

Bristol Hospital and Health Care Group

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2014 and 2013



Saslow Lufkin & Buggy, LLP
Accounting · Tax · Advisory

Bristol Hospital and Health Care Group
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and Supplemental Information
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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Bristol Hospital and Health Care Group (the Corporation), a not-for-profit, non-stock corporation, which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bristol Hospital and Health Care Group as of September 30, 2014 and 2013, and the results of its consolidated operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidating information listed within 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 and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual entities. The consolidating 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. Such 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saslow Lufkin & Buggy, LLP

December 15, 2014



Bristol Hospital and Health Care Group
Consolidated Balance Sheets
September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,575,899	\$ 16,318,029
Short-term investments	96,550	96,526
Accounts receivable, less allowance for doubtful accounts of \$5,499,991 (2014) and \$6,754,900 (2013)	20,598,344	20,536,329
Other receivables	3,894,775	2,790,614
Inventories	1,444,885	1,476,432
Estimated settlements due from third-party payers	581,194	2,757,898
Prepaid expenses	1,034,720	876,588
Debt service funds	586,306	636,385
Total current assets	46,812,673	45,488,801
Assets limited as to use:		
Funds held for malpractice self-insurance fund	5,597,992	6,934,622
Board designated investments	7,865,256	7,906,841
Other investments held by Foundation	2,545,686	2,412,864
Beneficial interest in assets held in trust by others	3,285,532	3,220,622
Funds held under bond indenture agreements	2,506,470	2,506,470
Donor restricted investments	4,775,726	4,858,334
Total assets limited as to use	26,576,662	27,839,753
Other assets:		
Long-term investments	6,665,386	6,800,181
Unamortized bond finance costs	1,109,815	1,187,692
Investment in joint ventures	764,612	969,890
Deferred expenses and other assets	286,346	476,307
Total other assets	8,826,159	9,434,070
Property, plant and equipment:		
Land and land improvements	4,831,450	4,831,930
Buildings	74,715,477	69,437,044
Fixtures and equipment	91,255,364	88,225,744
Construction in progress	1,976,393	3,296,604
	172,778,684	165,791,322
Less: accumulated depreciation	(129,836,351)	(122,919,544)
Total property, plant and equipment	42,942,333	42,871,778
Total assets	\$ 125,157,827	\$ 125,634,402
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 13,769,295	\$ 13,868,802
Accrued payroll and other accrued expenses	13,804,788	12,169,328
Accrued interest payable	387,933	387,933
Borrowings on line of credit and demand loan	2,900,000	3,125,000
Current portion of long-term debt	1,239,318	1,188,897
Total current liabilities	32,101,334	30,739,960
Other liabilities:		
Other accrued liabilities	10,555,076	11,589,738
Long-term debt, less current portion	28,825,366	30,098,402
Accrued postretirement benefit liability, less current portion	170,972	5,310,964
Asset retirement obligation	604,800	604,800
Accrued pension liability, less current portion	23,468,844	18,682,813
Total other liabilities	95,726,392	97,026,677
Net assets:		
Unrestricted	18,611,817	18,001,943
Temporarily restricted	3,734,131	3,585,204
Permanently restricted	7,085,487	7,020,578
Total net assets	29,431,435	28,607,725
Total liabilities and net assets	\$ 125,157,827	\$ 125,634,402

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Net patient service revenues	\$ 173,101,831	\$ 161,651,530
Provision for bad debts	<u>(4,869,425)</u>	<u>(6,182,431)</u>
Net patient service revenues less provision for bad debts	168,232,406	155,469,099
Other operating revenues	<u>7,836,353</u>	<u>6,651,756</u>
Total operating revenues	176,068,759	162,120,855
Operating expenses:		
Salaries, wages and fees	83,710,865	78,220,957
Supplies and other expenses	82,611,572	74,662,601
Depreciation and amortization	7,411,959	7,216,365
Interest expense	<u>1,651,982</u>	<u>1,683,295</u>
Total operating expenses	<u>175,386,378</u>	<u>161,783,218</u>
Gain from operations	682,381	337,637
Non-operating income	<u>1,478,569</u>	<u>857,803</u>
Excess of revenue over expenses	<u>\$ 2,160,950</u>	<u>\$ 1,195,440</u>

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

Bristol Hospital and Health Care Group
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 2,160,950	\$ 1,195,440
Net assets released from restrictions for capital acquisitions	175,459	3,065,921
Net unrealized (losses) gains on investments	(812,889)	781,676
Transfers of net assets	21,206	(1,327,832)
Pension changes other than net periodic benefit costs	(6,242,251)	12,746,301
Changes in postretirement health and welfare benefits other than net periodic benefit costs	<u>5,307,399</u>	<u>1,933,951</u>
Change in unrestricted net assets	609,874	18,395,457
Temporarily restricted net assets:		
Contributions received	213,390	204,108
Transfers of net assets	-	1,351,832
Net unrealized (losses) gains on investments	(24,528)	153,501
Investment income	135,524	69,946
Net assets released from restrictions	<u>(175,459)</u>	<u>(3,065,921)</u>
Change in temporarily restricted net assets	148,927	(1,286,534)
Permanently restricted net assets:		
Transfers of net assets	-	(24,000)
Change in assets held in trust by others	<u>64,909</u>	<u>116,975</u>
Change in permanently restricted net assets	<u>64,909</u>	<u>92,975</u>
Change in net assets	823,710	17,201,898
Net assets, beginning of year	<u>28,607,725</u>	<u>11,405,827</u>
Net assets, end of year	<u><u>\$ 29,431,435</u></u>	<u><u>\$ 28,607,725</u></u>

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

Bristol Hospital and Health Care Group
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 823,710	\$ 17,201,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,411,959	7,216,365
Provision for bad debts	4,869,425	6,182,431
Change in assets held in trust by others	(64,910)	(116,975)
Loss on disposal of equipment	12,455	17,420
Pension changes other than net periodic benefit costs	6,242,251	(12,746,301)
Changes in postretirement health and welfare benefits other than net periodic benefit costs	(5,307,399)	(1,933,951)
Net realized and unrealized gains on investments	382,319	(921,420)
Changes in assets and liabilities:		
Accounts receivable	(4,931,440)	(6,242,566)
Other receivables	(1,104,161)	3,134,979
Inventories	31,547	151,339
Estimated settlements due from third-party payers	2,176,704	(793,823)
Prepaid expenses	(158,132)	(15,987)
Deferred expenses and other assets	189,961	(138,010)
Trade accounts payable	(99,507)	2,920,806
Accrued payroll and other accrued expenses	1,635,460	(2,171,161)
Accrued interest payable	-	(11,804)
Other accrued liabilities	(1,034,662)	484,239
Asset retirement obligation	-	(1,511,481)
Accrued postretirement benefit liability	167,407	93,658
Accrued pension liability	(1,456,220)	982,980
Net cash provided by operating activities	9,786,767	11,782,636
Cash flows from investing activities:		
Additions to property, plant and equipment	(7,423,227)	(7,856,415)
Purchases of investments	(2,027,618)	(1,806,822)
Sales of investments	1,777,576	1,740,404
Changes in debt service funds	50,079	14,583
Change in investments in joint ventures	205,278	(36,301)
Change in funds held for malpractice self-insurance fund, net	1,336,630	(144,471)
Net cash used in investing activities	(6,081,282)	(8,089,022)
Cash flows from financing activities:		
Repayment of long-term debt and capital lease obligations, net	(1,222,615)	(53,762)
Net payments on line of credit and demand loan	(225,000)	(250,000)
Net cash used in financing activities	(1,447,615)	(303,762)
Change in cash and cash equivalents	2,257,870	3,389,852
Cash and cash equivalents at beginning of year	16,318,029	12,928,177
Cash and cash equivalents at end of year	\$ 18,575,899	\$ 16,318,029

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 1 - General

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

During 2013, management performed an extensive review of net asset classifications. During fiscal year 2013, the Corporation transferred \$1,351,832 into its temporary net asset classification from unrestricted net assets based on identified restrictions with assets held in BHDF. These transfers are recorded within change in interest in net assets of the Foundation within the consolidating statements of operations and changes in net assets.

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

Cash and Cash Equivalents - The Corporation considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash balances maintained at banks are insured by the Federal Deposit Insurance Corporation (FDIC). In general, the FDIC insures cash balances up to \$250,000 per depositor, per bank. Amounts in excess of the FDIC limits are uninsured. Cash and cash equivalents are maintained primarily with two banks, including one investment bank sponsored money market fund, and from time to time cash balances exceed FDIC limits. It is the Corporation's policy to monitor the financial strength of the banks on an ongoing basis.

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.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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 \$71,742 and \$77,875, for the years ended September 30, 2014 and 2013, 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, 2014 and 2013, are 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 2014 and 2013.

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. For the years ended September 30, 2014 and 2013, depreciation expense amounted to \$7,340,217 and \$7,138,490, respectively.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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 for under the equity method of accounting.

	Ownership Percentage
Bristol MSO, LLC	50.00%
MedWorks, LLC	49.00%
Connecticut Occupational Medical Partners	33.00%
Total Laundry Collaborative, LLC	14.11%
Central Connecticut Endoscopy Center	6.50%
Connecticut Hospital Laboratory Network	4.54%

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

As of September 30, 2013, the Hospital had a 25% ownership percentage investment in MedConn Collection Agency (Medconn). During 2014, the Hospital withdrew from this investment. Pursuant to the withdrawal agreement, the Hospital received a promissory note from Medconn in the amount of \$122,743. The note will be repaid to the Hospital in equal monthly principal payments plus interest through January 2017. As of September 30, 2014, \$95,467 was outstanding on the promissory note receivable which is included in other receivables in the accompanying consolidated balance sheets.

During 2014, the Hospital entered into a joint venture with Connecticut Hospital Laboratory Network.

Donor Restricted Gifts - 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. 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 consolidated 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, 2014 and 2013, the Corporation has \$7,865,256 and \$7,906,841, 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.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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 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 healthcare services for the benefit of the Corporation.

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

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

EHR Incentive Payment Revenue - The American Recovery and Reinvestment Act of 2009 authorized the Centers for Medicare and Medicaid Services (CMS) to award incentive payments to eligible health care providers who demonstrate Meaningful Use of certified electronic health records (EHR). These incentive programs are designed to support providers in this period of health information technology transition and instill the use of EHRs in meaningful ways to help our nation to improve the quality, safety and efficiency of patient health care. As of September 30, 2014 and 2013, the Corporation has recorded EHR meaningful use revenue of \$580,499 and \$1,000,075, 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, 2014 and 2013. 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, 2014 and 2013, the Corporation did not record any penalties or interest associated with uncertain tax positions. The Corporation's prior three tax years are open and subject to examination by the Internal Revenue Service.

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

Malpractice, General and Workers' Compensation Self-Insurance - The Corporation maintains self-insurance coverage for medical malpractice, general liability and workers' compensation insurance. Reference is made in Note 12 and Note 13. The Corporation maintains a liability for reserves relating to these coverages. These liabilities are recorded within other accrued liabilities on the consolidated balance sheets. The liability for malpractice insurance includes an estimated incurred but not reported claim reserve. The Corporation has recorded an additional liability and related recoverable from their commercial insurers relating to estimated reserves in excess of the self-insured layer. These amounts are recorded as increases under the captions "other receivables" and "other accrued liabilities" in the accompanying consolidated balance sheets by \$2,290,000 and \$2,400,000 as of September 30, 2014 and 2013, respectively. The balances represent the Corporation's estimate of liabilities and recoveries for certain professional and general liability claims in excess of the self-insured retentions. There were no increases relating to additional reserves on self-insured workers' compensation as there were no reserve estimates excess of the self-insured retention.

Charity Care - The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of traditional charity care provided, determined on the basis of cost, was approximately \$1,416,196 and \$1,609,212 for the years ended September 30, 2014 and 2013, respectively.

Reclassifications - Certain reclassifications to the 2013 consolidated financial statements have been made in order to conform to the 2014 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Accounting Pronouncements Adopted - In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "Disclosures about Offsetting Assets and Liabilities," which was later clarified by ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." This guidance contained new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance became effective for the Corporation beginning on October 1, 2013, and did not have an impact on its consolidated financial statements.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Subsequent Events - Subsequent events have been evaluated through December 15, 2014, which is the date the consolidated financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Note 3 - Revenues from Services to Patients and Charity Care

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

	<u>2014</u>	<u>2013</u>
Gross revenues from service to patients	\$ 506,994,277	\$ 478,141,720
Deductions and exclusions:		
Allowances	325,566,979	307,451,704
State provider tax	3,794,844	3,732,030
Charity care	<u>4,530,623</u>	<u>5,306,456</u>
Net revenues from service to patients	<u>\$ 173,101,831</u>	<u>\$ 161,651,530</u>

Net patient service revenue is reported at the established net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Net patient service revenue and accounts receivable are recorded when patient services are performed. Amounts received from most payers are different from established billing rates, and these differences are accounted for as contractual allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments, and discounted charges, including estimated retroactive settlements under payment agreements with third-party payers. Adjustments and settlements under reimbursement agreements with third-party payers are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined. Contractual adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

For the Hospital, inpatient acute care services rendered to Medicare program recipients are paid at prospectively determined rates per discharge varying according to the intensity of services required. Inpatient acute care services are paid based on diagnosis-related groups (DRG) and inpatient rehabilitation services are paid based on case mix groups (CMG). Outpatient services are reimbursed by Medicare on an Ambulatory Payment Classification (APC) basis and fee screens. Hospital claims for reimbursement are subject to review and audit. The Hospital's Medicare cost reports have been settled with the Medicare fiscal intermediary through 2008.

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

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

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

During 2014 and 2013, approximately 30% and 36% of net patient service revenues was received under the Medicare program, respectively. During 2014 and 2013, approximately 14% and 12%, respectively of net patient service revenue was received under the State Medicaid program.

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

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

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

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

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

The Hospital's allowance for doubtful accounts for self-pay patients was approximately 98% and 89% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively. The Hospital's allowance for doubtful accounts for self-pay patients covers 100% and 91% accounts greater than 150 days for both self-pay accounts receivable and third party payers as of September 30, 2014 and 2013, respectively. The Hospital's write-offs totaled \$5,749,826 and \$5,988,770 for 2014 and 2013, respectively.

BHC's allowance for doubtful accounts for self-pay patients was approximately 98% and 67% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively. As of September 30, 2014 and 2013, BHC's allowance for doubtful accounts covers over 100% of patient accounts greater than 180 days old. BHC's write offs of patient accounts receivable totaled \$548,719 and \$617,933 as of September 30, 2014 and 2013, respectively.

As of September 30, 2014 and 2013, BHMSG's allowance for doubtful accounts covers over 100% of patient accounts greater than 150 days old. BHMSG's write offs of patient accounts receivable totaled \$330,294 and \$426,345 as of September 30, 2014 and 2013, respectively.

EMS's allowance for doubtful accounts for self-pay patients was 100% of self-pay accounts receivable as of September 30, 2014 and 2013. As of September 30, 2014, EMS's allowance for doubtful accounts covers 100% of patient accounts greater than 30 days old. As of September 30, 2013, EMS's allowance for doubtful accounts covers approximately 77% of patient accounts greater than 30 days old. EMS's write offs of patient accounts receivable totaled \$473,007 and \$559,005 as of September 30, 2014 and 2013, respectively.

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

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, 2014 and 2013, the Corporation granted charity care charges of \$4,530,623 and \$5,306,456, respectively.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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, 2014 and 2013, are summarized as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Debt service funds:				
U.S. treasury obligations	<u>\$ 586,306</u>	<u>\$ 586,306</u>	<u>\$ 636,385</u>	<u>\$ 636,385</u>
Assets limited as to use:				
Board designated investments:				
Cash and money market funds	\$ 1,022,684	\$ 1,022,684	\$ 5,495,889	\$ 5,495,889
Equity mutual funds	6,996,530	6,776,796	1,968,982	2,346,446
Fixed income mutual funds	<u>66,318</u>	<u>65,776</u>	<u>65,158</u>	<u>64,506</u>
Total	<u>\$ 8,085,532</u>	<u>\$ 7,865,256</u>	<u>\$ 7,530,029</u>	<u>\$ 7,906,841</u>
Held for malpractice self insurance fund:				
Cash and money market funds	\$ 23,884	\$ 23,884	\$ 103,233	\$ 103,233
Corporate and foreign bonds	1,289,440	1,301,084	1,173,478	1,192,084
Preferred equity securities	65,556	85,988	154,206	154,053
Equity mutual funds	1,301,586	1,748,696	1,698,955	2,130,376
Fixed income mutual funds	<u>2,442,242</u>	<u>2,438,340</u>	<u>3,388,916</u>	<u>3,354,876</u>
Total	<u>\$ 5,122,708</u>	<u>\$ 5,597,992</u>	<u>\$ 6,518,788</u>	<u>\$ 6,934,622</u>
Held by trustee under bond indenture agreement:				
U.S. treasury obligations	<u>\$ 2,506,470</u>	<u>\$ 2,506,470</u>	<u>\$ 2,506,470</u>	<u>\$ 2,506,470</u>
Other investments held by Foundation:				
Cash and money market funds	\$ 469,930	\$ 469,930	\$ 421,066	\$ 421,066
Equity mutual funds	1,012,727	1,190,418	1,222,727	1,381,147
Fixed income mutual funds	659,246	654,129	616,157	610,651
Real estate and commodity mutual funds	<u>237,726</u>	<u>231,209</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,379,629</u>	<u>\$ 2,545,686</u>	<u>\$ 2,259,950</u>	<u>\$ 2,412,864</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 4 - Investments (continued)

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Donor restricted investments:				
Cash and money market funds	\$ 519,730	\$ 519,730	\$ -	\$ -
Equity mutual funds	<u>4,497,989</u>	<u>4,255,996</u>	<u>4,862,928</u>	<u>4,858,334</u>
Total	<u>\$ 5,017,719</u>	<u>\$ 4,775,726</u>	<u>\$ 4,862,928</u>	<u>\$ 4,858,334</u>
Long-term Investments:				
Cash and money market funds	\$ 1,116,120	\$ 1,116,120	\$ 5,655,564	\$ 5,655,564
Equity mutual funds	<u>5,295,185</u>	<u>5,549,266</u>	<u>815,013</u>	<u>1,144,617</u>
Total	<u>\$ 6,411,305</u>	<u>\$ 6,665,386</u>	<u>\$ 6,470,577</u>	<u>\$ 6,800,181</u>

Beneficial interest assets held in trust by others of \$3,285,532 and \$3,220,622, as of September 30, 2014 and 2013, 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, 2014 and 2013:

	<u>Less than 12 months</u>		<u>12 months and greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
As of September 30, 2014:						
Corporate and foreign bonds	\$ 276,979	\$ (8,535)	\$ -	\$ -	\$ 276,979	\$ (8,535)
Equity mutual funds	11,062,953	(542,606)	-	-	11,062,953	(542,606)
Fixed income mutual funds	<u>6,283,293</u>	<u>(41,156)</u>	<u>721,980</u>	<u>(4,957)</u>	<u>7,005,273</u>	<u>(46,113)</u>
Total	<u>\$ 17,623,225</u>	<u>\$ (592,297)</u>	<u>\$ 721,980</u>	<u>\$ (4,957)</u>	<u>\$ 18,345,205</u>	<u>\$ (597,254)</u>
As of September 30, 2013:						
Corporate and foreign bonds	\$ 275,127	\$ (1,216)	\$ 49,543	\$ (457)	\$ 324,670	\$ (1,673)
Equity mutual funds	<u>6,280,563</u>	<u>(93,220)</u>	<u>67,923</u>	<u>(939)</u>	<u>6,348,486</u>	<u>(94,159)</u>
Total	<u>\$ 6,555,690</u>	<u>\$ (94,436)</u>	<u>\$ 117,466</u>	<u>\$ (1,396)</u>	<u>\$ 6,673,156</u>	<u>\$ (95,832)</u>

In 2014 and 2013, the unrealized losses for greater than one year relate to 4 and 2 individual holdings, respectively. In 2014 and 2013, the unrealized losses for less than one year relate to 12 and 28 individual holdings, respectively. All unrealized losses on these securities are considered to be a result of the stock market environment and management believes these unrealized losses were not other than temporarily impaired based on the guidance provided by FASB ASC 320.

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

The following tables present the financial instruments, carried at fair value, as of September 30, 2014 and 2013, by the valuation hierarchy. These tables include assets limited as to use, debt service funds and long-term investments:

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 4,892,838	\$ -	\$ -	\$ 4,892,838
Equities:				
U.S. large cap	1,795,569	-	-	1,795,569
U.S. mid cap	507,048	-	-	507,048
U.S. small cap	3,323,525	-	-	3,323,525
Internationally developed	9,065,367	-	-	9,065,367
Diversified emerging markets	93,539	-	-	93,539
Emerging markets	308,006	-	-	308,006
Commodities	254,021	-	-	254,021
Public REIT	300,416	-	-	300,416
Preferred equity securities	-	85,988	-	85,988
Domestic equity securities	-	1,492,506	-	1,492,506
Fixed Income:				
Corporate and foreign bonds	-	1,301,091	-	1,301,091
U.S. treasury obligations	-	3,092,776	-	3,092,776
Taxable fixed income mutual funds	-	3,465,286	-	3,465,286
Closed-end fixed income mutual funds	-	251,771	-	251,771
Internationally developed	-	78,479	-	78,479
Global high yield taxable	-	234,596	-	234,596
	<u>20,540,329</u>	<u>10,002,493</u>	<u>-</u>	<u>30,542,822</u>
Beneficial interest in assets held in trust by others	<u>-</u>	<u>-</u>	<u>3,285,532</u>	<u>3,285,532</u>
Total	<u>\$ 20,540,329</u>	<u>\$ 10,002,493</u>	<u>\$ 3,285,532</u>	<u>\$ 33,828,354</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

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

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, 2013	\$ 3,103,647
Investment activity, net	(135,400)
Net change in market value	<u>252,375</u>
Balance as of September 30, 2013	3,220,622
Investment activity, net	(67,265)
Net change in market value	<u>132,175</u>
Balance as of September 30, 2014	<u>\$ 3,285,532</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

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

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

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

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

As of September 30, 2014 and 2013, the Corporation’s other financial instruments include cash and cash equivalents, accounts payable, accrued expenses, estimated settlements due to third-party payers and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 6 - Net Assets and Endowments

Temporarily restricted net assets, as of September 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Library operations and improvements	\$ 745,916	\$ 759,982
Healthcare services	<u>2,988,215</u>	<u>2,825,222</u>
Total	<u>\$ 3,734,131</u>	<u>\$ 3,585,204</u>

Permanently restricted net assets, as of September 30, 2014 and 2013, are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Held in perpetuity, income restricted for healthcare services	\$ 3,799,955	\$ 3,799,956
Assets held in trust by others	<u>3,285,532</u>	<u>3,220,622</u>
Total	<u>\$ 7,085,487</u>	<u>\$ 7,020,578</u>

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

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

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

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

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 6 - Net Assets and Endowments (continued)

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 \$175,459 and \$3,065,921 of funds for expenditure from its temporarily restricted endowment funds and other net assets for the year ended September 30, 2014 and 2013, respectively. The Corporation appropriated \$23,405 and \$5,786 of funds for expenditure from the Corporation's Board restricted endowment funds for the years ended September 30, 2014 and 2013. 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, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2013	\$ 7,906,841	\$ 3,585,204	\$ 7,020,578	\$ 18,512,623
Investment return:				
Investment income	319,073	135,524	-	454,597
Net change in market value	(337,253)	(24,528)	64,909	(296,872)
Contributions	-	213,390	-	213,390
Expenditures	<u>(23,405)</u>	<u>(175,459)</u>	<u>-</u>	<u>(198,864)</u>
Balance at September 30, 2014	<u>\$ 7,865,256</u>	<u>\$ 3,734,131</u>	<u>\$ 7,085,487</u>	<u>\$ 18,684,874</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 6 - Net Assets and Endowments (continued)

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

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

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, 2014 and 2013, the Corporation's donor restricted endowment fund did not fall below the amount required to be held in perpetuity. Therefore, there were no reductions to unrestricted net assets.

Note 7 - Leases

The Corporation and its subsidiaries lease property and equipment under non-cancelable operating leases that expire in various years through fiscal year 2019. Certain leases may be renewed at the end of their term. In 2012, the Corporation entered into new lease agreements for equipment and software. These lease agreements have been classified as a capital leases. As of September 30, 2014, capital leases payable in the amount of \$141,447 are included within other liabilities with the current portion in the amount of \$116,330 included within trade accounts payable on the consolidated balance sheet.

Future minimum payments under non-cancelable capital and operating leases with initial terms of one year or more consisted of the following as of September 30, 2014:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2015	\$ 116,330	\$ 485,847
2016	116,330	259,826
2017	25,117	253,406
2018	-	256,440
2019	-	256,440
	<u> </u>	<u> </u>
Total	<u>\$ 257,777</u>	<u>\$ 1,511,959</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 7 - Leases (continued)

Rental expense was \$2,252,971 and \$2,097,726 for the years ended September 30, 2014 and 2013, 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, 2014 and 2013, is in compliance with the terms of the forbearance agreement and the amended Series B Loan agreement and Trust Indenture.

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

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Long-Term Debt (continued)

Below is a summary of the Hospital's and BHC's annual principal payments due relating to CHEFA as of September 30, 2014:

	<u>Bristol Hospital, Incorporated</u>	<u>Bristol Health Care, Inc. and Subsidiary</u>	<u>Total Obligated Group</u>
Year ending September 30:			
2015	\$ 430,445	\$ 554,555	\$ 985,000
2016	456,665	588,335	1,045,000
2017	478,515	616,485	1,095,000
2018	506,920	653,080	1,160,000
2019	535,325	689,675	1,225,000
Thereafter	<u>20,648,730</u>	<u>726,270</u>	<u>21,375,000</u>
	23,056,600	3,828,400	26,885,000
Less: portion classified as current	<u>430,445</u>	<u>554,555</u>	<u>985,000</u>
	22,626,155	3,273,845	25,900,000
Less: discount	332,728	25,137	357,865
Add: adjustment to record debt at fair value (Note 16)	<u>680,539</u>	<u>-</u>	<u>680,539</u>
 Total	 <u>\$ 22,973,966</u>	 <u>\$ 3,248,708</u>	 <u>\$ 26,222,674</u>

In 2010, the Hospital entered into an agreement for a \$4,750,000 line of credit, with an additional term loan of \$1,000,000. The term loan requires monthly principal payments of \$20,833, which began on November 30, 2009 through October 31, 2010, with any unpaid balance including interest, fees and other charges due on October 31, 2010. The term loan and line of credit were extended and the line of credit was reduced to \$4,250,000. Advances outstanding on the line as of September 30, 2013 were \$3,000,000. The balance outstanding on the term loan as of September 30, 2013 was \$125,000. During 2014, the balance on the term loan was repaid in full.

Effective January 31, 2014, the line of credit was terminated and the remaining outstanding balance of \$3,000,000 was converted into a term loan. Pursuant to the term note conversion, the Hospital was required to immediately reduce the outstanding balance on the line of credit by \$200,000 to \$2,800,000. At September 30, 2014, the balance outstanding on the term loan was \$2,400,000. The interest on the term loan is equal to Bank of America's prime rate plus 2%.

The new term loan requires the Hospital to maintain, at each quarter end, a debt service coverage ratio of 1.25 and days cash on hand at least 60 days at September 30, 2014.

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, 2014 and 2013 is \$281,909 and \$290,136, respectively.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Long-Term Debt (continued)

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, 2014 and 2013 is \$1,053,912 and \$1,121,289, respectively.

On July 16, 2010, the Hospital entered into a commercial mortgage loan with United 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, 2014 and 2013 was \$687,856 and \$730,652, respectively.

In 2013, the Hospital entered into a \$1,000,000 promissory loan agreement with the Connecticut Hospital Association Trust for the purchase of equipment, which enables the Hospital to conserve electrical energy and to manage electrical energy needs. The Hospital shall repay the principal balance of the note in 84 equal monthly installments of \$11,905. The balance outstanding as of September 30, 2014 and 2013 was \$833,333 and \$976,190, respectively.

In 2014 and 2013, the Hospital has a \$500,000 line of credit available with United Bank. Interest is payable at 4.25%. As of September 30, 2014 and 2013, advances of \$500,000 and \$0, respectively, were outstanding on this line of credit.

As of September 30, 2014 and 2013, 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, 2014 as described above:

2015	\$ 1,239,318
2016	1,313,237
2017	1,368,136
2018	1,438,281
2019	1,444,950
Thereafter	<u>22,938,088</u>
Total	<u>\$ 29,742,010</u>

Interest paid for the years ended September 30, 2014 and 2013 was \$1,679,541 and \$1,693,563, 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. Effective December 31, 2006, the Plan was frozen with regard to future pension benefit accruals.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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, 2014 and 2013:

	2014	2013
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 74,442,000	\$ 84,209,000
Interest cost	3,821,000	3,512,000
Actuarial loss (gain)	4,678,000	(10,330,000)
Benefits paid	(3,119,000)	(2,949,000)
Benefit obligation at end of year	\$ 79,822,000	\$ 74,442,000
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 52,712,000	\$ 47,815,000
Employer contributions	3,041,000	4,915,000
Actual return on plan assets	171,000	2,931,000
Benefits paid	(3,119,000)	(2,949,000)
Fair value of plan assets at end of year	\$ 52,805,000	\$ 52,712,000
Reconciliation of funded status:		
Funded status and accrued pension liability	\$ (27,017,000)	\$ (21,730,000)

The Hospital allocates a portion of the Plan's liability to BHC and records the amount as due from affiliate. As of September 30, 2013, there were no amounts due from BHC for the Plan liability as the Hospital forgave the accumulated plan liability of \$1,163,426 as part of a \$1,414,373 equity transfer from the Hospital for debt forgiveness. As of September 30, 2014, an amount of \$125,244 was owed to the Hospital for the Plan liability, which is included in due from affiliates on the accompanying consolidated balance sheets.

For the years ended September 30, 2014 and 2013, there are no differences between the Plan's accumulated benefit obligation and projected benefit obligation as the Plan is frozen as noted above.

The Corporation has included \$3,548,594 and \$3,047,159, as of September 30, 2014 and 2013, respectively, within accrued payroll and other accrued expenses on the consolidated balance sheets, as the current portion of the Plan's accrued pension liability, which is the amount the Hospital expects to contribute to the Plan in 2015.

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.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest cost	\$ 3,821,000	\$ 3,512,000
Expected return on plan assets	(4,467,000)	(4,424,000)
Amortization of net loss	<u>2,732,000</u>	<u>3,900,000</u>
Net periodic benefit cost	<u>\$ 2,086,000</u>	<u>\$ 2,988,000</u>

The following were the weighted-average assumptions used to determine the pension benefit obligations at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Discount rate	4.75%	5.25%
Expected return on plan assets	8.50%	8.50%

The following were the weighted-average assumptions used to determine net periodic pension cost for years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Discount rate	5.25%	4.25%
Expected return on plan assets	8.50%	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, 2014 and 2013, by asset category, are as follows:

	<u>Target</u> <u>Allocation</u>	<u>Actual Asset Allocation</u>	
		<u>2014</u>	<u>2013</u>
Asset category:			
Equity securities	75%	92%	8%
Debt securities	25%	0%	0%
Money market funds	0%	8%	92%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

The fair values of the Plan assets, by asset category, are as follows for the years ended September 30, 2014 and 2013:

2014	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,966,833	\$ -	\$ -	\$ 3,966,833
Equities:				
Mutual funds - equity	36,890,966	-	3,573,721	40,464,687
Mutual funds - fixed income	3,094,105	-	-	3,094,105
Alternative investment funds	-	-	5,279,807	5,279,807
Total	<u>\$ 43,951,904</u>	<u>\$ -</u>	<u>\$ 8,853,528</u>	<u>\$ 52,805,432</u>
2013	Level 1	Level 2	Level 3	Total
Money market funds	\$ 48,695,202	\$ -	\$ -	\$ 48,695,202
Equities:				
Mutual funds - equity	-	-	4,016,496	4,016,496
Total	<u>\$ 48,695,202</u>	<u>\$ -</u>	<u>\$ 4,016,496</u>	<u>\$ 52,711,698</u>

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

2015	\$ 3,625,000
2016	\$ 3,811,000
2017	\$ 3,995,000
2018	\$ 4,140,000
2019	\$ 4,322,000
Years 2020-2024	\$ 24,417,000

The amount recorded in unrestricted net assets as of September 30, 2014 and 2013, not yet amortized as a component of net periodic benefit cost are \$39,207,496 and \$32,965,245, respectively. Amortization expected to be recognized in net periodic benefit costs for the year ending September 30, 2015 is \$3,465,623.

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

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

During 2014, the Hospital adopted changes for the future termination of the Medical Plan and related benefits. Pursuant to the adopted changes, all coverage is eliminated as of July 1, 2016. Only those retired and receiving benefits as of December 31, 2014 will be eligible to continue until June 30, 2016. This also applies to pre-age 65 retirees whom will no longer be allowed to participate in the active employee plan. These changes are reflected in the following tables as a curtailment and a decrease to the Medical Plan liability.

The following tables set forth the Medical Plan's change in benefit obligation and change in plan assets for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 5,727,000	\$ 7,661,000
Service cost	33,000	43,000
Interest cost	160,000	258,000
Actuarial gain	(2,008,000)	(1,832,000)
Benefits paid	(285,000)	(403,000)
Curtailments, settlements and special termination benefits	<u>(3,207,000)</u>	<u>-</u>
Projected benefit obligation at end of year	<u>\$ 420,000</u>	<u>\$ 5,727,000</u>
Change in plan assets:		
Plan assets at beginning of year	\$ -	\$ -
Employer contribution	285,000	403,000
Benefits paid	<u>(285,000)</u>	<u>(403,000)</u>
Plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status:		
Funded status	\$ (420,000)	\$ (5,727,000)
Unrecognized net actuarial loss	<u>-</u>	<u>-</u>
Accrued postretirement benefit liability	<u>\$ (420,000)</u>	<u>\$ (5,727,000)</u>

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

	<u>2014</u>	<u>2013</u>
Short-term portion of accrued postretirement benefit liability, included in accrued payroll and other related expenses	\$ (249,000)	\$ (416,000)
Long-term portion of accrued postretirement benefit liability	<u>(171,000)</u>	<u>(5,311,000)</u>
Total amount recognized	<u>\$ (420,000)</u>	<u>\$ (5,727,000)</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

The following table sets forth the components of net periodic benefit costs for the years ended September 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 33,000	\$ 43,000
Interest cost	160,000	258,000
Amortization of actuarial loss	<u>(219,000)</u>	<u>20,000</u>
Net periodic benefit costs	<u>\$ (26,000)</u>	<u>\$ 321,000</u>

The weighted-average assumptions used to determine the benefit obligation as of September 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	3.00%	5.25%

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended September 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	5.25%	4.25%
Assumed healthcare cost trend rates:		
Initial trend rate	8.75%	9.50%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2019	2019

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

	<u>2014</u>	<u>2013</u>
Effect of a 1% increase in healthcare cost trend rate on:		
Interest costs plus service costs	\$ 4,700	\$ 35,000
Accumulated postretirement benefit obligation	\$ 4,200	\$ 579,000
Effect of a 1% decrease in healthcare cost trend rate on:		
Interest costs plus service costs	\$ (24,700)	\$ (28,000)
Accumulated postretirement benefit obligation	\$ (4,200)	\$ (482,000)

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

The Corporation expects to contribute approximately \$249,028 to its Medical Plan in 2015 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:

2015	\$	249,900
2016	\$	174,100
2017	\$	-
2018	\$	-
2019	\$	-
Years 2020-2023	\$	-

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 of 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, 2014 and 2013, the Corporation recorded a liability for their anticipated discretionary participant contribution match to the participants of the 403(b) plan, which is included within accrued payroll and other related expenses on the consolidated balance sheets. The Corporation incurred \$413,562 and \$261,880 of expense related to its 403(b) plan for the years ended September 30, 2014 and 2013, respectively.

Note 11 - Related Party Transactions

During 2014 and 2013, 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 \$0 and \$896,249 of patient accounts receivable to a collection agency, in which it has an equity interest, in 2014 and 2013, respectively. During 2014, the Hospital no longer submitted claims to its collection agency.

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 \$5,597,992 and \$6,934,622 of assets which reside in the trust, as of September 30, 2014 and 2013, respectively, are included within the Hospital's days cash on hand debt covenant test, as the Corporation's Board of Directors can terminate this trust at anytime and utilize these funds for operating purposes.

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 12 - Malpractice and General Insurance (continued)

The Corporation's malpractice liabilities, determined with the assistance of an independent actuary, as of September 30, 2014 and 2013, were estimated at \$4,272,903 and \$5,764,943, respectively, and are included in other accrued liabilities on the consolidated balance sheet. Included in this liability is an incurred but not reported reserve, as the Corporation currently has a claims-made policy. In addition, the Corporation has recorded a liability and related recoverable based on estimates of any malpractice or general liability claims excess of the self-insured retention.

Note 13 - Self-Insurance of Workers' Compensation

The Corporation self-insures workers' compensation claims with a retention of the first \$350,000 per claim. The Corporation has also purchased excess liability insurance, which provides coverage for workers' compensation claims in excess of \$350,000 per claim. The self-insurance plan is unfunded. During the year, potential losses from asserted and unasserted claims identified by the Corporation's third-party administrator and accrued based upon estimates that incorporate the Corporation's past experience, as well as the nature of each claim or incident and relevant trend factors. The Corporation's year-end workers' compensation reserve, as estimated by a 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 2014 and 2013. The balances as of September 30, 2014 and 2013 are \$2,101,076 and \$2,066,305, 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, 2014 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, statements 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, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Healthcare services	\$ 144,959,205	\$ 133,225,907
General and administrative	<u>30,427,173</u>	<u>28,557,311</u>
Total	<u>\$ 175,386,378</u>	<u>\$ 161,783,218</u>

Bristol Hospital and Health Care Group
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

Non-operating income for the years ended September 30, 2014 and 2013 consisted of:

	2014	2013
Investment and interest income	\$ 519,245	\$ 315,746
Realized gains (losses) on sales of investments	466,777	(13,757)
Gain on equity investments	492,547	555,814
Total non-operating income	\$ 1,478,569	\$ 857,803

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 a 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 \$680,539, is being amortized as an element of interest expense over the remaining life of the debt.

Note 17 - Asset Retirement Obligations

FASB ASC 410, “*Asset Retirement and Environmental Obligations*,” provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. The Corporation has recorded an asset retirement obligation related to asbestos contamination in buildings of \$604,800 as of September 30, 2014 and 2013. Management reduced this liability during 2013 by \$1,511,481 based on funds spent during the remediation process.

Bristol Hospital and Health Care Group
Supplemental Consolidating Balance Sheet
September 30, 2014

	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	\$ -	\$ 13,617,245	\$ 1,266,399	\$ 876,299	\$ 2,164,552	\$ -	\$ 17,924,495	\$ 651,404	\$ -	\$ 18,575,899
Short-term investments	-	96,550	-	-	-	-	96,550	-	-	96,550
Accounts receivable, less allowances for doubtful accounts	-	17,715,144	335,507	-	1,365,201	-	19,415,852	1,182,492	-	20,598,344
Other receivables	-	2,785,093	-	1,001,530	53,829	-	3,840,452	99,215	(44,892)	3,894,775
Inventories	-	1,413,639	-	-	31,246	-	1,444,885	-	-	1,444,885
Estimated settlements due from third-party payers	-	581,194	-	-	-	-	581,194	-	-	581,194
Prepaid expenses	-	947,594	20,723	-	-	-	968,317	66,403	-	1,034,720
Debt service funds	-	394,825	-	-	191,481	-	586,306	-	-	586,306
Total current assets	-	37,551,284	1,622,629	1,877,829	3,806,309	-	44,858,051	1,999,514	(44,892)	46,812,673
Assets limited as to use:										
Funds held for malpractice self-insurance fund	-	5,597,992	-	-	-	-	5,597,992	-	-	5,597,992
Board designated investments	-	6,835,761	-	-	1,029,495	-	7,865,256	-	-	7,865,256
Other investments held by Foundation	-	-	-	2,545,686	-	-	2,545,686	-	-	2,545,686
Beneficial interest in assets held in trust by others	-	3,285,532	-	-	-	-	3,285,532	-	-	3,285,532
Funds held under bond indenture agreements	-	2,506,470	-	-	-	-	2,506,470	-	-	2,506,470
Interest in net assets of Foundation	-	6,665,478	-	-	26,039	(6,691,517)	-	-	-	-
Donor restricted investments	-	1,140,058	-	3,635,668	-	-	4,775,726	-	-	4,775,726
Total assets limited to use	-	26,031,291	-	6,181,354	1,055,534	(6,691,517)	26,576,662	-	-	26,576,662
Other assets:										
Long-term investments	-	6,665,386	-	-	-	-	6,665,386	-	-	6,665,386
Unamortized bond finance costs	-	981,539	-	-	128,276	-	1,109,815	-	-	1,109,815
Investment in joint ventures	-	764,612	-	-	-	-	764,612	-	-	764,612
Due from affiliates	-	2,986,090	-	-	-	(2,986,090)	-	-	-	-
Deferred expenses and other assets	-	286,346	-	-	-	-	286,346	-	-	286,346
Investment in subsidiaries	29,431,435	-	-	-	-	(29,436,848)	(5,413)	-	5,413	-
Total other assets	29,431,435	11,683,973	-	-	128,276	(32,422,938)	8,820,746	-	5,413	8,826,159
Property, plant and equipment:										
Land and land improvements	-	4,009,071	-	-	752,666	-	4,761,737	69,713	-	4,831,450
Buildings	-	64,881,894	-	-	9,833,583	-	74,715,477	-	-	74,715,477
Fixtures and equipment	-	86,560,455	1,459,480	-	1,391,682	-	89,411,617	1,843,747	-	91,255,364
Construction in progress	-	1,942,559	-	-	33,834	-	1,976,393	-	-	1,976,393
Total	-	157,393,979	1,459,480	-	12,011,765	-	170,865,224	1,913,460	-	172,778,684
Less: accumulated depreciation	-	(118,322,799)	(1,148,759)	-	(9,317,734)	-	(128,789,292)	(1,047,059)	-	(129,836,351)
Total property, plant and equipment	-	39,071,180	310,721	-	2,694,031	-	42,075,932	866,401	-	42,942,333
Total assets	\$ 29,431,435	\$ 114,337,728	\$ 1,933,350	\$ 8,059,183	\$ 7,684,150	\$ (39,114,455)	\$ 122,331,391	\$ 2,865,915	\$ (39,479)	\$ 125,157,827

See accompanying independent auditors' report.

Bristol Hospital and Health Care Group
Supplemental Consolidating Balance Sheet (continued)
September 30, 2014

	Bristol Hospital and Health Care Group	Bristol Hospital, Incorporated	Bristol Hospital EMS, LLC	Bristol Hospital Development Foundation, Inc.	Bristol Health Care, Inc. and Subsidiary	Eliminations	Combined Obligated Group	Bristol Hospital Multi-Specialty Group, Inc.	Eliminations	Consolidated
Liabilities and Net Assets										
Current liabilities:										
Trade accounts payable	\$ -	\$ 12,409,451	\$ 215,611	\$ -	\$ 775,944	\$ -	\$ 13,401,006	\$ 368,289	\$ -	\$ 13,769,295
Accrued payroll and other accrued expenses	-	10,961,582	206,662	-	623,346	-	11,791,590	2,035,534	(22,336)	13,804,788
Due to affiliates	-	-	172,541	964,566	1,848,983	(2,986,090)	-	-	-	-
Accrued interest payable	-	328,054	-	-	59,879	-	387,933	-	-	387,933
Borrowings on line of credit and demand loan	-	2,900,000	-	-	-	-	2,900,000	-	-	2,900,000
Current portion of long-term debt	-	684,763	-	-	554,555	-	1,239,318	-	-	1,239,318
Total current liabilities	-	27,283,850	594,814	964,566	3,862,707	(2,986,090)	29,719,847	2,403,823	(22,336)	32,101,334
Other Liabilities:										
Other accrued liabilities	-	8,805,650	275,629	403,100	625,748	-	10,110,127	467,505	(22,556)	10,555,076
Long-term debt, less current portion	-	25,576,658	-	-	3,248,708	-	28,825,366	-	-	28,825,366
Accrued postretirement benefit liability, less current portion	-	170,972	-	-	-	-	170,972	-	-	170,972
Asset retirement obligation	-	604,800	-	-	-	-	604,800	-	-	604,800
Accrued pension liability, less current portion	-	23,468,844	-	-	-	-	23,468,844	-	-	23,468,844
Total other liabilities	-	85,910,774	870,443	1,367,666	7,737,163	(2,986,090)	92,899,956	2,871,328	(44,892)	95,726,392
Net assets (deficit)	29,431,435	28,426,954	1,062,907	6,691,517	(53,013)	(36,128,365)	29,431,435	(5,413)	5,413	29,431,435
Total liabilities and net assets	\$ 29,431,435	\$ 114,337,728	\$ 1,933,350	\$ 8,059,183	\$ 7,684,150	\$ (39,114,455)	\$ 122,331,391	\$ 2,865,915	\$ (39,479)	\$ 125,157,827

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, 2014

	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	\$ -	\$ 141,984,205	\$ 3,450,965	\$ -	\$ 11,892,162	\$ -	\$ 157,327,332	\$ 15,774,499	\$ -	\$ 173,101,831
Provision for bad debts	-	(4,007,799)	(372,479)	-	(174,996)	-	(4,555,274)	(314,151)	-	(4,869,425)
Net patient service revenues less provision for bad debts	-	137,976,406	3,078,486	-	11,717,166	-	152,772,058	15,460,348	-	168,232,406
Other revenues:										
Other operating revenues	-	4,301,391	1,513,825	2,026,536	25,109	(55,000)	7,811,861	6,652,310	(6,627,818)	7,836,353
Net income on subsidiaries	648,993	-	-	-	-	(1,064,667)	(415,674)	-	415,674	-
Total other revenues	648,993	4,301,391	1,513,825	2,026,536	25,109	(1,119,667)	7,396,187	6,652,310	(6,212,144)	7,836,353
Total operating revenues	648,993	142,277,797	4,592,311	2,026,536	11,742,275	(1,119,667)	160,168,245	22,112,658	(6,212,144)	176,068,759
Operating expenses:										
Salaries, wages and fees	-	62,917,346	2,568,849	337,911	6,141,006	-	71,965,112	15,756,592	(4,010,839)	83,710,865
Supplies and other expenses	39,119	70,284,720	1,641,714	1,301,495	5,955,711	(55,000)	79,167,759	6,060,792	(2,616,979)	82,611,572
Depreciation and amortization	-	6,614,415	129,227	-	428,006	-	7,171,648	240,311	-	7,411,959
Interest expense	-	1,412,468	-	-	239,514	-	1,651,982	-	-	1,651,982
Total operating expenses	39,119	141,228,949	4,339,790	1,639,406	12,764,237	(55,000)	159,956,501	22,057,695	(6,627,818)	175,386,378
Gain (loss) from operations	609,874	1,048,848	252,521	387,130	(1,021,962)	(1,064,667)	211,744	54,963	415,674	682,381
Non-operating income	-	1,263,862	-	115,338	99,369	-	1,478,569	-	-	1,478,569
Excess of revenues over (under) expenses	609,874	2,312,710	252,521	502,468	(922,593)	(1,064,667)	1,690,313	54,963	415,674	2,160,950
Net assets released from restrictions for capital acquisitions										
Net unrealized losses on investments	-	(626,654)	-	(183,880)	(2,355)	-	(812,889)	-	-	(812,889)
Transfer from Hospital to affiliates	-	470,637	-	-	-	-	470,637	(470,637)	-	-
Change in interest in net assets of the Foundation	-	318,588	-	-	-	(318,588)	-	-	-	-
Transfers of net assets	-	21,206	-	-	-	-	21,206	-	-	21,206
Pension changes other than net periodic benefit costs	-	(6,242,251)	-	-	-	-	(6,242,251)	-	-	(6,242,251)
Changes in postretirement health and welfare benefits other than net periodic benefit costs	-	5,307,399	-	-	-	-	5,307,399	-	-	5,307,399
Change in unrestricted net assets	609,874	1,737,094	252,521	318,588	(924,948)	(1,383,255)	609,874	(415,674)	415,674	609,874
Change in temporarily restricted net assets	148,927	152,681	-	162,993	(3,754)	(311,920)	148,927	-	-	148,927
Change in permanently restricted net assets	64,909	64,909	-	-	-	(64,909)	64,909	-	-	64,909
Change in net assets	823,710	1,954,684	252,521	481,581	(928,702)	(1,760,084)	823,710	(415,674)	415,674	823,710
Net assets at beginning of year	28,607,725	26,472,270	810,386	6,209,936	875,689	(34,368,281)	28,607,725	410,261	(410,261)	28,607,725
Net assets (deficit) at end of year	\$ 29,431,435	\$ 28,426,954	\$ 1,062,907	\$ 6,691,517	\$ (53,013)	\$ (36,128,365)	\$ 29,431,435	\$ (5,413)	\$ 5,413	\$ 29,431,435

See accompanying independent auditors' report.