# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATING INFORMATION

## SEPTEMBER 30, 2016 AND 2015

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

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MARCUM
ACCOUNTANTS ▲ ADVISORS

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Griffin Health Services Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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


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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Griffin Health Services Corporation and Subsidiaries as of September 30, 2016 and 2015, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
January 27, 2017

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

## SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 13,473,553 | $ 11,774,575 |
| Investments | 33,290,380 | 34,851,842 |
| Assets limited as to use | 757,551 | 724,768 |
| Patient accounts receivable, less allowance for doubtful accounts of approximately $4,767,000 and $4,773,000, respectively | 13,857,567 | 13,863,865 |
| Other current assets | 6,511,159 | 9,046,886 |
| **Total Current Assets** | 67,890,210 | 70,261,936 |
| **Assets Limited as to Use** | | |
| Board-designated investments | 1,306,420 | 1,212,451 |
| Collateral deposit | 50,533 | 50,430 |
| Under indenture agreement | 4,235,986 | 4,289,023 |
| **Total Assets Limited as to Use** | 5,592,939 | 5,551,904 |
| **Other Assets** | | |
| Reinsurance recoverable | 6,151,561 | 6,729,705 |
| Contributions receivable | 552,302 | 866,568 |
| Long-term investments | 4,892,586 | 4,067,953 |
| Property, plant and equipment, net | 58,461,967 | 57,794,454 |
| Beneficial interest in trusts | 3,581,854 | 3,450,227 |
| Other long-term assets | 4,345,356 | 3,249,344 |
| **Total Other Assets** | 77,985,626 | 76,158,251 |
| **Total Assets** | $ 151,468,775 | $ 151,972,091 |

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

## GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS (CONTINUED)

### SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **Liabilities and Net Deficit** | | |
| **Current Liabilities** | | |
| Current portion of long-term debt | $ 5,112,504 | $ 5,093,806 |
| Accounts payable | 16,165,549 | 17,890,950 |
| Accrued expenses | 9,031,469 | 9,511,616 |
| Estimated third-party settlements | 357,083 | 1,153,146 |
| Accrued interest payable | 266,810 | 280,977 |
| Deferred revenue | 2,451,975 | 2,165,718 |
| Accrued postretirement benefit liability | 572,000 | 496,000 |
| **Total Current Liabilities** | 33,957,390 | 36,592,213 |
| **Other Liabilities** | | |
| Estimated third-party settlements | 5,996,213 | 5,664,953 |
| Professional and general liability loss reserves | 25,638,667 | 27,496,797 |
| Workers' compensation loss reserves | 1,906,731 | 1,827,843 |
| Accrued pension liability | 49,234,443 | 45,060,464 |
| Accrued postretirement benefit liability, net of current portion | 9,794,769 | 8,770,609 |
| Conditional asset retirement obligations | 95,831 | 104,600 |
| Long-term debt, net of current portion | 40,934,929 | 43,903,244 |
| Deferred revenue, long term | -- | 44,483 |
| Interest rate swap agreements | 9,122,953 | 7,643,841 |
| **Total Other Liabilities** | 142,724,536 | 140,516,834 |
| **Total Liabilities** | 176,681,926 | 177,109,047 |
| **Net Deficit** | | |
| Unrestricted operating net assets | 33,292,205 | 22,356,151 |
| Noncontrolling interest in HAIC | (108,506) | (1,057,961) |
| Cumulative unrecognized pension and other postretirement changes | (66,904,091) | (56,145,702) |
| Total unrestricted | (33,720,392) | (34,847,512) |
| Temporarily restricted net assets | 2,765,126 | 4,100,068 |
| Permanently restricted net assets | 5,742,115 | 5,610,488 |
| **Total Net Deficit** | (25,213,151) | (25,136,956) |
| **Total Liabilities and Net Deficit** | $ 151,468,775 | $ 151,972,091 |

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

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

## FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **Operating Revenues** | | |
| Net patient service revenue | $ 170,397,927 | $ 151,665,668 |
| State supplemental revenue | 4,948,647 | 1,899,613 |
| Other operating revenue | 12,737,082 | 15,016,680 |
| Net assets released from restrictions for operations | 823,654 | 811,602 |
| **Total Operating Revenues** | 188,907,310 | 169,393,563 |
| **Operating Expenses** | | |
| Employee compensation and related expenses | 97,848,245 | 92,211,230 |
| Supplies and other expenses | 66,506,089 | 62,939,073 |
| State hospital tax expense | 7,583,772 | 6,283,833 |
| Depreciation | 4,749,263 | 4,894,145 |
| Interest | 2,254,376 | 2,252,819 |
| Provision for doubtful accounts, net of recoveries | 5,004 | 17,548 |
| **Total Operating Expenses** | 178,946,749 | 168,598,648 |
| **Income from Operations** | 9,960,561 | 794,915 |
| **Nonoperating Gains (Losses)** | | |
| Investment income | 3,077,802 | 660,172 |
| Net realized and unrealized losses on interest rate swaps | (2,666,937) | (2,480,754) |
| Net gain on equity investment | 1,097,587 | 1,091,416 |
| Unrestricted contributions, gifts and bequests | 277,938 | 323,106 |
| Fundraising expenses | (701,983) | (517,020) |
| Grant revenues | 2,289,446 | 2,095,096 |
| Grant expenses | (2,162,796) | (2,071,006) |
| **Total Nonoperating Gains (Losses)** | 1,211,057 | (898,990) |
| **Noncontrolling Interest** | 98,691 | 272,087 |
| **Excess of Revenues Over Expenses** | 11,270,309 | 168,012 |
| **Other Changes in Unrestricted Net Assets** | | |
| Change in net unrealized losses on investments | (840,455) | (719,674) |
| Net assets released from restriction for capital | 1,455,655 | -- |
| Pension and other postretirement related changes other than net periodic benefit cost | (10,758,389) | (12,041,404) |
| **Increase (Decrease) in Unrestricted Net Assets** | $ 1,127,120 | $ (12,593,066) |

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

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

## FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **Unrestricted Net Assets** | | |
| Excess of revenues over expenses | $ 11,270,309 | $ 168,012 |
| Change in net unrealized losses on investments | (840,455) | (719,674) |
| Net assets released from restriction for capital | 1,455,655 | -- |
| Pension and other postretirement related changes other than net periodic benefit cost | (10,758,389) | (12,041,404) |
| **Increase (Decrease) in Unrestricted Net Assets** | 1,127,120 | (12,593,066) |
| **Temporarily Restricted Net Assets** | | |
| Contributions and private grants | 692,328 | 1,476,666 |
| Investment income (loss) | 252,039 | (117,037) |
| Net assets released from restrictions | (2,279,309) | (811,602) |
| **(Decrease) Increase in Temporarily Restricted Net Assets** | (1,334,942) | 548,027 |
| **Permanently Restricted Net Assets** | | |
| Change in beneficial interest in trusts | 131,627 | (309,944) |
| **Increase (Decrease) in Permanently Restricted Net Assets** | 131,627 | (309,944) |
| **Decrease in Net Assets** | (76,195) | (12,354,983) |
| **Net Deficit** - Beginning | (25,136,956) | (12,781,973) |
| **Net Deficit** - End | $ (25,213,151) | $ (25,136,956) |

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

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ (76,195) | $ (12,354,983) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Pension and other postretirement changes other than net periodic benefit cost | 10,758,389 | 12,041,404 |
| Depreciation and amortization | 4,881,039 | 5,030,905 |
| Change in unrealized and realized (gains) losses on investments | (1,753,139) | 1,258,438 |
| Loss on joint venture investment | 2,417 | 8,588 |
| Change in beneficial interest in trusts | (131,627) | 309,944 |
| Provision for bad debts, net of recoveries | 2,184,434 | 1,968,627 |
| Change in fair value of interest rate swap | 1,479,112 | 1,207,342 |
| Changes in assets and liabilities: | | |
| Patient accounts receivable | (2,178,136) | (2,666,259) |
| Other current assets | 1,241,067 | (1,065,970) |
| Contributions receivable and other | (31,638) | (937,219) |
| Reinsurance recoverable | 578,144 | 3,769,704 |
| Accounts payable, accrued expenses and other liabilities | (3,768,531) | (561,308) |
| Estimated third-party settlements | (464,803) | 1,885,701 |
| Deferred revenue | 239,357 | (1,077,421) |
| Accrued pension and postretirement benefit liabilities | (5,484,250) | (1,709,771) |
| **Net Cash Provided by Operating Activities** | 7,475,640 | 7,107,722 |
| **Cash Flows from Investing Activities** | | |
| Purchases of property, plant and equipment, net | (5,655,971) | (3,717,602) |
| Purchases of investments | (4,497,144) | (18,729,494) |
| Proceeds from sales and maturities of investments | 6,913,294 | 14,985,829 |
| **Net Cash Used in Investing Activities** | (3,239,821) | (7,461,267) |

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

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

## FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **Cash Flows from Financing Activities** | | |
| Contributions restricted for capital acquisitions | $ 345,904 | $ 904,653 |
| Proceeds from borrowing | -- | 1,820,000 |
| Principal payments on debt | (2,882,745) | (2,626,582) |
| Principal payments on capital lease obligations | -- | (1,586,264) |
| **Net Cash Used in Financing Activities** | (2,536,841) | (1,488,193) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 1,698,978 | (1,841,738) |
| **Cash and Cash Equivalents** - Beginning | 11,774,575 | 13,616,313 |
| **Cash and Cash Equivalents** - End | $ 13,473,553 | $ 11,774,575 |
| **Supplemental Cash Flow Information** | | |
| Cash paid during the year: | | |
| Interest | $ 3,522,753 | $ 3,526,231 |
| **Supplemental Disclosure of Noncash Financing Activities** | | |
| Property, plant and equipment included in accounts payable and accrued expenses | $ 752,088 | $ 991,283 |

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

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

### *ORGANIZATION*

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

### *HEALTHCARE ALLIANCE INSURANCE COMPANY, LTD.*

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

Effective July 1, 2013, HAIC and Milford Hospital entered into a share redemption agreement under which HAIC redeemed all of the shares issued to Milford with a par value of $1 per share. Additionally, contributed surplus and retained deficit attributed to Milford were extinguished as part of the transaction.

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

### *PRINCIPLES OF CONSOLIDATION*

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

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *BASIS OF PRESENTATION*

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

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

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

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

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

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

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *BASIS OF PRESENTATION (CONTINUED)*

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

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

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

### *USE OF ESTIMATES*

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

### *CASH AND CASH EQUIVALENTS*

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

The majority of the Corporation's banking activity, including cash and cash equivalents, is maintained with a regional bank and exceeds federal insurance limits. It is the Corporation's policy to monitor the bank's financial strength on an ongoing basis. At September 30, 2016, there was approximately $10,989,000 of uninsured deposits.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *BENEFICIAL INTEREST IN TRUSTS*

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

### *INVENTORIES*

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

### *FAIR VALUE MEASUREMENTS*

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

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

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical 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 a specified term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *FAIR VALUE MEASUREMENTS (CONTINUED)*

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

The fair values of Level 1 securities were determined through quoted market prices, while fair values of Level 2 securities were determined primarily through prices obtained from third party pricing sources, where quoted market prices for such securities are not available. The fair values of Level 3 assets were determined primarily through information obtained from the relevant counterparties for such assets, as information on which these fair values are based is generally not readily available in the market. During the years ended September 30, 2016 and 2015, there were no changes in the methods and assumptions utilized to estimate fair value.

Fair values of investments are provided by the investment managers and are determined as follows:

(i) The fair values of marketable equity securities and mutual funds are generally determined based on quoted market prices from recognized exchanges using data provided by third party pricing vendors.

(ii) The fair values of fixed income securities are generally based on quoted prices in active markets or recently executed transactions. When quoted prices are not available, fair value is determined based on a valuation model that uses observable inputs that include interest rates, bond and credit default swap spreads and volatility. Where asset backed and mortgage backed securities are valued using cash flow models, inputs include default rates, conditional prepayment rates, loss severity, expected yield to maturity and other inputs specific to each security.

The fair value of the interest rate swap liability was determined based on an estimate of the net present value of the expected cash flows using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

Reference is made to Note 3 for a summary table of financial instruments recorded at fair value and Note 11 for the fair value of the defined benefit pension plan's financial instruments.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *INVESTMENTS AND INVESTMENT INCOME*

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

### *ASSETS LIMITED AS TO USE*

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

### *PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment are recorded at cost or in the case of donated property at the fair value at the date of gift. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method with one-half year of depreciation expense recorded in the year of acquisition. Uniform useful lives assigned to assets are based upon the American Hospital Association estimated useful lives of depreciable hospital assets guidelines and range from 3 to 40 years. Maintenance and repairs are charged to expense as incurred, and betterments and major renewals are capitalized. Upon sale or disposal of property, plant or equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment.

Interest cost incurred on borrowed funds during the construction period of capital assets is capitalized as a component of the cost of acquiring those assets.

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

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *IMPAIRMENT OF LONG-LIVED ASSETS*

The Corporation records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses recorded in 2016 and 2015.

### *EQUITY METHOD JOINT VENTURE INVESTMENT*

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

In February 2008, G. H. Ventures entered into a joint venture arrangement, NuVal, LLC (NuVal) with Topco Associates, LLC (Topco), an unrelated company, for the purpose of pursuing commercial opportunities associated with the ONQI technology. The Hospital and Topco agreed that the Hospital would capitalize the joint venture by granting NuVal an exclusive, worldwide license (agreed-upon fair value of $11,000,000) and Topco would contribute $5,500,000 in cash. Both the Hospital and Topco would have initial 50% ownership interests in NuVal. During 2008, the Hospital transferred its interest in this investment to GHV. As GHV does not have control, but does exercise significant influence, this investment is recorded using the equity method. GHV's ownership was approximately .1% and .2% as of September 30, 2016 and 2015, respectively.

The Corporation recorded its initial investment at its cost of the contributed ONQI technology which was $0. During 2008, the Corporation received a return of its investment of $2,200,000 in cash and $800,000 to be held in escrow by Topco in the event the joint venture requires additional financing. These amounts were recorded as a reduction of its investment in NuVal. This resulted in a difference between the amount at which the investment is carried and the amount of the underlying equity in net assets of NuVal of $11,000,000. The Corporation is amortizing this difference over the estimated life of the intellectual property of ten years. Approximately $1,100,000 was amortized in both 2016 and 2015, which was included in nonoperating gains (losses) in the consolidated statements of operations.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *EQUITY METHOD JOINT VENTURE INVESTMENT (CONTINUED)*

In 2016 and 2015, the Corporation recorded its proportionate loss on its equity investment in NuVal of approximately $2,000 and $9,000, respectively, included in nonoperating gains (losses) in the consolidated statements of operations. As a result of the above, the Corporation's investment in NuVal at September 30, 2016 and 2015 is an asset of approximately $952,000 and a liability of approximately $142,000, respectively. These amounts are reported in the consolidated balance sheets as a long-term asset at September 30, 2016 and in deferred revenue at September 30, 2015.

### *ASSET RETIREMENT OBLIGATIONS*

The Corporation accrues for asset retirement obligations, primarily asbestos related removal costs, in the period in which they are identified if sufficient information is available to reasonably estimate the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Corporation will recognize a gain or loss for any difference between the settlement amount and the liability recorded. There are no assets that are legally restricted for purposes of settling asset retirement obligations. Conditional asset retirement obligations totaling $95,831 and $104,600 were recorded as of September 30, 2016 and 2015, respectively, and have been fully accreted to their estimated settlement values.

### *COST OF BORROWING*

Issuance costs and premiums related to the Hospital's bonds are being amortized/accreted using the effective interest method over the life of the debt. Net amortization expense, which is included in interest expense, was $131,776 and $136,760 for 2016 and 2015, respectively.

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

### *REINSURANCE RECOVERABLE*

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

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *DEFERRED REVENUE*

Deferred revenue includes amounts received for consulting services, dues and grants that relate to future years. Amounts will be recognized as revenue when the services are provided by the Corporation.

### *PROFESSIONAL AND GENERAL LIABILITY LOSS RESERVES*

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

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

Included in the 2016 and 2015 balance sheets is an increase in assets and liabilities attributed to the recognition of both an accrued liability and a receivable relative to claim exposure in excess of the excess liability coverage.

### *EXCESS OF REVENUES OVER EXPENSES*

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

### *NET PATIENT SERVICE REVENUE*

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

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

#### *NET PATIENT SERVICE REVENUE (CONTINUED)*

Contractual allowance adjustments and third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews or investigations. Contracts, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the future. During 2016 and 2015, the Corporation recorded certain adjustments for amounts recognized related to prior years, including adjustments to prior year estimates. The net effect of such adjustments was a decrease in net patient service revenue of approximately $22,000 and $221,000 in fiscal years 2016 and 2015, respectively.

#### *ALLOWANCE FOR DOUBTFUL ACCOUNTS*

The Corporation's estimation of the allowance for doubtful accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Corporation's collection efforts. The Corporation's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as the charges are recorded. On a monthly basis, the Corporation reviews its accounts receivable balances, the effectiveness of the Corporation's reserve policies and various analytics to support the basis for its estimates.

These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Various allowance coverage statistics.

The Corporation regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for doubtful accounts.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *MEASURING CHARITY CARE*

The Corporation provides care to patients who meet certain criteria under its free care policy without charge or at amounts less than its established and contractual rates. Because the Corporation does not pursue collection of amounts determined to qualify as free care, they are not reported as net patient service revenue.

A patient is classified as a charity patient by reference to the established policies of the Corporation. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability to pay, the Corporation utilizes the generally recognized federal poverty income levels, but also includes certain cases where incurred charges are significant when compared to incomes and assets.

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The Corporation evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Corporation's policy for charity care. For the years ended September 30, 2016 and 2015, the Corporation estimates that its costs of care provided under its charity care programs approximated $1,016,129 and $822,647, respectively.

The Corporation's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Corporation's gross charity care charges provided. The Corporation's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Corporation's charity care policy. To the extent the Corporation receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Corporation does not include these patients' charges in its cost of care provided under its charity care program. Additionally, the Corporation does not report a charity care patient's charges in revenues or in the provision for doubtful accounts as it is the Corporation's policy not to pursue collection of amounts related to these patients.

### *INCOME TAXES*

GHSC and its subsidiaries, with the exception of GHV, are not-for-profit organizations and are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. GHSC and its subsidiaries account for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *INCOME TAXES (CONTINUED)*

GHV has unused net operating loss carryforwards of approximately $5,434,584 and $4,675,000 available to offset future taxable income as of September 30, 2016 and 2015, respectively. These carryforwards expire in various years through 2029. Deferred tax assets relate primarily to the tax effects of the net operating loss carryforwards. Because there is no assurance that GHV will have taxable income in the future, the deferred tax assets have been fully offset by a valuation allowance. There is no current tax provision in fiscal 2016 and 2015.

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

Management has analyzed the tax positions taken and has concluded that as of September 30, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. GHSC and its subsidiaries are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### *INTEREST RATE SWAP AGREEMENTS*

The Corporation utilizes interest rate swap agreements to reduce risk associated with changes in interest rates. Interest rate swap agreements are reported at fair value. The Corporation is exposed to credit loss in the event of nonperformance by the counter parties to its interest rate swap agreements. The Corporation is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable rate payments do not equal variable interest payments on the bonds, there will be a net loss or net benefit to the Corporation.

### *RECLASSIFICATIONS*

Certain prior year amounts were reclassified to conform to the current year’s presentation.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

### *SUBSEQUENT EVENTS*

Management has evaluated subsequent events for the period after September 30, 2016 through January 27, 2017, the date the accompanying consolidated financial statements were available to be issued.

On January 20, 2017, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued $40,652,000 of the Hospital's Issue 2017 Series E Variable Rate Revenue Bonds and $7,930,000 Hospital Issue 2017 Series F Variable Rate Revenue Bonds.

The proceeds of the bonds were used to refund the Hospital's Issue 2005 Series B, the Hospital's Issue 2008 Series C and the Hospital's Issue 2008 Series D bonds totaling $41,515,000. In addition the bond proceeds were used to retire two existing interest rate swaps and provide $2,500,000 of new project funds to be used to fund capital projects.

The Series E Variable Rate Revenue Bonds are indexed to 72% of the one month LIBOR plus 1.85%. The Series F Variable Rate Revenue Bonds are indexed to 100% of the one month LIBOR plus 2.78%.

The term of the new bonds is for five years based on a twenty five year amortization.

In conjunction with the refunding, the Hospital retired the existing interest rate swaps and entered into two new swap instruments. The cost to retire of the existing swaps was approximately $7,967,000 and a gain related to the difference between this settlement amount and the fair value of $9,122,953 as of September 30, 2016 will be recorded in the 2017 statement of operations.

There were no other material subsequent events that required recognition or disclosure in the consolidated financial statements.

## NOTE 2 – NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended September 30, 2016 and 2015 is comprised as follows:

| | 2016 | 2015 |
|---|---|---|
| Patient service charges | $ 578,092,173 | $ 532,560,743 |
| Contractual allowances | (405,514,816) | (378,943,996) |
| Patient service revenue less contractuals | 172,577,357 | 153,616,747 |
| Provision for doubtful accounts, net of recoveries | (2,179,430) | (1,951,079) |
| Net patient service revenue | $ 170,397,927 | $ 151,665,668 |

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

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

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

The Corporation is reimbursed for most outpatient services under a prospective payment methodology based on ambulatory payment classifications (APC) which are paid on standard national and regional amounts for procedures rendered to the patients and without regard to the Corporation's actual costs. The remaining outpatient services (e.g., routine clinical lab, physical therapy) are reimbursed on a fee schedule.

### NOTE 2 – NET PATIENT SERVICE REVENUE (CONTINUED)

The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year the examination is substantially complete. The Corporation's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013.

Medicaid
Inpatient services rendered to Medicaid program beneficiaries admitted prior to January 1, 2015, except for those beneficiaries in the State's Aid to Families with Dependent Children (AFDC) population, were reimbursed under a cost reimbursement methodology. The Corporation was reimbursed a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the State. For inpatients admitted on or after January 1, 2015, the Hospital was reimbursed under an All Patient Refined Diagnosis Related Group System (APR-DRG) where payments were established prospectively. Outpatient services were reimbursed at predetermined fee schedules or based on a percentage of charges. Effective July 1, 2016, Medicaid outpatient services are paid under a Medicaid APC payment system.

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

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

## NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

### *ASSETS LIMITED AS TO USE*

The composition of assets limited as to use at September 30, 2016 and 2015 is set forth as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Board-designated | | | | |
| Internally designated for capital acquisition | | | | |
| Cash and cash equivalents | $ 59 | $ 59 | $ 59 | $ 59 |
| Cash collateral deposits | 50,533 | 50,533 | 50,430 | 50,430 |
| Internally designated for scholarships and postretirement benefits | | | | |
| Mutual funds | 1,193,191 | 1,306,361 | 1,110,314 | 1,212,392 |
| | 1,243,783 | 1,356,953 | 1,160,803 | 1,262,881 |
| Held by trustee under indenture agreement | | | | |
| U.S. Treasury obligations | 4,992,434 | 4,992,434 | 5,013,750 | 5,013,750 |
| Accrued interest receivable | 1,103 | 1,103 | 41 | 41 |
| | 4,993,537 | 4,993,537 | 5,013,791 | 5,013,791 |
| Less current portion | (757,551) | (757,551) | (724,768) | (724,768) |
| | 4,235,986 | 4,235,986 | 4,289,023 | 4,289,023 |
| | $ 5,479,769 | $ 5,592,939 | $ 5,449,826 | $ 5,551,904 |

## NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### *INVESTMENTS*

Investments, at fair value, at September 30 include:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Cash and cash equivalents | $ 15,152,383 | $ 15,152,383 | $ 1,983,063 | $ 1,983,063 |
| Fixed income securities | 10,087,180 | 11,553,353 | 22,019,762 | 21,695,281 |
| Marketable equity securities | 11,851,343 | 11,477,230 | 13,827,208 | 15,241,451 |
| | $ 37,090,906 | $ 38,182,966 | $ 37,830,033 | $ 38,919,795 |

Investment income and unrealized gains and losses for assets limited as to use, cash equivalents and investments are comprised of the following for 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Income - Unrestricted | | |
| Interest and dividend income | $ 708,978 | $ 1,051,041 |
| Net realized gains | 1,559,090 | 456,274 |
| Changes in unrealized gains (losses) on investments | 809,734 | (847,143) |
| | $ 3,077,802 | $ 660,172 |
| Other Changes in Unrestricted Net Assets | | |
| Changes in net unrealized losses on HAIC investments | $ (840,855) | $ (719,674) |
| Income - Temporarily Restricted | | |
| Interest and dividend income | $ 26,869 | $ 30,858 |
| Changes in unrealized gains (losses) | 225,170 | (147,895) |
| | $ 252,039 | $ (117,037) |

## NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### *FAIR VALUE*

The following table represents the Corporation's financial assets and liabilities by fair value hierarchy as of September 30, 2016:

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Cash and cash equivalents | $ 15,152,383 | $ 15,152,383 | $ -- | $ -- |
| Fixed income securities | 11,553,353 | 6,091,924 | 5,461,429 | -- |
| Marketable equity securities | 11,477,230 | 9,495,474 | 1,981,756 | -- |
| Total investments | 38,182,966 | 30,739,781 | 7,443,185 | -- |
| Beneficial interest in trusts | 3,581,854 | -- | -- | 3,581,854 |
| Contributions receivable | 552,302 | -- | -- | 552,302 |
| Total assets at fair value | $ 42,317,122 | $ 30,739,781 | $ 7,443,185 | $ 4,134,156 |
| Liabilities | | | | |
| Interest rate swap liability | $ 9,122,953 | $ -- | $ 9,122,953 | $ -- |
| Total liabilities at fair value | $ 9,122,953 | $ -- | $ 9,122,953 | $ -- |

The following table sets forth a summary of changes in the fair value of the Corporation's Level 3 assets for the year ended September 30, 2016:

| | |
|---|---|
| Balance at September 30, 2015 | $ 4,316,795 |
| Change in unrealized value of interest in trusts | 131,627 |
| Net contributions | 345,903 |
| Payments on contributions receivable | (660,169) |
| Balance at September 30, 2016 | $ 4,134,156 |

## NOTE 3 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### *FAIR VALUE (CONTINUED)*

The following table represents the Corporation's financial assets and liabilities by fair value hierarchy as of September 30, 2015:

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Cash and cash equivalents | $ 1,983,063 | $ 1,983,063 | $ -- | $ -- |
| Fixed income securities | 21,695,281 | 5,623,085 | 16,072,196 | -- |
| Marketable equity securities | 15,241,451 | 9,416,436 | 5,825,015 | -- |
| Total investments | 38,919,795 | 17,022,584 | 21,897,211 | -- |
| Beneficial interest in trusts | 3,450,227 | -- | -- | 3,450,227 |
| Contributions receivable | 866,568 | -- | -- | 866,568 |
| Total assets at fair value | $ 43,236,590 | $ 17,022,584 | $ 21,897,211 | $ 4,316,795 |
| Liabilities | | | | |
| Interest rate swap liability | $ 7,643,841 | $ -- | $ 7,643,841 | $ -- |
| Total liabilities at fair value | $ 7,643,841 | $ -- | $ 7,643,841 | $ -- |

The following table sets forth a summary of changes in the fair value of the Corporation's Level 3 assets for the year ended September 30, 2015:

| | |
|---|---|
| Balance at September 30, 2014 | $ 4,594,173 |
| Change in unrealized value of interest in trusts | (309,944) |
| Net contributions | 904,653 |
| Payments on contributions receivable | (865,265) |
| Change in discount and allowance on contributions receivable | (6,822) |
| Balance at September 30, 2015 | $ 4,316,795 |

There were no transfers between any levels during 2016 or 2015.

## NOTE 4 – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give in the gross amount of $609,092 and $923,358 were outstanding as of September 30, 2016 and 2015, respectively. The discount rate used to calculate the present value of contributions receivable was 4% at September 30, 2016 and September 30, 2015.

Contributions receivable, net, at September 30, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Contributions receivable | $ 609,092 | $ 923,358 |
| Less | | |
| Allowance for uncollectible pledges | (20,000) | (19,828) |
| Discounts on pledges receivable | (36,790) | (36,962) |
| | $ 552,302 | $ 866,568 |

## NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation as of September 30, 2016 and 2015 are summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Land and improvements | $ 5,703,948 | $ 5,685,973 |
| Buildings and improvements | 85,187,176 | 81,021,798 |
| Fixed and movable equipment | 75,105,875 | 75,909,585 |
| | 165,996,999 | 162,617,356 |
| Less accumulated depreciation | (107,803,172) | (106,114,939) |
| | 58,193,827 | 56,502,417 |
| Construction-in-progress | 268,140 | 1,292,037 |
| | $ 58,461,967 | $ 57,794,454 |

Depreciation expense was $4,749,263 and $4,894,145 for 2016 and 2015, respectively.

There are no capital lease assets in property, plant and equipment at September 30, 2016 or 2015.

## NOTE 6 – INSURANCE LIABILITY LOSS RESERVES

HAIC insures the professional and general liabilities of the Hospital under a claims-made policy with a retroactive date of October 1, 1986. There are known claims and incidents that may result in the assertion of additional claims as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital has utilized independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice reserves for professional and general liability, have been discounted at 3.00% at September 30, 2016 and 2015. In management's opinion, these reserves provide an adequate reserve for losses. The Hospital has purchased excess insurance coverage to cover claims in excess of $1,500,000 and $4,500,000 in the aggregate.

Effective January 1, 2003, the Hospital began retaining the first $250,000 of all loss and allocated loss adjustment expense per accident for its workers' compensation exposure. Excess coverage above $250,000 per accident was purchased. Beginning January 1, 2007, the per occurrence retention was increased to $300,000. Annual aggregate coverage was also purchased which provides $1 million of coverage above a maximum limit of retained losses within the per occurrence retention. Beginning October 1, 2010, the per occurrence retention was increased to $400,000 and the annual aggregate coverage was discontinued. As of October 1, 2014, the per occurrence retention was increased to $450,000. The workers' compensation reserves have been discounted at 2.5% at September 30, 2016 and 2015 and in management's opinion provide an adequate reserve for loss contingencies.

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

Effective March 28, 2013, the Hospital entered into a novation agreement with American Insurance Group Inc., where it legally transferred all exposure relating to primary layer professional liability and physicians' professional liability policies issued to the Hospital in the years 2006/07, 2007/08, 2009/10, 2010/11 and 2011/12, by making a onetime premium payment of $7,400,000. The loss portfolio transfer effectively transfers the liabilities and subsequent adverse claim development risk to a third-party insurer.

## NOTE 7 – LONG-TERM DEBT

Long-term debt consists of the following at September 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Mortgage note payable in monthly installments of $6,002, including interest at 4.5%, through December 2037 | $ 958,457 | $ 986,663 |
| Mortgage note payable in monthly installments of $11,172, including interest at 4.5%, through December 2037 | 1,784,009 | 1,836,509 |
| Loans payable | 1,563,519 | 2,140,557 |
| State of Connecticut Health and Educational Facilities Authority | | |
| Series B | 11,990,000 | 13,390,000 |
| Series C | 19,850,000 | 20,450,000 |
| Series D | 9,675,000 | 9,900,000 |
| Premium and discount on bonds, net of accumulated accretion and amortization of $614,841and $548,706, respectively | 226,448 | 293,321 |
| | 46,047,433 | 48,997,050 |
| Less current portion | (5,112,504) | (5,093,806) |
| | $ 40,934,929 | $ 43,903,244 |

The State of Connecticut Health and Educational Facilities Authority Revenue Bonds, The Griffin Hospital Issue, Series B, totaling $24,800,000 were issued in February 2005. The Series B bonds bear interest at rates ranging from 2.4% to 5.0%. Interest is due semi-annually on January 1 and July 1. A bond premium of $969,815 and bond issuance costs of $1,196,512 are being amortized over the life of the bond using the effective interest rate method. The Series B bonds are insured by Radian Asset Guaranty Corporation. The bonds are payable annually each July 1 through July 1, 2023. The Series B bonds are subject to redemption prior to maturity. The estimated fair values of the Series B bonds were approximately $12,000,000 and $13,426,000 at September 30, 2016 and 2015, respectively, based on discounted cash flows analysis.

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

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

In May 2008, the Hospital refunded The Griffin Hospital Issue 2007 Series C and The Griffin Hospital Issue 2007 Series D bonds, which were initially issued as auction rate bonds, and issued $23,125,000 Griffin Hospital Issue 2008 Series C Variable Rate Demand bonds and $10,925,000 Griffin Hospital Issue 2008 Series D Variable Rate Demand Bonds (together referred to as Series 2008 Bonds). The Series 2008 Bonds are insured by Radian Asset Guaranty Corporation. The interest rate on the Series C and Series D bonds was .77% and .63%, respectively, as of September 30, 2016.

The estimated fair values of the Series C and Series D bonds were approximately $19,850,000 and $9,675,000 at September 30, 2016, respectively, and $20,450,000 and $9,900,000 at September 30, 2015, respectively. These fair values were determined based on discounted cash flow analysis.

In order to provide liquidity for the Series 2008 Bonds, the Hospital has a standby letter of credit with Wells Fargo Bank N.A. for $34,050,000 which expires in May 2017. Should the Series 2008 Bonds be put back, and the standby letter of credit be called, the Hospital would be required to repay the principal ratably over a 5-year period, beginning 180 days following the put.

Under the terms of the CHEFA bonds, the Obligated Group (the Hospital, GHSC and GHDF) are required to maintain 50 days operating cash on hand, an average payment period days of less than 110 days and a debt service coverage ratio of 1.2 to 1. Additionally, the Obligated Group is required to maintain a capitalization ratio excluding any realized or unrealized gains or losses on the interest rate swap instrument of less than .65.

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

In August 2014, the Hospital entered into a loan in the amount of $735,000 to finance certain diagnostic equipment. The loan is for five years at a rate of 4.5% payable monthly in a fixed amount of $13,703 per month.

In December 2014, the Hospital entered into a loan in the amount of $1,820,000 to retire a capital lease obligation related to an air handler. The loan is for five years at a rate of 4.5% payable monthly in a fixed amount of $41,550 per month.

## NOTE 7 – LONG-TERM DEBT (CONTINUED)

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

| | |
|---|---|
| 2017 | $ 3,035,004 |
| 2018 | 3,195,915 |
| 2019 | 2,992,654 |
| 2020 | 2,801,591 |
| 2021 | 2,941,028 |
| Thereafter | 30,854,793 |
| | $ 45,820,985 |

To the extent the Hospital is unable to remarket the Series 2008 bonds, the Hospital would be obligated to repurchase these bonds from the proceeds of the Hospital's standby letter of credit. The previous debt maturities table reflects the payment of principal on these bonds according to their scheduled maturity dates. If the Series 2008 bonds were fully tendered by the bondholders to the Hospital as of September 30, 2016, the table of annual principal payments would become:

| | |
|---|---|
| 2017 | $ 5,112,504 |
| 2018 | 8,175,915 |
| 2019 | 7,947,654 |
| 2020 | 7,706,591 |
| 2021 | 7,796,028 |
| Thereafter | 9,082,293 |
| | $ 45,820,985 |

On January 20, 2017, the Hospital refunded its Series B, C, and D CHEFA debt when CHEFA issued $40,652,000 Griffin Hospital Issue 2017 Series E Variable Rate Revenue Bonds and $7,930,000 Griffin Hospital Issue 2017 Series F Variable Rate Revenue Bonds. (See Note 1 for additional information). The schedules of principal payments above do not reflect the impact of the CHEFA debt issued subsequent to September 30, 2016.

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

## NOTE 7 – LONG-TERM DEBT (CONTINUED)

Assets held by the trustee pursuant to the indentures as of September 30, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Debt service reserve fund | $ 4,214,895 | $ 4,288,982 |
| Debt service fund | 189,519 | 167,491 |
| Principal fund | 588,020 | 557,277 |
| Accrued interest receivable | 1,103 | 41 |
| | 4,993,537 | 5,013,791 |
| Less current portion | (757,551) | (724,768) |
| | $ 4,235,986 | $ 4,289,023 |

### *DERIVATIVE INSTRUMENTS*

The Hospital initially issued its Series 2007 Series C and 2007 Series D bonds bearing interest at a variable rate. In May 2007, the Hospital entered into two interest rate swap agreements to manage interest rate risk. These agreements involve payment of fixed rate interest payments by the Hospital in exchange for the receipt of variable rate interest payments from the counterparties, based on a percentage of the London Interbank Offered Rate (LIBOR). In 2008, the Hospital refinanced the Series 2007 bonds and issued the Series 2008 Bonds. These bonds also bear interest at a variable rate. The two original swap agreements continue to be utilized by the Hospital to manage its interest rate risk. At September 30, 2016, the notional amounts and the fixed interest rates of the derivative financial instruments were $19,850,000 at 3.7% (Series 2008 Issue C nontaxable bonds) and $9,675,000 at 5.4% (Series 2008 Issue D taxable bonds), respectively.

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

## NOTE 7 – LONG-TERM DEBT (CONTINUED)

### *DERIVATIVE INSTRUMENTS (CONTINUED)*

The fair value of these derivatives was a liability of $9,122,953 and $7,643,841 as of September 30, 2016 and 2015, respectively, which is included in long-term liabilities. Reference is made to Note 1 regarding the methods utilized to determine the fair value of the interest rate swaps which have been categorized as Level 2 in the fair value hierarchy. The impact of the change in fair value was a loss of $1,479,112 and a loss of $1,207,342 for the years ended September 30, 2016 and 2015, respectively. This change is included in the net realized and unrealized losses on interest rate swap agreements, which also includes the net periodic settlement payments related to the swap agreements of $1,187,825 and $1,273,412 for 2016 and 2015, respectively.

The following table lists the fair value of derivatives by contract type included in the consolidated balance sheets at September 30, 2016 and 2015.

| | 2016 | |
|---|---|---|
| | Initial Notional | Fair Value |
| Derivatives not designed as hedging instruments | | |
| Interest rate swaps | $ 34,050,000 | $ (9,122,953) |

| | 2015 | |
|---|---|---|
| | Initial Notional | Fair Value |
| Derivatives not designed as hedging instruments | | |
| Interest rate swaps | $ 34,050,000 | $ (7,643,841) |

## NOTE 7 – LONG-TERM DEBT (CONTINUED)

### *DERIVATIVE INSTRUMENTS (CONTINUED)*

The following table indicates the realized and unrealized losses by contract type, as included in the consolidated statements of operations for the years ended September 30, 2016 and 2015:

| | 2016 | | |
|---|---|---|---|
| | Location of Loss on Derivatives | | Loss on Derivatives |
| Derivatives not designed as hedging instruments | | | |
| Interest rate swaps | Net realized and unrealized losses on interest rate swaps | $ | (2,666,937) |

| | 2015 | | |
|---|---|---|---|
| | Location of Loss on Derivatives | | Loss on Derivatives |
| Derivatives not designed as hedging instruments | | | |
| Interest rate swaps | Net realized and unrealized losses on interest rate swaps | $ | (2,480,754) |

## NOTE 8 – LEASE COMMITMENTS

### *CAPITAL LEASES*

The Corporation leased certain equipment under capital leases which ended in 2015.

### *OPERATING LEASES*

The Corporation leases various equipment and office space under operating leases, expiring at various dates through 2021. Some of these leases contain renewal options. Rent expense is recorded on a straight-line basis over the terms of the leases. Rent expense under such leases was approximately $1,299,339 and $1,225,881 for the years ended September 30, 2016 and 2015, respectively.

Future minimum rental payments as of September 30, 2016 under noncancellable operating leases are as follows:

| | |
|---|---|
| 2017 | $ 1,473,984 |
| 2018 | 1,373,551 |
| 2019 | 1,340,594 |
| 2020 | 1,073,153 |
| 2021 | 881,605 |
| | $ 6,142,887 |

## NOTE 9 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of September 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Unspent income and appreciation on endowment funds to be used for specified health care services | $ 907,243 | $ 775,251 |
| Restricted for purchase of equipment | 596,310 | 1,927,141 |
| Restricted for health education | 227,547 | 68,569 |
| Restricted specified health care services | 1,034,026 | 1,329,107 |
| | $ 2,765,126 | $ 4,100,068 |

## NOTE 9 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently restricted net assets at September 30, 2016 and 2015 are comprised as follows:

| | 2016 | 2015 |
|---|---|---|
| Investments to be held in perpetuity, the income of which is expendable to support health care services | $ 2,160,261 | $ 2,160,261 |
| Beneficial interest in trusts | 3,581,854 | 3,450,227 |
| | $ 5,742,115 | $ 5,610,488 |

## NOTE 10 – OTHER DEBT ARRANGEMENTS AND GUARANTEES

On March 5, 2005, the Hospital entered into a $262,500 letter of credit agreement with Wells Fargo Bank which was reduced to $50,000 on January 21, 2010. On December 8, 2014, the Hospital entered into a $800,000 letter of credit with Atlantic Specialty Insurance Company. No borrowings have been made on either letter of credit as of September 30, 2016 or 2015.

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS

### *PENSION BENEFITS*

The Hospital sponsors a noncontributory defined benefit pension plan that covered substantially all of its employees until the plan was frozen in March 2016 and provides for retirement and death benefits. The Hospital's policy is to fund actuarially determined pension costs as accrued.

Effective May 1, 2010, credited service accruals under the retirement plan for employees of Griffin Hospital were frozen for the April 1, 2010 to March 31, 2012 period. Participants continued to earn vesting service during the freeze period and pay increases during the freeze period were reflected in participant's final earnings calculations; however no credited service was earned for the period from April 1, 2010 to March 31, 2012. Effective April 1, 2012, the plan freeze was terminated and credit service accruals were reestablished at a reduced rate.

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

### *PENSION BENEFITS (CONTINUED)*

The Hospital froze the defined benefit pension plan effective March 31, 2016 and introduced an employer 403(b) match and core contribution to the existing Griffin Hospital 403(b) Retirement Savings Plan. Effective with the freeze no further benefits will accrue to plan participants. The freezing of the plan constituted a curtailment, the recognition of which was reflected in the year ended September 30, 2016. The curtailment resulted in recognition of 100% of the negative prior service cost of $5,613,532 which offset the net periodic benefit cost of $3,074,644 resulting in a net pension credit to expense of $2,538,888 for the year ended September 30, 2016.

The Hospital’s accumulated benefit obligation was $119,951,164 and $112,007,558 at September 30, 2016 and 2015, respectively.

Subsequent to the freezing of the defined benefit pension plan, the plan was amended to offer eligible participants the option to receive a one-time lump sum payout of their vested benefit. The election period of this one-time lump sum payment began July 6, 2016 and ended August 26, 2016. The elected payments were completed as of September 30, 2016. Of those eligible participants, 224 or 60.8% elected to take the lump sum option which amounted to a total payout of $4,335,382.

### *OTHER POSTRETIREMENT BENEFITS*

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

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

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

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Change in projected benefit obligation** | | | | |
| Benefit obligation, beginning of year | $ 113,727,413 | $ 104,391,793 | $ 9,266,609 | $ 8,964,526 |
| Service cost | 990,183 | 1,752,336 | 267,685 | 296,143 |
| Interest cost | 4,655,647 | 4,212,467 | 380,618 | 360,246 |
| Effects of curtailment | (2,502,421) | -- | -- | -- |
| Actuarial loss | 12,019,444 | 7,749,339 | 852,197 | 81,643 |
| Benefits paid | (8,939,102) | (4,378,522) | (400,340) | (435,949) |
| Benefit obligation, end of year | 119,951,164 | 113,727,413 | 10,366,769 | 9,266,609 |
| **Change in plan assets** | | | | |
| Fair value of plan assets, beginning of year | 68,666,949 | 69,360,879 | -- | -- |
| Actual return on plan assets | 7,474,067 | (1,320,392) | -- | -- |
| Employer contributions | 3,514,807 | 5,004,985 | 400,340 | 435,949 |
| Benefits paid | (8,939,102) | (4,378,523) | (400,340) | (435,949) |
| Fair value of plan assets, end of year | 70,716,721 | 68,666,949 | -- | -- |
| Unfunded status - recognized as a liability | $ (49,234,443) | $ (45,060,464) | $ (10,366,769) | $ (9,266,609) |

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

Components of net periodic benefit cost are as follows:

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Service cost | $ 990,183 | $ 1,752,336 | $ 267,685 | $ 296,143 |
| Interest cost | 4,655,647 | 4,212,467 | 380,618 | 360,246 |
| Expected return on plan assets | (5,234,938) | (5,519,056) | -- | -- |
| Amortization of transition obligation | (560,942) | (1,121,883) | -- | -- |
| Net actuarial loss | 3,224,694 | 3,416,353 | 321,482 | 334,556 |
| Net periodic benefit cost | 3,074,644 | 2,740,217 | 969,785 | 990,945 |
| Amount recognized from curtailment | (5,613,532) | -- | -- | -- |
| (Credit) expense recorded in the statement of operations | $ (2,538,888) | $ 2,740,217 | $ 969,785 | $ 990,945 |

Amounts recognized in the consolidated balance sheets consist of:

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Current liabilities | $ -- | $ -- | $ 572,000 | $ 496,000 |
| Noncurrent liabilities | 49,234,443 | 45,060,464 | 9,794,769 | 8,770,609 |
| Total liabilities | $ 49,234,443 | $ 45,060,464 | $ 10,366,769 | $ 9,266,609 |

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

### *PENSION PLAN*

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

| | 2016 | 2015 |
|---|---|---|
| Negative prior service cost | $ -- | $ (6,174,474) |
| Net actuarial loss | 62,103,337 | 58,050,137 |
| | $ 62,103,337 | $ 51,875,663 |

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

| | 2016 | 2015 |
|---|---|---|
| Net actuarial loss | $ 9,781,315 | $ 14,588,787 |
| Amortization of actuarial loss | (3,224,694) | (3,416,353) |
| | $ 6,556,621 | $ 11,172,434 |

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

| | |
|---|---|
| Actuarial loss | $ 1,642,710 |

Effective September 30, 2015, the Hospital updated the mortality assumptions to align with the mortality tables and improvement scales released by the Society of Actuaries in the fall of 2015. This update resulted in an increase to the Hospital's projected benefit obligation of approximately $7,830,229 in 2015 which is included in the accrued pension liability in the consolidated balance sheets.

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

### *POSTRETIREMENT PLAN*

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

| | 2016 | 2015 |
|---|---|---|
| Net actuarial loss | $ 4,800,754 | $ 4,270,039 |

Other changes in benefit obligations recognized in other changes in unrestricted net assets are:

| | 2016 | 2015 |
|---|---|---|
| Net actuarial loss | $ 852,197 | $ 81,642 |
| Amortization of | | |
| Prior service cost | -- | -- |
| Actuarial gain | (321,482) | (334,556) |
| | $ 530,715 | $ (252,914) |

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

| | |
|---|---|
| Actuarial loss | $ 366,691 |

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

### *ACTUARIAL ASSUMPTIONS*

Actuarial assumptions are as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Weighted average assumptions used to determine year end benefit obligation: | | | | |
| Discount rate | 3.43% | 4.23% | 3.43% | 4.23% |
| Rate of compensation increase | N/A | 4.00% | N/A | N/A |

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Weighted average assumptions used to determine net periodic benefit cost | | | | |
| Discount rate | 4.23% | 4.13% | 4.23% | 4.13% |
| Expected long-term return on plan assets | 7.50% | 7.85% | N/A | N/A |
| Rate of compensation increase | 4.00% | 4.00% | N/A | N/A |

| | Pre-65 | | Post-65 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Health care cost trend rate assumed for next year | 6.00% | 6.50% | 6.00% | 6.50% |
| Rate to which the cost trend is assumed to decline (the ultimate trend rate) | 3.84% | 5.00% | 3.84% | 5.00% |
| Year that the rate reaches the ultimate trend rate | 2076 | 2019 | 2076 | 2019 |

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

### *ACTUARIAL ASSUMPTIONS (CONTINUED)*

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

| | 1-Percentage Point Increase | 1-Percentage Point Decrease |
|---|---|---|
| Service and interest cost components | $ 20,618 | $ (18,044) |
| Postretirement benefit obligation | 192,279 | (176,952) |

### *CONTRIBUTIONS*

The Hospital expects to contribute approximately $3,547,000 to its pension plan and $572,000 to its other postretirement benefit plan in fiscal year 2017.

### *ESTIMATED FUTURE BENEFIT PAYMENTS*

The following benefit payments, which reflect expected future service, are expected to be paid during the year ended September 30:

| | Pension Benefits | Other Benefits |
|---|---|---|
| 2017 | $ 5,011,000 | $ 572,000 |
| 2018 | 5,379,000 | 655,000 |
| 2019 | 5,589,000 | 627,000 |
| 2020 | 5,883,000 | 632,000 |
| 2021 | 6,136,000 | 636,000 |
| 2022 - 2026 | 32,785,000 | 3,394,000 |

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

### *PLAN ASSETS*

Pension plan assets are invested as follows:

| | 2016 | 2015 |
|---|---|---|
| Asset category | | |
| Cash and cash equivalents | 1% | 1% |
| U.S. Large cap | 34% | 36% |
| U.S. Small cap | 8% | 8% |
| International equity | 12% | 11% |
| Alternative investments | 7% | 7% |
| Fixed income | 34% | 33% |
| Real estate | 4% | 4% |
| | 100% | 100% |

| | 2016 | 2015 |
|---|---|---|
| Target asset allocations | | |
| U.S. Large cap | 27% | 27% |
| U.S. Small cap | 7% | 7% |
| International equity | 12% | 12% |
| Alternative investments | 10% | 10% |
| Fixed income | 40% | 40% |
| Real estate | 4% | 4% |
| | 100% | 100% |

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

### *PLAN ASSETS (CONTINUED)*

The fair value of plan assets as of September 30, 2016, by asset category was as follows:

| | September 30, 2016 | | | |
|---|---|---|---|---|
| *(in thousands)* | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Cash and cash equivalents | $ 437 | $ -- | $ -- | $ 437 |
| U.S. Large cap | 24,288 | -- | -- | 24,288 |
| U.S. Small cap | 5,687 | -- | -- | 5,687 |
| International equity | 8,453 | -- | -- | 8,453 |
| Alternative investments | 2,129 | -- | 2,959 | 5,088 |
| Fixed income | 23,954 | -- | -- | 23,954 |
| Real estate mutual funds | 2,810 | -- | -- | 2,810 |
| | $ 67,758 | $ -- | $ 2,959 | $ 70,717 |

The fair value of plan assets as of September 30, 2015, by asset category was as follows:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| *(in thousands)* | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Cash and cash equivalents | $ 714 | $ -- | $ -- | $ 714 |
| U.S. Large cap | 24,552 | -- | -- | 24,552 |
| U.S. Small cap | 5,262 | -- | -- | 5,262 |
| International equity | 7,861 | -- | -- | 7,861 |
| Alternative investments | 1,878 | -- | 2,910 | 4,788 |
| Fixed income | 22,631 | -- | -- | 22,631 |
| Real estate mutual funds | 2,859 | -- | -- | 2,859 |
| | $ 65,757 | $ -- | $ 2,910 | $ 68,667 |

## NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFITS (CONTINUED)

### *ASSET INVESTMENT STRATEGY*

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

## NOTE 12 – CONCENTRATIONS OF CREDIT RISK

The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix in patient accounts receivable as of September 30, 2016 and 2015 before allowances for doubtful accounts, consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Medicare and Medicaid | 29% | 39% |
| Commerical insurance | 22% | 18% |
| Managed care | 37% | 37% |
| Self-pay patients | 12% | 6% |
| | 100% | 100% |

## NOTE 13 – FUNCTIONAL EXPENSES

The Corporation provides general health care services to residents within its geographic location. Expenses relating to providing these services at September 30, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Patient care and clinical | $ 142,111,651 | $ 126,314,325 |
| General and administrative | 36,835,098 | 42,284,323 |
| | $ 178,946,749 | $ 168,598,648 |

## NOTE 14 – ENDOWMENTS

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

The Corporation has interpreted the Connecticut UPMIFA statute as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate endowment funds:

(1) The duration and preservation of the fund.

(2) The purposes of the Corporation and the donor restricted endowment fund.

(3) General economic conditions.

(4) The possible effect of inflation and deflation.

(5) The expected total return from income and the appreciation of investments.

(6) Other resources of the Corporation.

(7) The investment policies of the Corporation.

## NOTE 14 – ENDOWMENTS (CONTINUED)

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

| | 2016 | | |
|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | $ 1,119,456 | $ 2,160,261 | $ 3,279,717 |
| Total endowment funds | $ 1,119,456 | $ 2,160,261 | $ 3,279,717 |

| | 2015 | | |
|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | $ 1,240,428 | $ 2,160,261 | $ 3,400,689 |
| Total endowment funds | $ 1,240,428 | $ 2,160,261 | $ 3,400,689 |

| | 2016 | | |
|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 1,240,428 | $ 2,160,261 | $ 3,400,689 |
| Investment income and net appreciation (realized and unrealized) | 252,030 | -- | 252,030 |
| Assets released from restriction | (373,002) | -- | (373,002) |
| | $ 1,119,456 | $ 2,160,261 | $ 3,279,717 |

## NOTE 14 – ENDOWMENTS (CONTINUED)

| | 2015 | | |
|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 1,357,469 | $ 2,160,261 | $ 3,517,730 |
| Investment income and net depreciation (realized and unrealized) | (117,041) | -- | (117,041) |
| | $ 1,240,428 | $ 2,160,261 | $ 3,400,689 |

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

## NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Corporation is involved in various legal matters arising in the normal course of activities. The ultimate outcome is not determinable at this time.

During May 2014, the Hospital became aware of a safety concern related to the use of multi-dose insulin pens on more than one patient. On investigation, it was discovered that in a small number of cases, multi-dose insulin pen cartridges intended for single patient use may have been used for more than one patient, either after installing a new, sterile safety needle on the cartridge, or by drawing up insulin with a new sterile syringe. Through improper use of the insulin pens there is a remote possibility that patients could have been exposed to certain blood-borne infections.

In response, the Hospital decided to offer all of the approximately 2,636 patients for whom an insulin pen was ordered during their hospitalization on or after September 1, 2008 and before May 7, 2014, free and confidential testing for hepatitis B, hepatitis C, and HIV. The testing protocol was determined after consultation with the Infectious Disease and Gastroenterology division chiefs and in accordance with the current CDC guidelines.

## NOTE 15 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

There is a pending lawsuit attempting to organize a putative class on behalf of all patients who were offered testing and subsequently elected to have the testing performed for certain blood-borne infections. Almost all members of this potential class tested negative for blood-borne infections. The Hospital is working with defense counsel to defend its interests in this matter.

The Hospital has established a reserve for the total expenses associated with notification, testing, treatment, and resolution of all insulin pen related claims.

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING CONSOLIDATING INFORMATION

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

We have audited the consolidated financial statements of Griffin Health Services Corporation and Subsidiaries as of and for the years ended September 30, 2016 and 2015, and have issued our report dated thereon January 27, 2017, which contains an unmodified opinion on those consolidated financial statements and which appears on page 1. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and the consolidating statements of operations are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
January 27, 2017



Marcum LLP ■ City Place II ■ 185 Asylum Street ■ 17th Floor ■ Hartford, Connecticut 06103 ■ Phone 860.760.0600 ■ Fax 860.760.0601 ■ www.marcumllp.com

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET

## SEPTEMBER 30, 2016

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | |
| **Current Assets** | | | | | | | | | | | |
| Cash and cash equivalents | $ 775,188 | $ 8,419,689 | $ 2,330,141 | $ -- | $ 11,525,018 | $ 116,697 | $ 1,420,442 | $ 253,417 | $ 157,979 | $ -- | $ 13,473,553 |
| Investments | 1,902,218 | 7,871,187 | 1,486,290 | -- | 11,259,695 | -- | 22,030,685 | -- | -- | -- | 33,290,380 |
| Assets limited as to use | -- | 757,551 | -- | -- | 757,551 | -- | -- | -- | -- | -- | 757,551 |
| Patient accounts receivable, net | -- | 13,410,622 | -- | -- | 13,410,622 | -- | -- | 446,945 | -- | -- | 13,857,567 |
| Other current assets | 968,195 | 2,900,738 | 6,906 | -- | 3,875,839 | 2,084,758 | 309,022 | 153,999 | 87,541 | -- | 6,511,159 |
| **Total Current Assets** | 3,645,601 | 33,359,787 | 3,823,337 | -- | 40,828,725 | 2,201,455 | 23,760,149 | 854,361 | 245,520 | -- | 67,890,210 |
| **Assets Limited as to Use** | | | | | | | | | | | |
| Board-designated investments | -- | 32,847 | -- | -- | 32,847 | 1,273,573 | -- | -- | -- | -- | 1,306,420 |
| Collateral deposit | 50,533 | -- | -- | -- | 50,533 | -- | -- | -- | -- | -- | 50,533 |
| Under indenture agreement | -- | 4,235,986 | -- | -- | 4,235,986 | -- | -- | -- | -- | -- | 4,235,986 |
| **Total Assets Limited as to Use** | 50,533 | 4,268,833 | -- | -- | 4,319,366 | 1,273,573 | -- | -- | -- | -- | 5,592,939 |
| **Other Assets** | | | | | | | | | | | |
| Reinsurance recoverable | -- | 1,938,795 | -- | -- | 1,938,795 | -- | 6,151,561 | -- | -- | (1,938,795) | 6,151,561 |
| Contributions receivable | -- | -- | 552,302 | -- | 552,302 | -- | -- | -- | -- | -- | 552,302 |
| Long-term investments | -- | 1,324,584 | 3,568,002 | -- | 4,892,586 | -- | -- | -- | -- | -- | 4,892,586 |
| Property, plant and equipment, net | 247,876 | 51,966,374 | -- | -- | 52,214,250 | 417,942 | -- | 1,815,602 | 4,014,173 | -- | 58,461,967 |
| Due from affiliates | 276,634 | 7,841,990 | -- | (491,341) | 7,627,283 | -- | -- | -- | -- | (7,627,283) | -- |
| Interest in net assets of affiliate | -- | 7,834,670 | -- | (7,834,670) | -- | -- | -- | -- | -- | -- | -- |
| Investment in affiliate | 1,350,156 | 1,895,137 | -- | -- | 3,245,293 | -- | -- | -- | -- | (3,245,293) | -- |
| Beneficial interest in trusts | -- | 3,581,854 | -- | -- | 3,581,854 | -- | -- | -- | -- | -- | 3,581,854 |
| Other long-term assets | -- | 3,107,232 | -- | -- | 3,107,232 | -- | -- | -- | 1,238,124 | -- | 4,345,356 |
| **Total Other Assets** | 1,874,666 | 79,490,636 | 4,120,304 | (8,326,011) | 77,159,595 | 417,942 | 6,151,561 | 1,815,602 | 5,252,297 | (12,811,371) | 77,985,626 |
| **Total Assets** | $ 5,570,800 | $ 117,119,256 | $ 7,943,641 | $ (8,326,011) | $ 122,307,686 | $ 3,892,970 | $ 29,911,710 | $ 2,669,963 | $ 5,497,817 | $ (12,811,371) | $ 151,468,775 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET (CONTINUED)

## SEPTEMBER 30, 2016

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities and Net (Deficit) Assets** | | | | | | | | | | | |
| **Current Liabilities** | | | | | | | | | | | |
| Current portion of long-term debt | $ -- | $ 5,028,090 | $ -- | $ -- | $ 5,028,090 | $ -- | $ -- | $ -- | $ 84,414 | $ -- | $ 5,112,504 |
| Accounts payable | 530,034 | 15,046,368 | 72,980 | -- | 15,649,382 | 18,869 | 109,246 | 253,273 | 134,779 | -- | 16,165,549 |
| Accrued interest payable | -- | 266,810 | -- | -- | 266,810 | -- | -- | -- | -- | -- | 266,810 |
| Accrued expenses | 848 | 7,922,566 | -- | -- | 7,923,414 | 100,926 | 389,933 | 521,553 | 95,643 | -- | 9,031,469 |
| Estimated third-party settlements | | 357,083 | | | 357,083 | | | | | | 357,083 |
| Deferred revenue | -- | 430,074 | -- | -- | 430,074 | 2,021,901 | -- | -- | -- | -- | 2,451,975 |
| Accrued postretirement benefit liability | -- | 572,000 | -- | -- | 572,000 | -- | -- | -- | -- | -- | 572,000 |
| Due to affiliates | 178,716 | 276,634 | 35,991 | (491,341) | -- | 1,520,939 | -- | -- | 1,826,832 | (3,347,771) | -- |
| **Total Current Liabilities** | 709,598 | 29,899,625 | 108,971 | (491,341) | 30,226,853 | 3,662,635 | 499,179 | 774,826 | 2,141,668 | (3,347,771) | 33,957,390 |
| **Other Liabilities** | | | | | | | | | | | |
| Estimated third-party settlements, long term | -- | 5,996,213 | -- | -- | 5,996,213 | -- | -- | -- | -- | -- | 5,996,213 |
| Professional and general liability loss reserves | -- | 2,927,302 | -- | -- | 2,927,302 | -- | 28,929,672 | -- | -- | (6,218,307) | 25,638,667 |
| Workers' compensation loss reserves | -- | 1,906,731 | -- | -- | 1,906,731 | -- | -- | -- | -- | -- | 1,906,731 |
| Accrued pension liability | -- | 49,234,443 | -- | -- | 49,234,443 | -- | -- | -- | -- | -- | 49,234,443 |
| Accrued postretirement benefit liability, net of current portion | -- | 9,794,769 | -- | -- | 9,794,769 | -- | -- | -- | -- | -- | 9,794,769 |
| Conditional asset retirement obligations | -- | 95,831 | -- | -- | 95,831 | -- | -- | -- | -- | -- | 95,831 |
| Long-term debt, net of current portion | -- | 38,276,877 | -- | -- | 38,276,877 | -- | -- | -- | 2,658,052 | -- | 40,934,929 |
| Interest rate swap agreements | -- | 9,122,953 | -- | -- | 9,122,953 | -- | -- | -- | -- | -- | 9,122,953 |
| **Total Other Liabilities** | -- | 117,355,119 | -- | -- | 117,355,119 | -- | 28,929,672 | -- | 2,658,052 | (6,218,307) | 142,724,536 |
| **Total Liabilities** | 709,598 | 147,254,744 | 108,971 | (491,341) | 147,581,972 | 3,662,635 | 29,428,851 | 774,826 | 4,799,720 | (9,566,078) | 176,681,926 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET (CONTINUED)

## SEPTEMBER 30, 2016

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net (Deficit) Assets** | | | | | | | | | | | |
| Unrestricted operating net assets | $ 4,861,202 | $ 28,293,859 | $ 4,266,668 | $ (4,266,668) | $ 33,155,061 | $ 197,838 | $ 482,859 | $ 1,895,137 | $ 698,097 | $ (3,136,787) | $ 33,292,205 |
| Noncontrolling interest in HAIC | -- | -- | -- | -- | -- | -- | -- | -- | -- | (108,506) | (108,506) |
| Cumulative unrecognized pension and other postretirement changes | -- | (66,904,091) | -- | -- | (66,904,091) | -- | -- | -- | -- | -- | (66,904,091) |
| Total unrestricted | 4,861,202 | (38,610,232) | 4,266,668 | (4,266,668) | (33,749,030) | 197,838 | 482,859 | 1,895,137 | 698,097 | (3,245,293) | (33,720,392) |
| Temporarily restricted net assets | -- | 2,732,629 | 1,825,386 | (1,825,386) | 2,732,629 | 32,497 | -- | -- | -- | -- | 2,765,126 |
| Permanently restricted net assets | -- | 5,742,115 | 1,742,616 | (1,742,616) | 5,742,115 | -- | -- | -- | -- | -- | 5,742,115 |
| **Total Net Assets (Deficit)** | 4,861,202 | (30,135,488) | 7,834,670 | (7,834,670) | (25,274,286) | 230,335 | 482,859 | 1,895,137 | 698,097 | (3,245,293) | (25,213,151) |
| **Total Liabilities and Net Assets (Deficit)** | $ 5,570,800 | $ 117,119,256 | $ 7,943,641 | $ (8,326,011) | $ 122,307,686 | $ 3,892,970 | $ 29,911,710 | $ 2,669,963 | $ 5,497,817 | $ (12,811,371) | $ 151,468,775 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET

## SEPTEMBER 30, 2015

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | |
| **Current Assets** | | | | | | | | | | | |
| Cash and cash equivalents | $ 1,057,502 | $ 6,748,148 | $ 3,404,002 | $ -- | $ 11,209,652 | $ 241,752 | $ 157,708 | $ 97,337 | $ 68,126 | $ -- | $ 11,774,575 |
| Investments | 1,755,214 | 7,914,147 | 1,772,736 | -- | 11,442,097 | -- | 23,409,745 | -- | -- | -- | 34,851,842 |
| Assets limited as to use | -- | 724,768 | -- | -- | 724,768 | -- | -- | -- | -- | -- | 724,768 |
| Patient accounts receivable, net | -- | 13,268,952 | -- | -- | 13,268,952 | -- | -- | 594,913 | -- | -- | 13,863,865 |
| Other current assets | 1,453,794 | 4,682,980 | 39,524 | -- | 6,176,298 | 1,934,577 | 688,728 | 119,389 | 127,894 | -- | 9,046,886 |
| **Total Current Assets** | 4,266,510 | 33,338,995 | 5,216,262 | -- | 42,821,767 | 2,176,329 | 24,256,181 | 811,639 | 196,020 | -- | 70,261,936 |
| **Assets Limited as to Use** | | | | | | | | | | | |
| Board-designated investments | -- | 23,986 | -- | -- | 23,986 | 1,188,465 | -- | -- | -- | -- | 1,212,451 |
| Collateral deposit | 50,430 | -- | -- | -- | 50,430 | -- | -- | -- | -- | -- | 50,430 |
| Under indenture agreement | -- | 4,289,023 | -- | -- | 4,289,023 | -- | -- | -- | -- | -- | 4,289,023 |
| **Total Assets Limited as to Use** | 50,430 | 4,313,009 | -- | -- | 4,363,439 | 1,188,465 | -- | -- | -- | -- | 5,551,904 |
| **Other Assets** | | | | | | | | | | | |
| Reinsurance recoverable | -- | 2,230,327 | -- | -- | 2,230,327 | -- | 6,729,705 | -- | -- | (2,230,327) | 6,729,705 |
| Contributions receivable | -- | -- | 866,568 | -- | 866,568 | -- | -- | -- | -- | -- | 866,568 |
| Long-term investments | -- | 1,233,522 | 2,834,431 | -- | 4,067,953 | -- | -- | -- | -- | -- | 4,067,953 |
| Property, plant and equipment, net | 254,161 | 51,622,810 | -- | -- | 51,876,971 | 462,637 | -- | 1,605,599 | 3,849,247 | -- | 57,794,454 |
| Due from affiliates | 276,634 | 6,476,494 | -- | (383,068) | 6,370,060 | -- | -- | -- | 35,149 | (6,405,209) | -- |
| Interest in net assets of affiliate | -- | 8,800,729 | -- | (8,800,729) | -- | -- | -- | -- | -- | -- | -- |
| Investment in affiliate | 1,350,156 | 1,361,825 | -- | -- | 2,711,981 | -- | -- | -- | -- | (2,711,981) | -- |
| Beneficial interest in trusts | -- | 3,450,227 | -- | -- | 3,450,227 | -- | -- | -- | -- | -- | 3,450,227 |
| Other long-term assets | -- | 3,105,079 | -- | -- | 3,105,079 | -- | -- | -- | 144,265 | -- | 3,249,344 |
| **Total Other Assets** | 1,880,951 | 78,281,013 | 3,700,999 | (9,183,797) | 74,679,166 | 462,637 | 6,729,705 | 1,605,599 | 4,028,661 | (11,347,517) | 76,158,251 |
| **Total Assets** | $ 6,197,891 | $ 115,933,017 | $ 8,917,261 | $ (9,183,797) | $ 121,864,372 | $ 3,827,431 | $ 30,985,886 | $ 2,417,238 | $ 4,224,681 | $ (11,347,517) | $ 151,972,091 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET (CONTINUED)

## SEPTEMBER 30, 2015

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities and Net (Deficit) Assets** | | | | | | | | | | | |
| **Current Liabilities** | | | | | | | | | | | |
| Current portion of long-term debt | $ -- | $ 5,013,100 | $ -- | $ -- | $ 5,013,100 | $ -- | $ -- | $ -- | $ 80,706 | $ -- | $ 5,093,806 |
| Accounts payable | 1,161,371 | 16,229,224 | 53,308 | -- | 17,443,903 | 17,565 | 89,640 | 245,791 | 94,051 | -- | 17,890,950 |
| Accrued interest payable | -- | 280,977 | -- | -- | 280,977 | -- | -- | -- | -- | -- | 280,977 |
| Accrued expenses | 1,722 | 8,497,150 | 42,107 | -- | 8,540,979 | 101,030 | 125,505 | 646,683 | 97,419 | -- | 9,511,616 |
| Estimated third-party settlements | | 1,153,146 | | | 1,153,146 | | | | | | 1,153,146 |
| Deferred revenue | -- | 157,449 | -- | -- | 157,449 | 2,008,269 | -- | -- | -- | -- | 2,165,718 |
| Accrued postretirement benefit liability | -- | 496,000 | -- | -- | 496,000 | -- | -- | -- | -- | -- | 496,000 |
| Due to affiliates | 85,317 | 276,634 | 21,117 | (383,068) | -- | 1,518,117 | -- | 162,939 | 1,979,739 | (3,660,795) | -- |
| **Total Current Liabilities** | 1,248,410 | 32,103,680 | 116,532 | (383,068) | 33,085,554 | 3,644,981 | 215,145 | 1,055,413 | 2,251,915 | (3,660,795) | 36,592,213 |
| **Other Liabilities** | | | | | | | | | | | |
| Estimated third-party settlements, long term | -- | 5,664,953 | -- | -- | 5,664,953 | -- | -- | -- | -- | -- | 5,664,953 |
| Professional and general liability loss reserves | -- | 3,172,632 | -- | -- | 3,172,632 | -- | 29,298,906 | -- | -- | (4,974,741) | 27,496,797 |
| Workers' compensation loss reserves | -- | 1,827,843 | -- | -- | 1,827,843 | -- | -- | -- | -- | -- | 1,827,843 |
| Accrued pension liability | -- | 45,060,464 | -- | -- | 45,060,464 | -- | -- | -- | -- | -- | 45,060,464 |
| Accrued postretirement benefit liability, net of current portion | -- | 8,770,609 | -- | -- | 8,770,609 | -- | -- | -- | -- | -- | 8,770,609 |
| Conditional asset retirement obligations | -- | 104,600 | -- | -- | 104,600 | -- | -- | -- | -- | -- | 104,600 |
| Long-term debt, net of current portion | -- | 41,160,778 | -- | -- | 41,160,778 | -- | -- | -- | 2,742,466 | -- | 43,903,244 |
| Deferred revenue, long-term | -- | -- | -- | -- | -- | -- | -- | -- | 44,483 | -- | 44,483 |
| Interest rate swap agreements | -- | 7,643,841 | -- | -- | 7,643,841 | -- | -- | -- | -- | -- | 7,643,841 |
| **Total Other Liabilities** | -- | 113,405,720 | -- | -- | 113,405,720 | -- | 29,298,906 | -- | 2,786,949 | (4,974,741) | 140,516,834 |
| **Total Liabilities** | 1,248,410 | 145,509,400 | 116,532 | (383,068) | 146,491,274 | 3,644,981 | 29,514,051 | 1,055,413 | 5,038,864 | (8,635,536) | 177,109,047 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET (CONTINUED)

## SEPTEMBER 30, 2015

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net (Deficit) Assets** | | | | | | | | | | | |
| Unrestricted operating net assets | $ 4,949,481 | $ 16,891,260 | $ 3,806,724 | $ (3,806,724) | $ 21,840,741 | $ 149,953 | $ 1,471,835 | $ 1,361,825 | $ (814,183) | $ (1,654,020) | $ 22,356,151 |
| Noncontrolling interest in HAIC | -- | -- | -- | -- | -- | -- | -- | -- | -- | (1,057,961) | (1,057,961) |
| Cumulative unrecognized pension and other postretirement changes | -- | (56,145,702) | -- | -- | (56,145,702) | -- | -- | -- | -- | -- | (56,145,702) |
| Total unrestricted | 4,949,481 | (39,254,442) | 3,806,724 | (3,806,724) | (34,304,961) | 149,953 | 1,471,835 | 1,361,825 | (814,183) | (2,711,981) | (34,847,512) |
| Temporarily restricted net assets | -- | 4,067,571 | 3,251,389 | (3,251,389) | 4,067,571 | 32,497 | -- | -- | -- | -- | 4,100,068 |
| Permanently restricted net assets | -- | 5,610,488 | 1,742,616 | (1,742,616) | 5,610,488 | -- | -- | -- | -- | -- | 5,610,488 |
| **Total Net (Deficit) Assets** | 4,949,481 | (29,576,383) | 8,800,729 | (8,800,729) | (24,626,902) | 182,450 | 1,471,835 | 1,361,825 | (814,183) | (2,711,981) | (25,136,956) |
| **Total Liabilities and Net (Deficit) Assets** | $ 6,197,891 | $ 115,933,017 | $ 8,917,261 | $ (9,183,797) | $ 121,864,372 | $ 3,827,431 | $ 30,985,886 | $ 2,417,238 | $ 4,224,681 | $ (11,347,517) | $ 151,972,091 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS

## FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | | | | | | |
| Net patient service revenue | $ -- | $ 159,014,625 | $ -- | $ -- | $ 159,014,625 | $ -- | $ -- | $ 11,383,302 | $ -- | $ -- | 170,397,927 |
| State supplemental revenue | -- | 4,948,647 | -- | -- | 4,948,647 | -- | -- | -- | -- | -- | 4,948,647 |
| Other operating revenue | 6,924,760 | 3,722,615 | 133,930 | (109,908) | 10,671,397 | 3,432,942 | 1,120,029 | 824,929 | 640,394 | (3,952,609) | 12,737,082 |
| Net assets released from restrictions for operations | -- | 423,387 | 400,267 | -- | 823,654 | -- | -- | -- | -- | -- | 823,654 |
| **Total Operating Revenues** | 6,924,760 | 168,109,274 | 534,197 | (109,908) | 175,458,323 | 3,432,942 | 1,120,029 | 12,208,231 | 640,394 | (3,952,609) | 188,907,310 |
| **Operating Expenses** | | | | | | | | | | | |
| Employee compensation and related expenses | 468,349 | 80,599,356 | -- | -- | 81,067,705 | 2,250,940 | -- | 14,529,600 | -- | -- | 97,848,245 |
| Supplies and other expenses | 6,373,361 | 55,712,295 | 400,267 | (109,908) | 62,376,015 | 1,395,368 | 3,199,691 | 2,990,990 | 496,634 | (3,952,609) | 66,506,089 |
| State hospital tax expense | -- | 7,583,772 | -- | -- | 7,583,772 | -- | -- | -- | -- | -- | 7,583,772 |
| Depreciation | 6,286 | 4,253,885 | -- | -- | 4,260,171 | 44,695 | -- | 275,304 | 169,093 | -- | 4,749,263 |
| Interest | -- | 2,128,918 | -- | -- | 2,128,918 | -- | -- | -- | 125,458 | -- | 2,254,376 |
| Provision for doubtful accounts, net of recoveries | -- | -- | -- | -- | -- | 5,004 | -- | -- | -- | -- | 5,004 |
| **Total Operating Expenses** | 6,847,996 | 150,278,226 | 400,267 | (109,908) | 157,416,581 | 3,696,007 | 3,199,691 | 17,795,894 | 791,185 | (3,952,609) | 178,946,749 |
| **Income (Loss) from Operations** | 76,764 | 17,831,048 | 133,930 | -- | 18,041,742 | (263,065) | (2,079,662) | (5,587,663) | (150,791) | -- | 9,960,561 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

## FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Nonoperating Gains (Losses)** | | | | | | | | | | | |
| Investment income | $ 147,957 | $ 728,488 | $ 283,761 | $ -- | 1,160,206 | $ 85,146 | $ 1,832,450 | $ -- | $ -- | $ -- | $ 3,077,802 |
| Net realized and unrealized losses on interest rate swaps | -- | (2,666,937) | -- | -- | (2,666,937) | -- | -- | -- | -- | -- | (2,666,937) |
| Net gain on equity investment | -- | -- | -- | -- | -- | -- | -- | -- | 1,097,587 | -- | 1,097,587 |
| Unrestricted contributions, gifts and bequests | -- | -- | 277,938 | -- | 277,938 | -- | -- | -- | -- | -- | 277,938 |
| Fundraising expenses | -- | -- | (701,983) | -- | (701,983) | -- | -- | -- | -- | -- | (701,983) |
| Grant revenues | -- | 2,004,694 | -- | -- | 2,004,694 | 284,752 | -- | -- | -- | -- | 2,289,446 |
| Grant expenses | -- | (2,103,848) | -- | -- | (2,103,848) | (58,948) | -- | -- | -- | -- | (2,162,796) |
| **Total Nonoperating Gains (Losses)** | 147,957 | (2,037,603) | (140,284) | -- | (2,029,930) | 310,950 | 1,832,450 | -- | 1,097,587 | -- | 1,211,057 |
| **Noncontrolling Interest** | -- | -- | -- | -- | -- | -- | -- | -- | -- | 98,691 | 98,691 |
| **Excess (Deficiency) of Revenues over Expenses** | 224,721 | 15,793,445 | (6,354) | -- | 16,011,812 | 47,885 | (247,212) | (5,587,663) | 946,796 | 98,691 | 11,270,309 |
| **Other Changes in Unrestricted Net Assets** | | | | | | | | | | | |
| Change in net unrealized losses on investments | -- | -- | -- | -- | -- | -- | (840,455) | -- | -- | -- | (840,455) |
| Change in interest in net assets of affiliate | -- | 993,256 | -- | (459,944) | 533,312 | -- | -- | -- | -- | (533,312) | -- |
| Net assets released from restrictions for capital | -- | 1,455,655 | -- | -- | 1,455,655 | -- | -- | -- | -- | -- | 1,455,655 |
| Capital infusion | -- | -- | -- | -- | -- | -- | 98,691 | -- | -- | (98,691) | -- |
| Transfers between affiliates | (313,000) | (6,839,757) | 466,298 | -- | (6,686,459) | -- | -- | 6,120,975 | 565,484 | -- | -- |
| Pension and other postretirement related changes other than net periodic benefit cost | -- | (10,758,389) | -- | -- | (10,758,389) | -- | -- | -- | -- | -- | (10,758,389) |
| **(Decrease) Increase in Unrestricted Net Assets** | $ (88,279) | $ 644,210 | $ 459,944 | $ (459,944) | $ 555,931 | $ 47,885 | $ (988,976) | $ 533,312 | $ 1,512,280 | $ (533,312) | $ 1,127,120 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS

## FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | | | | | | |
| Net patient service revenue | $ -- | $ 142,949,359 | $ -- | $ -- | $ 142,949,359 | $ -- | $ -- | $ 8,716,309 | $ -- | $ -- | 151,665,668 |
| State supplemental revenue | -- | 1,899,613 | -- | -- | 1,899,613 | -- | -- | -- | -- | -- | 1,899,613 |
| Other operating revenue | 7,927,486 | 3,792,297 | -- | (109,908) | 11,609,875 | 3,488,096 | 2,107,981 | 649,593 | 478,684 | (3,317,549) | 15,016,680 |
| Net assets released from restrictions for operations | -- | -- | 811,602 | -- | 811,602 | -- | -- | -- | -- | -- | 811,602 |
| **Total Operating Revenues** | 7,927,486 | 148,641,269 | 811,602 | (109,908) | 157,270,449 | 3,488,096 | 2,107,981 | 9,365,902 | 478,684 | (3,317,549) | 169,393,563 |
| **Operating Expenses** | | | | | | | | | | | |
| Employee compensation and related expenses | 427,554 | 77,228,070 | -- | -- | 77,655,624 | 2,238,575 | -- | 12,317,031 | -- | -- | 92,211,230 |
| Supplies and other expenses | 7,368,026 | 51,076,972 | 811,602 | (109,908) | 59,146,692 | 1,258,409 | 2,874,476 | 2,377,918 | 599,127 | (3,317,549) | 62,939,073 |
| State hospital tax expense | -- | 6,283,833 | -- | -- | 6,283,833 | -- | -- | -- | -- | -- | 6,283,833 |
| Depreciation | 6,286 | 4,440,683 | -- | -- | 4,446,969 | 46,437 | -- | 241,389 | 159,350 | -- | 4,894,145 |
| Interest | -- | 2,123,883 | -- | -- | 2,123,883 | -- | -- | -- | 128,936 | -- | 2,252,819 |
| Provision for doubtful accounts, net of recoveries | -- | -- | 12,544 | -- | 12,544 | 5,004 | -- | -- | -- | -- | 17,548 |
| **Total Operating Expenses** | 7,801,866 | 141,153,441 | 824,146 | (109,908) | 149,669,545 | 3,548,425 | 2,874,476 | 14,936,338 | 887,413 | (3,317,549) | 168,598,648 |
| **Income (Loss) from Operations** | 125,620 | 7,487,828 | (12,544) | -- | 7,600,904 | (60,329) | (766,495) | (5,570,436) | (408,729) | -- | 794,915 |

***See independent auditors' report on accompanying consolidating information.***

# GRIFFIN HEALTH SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

## FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | Griffin Health Services Corporation | The Griffin Hospital | The Griffin Hospital Development Fund, Inc. | Eliminations | Total Obligated Group | Planetree, Inc. | Healthcare Alliance Insurance Company, Inc. | Griffin Faculty Practice Plan | G.H. Ventures, Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Nonoperating (Losses) Gains** | | | | | | | | | | | |
| Investment income | $ (61,226) | $ 180,955 | $ (115,042) | $ -- | 4,687 | $ (36,043) | $ 691,528 | $ -- | $ -- | $ -- | $ 660,172 |
| Net realized and unrealized losses | | | | | | | | | | | |
| on interest rate swaps | -- | (2,480,754) | -- | -- | (2,480,754) | -- | -- | -- | -- | -- | (2,480,754) |
| Net gain on equity investment | -- | -- | -- | -- | -- | -- | -- | -- | 1,091,416 | -- | 1,091,416 |
| Unrestricted contributions, gifts and bequests | -- | -- | 323,106 | -- | 323,106 | -- | -- | -- | -- | -- | 323,106 |
| Fundraising expenses | -- | -- | (517,020) | -- | (517,020) | -- | -- | -- | -- | -- | (517,020) |
| Grant revenues | -- | 1,942,304 | -- | -- | 1,942,304 | 152,792 | -- | -- | -- | -- | 2,095,096 |
| Grant expenses | -- | (2,039,194) | -- | -- | (2,039,194) | (31,812) | -- | -- | -- | -- | (2,071,006) |
| **Total Nonoperating (Losses) Gains** | (61,226) | (2,396,689) | (308,956) | -- | (2,766,871) | 84,937 | 691,528 | -- | 1,091,416 | -- | (898,990) |
| **Noncontrolling Interest** | -- | -- | -- | -- | -- | -- | -- | -- | -- | 272,087 | 272,087 |
| **Excess (Deficiency) of Revenues over Expenses** | 64,394 | 5,091,139 | (321,500) | -- | 4,834,033 | 24,608 | (74,967) | (5,570,436) | 682,687 | 272,087 | 168,012 |
| **Other Changes in Unrestricted Net Assets** | | | | | | | | | | | |
| Change in net unrealized losses on investments | -- | -- | -- | -- | -- | -- | (719,674) | -- | -- | -- | (719,674) |
| Change in interest in net assets of affiliate | -- | 102,275 | -- | (23,586) | 78,689 | -- | -- | -- | -- | (78,689) | -- |
| Capital infusion | -- | -- | -- | -- | -- | -- | 272,087 | -- | -- | (272,087) | -- |
| Transfers between affiliates | -- | (6,299,917) | 345,086 | -- | (5,954,831) | -- | -- | 5,649,125 | 305,706 | -- | -- |
| Pension and other postretirement related | | | | | | | | | | | |
| changes other than net periodic benefit cost | -- | (12,041,404) | -- | -- | (12,041,404) | -- | -- | -- | -- | -- | (12,041,404) |
| **Increase (Decrease) in Unrestricted Net Assets** | $ 64,394 | $ (13,147,907) | $ 23,586 | $ (23,586) | $ (13,083,513) | $ 24,608 | $ (522,554) | $ 78,689 | $ 988,393 | $ (78,689) | $ (12,593,066) |

***See independent auditors' report on accompanying consolidating information.***