Bristol Hospital and Health Care Group

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2012 and 2011

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 balance sheets of Bristol Hospital and Health Care Group (the Corporation) a not-for-profit, non-stock corporation, as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, 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.

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, 2012

10 Tower Lane
Avon, Connecticut 06001
Phone 860.678.9200

4600 E. Washington Street, Suite 300
Phoenix, Arizona 85034
Phone 602.252.7373

30 Main Street, Suite 215
Burlington, Vermont 05401
Phone 802.865.9300

Bristol Hospital and Health Care Group
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 12,928,177**	$ 9,063,284
Short-term investments	**96,452**	96,343
Accounts receivable, less allowance for doubtful accounts of $7,909,249 (2012) and $8,176,003 (2011)	**20,476,194**	24,121,394
Other receivables	**5,925,593**	4,914,950
Inventories	**1,627,771**	1,731,093
Estimated settlements due from third-party payers	**1,964,075**	2,379,937
Prepaid expenses	**860,601**	518,896
Debt service funds	**650,968**	654,455
Total current assets	**44,529,831**	43,480,352
Assets limited as to use:		
Funds held for malpractice self-insurance fund	**6,914,759**	6,406,972
Board designated investments	**7,458,112**	6,253,488
Other investments held by Foundation	**2,236,145**	1,493,598
Beneficial interest in assets held in trust by others	**3,103,647**	2,743,115
Funds held under bond indenture agreements	**2,506,470**	2,506,470
Donor restricted investments	**3,939,731**	3,823,956
Total assets limited as to use	**26,158,864**	23,227,599
Other assets:		
Long-term investments	**7,231,860**	6,015,999
Unamortized bond finance costs	**1,265,567**	1,347,150
Investment in joint ventures	**933,589**	701,673
Deferred expenses and other assets	**338,297**	503,236
Total other assets	**9,769,313**	8,568,058
Property, plant and equipment:		
Land and land improvements	**4,619,251**	4,547,414
Buildings	**68,799,257**	68,386,021
Fixtures and equipment	**83,013,268**	80,873,335
Construction in progress	**1,841,857**	149,341
	158,273,633	153,956,111
Less: accumulated depreciation	**(116,102,360)**	(109,172,229)
	42,171,273	44,783,882
Total assets	**$ 122,629,281**	$ 120,059,891
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	**$ 10,947,996**	$ 13,113,207
Accrued payroll and other accrued expenses	**14,340,489**	12,731,046
Accrued interest payable	**399,737**	410,862
Borrowings on line of credit and demand loan	**3,375,000**	3,541,944
Current portion of long-term debt	**998,118**	1,237,749
Total current liabilities	**30,061,340**	31,034,808
Other liabilities:		
Other accrued liabilities	**11,105,499**	12,572,214
Long-term debt, less current portion	**30,342,943**	31,363,489
Accrued postretirement benefit liability, less current portion	**7,151,257**	5,855,356
Asset retirement obligation	**2,116,281**	2,116,281
Accrued pension liability, less current portion	**30,446,134**	25,622,329
Total liabilities	**111,223,454**	108,564,477
Net assets:		
Unrestricted	**1,127,653**	2,677,931
Temporarily restricted	**3,350,571**	2,250,412
Permanently restricted	**6,927,603**	6,567,071
Total net assets	**11,405,827**	11,495,414
Total liabilities and net assets	**$ 122,629,281**	$ 120,059,891

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, 2012 and 2011

	2012	**2011**
Operating revenues:		
Net patient service revenues	**$ 160,223,250**	$ 155,158,705
Other operating revenues	**7,071,296**	8,394,129
Total operating revenues	**167,294,546**	163,552,834
Operating expenses:		
Salaries, wages and fees	**77,072,068**	74,092,170
Supplies and other expenses	**73,759,728**	70,335,672
Bad debt expense, net	**7,606,229**	11,141,062
Depreciation and amortization	**7,011,232**	6,287,283
Interest expense	**1,943,647**	2,148,712
Total operating expenses	**167,392,904**	164,004,899
Loss from operations	**(98,358)**	(452,065)
Non-operating income	**1,298,723**	2,170,216
Excess of revenue over expenses	**$ 1,200,365**	$ 1,718,151

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, 2012 and 2011

	2012	2011
Unrestricted net assets:		
Excess of revenues over expenses	**$ 1,200,365**	$ 1,718,151
Net assets released from restrictions		
capital acquisitions	**1,625,269**	169,416
Net unrealized gains (losses) on investments	**3,196,665**	(1,034,667)
Pension changes other than net periodic benefit costs	**(6,181,908)**	(1,184,961)
Changes in postretirement health and welfare benefits		
other than net periodic benefit costs	**(1,390,669)**	278,391
Change in unrestricted net assets	**(1,550,278)**	(53,670)
Temporarily restricted net assets:		
Contributions received	**2,323,481**	543,622
Net unrealized gains (losses) on investments	**401,947**	(56,878)
Net assets released from restrictions	**(1,625,269)**	(169,416)
Change in temporarily restricted net assets	**1,100,159**	317,328
Permanently restricted net assets:		
Change in assets held in trust by others	**360,532**	(97,020)
Change in permanently restricted net assets	**360,532**	(97,020)
Change in net assets	**(89,587)**	166,638
Net assets, beginning of year	**11,495,414**	11,328,776
Net assets, end of year	**$ 11,405,827**	$ 11,495,414

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	**$ (89,587)**	$ 166,638
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**7,011,232**	6,287,283
Bad debt expense, net	**7,606,229**	11,141,062
Change in assets held in trust by others	**(360,532)**	97,020
Loss on disposal of equipment	**-**	14,553
Net realized and unrealized (gains) losses on investments	**(3,669,903)**	1,091,545
Changes in assets and liabilities:		
Accounts receivable	**(3,961,029)**	(16,355,115)
Other receivables	**(1,010,643)**	(3,012,380)
Inventories	**103,322**	(256,624)
Estimated settlements from third-party payers	**415,862**	(2,707,445)
Prepaid expenses	**(341,705)**	497,514
Deferred expenses and other assets	**164,939**	(117,004)
Trade accounts payable	**(2,165,211)**	2,695,572
Accrued payroll and other accrued expenses	**1,609,443**	4,491,759
Accrued interest payable	**(11,125)**	(5,111)
Other accrued liabilities	**(1,466,715)**	3,950,366
Accrued postretirement benefit liability	**1,295,901**	(292,648)
Asset retirement obligation	**-**	90,000
Accrued pension liability	**4,823,805**	267,231
Net cash provided by operating activities	**9,954,283**	8,044,216
Cash flows from investing activities:		
Additions to property, plant and equipment	**(4,317,040)**	(9,532,937)
Purchases of investments	**(14,061,173)**	(317,585)
Sales of investments	**13,867,351**	24,801
Debt service funds	**3,487**	(3,786)
Change in investments in joint ventures	**(231,916)**	562,381
Change in funds held for malpractice self-insurance fund, net	**77,022**	(237,275)
Net cash used in investing activities	**(4,662,269)**	(9,504,401)
Cash flows from financing activities:		
Repayment of long-term debt and capital lease obligations	**(1,260,177)**	(1,243,206)
Net payments on line of credit and demand loan	**(166,944)**	(229,166)
Net cash used in financing activities	**(1,427,121)**	(1,472,372)
Change in cash and cash equivalents	**3,864,893**	(2,932,557)
Cash and cash equivalents at beginning of year	**9,063,284**	11,995,841
Cash and cash equivalents at end of year	**$ 12,928,177**	$ 9,063,284

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

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 Health Services (BHS) and Bristol Hospital Multispecialty Group (BHMG). BHS was the holding company for Central Connecticut Medical Management, Inc. (CCMM) and Bristol Hospital EMS, LLC (EMS). 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. As of September 30, 2011, as a result of this merger, BHS was only the holding company for EMS. EMS provides ambulance services to the Greater Bristol area. BHC operates Ingraham Manor, which is a skilled nursing facility.

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. In 2010, the Hospital established HG Property Holdings, LLC (HG). HG is a real estate holding company and currently owns two properties acquired by the Hospital in 2010. The accounts of HG have been included within the Hospital financial statements.

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 liability assumptions.

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. However, the FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. 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.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

***Regulatory Matters* -** The Corporation is required to file annual operating information with the State of Connecticut Office of Health Care Access (OHCA).

***Assets Limited as to Use* -** Assets limited as to use include funds held for malpractice self insurance, assets set aside by the Board of Directors for future capital improvements over which the Board of Directors retains control, the beneficial interest in assets held in trust by others, investments held in escrow under borrowing arrangements, donor restricted investments and 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 $81,583 and $74,159, for the years ended September 30, 2012 and 2011, 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, 2012 and 2011, 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 2012 and 2011.

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%).

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 and 2011, pledges receivable included in other receivables were approximately $705,000 and $755,000, respectively.

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, 2012 and 2011, the Corporation has $7,458,112 and $6,253,488, 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.

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 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, 2012 and 2011, the Corporation has recorded revenue of $1,303,520 and $2,320,493, 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, 2012 and 2011. 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, 2012 and 2011, 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).

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. Effective October 1, 2011 and for all periods presented, the Corporation adopted provisions of Accounting Standards Update (ASU) No. 2010-24, "*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*", which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. Pursuant to being self-insured, the Corporation has continually maintained 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. In connection with the Corporation's adoption of ASU 2010-24, 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 $2,410,000 and $3,296,000 as of September 30, 2012 and 2011, respectively. The increases 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. The adoption of ASU 2010-24 had no impact on the Corporation's results of operations or net cash flows.

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 $1,308,749 and $84,685 for the years ended September 30, 2012 and 2011, respectively. Previously, the Corporation reported its estimates of services provided under its charity care programs based on gross charges. In connection with the Corporation's adoption of ASU 2010-23, "*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*," amounts previously reported for care provided under its charity care programs have been restated to reflect the Corporation's estimates of its direct and indirect cost of providing these services. This change had no impact on the Corporation's results of operations.

Note 2 - Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Adopted - In August 2010, the FASB issued ASU No. 2010-23, "*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*". ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for fiscal years beginning after December 15, 2010, with retrospective application required. The Corporation's adoption of ASU 2010-23 did not have a material impact on its overall consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-24, "*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*". ASU No. 2010-24 clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010. The Corporation's adoption of ASU 2010-24 resulted in the recording of additional claim liabilities and insurance recoveries from third party insurance carriers as previously mentioned above.

Pending Accounting Pronouncements - In May 2011, the FASB issued ASU No. 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRs*". ASU No. 2011-04 amends certain guidance in ASC 820, "Fair Value Measurement". ASU 2011-04 expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011 and will be applied on a prospective basis. The Corporation is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Corporation's consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, "*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*". ASU 2011-07 requires a health care entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012. The Corporation does not believe adoption of ASU 2011-07 will have a material impact on its overall consolidated financial statements.

Reclassifications - Certain reclassifications to the 2011 consolidated financial statements have been made in order to conform to the 2012 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Subsequent Events - Subsequent events have been evaluated through December 17, 2012, 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 other than those mentioned in Note 18.

Note 3 - Revenues from Services to Patients and Charity Care

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

	2012	2011
Gross revenues from service to patients	**$ 437,866,625**	$ 390,926,402
Deductions and exclusions:		
Allowances	**273,016,854**	234,887,092
State provider tax	**844,563**	656,854
Charity care	**3,781,958**	223,751
Net revenues from service to patients	**$ 160,223,250**	$ 155,158,705

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

Net patient service revenues are reported at the estimated realizable amounts from patients, third-party payers and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payer settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. During 2012 and 2011, approximately 36% and 33% of net service revenues was received under the Medicare program, respectively, and 14% and 15% under the State Medicaid program, respectively. During both 2012 and 2011, approximately 16% of net patient service revenue was received from Blue Cross.

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

The Corporation has agreements with various commercial third-party payers and 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 and third-party contracts.

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

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 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, 2012 and 2011, the Corporation granted charity care charges of $3,781,958 and $223,751.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, 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.

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.

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, 2012 and 2011, are summarized as follows:

	2012		**2011**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Debt Service Funds:				
U.S. treasury obligations	**$ 650,968**	**$ 650,968**	$ 654,455	$ 654,455

Note 4 - Investments (continued)

	2012		2011	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Assets Limited as to Use:				
Board designated investments:				
Cash and money market funds	**$ 5,897,751**	**$ 5,897,751**	$ 424,287	$ 424,287
Equity mutual funds	**1,501,222**	**1,481,815**	7,200,121	5,829,201
Fixed income mutual funds	**75,000**	**78,546**	-	-
Total	**$ 7,473,973**	**$ 7,458,112**	$ 7,624,408	$ 6,253,488
Held for malpractice self insurance fund:				
Cash and money market funds	**$ 96,443**	**$ 96,443**	$ 33,526	$ 33,526
Corporate and foreign bonds	**799,496**	**826,706**	849,246	852,670
Preferred equity securities	**165,027**	**186,175**	165,027	159,255
Equity mutual funds	**1,792,784**	**2,133,566**	1,746,179	1,709,618
Fixed income mutual funds	**3,520,567**	**3,671,869**	3,616,115	3,651,903
Total	**$ 6,374,317**	**$ 6,914,759**	$ 6,410,093	$ 6,406,972
Held by trustee under bond indenture agreement:				
U.S. treasury obligations	**$ 2,506,470**	**$ 2,506,470**	$ 2,506,470	$ 2,506,470
Other investments held by Foundation:				
Cash and money market funds	**$ 411,114**	**$ 411,114**	$ 425,960	$ 425,960
Equity mutual funds	**1,101,270**	**1,100,993**	1,437,824	1,067,638
Fixed income mutual funds	**692,000**	**724,038**	-	-
Total	**$ 2,204,384**	**$ 2,236,145**	$ 1,863,784	$ 1,493,598
Donor restricted investments:				
Equity mutual funds	**$ 4,130,851**	**$ 3,939,731**	$ 4,531,104	$ 3,823,956
Long-term Investments:				
Cash and money market funds	**$ 6,899,291**	**$ 6,899,291**	$ 456,990	$ 456,990
Equity mutual funds	**362,398**	**332,569**	6,370,853	5,559,009
Total	**$ 7,261,689**	**$ 7,231,860**	$ 6,827,843	$ 6,015,999

Note 4 - Investments (continued)

Beneficial interest assets held in trust by others of $3,103,647 and $2,743,115, as of September 30, 2012 and 2011, 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, 2012 and 2011:

	Less than 12 months		12 months and greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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	$ 435,194	$ (14,839)	$ 5,783,990	$ (401,888)	$ 6,219,184	$ (416,727)
As of September 30, 2011:						
Corporate and foreign bonds	$ 244,099	$ (5,160)	$ -	$ -	$ 244,099	$ (5,160)
Preferred equity securities	107,275	(8,440)	-	-	107,275	(8,440)
Equity mutual funds	1,177,264	(111,887)	16,232,035	(3,220,640)	17,409,299	(3,332,527)
Fixed income mutual funds	1,042,235	(29,704)	-	-	1,042,235	(29,704)
Total	$ 2,570,873	$ (155,191)	$ 16,232,035	$ (3,220,640)	$ 18,802,908	$ (3,375,831)

In 2012, the unrealized losses for greater than one year relate to 5 individual holdings in corporate and foreign bonds and mutual fund investments. In 2011, the unrealized losses for greater than one year relate to 16 individual holdings in mutual fund investments. In 2012, the unrealized losses for less than one year relate to 14 individual holdings in mutual fund investments. In 2011, the unrealized losses for less than one year relate to 23 individual holdings in corporate and foreign bonds, preferred equity securities and mutual funds. 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, 2012 and 2011, by the valuation hierarchy. These tables include assets limited as to use, debt service funds and long-term investments.

Note 5 - Fair Value Measurements (continued)

2012	Level 1	Level 2	Level 3	Total
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
	22,397,557	8,540,488	-	30,938,045
Beneficial interest in assets held in trust by others	-	-	3,103,647	3,103,647
Total	$ 22,397,557	$ 8,540,488	$ 3,103,647	$ 34,041,692

2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,552,881	$ -	$ -	$ 1,552,881
Equities:				
U.S. large cap	9,770,810	-	-	9,770,810
U.S. mid cap	2,966,940	-	-	2,966,940
U.S. small cap	2,141,945	-	-	2,141,945
Internationally developed	2,819,109	-	-	2,819,109
Preferred equity securities	-	159,255	-	159,255
Fixed Income:				
Corporate and foreign bonds	-	852,670	-	852,670
U.S. treasury obligations	-	3,160,925	-	3,160,925
Taxable fixed income mutual funds	-	2,698,435	-	2,698,435
Closed-end fixed income mutual funds	-	1,031,968	-	1,031,968
	19,251,685	7,903,253	-	27,154,938
Beneficial interest in assets held in trust by others	-	-	2,743,115	2,743,115
Total	$ 19,251,685	$ 7,903,253	$ 2,743,115	$ 29,898,053

Note 5 - Fair Value Measurements (continued)

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

	Beneficial Interest in Assets Held in Trust by Others
Balance as of October 1, 2010	$ 2,840,135
Distributions	(107,228)
Net change in market value	10,208
Balance as of September 30, 2011	2,743,115
Distributions	(107,393)
Net change in market value	467,925
Balance as of September 30, 2012	$ 3,103,647

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 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.

Note 5 - Fair Value Measurements (continued)

- *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, 2012 and 2011, 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.

Note 6 - Net Assets and Endowments

Temporarily restricted net assets, as of September 30, 2012 and 2011 are available for the following purposes:

	2012	2011
State Hospital grants	**$ 801,096**	$ 413,557
Healthcare services	**2,549,475**	1,836,855
Total	**$ 3,350,571**	$ 2,250,412

Permanently restricted net assets, as of September 30, 2012 and 2011, are available for the following purposes:

	2012	2011
Held in perpetuity, income restricted for healthcare services	**$ 3,823,956**	$ 3,823,956
Assets held in trust by others	**3,103,647**	2,743,115
Total	**$ 6,927,603**	$ 6,567,071

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.

Note 6 - Net Assets and endowments (continued)

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.

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 $1,625,269 and $169,416 of funds for expenditure from its temporarily restricted endowment funds and other net assets for the year ended September 30, 2012 and 2011, respectively. The Corporation appropriated $13,517 and $15,795 of funds for expenditure from the Corporation's Board restricted endowment funds for the years ended September 30, 2012 and 2011. 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, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2011	$ 5,799,021	$ 2,250,412	$ 6,567,071	$ 14,616,504
Investment return:				
Investment income	208,199	-	-	208,199
Net change in market value	1,464,409	401,947	360,532	2,226,888
Contributions	-	2,323,481	-	2,323,481
Expenditures	(13,517)	(1,625,269)	-	(1,638,786)
Balance at September 30, 2012	$ 7,458,112	$ 3,350,571	$ 6,927,603	$ 17,736,286

Note 6 - Endowment and Net Assets (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2010	$ 6,079,588	$ 1,933,084	$ 6,664,091	$ 14,676,763
Investment return:				
Investment income	98,452	-	-	98,452
Net change in market value	(363,224)	(56,878)	(97,020)	(517,122)
Contributions	-	543,622	-	543,622
Expenditures	(15,795)	(169,416)	-	(185,211)
Balance at September 30, 2011	$ 5,799,021	$ 2,250,412	$ 6,567,071	$ 14,616,504

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, 2011, the Corporation had donor restricted investments below the amount required to be held in perpetuity. Therefore, unrestricted net assets had been reduced by $454,467 as of September 30, 2011. During 2012, market conditions led to recovery of the amount required to be retained in perpetuity and the amounts recorded, previously reducing unrestricted net assets, were restored.

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 2017. Certain leases may be renewed at the end of their term. In 2012, the Corporation entered into two new lease agreements for equipment and software. These lease agreements have been properly classified as a capital leases under the lease arrangements. As of September 30, 2012, capital leases payable in the amount of $348,990 are included within other liabilities with the current portion in the amount of $216,400 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, 2012:

	Capital Leases	Operating Leases
2013	$ 216,400	$ 1,652,063
2014	116,330	1,341,347
2015	116,330	482,883
2016	116,330	289,819
2017	-	275,187
Total	$ 565,390	$ 4,041,299

Note 7 - Leases (continued)

Rental expense was approximately $2,172,000 and $2,280,000 for the years ended September 30, 2012 and 2011, 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, 2012 and 2011, 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.

Note 8 - Long-Term Debt (continued)

Below is a summary of the Hospital's and BHC's annual principal payments due as of September 30, 2012:

	Bristol Hospital, Incorporated	Bristol Health Care, Inc. and Subsidiary	Total Obligated Group
Year Ending September 30:			
2013	$ 388,930	$ 501,070	$ 890,000
2014	408,595	526,405	935,000
2015	430,445	554,555	985,000
2016	456,665	588,335	1,045,000
2017	478,515	616,485	1,095,000
Thereafter	21,690,975	2,069,025	23,760,000
	23,854,125	4,855,875	28,710,000
Less: portion classified as current	388,930	501,070	890,000
	23,465,195	4,354,805	27,820,000
Less: discount	352,606	31,948	384,554
Add: Adjustment to record debt at fair value (Note 16)	759,901	-	759,901
Total	$ 23,872,490	$ 4,322,857	$ 28,195,347

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 at September 30, 2011 were $3,000,000. The balance outstanding on the term loan as of September 30, 2011 was $541,944. Advances outstanding on the line at September 30, 2012 were $3,000,000. The balance outstanding on term loan as of September 30, 2012 was $375,000. 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, 2012 and 2011.

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, 2012 and 2011 is $297,961 and $305,407, 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, 2012 and 2011 is $1,186,809 and $1,236,385, respectively.

Note 8 - Long-Term Debt (continued)

On August 17, 2007, the Hospital entered into a debt agreement with GE Health Care Financial Services in the amount of $1,461,729 for the purchase of equipment. The term of the debt is for five years with a rate of 4.35%. The balance outstanding as of September 30, 2011 was $306,108. The balance was fully paid as of September 30, 2012.

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, 2012 and 2011 was $770,944 and $808,735, respectively.

In 2012 and 2011, the Hospital has a $500,000 line of credit available with New England Bank. Interest is payable at either the existing prime rate plus 1.00% or 4.00%. There were no advances outstanding on the line of credit as of September 30, 2012 and 2011.

As of September 30, 2012 and 2011, 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, 2012 as described above:

2013	$	998,118
2014		1,067,635
2015		1,126,071
2016		1,195,048
2017		1,239,658
Thereafter		25,339,184
Total	$	30,965,714

Interest paid for the years ended September 30, 2012 and 2011 was $1,950,163 and $2,193,179, 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.

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, 2012 and 2011:

	2012	2011
Change in benefit obligation:		
Projected benefit obligation at beginning of year	**$ 69,905,000**	$ 72,862,000
Interest cost	**3,769,000**	3,845,000
Actuarial loss (gain)	**13,206,000**	(1,200,000)
Benefits paid	**(2,671,000)**	(5,602,000)
Benefit obligation at end of year	**$ 84,209,000**	$ 69,905,000
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 41,583,000**	$ 46,495,000
Employer contributions	**1,548,000**	1,700,000
Actual return on plan assets	**7,355,000**	(1,010,000)
Benefits paid	**(2,671,000)**	(5,602,000)
Fair value of plan assets at end of year	**$ 47,815,000**	$ 41,583,000
Reconciliation of funded status:		
Funded status and accrued pension liability	**$ (36,394,000)**	$ (28,322,000)

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 and 2011 were $1,038,182 and $912,938, respectively.

For the years ended September 30, 2012 and 2011, there are no differences between the Plan's accumulated benefit obligation and projected benefit obligation as the Plan is frozen as noted below.

The Hospital has included $5,948,000 and $2,700,000, as of September 30, 2012 and 2011, 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.

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, 2012 and 2011:

	2012	2011
Interest cost	**$ 3,769,000**	$ 3,845,000
Expected return on plan assets	**(3,738,000)**	(4,141,000)
Amortization of net loss	**3,402,000**	2,762,000
Net periodic benefit cost	**$ 3,433,000**	$ 2,466,000

The following were the weighted-average assumptions used to determine the pension benefit obligations at September 30, 2012 and 2011:

	2012	**2011**
Discount rate	**4.25%**	5.50%
Expected return on plan assets	**9.00%**	9.00%

The following were the weighted-average assumptions used to determine net periodic pension cost for years ended September 30, 2012 and 2011:

	2012	**2011**
Discount rate	**5.50%**	5.75%
Expected return on plan assets	**9.00%**	9.00%

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

The Plan's target and actual weighted-average asset allocations as of September 30, 2012 and 2011, by asset category are as follows:

	Target Allocation	**Actual Asset Allocation**	
		2012	**2011**
Asset category:			
Equity securities	75%	**84%**	84%
Debt securities	25%	**16%**	16%
Total	100%	**100%**	100%

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

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

2012	Level 1	Level 2	Level 3	Total
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	$ 43,881,249	$ -	$ 3,933,533	$ 47,814,782

The fair values of the Plan assets, by asset category, are as follows for the year ended September 30, 2011:

2011	Level 1	Level 2	Level 3	Total
Money market funds	$ 8,311	$ -	$ -	$ 8,311
Equities:				
Mutual funds - equity	34,877,061	-	-	34,877,061
Common stock - consumer discretionary	24,422	-	-	24,422
Fixed income:				
Mutual funds	6,673,576	-	-	6,673,576
Total	$ 41,583,370	$ -	$ -	$ 41,583,370

During 2012, the Plan's investment in one of its fixed income mutual funds transferred from a Level 1 fair value measurement to a Level 3 fair value measurement.

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

2013	$	3,201,000
2014	$	3,405,000
2015	$	3,612,000
2016	$	3,823,000
2017	$	4,010,000
Years 2018-2022	$	22,614,000

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

The amount recorded in unrestricted net assets as of September 30, 2012 and 2011, not yet amortized as a component of net periodic benefit cost are $45,701,592 and $39,519,684, respectively. Amortization expected to be recognized in net periodic benefit costs for the year ending September 30, 2013 is $3,899,651.

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.

The following tables set forth the Medical Plan's change in benefit obligation and change in plan assets for the years ended September 30, 2012 and 2011:

	2012	2011
Change in benefit obligation:		
Projected benefit obligation at beginning of year	**$ 6,271,000**	$ 6,549,000
Service cost	**34,000**	51,000
Interest cost	**360,000**	316,000
Actuarial loss (gain)	**1,459,000**	(254,000)
Benefits paid	**(463,000)**	(391,000)
Projected benefit obligation at end of year	**$ 7,661,000**	$ 6,271,000
Change in plan assets:		
Plan assets at beginning of year	**$ -**	$ -
Employer contribution	**463,000**	391,000
Benefits paid	**(463,000)**	(391,000)
Plan assets at end of year	**$ -**	$ -
Reconciliation of funded status:		
Funded status	**$ (7,661,000)**	$ (6,271,000)
Unrecognized net actuarial loss	**-**	-
Accrued postretirement benefit liability	**$ (7,661,000)**	$ (6,271,000)

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

Amounts recognized in the consolidated balance sheets are as follows:

	2012	2011
Short-term portion of accrued postretirement benefit liability, included in accrued payroll and other related expenses	**$ (510,000)**	$ (416,000)
Long-term portion of accrued postretirement benefit liability	**(7,151,000)**	(5,855,000)
Total amount recognized	**$ (7,661,000)**	$ (6,271,000)

The following table sets forth the components of net periodic benefit costs for the years ended September 30, 2012 and 2011:

	2012	2011
Service cost	**$ 34,000**	$ 51,000
Interest cost	**360,000**	316,000
Amortization of actuarial loss	**48,000**	5,000
Net periodic benefit costs	**$ 442,000**	$ 372,000

The weighted-average assumptions used to determine the benefit obligation as of September 30, 2012 and 2011 are as follows:

	2012	2011
Discount rate	**4.25%**	5.50%

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended September 30, 2012 and 2011, are as follows:

	2012	2011
Discount rate	**5.50%**	5.25%
Assumed healthcare cost trend rates:		
Initial trend rate	**9.50%**	10.25%
Ultimate trend rate	**5.00%**	5.00%
Year ultimate trend rate is achieved	**2018**	2018

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

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

		2012		2011
Effect of a 1% increase in healthcare cost trend rate on:				
Interest costs plus service costs	**$**	**28,000**	$	32,000
Accumulated postretirement benefit obligation	**$**	**540,000**	$	446,000
Effect of a 1% decrease in healthcare cost trend rate on:				
Interest costs plus service costs	**$**	**(23,000)**	$	(25,000)
Accumulated postretirement benefit obligation	**$**	**(449,000)**	$	(370,000)

The Corporation expects to contribute approximately $528,000 to its Medical Plan in 2013 which is accrued within accrued payroll and other related expenses on the consolidated balance sheet.

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

2013	$	510,000
2014	$	525,000
2015	$	537,000
2016	$	534,000
2017	$	529,000
Years 2018-2022	$	2,502,000

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 2011 and as of September 30, 2012, intends to contribute a match as of December 31, 2012. The 2012 and 2011 amounts are included in accrued payroll and other related expenses on the consolidated balance sheets. The Corporation incurred $649,468 and $1,464,948 of expense related to its 403(b) plan for the years ended September 30, 2012 and 2011, respectively.

Note 11 - Related Party Transactions

During 2012 and 2011, 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 $2,720,136 and $3,840,100 of patient accounts receivable to a collection agency, in which it has an equity interest, in 2012 and 2011, 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 $6,914,759 and $6,406,972 of assets which reside in the trust, as of September 30, 2012 and 2011, 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.

The Corporation’s malpractice liabilities, determined with the assistance of an independent actuary, as of September 30, 2012 and 2011 were estimated at $5,846,270 and $6,657,036, 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, as mentioned in Note 2, in conjunction with the adoption of ASU 2010-24, 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 2012 and 2011. The balances as of September 30, 2012 and 2011 are $1,689,954 and $1,446,180, 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, 2012 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, 2012 and 2011 are as follows:

	2012	2011
Healthcare services	**$ 137,911,364**	$ 135,120,061
General and administrative	**29,481,540**	28,884,838
Total	**$ 167,392,904**	$ 164,004,899

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

Non-operating income for the years ended September 30, 2012 and 2011 consisted of:

	2012	2011
Investment and interest income	**$ 451,777**	$ 643,534
Realized gains on sales of investments	**71,291**	-
Gain on equity investments	**775,655**	586,680
Gain on sale of CLS	**-**	940,002
Total non-operating income	**$ 1,298,723**	$ 2,170,216

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 $759,901, 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 $2,116,281 as of September 30, 2012 and 2011. Management is currently assessing this liability and will make any adjustments during fiscal year 2013.

Note 18 - Subsequent Events

BHHCG, announced on November 28, 2012, that it has signed a Letter of Intent to be acquired by Vanguard Health Systems, Inc., of Nashville, Tennessee (VHS). VHS is a nationally recognized and respected network of for-profit hospitals and a Fortune 500 company. BHHCG and VHS will work over the next 60 days on preparing a definitive purchasing agreement while preparing for the Certificate of Need process and approval from the state Office of Health Care Access and the Office of the Attorney General. As part of the agreement, BHHCG's Board of Directors will establish a ten member Board of Trustees which will be comprised of four physicians, five community leaders and Kurt Barwis, FACHE, president and CEO of BHHCG. In addition to the Letter of Intent with VHS, the Hospital recently signed a new network member agreement with Yale-New Haven Health System. The agreement includes the development of joint clinical programs and the development of protocols used when patients are transferred to Yale-New Haven Hospital for tertiary and quaternary care. Other network services such as purchasing are also part of the agreement.

Subsequent to year-end, the Hospital has started to upgrade a portion of its environmental systems by replacing the cooling towers. The total project cost is expected to be $2 million. The Hospital will get a $350,000 utility rebate, a $450,000 state grant and a $1,000,000 zero interest, 7-year loan from the Connecticut Hospital Association Trust. Annual energy savings expect to be $110,000.

Bristol Hospital and Health Care Group
Supplemental Consolidating Balance Sheet
September 30, 2012

	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	$ 9,376,449	$ 444,054	$ 1,937,481	$ 904,661	$ -	$ 12,701,764	$ 226,413	$ -	$ 12,928,177
Short-term investments	-	96,452	-	-	-	-	96,452	-	-	96,452
Accounts receivable, less allowances for doubtful accounts	-	16,562,143	610,753	-	2,383,993	-	19,556,889	919,305	-	20,476,194
Other receivables	-	4,999,472	-	830,690	51,191	-	5,881,353	92,613	(48,373)	5,925,593
Due from affiliates	-	3,142,097	-	-	-	(3,142,097)	-	-	-	-
Inventories	-	1,592,222	-	-	35,549	-	1,627,771	-	-	1,627,771
Estimated settlements due from third-party payers	-	1,964,075	-	-	-	-	1,964,075	-	-	1,964,075
Prepaid expenses	-	811,642	26,638	-	-	-	838,280	22,321	-	860,601
Debt service funds	-	458,932	-	-	192,036	-	650,968	-	-	650,968
Total current assets	39,119	39,003,484	1,081,445	2,768,171	3,567,430	(3,142,097)	43,317,552	1,260,652	(48,373)	44,529,831
Assets limited as to use:										
Funds held for malpractice self-insurance fund	-	6,914,759	-	-	-	-	6,914,759	-	-	6,914,759
Board designated investments	-	6,662,023	-	-	796,089	-	7,458,112	-	-	7,458,112
Other investments held by Foundation	-	-	-	2,236,145	-	-	2,236,145	-	-	2,236,145
Beneficial interest in assets held in trust by others	-	3,103,647	-	-	-	-	3,103,647	-	-	3,103,647
Funds held under bond indenture agreements	-	2,506,470	-	-	-	-	2,506,470	-	-	2,506,470
Interest in net assets of Foundation	-	6,708,565	-	-	64,256	(6,772,821)	-	-	-	-
Donor restricted investments	-	394,142	-	3,545,589	-	-	3,939,731	-	-	3,939,731
Total assets limited to use	-	26,289,606	-	5,781,734	860,345	(6,772,821)	26,158,864	-	-	26,158,864
Other assets:										
Long-term investments	-	7,231,860	-	-	-	-	7,231,860	-	-	7,231,860
Unamortized bond finance costs	-	1,092,673	-	-	172,894	-	1,265,567	-	-	1,265,567
Investment in joint ventures	-	933,589	-	-	-	-	933,589	-	-	933,589
Deferred expenses and other assets	-	338,297	-	-	-	-	338,297	-	-	338,297
Investment in subsidiaries	18,139,529	-	-	-	-	(18,139,529)	-	-	-	-
Total other assets	18,139,529	9,596,419	-	-	172,894	(18,139,529)	9,769,313	-	-	9,769,313
Property, plant and equipment:										
Land and land improvements	-	3,813,993	-	-	752,666	-	4,566,659	52,592	-	4,619,251
Buildings	-	58,972,521	-	-	9,826,736	-	68,799,257	-	-	68,799,257
Fixtures and equipment	-	78,595,185	1,240,221	-	1,351,404	-	81,186,810	1,826,458	-	83,013,268
Construction in progress	-	1,836,659	-	-	5,198	-	1,841,857	-	-	1,841,857
Total	-	143,218,358	1,240,221	-	11,936,004	-	156,394,583	1,879,050	-	158,273,633
Less: accumulated depreciation	-	(105,453,829)	(893,784)	-	(8,583,926)	-	(114,931,539)	(1,170,821)	-	(116,102,360)
Total property, plant and equipment	-	37,764,529	346,437	-	3,352,078	-	41,463,044	708,229	-	42,171,273
Total assets	$ 18,178,648	$ 112,654,038	$ 1,427,882	$ 8,549,905	$ 7,952,747	$ (28,054,447)	$ 120,708,773	$ 1,968,881	$ (48,373)	$ 122,629,281

See accompanying independent auditors’ report.

Bristol Hospital and Health Care Group
Supplemental Consolidating Balance Sheet (continued)
September 30, 2012

	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	$ -	$ 9,975,800	$ 203,912	$ -	$ 562,842	$ -	$ 10,742,554	$ 205,442	$ -	$ 10,947,996
Accrued payroll and other accrued expenses	-	12,589,545	181,050	-	575,412	-	13,346,007	994,482	-	14,340,489
Due to affiliates	-	-	45,486	1,406,663	651,766	(2,103,915)	-	-	-	-
Accrued interest payable	-	332,969	-	-	66,768	-	399,737	-	-	399,737
Borrowings on line of credit and demand loan	-	3,375,000	-	-	-	-	3,375,000	-	-	3,375,000
Current portion of long-term debt	-	497,048	-	-	501,070	-	998,118	-	-	998,118
Total current liabilities	-	26,770,362	430,448	1,406,663	2,357,858	(2,103,915)	28,861,416	1,199,924	-	30,061,340
Other Liabilities:										
Other accrued liabilities	-	9,518,583	321,665	342,599	572,081	-	10,754,928	398,944	(48,373)	11,105,499
Long-term debt, less current portion	-	26,020,086	-	-	4,322,857	-	30,342,943	-	-	30,342,943
Accrued postretirement benefit liability	-	7,151,257	-	-	-	-	7,151,257	-	-	7,151,257
Asset retirement obligation	-	2,116,281	-	-	-	-	2,116,281	-	-	2,116,281
Accrued pension liability	-	30,446,134	-	-	1,038,182	(1,038,182)	30,446,134	-	-	30,446,134
Total liabilities	-	102,022,703	752,113	1,749,262	8,290,978	(3,142,097)	109,672,959	1,598,868	(48,373)	111,223,454
Net assets (deficit)	18,178,648	10,631,335	675,769	6,800,643	(338,231)	(24,912,350)	11,035,814	370,013	-	11,405,827
Total liabilities and net assets	$ 18,178,648	$ 112,654,038	$ 1,427,882	$ 8,549,905	$ 7,952,747	$ (28,054,447)	$ 120,708,773	$ 1,968,881	$ (48,373)	$ 122,629,281

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, 2012

	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	$ -	$ 130,360,493	$ 3,898,118	$ -	$ 12,590,692	$ -	$ 146,849,303	$ 13,373,947	$ -	$ 160,223,250
Other revenues:										
Service and supply income	-	-	-	-	-	-	-	-	-	-
Other revenues	-	5,173,982	1,330,773	740,677	44,345	-	7,289,777	4,171,252	(4,389,733)	7,071,296
Net (loss) income on subsidiaries	(1,845,121)	-	-	-	-	1,845,121	-	-	-	-
Total other revenues	(1,845,121)	5,173,982	1,330,773	740,677	44,345	1,845,121	7,289,777	4,171,252	(4,389,733)	7,071,296
Total operating revenues	(1,845,121)	135,534,475	5,228,891	740,677	12,635,037	1,845,121	154,139,080	17,545,199	(4,389,733)	167,294,546
Operating expenses:										
Salaries, wages and fees	-	59,084,274	2,858,086	352,680	6,054,391	-	68,349,431	11,225,773	(2,503,136)	77,072,068
Supplies and other expenses	-	60,969,190	1,657,977	598,915	5,979,143	-	69,205,225	6,441,100	(1,886,597)	73,759,728
Bad debt expense, net	-	6,470,291	425,655	-	380,000	-	7,275,946	330,283	-	7,606,229
Depreciation and amortization	-	6,320,576	92,600	-	414,732	-	6,827,908	183,324	-	7,011,232
Interest expense	-	1,641,972	-	-	297,066	-	1,939,038	4,609	-	1,943,647
Total operating expenses	-	134,486,303	5,034,318	951,595	13,125,332	-	153,597,548	18,185,089	(4,389,733)	167,392,904
Gain (loss) from operations	(1,845,121)	1,048,172	194,573	(210,918)	(490,295)	1,845,121	541,532	(639,890)	-	(98,358)
Other non-operating income	175	1,253,154	-	(49,553)	94,947	-	1,298,723	-	-	1,298,723
Excess of revenues over (under) expenses	(1,844,946)	2,301,326	194,573	(260,471)	(395,348)	1,845,121	1,840,255	(639,890)	-	1,200,365
Net assets released from restrictions for capital acquisitions	-	1,612,462	-	-	12,807	-	1,625,269	-	-	1,625,269
Net unrealized gains on investments	-	2,626,853	-	516,028	53,784	-	3,196,665	-	-	3,196,665
Transfer from EMS to Hospital	-	1,100,000	(1,100,000)	-	-	-	-	-	-	-
Transfer from Hospital to BHMSG	-	(576,633)	-	-	-	-	(576,633)	576,633	-	-
Change in interest in net assets of Foundation	-	(294,668)	-	-	-	294,668	-	-	-	-
Pension changes other than net periodic benefit costs	-	(6,181,908)	-	-	-	-	(6,181,908)	-	-	(6,181,908)
Changes in postretirement health and welfare benefits other than net periodic benefit costs	-	(1,390,669)	-	-	-	-	(1,390,669)	-	-	(1,390,669)
Change in unrestricted net assets	(1,844,946)	(803,237)	(905,427)	255,557	(328,757)	2,139,789	(1,487,021)	(63,257)	-	(1,550,278)
Change in temporarily restricted net assets	3,772,831	3,058,352	-	712,621	1,858	(6,445,503)	1,100,159	-	-	1,100,159
Change in permanently restricted net assets	360,532	360,532	-	-	-	(360,532)	360,532	-	-	360,532
Change in net assets	2,288,417	2,615,647	(905,427)	968,178	(326,899)	(4,666,246)	(26,330)	(63,257)	-	(89,587)
Net assets (deficit) at beginning of year	15,890,231	8,015,688	1,581,196	5,832,465	(11,332)	(20,246,104)	11,062,144	433,270	-	11,495,414
Net assets (deficit) at end of year	$ 18,178,648	$ 10,631,335	$ 675,769	$ 6,800,643	$ (338,231)	$ (24,912,350)	$ 11,035,814	$ 370,013	$ -	$ 11,405,827

See accompanying independent auditors' report.