</u>

The liability for unpaid losses and loss adjustment expenses is included within captive insurance loss and other reserves on the accompanying consolidated balance sheets. Activity in the liability for unpaid losses and loss adjustment expenses for the years ended September 30, 2014 and 2013, is summarized as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of the year	\$ 2,611,314	\$ 2,448,013
Less: reinsurance recoverables	<u>(931,885)</u>	<u>(663,930)</u>
Net balance beginning of the year	1,679,429	1,784,083
Incurred related to:		
Current year	332,091	307,852
Prior years	<u>(288,757)</u>	<u>(281,750)</u>
Total incurred	43,334	26,102
Paid related to:		
Current year	-	(3,660)
Prior years	<u>(878,360)</u>	<u>(127,096)</u>
Total paid	<u>(878,360)</u>	<u>(130,756)</u>
Net balance end of the year	844,403	1,679,429
Plus: reinsurance recoverables	<u>322,401</u>	<u>931,885</u>
Balance at end of the year	<u>\$ 1,166,804</u>	<u>\$ 2,611,314</u>

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 \$288,757 and \$281,750 in 2014 and 2013, respectively.

The above liability for loss and loss adjustment expenses have been determined using a discount rate of 3.5% for both 2014 and 2013. 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.

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 13 - Captive Insurance Activities (continued)

Included on the accompanying consolidated balance sheets is a reinsurance recoverable of \$322,401 and \$931,885 as of September 30, 2014 and 2013, 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, 2014 and 2013, 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 investment 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, 2014:

Due within one year	\$	49,020
Due in one to five years		107,296
		156,316
Less: allowance for uncollectible pledges		(19,948)
Total	\$	136,368

Gaylord Farm Association, Inc.
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 17 - Supplemental Cash Flow Disclosures

The Association paid interest in the amount of \$789,512 and \$833,185 for the years ended September 30, 2014 and 2013, respectively.

Note 18 - Subsequent Events

On November 17, 2014, Gaylord transferred the North Haven sleep facilities lease and personnel to Yale-New Haven Hospital, Inc. (Yale). Gaylord also entered into an Asset Purchase Agreement with Yale, in which Gaylord sold the North Haven sleep facilities assets to Yale. Subsequently, Gaylord entered into a Facilities, Equipment and Personnel Use Agreement with Yale to continue sleep services until Yale receives approval from the Department of Public Health (DPH) to take over operations. These transactions were made so that DPH required facility upgrades could be completed by Yale. Once Yale receives DPH approval, Gaylord expects the final transfer of services to Yale to take place. Subsequent events have been evaluated through December 2, 2014, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no other subsequent events having a material impact on the consolidated financial statements.

Gaylord Farm Association, Inc.
Consolidating Balance Sheet
September 30, 2014

	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	\$ 7,393,448	\$ 91,394	\$ -	\$ -	\$ -	\$ 7,484,842
Patient accounts receivable (less allowance of \$632,000)	9,050,124	-	-	-	-	9,050,124
Assets whose use is limited:						
Assets held under bond indenture agreement	191,621	-	-	-	-	191,621
Pledges receivable	49,020	-	-	-	-	49,020
Due from affiliates	2,456,430	-	-	1,972	(2,458,402)	-
Other current assets	1,969,535	374,018	-	-	(374,125)	1,969,428
Total current assets	<u>21,110,178</u>	<u>465,412</u>	<u>-</u>	<u>1,972</u>	<u>(2,832,527)</u>	<u>18,745,035</u>
Assets whose use is limited:						
Pledges receivable, net	87,348	-	-	-	-	87,348
Board-designated investments	14,600,052	-	-	-	-	14,600,052
Donor restricted investments	5,615,294	-	-	-	-	5,615,294
Beneficial interest in trusts held by others	12,022,757	-	-	-	-	12,022,757
	<u>32,325,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,325,451</u>
Property, plant and equipment, net	36,126,947	-	-	-	-	36,126,947
Investments held for captive insurance liabilities	-	2,909,008	-	-	-	2,909,008
Reinsurance recoverable relating to captive insurance liabilities	-	322,401	-	-	-	322,401
Other assets	559,650	-	-	-	-	559,650
Total assets	<u>\$ 90,122,226</u>	<u>\$ 3,696,821</u>	<u>\$ -</u>	<u>\$ 1,972</u>	<u>\$ (2,832,527)</u>	<u>\$ 90,988,492</u>
Liabilities, Net Assets and Shareholder's Equity						
Current liabilities:						
Accounts payable and accrued expenses	\$ 2,546,349	\$ 38,659	\$ -	\$ -	\$ -	\$ 2,585,008
Accrued payroll and related taxes	3,774,538	-	-	-	-	3,774,538
Due to affiliates	1,972	-	2,456,430	-	(2,458,402)	-
Estimated amounts due to third-party payers	246,805	-	-	-	-	246,805
Current portion of accrued pension obligation	1,600,954	-	-	-	-	1,600,954
Current portion of long-term debt and capital lease obligations	1,018,682	-	-	-	-	1,018,682
Total current liabilities	<u>9,189,300</u>	<u>38,659</u>	<u>2,456,430</u>	<u>-</u>	<u>(2,458,402)</u>	<u>9,225,987</u>
Long-term debt and capital lease obligations, less current portion	16,857,650	-	-	-	-	16,857,650
Accrued pension obligation	11,439,364	-	-	-	-	11,439,364
Captive insurance losses and other reserves	-	1,540,929	-	-	(374,125)	1,166,804
Interest rate swap liability	3,066,242	-	-	-	-	3,066,242
Total liabilities	<u>40,552,556</u>	<u>1,579,588</u>	<u>2,456,430</u>	<u>-</u>	<u>(2,832,527)</u>	<u>41,756,047</u>
Net assets and shareholder's equity:						
Unrestricted	30,851,890	-	(2,456,430)	1,972	-	28,397,432
Temporarily restricted	1,079,729	-	-	-	-	1,079,729
Permanently restricted	17,638,051	-	-	-	-	17,638,051
Shareholder's equity	-	2,117,233	-	-	-	2,117,233
Total net assets and shareholder's equity	<u>49,569,670</u>	<u>2,117,233</u>	<u>(2,456,430)</u>	<u>1,972</u>	<u>-</u>	<u>49,232,445</u>
Total liabilities, net assets and shareholder's equity	<u>\$ 90,122,226</u>	<u>\$ 3,696,821</u>	<u>\$ -</u>	<u>\$ 1,972</u>	<u>\$ (2,832,527)</u>	<u>\$ 90,988,492</u>

See accompanying Independent Auditors' Report.

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	<u>20,316,807</u>	<u>819,544</u>	<u>-</u>	<u>1,972</u>	<u>462,512</u>	<u>(3,701,565)</u>	<u>17,899,270</u>
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
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	<u>\$ 89,824,799</u>	<u>\$ 5,640,641</u>	<u>\$ -</u>	<u>\$ 1,972</u>	<u>\$ 462,512</u>	<u>\$ (3,770,947)</u>	<u>\$ 92,158,977</u>
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	<u>11,089,595</u>	<u>783,590</u>	<u>2,282,620</u>	<u>-</u>	<u>393,130</u>	<u>(3,292,565)</u>	<u>11,256,370</u>
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	<u>42,100,699</u>	<u>3,803,904</u>	<u>2,282,620</u>	<u>-</u>	<u>393,130</u>	<u>(3,701,565)</u>	<u>44,878,788</u>
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	<u>47,724,100</u>	<u>1,836,737</u>	<u>(2,282,620)</u>	<u>1,972</u>	<u>69,382</u>	<u>(69,382)</u>	<u>47,280,189</u>
Total liabilities, net assets and shareholder's equity	<u>\$ 89,824,799</u>	<u>\$ 5,640,641</u>	<u>\$ -</u>	<u>\$ 1,972</u>	<u>\$ 462,512</u>	<u>\$ (3,770,947)</u>	<u>\$ 92,158,977</u>

See accompanying Independent Auditors' Report.

Gaylord Farm Association, Inc.
Consolidating Statement of Operations
For the Year Ended September 30, 2014

	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	\$ 74,668,499	\$ -	\$ 306,134	\$ -	\$ 194,627	\$ -	\$ 75,169,260
Provision for bad debts	848,276	-	-	-	54,250	-	902,526
Net patient service revenues less provision for bad debts	73,820,223	-	306,134	-	140,377	-	74,266,734
Contributions and bequests	985,043	-	-	-	-	-	985,043
Earned written premium	-	783,125	-	-	-	(783,125)	-
Ceded premium	-	(325,000)	-	-	-	-	(325,000)
Other operating revenue	455,494	-	124,756	-	-	-	580,250
Net assets released from restrictions used for operations	510,832	-	-	-	-	-	510,832
Total revenues	75,771,592	458,125	430,890	-	140,377	(783,125)	76,017,859
Expenses:							
Salaries and related expenses	50,776,621	-	528,956	-	-	-	51,305,577
Other operating expenses	6,115,411	242,457	45,608	-	514	(783,125)	5,620,865
Professional fees and contract services	6,649,911	-	-	-	58,339	-	6,708,250
Supplies	4,926,402	-	-	-	133,691	-	5,060,093
Depreciation and amortization	3,941,327	-	27,651	-	-	-	3,968,978
Occupancy costs	2,102,402	-	-	-	2,920	-	2,105,322
Interest	787,027	-	2,485	-	-	-	789,512
Losses and loss adjustment expenses	-	43,334	-	-	-	-	43,334
Total expenses	75,299,101	285,791	604,700	-	195,464	(783,125)	75,601,931
Gain from operations	472,491	172,334	(173,810)	-	(55,087)	-	415,928
Non-operating gains (losses), net:							
Dividend and interest income	424,639	20,939	-	-	-	-	445,578
Net realized gains on investments	2,566,591	-	-	-	-	-	2,566,591
Loss on equity method investments	(199,977)	-	-	-	-	-	(199,977)
Loss on wholly owned subsidiary	(55,087)	-	-	-	-	55,087	-
Gain on sale of land	1,564,005	-	-	-	-	-	1,564,005
Net loss on lease abandonments	(375,809)	-	-	-	-	-	(375,809)
Change in fair value of interest rate swap agreement	(73,100)	-	-	-	-	-	(73,100)
Total non-operating gains, net	3,851,262	20,939	-	-	-	55,087	3,927,288
Excess of revenues over expenses before discontinued operations	4,323,753	193,273	(173,810)	-	(55,087)	55,087	4,343,216
Loss on sale of wholly owned subsidiary	(127,246)	-	-	-	-	-	(127,246)
Accelerated depreciation on discontinued operations	(265,540)	-	-	-	-	-	(265,540)
Excess of revenues over expenses	\$ 3,930,967	\$ 193,273	\$ (173,810)	\$ -	\$ (55,087)	\$ 55,087	\$ 3,950,430

See accompanying Independent Auditors' Report.

Gaylord Farm Association, Inc.
Consolidating Statement of Operations
For the Year Ended 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	50,093,955	-	508,543	-	-	-	50,602,498
Other operating expenses	5,586,810	250,524	50,956	-	4,664	(780,485)	5,112,469
Professional fees and contract services	7,204,978	-	-	-	157,361	-	7,362,339
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	850,715	-	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 method 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.