

Bristol Hospital, Incorporated

Independent Auditors' Report and
Financial Statements

As of and for the Years Ended
September 30, 2011 and 2010



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

To the Board of Directors of
Bristol Hospital, Incorporated:

We have audited the accompanying balance sheets of Bristol Hospital, Incorporated (the Hospital) a not-for-profit, non-stock corporation, as of September 30, 2011 and 2010, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bristol Hospital, Incorporated as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Bristol Hospital and Health Care Group as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended (none of which are presented herein), and we expressed an unqualified opinion on those financial statements. Such consolidated financial statements are the general-purpose financial statements of Bristol Hospital and Health Care Group.

Saslow Lufkin & Buggy, LLP

December 20, 2011

Bristol Hospital, Incorporated
Balance Sheets
September 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,272,881	\$ 8,286,702
Short-term investments	96,343	96,165
Accounts receivable, less allowance for doubtful accounts of \$6,590,278 (2011) and \$5,354,188 (2010)	20,427,829	15,483,112
Other receivables	677,818	827,194
Due from affiliates	2,258,921	1,809,846
Inventories of supplies	1,696,559	1,439,654
Estimated settlements with third-party payers	2,379,937	-
Prepaid expenses	467,593	991,052
Debt service funds	462,954	452,373
Total current assets	32,740,835	29,386,098
Assets limited as to use:		
Funds held for malpractice self insurance fund	6,406,972	6,461,527
Board designated investments	5,602,380	5,780,627
Beneficial interest in assets held in trust by others	2,743,115	2,840,135
Funds held under bond indenture agreements, Series B Bonds	2,506,470	2,506,470
Interest in net assets of Foundation	4,332,419	4,201,750
Donor restricted investments	394,142	394,142
Total assets limited as to use	21,985,498	22,184,651
Other assets:		
Long-term investments	6,015,999	6,220,475
Investments in joint ventures	701,673	1,264,054
Deferred expenses and other assets	503,236	386,232
Unamortized bond finance costs	1,148,242	1,203,809
Total other assets	8,369,150	9,074,570
Property, plant and equipment:		
Land and land improvements	3,813,993	3,888,779
Buildings	58,582,968	56,257,285
Fixtures and equipment	76,698,658	67,716,900
Construction in progress	120,375	2,656,483
	139,215,994	130,519,447
Less: accumulated depreciation	99,185,736	93,518,978
	40,030,258	37,000,469
Total assets	\$ 103,125,741	\$ 97,645,788
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 11,772,566	\$ 9,420,211
Accrued payroll and other related expenses	11,466,850	7,122,528
Estimated settlements due to third-party payers	-	327,508
Borrowings on line of credit and demand loan	3,541,944	3,771,110
Current portion of long-term debt	764,829	751,841
Total current liabilities	27,546,189	21,393,198
Other accrued liabilities	7,419,850	7,149,806
Long-term debt, less current portion	26,550,048	27,352,868
Accrued postretirement benefit liability	5,855,356	6,148,004
Asset retirement obligation	2,116,281	2,026,281
Accrued pension liability, less current portion	25,622,329	25,355,098
Total liabilities	95,110,053	89,425,255
Net assets:		
Unrestricted	427,122	755,592
Temporarily restricted	1,021,495	800,850
Permanently restricted	6,567,071	6,664,091
Total net assets	8,015,688	8,220,533
Total liabilities and net assets	\$ 103,125,741	\$ 97,645,788

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

Bristol Hospital, Incorporated
Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Net patient service revenues	\$ 125,941,019	\$ 128,018,896
Other operating revenues	6,100,777	4,183,082
Total operating revenues	132,041,796	132,201,978
Operating expenses:		
Salaries, wages and fees	56,506,869	57,886,913
Supplies and other expenses	57,992,637	55,226,546
Bad debt expense	9,847,024	10,944,348
Depreciation and amortization	5,714,642	5,241,260
Interest expense	1,833,355	1,688,566
Total operating expenses	131,894,527	130,987,633
Gain from operations	147,269	1,214,345
Non-operating income	2,043,267	571,472
Excess of revenues over expenses	\$ 2,190,536	\$ 1,785,817

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

Bristol Hospital, Incorporated
Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted net assets:		
Excess of revenues over expenses	\$ 2,190,536	\$ 1,785,817
Net change in unrealized (losses) gains on investments	(866,399)	1,426,300
Transfer to Bristol Hospital and Health Care Group	(825,477)	(665,510)
Pension changes other than net periodic benefit costs	(1,184,961)	(1,945,671)
Pension changes in joint ventures	-	(69,493)
Change in interest in net assets of Foundation	(89,976)	316,481
Net assets released from restrictions for capital acquisitions	169,416	709,254
Changes in postretirement health and welfare benefits other than net periodic benefit costs	278,391	(546,188)
Change in unrestricted net assets	(328,470)	1,010,990
Temporarily restricted net assets:		
Change in interest in net assets of Foundation	390,061	570,365
Net assets released from restrictions	(169,416)	(709,254)
Change in temporarily restricted net assets	220,645	(138,889)
Permanently restricted net assets:		
Change in assets held in trust by others	(97,020)	109,172
Change in permanently restricted net assets	(97,020)	109,172
Change in net assets	(204,845)	981,273
Net assets, beginning of year	8,220,533	7,239,260
Net assets, end of year	\$ 8,015,688	\$ 8,220,533

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

Bristol Hospital, Incorporated
Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (204,845)	\$ 981,273
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,714,642	5,241,260
Bad debt expense	9,847,024	10,944,348
Transfer to Bristol Hospital and Health Care Group	825,477	665,510
Change in assets held in trust by others	97,020	(109,172)
Net unrealized losses (gains) on investments	866,399	(1,426,300)
Change in net assets of and contributions from Foundation	(130,669)	(177,592)
Changes in assets and liabilities:		
Account receivable	(14,791,741)	(9,979,237)
Other receivables	149,376	(17,305)
Due from affiliates	(449,075)	(613,076)
Inventories of supplies	(256,905)	202,076
Estimated settlement to third-party payers	(2,707,445)	(644,389)
Prepaid expenses	523,459	357,751
Deferred expenses and other assets	(117,004)	(175,325)
Trade accounts payable	2,352,355	1,502,648
Accrued payroll and other related expenses	4,344,322	560,746
Other accrued liabilities	270,044	(13,818)
Asset retirement obligation	90,000	90,000
Accrued pension and postretirement liabilities	(25,417)	3,954,591
Net cash provided by operating activities	6,397,017	11,343,989
Cash flows from investing activities:		
Additions to property, plant and equipment	(8,688,864)	(7,025,485)
Purchases of investments	(216,825)	(98,328)
Sales of investments	24,801	-
Debt service funds	(10,581)	237,670
Change in investments in joint ventures	562,381	105,011
Changes in funds held for malpractice self insurance fund, net	(237,275)	790,831
Decrease in funds held under bond indenture	-	4,139
Net cash used in investing activities	(8,566,363)	(5,986,162)
Cash flows from financing activities:		
Repayments and borrowings of long-term debt, net	(789,832)	(172,922)
Transfer to Bristol Hospital and Health Care Group	(825,477)	(665,510)
Net (payments of) proceeds from line of credit and demand loan	(229,166)	(2,978,890)
Net cash used in financing activities	(1,844,475)	(3,817,322)
Net change in cash and cash equivalents	(4,013,821)	1,540,505
Cash and cash equivalents at beginning of year	8,286,702	6,746,197
Cash and cash equivalents at end of year	\$ 4,272,881	\$ 8,286,702

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

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 1 - General

Organization - Bristol Hospital, Incorporated (the Hospital), a not-for-profit, non-stock corporation incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Bristol Hospital and Health Care Group (BHHCG) (the sole member). The Board of BHHCG elects the Hospital's Board of Directors, which manages the properties and affairs of the Hospital.

The Bristol Hospital Development Foundation (BHDF or the Foundation) was formed as a non-profit corporation for the purpose of raising funds for the Hospital and other members of BHHCG. The Foundation is a subsidiary of BHHCG and its Board of Directors is appointed by BHHCG. The Foundation also holds certain endowment funds on behalf of the Hospital. These endowment funds are reflected by the Hospital as an interest in the net assets of the Foundation, within the net asset categories of the Hospital. Assets held by the Foundation in which the Hospital has a net interest in are classified by the Hospital within the applicable net asset class. Increases or decreases in the Hospital's interest in the net assets of the Foundation are reflected in the statements of operation and changes in net assets within the applicable net asset categories.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Since the adoption of the Codification in 2009, the FASB issues any new authoritative accounting standards in the form of Accounting Standards Updates (ASU's). In 2010, the Hospital established HG Property Holdings, LLC (HG). HG is a real estate holding company and currently owns two properties acquired by the Hospital in 2010. The accounts of HG have been included within the Hospital statements and due to the immaterial nature of HG, the consolidated financial statements and schedules have not been presented.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also impact the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Hospital's significant estimates relate to the allowance for doubtful accounts and contractual allowances on patient accounts receivable, valuation of investments, estimated settlements due to third-party payers, reserves for self insurance liabilities and the pension and other postretirement employee benefit plan liability assumptions.

Cash and Cash Equivalents - The Hospital considers all highly liquid investments with maturities of ninety days or less at the date of purchase to be cash equivalents. Cash balances maintained at banks are insured by the Federal Deposit Insurance Corporation (FDIC). In general, the FDIC insures cash balances up to \$250,000 per depositor, per bank. However, the FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. Unlimited coverage on non-interest bearing accounts extends until December 31, 2012. Amounts in excess of the FDIC limits are uninsured. Cash and cash equivalents are maintained primarily with one bank including one investment bank sponsored money market fund and from time to time cash balances exceed FDIC limits. It is the Hospital's policy to monitor the bank's financial strength on an ongoing basis.

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset backed securities. Although a money market fund seeks to preserve its \$1 per share value, it is possible that a money market fund's value can decrease below \$1 per share.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Regulatory Matters - The Hospital is required to file annual reporting with the State of Connecticut Office of Health Care Access (OHCA).

Assets Limited as to Use - Assets limited as to use include funds held for malpractice self insurance, assets set aside by the Board of Directors for future capital improvements, over which the Board of Directors retains control, the beneficial interest in assets held in trust by others, investments held in escrow under borrowing arrangements, donor restricted investments and interest in net assets of BHDF, and may, at its discretion, subsequently use for other purposes.

Inventories - Inventories are stated at the lower of cost or market, determined by the first-in, first-out (FIFO) method.

Investments - The Hospital accounts for its investments in accordance with FASB ASC 320, "*Investments - Debt and Equity Securities*." Short-term investments and investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying balance sheets. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses, unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues over expenses.

All of the Hospital's investments as of September 30, 2011 and 2010, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value. Realized gains and losses, relating to available for sale securities, determined on the specific identification basis, along with interest and dividend income, are reported as a component of non-operating income on the consolidated statements of operations and changes in net assets.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Other Than Temporary Impairment of Investments - The Hospital accounts for other than temporary impairments in accordance with FASB ASC 320. When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings, included in non-operating income, and the cost basis of that investment is reduced.

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

No impairment losses were recognized in 2011 and 2010.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Investments in Joint Ventures - The Hospital has invested in the following joint ventures and limited liability companies, which are accounted for under the equity method of accounting.

	Ownership Percentage
Bristol MSO, LLC	50.00%
MedWorks, LLC	49.00%
Connecticut Occupational Medical Partners	33.00%
MedConn Collection Agency	20.00%
Total Laundry Collaborative, LLC	9.00%
Central Connecticut Endoscopy Center	6.50%
Health Connecticut, LLC	5.40%

Investments in limited liability companies are accounted for using the equity method in accordance with FASB ASC 323, “*Investments - Equity Method and Joint Ventures*,” in instances where the limited partner’s interest is more than minor (3-5%).

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

Assets Held in Trust by Others - The Hospital has been named sole or participating beneficiary in several perpetual trusts. Under the terms of these trusts, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity. The estimated present value of the future payments to the Hospital is recorded at the fair value of the assets held in the trust by others. Fluctuations in the value of such assets are recognized as changes in permanently restricted net assets.

Board Restricted Endowment - As of September 30, 2011 and 2010, the Hospital has \$5,602,380 and \$5,780,627, respectively, of unrestricted investments, which have been restricted by the Board of Directors of BHHCG and are not available for use without the approval of the Board of Directors.

Bond Financing Costs - Costs incurred with debt financings are capitalized and are being amortized on a straight-line basis over the life of the debt. Amortization expense on bond financing costs was \$55,567 and \$56,090, for the years ended September 30, 2011 and 2010, respectively.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment - Property, plant and equipment is recorded at cost or, if received as a donation, at the fair value on the date received. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their useful lives. Useful lives assigned to assets are as follows: Land improvements - 2 to 25 years; Leasehold improvements - 15 to 20 years; Buildings - 15 to 40 years; and Equipment - 3 to 20 years.

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those whose use by the Hospital have been limited by donors to a specific time period or purpose. Temporarily restricted net assets consist primarily of contributions for capital improvements and healthcare services. Permanently restricted net assets, which are primarily endowment gifts and assets held in trust by others, have been restricted by donors to be maintained in perpetuity (see Note 6). Both temporarily and permanently restricted net assets also consist of contributions held by the Foundation for capital improvements and healthcare services for the benefit of the Hospital.

Excess of Revenues Over Expenses - The statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for purposes of acquiring such assets).

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenues and expenses. Investment interest income and income (loss) generated on equity investments are considered non-operating activities.

Income Taxes - The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Hospital accounts for uncertain tax positions with provisions of FASB ASC 740, "Income Taxes" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as September 30, 2011 and 2010. It is the Hospital's policy to record penalties and interest associated with uncertain tax provisions as a component of operating expenses. As of September 30, 2011 and 2010, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital's prior three tax years are open and subject to examination by the Internal Revenue Service.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Fair Value Measurements - The Hospital measures fair value in accordance with FASB ASC 820, “*Fair Value Measurements and Disclosures*,” which defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and 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 (contractual) 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.

New Accounting Pronouncements - In January 2010, the FASB issued FASB Accounting Standards Update (ASU) 2010-06, which clarifies certain existing fair value measurement disclosure requirements of FASB ASC 820 and also requires additional fair value measurement disclosures. FASB ASU 2010-06 requires fair value measurement disclosures for each class of assets and liabilities by level of disaggregation, disclosures about inputs and valuation techniques used to determine the fair value for each class of assets and liabilities and disclosures of significant transfers in and out of Level 1 and 2 assets and liabilities. These disclosures are effective for interim and annual periods beginning after December 15, 2009. The new disclosures also require Level 3 activity regarding purchases, sales, issuances and settlements to be presented separately on a gross versus net basis. The disclosures of Level 3 activity on a gross basis are effective for fiscal years beginning after December 15, 2010.

In August 2010, the FASB issued ASU 2010-23, “*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*.” FASB ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. FASB ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. The adoption of this new guidance is effective for the Hospital beginning October 1, 2011.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU 2010-24, “*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries.*” FASB ASU 2010-24 is intended to address current diversity in practice to the accounting by healthcare entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. Most healthcare entities have netted anticipated insurance recoveries against the related accrued liability, although some entities have presented the anticipated insurance recovery and related liability on a gross basis. The existing guidance does not permit offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. This update clarifies that a healthcare entity should not net insurance recoveries against related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of this new guidance is effective for the Hospital beginning October 1, 2011.

In July 2011, the FASB issued ASU 2011-07, “*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities,*” which requires a healthcare entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patients service revenue from an operating expense to a deduction from patients service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity’s policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of FASB ASU 2011-07 is effective for the Hospital beginning October 1, 2012.

Subsequent Events - Subsequent events have been evaluated through December 20, 2011, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

Note 3 - Revenues from Services to Patients and Charity Care

The following reconciles gross patient service revenues to net patient service revenues.

	<u>2011</u>	<u>2010</u>
Gross revenues from service to patients	\$ 345,045,549	\$ 361,761,109
Deductions and exclusions:		
Allowances	218,880,779	233,483,110
Charity care	<u>223,751</u>	<u>259,103</u>
Net revenues from service to patients	<u>\$ 125,941,019</u>	<u>\$ 128,018,896</u>

Patient revenues and accounts receivable are recorded when patient services are performed. Amounts received from most payers are different from established billing rates, and these differences are accounted for as contractual allowances.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 3 - Revenues from Services to Patients and Charity Care (continued)

Net patient service revenues are reported at the estimated realizable amounts from patients, third-party payers and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payer settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. During 2011 and 2010, approximately 33% and 38% of net patient service revenues was received under the Medicare program, respectively. During 2011 and 2010, approximately 14% and 9%, respectively of net patient service revenue was received under the State Medicaid program. During both 2011 and 2010, approximately 16% of net patient service revenue was received from Blue Cross.

Inpatient acute care services rendered to Medicare program recipients are paid at prospectively determined rates per discharge varying according to the intensity of services required. Inpatient acute care services are paid based on diagnosis-related groups (DRG) and inpatient rehabilitation services are paid based on case mix groups (CMG). Outpatient services are reimbursed by Medicare on an Ambulatory Payment Classification (APC) basis and fee screens. Hospital claims for reimbursement are subject to review and audit. The Hospital's Medicare cost reports have been settled with the Medicare fiscal intermediary through 2006.

Inpatient Medicaid reimbursement through the Connecticut Department of Social Services (DSS) is reimbursed on a per diem basis with settlement cost reports based on discharges filed in the subsequent fiscal year. Outpatient activity through DSS is reimbursed based on fee schedules in effect at the time the service is provided. Managed Medicaid services are reimbursed according to per diems and fee schedules in place at the time the service is provided.

The Hospital has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Hospital receives fee-for-service payments for covered services based upon discounted fee schedules.

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to established policies. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, generally recognized annual poverty income guidelines published in the Federal Register are utilized, but also included are certain cases where incurred charges are significant when compared to income. For the years ended September 30, 2011 and 2010, the Hospital granted charity care of \$223,751 and \$259,103 in charges, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Hospital management believes that the Hospital is in compliance with all applicable laws and regulations and is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse impact on the Hospital.

Contractual adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 4 - Investments

The Hospital has investments carried on the balance sheets within assets held in trust under bond indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA or the Authority), funds held within a malpractice self insurance fund, assets held in trust by others, board designated investments, long-term investments and temporary and permanently donor restricted investments. Cost and fair values of investments as of September 30, 2011 and 2010 are summarized as follows:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Debt Service Funds:				
U.S. treasury obligations	\$ 462,954	\$ 462,954	\$ 452,373	\$ 452,373
Assets Limited as to Use:				
Board designated investments:				
Cash	\$ 399,644	\$ 399,644	\$ 395,545	\$ 395,545
Mutual funds	6,499,225	5,202,736	6,433,405	5,385,082
Total	<u>\$ 6,898,869</u>	<u>\$ 5,602,380</u>	<u>\$ 6,828,950</u>	<u>\$ 5,780,627</u>
Held for malpractice self insurance fund:				
Cash and money market funds	\$ 33,526	\$ 33,526	\$ 96,190	\$ 96,190
Corporate and foreign bonds	849,246	852,670	-	-
Preferred equity securities	165,027	159,255	-	-
Equity mutual funds	1,746,179	1,709,618	1,950,245	2,090,615
Fixed income mutual funds	3,616,115	3,651,903	4,139,665	4,274,722
Total	<u>\$ 6,410,093</u>	<u>\$ 6,406,972</u>	<u>\$ 6,186,100</u>	<u>\$ 6,461,527</u>
Held by trustee under bond indenture agreement:				
U.S. treasury obligations	\$ 2,506,470	\$ 2,506,470	\$ 2,506,470	\$ 2,506,470
Long-term Investments:				
Cash and interest bearing accounts	\$ 456,990	\$ 456,990	\$ 441,756	\$ 441,756
Mutual funds	6,370,853	5,559,009	6,250,878	5,778,719
Total	<u>\$ 6,827,843</u>	<u>\$ 6,015,999</u>	<u>\$ 6,692,634</u>	<u>\$ 6,220,475</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 4 - Investments (continued)

Beneficial interest assets held in trust by others of \$2,743,115 and \$2,840,135, as of September 30, 2011 and 2010, respectively, are held by bank trustees and are not under the Hospital's investment control. These assets are invested within diversified portfolios.

Investment amounts not included in the aforementioned table include permanently restricted donor investments of \$394,142 which are investments in mutual funds and are the original amounts required to be held in perpetuity. This amount is classified as a permanently restricted net asset. Also not included in the above table is the Hospital's interest in the net assets of the Foundation, of \$4,332,419 and \$4,201,750, of which \$3,429,814 is permanently restricted as of September 30, 2011 and 2010, respectively. Amounts of \$607,938 and \$387,293 are temporary restricted within the Foundation as of September 30, 2011 and 2010, respectively.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at September 30, 2011 and 2010.

	<u>Less than 12 months</u>		<u>12 months and greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
As of September 30, 2011:						
Corporate and foreign bonds	\$ 244,099	\$ (5,160)	\$ -	\$ -	\$ 244,099	\$ (5,160)
Preferred equity securities	107,275	(8,440)	-	-	107,275	(8,440)
Equity mutual funds	938,529	(72,562)	10,643,486	(2,119,997)	11,582,015	(2,192,559)
Fixed income mutual funds	<u>1,042,235</u>	<u>(29,704)</u>	<u>-</u>	<u>-</u>	<u>1,042,235</u>	<u>(29,704)</u>
Total	<u>\$ 2,332,138</u>	<u>\$ (115,866)</u>	<u>\$ 10,643,486</u>	<u>\$ (2,119,997)</u>	<u>\$ 12,975,624</u>	<u>\$ (2,235,863)</u>
As of September 30, 2010:						
Equity mutual funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,044,122</u>	<u>\$ (1,537,891)</u>	<u>\$ 11,044,122</u>	<u>\$ (1,537,891)</u>

In 2011, investments with unrealized losses for greater than one year relate to 10 individual holdings in mutual fund investments. There are 22 investments with unrealized losses for less than one year which are investments in corporate and foreign bonds, preferred equity securities and mutual funds. Most of the Hospital's investments with unrealized losses for less than one year are investments held within the self-insurance fund. In 2010, investments with unrealized losses for greater than one year relate to 10 individual holdings in mutual fund investments. There are no investments with unrealized losses for less than one year. All unrealized losses on these securities are considered to be a result of the stock market environment and management believes these unrealized losses were deemed not to be other than temporarily impaired based on the guidance provided by FASB ASC 320.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements

The following tables present the financial instruments, carried at fair value, as of September 30, 2011 and 2010, by the valuation hierarchy. These tables include assets limited as to use, long-term investments and the Hospital's interest in the net assets of BHDF.

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,373,692	\$ -	\$ -	\$ 1,373,692
Equities:				
Mutual Funds:				
U.S. large cap	8,994,402	-	-	8,994,402
U.S. mid cap	2,862,550	-	-	2,862,550
U.S. small cap	2,054,315	-	-	2,054,315
Internationally developed	2,724,625	-	-	2,724,625
Preferred equity securities	-	159,255	-	159,255
Fixed Income:				
U.S. treasury obligations	-	2,969,424	-	2,969,424
Corporate and foreign bonds	-	852,670	-	852,670
Taxable fixed income mutual funds	-	2,698,435	-	2,698,435
Closed-end fixed income mutual funds	-	1,031,968	-	1,031,968
	<u>18,009,584</u>	<u>7,711,752</u>	<u>-</u>	<u>25,721,336</u>
Beneficial interest in assets held in trust by others	<u>-</u>	<u>-</u>	<u>2,743,115</u>	<u>2,743,115</u>
Total	<u>\$ 18,009,584</u>	<u>\$ 7,711,752</u>	<u>\$ 2,743,115</u>	<u>\$ 28,464,451</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements (continued)

<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,365,493	\$ -	\$ -	\$ 1,365,493
Equities:				
U.S. large cap	8,903,977	-	-	8,903,977
U.S. mid cap	3,158,200	-	-	3,158,200
U.S. small cap	2,176,851	-	-	2,176,851
Internationally developed	3,100,329	-	-	3,100,329
Fixed Income:				
U.S. treasury obligations	-	2,958,843	-	2,958,843
Taxable fixed income mutual funds	-	2,136,271	-	2,136,271
Closed-end fixed income mutual funds	-	2,217,400	-	2,217,400
	<u>18,704,850</u>	<u>7,312,514</u>	<u>-</u>	<u>26,017,364</u>
Beneficial interest in assets held in trust by others	<u>-</u>	<u>-</u>	<u>2,840,135</u>	<u>2,840,135</u>
Total	<u>\$ 18,704,850</u>	<u>\$ 7,312,514</u>	<u>\$ 2,840,135</u>	<u>\$ 28,857,499</u>

A rollforward of the investments classified as Level 3, within the fair value hierarchy, are as follows.

	<u>Beneficial Interest in Assets held in Trust by Others</u>
Balance as of October 1, 2009	\$ 2,730,963
Net change in market value	<u>109,172</u>
Balance as of September 30, 2010	2,840,135
Net change in market value	<u>(97,020)</u>
Balance as of September 30, 2011	<u>\$ 2,743,115</u>

The valuation methodologies used to determine the fair values of assets under the “exit price” notion reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes relevant observable market inputs over unobservable inputs. The Hospital determines the fair values of certain financial assets based on quoted market prices where available and where prices represent a reasonable estimate of fair value. The following is a discussion of the methodologies used to determine fair values for the financial instruments listed in the above tables.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements (continued)

The Fair values of the Hospital's Level 1, Level 2 and Level 3 investments are determined by management after considering prices received from third party pricing services and sources.

- *Cash and cash equivalents* - includes money market funds that are valued based on the underlying securities, which are primarily traded on national exchanges or traded daily. They are priced at one dollar per share.
- *Equity mutual funds* - fair values based on observable quoted market prices from national securities exchanges.
- *Preferred equity securities* - valued at the closing price reported on the active market on which the individual securities are traded.
- *Fixed income mutual funds* - This category includes investments in bonds and notes either directly or through other investment funds, seeking total investment returns through a combination of current income and capital appreciation. Underlying assets are valued daily.
- *United States obligations* - Evaluators gather information from market sources and integrate relative credit information, observed market movements, and sector news into the evaluated pricing applications and models.
- *Corporate and foreign bonds* - Certain securities are valued at the closing price reported in the active market in which the bond is traded. Other fixed income securities are valued using standard inputs which include benchmark yields, reported trades, broker/dealer quotes, benchmark securities, bids, offers and reference data, monthly payment information and collateral performance in addition to the standard inputs noted above.
- *Funds held in trust by others* - Represent beneficial interest in certain assets held by third parties. These interests are classified as Level 3 investments as the reported fair values are based on a combination of Level 1 and Level 2 inputs and significant unobservable inputs as determined by the trustees who exercise control over the investments.

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

As of September 30, 2011 and 2010, the Hospital's other financial instruments include cash and cash equivalents, accounts payable, accrued expenses, estimated settlements due to third-party payers and long-term debt. The carrying amounts reported in the balance sheets for these financial instruments approximate their fair value.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 6 - Net Assets and Endowments

Temporarily restricted net assets, as of September 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
State Hospital grant (included in cash and cash equivalents)	\$ 413,557	\$ 413,557
Healthcare services	<u>607,938</u>	<u>387,293</u>
Total	<u>\$ 1,021,495</u>	<u>\$ 800,850</u>

Permanently restricted net assets, as of September 30, 2011 and 2010, are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Held in perpetuity, income restricted for healthcare services	\$ 3,823,956	\$ 3,823,956
Beneficial interest in assets held in trust by others	<u>2,743,115</u>	<u>2,840,135</u>
Total	<u>\$ 6,567,071</u>	<u>\$ 6,664,091</u>

The Hospital's endowment and restricted net assets consists of multiple funds established for a variety of purposes. These funds include donor restricted endowment funds, funds designated by the Board of Directors to function as endowments, the Hospital's beneficial interest in the BHDF and funds held in trust by others. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

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

The Board of Directors of the Hospital considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital 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 Hospital; and (7) the investment policies of the Hospital.

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a reasonably stable and predictable stream of earnings to support the operations of the endowments and to preserve and enhance over time the real value of the endowment assets.

The Board of Directors is responsible for defining and reviewing the investment policies to determine an appropriate long-term asset allocation policy. The asset allocation policy reflects the objective with allocations structured for capital growth and inflation protection over the long-term.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 6 - Net Assets and Endowments (continued)

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

During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Hospital has appropriated \$169,416 and \$709,254 of funds for expenditure from its temporarily restricted endowment funds for the year ending September 30, 2011 and 2010, respectively. The Hospital appropriated \$15,795 and \$13,000 of funds for expenditure from the Hospital's Board restricted endowment funds for the years ended September 30, 2011 and 2010, respectively. The Board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

Changes in net assets for endowments for the year ended September 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2010	\$ 5,416,136	\$ 800,850	\$ 6,664,091	\$ 12,881,077
Investment return:				
Investment income	85,713	-	-	85,713
Net change in market value	(338,141)	390,061	(97,020)	(45,100)
Expenditures	<u>(15,795)</u>	<u>(169,416)</u>	<u>-</u>	<u>(185,211)</u>
Balance at September 30, 2011	<u>\$ 5,147,913</u>	<u>\$ 1,021,495</u>	<u>\$ 6,567,071</u>	<u>\$ 12,736,479</u>

Changes in net assets for endowments for the year ended September 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2009	\$ 4,521,479	\$ 939,739	\$ 6,554,919	\$ 12,016,137
Investment return:				-
Investment income	60,172	-	-	60,172
Net change in market value	847,485	570,365	109,172	1,527,022
Expenditures	<u>(13,000)</u>	<u>(709,254)</u>	<u>-</u>	<u>(722,254)</u>
Balance at September 30, 2010	<u>\$ 5,416,136</u>	<u>\$ 800,850</u>	<u>\$ 6,664,091</u>	<u>\$ 12,881,077</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2011 and 2010, the Hospital's interest in the permanently restricted investment in BHDF were below the amount required to be retained in perpetuity. Therefore, unrestricted net assets have been reduced by \$454,467 and \$364,491 as of September 30, 2011 and 2010, respectively.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 7 - Leases

The Hospital leases property and equipment under non-cancelable operating leases that expire in various years through fiscal year 2016. Certain leases may be renewed at the end of their term.

Future minimum payments under non-cancelable operating leases with initial terms of one year or more consisted of the following as of September 30, 2011:

2012	\$	1,120,920
2013		1,045,288
2014		1,006,082
2015		501,690
2016		118,613
		118,613
Total	\$	3,792,593

Rental expense on operating leases was approximately \$1,644,000 and \$1,254,000 for the years ended September 30, 2011 and 2010, respectively.

Note 8 - Long-Term Debt

On January 1, 2002, CHEFA issued \$38,000,000 of Series B Bonds (the Series B Bonds or Bonds) on behalf of BHHCG, the Hospital, BHC, EMS and BHDF (collectively referred to as the "Obligated Group" under the Series B Bonds). The Series B Bonds mature serially from 2002 through 2032 with annual interest rates ranging from 3.0 to 5.5 percent. The Loan Agreement with the Authority and the Trust Indenture for the Series B Bonds contain certain covenants that require the Obligated Group to maintain a debt service coverage ratio of at least 1.25 at each fiscal year end and to maintain days cash on hand of at least 70 days at each June 30th and December 31st.

In 2006 and 2007, the Obligated Group did not meet certain covenants. As a result, in 2007, the Obligated Group entered into a forbearance agreement with the bond insurer. The forbearance agreement changed the days cash on hand measurement period from each December 31 and June 30 to each March 31 and September 30, beginning September 30, 2007. In addition, the forbearance agreement reduced the required number of days cash on hand to 40 days at September 30, 2007, reverting gradually back to 70 days on March 31, 2011 and thereafter. The forbearance agreement also limits additional long-term indebtedness based on certain debt service coverage ratios, as defined.

In connection with the forbearance agreement, the Obligated Group, in fiscal 2008, was required to deposit \$2,678,000 into a separate debt service reserve fund as well as amend the Series B Loan Agreement to conform to the terms and conditions of the forbearance agreement. In 2009, the required separate debt service reserve fund was returned and no longer required based on conditions of the forbearance agreement being met.

In January 2008, the CHEFA Loan Agreement and related Trust Indenture were amended. The amended agreement requires the debt service coverage ratio to be not less than 1.35 to 1 and the days cash on hand to be not less than 70 days (2011) and 60 days (2010). The Obligated Group, for the years ended September 30, 2011 and 2010, is in compliance with the terms of the forbearance agreement, the amended Series B Loan Agreement and the Trust Indenture.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 8 - Long-Term Debt (continued)

Members of the Obligated Group are jointly and severally obligated to provide amounts sufficient to enable the Authority to pay principal and interest on the Series B Bonds. The Bonds have been allocated to the Hospital and BHC and as such, the Hospital and BHC will make future debt service payments as required under the terms of the Bonds. As collateral for payment of the Series B Bonds, the Authority has assigned and pledged to the Trustee the payments to be made by the Hospital and BHC under their respective agreements.

The Hospital and BHC have recorded their respective portions of the Bonds with BHC receiving 56.3% of all bonds maturing through fiscal year 2020 and the Hospital receiving 43.7% of all bonds maturing through fiscal year 2020 along with the remaining 100% of the Bonds maturing through fiscal year 2032.

Below is a summary of the Hospital's and BHC's annual principal payments due as of September 30, 2011:

	Bristol Hospital, Incorporated	Bristol Health Care, Inc. and Subsidiary	Total Obligated Group
Year Ending September 30:			
2012	\$ 367,080	\$ 472,920	\$ 840,000
2013	388,930	501,070	890,000
2014	408,595	526,405	935,000
2015	430,445	554,555	985,000
2016	456,665	588,335	1,045,000
Thereafter	<u>22,169,490</u>	<u>2,685,510</u>	<u>24,855,000</u>
	24,221,205	5,328,795	29,550,000
Less: portion classified as current	<u>367,080</u>	<u>472,920</u>	<u>840,000</u>
	23,854,125	4,855,875	28,710,000
Less: discount	362,545	42,434	404,979
Add: Adjustment to record debt at fair value (Note 16)	<u>799,582</u>	<u>-</u>	<u>799,582</u>
Total	<u><u>\$ 24,291,162</u></u>	<u><u>\$ 4,813,441</u></u>	<u><u>\$ 29,104,603</u></u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 8 - Long-Term Debt (continued)

In fiscal year 2010, the Hospital entered into an agreement for a \$4,750,000 line of credit, with an additional term loan of \$1,000,000. The term loan requires monthly principal payments of \$20,833 which began on November 30, 2009 through October 31, 2010, with any unpaid balance including interest, fees and other charges due on October 31, 2010. Interest on both facilities is payable at either the existing prime rate plus 2.00% or the LIBOR rate plus 3.50%. Advances outstanding on the line of credit as of September 30, 2010 were \$3,000,000. The balance outstanding on the term loan as of September 30, 2010 was \$771,110. The term loan and line of credit were extended to October 31, 2011 and the line of credit was reduced to \$4,250,000. Advances outstanding on the line at September 30, 2011 were \$3,000,000. The balance outstanding on the term loan as of September 30, 2011 was \$541,944. On October 31, 2011, the term loan and line of credit were extended to February 28, 2012. The agreement requires the Hospital to maintain, at each quarter end, a debt service coverage ratio of 1.25 and days cash on hand at least 45 days at September 30, 2011 and 2010.

On December 1, 2004, the Authority and the Hospital entered into a debt agreement with GE Capital Public Finance, Inc. for title purchase of equipment. As part of the agreement, the Hospital received \$3,300,000. The term of the debt is for five years with an interest rate of 3.97%. In fiscal year 2010, the balance was paid in full upon the end of the loan term.

On May 28, 2004, the Hospital purchased a building in Bristol, which was subsequently leased to Bristol Hospital EMS, LLC (EMS). As part of the purchase, the Hospital obtained a mortgage in the amount of \$350,000. The term of the mortgage is for 30 years. The initial interest rate is 5.00%, fixed for five years, then changing on each fifth year anniversary to the prevailing commercial interest rate less 1.00%. The balance outstanding at September 30, 2011 and 2010 is \$305,407 and \$312,490, respectively.

On July 24, 2007, the Hospital financed an existing building for \$1,400,000. The term of the mortgage note is for twenty years. The initial interest rate is 6.38%, fixed for five years, and then changing on each fifth year anniversary to the then current interest rate paid on the FHLB Five Year Classic Advance Rate plus 1.25%. The balance outstanding as of September 30, 2011 and 2010 is \$1,236,385 and \$1,280,082, respectively.

On August 17, 2007, the Hospital entered into a debt agreement with GE Health Care Financial Services in the amount of \$1,461,729 for the purchase of equipment. The term of the debt is for five years with a rate of 4.35%. The balance outstanding at September 30, 2011 and 2010 is \$306,108 and \$619,170, respectively and is collateralized by the purchased equipment.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 8 - Long-Term Debt (continued)

On July 16, 2010, the Hospital entered into a commercial mortgage loan with New England Bank in the amount of \$850,000 as part of a purchase and refinance of a medical office building. The term of the mortgage is for fifteen years. Initial monthly payments on the loan for the first five years are \$7,173 and are subject to change based on the following adjustment to the interest rate. The initial interest rate is 6%, fixed for five years, and then changing on each fifth year anniversary to the then current FHLB Classic Advance Rate plus 2.50%. The balance outstanding as of September 30, 2011 and 2010 was \$808,735 and \$850,000, respectively.

In 2011, the Hospital has a \$500,000 line of credit available with New England Bank. Interest is payable at either the existing prime rate plus 1.00% or 4.00%. There were no advances outstanding on the line of credit as of September 30, 2011.

As of September 30, 2011 and 2010, the Hospital is in compliance with all financial covenants related to previously noted debt.

Below is a summary of the Hospital's annual principal payments due subsequent to September 30, 2011 of the long-term debt described above:

2012	\$	764,829
2013		488,188
2014		514,467
2015		543,102
2016		576,547
Thereafter		<u>23,990,707</u>
Total	\$	<u><u>26,877,840</u></u>

Interest paid for the years ended September 30, 2011 and 2010 was \$1,872,383 and \$1,802,293, respectively.

Note 9 - Pension Plan and Postretirement Health Benefits

Pension Plan - The Hospital and BHC have a defined benefit pension plan (the Plan) covering substantially all of its and its subsidiaries' employees. The benefit formula is based on years of service and the employee's compensation during the highest paid years of employment and credited service. The funding policy is to contribute annually an actuarially determined amount intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan and Postretirement Health Benefits (continued)

The following tables set forth the Plan's change in benefit obligation and change in plan assets for the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 72,862,000	\$ 69,832,000
Interest cost	3,845,000	3,938,000
Actuarial (gain) loss	(908,000)	5,220,000
Benefits paid	(5,602,000)	(5,950,000)
Expenses paid	(292,000)	(178,000)
	<u>69,905,000</u>	<u>72,862,000</u>
Benefit obligation at end of year	<u>\$ 69,905,000</u>	<u>\$ 72,862,000</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 46,495,000	\$ 47,872,000
Employer contributions	1,700,000	-
Actual return on plan assets	(718,000)	4,751,000
Benefits paid	(5,602,000)	(5,950,000)
Expenses paid	(292,000)	(178,000)
	<u>41,583,000</u>	<u>46,495,000</u>
Fair value of plan assets at end of year	<u>\$ 41,583,000</u>	<u>\$ 46,495,000</u>
Reconciliation of funded status:		
Funded status and accrued pension liability	<u>\$ (28,322,000)</u>	<u>\$ (26,367,000)</u>

The Hospital allocates a portion of the Plan's liability to BHC and records the amount as due from affiliate. The amounts due from BHC for the plan liability as of September 30, 2011 and 2010 were \$912,938 and \$826,212, respectively.

For the years ended September 30, 2011 and 2010, there are no differences between the Plan's accumulated benefit obligation and projected benefit obligation as the Plan is frozen.

The Hospital has included \$2,700,000 and \$1,012,000, as of September 30, 2011 and 2010, respectively, within accrued payroll and other related expenses on the balance sheet, as the current portion of the Plan's accrued pension liability.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan and Postretirement Health Benefits (continued)

Pension Plan Amendments - Effective October 1, 2003, the formula for calculating benefits under the Plan was changed, on a prospective basis, to calculate accumulated benefits based on each eligible participant's annual compensation in each Plan year versus each eligible participant's five-year average compensation for each plan year. Benefits earned by plan participants prior to September 30, 2003, under the old benefit formulation, remain unchanged.

Effective December 31, 2006, the Plan was frozen with regard to future pension benefit accruals.

The following table sets forth the components of net periodic benefit cost for the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest cost	\$ 3,845,000	\$ 3,938,000
Expected return on plan assets	(4,141,000)	(4,189,000)
Amortization of net loss	<u>2,762,000</u>	<u>2,712,000</u>
Net periodic benefit cost	<u>\$ 2,466,000</u>	<u>\$ 2,461,000</u>

The following were the weighted-average assumptions used to determine the pension benefit obligations at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Discount rate	5.50%	5.25%
Expected return on plan assets	9.00%	9.00%

The following were the weighted-average assumptions used to determine net periodic pension cost for years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Discount rate	5.75%	5.75%
Expected return on plan assets	9.00%	9.00%

The investment objective for the Plan seeks a long-term return to meet the Plan obligations. The expected return on plan assets assumption is derived based on the target asset allocation and expected long-term rates of returns for those asset classes.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan and Postretirement Health Benefits (continued)

The Plan's target and actual weighted-average asset allocations as of September 30, 2011 and 2010, by asset category are as follows:

Asset category:	Target	Actual Asset Allocation	
	Allocation	2011	2010
Equity securities	75%	84%	84%
Debt securities	25%	16%	16%
Total	100%	100%	100%

The fair values of the Hospital's pension plan assets by asset category are as follows for the year ended September 30, 2011 and 2010:

2011	Level 1	Level 2	Level 3	Total
Money market funds	\$ 8,311	\$ -	\$ -	\$ 8,311
Equities:				
Mutual funds - equity	34,877,061	-	-	34,877,061
Common stock - consumer discretionary	24,422	-	-	24,422
Fixed income:				
Mutual funds	6,673,576	-	-	6,673,576
Total	\$ 41,583,370	\$ -	\$ -	\$ 41,583,370
2010	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,548	\$ -	\$ -	\$ 2,548
Equities:				
Mutual funds - equity	35,091,155	4,606,999	-	39,698,154
Common stock - consumer discretionary	33,267	-	-	33,267
Fixed income:				
Mutual funds	6,760,923	-	-	6,760,923
Total	\$ 41,887,893	\$ 4,606,999	\$ -	\$ 46,494,892

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan and Postretirement Health Benefits (continued)

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

2012	\$	2,802,000
2013	\$	3,052,000
2014	\$	3,272,000
2015	\$	3,507,000
2016	\$	3,736,000
Years 2017-2021	\$	21,522,000

The amount recorded in unrestricted net assets as of September 30, 2011 and 2010, not yet amortized as a component of net periodic benefit cost, is \$39,514,392 and \$38,326,116, respectively. Amortization expected to be recognized in net periodic benefit costs for the year ended September 30, 2012 is \$3,402,073.

Postretirement Health Benefits - The Hospital sponsors a postretirement medical plan (Medical Plan) that covered all of its full-time employees up through December 31, 2006. The Medical Plan was frozen on December 31, 2006 with regard to future postretirement benefit accruals. All employees who are eligible for the Medical Plan and retire from the Hospital must attain age 55 with 10 years of service. Retired employees are required to contribute toward the cost of coverage according to various age and service-based rules established by the Hospital. The Medical Plan is not funded and does not provide prescription drug benefits to retirees.

The following tables set forth the Medical Plan's change in benefit obligation and change in plan assets for the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 6,549,000	\$ 6,003,000
Service cost	51,000	55,000
Interest cost	316,000	344,000
Actuarial (gain) loss	(254,000)	525,000
Benefits paid	(391,000)	(378,000)
	<u>\$ 6,271,000</u>	<u>\$ 6,549,000</u>
Change in plan assets:		
Plan assets at beginning of year	\$ -	\$ -
Employer contribution	391,000	378,000
Benefits paid	(391,000)	(378,000)
	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status:		
Funded status	\$ (6,271,000)	\$ (6,549,000)
Unrecognized net actuarial loss	-	-
	<u>\$ (6,271,000)</u>	<u>\$ (6,549,000)</u>
Accrued postretirement benefit liability	<u>\$ (6,271,000)</u>	<u>\$ (6,549,000)</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan and Postretirement Health Benefits (continued)

Amounts recognized in the balance sheets are as follows:

	<u>2011</u>	<u>2010</u>
Short-term portion of accrued postretirement benefit liability, included in accrued payroll and other related expenses	\$ (416,000)	\$ (401,000)
Long-term portion of accrued postretirement benefit liability	<u>(5,855,000)</u>	<u>(6,148,000)</u>
Total amount recognized	<u>\$ (6,271,000)</u>	<u>\$ (6,549,000)</u>

The components of net periodic benefit costs for the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 51,000	\$ 55,000
Interest cost	<u>316,000</u>	<u>344,000</u>
Net periodic benefit costs	<u>\$ 367,000</u>	<u>\$ 399,000</u>

The weighted-average assumptions used to determine the benefit obligation as of September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Discount rate	<u>5.50%</u>	<u>5.25%</u>

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Discount rate	5.25%	5.75%
Assumed healthcare cost trend rates:		
Initial trend rate	10.25%	9.50%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2018	2016

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan and Postretirement Health Benefits (continued)

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement plan. A one-percentage-point change in assumed healthcare cost rates would have the following effects.

	<u>2011</u>	<u>2010</u>
Effect of a 1% increase in healthcare cost trend rate on:		
Interest costs plus service costs	\$ 32,000	\$ 35,000
Accumulated postretirement benefit obligation	\$ 446,000	\$ 496,000
Effect of a 1% decrease in healthcare cost trend rate on:		
Interest costs plus service costs	\$ (25,000)	\$ (28,000)
Accumulated postretirement benefit obligation	\$ (370,000)	\$ (409,000)

The Hospital expects to contribute approximately \$416,000 to its Medical Plan in 2012 which is accrued within accrued payroll and other related expenses on the balance sheet.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

2012	\$ 415,000
2013	\$ 435,000
2014	\$ 443,000
2015	\$ 451,000
2016	\$ 452,000
Years 2017-2021	\$ 2,178,000

Note 10 - Other Employee Benefit Plans

The Hospital's employees are eligible to participate in a 403(b) plan, which requires that employees work a minimum 1,000 hours per year beginning on January 1 to remain eligible. Employees are eligible to participate at their hire date and must be employed at December 31 to receive employer contributions. The Hospital contributed a match in December of 2010 and as of September 30, 2011 and intends to contribute a match as of December 31, 2011. The 2011 and 2010 amounts are included in accrued payroll and other related expenses on the balance sheet. The Hospital incurred \$1,337,878 and \$404,594 of expense related to its 403(b) plan for the years ended September 30, 2011 and 2010, respectively.

Note 11 - Amounts Due From Affiliates and Related Parties

The Hospital provided laundry, employee physicals, postage, rental space and computer services to related entities. The revenues included in other operating revenues and were approximately \$144,000 and \$143,000 in 2011 and 2010, respectively.

Included in operating expenses is rental and billing expenses charged by affiliates, which totaled approximately \$29,000 in both 2011 and 2010.

The Hospital sent approximately \$3,840,100 and \$4,722,757 of patient accounts receivable to a related collection agency in 2011 and 2010, respectively.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 11 - Amounts Due From Affiliates and Related Parties (continued)

The following are the balances due from (to) affiliates as of September 30, 2010 and 2009:

	<u>2011</u>	<u>2010</u>
Bristol Health Care, Inc. and Subsidiary	\$ 1,143,681	\$ 1,150,887
Bristol Hospital Development Foundation	1,023,369	585,638
Bristol Hospital Multispecialty Group	(21,645)	-
Bristol Hospital EMS, LLC	<u>113,516</u>	<u>73,321</u>
	<u>\$ 2,258,921</u>	<u>\$ 1,809,846</u>

Note 12 - Malpractice and General Insurance

In 2009, the Hospital established a self insurance malpractice trust to provide malpractice insurance coverage for the Hospital. The Hospital has established a trust for the purpose of setting aside assets for self insurance purposes. The self insurance malpractice trust provides for a claims-made policy covering \$2 million per claim and \$6 million in the aggregate. In addition, the Hospital has a \$15 million excess policy with an independent insurance company. Under the trust agreement, the trust assets can only be used for payment of professional and general liability losses, related expenses and the cost of administering the trust. The assets of, and contributions to the trust are reported in the accompanying financial statements as assets limited as to use. Income from trust assets and administrative costs are reported in the accompanying statements of operations and changes in net assets, as other income.

The \$6,406,972 and \$6,461,527 of assets which reside in the trust, as of September 30, 2011 and 2010, respectively are included within the Hospital's days cash on hand debt covenant test, as the Hospital's Board of Directors can terminate this trust at anytime and utilize these funds for operating purposes.

The Hospital's malpractice liabilities, determined with the assistance of an independent actuary, as of September 30, 2011 and 2010 were estimated at \$6,657,036 and \$6,429,528, respectively, which were included within other accrued liabilities on the balance sheet. Included in this liability is an estimated incurred but not reported claim reserve, as the Hospital currently has a claims-made policy.

Note 13 - Self-Insurance of Workers' Compensation

The Hospital self-insures workers' compensation claims with a retention of the first \$350,000 per claim. The Hospital has also purchased excess liability insurance, which provides coverage for workers' compensation claims in excess of \$350,000 per claim. The self insurance plan is unfunded. During the year, potential losses from asserted and unasserted claims identified by the Hospital's third-party administrator and accrued based upon estimates that incorporate the Hospital's past experience, as well as the nature of each claim or incident and relevant trend factors. The Hospital's year-end workers' compensation reserve, as estimated by third-party administrator and the Hospital's management in conjunction with its independent actuaries, is included in other accrued liabilities on the balance sheets and is discounted at 3.0% in 2011 and 2010, respectively. The balances as of September 30, 2011 and 2010 are \$762,814 and \$720,278, respectively.

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 14 - Contingencies

Malpractice claims that fall within the Hospital's malpractice insurance have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through September 30, 2011 and 2010 that may result in the assertion of additional claims. Hospital management has accrued its best estimate of these contingent losses.

The Hospital is a party to various lawsuits and inquiries by various regulatory agencies in the normal course of its business. Management believes that the lawsuits and inquiries will not have a material adverse effect on its balance sheets, statement of operations and changes in net assets, or cash flows.

Note 15 - Functional Expenses and Non-operating Gains

The Hospital provides general health care services to residents primarily within their geographic location. Functional expenses related to their operating activities for the fiscal years ended September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Healthcare services	\$ 109,001,794	\$ 108,252,308
General and administrative	<u>22,892,733</u>	<u>22,735,325</u>
	<u>\$ 131,894,527</u>	<u>\$ 130,987,633</u>

During 2011, the Hospital ended its joint venture in Collaborative Laboratory Services (CLS). As part of the transaction, the Hospital assumed assets in the form of property, plant and equipment and miscellaneous liabilities. The Hospital also settled all balances due to and from CLS in this transaction. The final settlement resulted in a gain of \$940,002, which has been recorded in non-operating income on the statements of operations and changes in net assets.

Non-operating income for the years ended September 30, 2011 and 2010 consists of:

	<u>2011</u>	<u>2010</u>
Investment and interest income	\$ 516,585	\$ 285,251
Gain on equity investments	586,680	286,221
Gain on sale of CLS	<u>940,002</u>	<u>-</u>
Total non-operating income	<u>\$ 2,043,267</u>	<u>\$ 571,472</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 16 - Derivative Instruments and Hedging Activities

As part of its strategy to reduce the cost of borrowing related to its fixed rate CHEFA bonds, on November 1, 2003, the Hospital entered into swap transaction with a notional amount of \$12,500,000 to hedge the changes in the fair value of its fixed rate debt related to changes in LIBOR. Under the terms of the swap, the Hospital paid a floating rate of interest equivalent to the BMA Municipal Bond Index and was entitled to receive a fixed rate of 4.30%. The swap termination date was July 1, 2032 with set reductions in the notional amount of the swap as the underlying related CHEFA Series B Bonds mature and are paid off.

The swap was accounted for as a fair value hedge in accordance with FASB ASC 815, "*Derivatives and Hedging*," as amended. This accounting treatment required the Hospital to recognize the fair value of the swap and make an adjustment to the fair value of the CHEFA Series B Bond for the portion which is being hedged. The net amount of these two adjustments was reflected within the Hospital's operating indicator as the effective or ineffective portion of the hedge.

In March 2007, the swap was terminated and the Hospital received a payment of \$40,000, net of commission. The remaining offsetting adjustment to debt that arose from the historical swap accounting to book the fair value of the debt, of \$799,582 is being amortized as an element of interest expense over the remaining life of the debt.

Note 17 - Asset Retirement Obligations

FASB ASC 410, "*Asset Retirement and Environmental Obligations*," was issued in March 2005. This guidance provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. The Hospital has recorded an asset retirement obligation related to asbestos contamination in buildings of \$2,116,281 and \$2,026,281 at September 30, 2011 and 2010, respectively.