

Bristol Hospital and Health Care Group

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

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



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

To the Board of Directors of
Bristol Hospital and Health Care Group:

We have audited the accompanying consolidated financial statements of Bristol Hospital and Health Care Group (the Corporation), a not-for-profit, non-stock corporation, which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bristol Hospital and Health Care Group as of September 30, 2013 and 2012, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis in conjunction with the consolidated financial statements and is 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saslow Lufkin & Buggy, LLP

December 17, 2013

Bristol Hospital and Health Care Group
Consolidated Balance Sheets
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,318,029	\$ 12,928,177
Short-term investments	96,526	96,452
Accounts receivable, less allowance for doubtful accounts of \$6,754,900 (2013) and \$7,909,249 (2012)	20,536,329	20,476,194
Other receivables	2,790,614	5,925,593
Inventories	1,476,432	1,627,771
Estimated settlements due from third-party payers	2,757,898	1,964,075
Prepaid expenses	876,588	860,601
Debt service funds	636,385	650,968
Total current assets	45,488,801	44,529,831
Assets limited as to use:		
Funds held for malpractice self-insurance fund	6,934,622	6,914,759
Board designated investments	7,906,841	7,458,112
Other investments held by Foundation	2,412,864	2,236,145
Beneficial interest in assets held in trust by others	3,220,622	3,103,647
Funds held under bond indenture agreements	2,506,470	2,506,470
Donor restricted investments	4,858,334	4,667,365
Total assets limited as to use	27,839,753	26,886,498
Other assets:		
Long-term investments	6,800,181	6,504,226
Unamortized bond finance costs	1,187,692	1,265,567
Investment in joint ventures	969,890	933,589
Deferred expenses and other assets	476,307	338,297
Total other assets	9,434,070	9,041,679
Property, plant and equipment:		
Land and land improvements	4,831,930	4,619,251
Buildings	69,437,044	68,799,257
Fixtures and equipment	88,225,744	83,013,268
Construction in progress	3,296,604	1,841,857
	165,791,322	158,273,633
Less: accumulated depreciation	(122,919,544)	(116,102,360)
Total assets	\$ 125,634,402	\$ 122,629,281
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 13,868,802	\$ 10,947,996
Accrued payroll and other accrued expenses	12,169,328	14,340,489
Accrued interest payable	387,933	399,737
Borrowings on line of credit and demand loan	3,125,000	3,375,000
Current portion of long-term debt	1,188,897	998,118
Total current liabilities	30,739,960	30,061,340
Other liabilities:		
Other accrued liabilities	11,589,738	11,105,499
Long-term debt, less current portion	30,098,402	30,342,943
Accrued postretirement benefit liability, less current portion	5,310,964	7,151,257
Asset retirement obligation	604,800	2,116,281
Accrued pension liability, less current portion	18,682,813	30,446,134
Total liabilities	97,026,677	111,223,454
Net assets:		
Unrestricted	18,001,943	(393,514)
Temporarily restricted	3,585,204	4,871,738
Permanently restricted	7,020,578	6,927,603
Total net assets	28,607,725	11,405,827
Total liabilities and net assets	\$ 125,634,402	\$ 122,629,281

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

Bristol Hospital and Health Care Group
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Net patient service revenues	\$ 161,651,530	\$ 160,223,250
Provision for bad debts	<u>(6,182,431)</u>	<u>(7,606,229)</u>
Net patient service revenues less provision for bad debts	155,469,099	152,617,021
Other operating revenues	<u>6,651,756</u>	<u>7,071,296</u>
Total operating revenues	162,120,855	159,688,317
Operating expenses:		
Salaries, wages and fees	78,220,957	77,072,068
Supplies and other expenses	74,662,601	73,759,728
Depreciation and amortization	7,216,365	7,011,232
Interest expense	<u>1,683,295</u>	<u>1,943,647</u>
Total operating expenses	<u>161,783,218</u>	<u>159,786,675</u>
Gain (loss) from operations	337,637	(98,358)
Non-operating income	<u>857,803</u>	<u>1,298,723</u>
Excess of revenue over expenses	<u><u>\$ 1,195,440</u></u>	<u><u>\$ 1,200,365</u></u>

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

Bristol Hospital and Health Care Group
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 1,195,440	\$ 1,200,365
Net assets released from restrictions for capital acquisitions	3,065,921	1,625,269
Net unrealized gains on investments	781,676	3,079,639
Transfers of net assets	(1,327,832)	(793,533)
Pension changes other than net periodic benefit costs	12,746,301	(6,181,908)
Changes in postretirement health and welfare benefits other than net periodic benefit costs	<u>1,933,951</u>	<u>(1,390,669)</u>
Change in unrestricted net assets	18,395,457	(2,460,837)
Temporarily restricted net assets:		
Contributions received	204,108	2,425,693
Transfers of net assets	1,351,832	793,533
Net unrealized gains on investments	153,501	518,973
Investment income (loss)	69,946	(102,212)
Net assets released from restrictions	<u>(3,065,921)</u>	<u>(1,625,269)</u>
Change in temporarily restricted net assets	(1,286,534)	2,010,718
Permanently restricted net assets:		
Transfers of net assets	(24,000)	-
Change in assets held in trust by others	<u>116,975</u>	<u>360,532</u>
Change in permanently restricted net assets	92,975	360,532
Change in net assets	17,201,898	(89,587)
Net assets, beginning of year	<u>11,405,827</u>	<u>11,495,414</u>
Net assets, end of year	<u><u>\$ 28,607,725</u></u>	<u><u>\$ 11,405,827</u></u>

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

Bristol Hospital and Health Care Group
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 17,201,898	\$ (89,587)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,216,365	7,011,232
Provision for bad debts	6,182,431	7,606,229
Change in assets held in trust by others	(116,975)	(360,532)
Loss on disposal of equipment	17,420	-
Pension changes other than net periodic benefit costs	(12,746,301)	6,181,908
Changes in postretirement health and welfare benefits other than net periodic benefit costs	(1,933,951)	1,390,669
Net realized and unrealized gains on investments	(921,420)	(3,669,903)
Changes in assets and liabilities:		
Accounts receivable	(6,242,566)	(3,961,029)
Other receivables	3,134,979	(1,010,643)
Inventories	151,339	103,322
Estimated settlements from third-party payers	(793,823)	415,862
Prepaid expenses	(15,987)	(341,705)
Deferred expenses and other assets	(138,010)	164,939
Trade accounts payable	2,920,806	(2,165,211)
Accrued payroll and other accrued expenses	(2,171,161)	1,609,443
Accrued interest payable	(11,804)	(11,125)
Other accrued liabilities	484,239	(1,466,715)
Asset retirement obligation	(1,511,481)	-
Accrued postretirement benefit liability	93,658	(94,768)
Accrued pension liability	982,980	(1,358,103)
Net cash provided by operating activities	11,782,636	9,954,283
Cash flows from investing activities:		
Additions to property, plant and equipment	(7,856,415)	(4,317,040)
Purchases of investments	(1,806,822)	(14,061,173)
Sales of investments	1,740,404	13,867,351
Debt service funds	14,583	3,487
Change in investments in joint ventures	(36,301)	(231,916)
Change in funds held for malpractice self-insurance fund, net	(144,471)	77,022
Net cash used in investing activities	(8,089,022)	(4,662,269)
Cash flows from financing activities:		
Repayment of long-term debt and capital lease obligations, net	(53,762)	(1,260,177)
Net payments on line of credit and demand loan	(250,000)	(166,944)
Net cash used in financing activities	(303,762)	(1,427,121)
Change in cash and cash equivalents	3,389,852	3,864,893
Cash and cash equivalents at beginning of year	12,928,177	9,063,284
Cash and cash equivalents at end of year	\$ 16,318,029	\$ 12,928,177

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 1 - General

Organization - Bristol Hospital and Health Care Group (BHHCG or the Corporation) is the sole member of Bristol Hospital Development Foundation, Inc. (BHDF or the Foundation), Bristol Hospital, Incorporated (the Hospital), Bristol Health Care, Inc. and Subsidiary (BHC), Bristol Hospital EMS, LLC (EMS) and Bristol Hospital Multispecialty Group (BHMG). Effective September 1, 2011, CCMM and its subsidiaries including Greater Bristol Primary Care Group, Bristol Psychiatric Services and MedHelp merged to form BHMSG, a not-for-profit medical foundation, which became a subsidiary of BHHCG. EMS provides ambulance services to the Greater Bristol area. BHC operates Ingraham Manor, which is a skilled nursing facility.

In 2012, BHHCG signed a Letter of Intent to be acquired by Vanguard Health Systems, Inc., who was then subsequently acquired by Tenet Healthcare Corporation (Tenet) during 2013. BHHCG is currently working with Tenet to finalize a formal purchase agreement. BHHCG expects the acquisition to be final during fiscal year 2014.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Basis of Presentation - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). 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).

Use of Estimates - The preparation of the consolidated 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 consolidated financial statements. Estimates also impact the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Corporation's significant estimates relate to 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 liabilities.

Cash and Cash Equivalents - The Corporation considers all highly liquid investments with maturities of three months 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. Amounts in excess of the FDIC limits are uninsured. Cash and cash equivalents are maintained primarily with two banks, including one investment bank sponsored money market fund, and from time to time cash balances exceed FDIC limits. It is the Corporation's policy to monitor the financial strength of the banks on an ongoing basis.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 assets held by 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.

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 \$77,875 and \$81,583, for the years ended September 30, 2013 and 2012, respectively.

Investments - The Corporation 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 consolidated 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 Corporation's investments as of September 30, 2013 and 2012, 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 consolidated financial statements.

Other Than Temporary Impairment of Investments - The Corporation 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 Corporation'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 Corporation'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 2013 and 2012.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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

	Ownership Percentage
Bristol MSO, LLC	50.00%
MedWorks, LLC	50.00%
Connecticut Occupational Medical Partners	33.00%
MedConn Collection Agency	25.00%
Total Laundry Collaborative, LLC	14.11%
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%). As of September 30, 2013, the Corporation no longer invests in Health Connecticut, LLC.

Donor Restricted Gifts and Pledges Receivable - Unconditional promises to give cash and other assets to the Corporation and its subsidiaries 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. Unconditional promises to give are recorded as pledges receivable and are included with other receivables on the consolidated balance sheets. As of September 30, 2012, pledges receivable included in other receivables were approximately \$705,000. There were no pledges receivable as of September 30, 2013.

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 consolidated statements of operations and changes in net assets.

Assets Held in Trust by Others - The Corporation has been named sole or participating beneficiary in several perpetual trusts. Under the terms of these trusts, the Corporation 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 Corporation are 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, 2013 and 2012, the Corporation has \$7,906,841 and \$7,458,112, 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.

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 Corporation and its subsidiaries provide 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 Fixtures and equipment - 3 to 20 years.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those whose use by the Corporation have been limited by donors to a specific time period or purpose. Temporarily restricted net assets consist primarily of contributions for capital improvements and health care 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 Corporation.

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, permanent transfers of assets to and from affiliates for other than goods and services, certain changes in the pension and postretirement benefit liabilities 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 income and income generated on equity investments are considered non-operating activities.

EHR Incentive Payment Revenue - The American Recovery and Reinvestment Act of 2009 authorized the Centers for Medicare and Medicaid Services (CMS) to award incentive payments to eligible health care providers who demonstrate Meaningful Use of certified electronic health records (EHR). These incentive programs are designed to support providers in this period of health information technology transition and instill the use of EHRs in meaningful ways to help our nation to improve the quality, safety and efficiency of patient health care. As of September 30, 2013 and 2012, the Corporation has recorded EHR meaningful use revenue of \$1,000,075 and \$1,303,520, respectively, which is included in other operating revenues on the consolidated statements of operations and changes in net assets.

Income Taxes - The Corporation 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 Corporation 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 Corporation 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 Corporation does not have any uncertain tax positions as September 30, 2013 and 2012. It is the Corporation's policy to record penalties and interest associated with uncertain tax provisions as a component of operating expenses. As of September 30, 2013 and 2012, the Corporation did not record any penalties or interest associated with uncertain tax positions. The Corporation's prior three tax years are open and subject to examination by the Internal Revenue Service.

Fair Value Measurements - The Corporation 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).

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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 Corporation 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.

Malpractice, General and Workers' Compensation Self-Insurance - The Corporation maintains self-insurance coverage for medical malpractice, general liability and workers' compensation insurance. Reference is made in Note 12 and Note 13. The Corporation maintains a liability for reserves relating to these coverages. These liabilities are recorded within other accrued liabilities on the balance sheets. The liability for malpractice insurance includes an estimated incurred but not reported claim reserve. The Corporation has recorded an additional liability and related recoverable from their commercial insurers relating to estimated reserves in excess of the self-insured layer. These amounts are recorded as increases under the captions "other receivables" and "other accrued liabilities" in the accompanying balance sheets by \$2,400,000 and \$2,410,000 as of September 30, 2013 and 2012, respectively. The balances represent the Corporation's estimate of liabilities and recoveries for certain professional and general liability claims in excess of the self-insured retentions. There was no increases relating to additional reserves on self-insured workers' compensation as there were no reserve estimates excess of the self-insured retention.

Charity Care - The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of traditional charity care provided, determined on the basis of cost, was approximately \$1,591,937 and \$1,248,046 for the years ended September 30, 2013 and 2012, respectively.

Reclassifications - Certain reclassifications to the 2012 consolidated financial statements have been made in order to conform to the 2013 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

During 2013, management performed an extensive review of net asset classifications. The net asset categories in the consolidated financial statements as of September 30, 2012 were reclassified by transferring \$793,533 from unrestricted net assets to temporary restricted assets to conform to the 2013 presentation. In addition, the 2012 net asset categories were restated by increasing temporary restricted net assets by \$727,634 with a corresponding decrease to unrestricted net assets by this same amount.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

During the review of net asset classifications, the Corporation also transferred \$1,351,832 into its temporary net asset class from unrestricted net assets based on identified restrictions with assets held in BHDF in 2013. This transfer is recorded within the consolidated statements of operations and changes in net assets.

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

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

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

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Subsequent Events - Subsequent events have been evaluated through December 17, 2013, which is the date the consolidated financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the consolidated 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>2013</u>	<u>2012</u>
Gross revenues from service to patients	\$ 478,141,720	\$ 435,147,317
Deductions and exclusions:		
Allowances	310,390,691	270,297,546
State provider tax	793,043	844,563
Charity care	<u>5,306,456</u>	<u>3,781,958</u>
Net revenues from service to patients	<u>\$ 161,651,530</u>	<u>\$ 160,223,250</u>

Net patient service revenue is reported at the established net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Net patient service revenue 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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments, and discounted charges, including estimated retroactive settlements under payment agreements with third-party payers. Adjustments and settlements under reimbursement agreements with third-party payers are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined. 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 and Health Care Group
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Note 3 - Revenues from Services to Patients and Charity Care (continued)

For the Hospital, 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 2009.

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.

BHC recognizes net patient service revenue based on Resource Utilization Groups for patients covered by the Medicare program and based on per diem rates for patients covered by the State Medicaid program.

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

During 2013 and 2012, approximately 36% and 41% of net patient service revenues was received under the Medicare program, respectively. During 2013 and 2012, approximately 12% and 11%, respectively of net patient service revenue was received under the State Medicaid program.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that the Corporation 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 Corporation.

For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue based on its discounted rates. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
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Note 3 - Revenues from Services to Patients and Charity Care (continued)

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

For uninsured patients that do not qualify for financial assistance, the Corporation offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible.

The Hospital's allowance for doubtful accounts for self-pay patients was approximately 89% and 86% of self-pay accounts receivable as of September 30, 2013 and 2012, respectively. The Hospital's allowance for doubtful accounts for self-pay patients covers 91% and 76% accounts greater than 150 days for both self-pay accounts receivable and third party payers as of September 30, 2013 and 2012, respectively. The Hospital's write-offs totaled \$5,988,770 and \$8,292,206 for 2013 and 2012, respectively.

BHC's allowance for doubtful accounts for self-pay patients was approximately 67% and 73% of self-pay accounts receivable as of September 30, 2013 and 2012, respectively. As of September 30, 2013, BHC's allowance for doubtful accounts covers over 100% of patient accounts greater than 180 days old. As of September 30, 2012, BHC's allowance for doubtful accounts covers approximately 85% of patient accounts greater than 180 days old. BHC's write offs of patient accounts receivable totaled \$617,933 and \$415,750 as of September 30, 2013 and 2012, respectively.

As of September 30, 2013, BHMSG's allowance for doubtful accounts covers over 100% of patient accounts greater than 150 days old. As of September 30, 2012, BHMSG's allowance for doubtful accounts covers approximately 72% of patient accounts greater than 150 days old. BHMSG's write offs of patient accounts receivable totaled \$426,345 and \$231,481 as of September 30, 2013 and 2012, respectively.

EMS's allowance for doubtful accounts for self-pay patients was approximately 100% and 75% of self-pay accounts receivable as of September 30, 2013 and 2012, respectively. As of September 30, 2013, EMS's allowance for doubtful accounts covers 77% of patient accounts greater than 30 days old. As of September 30, 2012, EMS's allowance for doubtful accounts covers approximately 64% of patient accounts greater than 30 days old. EMS's write offs of patient accounts receivable totaled \$559,005 and \$379,508 as of September 30, 2013 and 2012, respectively.

The Corporation does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

The Corporation accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to established policies. During 2012, the Corporation amended its charity care policy providing for more offered charity care. 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, 2013 and 2012, the Corporation granted charity care charges of \$5,306,456 and \$3,781,958.

Note 4 - Investments

The Corporation has investments carried on the consolidated 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, 2013 and 2012, are summarized as follows:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Debt Service Funds:				
U.S. treasury obligations	\$ 636,385	\$ 636,385	\$ 650,968	\$ 650,968
Assets Limited as to Use:				
Board designated investments:				
Cash and money market funds	\$ 5,495,889	\$ 5,495,889	\$ 5,897,751	\$ 5,897,751
Equity mutual funds	1,968,982	2,346,446	1,501,222	1,481,815
Fixed income mutual funds	65,158	64,506	75,000	78,546
Total	\$ 7,530,029	\$ 7,906,841	\$ 7,473,973	\$ 7,458,112
Held for malpractice self insurance fund:				
Cash and money market funds	\$ 103,233	\$ 103,233	\$ 96,443	\$ 96,443
Corporate and foreign bonds	1,173,478	1,192,084	799,496	826,706
Preferred equity securities	154,206	154,053	165,027	186,175
Equity mutual funds	1,698,955	2,130,376	1,792,784	2,133,566
Fixed income mutual funds	3,388,916	3,354,876	3,520,567	3,671,869
Total	\$ 6,518,788	\$ 6,934,622	\$ 6,374,317	\$ 6,914,759
Held by trustee under bond indenture agreement:				
U.S. treasury obligations	\$ 2,506,470	\$ 2,506,470	\$ 2,506,470	\$ 2,506,470

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 4 - Investments (continued)

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Other investments held by Foundation:				
Cash and money market funds	\$ 421,066	\$ 421,066	\$ 411,114	\$ 411,114
Equity mutual funds	1,222,727	1,381,147	1,101,270	1,100,993
Fixed income mutual funds	616,157	610,651	692,000	724,038
Total	<u>\$ 2,259,950</u>	<u>\$ 2,412,864</u>	<u>\$ 2,204,384</u>	<u>\$ 2,236,145</u>
Donor restricted investments:				
Equity mutual funds	<u>\$ 4,862,928</u>	<u>\$ 4,858,334</u>	<u>\$ 4,858,485</u>	<u>\$ 4,667,365</u>
Long-term Investments:				
Cash and money market funds	\$ 5,655,564	\$ 5,655,564	\$ 6,171,657	\$ 6,171,657
Equity mutual funds	815,013	1,144,617	362,398	332,569
Total	<u>\$ 6,470,577</u>	<u>\$ 6,800,181</u>	<u>\$ 6,534,055</u>	<u>\$ 6,504,226</u>

Beneficial interest assets held in trust by others of \$3,220,622 and \$3,103,647, as of September 30, 2013 and 2012, respectively, are held by bank trustees and are not under the Corporation's investment control. These assets are invested within diversified portfolios.

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

	<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, 2013:						
Corporate and foreign bonds	\$ 275,127	\$ (1,216)	\$ 49,543	\$ (457)	\$ 324,670	\$ (1,673)
Equity mutual funds	6,280,563	(93,220)	67,923	(939)	6,348,486	(94,159)
Total	<u>\$ 6,555,690</u>	<u>\$ (94,436)</u>	<u>\$ 117,466</u>	<u>\$ (1,396)</u>	<u>\$ 6,673,156</u>	<u>\$ (95,832)</u>
As of September 30, 2012:						
Corporate and foreign bonds	\$ -	\$ -	\$ 98,372	\$ (1,628)	\$ 98,372	\$ (1,628)
Equity mutual funds	435,194	(14,839)	5,685,618	(400,260)	6,120,812	(415,099)
Total	<u>\$ 435,194</u>	<u>\$ (14,839)</u>	<u>\$ 5,783,990</u>	<u>\$ (401,888)</u>	<u>\$ 6,219,184</u>	<u>\$ (416,727)</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 4 - Investments (continued)

In 2013, the unrealized losses for greater than one year relate to 2 individual holdings in corporate and foreign bonds and mutual fund investments. In 2012, the unrealized losses for greater than one year relate to 5 individual holdings in mutual fund investments. In 2013 and 2012, the unrealized losses for less than one year relate to 28 and 14 individual holdings in mutual fund investments, respectively. All unrealized losses on these securities are considered to be a result of the stock market environment and management believes these unrealized losses were not other than temporarily impaired based on the guidance provided by FASB ASC 320.

Note 5 - Fair Value Measurements

The following tables present the financial instruments, carried at fair value, as of September 30, 2013 and 2012, by the valuation hierarchy. These tables include assets limited as to use, debt service funds and long-term investments:

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 15,749,018	\$ -	\$ -	\$ 15,749,018
Equities:				
U.S. large cap	1,130,747	-	-	1,130,747
U.S. mid cap	304,065	-	-	304,065
U.S. small cap	3,504,879	-	-	3,504,879
Internationally developed	600,568	-	-	600,568
Closed-end equity mutual funds	223,789	-	-	223,789
Emerging markets	203,418	-	-	203,418
Commodities	121,720	-	-	121,720
Public REIT	104,644	-	-	104,644
Preferred equity securities	-	154,053	-	154,053
Domestic equity securities	1,593,825	-	-	1,593,825
Fixed Income:				
Corporate and foreign bonds	-	1,192,084	-	1,192,084
U.S. treasury obligations	-	3,142,855	-	3,142,855
Taxable fixed income mutual funds	-	3,320,001	-	3,320,001
Closed-end fixed income mutual funds	-	347,784	-	347,784
Internationally developed	270,014	-	-	270,014
Global high yield taxable	92,233	-	-	92,233
	<u>23,898,920</u>	<u>8,156,777</u>	<u>-</u>	<u>32,055,697</u>
Beneficial interest in assets held in trust by others	<u>-</u>	<u>-</u>	<u>3,220,622</u>	<u>3,220,622</u>
Total	<u>\$ 23,898,920</u>	<u>\$ 8,156,777</u>	<u>\$ 3,220,622</u>	<u>\$ 35,276,319</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 5 - Fair Value Measurements (continued)

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 13,304,599	\$ -	\$ -	\$ 13,304,599
Equities:				
U.S. large cap	2,141,750	-	-	2,141,750
U.S. mid cap	435,948	-	-	435,948
U.S. small cap	5,296,232	-	-	5,296,232
Internationally developed	526,380	-	-	526,380
Closed-end equity mutual funds	287,940	-	-	287,940
Emerging markets	131,734	-	-	131,734
Commodities	125,920	-	-	125,920
Public REIT	42,770	-	-	42,770
Preferred equity securities	-	186,175	-	186,175
Fixed Income:				
Corporate and foreign bonds	-	826,706	-	826,706
U.S. treasury obligations	-	3,157,438	-	3,157,438
Taxable fixed income mutual funds	-	3,290,025	-	3,290,025
Closed-end fixed income mutual funds	-	1,080,144	-	1,080,144
Internationally developed	22,383	-	-	22,383
Global high yield taxable	81,901	-	-	81,901
	<u>22,397,557</u>	<u>8,540,488</u>	<u>-</u>	<u>30,938,045</u>
Beneficial interest in assets held in trust by others	<u>-</u>	<u>-</u>	<u>3,103,647</u>	<u>3,103,647</u>
Total	<u>\$ 22,397,557</u>	<u>\$ 8,540,488</u>	<u>\$ 3,103,647</u>	<u>\$ 34,041,692</u>

A rollforward of the amounts of investments classified as Level 3, within the fair value hierarchy, is as follows:

	<u>Beneficial Interest in Assets Held in Trust by Others</u>
Balance as of October 1, 2011	\$ 2,743,115
Distributions	(107,393)
Net change in market value	467,925
	<u>3,103,647</u>
Balance as of September 30, 2012	3,103,647
Distributions	(135,400)
Net change in market value	252,375
	<u>3,220,622</u>
Balance as of September 30, 2013	<u>\$ 3,220,622</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
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Note 5 - Fair Value Measurements (continued)

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 Corporation 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:

The fair values of the Corporation’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. Underlying assets are valued daily.
- *Preferred and domestic 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 treasury 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 Corporation 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, 2013 and 2012, the Corporation’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 consolidated balance sheets for these financial instruments approximate their fair value.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
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Note 6 - Net Assets and Endowments

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

	<u>2013</u>	<u>2012</u>
State Hospital grants	\$ -	\$ 801,096
Library operations and improvements	759,982	727,634
Healthcare services	<u>2,825,222</u>	<u>3,343,008</u>
Total	<u>\$ 3,585,204</u>	<u>\$ 4,871,738</u>

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

	<u>2013</u>	<u>2012</u>
Held in perpetuity, income restricted for healthcare services	\$ 3,799,956	\$ 3,823,956
Assets held in trust by others	<u>3,220,622</u>	<u>3,103,647</u>
Total	<u>\$ 7,020,578</u>	<u>\$ 6,927,603</u>

The Corporation's endowment and restricted net assets consist of multiple funds established for a variety of purposes. These funds include both donor restricted endowment funds, funds designated by the Board of Directors to function as endowments 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 Corporation 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 Corporation during its annual budgeting process.

The Corporation 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 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; and (7) the investment policies of the Corporation.

The Corporation 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.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 6 - Net Assets and Endowments (continued)

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.

To satisfy its long-term rate-of-return objectives, the Corporation 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). BHHCG 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 Corporation appropriates donor restricted endowment funds and other restricted assets for expenditure in accordance with donor purpose and time restrictions. The Corporation has appropriated \$3,065,921 and \$1,625,269 of funds for expenditure from its temporarily restricted endowment funds and other net assets for the year ended September 30, 2013 and 2012, respectively. The Corporation appropriated \$5,786 and \$13,517 of funds for expenditure from the Corporation's Board restricted endowment funds for the years ended September 30, 2013 and 2012. The Board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Corporation.

Changes in net assets for endowments and other restricted net assets for the year ended September 30, 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2012	\$ 7,458,112	\$ 4,871,738	\$ 6,927,603	\$ 19,257,453
Investment return:				
Investment income	84,923	69,946	-	154,869
Net change in market value	369,592	153,501	116,975	640,068
Contributions	-	204,108	-	204,108
Expenditures	(5,786)	(3,065,921)	-	(3,071,707)
Transfers in net assets	-	1,351,832	(24,000)	1,327,832
Balance at September 30, 2013	<u>\$ 7,906,841</u>	<u>\$ 3,585,204</u>	<u>\$ 7,020,578</u>	<u>\$ 18,512,623</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 6 - Net Assets and Endowments (continued)

Changes in net assets for endowments and other restricted net assets for the year ended September 30, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2011	\$ 5,799,021	\$ 2,861,020	\$ 6,567,071	\$ 15,227,112
Investment return:				
Investment income	208,199	(102,212)	-	105,987
Net change in market value	1,464,409	518,973	360,532	2,343,914
Contributions	-	2,425,693	-	2,425,693
Expenditures	(13,517)	(1,625,269)	-	(1,638,786)
Transfers in net assets	-	793,533	-	793,533
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at September 30, 2012	<u>\$ 7,458,112</u>	<u>\$ 4,871,738</u>	<u>\$ 6,927,603</u>	<u>\$ 19,257,453</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 Corporation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2013 and 2012, the Corporation's donor restricted endowment fund did not fall below the amount required to be held in perpetuity. Therefore, there were no reductions to unrestricted net assets.

Note 7 - Leases

The Corporation and its subsidiaries lease property and equipment under non-cancelable operating leases that expire in various years through fiscal year 2018. Certain leases may be renewed at the end of their term. In 2012, the Corporation entered into new lease agreements for equipment and software. These lease agreements have been classified as a capital leases. As of September 30, 2013, capital leases payable in the amount of \$232,660 are included within other liabilities with the current portion in the amount of \$116,330 included within trade accounts payable on the consolidated balance sheet.

Future minimum payments under non-cancelable capital and operating leases with initial terms of one year or more consisted of the following as of September 30, 2013:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2014	\$ 116,330	\$ 1,352,465
2015	116,330	485,847
2016	116,330	259,826
2017	-	253,406
2018	-	256,440
	<u> </u>	<u> </u>
Total	<u>\$ 348,990</u>	<u>\$ 2,607,984</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 7 - Leases (continued)

Rental expense was approximately \$1,500,000 and \$2,172,000 for the years ended September 30, 2013 and 2012, 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 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 30 and December 31.

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 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. The Obligated Group, for the years ended September 30, 2013 and 2012, is in compliance with the terms of the forbearance agreement and the amended Series B Loan agreement and Trust Indenture.

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.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 8 - Long-Term Debt (continued)

Below is a summary of the Hospital's and BHC's annual principal payments due relating to CHEFA as of September 30, 2013:

	Bristol Hospital, Incorporated	Bristol Health Care, Inc. and Subsidiary	Total Obligated Group
Year Ending September 30:			
2014	\$ 408,595	\$ 526,405	\$ 935,000
2015	430,445	554,555	985,000
2016	456,665	588,335	1,045,000
2017	478,515	616,485	1,095,000
2018	506,920	653,080	1,160,000
Thereafter	21,184,055	1,415,945	22,600,000
	23,465,195	4,354,805	27,820,000
Less: portion classified as current	408,595	526,405	935,000
	23,056,600	3,828,400	26,885,000
Less: discount	342,667	28,521	371,188
Add: Adjustment to record debt at fair value (Note 16)	720,220	-	720,220
Total	\$ 23,434,153	\$ 3,799,879	\$ 27,234,032

In 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. The term loan and line of credit were extended and the line of credit was reduced to \$4,250,000. Advances outstanding on the line as of September 30, 2013 and 2012 were \$3,000,000. The balance outstanding on the term loan as of September 30, 2013 and 2012 was \$125,000 and \$375,000, respectively. 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, 2013 and 2012.

On May 28, 2004, the Hospital purchased a building in Bristol, Connecticut, which was subsequently leased to 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 as of September 30, 2013 and 2012 is \$290,136 and \$297,961, 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, 2013 and 2012 is \$1,121,289 and \$1,186,809, respectively.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012 was \$730,652 and \$808,735, respectively.

In 2013, the Hospital entered into a \$1,000,000 promissory loan agreement with the Connecticut Hospital Association Trust for the purchase of equipment, which enables the Hospital to conserve electrical energy and to manage electrical energy needs. The Hospital shall repay the principal balance of the note in 84 equal monthly installments of \$11,905. The balance outstanding as of September 30, 2013 was \$976,190.

In 2013 and 2012, 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, 2013 and 2012.

As of September 30, 2013 and 2012, the Corporation is in compliance with all financial covenants related to the previously noted debt.

Below is a summary of the Corporation's annual principal long-term debt payments due subsequent to September 30, 2013 as described above:

2014	\$ 1,188,897
2015	1,239,582
2016	1,306,475
2017	1,363,598
2018	1,436,190
Thereafter	<u>24,403,525</u>
Total	<u><u>\$ 30,938,267</u></u>

Interest paid for the years ended September 30, 2013 and 2012 was \$1,693,563 and \$1,950,163, 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 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 and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012:

	2013	2012
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 84,209,000	\$ 69,905,000
Interest cost	3,512,000	3,769,000
Actuarial (gain) loss	(10,330,000)	13,206,000
Benefits paid	(2,949,000)	(2,671,000)
	\$ 74,442,000	\$ 84,209,000
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 47,815,000	\$ 41,583,000
Employer contributions	4,915,000	1,548,000
Actual return on plan assets	2,931,000	7,355,000
Benefits paid	(2,949,000)	(2,671,000)
	\$ 52,712,000	\$ 47,815,000
Reconciliation of funded status:		
Funded status and accrued pension liability	\$ (21,730,000)	\$ (36,394,000)

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, 2012 was \$1,038,182. As of September 30, 2013, the Hospital forgave the accumulated plan liability of \$1,163,426 as part of a \$1,414,373 equity transfer from the Hospital for debt forgiveness.

For the years ended September 30, 2013 and 2012, there are no differences between the Plan's accumulated benefit obligation and projected benefit obligation as the Plan is frozen as noted below.

The Corporation has included \$3,047,000 and \$5,948,000, as of September 30, 2013 and 2012, respectively, within accrued payroll and other accrued expenses on the consolidated balance sheet, as the current portion of the Plan's accrued pension liability.

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.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

The following table sets forth the components of net periodic benefit cost for the years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest cost	\$ 3,512,000	\$ 3,769,000
Expected return on plan assets	(4,424,000)	(3,738,000)
Amortization of net loss	<u>3,900,000</u>	<u>3,402,000</u>
Net periodic benefit cost	<u>\$ 2,988,000</u>	<u>\$ 3,433,000</u>

The following were the weighted-average assumptions used to determine the pension benefit obligations at September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Discount rate	5.25%	4.25%
Expected return on plan assets	8.50%	9.00%

The following were the weighted-average assumptions used to determine net periodic pension cost for years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Discount rate	4.25%	5.50%
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.

The Plan's target and actual weighted-average asset allocations as of September 30, 2013 and 2012, by asset category, are as follows:

Asset category:	<u>Target Allocation</u>	<u>Actual Asset Allocation</u>	
		<u>2013</u>	<u>2012</u>
Equity securities	75%	8%	84%
Debt securities	25%	0%	16%
Money market funds	0%	92%	0%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

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

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 48,695,202	\$ -	\$ -	\$ 48,695,202
Equities:				
Mutual funds - equity	-	-	4,016,496	4,016,496
Total	<u>\$ 48,695,202</u>	<u>\$ -</u>	<u>\$ 4,016,496</u>	<u>\$ 52,711,698</u>
<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 197,342	\$ -	\$ -	\$ 197,342
Equities:				
Mutual funds - equity	36,289,188	-	3,933,533	40,222,721
Common stock - consumer discretionary	28,383	-	-	28,383
Fixed income:				
Mutual funds	7,366,336	-	-	7,366,336
Total	<u>\$ 43,881,249</u>	<u>\$ -</u>	<u>\$ 3,933,533</u>	<u>\$ 47,814,782</u>

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

2014	\$ 3,375,000
2015	\$ 3,579,000
2016	\$ 3,794,000
2017	\$ 3,990,000
2018	\$ 4,135,000
Years 2019-2023	\$ 23,551,000

The amount recorded in unrestricted net assets as of September 30, 2013 and 2012, not yet amortized as a component of net periodic benefit cost are \$32,965,245 and \$45,711,546, respectively. Amortization expected to be recognized in net periodic benefit costs for the year ending September 30, 2014 is \$2,732,445.

Postretirement Health Benefits - The Hospital sponsors a postretirement medical plan (the 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.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

The following tables set forth the Medical Plan's change in benefit obligation and change in plan assets for the years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 7,661,000	\$ 6,271,000
Service cost	43,000	34,000
Interest cost	258,000	360,000
Actuarial (gain) loss	(1,832,000)	1,459,000
Benefits paid	<u>(403,000)</u>	<u>(463,000)</u>
Projected benefit obligation at end of year	<u>\$ 5,727,000</u>	<u>\$ 7,661,000</u>
Change in plan assets:		
Plan assets at beginning of year	\$ -	\$ -
Employer contribution	403,000	463,000
Benefits paid	<u>(403,000)</u>	<u>(463,000)</u>
Plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status:		
Funded status	\$ (5,727,000)	\$ (7,661,000)
Unrecognized net actuarial loss	<u>-</u>	<u>-</u>
Accrued postretirement benefit liability	<u>\$ (5,727,000)</u>	<u>\$ (7,661,000)</u>

Amounts recognized in the consolidated balance sheets, are as follows:

	<u>2013</u>	<u>2013</u>
Short-term portion of accrued postretirement benefit liability, included in accrued payroll and other related expenses	\$ (416,000)	\$ (510,000)
Long-term portion of accrued postretirement benefit liability	<u>(5,311,000)</u>	<u>(7,151,000)</u>
Total amount recognized	<u>\$ (5,727,000)</u>	<u>\$ (7,661,000)</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

The following table sets forth the components of net periodic benefit costs for the years ended September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Service cost	\$ 43,000	\$ 34,000
Interest cost	258,000	360,000
Amortization of actuarial loss	<u>20,000</u>	<u>48,000</u>
Net periodic benefit costs	<u>\$ 321,000</u>	<u>\$ 442,000</u>

The weighted-average assumptions used to determine the benefit obligation as of September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	5.25%	4.25%

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	4.25%	5.50%
Assumed healthcare cost trend rates:		
Initial trend rate	8.75%	9.50%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2019	2018

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>2013</u>	<u>2012</u>
Effect of a 1% increase in healthcare cost trend rate on:		
Interest costs plus service costs	\$ 35,000	\$ 28,000
Accumulated postretirement benefit obligation	\$ 579,000	\$ 540,000
Effect of a 1% decrease in healthcare cost trend rate on:		
Interest costs plus service costs	\$ (28,000)	\$ (23,000)
Accumulated postretirement benefit obligation	\$ (482,000)	\$ (449,000)

The Corporation expects to contribute approximately \$416,000 to its Medical Plan in 2014 which is accrued within accrued payroll and other related expenses on the consolidated balance sheet.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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:

2014	\$	416,000
2015	\$	440,306
2016	\$	444,837
2017	\$	442,695
2018	\$	440,466
Years 2019-2023	\$	2,133,263

Note 10 - Other Employee Benefit Plans

The Corporation'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 Corporation contributed a match in December of 2012 and as of September 30, 2013, intends to contribute a match in December of 2013. The 2013 and 2012 amounts are included in accrued payroll and other related expenses on the consolidated balance sheets. The Corporation incurred \$261,880 and \$649,468 of expense related to its 403(b) plan for the years ended September 30, 2013 and 2012, respectively.

Note 11 - Related Party Transactions

During 2013 and 2012, the Corporation's entities entered into various related party transactions. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation sent approximately \$896,249 and \$2,720,136 of patient accounts receivable to a collection agency, in which it has an equity interest, in 2013 and 2012, respectively.

Note 12 - Malpractice and General Insurance

In 2009, the Corporation established a self insurance malpractice trust to provide malpractice insurance coverage for the Corporation. The Corporation 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 Corporation 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 consolidated financial statements as assets limited as to use. Income from trust assets and administrative costs are reported in the accompanying consolidated statements of operations and changes in net assets, as other income.

The \$6,934,622 and \$6,914,759 of assets which reside in the trust, as of September 30, 2013 and 2012, respectively, are included within the Hospital's days cash on hand debt covenant test, as the Corporation's Board of Directors can terminate this trust at anytime and utilize these funds for operating purposes.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 12 - Malpractice and General Insurance (continued)

The Corporation's malpractice liabilities, determined with the assistance of an independent actuary, as of September 30, 2013 and 2012 were estimated at \$5,764,943 and \$5,846,270, respectively, and are included in other accrued liabilities on the consolidated balance sheet. Included in this liability is an incurred but not reported reserve, as the Corporation currently has a claims-made policy. In addition, the Corporation has recorded a liability and related recoverable based on estimates of any malpractice or general liability claims excess of the self-insured retention.

Note 13 - Self-Insurance of Workers' Compensation

The Corporation self-insures workers' compensation claims with a retention of the first \$350,000 per claim. The Corporation 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 Corporation's third-party administrator and accrued based upon estimates that incorporate the Corporation's past experience, as well as the nature of each claim or incident and relevant trend factors. The Corporation's year-end workers' compensation reserve, as estimated by third-party administrator and the Corporation's management in conjunction with its independent actuaries, is included in other accrued liabilities on the consolidated balance sheets and is discounted at 3.0% in 2013 and 2012. The balances as of September 30, 2013 and 2012 are \$2,066,305 and \$1,689,954, respectively.

Note 14 - Contingencies

Malpractice claims that fall within the Corporation's malpractice insurance have been asserted against the Corporation 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, 2013 that may result in the assertion of additional claims. Corporation management has accrued its best estimate of these contingent losses.

The Corporation 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 consolidated balance sheets, statement of operations and changes in net assets or cash flows.

Note 15 - Functional Expenses and Non-operating Income

The Corporation provides general healthcare services to residents primarily within their geographic location. Functional expenses related to their operating activities for the fiscal years ended September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Healthcare services	\$ 133,225,907	\$ 131,644,758
General and administrative	<u>28,557,311</u>	<u>28,141,917</u>
Total	<u>\$ 161,783,218</u>	<u>\$ 159,786,675</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 15 - Functional Expenses and Non-operating Income (continued)

Non-operating income for the years ended September 30, 2013 and 2012 consisted of:

	<u>2013</u>	<u>2012</u>
Investment and interest income	\$ 315,746	\$ 451,777
Realized (losses) gains on sales of investments	(13,757)	71,291
Gain on equity investments	<u>555,814</u>	<u>775,655</u>
Total non-operating income	<u>\$ 857,803</u>	<u>\$ 1,298,723</u>

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 Corporation 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 Corporation 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 Corporation 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 Corporation’s operating indicator as the effective or ineffective portion of the hedge.

In March 2007, the swap was terminated and the Corporation received a payment of \$40,000, net of commission. The offsetting adjustment to debt that arose from the historical swap accounting to book the fair value of the debt, of \$720,220, 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*,” 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 Corporation has recorded an asset retirement obligation related to asbestos contamination in buildings of \$604,800 and \$2,116,281 as of September 30, 2013 and 2012, respectively. Management reduced this liability during 2013 based on funds spent during the remediation process.

Bristol Hospital and Health Care Group
Supplemental Consolidating Balance Sheet
September 30, 2013

	Bristol Hospital and Health Care Group	Bristol Hospital, Incorporated	Bristol Hospital EMS, LLC	Bristol Hospital Development Foundation, Inc.	Bristol Health Care, Inc. and Subsidiary	Eliminations	Combined Obligated Group	Bristol Hospital Multi-Specialty Group, Inc.	Eliminations	Consolidated
Assets										
Current assets:										
Cash and cash equivalents	\$ 39,119	\$ 12,810,191	\$ 623,558	\$ 1,044,490	\$ 1,284,393	\$ -	\$ 15,801,751	\$ 516,278	\$ -	\$ 16,318,029
Short-term investments	-	96,526	-	-	-	-	96,526	-	-	96,526
Accounts receivable, less allowances for doubtful accounts	-	16,887,452	534,121	-	2,081,034	-	19,502,607	1,033,722	-	20,536,329
Other receivables	-	2,653,347	-	5,330	47,005	-	2,705,682	84,932	-	2,790,614
Inventories	-	1,445,186	-	-	31,246	-	1,476,432	-	-	1,476,432
Estimated settlements due from third-party payers	-	2,757,898	-	-	-	-	2,757,898	-	-	2,757,898
Prepaid expenses	-	808,567	20,665	-	-	-	829,232	47,356	-	876,588
Debt service funds	-	444,904	-	-	191,481	-	636,385	-	-	636,385
Total current assets	39,119	37,904,071	1,178,344	1,049,820	3,635,159	-	43,806,513	1,682,288	-	45,488,801
Assets limited as to use:										
Funds held for malpractice self-insurance fund	-	6,934,622	-	-	-	-	6,934,622	-	-	6,934,622
Board designated investments	-	6,966,473	-	-	940,368	-	7,906,841	-	-	7,906,841
Other investments held by Foundation	-	-	-	2,412,864	-	-	2,412,864	-	-	2,412,864
Beneficial interest in assets held in trust by others	-	3,220,622	-	-	-	-	3,220,622	-	-	3,220,622
Funds held under bond indenture agreements	-	2,506,470	-	-	-	-	2,506,470	-	-	2,506,470
Interest in net assets of Foundation	-	6,180,143	-	-	29,793	(6,209,936)	-	-	-	-
Donor restricted investments	-	1,154,124	-	3,704,210	-	-	4,858,334	-	-	4,858,334
Total assets limited to use	-	26,962,454	-	6,117,074	970,161	(6,209,936)	27,839,753	-	-	27,839,753
Other assets:										
Long-term investments	-	6,800,181	-	-	-	-	6,800,181	-	-	6,800,181
Unamortized bond finance costs	-	1,037,107	-	-	150,585	-	1,187,692	-	-	1,187,692
Investment in joint ventures	-	969,890	-	-	-	-	969,890	-	-	969,890
Due from affiliates	-	1,022,462	-	-	-	(1,022,462)	-	-	-	-
Deferred expenses and other assets	-	476,307	-	-	-	-	476,307	-	-	476,307
Investment in subsidiaries	28,568,606	-	-	-	-	(28,568,606)	-	-	-	-
Total other assets	28,568,606	10,305,947	-	-	150,585	(29,591,068)	9,434,070	-	-	9,434,070
Property, plant and equipment:										
Land and land improvements	-	4,009,071	-	-	752,666	-	4,761,737	70,193	-	4,831,930
Buildings	-	59,603,461	-	-	9,833,583	-	69,437,044	-	-	69,437,044
Fixtures and equipment	-	83,654,370	1,399,645	-	1,391,682	-	86,445,697	1,780,047	-	88,225,744
Construction in progress	-	3,256,357	-	-	40,247	-	3,296,604	-	-	3,296,604
Total	-	150,523,259	1,399,645	-	12,018,178	-	163,941,082	1,850,240	-	165,791,322
Less: accumulated depreciation	-	(111,762,978)	(1,019,531)	-	(8,915,420)	-	(121,697,929)	(1,221,615)	-	(122,919,544)
Total property, plant and equipment	-	38,760,281	380,114	-	3,102,758	-	42,243,153	628,625	-	42,871,778
Total assets	\$ 28,607,725	\$ 113,932,753	\$ 1,558,458	\$ 7,166,894	\$ 7,858,663	\$ (35,801,004)	\$ 123,323,489	\$ 2,310,913	\$ -	\$ 125,634,402

See accompanying independent auditors' report.

Bristol Hospital and Health Care Group
Supplemental Consolidating Balance Sheet (continued)
September 30, 2013

	Bristol Hospital and Health Care Group	Bristol Hospital, Incorporated	Bristol Hospital EMS, LLC	Bristol Hospital Development Foundation, Inc.	Bristol Health Care, Inc. and Subsidiary	Eliminations	Combined Obligated Group	Bristol Hospital Multi-Specialty Group, Inc.	Eliminations	Consolidated
Liabilities and Net Assets										
Current liabilities:										
Trade accounts payable	\$ -	\$ 12,607,684	\$ 234,816	\$ -	\$ 750,497	\$ -	\$ 13,592,997	\$ 275,805	\$ -	\$ 13,868,802
Accrued payroll and other accrued expenses	-	10,172,563	182,137	-	592,760	-	10,947,460	1,221,868	-	12,169,328
Due to affiliates	-	-	59,833	491,172	471,457	(1,022,462)	-	-	-	-
Accrued interest payable	-	328,054	-	-	59,879	-	387,933	-	-	387,933
Borrowings on line of credit and demand loan	-	3,125,000	-	-	-	-	3,125,000	-	-	3,125,000
Current portion of long-term debt	-	662,492	-	-	526,405	-	1,188,897	-	-	1,188,897
Total current liabilities	-	26,895,793	476,786	491,172	2,400,998	(1,022,462)	29,242,287	1,497,673	-	30,739,960
Other Liabilities:										
Other accrued liabilities	-	9,667,590	271,286	465,786	782,097	-	11,186,759	402,979	-	11,589,738
Long-term debt, less current portion	-	26,298,523	-	-	3,799,879	-	30,098,402	-	-	30,098,402
Accrued postretirement benefit liability, less current portion	-	5,310,964	-	-	-	-	5,310,964	-	-	5,310,964
Asset retirement obligation	-	604,800	-	-	-	-	604,800	-	-	604,800
Accrued pension liability, less current portion	-	18,682,813	-	-	-	-	18,682,813	-	-	18,682,813
Total liabilities	-	87,460,483	748,072	956,958	6,982,974	(1,022,462)	95,126,025	1,900,652	-	97,026,677
Net assets (deficit)	28,607,725	26,472,270	810,386	6,209,936	875,689	(34,778,542)	28,197,464	410,261	-	28,607,725
Total liabilities and net assets	\$ 28,607,725	\$ 113,932,753	\$ 1,558,458	\$ 7,166,894	\$ 7,858,663	\$ (35,801,004)	\$ 123,323,489	\$ 2,310,913	\$ -	\$ 125,634,402

See accompanying independent auditors' report.

Bristol Hospital and Health Care Group
Supplemental Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2013

	Bristol Hospital and Health Care Group	Bristol Hospital, Incorporated	Bristol Hospital EMS, LLC	Bristol Hospital Development Foundation, Inc.	Bristol Health Care, Inc. and Subsidiary	Eliminations	Combined Obligated Group	Bristol Hospital Multi-Specialty Group, Inc	Eliminations	Consolidated
Operating revenues:										
Net patient service revenues	\$ -	\$ 131,717,516	\$ 3,523,470	\$ -	\$ 12,775,389	\$ -	\$ 148,016,375	\$ 13,635,155	\$ -	\$ 161,651,530
Provision for bad debts	-	(4,909,425)	(495,609)	-	(430,000)	-	(5,835,034)	(347,397)	-	(6,182,431)
Net patient service revenues less provision for bad debts	-	126,808,091	3,027,861	-	12,345,389	-	142,181,341	13,287,758	-	155,469,099
Other revenues:										
Other operating revenues	-	4,242,269	1,750,876	917,498	16,863	(55,000)	6,872,506	4,640,362	(4,861,112)	6,651,756
Net income on subsidiaries	18,395,457	-	-	-	-	(18,395,457)	-	-	-	-
Total other revenues	18,395,457	4,242,269	1,750,876	917,498	16,863	(18,450,457)	6,872,506	4,640,362	(4,861,112)	6,651,756
Total operating revenues	18,395,457	131,050,360	4,778,737	917,498	12,362,252	(18,450,457)	149,053,847	17,928,120	(4,861,112)	162,120,855
Operating expenses:										
Salaries, wages and fees	-	59,480,579	2,721,541	310,925	6,082,344	-	68,595,389	12,414,178	(2,788,610)	78,220,957
Supplies and other expenses	-	62,437,776	1,796,833	959,799	5,953,929	(55,000)	71,093,337	5,641,766	(2,072,502)	74,662,601
Depreciation and amortization	-	6,363,743	125,746	-	423,513	-	6,913,002	303,363	-	7,216,365
Interest expense	-	1,421,576	-	-	260,183	-	1,681,759	1,536	-	1,683,295
Total operating expenses	-	129,703,674	4,644,120	1,270,724	12,719,969	(55,000)	148,283,487	18,360,843	(4,861,112)	161,783,218
Gain (loss) from operations	18,395,457	1,346,686	134,617	(353,226)	(357,717)	(18,395,457)	770,360	(432,723)	-	337,637
Non-operating income	-	844,070	-	4,443	9,290	-	857,803	-	-	857,803
Excess of revenues over (under) expenses	18,395,457	2,190,756	134,617	(348,783)	(348,427)	(18,395,457)	1,628,163	(432,723)	-	1,195,440
Net assets released from restrictions for capital acquisitions	-	3,024,686	-	-	41,235	-	3,065,921	-	-	3,065,921
Net unrealized gains on investments	-	486,296	-	154,178	141,202	-	781,676	-	-	781,676
Transfer from Hospital to affiliates	-	(3,360,860)	-	1,473,516	1,414,373	-	(472,971)	472,971	-	-
Change in interest in net assets of Foundation	-	1,306,733	-	-	-	(1,306,733)	-	-	-	-
Transfers of net assets	-	(1,327,832)	-	-	-	-	(1,327,832)	-	-	(1,327,832)
Pension changes other than net periodic benefit costs	-	12,746,301	-	-	-	-	12,746,301	-	-	12,746,301
Changes in postretirement health and welfare benefits other than net periodic benefit costs	-	1,933,951	-	-	-	-	1,933,951	-	-	1,933,951
Change in unrestricted net assets	18,395,457	17,000,031	134,617	1,278,911	1,248,383	(19,702,190)	18,355,209	40,248	-	18,395,457
Change in temporarily restricted net assets	(1,286,534)	(1,252,071)	-	(1,869,618)	(34,463)	3,156,152	(1,286,534)	-	-	(1,286,534)
Change in permanently restricted net assets	92,975	92,975	-	-	-	(92,975)	92,975	-	-	92,975
Change in net assets	17,201,898	15,840,935	134,617	(590,707)	1,213,920	(16,639,013)	17,161,650	40,248	-	17,201,898
Net assets (deficit) at beginning of year	11,405,827	10,631,335	675,769	6,800,643	(338,231)	(18,139,529)	11,035,814	370,013	-	11,405,827
Net assets (deficit) at end of year	\$ 28,607,725	\$ 26,472,270	\$ 810,386	\$ 6,209,936	\$ 875,689	\$ (34,778,542)	\$ 28,197,464	\$ 410,261	\$ -	\$ 28,607,725

See accompanying independent auditors' report.