Bristol Hospital and Health Care Group

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2009 and 2008

SLB | Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Saslow
Lufkin &
Buggy, LLP
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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, 2009 and 2008, and the related consolidated statements of operations, 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, 2009 and 2008, 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 supplementary consolidating information listed in the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities. However, the supplementary consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Saslow Lufkin & Buggy, LLP

December 17, 2009

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Bristol Hospital and Health Care Group
Consolidated Balance Sheets
September 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ **9,448,477**	$ 6,161,025
Short-term investments	**1,329,434**	1,572,924
Accounts receivable, less allowance for doubtful accounts of $6,027,359 (2009) and $5,918,662 (2008)	**19,948,367**	20,231,304
Other receivables	**2,020,583**	1,701,640
Inventories	**1,680,523**	1,254,575
Prepaid expenses	**1,370,429**	1,433,389
Debt service funds	**881,487**	578,724
Total current assets	**36,679,300**	32,933,581
Assets limited as to use:		
Funds held for malpractice self insurance fund	**6,973,966**	-
Board designated investments	**5,803,094**	7,069,774
Beneficial interest in assets held in trust by others	**2,730,963**	2,818,309
Funds held under bond indenture agreements	**2,510,609**	5,721,634
Donor restricted investments	**3,669,216**	3,298,531
Total assets limited as to use	**21,687,848**	18,908,248
Other assets:		
Long-term investments	**5,552,518**	4,655,671
Unamortized bond finance costs	**1,499,711**	1,579,775
Investment in joint ventures	**1,369,065**	2,885,361
Deferred expenses and other assets	**210,907**	214,105
Total other assets	**8,632,201**	9,334,912
Property, plant and equipment:		
Land and land improvements	**4,566,536**	4,512,140
Buildings	**63,669,687**	63,242,078
Fixtures and equipment	**67,971,193**	66,010,382
Construction in progress	**807,258**	450,118
	137,014,674	134,214,718
Less: accumulated depreciation	**(97,781,638)**	(92,072,391)
	39,233,036	42,142,327
Total assets	$ **106,232,385**	$ 103,319,068
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	$ **8,490,126**	$ 8,703,473
Accrued payroll and other related expenses	**6,367,472**	6,930,113
Accrued expenses	**342,596**	576,075
Estimated settlements due to third-party payers	**971,897**	394,236
Accrued interest payable	**424,961**	433,414
Advanced payments on patient accounts	**754,870**	608,342
Borrowings on line of credit and demand loan	**6,750,000**	6,250,000
Current portion of long-term debt	**1,346,193**	1,757,524
Total current liabilities	**25,448,115**	25,653,177
Other liabilities:		
Other accrued liabilities	**9,488,573**	5,390,842
Long-term debt, less current portion	**33,100,090**	34,437,997
Accrued postretirement benefit liability	**5,588,773**	4,815,948
Asset retirement obligation	**1,936,281**	1,846,281
Accrued pension liability	**21,959,738**	2,783,218
Total liabilities	**97,521,570**	74,927,463
Net assets:		
Unrestricted	**1,045,617**	20,022,942
Temporarily restricted	**1,110,279**	1,726,398
Permanently restricted	**6,554,919**	6,642,265
Total net assets	**8,710,815**	28,391,605
Total liabilities and net assets	$ **106,232,385**	$ 103,319,068

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

Bristol Hospital and Health Care Group
Consolidated Statements of Operations
For the Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Net patient service revenues	**$ 151,791,899**	$ 144,484,575
Other operating revenues	**5,576,447**	5,727,287
Net assets released from restrictions used for operations	**-**	1,642,038
Total operating revenues	**157,368,346**	151,853,900
Operating expenses:		
Salaries, wages and fees	**76,902,455**	73,484,951
Supplies and other expenses	**62,058,099**	58,346,251
Bad debt expense, net	**10,609,543**	12,100,127
Depreciation and amortization	**5,945,345**	6,348,511
Interest expense	**2,235,998**	2,403,002
Total operating expenses	**157,751,440**	152,682,842
Loss from operations	**(383,094)**	(828,942)
Non-operating income (losses):		
Other non-operating income (losses)	**390,865**	(487,523)
Other than temporary impairment of investments	**-**	(312,792)
Total non-operating income (losses)	**390,865**	(800,315)
Excess of revenue over (under) expenses	**$ 7,771**	$ (1,629,257)

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

Bristol Hospital and Health Care Group
Consolidated Statements of Changes in Net Assets
For the Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted net assets:		
Excess of revenues over (under) expenses	**$ 7,771**	$ (1,629,257)
Net assets released from restrictions for capital acquisitions	**1,292,577**	312,236
Net unrealized losses on investments	**(703,636)**	(4,749,456)
Pension changes in joint ventures	**(131,800)**	(591,735)
Other transfers	**-**	(902,078)
Pension changes other than net periodic benefit costs	**(18,686,911)**	(7,261,795)
Changes in postretirement health and welfare benefits other than net periodic benefit costs	**(755,326)**	-
Change in unrestricted net assets	**(18,977,325)**	(14,822,085)
Temporarily restricted net assets:		
State grant restricted for capital improvements	**-**	1,250,000
Contributions received	**676,458**	312,236
Other transfers	**-**	902,407
Net realized and unrealized losses on investments	**-**	(681,864)
Net assets released from restrictions	**(1,292,577)**	(1,954,274)
Investment income	**-**	102,676
Change in temporarily restricted net assets	**(616,119)**	(68,819)
Permanently restricted net assets:		
Change in assets held in trust by others	**(87,346)**	(644,655)
Change in permanently restricted net assets	**(87,346)**	(644,655)
Change in net assets	**(19,680,790)**	(15,535,559)
Net assets, beginning of year	**28,391,605**	43,927,164
Net assets, end of year	**$ 8,710,815**	$ 28,391,605

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, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	$ (19,680,790)	$ (15,535,559)
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Depreciation and amortization	5,945,345	6,348,511
Bad debt expense, net	10,609,543	12,100,127
Decrease in assets held in trust by others	87,346	644,655
Gain on disposal of equipment	(6,334)	(39,041)
Net realized and unrealized losses on investments	652,138	4,589,744
Other than temporary impairment on investments	-	312,792
Grant expenditures (restrictions) for capital improvements	1,236,524	(1,250,000)
Changes in assets and liabilities:		
Accounts receivable	(10,326,606)	(11,424,120)
Other receivables	(318,943)	637,294
Inventories	(425,948)	57,858
Prepaid expenses	62,960	(393,831)
Debt service funds	(302,763)	(429)
Pension assets	-	2,879,561
Deferred expenses and other assets	3,198	73,940
Trade accounts payable	(213,347)	866,682
Accrued payroll and other related expenses	(562,641)	376,446
Accrued expenses	(233,479)	(856,205)
Estimated settlements to third-party payers	577,661	(1,078,296)
Accrued interest payable	(8,453)	(7,931)
Advanced payments on patient accounts	146,528	(257,073)
Other accrued liabilities	4,097,731	2,588,235
Accrued postretirement benefit liability	772,825	(108,238)
Asset retirement obligation	90,000	90,000
Accrued pension liability	19,176,520	2,783,218
Net cash provided by operating activities	11,379,015	3,398,340
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,981,326)	(2,469,867)
Proceeds from sales of property, plant and equipment	31,670	40,000
Change in short-term investments, net	243,490	512,383
Sales of long-term investments	1,317,083	2,966,214
Purchases of long-term and donor restricted investments	(1,970,073)	(690,992)
Change in investments in joint ventures, net	1,516,296	1,600,571
Increase in funds held for malpractice self insurance fund, net	(6,973,966)	-
Increase in funds held under bond indenture	3,211,025	(2,758,651)
Net cash used in investing activities	(5,605,801)	(800,342)
Cash flows from financing activities:		
Grant (expended) received for capital improvements	(1,236,524)	1,250,000
Repayment of long-term debt and capital lease obligations	(1,749,238)	(1,699,689)
Net proceeds (payments) from line of credit and demand loan	500,000	(300,000)
Net cash used in financing activities	(2,485,762)	(749,689)
Change in cash and cash equivalents	3,287,452	1,848,309
Cash and cash equivalents at beginning of year	6,161,025	4,312,716
Cash and cash equivalents at end of year	$ 9,448,477	$ 6,161,025

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), Bristol Hospital, Incorporated (the Hospital), Bristol Health Care, Inc. and Subsidiary (BHC) and Bristol Health Services (BHS). BHS is the holding company for Central Connecticut Medical Management, Inc. (CCMM) and Bristol Hospital EMS, LLC (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.

Basis of Presentation **-** The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *"FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162."* This guidance establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative GAAP. The Codification supersedes all existing non-SEC accounting and reporting standards. Rules and interpretive releases of the SEC under authority of federal securities laws will remain authoritative GAAP for SEC registrants. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As the Codification will not change existing GAAP, the adoption of this guidance did not have an impact on the Corporation's financial condition or results of operations.

Use of Estimates **-** The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Reclassifications **-** Certain reclassifications to the 2008 consolidated financial statements have been made in order to conform to the 2009 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

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).

Cash and Cash Equivalents **-** The Corporation considers all highly liquid investments with maturities of 90 days or less at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained primarily with two banks including one investment bank sponsored money market fund. From time to time, the Corporation maintains cash balances in excess of the Federal Deposit Insurance Commission (FDIC) limit. The FDIC insures cash balances up to $250,000 per depositor, per bank. In addition, FDIC coverage for balances in non-interest bearing transaction deposit accounts is unlimited if the bank elects to participate. Cash amounts in excess of the FDIC limits and money market funds are uninsured. It is the Corporation's policy to monitor the bank's financial strength on an ongoing basis.

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

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

Investments **-** The Corporation accounts for its investments in accordance with Financial Accounting Standards Board Accounting Standards Codification 320, *"Investments - Debt and Equity Securities"* (FASB ASC 320). 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 (under) expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues over (under) expenses.

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.

The average cost method is used to determine realized gains and losses on sales of marketable securities.

Note 2 - Summary of Significant Accounting Policies (continued)

***Other Than Temporary Impairment of Investments* -** 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 gains (losses), and the cost basis of that investment is reduced.

For equity securities, 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. The Corporation elected to record an other than temporary impairment loss of $312,792 in 2008 related to equity securities. The Corporation did not record any other than temporary impairment loss in 2009.

In 2009, the Corporation adopted changes to FASB ASC 320 which encompassed FASB Staff Position FAS115-2 and FAS 124-2, *"Recognition and Presentation of Other Than Temporary Impairments,"* which relates to fixed income securities.

This guidance requires the Corporation to evaluate whether it intends to sell an impaired fixed income security or whether it is more likely than not that it will be required to sell an impaired fixed income security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the fixed income security's amortized cost and its fair value is recognized in earnings.

For impaired fixed income securities that do not meet these criteria, the Corporation determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment is recognized in earnings and the remaining portion of the impairment is recognized as a component of changes in unrestricted net assets. No impairment losses were recognized in 2009 and 2008 related to fixed income securities.

***Assets Limited as to Use* -** Assets limited as to use primarily include assets held by trustees under indenture agreements, investments held in escrow under borrowing arrangements, and designated assets set aside by the Board of Directors for future capital improvements, over which the Board of Directors retains control and, may at its discretion, subsequently use for other purposes.

***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 is recorded at the fair value of the assets held in the trust.

***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.

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	49.00%
Connecticut Occupational Medical Partners	33.00%
MedConn Collection Agency	20.00%
Collaborative Laboratory Services	20.00%
Total Laundry Collaborative LLC	16.30%
Central Connecticut Endoscopy Center	6.50%
Health Connecticut, LLC	4.50%

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. At September 30, 2009 and 2008, pledges receivable included in other receivables were approximately $985,000 and $14,000, 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 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.

Property, Plant and Equipment - Property, plant and equipment are 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 equipment - 5 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 13).

Statement of Operations - For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenues and expenses. Investment interest income and income (loss) generated on equity investments are considered non-operating activity. Net unrealized gains (losses) on investments and net assets released from restrictions for capital acquisitions are excluded from the operating indicator.

Income Taxes - The Corporation, with the exception of CCMM, EMS and their holding company BHS, are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. EMS and CCMM are included in the consolidated income tax return filed by BHS, EMS' taxable income has been offset by CCMM's taxable loss, and the entities have net operating loss carry-forwards such that no consolidated provision for federal income taxes has been recorded.

The Corporation adopted certain provisions of FASB ASC 740, *"Income Taxes,"* (FASB ASC 740). FASB ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. FASB ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. FASB ASC 740 permits that recognition of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position.

The adoption of FASB ASC 740 did not have any impact on the accompanying consolidated financial statements or the Corporation's tax-exempt status. Furthermore, the Corporation did not record any unrecognized tax benefits as of September 30, 2009 and 2008. The Corporation anticipates that it will not have a change in unrecognized tax benefits during the next twelve months that would have a material impact on the Corporation's financial statements or its tax-exempt status.

The Corporation's policy is to recognize interest and penalties related to income taxes as a component of the provision for income taxes. The Corporation did not record any penalties or interest associated with unrecognized tax benefits in 2009 and 2008.

Subsequent Events - Subsequent events have been evaluated through December 17, 2009, which is the date the consolidated financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

***New Accounting Pronouncements* -** Effective October 1, 2008, the Corporation adopted FASB ASC 820, *"Fair Value Measurements and Disclosures"* (FASB ASC 820). For financial statement elements currently required to be measured at fair value, FASB ASC 820 redefines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability which is referred to as the exit price. FASB ASC 820 provides guidance on how to measure fair value, when required, under existing accounting standards. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2, and 3).

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access at the measurement date.

Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.

Level 3 - Unobservable inputs reflecting the Corporation's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The Corporation has classified its investments in accordance with FASB ASC 820, as further discussed in Note 16.

Note 3 - Revenues from Services to Patients and Charity Care

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

	2009	**2008**
Gross revenues from service to patients	**$ 396,364,698**	$ 379,425,005
Deductions and exclusions:		
Allowances	**244,572,799**	234,940,430
Net revenues from service to patients	**$ 151,791,899**	$ 144,484,575

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.

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

Net patient service revenues are reported at the estimated realizable amounts from patients, third-party payers and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payer settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. During 2009 and 2008, approximately 35% and 34% of net service revenues was received under the Medicare program, respectively, and 13% and 12% under the State Medicaid program, respectively.

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

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

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

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. 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, 2009 and 2008, the Corporation granted charity care of $558,883 and $929,468 in charges, respectively.

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. During 2009 and 2008, the Corporation recorded adjustments in amounts accrued for settlements related to prior years. The net effect of such adjustments was a reduction of income from operations for the years ended September 30, 2009 and 2008, of approximately $79,000 and $680,000, respectively.

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

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.

Note 4 - Investments

Cost and fair values of investments as of September 30, 2009 and 2008, are summarized as follows:

	2009	2008
Debt Service Funds:		
U.S. Treasury obligations (cost approximates fair value)	**$ 881,487**	$ 578,724
Assets Limited as to Use:		
Board designated for plant improvement and other uses:		
Cash	**$ 406,707**	$ 229,235
Mutual funds (cost: 2009 - $7,060,281, 2008 - $8,113,917)	**5,396,387**	6,840,539
	$ 5,803,094	$ 7,069,774
Held for malpractice self insurance fund:		
U.S. Treasury obligations (cost approximates fair value)	**$ 6,973,966**	$ -
Held by trustee under bond indenture agreement:		
U.S. Treasury obligations (cost approximates fair value)	**$ 2,510,609**	$ 5,721,634
Donor restricted investments:		
Mutual funds (cost: 2009 - $4,519,113, 2008 - $3,950,193)	**$ 3,669,216**	$ 3,298,531
Long-term Investments:		
Cash and interest bearing accounts	**$ 442,776**	$ 15,181
Mutual funds (cost: 2009 - $6,205,807, 2008 - $5,621,670)	**5,109,742**	4,640,490
	$ 5,552,518	$ 4,655,671

Beneficial interest assets held in trust of $2,730,963 and $2,818,309, as of September 30, 2009 and 2008, respectively, are held by bank trustees and are not under the Corporation's investment control. These assets are invested within diversified portfolios.

Note 4 - Investments (continued)

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, at September 30, 2009 and 2008:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2009:						
Mutual funds	$ 607,124	$ (72,925)	$ 12,567,350	$ (3,545,405)	$ 13,174,474	$ (3,618,330)
As of September 30, 2008:						
Mutual funds	$ 14,054,087	$ (2,861,716)	$ 105,937	$ (50,552)	$ 14,160,024	$ (2,912,268)

At September 30, 2008, management elected to impair $312,792 of investments. Accordingly, these unrealized losses have been recorded as other than temporary impairments on investments, within the statement of operations, with a corresponding reduction in cost basis of the securities. There were no other than temporary impairments on investments recorded in 2009.

In 2009, the unrealized losses for greater than one year relate to approximately 15 individual holdings in mutual fund investments. The unrealized losses for less than one year relate to approximately 2 and 16 individual holdings in mutual fund investments as of September 30, 2009 and 2008, respectively. All unrealized losses on these securities are considered to be a result of the stock market environment and management believes these unrealized losses were deemed not to be other than temporarily impaired based on the guidance provided by FASB ASC 320.

As of September 30, 2009, investments are classified in accordance with FASB ASC 820, as further discussed in Note 16.

Note 5 - Leases

The Corporation and its subsidiaries lease property and equipment under non-cancelable operating leases that expire in various years through fiscal year 2014. Certain leases may be renewed at the end of their term. Future minimum payments under non-cancelable operating leases with initial terms of one year or more consisted of the following at September 30, 2009:

2010	$ 630,000
2011	590,000
2012	560,000
2013	390,000
2014	340,000
	$ 2,510,000

Note 5 - Leases (continued)

Rental expense was approximately $1,750,000 and $1,640,000 for the years ended September 30, 2009 and 2008, respectively.

Note 6 - Long-Term Debt

On January 1, 2002, the Connecticut Health and Educational Facilities Authority (the Authority or CHEFA), issued $38,000,000 of Series B Bonds (the Series B Bonds or Bonds) on behalf of BHHCG, the Hospital, Bristol Health Care, Inc. (BHC), Bristol Hospital EMS, LLC (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. Under the terms of the Loan Agreement, if the debt service coverage ratio and days cash on hand ratio are not met, the Obligated Group must take certain actions, including hiring a consultant to evaluate the Obligated Group's operations and make recommendations so that such ratios can be met. The Obligated Group did not hire a consultant satisfactory to the Authority and the bond insurer. As a result, in 2007, the Obligated Group was determined to be in default of such covenants and, on November 7, 2007, entered into a forbearance agreement with the bond insurer. The forbearance agreement waived the conditions of default related to the debt service coverage ratio for the year ended September 30, 2006, the days cash on hand ratio as of both December 31, 2006 and June 30, 2007, and the hiring of a consultant. 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 50 days (2009) and 45 days (2008). The Obligated Group, for the years ended September 30, 2009 and 2008, is in compliance with the terms of the forbearance agreement and the amended Series B Loan agreement and Trust Indenture.

Note 6 - Long-Term Debt (continued)

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

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

Below is a summary of the Hospital's and BHC's annual principal payments due subsequent to September 30, 2009 of the Series B bonds described above:

	Bristol Hospital, Incorporated	Bristol Health Care, Inc. and Subsidiary	Total Obligated Group
Year Ending September 30:			
2010	$ 334,305	$ 430,695	$ 765,000
2011	351,785	453,215	805,000
2012	367,080	472,920	840,000
2013	388,930	501,070	890,000
2014	408,595	526,405	935,000
Thereafter	23,056,600	3,828,400	26,885,000
	24,907,295	6,212,705	31,120,000
Less: portion classified as current	334,305	430,695	765,000
	24,572,990	5,782,010	30,355,000
Less: discount	382,161	44,053	426,214
Adjustment to record debt at fair value (Note 14)	961,612	-	961,612
	$ 25,152,441	$ 5,737,957	$ 30,890,398

Note 6 - Long-Term Debt (continued)

The Hospital has a $6,000,000 line of credit which expires on March 31, 2010. Advances outstanding on the line at September 30, 2009 and 2008 were $5,700,000. Interest is payable monthly at either the existing prime rate or LIBOR rate. This agreement requires the Hospital to maintain, at each quarter end, a debt service coverage ratio of 1.25 and days cash on hand of 35 days. Subsequent to year-end, the Hospital amended the agreement, reducing the line of credit from $6,000,000 to $4,750,000, with an additional term loan of $1,000,000. The term loan requires monthly principal payments of $20,833 beginning on November 30, 2009 through October 31, 2010, with any unpaid balance including interest, fees and other charges due on October 31, 2010. Interest on both facilities is payable at either the existing prime rate plus 2 % or the LIBOR rate plus 3.50 %.

The renewed agreement requires the Hospital to maintain, at each quarter end, a debt service coverage ratio of 1.25 and days cash on hand of at least 35 days at December 31, 2009, at least 40 days at March 31, 2010 and June 30, 2010 and at least 45 days at September 30, 2010.

On December 1, 2004, the Authority and the Hospital entered into a debt agreement with GE Capital Public Finance, Inc. for title purchase of equipment. As part of the agreement, the Hospital received $3,300,000, for which the unused portion is to be held in trust until used. The term of the debt is for five years with an interest rate of 3.97%. The balance outstanding as of September 30, 2009 and 2008 is $240,950 and $944,992, respectively, and is collateralized by the purchased equipment.

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, 2009 and 2008 is $319,228 and $325,638, respectively.

The Hospital has a $550,000 bank demand loan with a maturity date of March 27, 2010. Outstanding advances on the line at September 30, 2009 and 2008 were $550,000. Interest is payable monthly at the existing prime rate, 4.25% and 4.50% as of September 30, 2009 and 2008, respectively.

In 2009, the Hospital had a $500,000 drawdown on a second bank line of credit. Interest is payable monthly on the amount at 4%. The balance related to this line of credit was paid off subsequent to year-end.

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, 2009 and 2008 is $1,318,876 and $1,358,942, respectively.

Note 6 - 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 at September 30, 2009 and 2008 is $911,831 and $1,185,422, respectively and is collateralized by the purchased equipment.

As of September 30, 2009 and 2008, the Hospital is in compliance with all financial covenants related to previously noted debt.

Below is a summary of the Corporation's annual principal payments due subsequent to September 30, 2009 of the long-term debt described above:

2010	$ 1,346,193
2011	1,168,575
2012	1,199,945
2013	948,212
2014	997,294
Thereafter	28,250,666
	$ 33,910,885

Interest paid for the years ended September 30, 2009 and 2008 was $2,253,264 and $2,405,818 respectively. Interest capitalized for the years ended September 30, 2009 and 2008 was $9,799 and $47,420, respectively.

Note 7 - 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 7 - 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, 2009 and 2008:

	2009	2008
Change in benefit obligation:		
Projected benefit obligation at beginning of year	**$ 57,776,000**	$ 67,739,000
Service cost	**-**	250,000
Interest cost	**4,234,000**	4,127,000
Actuarial loss (gain)	**14,036,000**	(10,303,000)
Benefits paid	**(6,043,000)**	(3,810,000)
Expenses paid	**(171,000)**	(227,000)
Benefit obligation at end of year	**$ 69,832,000**	$ 57,776,000

	2009	2008
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 54,993,000**	$ 70,619,000
Actual return on plan assets	**(907,000)**	(11,589,000)
Benefits paid	**(6,043,000)**	(3,810,000)
Expenses paid	**(171,000)**	(227,000)
Fair value of plan assets at end of year	**$ 47,872,000**	$ 54,993,000
Reconciliation of funded status:		
Funded status and accrued pension liability	**$ (21,960,000)**	$ (2,783,000)

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 at September 30, 2009 and 2008 were $758,056 and $753,412, respectively.

For the years ended September 30, 2009 and 2008, 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 does not expect to make a contribution to the Plan in 2010.

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.

Note 7 - Pension Plan and Postretirement Health Benefits (continued)

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

The following table sets forth the components of net periodic benefit cost (income) for the years ended September 30, 2009 and 2008:

	2009	2008
Service cost	**$ -**	$ 250,000
Interest cost	**4,234,000**	4,127,000
Expected return on plan assets	**(4,830,000)**	(6,241,000)
Amortization of net loss	**1,086,000**	265,000
Net periodic benefit cost (income)	**$ 490,000**	$ (1,599,000)

The following were the weighted-average assumptions used to determine the pension benefit obligations at September 30, 2009 and 2008:

	2009	2008
Discount rate	**5.75%**	7.50%
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, 2009 and 2008:

	2009	2008
Discount rate	**7.50%**	6.25%
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.

Note 7 - Pension Plan and Postretirement Health Benefits (continued)

The Plan's target and actual weighted average asset allocations at September 30, 2009 and 2008, by asset category are as follows:

	Target Allocation	Actual Asset Allocation 2009	Actual Asset Allocation 2008
Asset category:			
Equity securities	75%	**71%**	70%
Debt securities	25%	**29%**	30%
Total	100%	**100%**	100%

The fair values of the Plan assets by asset category are as follows for the year ending September 30, 2009:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)
Cash equivalents	$ -	$ 172,759
Fixed income securities	6,058,844	-
Equity securities	41,640,397	-
	$ 47,699,241	$ 172,759

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

2010	$ 2,723,000
2011	$ 2,895,000
2012	$ 3,122,000
2013	$ 3,415,000
2014	$ 3,692,000
Years 2015-2019	$ 21,724,000

The amount recorded in unrestricted net assets as of September 30, 2009 and 2008, not yet amortized as a component of net periodic benefit cost are $36,380,445 and $17,693,534, respectively. Amortization expected to be recognized in net periodic benefit costs for the year ended September 30, 2010 is $2,711,930.

Note 7 - Pension Plan and Postretirement Health Benefits (continued)

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, 2009 and 2008:

	2009	2008
Change in benefit obligation:		
Projected benefit obligation at beginning of year	**$ 5,248,000**	$ 5,358,000
Service cost	**40,000**	46,000
Interest cost	**355,000**	318,000
Actuarial loss (gain)	**758,000**	(54,000)
Benefits paid	**(398,000)**	(420,000)
Projected benefit obligation at end of year	**$ 6,003,000**	$ 5,248,000
Change in plan assets:		
Plan assets at beginning of year	**$ -**	$ -
Employer contribution	**398,000**	420,000
Benefits paid	**(398,000)**	(420,000)
Plan assets at end of year	**$ -**	$ -
Reconciliation of funded status:		
Funded Status	**$ (6,003,000)**	$ (5,248,000)
Unrecognized net actuarial loss	**-**	-
Accrued postretirement benefit liability	**$ (6,003,000)**	$ (5,248,000)

Note 7 - Pension Plan and Postretirement Health Benefits (continued)

Amounts recognized in the consolidated balance sheets are as follows:

	2009	2008
Short-term portion of accrued postretirement benefit liability, included in accrued payroll and other related expenses	**$ (414,000)**	$ (432,000)
Long-term portion of accrued postretirement benefit liability	**(5,589,000)**	(4,816,000)
Total amount recognized	**$ (6,003,000)**	$ (5,248,000)

The following table sets forth the components of net periodic benefit costs for the years ended September 30, 2009 and 2008:

	2009	2008
Service cost	**$ 40,000**	$ 46,000
Interest cost	**355,000**	318,000
Net periodic benefit costs	**$ 395,000**	$ 364,000

The weighted-average assumptions used to determine the benefit obligation at September 30, 2009 and 2008, are as follows:

	2009	2008
Discount rate	**5.75%**	7.50%

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended September 30, 2009 and 2008, are as follows:

	2009	2008
Discount rate	**7.50%**	6.25%
Assumed healthcare cost trend rates:		
Initial trend rate	**10.25%**	9.50%
Ultimate trend rate	**5.00%**	5.00%
Year ultimate trend rate is achieved	**2016**	2014

Note 7 - 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:

	2009	**2008**
Effect of a 1% increase in healthcare cost trend rate on:		
Interest costs plus service costs	**$ 16,000**	$ 16,000
Accumulated postretirement benefit obligation	**$ 322,000**	$ 281,000
Effect of a 1% decrease in healthcare cost trend rate on:		
Interest costs plus service costs	**$ (13,000)**	$ (14,000)
Accumulated postretirement benefit obligation	**$ (270,000)**	$ (246,000)

The Corporation expects to contribute approximately $414,000 to its Medical Plan in 2010 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:

2010	$ 414,000
2011	$ 431,000
2012	$ 448,000
2013	$ 461,000
2014	$ 465,000
Years 2015-2019	$ 2,251,000

Note 8 - Other Employee Benefit Plans

The Corporation's employees 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. As of September 30, 2009, it is the Corporation's intent to contribute a matching contribution at December 31, 2009. The Corporation made two contributions on December 31, 2008 pertaining to September 30, 2008. The amounts are included in accrued payroll and other related expenses on the consolidated balance sheets. In 2008, the Corporation contributed a discretionary matching contribution equal to 50% of the employee's participating contribution limited to 6% and a non-elective contribution of 2% for all eligible employees whether or not they choose to participate. In 2009, the non-elective contribution of 2% was suspended. The Hospital and BHC incurred $1,203,946 and $1,783,564 of expense related to its 403(b) plan for the years ended September 30, 2009 and 2008, respectively.

Note 9 - Related Party Transactions

During 2009 and 2008, the Corporation's entities entered into various related party transactions. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Hospital sent approximately $8,807,148 and $9,562,000 of patient accounts receivable to a collection agency, in which it has an equity interest, in 2009 and 2008, respectively.

Note 10 - Malpractice and General Insurance

On September 30, 1998, the Board of Directors of the Corporation and the Board of Directors of BHHCG approved the decision to purchase malpractice and general insurance coverage, as of October 1, 1998, through a multi-provider captive insurance company, Partners Interinsurance Exchange (the Captive). The Hospital's proportionate interest in the Captive was accounted for on the equity method of accounting up through July 1, 2009, as the Corporation terminated its interest in the Captive and established its own self insured malpractice trust. The Captive commingled the investments and investment returns of the member hospitals participating in the Captive and allocated them based on each hospital's net equity in the Captive. The Captive provided claims made coverage to its members. Claims incurred for each member hospital were segregated and applied directly to each member's net equity in the Captive. Each month, the Captive calculated each hospital's share of the net equity of the Captive. The coverage provided by the Captive required the Corporation to retain its own excess liability insurance for claims incurred after October 1, 1998. Investment gains and income, administrative expenses and accrued estimated losses related to malpractice claims were reflected in non-operating (losses) income.

In 2009, the Captive dissolved and the Hospital established a self insurance malpractice trust to provide malpractice insurance coverage for the Hospital. The Hospital has established a trust for the purpose of setting aside assets for self-insurance purposes. 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 whose use is limited. Income from trust assets and administrative costs are reported in the accompanying consolidated statements of operations as other income.

The $6,973,966 of assets which reside in the trust, at September 30, 2009, are included within the Corporation'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 remaining equity in the Captive, until the dissolution is complete for the year ended September 30, 2009 was $124,795. The Corporation's equity in the Captive for the year ended September 30, 2008 was $1,954,896. These amounts have been included in the investments in joint ventures on the consolidated balance sheets.

Note 10 - Malpractice and General Insurance (continued)

The Hospital's malpractice liabilities, as determined by its independent actuary, as of September 30, 2009 is $6,514,331, and in included in other accrued expenses on the consolidated balance sheet. Included in this liability is an incurred but not reported reserve, as the Hospital currently has a claims-made policy.

Note 11 - Contingencies

Malpractice claims that fall within the Corporation's malpractice insurance have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through September 30, 2009 that may result in the assertion of additional claims. Hospital 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, or cash flows.

Note 12 - Functional Expenses and Non-operating Gains (Losses)

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, 2009 and 2008 are as follows:

	2009	2008
Healthcare services	**$ 129,985,762**	$ 125,807,217
General and administrative	**27,765,678**	26,875,625
	$ 157,751,440	$ 152,682,842

Non-operating (losses) income for the years ended September 30, 2009 and 2008 consisted of:

	2009	2008
Investment and interest income	**$ 398,935**	$ 912,191
Realized gains on investments	**6,092**	403,896
Loss on equity investments	**(14,162)**	(1,803,610)
Other than tempopary impairment on investments	**-**	(312,792)
	$ 390,865	$ (800,315)

Note 13 - Endowment and Net Assets

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

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

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

The net asset composition of the Corporation's endowment and other restricted funds as of September 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	$ 5,803,094	$ -	$ -	$ 5,803,094
Beneficial trusts	-	-	2,730,963	2,730,963
Donor restricted	(680,972)	1,110,279	3,823,956	4,253,263
Total	$ 5,122,122	$ 1,110,279	$ 6,554,919	$ 12,787,320

Note 13 - Endowment and Net Assets (continued)

The net asset composition of the Corporation's endowment and other restricted funds as of September 30, 2008 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	$ 7,069,774	$ -	$ -	$ 7,069,774
Beneficial trusts	-	-	2,818,309	2,818,309
Donor restricted	(525,425)	1,726,398	3,823,956	5,024,929
Total	$ 6,544,349	$ 1,726,398	$ 6,642,265	$ 14,913,012

The $680,972 and $525,425 deficit in the donor restricted unrestricted net asset category, at September 30, 2009 and 2008, represents the amounts by which fair value of certain donor restricted endowment funds were below the amount required to be retained in perpetuity.

Changes in net assets for endowment and other restricted funds for the year ended September 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2008	$ 6,544,349	$ 1,726,398	$ 6,642,265	$ 14,913,012
Investment return:				
Investment income	68,746	-	-	68,746
Net change in market value	(539,931)	-	(87,346)	(627,277)
Contributions	7,051	676,458	-	683,509
Expenditures	(958,093)	(1,292,577)	-	(2,250,670)
Balance at September 30, 2009	$ 5,122,122	$ 1,110,279	$ 6,554,919	$ 12,787,320

Temporarily restricted net assets at September 30, 2009 and 2008 are available for the following purposes:

	2009	2008
State Hospital grant	**$ 413,557**	$ 1,650,070
Healthcare services	**696,722**	76,328
	$ 1,110,279	$ 1,726,398

Note 13 - Endowment and Net Assets (continued)

Permanently restricted net assets at September 30, 2009 and 2008 are available for the following purposes:

	2009	2008
Held in perpetuity, income restricted for healthcare services	**$ 3,823,956**	$ 3,823,956
Assets held in trust	**2,730,963**	2,818,309
	$ 6,554,919	$ 6,642,265

Funds with Deficiencies **-** From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Corporation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $680,972 and $525,425 as of September 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations.

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

Strategies Employed for Achieving Objectives **-** To satisfy its long-term rate-of-return objectives, the 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). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy **-** During its annual budgeting process, the Corporation appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Corporation appropriated $958,093 of funds for expenditure from its board restricted endowment funds for the year ended September 30, 2009. The Corporation has appropriated $1,292,577 and $1,954,274 from its temporary restricted funds for the years ended September 30, 2009 and 2008, respectively. The board restricted endowment funds are being held for long term growth and to maintain capital reserves for the Corporation.

Note 14 - 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 percent. 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 $961,612, is being amortized as an element of interest expense over the remaining life of the debt.

Note 15 - 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 (ARO) related to asbestos contamination in buildings of $1,936,281 and $1,846,281 at September 30, 2009 and 2008, respectively.

Note 16 - Fair Value of Financial Instruments

The Corporation's debt service funds, assets limited as to use and long-term investments consist of cash equivalents, mutual funds and U.S. Treasury securities and are recorded at fair value in accordance with FASB ASC 820 as further described in Note 2.

Note 16 - Fair Value of Financial Instruments (continued)

The Corporation measures the fair value of these securities at September 30, 2009 as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)
Debt Service Funds:		
U.S. Treasury obligations	$ 881,487	$ -
Assets Limited as to Use:		
Board designated for plant improvement and other uses:		
Cash	$ -	$ 406,707
Mutual funds	5,396,387	-
	$ 5,396,387	$ 406,707
Held for malpractice self insurance fund:		
U.S. Treasury obligations	$ 6,973,966	$ -
Held by trustee under bond indenture agreement:		
U.S. Treasury obligations	$ 2,510,609	$ -
Donor restricted investments:		
Mutual funds	$ 3,669,216	$ -
Long-Term Investments:		
Cash and interest bearing accounts	$ -	$ 442,776
Mutual funds	5,109,742	-
	$ 5,109,742	$ 442,776

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets approximate the fair value (Level 1).

Short-term investments: The carrying amounts reported in the consolidated balance sheets approximate fair value (Level 1).

Beneficial interest in assets held in trust by others: These assets consist primarily of cash, short and long-term investments. The carrying amounts reported in the consolidated balance sheets are fair value based on quoted active market prices (Level 1).

Note 16 - Fair Value of Financial Instruments (continued)

Investments in joint ventures: The carrying amounts reported in the consolidated balance sheets approximate the fair value (Level 3). See Note 2 for further information.

Accounts payable and accrued payroll and other related expenses: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Due to third party payers: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Long-term debt: The carrying amounts reported in the consolidated balance sheets approximate the fair values. The fair value of the Corporation's long-term debt is estimated using a discounted cash flow analysis, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements (Level 3).

Bristol Hospital and Health Care Group
Supplemental Consolidating Balance Sheet
September 30, 2009

	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 Health Services	Central Connecticut Medical Management, Inc.	Eliminations	Consolidated
Assets											
Current assets:											
Cash and cash equivalents	$ 38,944	$ 6,746,197	$ 554,692	$ 1,305,851	$ 725,715	$ -	$ 9,371,399	$ -	$ 77,078	$ -	$ 9,448,477
Short-term investments	-	96,062	-	1,233,372	-	-	1,329,434	-	-	-	1,329,434
Accounts receivable, less allowances for doubtful accounts	-	16,448,223	634,747	-	1,927,612	-	19,010,582	-	937,785	-	19,948,367
Other receivables	-	809,890	-	983,499	99,670	-	1,893,059	-	127,524	-	2,020,583
Due from affiliates	-	1,258,993	-	-	-	(1,258,993)	-	-	-	-	-
Inventories	-	1,641,730	6,798	-	31,995	-	1,680,523	-	-	-	1,680,523
Prepaid expenses	-	1,348,803	14,545	-	-	-	1,363,348	-	7,081	-	1,370,429
Debt service funds	-	690,043	-	-	191,444	-	881,487	-	-	-	881,487
Total current assets	38,944	29,039,941	1,210,782	3,522,722	2,976,436	(1,258,993)	35,529,832	-	1,149,468	-	36,679,300
Assets limited as to use:											
Funds held for malpractice self insurance fund	-	6,973,966	-	-	-	-	6,973,966	-	-	-	6,973,966
Board designated investments	-	5,202,451	-	-	600,643	-	5,803,094	-	-	-	5,803,094
Beneficial interest in assets held in trust by others	-	2,730,963	-	-	-	-	2,730,963	-	-	-	2,730,963
Funds held under bond indenture agreements	-	2,510,609	-	-	-	-	2,510,609	-	-	-	2,510,609
Interest in net assets of Foundation restricted	-	3,275,074	-	-	-	(3,275,074)	-	-	-	-	-
Donor restricted investments	-	394,142	-	3,275,074	-	-	3,669,216	-	-	-	3,669,216
Total assets limited to use	-	21,087,205	-	3,275,074	600,643	(3,275,074)	21,687,848	-	-	-	21,687,848
Other assets:											
Long-term investments	-	5,552,518	-	-	-	-	5,552,518	-	-	-	5,552,518
Interest in net assets of Foundation	-	749,084	-	-	63,069	(812,153)	-	-	-	-	-
Unamortized bond finance costs	-	1,259,899	-	-	239,812	-	1,499,711	-	-	-	1,499,711
Investment in joint ventures	-	1,369,065	-	-	-	-	1,369,065	-	-	-	1,369,065
Deferred expenses and other assets	-	210,907	-	-	-	-	210,907	-	-	-	210,907
Investment in subsidiaries	12,331,893	-	-	-	-	(12,331,893)	-	1,245,932	-	(1,245,932)	-
Total other assets	12,331,893	9,141,473	-	-	302,881	(16,419,120)	5,357,127	1,245,932	-	(1,245,932)	8,632,201
Property, plant and equipment:											
Land and land improvements	-	3,766,284	-	-	733,421	-	4,499,705	-	66,831	-	4,566,536
Buildings	-	54,565,392	-	-	9,104,295	-	63,669,687	-	-	-	63,669,687
Fixtures and equipment	-	64,398,227	738,727	5,969	1,248,385	-	66,391,308	-	1,579,885	-	67,971,193
Construction in progress	-	764,061	-	-	43,068	-	807,129	-	129	-	807,258
Total	-	123,493,964	738,727	5,969	11,129,169	-	135,367,829	-	1,646,845	-	137,014,674
Less: accumulated depreciation		(88,333,810)	(635,948)	(5,969)	(7,354,627)	-	(96,330,354)	-	(1,451,284)	-	(97,781,638)
Total property, plant and equipment	-	35,160,154	102,779	-	3,774,542	-	39,037,475	-	195,561	-	39,233,036
Total assets	$ 12,370,837	$ 94,428,773	$ 1,313,561	$ 6,797,796	$ 7,654,502	$ (17,678,113)	$ 104,887,356	$ 1,245,932	$ 1,345,029	$ (1,245,932)	$ 106,232,385

See accompanying independent auditors' report.

Bristol Hospital and Health Care Group
Supplemental Consolidating Balance Sheet (continued)
September 30, 2009

	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 Health Services	Central Connecticut Medical Management, Inc.	Eliminations	Consolidated
Liabilities and Net Assets											
Current liabilities:											
Trade accounts payable	$ -	$ 7,979,787	$ 57,822	$ -	$ 396,033	$ -	$ 8,433,642	$ -	$ 56,484	$ -	$ 8,490,126
Accrued payroll and other related expenses	-	5,572,918	120,569	-	282,570	-	5,976,057	-	391,415	-	6,367,472
Accrued expenses	-	-	116,245	5,201	90,826	-	212,272	-	130,324	-	342,596
Due to affiliates	-	-	43,299	233,265	224,373	(500,937)	-	-	-	-	-
Estimated settlements due to third-party payers	-	971,897	-	-	-	-	971,897	-	-	-	971,897
Accrued interest payable	-	341,191	-	-	83,770	-	424,961	-	-	-	424,961
Advanced payments on patient accounts	-	647,673	-	-	107,197	-	754,870	-	-	-	754,870
Borrowings on line of credit and demand loan	-	6,750,000	-	-	-	-	6,750,000	-	-	-	6,750,000
Current portion of long-term debt	-	915,498	-	-	430,695	-	1,346,193	-	-	-	1,346,193
Total current liabilities	-	23,178,964	337,935	238,466	1,615,464	(500,937)	24,869,892	-	578,223	-	25,448,115
Other Liabilities:											
Other accrued liabilities	-	7,163,624	156,899	1,526,202	302,247	-	9,148,972	-	339,601	-	9,488,573
Long-term debt, less current portion	-	27,362,133	-	-	5,737,957	-	33,100,090	-	-	-	33,100,090
Long-term portion of accrued postretirement benefit liability	-	5,588,773	-	-	-	-	5,588,773	-	-	-	5,588,773
Asset retirement obligation	-	1,936,281	-	-	-	-	1,936,281	-	-	-	1,936,281
Accrued pension liability	-	21,959,738	-	-	758,056	(758,056)	21,959,738	-	-	-	21,959,738
Total liabilities	-	87,189,513	494,834	1,764,668	8,413,724	(1,258,993)	96,603,746	-	917,824	-	97,521,570
Net assets:											
Common stock	-	-	-	-	-	-	-	-	3,000	-	3,000
Net assets (deficit)	12,370,837	7,239,260	818,727	5,033,128	(759,222)	(16,419,120)	8,283,610	1,245,932	424,205	(1,245,932)	8,707,815
Total net assets (deficit)	12,370,837	7,239,260	818,727	5,033,128	(759,222)	(16,419,120)	8,283,610	1,245,932	427,205	(1,245,932)	8,710,815
Total liabilities and net assets	$ 12,370,837	$ 94,428,773	$ 1,313,561	$ 6,797,796	$ 7,654,502	$ (17,678,113)	$ 104,887,356	$ 1,245,932	$ 1,345,029	$ (1,245,932)	$ 106,232,385

See accompanying independent auditors' report.

Bristol Hospital and Health Care Group
Supplemental Consolidating Statement of Operations
For the Year Ended September 30, 2009

	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 Health Services	Central Connecticut Medical Management, Inc.	Eliminations	Consolidated
Operating revenues:											
Net patient service revenues	$ -	$ 125,614,183	$ 4,269,348	$ -	$ 11,210,715	$ -	$ 141,094,246	$ -	$ 10,697,653	$ -	$ 151,791,899
Other revenues:											
Service and supply income	-	-	-	-	-	-	-	-	365,511	-	365,511
Other revenues	-	4,093,007	512,942	700,873	37,008	(95,064)	5,248,766	-	38,187	(76,017)	5,210,936
Net loss on subsidiaries	(18,793,945)	-	-	-	-	18,793,945	-	(415,128)	-	415,128	-
Total other revenues	(18,793,945)	4,093,007	512,942	700,873	37,008	18,698,881	5,248,766	(415,128)	403,698	339,111	5,576,447
Total revenue and support	(18,793,945)	129,707,190	4,782,290	700,873	11,247,723	18,698,881	146,343,012	(415,128)	11,101,351	339,111	157,368,346
Expenses:											
Salaries, wages and fees	-	59,348,440	2,515,942	285,093	7,896,136	-	70,045,611	-	6,856,844	-	76,902,455
Supplies and other expenses	-	53,819,412	1,233,254	621,268	2,154,924	(95,064)	57,733,794	-	4,400,322	(76,017)	62,058,099
Bad debt expense, net	-	9,166,346	580,436	4,467	464,638	-	10,215,887	-	393,656	-	10,609,543
Depreciation and amortization	-	5,438,713	87,850	-	377,011	-	5,903,574	-	41,771	-	5,945,345
Interest expense	-	1,884,488	1,450	-	350,060	-	2,235,998	-	-	-	2,235,998
Total expenses	-	129,657,399	4,418,932	910,828	11,242,769	(95,064)	146,134,864	-	11,692,593	(76,017)	157,751,440
(Loss) income from operations	(18,793,945)	49,791	363,358	(209,955)	4,954	18,793,945	208,148	(415,128)	(591,242)	415,128	(383,094)
Other non-operating (losses) income	40	323,607	481	83,933	(17,196)	-	390,865	-	-	-	390,865
Other than temporary impairment of investments	-	-	-	-	-	-	-	-	-	-	-
Excess of revenues (under) over expenses	(18,793,905)	373,398	363,839	(126,022)	(12,242)	18,793,945	599,013	(415,128)	(591,242)	415,128	7,771
Net assets released from restrictions for capital acquisitions	-	1,281,059	-	-	11,518	-	1,292,577	-	-	-	1,292,577
Net unrealized loss on investments	-	(500,100)	-	(198,235)	(5,301)	-	(703,636)	-	-	-	(703,636)
Pension changes in joint ventures	-	(131,800)	-	-	-	-	(131,800)	-	-	-	(131,800)
Transfer from Hospital to CCMM	-	(252,275)	-	-	-	-	(252,275)	-	252,275	-	-
Other transfers	-	-	-	-	-	-	-	-	-	-	-
Transfer from EMS to Hospital	-	440,000	(440,000)	-	-	-	-	-	-	-	-
Decrease in interest in net assets of Foundation	-	(155,547)	-	-	-	155,547	-	-	-	-	-
Pension changes other than net periodic benefit costs	-	(18,686,911)	-	-	-	-	(18,686,911)	-	-	-	(18,686,911)
Changes in postretirement health and welfare benefits	-	(755,326)	-	-	-	-	(755,326)	-	-	-	(755,326)
Change in unrestricted net assets	(18,793,905)	(18,387,502)	(76,161)	(324,257)	(6,025)	18,949,492	(18,638,358)	(415,128)	(338,967)	415,128	(18,977,325)
Change in temporarily restricted net assets	(271,128)	(710,331)	-	452,462	(13,259)	(73,863)	(616,119)	-	-	-	(616,119)
Change in permanently restricted net assets	(87,346)	(87,346)	-	-	-	87,346	(87,346)	-	-	-	(87,346)
Change in net assets	(19,152,379)	(19,185,179)	(76,161)	128,205	(19,284)	18,962,975	(19,341,823)	(415,128)	(338,967)	415,128	(19,680,790)
Net assets (deficit) at beginning of year	31,523,216	26,424,439	894,888	4,904,923	(739,938)	(35,382,095)	27,625,433	1,661,060	766,172	(1,661,060)	28,391,605
Net assets (deficit) at end of year	$ 12,370,837	$ 7,239,260	$ 818,727	$ 5,033,128	$ (759,222)	$ (16,419,120)	$ 8,283,610	$ 1,245,932	$ 427,205	$ (1,245,932)	$ 8,710,815

See accompanying independent auditors' report.