

BRISTOL HOSPITAL AND HEALTH CARE GROUP

**INDEPENDENT AUDITORS' REPORT,
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

As of and for the Years Ended
September 30, 2015 and 2014

Bristol Hospital and Health Care Group

INDEPENDENT AUDITORS' REPORT, CONSOLIDATED FINANCIAL STATEMENTS
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 comprises the consolidated balance sheet as of September 30, 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free 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.

(Continued)

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, 2015, and the results of its consolidated operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the 2015 consolidated financial statements as a whole. The 2015 consolidating balance sheet and consolidating statement of operations and changes in net assets is presented for purposes of additional analysis of the 2015 consolidated financial statements rather than to present the financial position and results of operations, and cash flow of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2015 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 2015 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 2015 consolidating information is fairly stated in all material respects in relation to the 2015 consolidated financial statements as a whole.

The consolidated financial statements of the Bristol Hospital and Health Care Group as of September 30, 2014, were audited by Saslow Lufkin & Buggy, LLP who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated December 15, 2014, expressed an unmodified opinion on those consolidated financial statements.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is stylized and cursive.

Crowe Horwath LLP

Simsbury, Connecticut
January 28, 2016

Bristol Hospital and Health Care Group
CONSOLIDATED BALANCE SHEETS
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,508,378	\$ 18,672,449
Accounts receivable, less allowance for doubtful accounts of \$5,320,327 (2015) and \$5,499,991 (2014)	19,746,504	20,598,344
Other receivables	3,282,946	3,894,775
Inventories	1,419,330	1,444,885
Estimated settlements from third-party payers	-	581,194
Prepaid expenses	1,308,744	1,034,720
Debt service funds	<u>601,120</u>	<u>586,306</u>
Total current assets	46,867,022	46,812,673
Assets limited as to use:		
Funds held for malpractice self-insurance fund	4,418,234	5,597,992
Board designated investments	7,618,664	7,865,256
Other investments held by Foundation	1,834,813	2,545,686
Beneficial interest in assets held in trust by others	2,990,416	3,285,532
Funds held under bond indenture agreements	2,505,243	2,506,470
Donor restricted investments	<u>4,529,894</u>	<u>4,775,726</u>
Total assets limited as to use	23,897,264	26,576,662
Non-current assets:		
Long-term investments	6,496,418	6,665,386
Unamortized bond finance costs	1,031,939	1,109,815
Investment in joint ventures	614,503	764,612
Deferred expenses and other assets	<u>287,821</u>	<u>286,346</u>
Total other assets	8,430,681	8,826,159
Property, plant and equipment:		
Land and land improvements	5,869,859	4,831,450
Buildings	77,664,734	74,715,477
Fixtures and equipment	<u>96,779,236</u>	<u>91,255,364</u>
	180,313,829	170,802,291
Less: accumulated depreciation	<u>(137,121,924)</u>	<u>(129,836,351)</u>
	43,191,905	40,965,940
Construction in progress	<u>635,138</u>	<u>1,976,393</u>
Property, plant and equipment, net	<u>43,827,043</u>	<u>42,942,333</u>
 Total assets	 <u>\$ 123,022,010</u>	 <u>\$ 125,157,827</u>

(Continued)

Bristol Hospital and Health Care Group
CONSOLIDATED BALANCE SHEETS
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Trade accounts payable	\$ 13,044,663	\$ 13,652,965
Accrued payroll and other accrued expenses	10,002,062	10,256,194
Estimated settlements to third-party payers	1,130,211	-
Accrued interest payable	59,879	387,933
Borrowings on line of credit and demand loan	1,800,000	2,900,000
Current portion of capital lease liabilities	690,414	116,330
Current portion of long-term debt	<u>1,399,760</u>	<u>1,239,318</u>
Total current liabilities	28,126,989	28,552,740
Other liabilities:		
Other accrued liabilities	9,055,689	10,413,579
Long-term capital lease liabilities, less current portion	1,854,778	141,497
Long-term debt, less current portion	27,688,167	28,825,366
Accrued postretirement benefit liability	-	170,972
Asset retirement obligation	604,800	604,800
Accrued pension liability	<u>32,795,767</u>	<u>27,017,438</u>
Total other liabilities	100,126,190	95,726,392
Net assets:		
Unrestricted	12,974,320	18,611,817
Temporarily restricted	3,131,129	3,734,131
Permanently restricted	<u>6,790,371</u>	<u>7,085,487</u>
Total net assets	<u>22,895,820</u>	<u>29,431,435</u>
 Total liabilities and net assets	 <u>\$ 123,022,010</u>	 <u>\$ 125,157,827</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
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Net patient service revenues	\$ 169,625,410	\$ 173,101,831
Provision for bad debts, net of recoveries	<u>(3,515,959)</u>	<u>(4,869,425)</u>
Net patient service revenues less provision for bad debts	166,109,451	168,232,406
Other operating revenues	<u>6,317,978</u>	<u>7,836,353</u>
Total operating revenues	172,427,429	176,068,759
Operating expenses:		
Salaries, wages and fees	85,065,116	83,710,865
Supplies and other expenses	77,808,380	82,611,572
Depreciation and amortization	7,959,616	7,411,959
Interest expense	<u>1,506,976</u>	<u>1,651,982</u>
Total operating expenses	<u>172,340,088</u>	<u>175,386,378</u>
(Loss) gain from operations	87,341	682,381
Non-operating income	<u>997,043</u>	<u>1,478,569</u>
Excess of revenue over expenses	<u>\$ 1,084,384</u>	<u>\$ 2,160,950</u>

(Continued)

Bristol Hospital and Health Care Group
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 1,084,384	\$ 2,160,950
Net assets released from restrictions for capital acquisitions	-	175,459
Net unrealized losses on investments	(1,298,955)	(812,889)
Transfers of net assets	-	21,206
Pension changes other than net periodic benefit costs	(5,842,926)	(6,242,251)
Changes in postretirement health and welfare benefits other than net periodic benefit costs	<u>420,000</u>	<u>5,307,399</u>
Change in unrestricted net assets	(5,637,497)	609,874
Temporarily restricted net assets:		
Contributions received	88,102	213,390
Net unrealized losses on investments	(196,834)	(24,528)
Investment income	72,460	135,524
Net assets released from restrictions	<u>(566,730)</u>	<u>(175,459)</u>
Change in temporarily restricted net assets	(603,002)	148,927
Permanently restricted net assets:		
Change in assets held in trust by others	<u>(295,116)</u>	<u>64,909</u>
Change in permanently restricted net assets	<u>(295,116)</u>	<u>64,909</u>
Change in net assets	(6,535,615)	823,710
Net assets, beginning of year	<u>29,431,435</u>	<u>28,607,725</u>
Net assets, end of year	<u>\$ 22,895,820</u>	<u>\$ 29,431,435</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (6,535,615)	\$ 823,710
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,959,616	7,411,959
Provision for bad debts	3,515,959	4,869,425
Change in investments in joint ventures	150,109	205,278
Change in assets held in trust by others	295,116	(64,910)
Loss on disposal of equipment	1,671	12,455
Pension changes other than net periodic benefit costs	5,842,926	6,242,251
Changes in postretirement health and welfare benefits other than net periodic benefit costs	(420,000)	(5,307,399)
Net realized and unrealized gains on investments	747,858	382,319
Changes in assets and liabilities:		
Accounts receivable	(2,664,119)	(4,931,440)
Other receivables	611,829	(1,104,161)
Inventories	25,555	31,547
Estimated settlements from third-party payers	581,194	2,176,704
Prepaid expenses	(274,024)	(158,132)
Deferred expenses and other assets	(1,475)	189,961
Trade accounts payable	(608,302)	(99,507)
Accrued payroll and other accrued expenses	(254,132)	1,635,460
Estimated settlements to third-party payers	1,130,211	-
Accrued interest payable	(328,054)	-
Other accrued liabilities	(1,357,890)	(1,034,662)
Accrued postretirement benefit liability	250,001	167,407
Accrued pension liability	(64,597)	(1,456,220)
Net cash provided by operating activities	8,603,837	9,992,045
Cash flows from investing activities:		
Additions to property, plant and equipment	(6,481,729)	(7,423,227)
Purchases of investments	(1,951,246)	(2,027,618)
Sales of investments	2,576,880	1,874,126
Changes in debt service funds	(14,814)	50,079
Change in funds held for malpractice self-insurance fund, net	1,179,758	1,336,630
Net cash used in investing activities	(4,691,151)	(6,190,010)
Cash flows from financing activities:		
Repayment of long-term debt	(976,757)	(1,222,615)
Payments on line of credit and demand loan	(1,100,000)	(225,000)
Net cash used in financing activities	(2,076,757)	(1,447,615)
Change in cash and cash equivalents	1,835,929	2,354,420
Cash and cash equivalents at beginning of year	18,672,449	16,318,029
Cash and cash equivalents at end of year	\$ 20,508,378	\$ 18,672,449
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,467,295	\$ 1,612,301
Supplemental disclosure of non-cash transactions:		
Capital leases entered into	\$ 2,287,365	\$ -

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

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 1 - GENERAL

Organization: Bristol Hospital and Health Care Group (BHHCG or the Corporation) is the sole member of Bristol Hospital Development Foundation, Inc. (BHDF or the Foundation), Bristol Hospital, Incorporated (the Hospital), Bristol Health Care, Inc. and Subsidiary (BHC), Bristol Hospital EMS, LLC (EMS) and Bristol Hospital Multispecialty Group (BHMG).

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).

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.

Net Asset Categories: To ensure observance of limitations and restrictions placed on the use of resources available to the Hospital, the accounts of the Hospital are maintained in the following net asset categories:

Unrestricted - Unrestricted net assets represent available resources other than donor restricted contributions. Included in unrestricted net assets are assets set aside by the Board of Directors (the Board) for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Temporarily Restricted - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

Permanently Restricted - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that the income earned thereon be available for operations, and beneficial interest in assets held in trust by others.

Cash and Cash Equivalents: The Corporation considers certain 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Deferred 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 \$80,287 and \$71,742, for the years ended September 30, 2015 and 2014, 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, 2015 and 2014, 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 2015 and 2014.

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. Leasehold improvements are amortized over the shorter of the lease term or the following useful lives range. 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, 2015 and 2014, depreciation expense amounted to \$7,882,713 and \$7,340,217, respectively.

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

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.

	<u>Ownership Percentage</u>
Bristol MSO, LLC	50.00%
MedWorks, LLC	49.00%
Connecticut Occupational Medical Partners	33.00%
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%), or the Board has the ability to exercise significant influence over the operations of the company.

During 2015 and 2014, the Hospital recorded income of \$186,842 and \$492,547, respectively, related to its equity method investments, which is included in non-operating income on the consolidated statements of operation and changes in net assets.

During 2015, the Hospital withdrew its investment in Total Laundry Collaborative, LLC. At the time of withdrawal, the Hospital recorded a \$245,906 loss related to its full investment balance in the limited liability company.

In addition, during 2014, the Hospital withdrew its investment in MedConn Collection Agency (MedConn). 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, 2015 and 2014, \$57,962 and \$95,467, respectively, was outstanding on the promissory note receivable which is included in other receivables in the accompanying consolidated balance sheets.

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.

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Board Restricted: As of September 30, 2015 and 2014, the Corporation has \$7,618,664 and \$7,865,256, 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.

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. The Corporation uses a grant model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized as revenue after the Corporation has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the 12-month cost report period that will be used to determine the final incentive payment has ended. The Corporation recognizes revenue from Medicaid incentive payments after it has demonstrated compliance with the meaningful use criteria. As of September 30, 2015, the meaningful use incentives have expired, and no revenue was recorded related to this program. As of September 2014, the Hospital included EHR meaningful use revenue of \$580,499 in other operating revenues on the 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation does not have any uncertain tax positions as September 30, 2015 and 2014. 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, 2015 and 2014, 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 (see Note 5). The definition of fair value under FASB ASC 820 focuses on the price that would be received to sell the asset, which is referred to as the exit price.

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 \$2,280,000 and \$2,290,000 as of September 30, 2015 and 2014. 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.

Reclassifications: Certain items in the prior year consolidated financial statements were reclassified to conform to the current presentation. These reclassifications had no effect on net assets or the change in net assets.

Subsequent Events: Subsequent events have been evaluated through January 28, 2016, which is the date through which procedures were performed and the consolidated financial statements were issued. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 3 - REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE

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

	2015				
	Medicare and Medicare HMOs	Medicaid and Medicaid HMOs	Blue Cross	Commercial and Other	Total
Gross revenues from services to patients	\$ 213,974,639	\$ 112,770,825	\$ 42,171,690	\$ 137,163,793	\$ 506,080,947
Deductions and allowances	<u>(154,616,334)</u>	<u>(87,561,413)</u>	<u>(25,165,184)</u>	<u>(69,112,606)</u>	<u>(336,455,537)</u>
Net revenues from services to patients	<u>\$ 59,358,305</u>	<u>\$ 25,209,412</u>	<u>\$ 17,006,506</u>	<u>\$ 68,051,187</u>	<u>\$ 169,625,410</u>
	2014				
	Medicare and Medicare HMOs	Medicaid and Medicaid HMOs	Blue Cross	Commercial and Other	Total
Gross revenues from services to patients	\$ 214,333,609	\$ 104,355,702	\$ 51,937,404	\$ 136,699,835	\$ 507,326,550
Deductions and allowances	<u>(154,944,216)</u>	<u>(82,286,043)</u>	<u>(30,705,387)</u>	<u>(66,289,073)</u>	<u>(334,224,719)</u>
Net revenues from services to patients	<u>\$ 59,389,393</u>	<u>\$ 22,069,659</u>	<u>\$ 21,232,017</u>	<u>\$ 70,410,762</u>	<u>\$ 173,101,831</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 of the Hospital based on agreements with these payers, 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 payors. 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.

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue based on its discounted rates. On the basis of historical experiences, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital 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.

NOTE 3 - REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (continued)

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 the 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.

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 (for example, for expected uncollectable 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 from 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 uncollectable.

BHC's allowance for doubtful accounts for self-pay patients was approximately 100% and 98% of self-pay accounts receivable as of September 30, 2015 and 2014, respectively. As of September 30, 2015 and 2014, BHC's allowance for doubtful accounts covers 100% of patient accounts greater than 180 days old. BHC's write-offs of patient accounts receivable totaled \$474,082 and \$548,719 as of September 30, 2015 and 2014, respectively. BHC does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

BHMSG's allowance for doubtful accounts covers 100% of patient accounts greater than 30 days old.

EMS's allowance for doubtful accounts for self-pay patients was 100% of self-pay accounts receivable as of September 30, 2015 and 2014. As September 30, 2015 and 2014, EMS's allowances for doubtful accounts covers approximately 65% and 85%, respectively, of patient accounts greater than 30 days old.

As of September 30, 2015 and 2014, approximately 50% and 48% of the Corporation's net patients accounts receivable were from governmental payers (Medicare and Medicaid). Nongovernmental payers are primarily insurance companies and self-pay payers. Management has recorded an allowance for doubtful accounts, as noted above, which, in its opinion, is sufficient to provide for risk of nonpayment.

NOTE 3 - REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (continued)

Charity Care: It is an inherent part of the Hospital's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenue. Patients who would otherwise qualify for charity care but who do not provide adequate information would be characterized as bad debt and included in the provision for bad debts. The amount of charity care provided, using an adjusted cost-to-charge ratio, was \$1,261,286 and \$1,412,304 for the years ended September 30, 2015 and 2014. The Hospital did not change its charity care or financial assistance policy during 2015 or 2014.

Federal Regulatory Environment: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. While no known regulatory inquiries are pending, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

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.

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 4 - INVESTMENTS (continued)

The fair values of investments as of September 30, 2015 and 2014, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Debt Service Funds:		
U.S. treasury obligations	\$ 601,120	\$ 586,306
Assets Limited as to Use:		
Board designated investments:		
Cash and interest bearing accounts	\$ 84,119	\$ 1,022,684
Equity mutual funds	7,450,522	6,776,796
Fixed income mutual funds	<u>84,023</u>	<u>65,776</u>
Total	<u>\$ 7,618,664</u>	<u>\$ 7,865,256</u>
Held for malpractice self insurance fund:		
Corporate and foreign bonds	\$ 857,141	\$ 1,301,084
Preferred equity securities	80,775	85,988
Equity mutual funds	1,142,592	1,748,696
Fixed income mutual funds	<u>2,337,726</u>	<u>2,462,224</u>
Total	<u>\$ 4,418,234</u>	<u>\$ 5,597,992</u>
Held by trustee under bond indenture agreement:		
U.S. treasury obligations	<u>\$ 2,505,243</u>	<u>\$ 2,506,470</u>
Long-term Investments:		
Cash and interest bearing accounts	\$ 96,571	\$ 1,116,120
Equity mutual funds	<u>6,399,847</u>	<u>5,549,266</u>
Total	<u>\$ 6,496,418</u>	<u>\$ 6,665,386</u>

Beneficial interest assets held in trust by others of \$2,990,416 and \$3,285,532, as of September 30, 2015 and 2014, respectively, are held by bank trustees and are not under the Corporation's investment control. These assets are invested within diversified portfolios.

NOTE 5 - FAIR VALUE MEASUREMENTS

GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Hospital's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Hospital has the ability to access as of the measurement date. The fair values of money market funds and mutual funds that are readily marketable are determined by obtaining quoted prices from nationally recognized securities exchanges.

Level 2: Significant other unobservable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The fair values of the Hospital's Level 2 U.S. Treasury obligations, various fixed income bond funds, and preferred equity securities were determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. The fair values of the Hospital's Level 2 investments are determined by management after considering prices received from third-party pricing services.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. Funds held in trust by others represents beneficial interest in certain assets held by third parties. These interest 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.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

The following table presents the financial instruments, carried at fair value, as of September 30, 2015, by the valuation hierarchy. This table includes debt service funds, assets limited as to use, and long-term investments.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 1,407,314	\$ -	\$ -	\$ 1,407,314
Equities:				
U.S. large cap	5,475,999	-	-	5,475,999
U.S. mid cap	2,856,956	-	-	2,856,956
U.S. small cap	1,908,520	-	-	1,908,520
Internationally developed	4,165,245	-	-	4,165,245
Commodities	832,642	-	-	832,642
Public REIT	871,770	-	-	871,770
Emerging markets	233,284	-	-	233,284
Preferred equity securities	-	80,775	-	80,775
Fixed Income:				
U.S. treasury obligations	-	3,359,812	-	3,359,812
Corporate and foreign bonds	-	857,141	-	857,141
Taxable fixed income mutual funds	-	4,291,686	-	4,291,686
Internationally developed	-	926,702	-	926,702
Global high yield taxable	-	736,540	-	736,540
	<u>17,751,730</u>	<u>10,252,656</u>	<u>-</u>	<u>28,004,386</u>
Beneficial interest in assets held in trust by others	<u>-</u>	<u>-</u>	<u>2,990,416</u>	<u>2,990,416</u>
Total	<u>\$ 17,751,730</u>	<u>\$ 10,252,656</u>	<u>\$ 2,990,416</u>	<u>\$ 30,994,802</u>

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

The following table presents the financial instruments, carried at fair value, as of September 30, 2014, by the valuation hierarchy. This table includes debt service funds, assets limited as to use, and long-term investments.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 3,012,453	\$ -	\$ -	\$ 3,012,453
Equities:				
U.S. large cap	2,032,147	-	-	2,032,147
U.S. mid cap	805,322	-	-	805,322
U.S. small cap	3,477,236	-	-	3,477,236
Internationally developed	7,972,329	-	-	7,972,329
Commodities	139,258	-	-	139,258
Public REIT	114,593	-	-	114,593
Emerging markets	229,435	-	-	229,435
Preferred equity securities	-	85,988	-	85,988
Fixed Income:				
U.S. treasury obligations	-	3,704,434	-	3,704,434
Corporate and foreign bonds	-	1,301,084	-	1,301,084
Taxable fixed income mutual funds	-	7,275,235	-	7,275,235
Closed-end fixed income mutual funds	-	251,771	-	251,771
Internationally developed	-	35,469	-	35,469
Global high yield taxable	-	106,068	-	106,068
	<u>17,782,773</u>	<u>12,760,049</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>\$ 17,782,773</u>	 <u>\$ 12,760,049</u>	 <u>\$ 3,285,532</u>	 <u>\$ 33,828,354</u>

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

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

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 3,285,532	\$ 3,220,623
Interest and dividends	59,890	66,010
Contributions	46,653	51,300
Withdrawals	(176,400)	(144,325)
Net realized gains	48,860	169,348
Fees	(39,694)	(40,250)
Net unrealized gains	<u>(234,425)</u>	<u>(37,174)</u>
Balance at end of year	<u>\$ 2,990,416</u>	<u>\$ 3,285,532</u>

There were no transfers between fair value hierarchy Level 1, Level 2, and Level 3 for any invested assets recorded at fair value during 2015 and 2014. The valuation techniques used by the Hospital maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of the Hospital's Level 2 and Level 3 investments are determined by management after considering prices received from third-party pricing services.

As of September 30, 2015 and 2014, the Corporation's other financial instruments include cash and cash equivalents, accounts payable, accrued expenses, estimated settlements due from(to) third-party payers and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

NOTE 6 - NET ASSETS AND ENDOWMENTS

Temporarily restricted net assets, as of September 30, 2015 and 2014 are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Library operations and improvements	\$ 560,177	\$ 745,916
Healthcare services	<u>2,570,952</u>	<u>2,988,215</u>
Total	<u>\$ 3,131,129</u>	<u>\$ 3,734,131</u>

Permanently restricted net assets, as of September 30, 2015 and 2014, are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Held in perpetuity, income restricted for healthcare services	\$ 3,405,813	\$ 3,405,813
Other donor restricted investment	394,142	394,142
Beneficial interest in assets held in trust by others	<u>2,990,416</u>	<u>3,285,532</u>
Total	<u>\$ 6,790,371</u>	<u>\$ 7,085,487</u>

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 6 - NET ASSETS AND ENDOWMENTS (continued)

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 and funds held in trust by others. As required by GAAP, net assets associated with endowment funds, 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.

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.

Changes in net assets for endowments for the year ended September 30, 2015 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Balance at October 1, 2014	\$ -	\$ 7,085,487
Investment return:		
Investment income	72,460	-
Net change in market value	-	(295,116)
Appropriations	<u>(72,460)</u>	<u>-</u>
Balance at September 30, 2015	<u>\$ -</u>	<u>\$ 6,790,371</u>

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 6 - NET ASSETS AND ENDOWMENTS (continued)

Changes in net assets for endowments for the year ended September 30, 2014 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Balance at October 1, 2013	\$ -	\$ 7,020,578
Investment return:		
Investment income	135,524	-
Net change in market value	-	64,909
Appropriations	<u>(135,524)</u>	<u>-</u>
Balance at September 30, 2014	<u>\$ -</u>	<u>\$ 7,085,487</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, 2015 and 2014, 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 2020. 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. 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, 2015:

	<u>Operating Leases</u>	<u>Capital Leases</u>
2016	\$ 173,991	\$ 702,443
2017	173,991	593,714
2018	173,991	583,830
2019	173,991	515,769
2020	<u>173,991</u>	<u>228,301</u>
Total	<u>\$ 869,955</u>	2,624,057
Less: amount representing interest		<u>(78,865)</u>
Present value of net minimum lease payments		2,545,192
Less: current maturities of capital lease obligations		<u>(690,414)</u>
Long-term capital lease obligations		<u>\$ 1,854,778</u>

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 7 – LEASES (continued)

As of September 30, 2015 and 2014, fixtures and equipment on the consolidated balance sheets includes assets under capital leases of \$2,617,651 and \$581,651, respectively. Accumulated depreciation on these assets amounted to \$626,356 and \$290,825 as of September 30, 2015 and 2014, respectively. Rental expense was \$1,699,626 and \$2,252,971 for the years ended September 30, 2015 and 2014, 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, 2015 and 2014, 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
For the Years Ended September 30, 2015 and 2014

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, 2015:

	Bristol Hospital <u>Incorporated</u>	Bristol Health Care, Inc. <u>and Subsidiary</u>	Total Obligated <u>Group</u>
Year ending September 30:			
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
2020	563,730	726,270	1,290,000
Thereafter	<u>20,085,000</u>	<u>-</u>	<u>20,085,000</u>
	22,626,155	3,273,845	25,900,000
Less: portion classified as current	<u>(456,665)</u>	<u>(588,335)</u>	<u>(1,045,000)</u>
	22,169,490	2,685,510	24,855,000
Less: discount	(322,789)	(21,753)	(344,542)
Add: unamortized terminated swap liability (footnote 16)	<u>640,858</u>	<u>-</u>	<u>640,858</u>
Total	<u>\$ 22,487,559</u>	<u>\$ 2,663,757</u>	<u>\$ 25,151,316</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. 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. The term loan is due September 2018, with principal payments of \$50,000 due monthly. The interest on the term loan is equal to Bank of America's prime rate plus 2%, which was approximately 5.25% as of September 30, 2015 and 2014. At September 30, 2015 and 2014, the balance outstanding on the term loan was \$1,800,000 and \$2,400,000, respectively.

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 30s.

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, 2015 and 2014 is \$273,261 and \$281,909, respectively.

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

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, 2015 and 2014 is \$984,656 and \$1,053,912, 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, 2015 and 2014 was \$643,218 and \$687,856, 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, 2015 and 2014 was \$690,476 and \$833,333, respectively.

In 2015 and 2014, the Hospital has a \$500,000 line of credit available with United Bank. Interest is payable at 4.25%. As of September 30, 2015 and 2014, advances of \$0 and \$500,000, respectively, were outstanding on this line of credit.

As of September 30, 2015 and 2014, 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, 2015 as described above:

2016	\$ 1,399,760
2017	1,484,034
2018	1,542,941
2019	1,513,971
2020	1,561,420
Thereafter	<u>21,289,485</u>
Total	<u>\$ 28,791,611</u>

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
For the Years Ended September 30, 2015 and 2014

NOTE 9 - PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (continued)

Significant disclosures relating to the Plan as of September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 79,822,000	\$ 74,442,000
Interest cost	3,711,000	3,821,000
Actuarial loss	2,952,000	4,678,000
Benefits paid	<u>(3,523,000)</u>	<u>(3,119,000)</u>
Benefit obligation at end of year	<u>\$ 82,962,000</u>	<u>\$ 79,822,000</u>
 Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 52,805,000	\$ 52,712,000
Employer contributions	2,748,000	3,041,000
Actual return on plan assets	(1,838,000)	204,000
Expenses paid	(26,000)	(33,000)
Benefits paid	<u>(3,523,000)</u>	<u>(3,119,000)</u>
Fair value of plan assets at end of year	<u>\$ 50,166,000</u>	<u>\$ 52,805,000</u>
 Accrued pension liability:		
Unfunded status and accrued pension liability	<u>\$ (32,796,000)</u>	<u>\$ (27,017,000)</u>
 Assumptions:		
 Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.75%	4.75%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	N/A	N/A
 Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.75%	5.25%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	N/A	N/A

For the years ended September 30, 2015 and 2014, there are no differences between the Plan's accumulated benefit obligation and projected benefit obligation as the Plan is frozen as noted above.

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
For the Years Ended September 30, 2015 and 2014

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 3,711,000	\$ 3,821,000
Expected return on plan assets	(4,493,000)	(4,467,000)
Recognized net loss	<u>3,466,000</u>	<u>2,732,000</u>
 Net periodic benefit cost	 <u>\$ 2,684,000</u>	 <u>\$ 2,086,000</u>

As of September 30, 2015 and 2014, amounts included in unrestricted net assets not yet amortized as a component of net periodic benefit cost are \$45,050,422 and \$39,207,496, respectively, which consists of unrecognized actuarial losses only. The amortization of the above expected to be recognized in net periodic benefit costs for the year ended September 30, 2016 is \$4,406,973.

Changes in benefit obligations recognized in unrestricted net assets include the following as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Change in funded status	\$ (5,778,329)	\$ (5,287,466)
New period pension costs	2,683,323	2,086,316
Employer contributions	<u>(2,747,920)</u>	<u>(3,041,101)</u>
 Total	 <u>\$ (5,842,926)</u>	 <u>\$ (6,242,251)</u>

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, 2015 and 2014, by asset category, are as follows:

Asset category:	<u>Target Allocation</u>	<u>Actual Allocation</u>
Equity securities	75%	89%
Debt securities	25%	0%
Alternative investment funds	0%	11%
Money market funds	<u>0%</u>	<u>0%</u>
 Total	 <u><u>100%</u></u>	 <u><u>100%</u></u>

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 9 - PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (continued)

Fair value methodologies used to assign plan assets to levels in accordance with ASC 820 are consistent with the inputs described in Note 5. In addition, the alternative investment funds, which consist of the Omega Overseas Credit Opportunities Fund, Ltd. (the Omega Fund) and the Beach Point Total return Offshore Fund II Ltd. (the Beach Point Fund), are not traded in an active market. The fair values have been estimated using the net asset value per share of the investments, as reported by the fund managers in fund investment statements provided to, and reviewed by, the pension plan's Investment Committee. The audited financial statements of the alternative investment funds are as of December 31, and the Investment Committee evaluates the gap period, with consideration of specific fund transactions and investment returns of established benchmarks for that gap period. The Investment Committee analyzes the investment valuation methods used by the fund managers, as reported in the audited financial statements

The Omega Fund and the Beach Point Fund are not redeemable until the pension plan has held these funds for twelve consecutive months. After the initial 12-month period, the Omega Fund is redeemable with 60 days' notice at the end of each calendar year-end, and the Beach Point Fund is redeemable with 60 days' notice at the end of each calendar quarter.

The objective of the Omega Fund is to generate current income and attract risk-adjusted returns by investing in a variety of structured products and credit instruments with expected volatility generally below that of the equity markets. The majority of the Omega Fund's investments are in common stocks, corporate bonds and collateralized loan obligations. The Beach Point Fund's investment objective is to protect principal and achieve superior total return through a portfolio of high yield securities, including bonds and bank debt, stressed and distressed securities, undervalued equities, short-selling of debt and equity securities and, to a lesser extent, "special situation" investing. While both alternative investment funds are reported at net asset value, as a practical expedient for estimating fair value, funds which have redemption restrictions that exceed a 90-day time period are classified as Level 3 measurements. There are no outstanding funding commitments to either of the funds as of September 30, 2015 and 2014.

The fair values of the Plan assets, by asset category, are as follows for the year ended September 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 129,603	\$ -	\$ -	\$ 129,603
Equities:				
Mutual funds - equity	37,781,371	-	-	37,781,371
Mutual funds - fixed income	6,935,365	-	-	6,935,365
Alternative investment funds	<u>-</u>	<u>-</u>	<u>5,320,602</u>	<u>5,320,602</u>
Total	<u>\$ 44,846,339</u>	<u>\$ -</u>	<u>\$ 5,320,602</u>	<u>\$ 50,166,941</u>

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 9 - PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (continued)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 3,966,833	\$ -	\$ -	\$ 3,966,833
Equities:				
Mutual funds - equity	40,464,687	-	-	40,464,687
Mutual funds - fixed income	3,094,105	-	-	3,094,105
Alternative investment funds	<u>-</u>	<u>-</u>	<u>5,279,807</u>	<u>5,279,807</u>
 Total	 <u>\$ 47,525,625</u>	 <u>\$ -</u>	 <u>\$ 5,279,807</u>	 <u>\$ 52,805,432</u>

Changes within the Level 3 investments as of September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 5,279,807	\$ -
Contributions	-	5,000,000
Income	94,237	348,386
Expenses	<u>(53,442)</u>	<u>(68,579)</u>
 Balance at end of year	 <u>\$ 5,320,602</u>	 <u>\$ 5,279,807</u>

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

2016	\$ 3,826,000
2017	3,935,000
2018	4,069,000
2019	4,260,000
2020	4,386,000
Years 2021-2025	<u>25,260,000</u>
 Total	 <u>\$ 45,736,000</u>

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.

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.

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 9 - PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (continued)

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. As of September 30, 2014, the Hospital recorded a liability of \$420,000 related to postretirement health benefits. As of September 30, 2015, it was determined that an actuary report was not going to be obtained due to the unwinding of the plan as all remaining activity in the plan is considered by management to be insignificant.

The following table sets forth the Medical Plan's change in benefit obligation for the year ended September 30, 2014:

Change in benefit obligation:	
Projected benefit obligation at beginning of year	\$ 5,727,000
Service cost	33,000
Interest cost	160,000
Actuarial gain	(2,008,000)
Benefits paid	(285,000)
Curtailments, settlements and special termination benefits	<u>(3,207,000)</u>
Projected benefit obligation at end of year	<u>\$ 420,000</u>

The following tables set forth the Medical Plan's change in plan assets and unfunded status for the year ended September 30, 2014:

Change in plan assets:	
Plan assets at beginning of year	\$ -
Employer contribution	285,000
Benefits paid	<u>(285,000)</u>
Plan assets at end of year	<u>\$ -</u>
Reconciliation of funded status:	
Unfunded status and accrued postretirement benefit liability	<u>\$ (420,000)</u>

Amounts recognized in the consolidated balance sheet as of September 30, 2014, are as follows:

Short-term portion of accrued postretirement benefit liability, included in accrued payroll and other related expenses	\$ (249,000)
Long-term portion of accrued postretirement benefit liability	<u>(171,000)</u>
	<u>\$ (420,000)</u>

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

NOTE 9 - PENSION PLAN AND POSTRETIREMENT HEALTH BENEFITS (continued)

The components of net periodic benefit costs for the year ended September 30, 2014, are as follows:

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

The weighted-average assumptions used to determine the benefit obligation as of September 30, 2014 was 3.00%.

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

Discount rate	5.25%
Assumed healthcare cost trend rates:	
Initial trend rate	8.75%
Ultimate trend rate	5.00%
Year ultimate trend rate is achieved	2019

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, 2015 and 2014, 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 \$246,836 and \$413,562 of expense related to its 403(b) plan for the years ended September 30, 2015 and 2014, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

During 2015 and 2014, the Corporation's entities entered into various related party transactions. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 \$4,418,234 and \$5,597,992 of assets which reside in the trust, as of September 30, 2015 and 2014, respectively, are included within the Corporation's days cash on hand debt covenant test, as the Corporation's Board of Directors can terminate this trust at any time and utilize these funds for operating purposes.

The Corporation's malpractice liabilities, determined with the assistance of an independent actuary, as of September 30, 2015 and 2014, were estimated at \$5,283,865 and \$4,272,903, 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 insurance 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 2015 and 2014. The balances as of September 30, 2015 and 2014 are \$2,650,430 and \$2,817,979, 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, 2015 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.

Bristol Hospital and Health Care Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

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, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Healthcare services	\$ 142,299,423	\$ 144,814,713
General and administrative	<u>29,868,880</u>	<u>30,396,844</u>
 Total	 <u>\$ 172,340,088</u>	 <u>\$ 175,386,378</u>

Non-operating income for the years ended September 30, 2015 and 2014 consisted of:

	<u>2015</u>	<u>2014</u>
Income, gains and (expenses):		
Interest and dividend income	\$ 1,200,294	\$ 523,381
Net realized gains (losses) on securities	(115,133)	282,897
Gain on equity in joint ventures	186,842	492,547
Expenses	<u>(274,960)</u>	<u>(232,420)</u>
 Total	 <u>\$ 997,043</u>	 <u>\$ 1,066,405</u>

NOTE 16 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As part of its strategy to reduce the cost of borrowing related to its fixed rate CHEFA bonds, on November 1, 2003, the Corporation entered into 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 \$640,858 and \$680,539 as of September 30, 2015 and 2014, respectively, and 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*," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets, such as asbestos containing facilities, when the amount of the liability can be reasonably estimated. Management currently believes that certain facilities under their control could require a fair market value assessment of their Asset Retirement Obligation (ARO). As of September 30, 2015 and 2014, the Corporation has recorded an ARO related to asbestos contamination in buildings of \$604,800. Management will continue to monitor its exposure for asbestos removal, and adjust its ARO as necessary.

SUPPLEMENTAL INFORMATION

Bristol Hospital and Health Care Group
SUPPLEMENTAL CONSOLIDATING BALANCE SHEET
September 30, 2015

	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	\$ -	\$ 15,285,938	\$ 1,690,624	\$ 978,252	\$ 1,951,950	\$ -	\$ 19,906,764	\$ 601,614	\$ -	\$ 20,508,378
Accounts receivable, less allowances for doubtful accounts	-	16,471,779	382,749	-	1,539,863	-	18,394,391	1,352,113	-	19,746,504
Other receivables	-	2,818,801	-	2,926	114,609	-	2,936,336	346,610	-	3,282,946
Inventories	-	1,388,084	-	-	31,246	-	1,419,330	-	-	1,419,330
Estimated settlements from third-party payers	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	1,008,601	23,952	-	-	-	1,032,553	276,191	-	1,308,744
Debt service funds	-	347,671	-	-	253,449	-	601,120	-	-	601,120
Total current assets	-	37,320,874	2,097,325	981,178	3,891,117	-	44,290,494	2,576,528	-	46,867,022
Assets limited as to use:										
Funds held for malpractice self-insurance fund	-	4,418,234	-	-	-	-	4,418,234	-	-	4,418,234
Board designated investments	-	6,705,918	-	-	912,746	-	7,618,664	-	-	7,618,664
Other investments held by Foundation	-	-	-	1,834,813	-	-	1,834,813	-	-	1,834,813
Beneficial interest in assets held in trust by others	-	2,990,416	-	-	-	-	2,990,416	-	-	2,990,416
Funds held under bond indenture agreements	-	2,505,243	-	-	-	-	2,505,243	-	-	2,505,243
Interest in net assets of Foundation	-	6,033,606	-	-	9,071	(6,042,677)	-	-	-	-
Donor restricted investments	-	954,319	-	3,575,575	-	-	4,529,894	-	-	4,529,894
Total assets limited to use	-	23,607,736	-	5,410,388	921,817	(6,042,677)	23,897,264	-	-	23,897,264
Non-current assets:										
Long-term investments	-	6,496,418	-	-	-	-	6,496,418	-	-	6,496,418
Unamortized bond finance costs	-	925,972	-	-	105,967	-	1,031,939	-	-	1,031,939
Investment in joint ventures	-	614,503	-	-	-	-	614,503	-	-	614,503
Due from affiliates	-	2,528,802	-	-	-	(2,528,802)	-	-	-	-
Deferred expenses and other assets	-	287,821	-	-	-	-	287,821	-	-	287,821
Investment in subsidiaries	22,895,820	-	-	-	-	(22,642,662)	253,158	-	(253,158)	-
Total other assets	22,895,820	10,853,516	-	-	105,967	(25,171,464)	8,683,839	-	(253,158)	8,430,681
Property, plant and equipment:										
Land and land improvements	-	5,042,128	-	-	752,666	-	5,794,794	75,065	-	5,869,859
Buildings	-	67,804,901	-	-	9,859,833	-	77,664,734	-	-	77,664,734
Fixtures and equipment	-	91,594,927	1,578,041	5,969	1,580,836	-	94,759,773	2,019,463	-	96,779,236
	-	164,441,956	1,578,041	5,969	12,193,335	-	178,219,301	2,094,528	-	180,313,829
Less: accumulated depreciation	-	(124,849,240)	(1,290,478)	(5,969)	(9,728,150)	-	(135,873,837)	(1,248,087)	-	(137,121,924)
	-	39,592,716	287,563	-	2,465,185	-	42,345,464	846,441	-	43,191,905
Construction in progress	-	616,812	-	-	18,326	-	635,138	-	-	635,138
Property, plant and equipment, net	-	40,209,528	287,563	-	2,483,511	-	42,980,602	846,441	-	43,827,043
Total assets	\$ 22,895,820	\$111,991,654	\$ 2,384,888	\$ 6,391,566	\$ 7,402,412	\$ (31,214,141)	\$119,852,199	\$ 3,422,969	\$ (253,158)	\$ 123,022,010

(Continued)

Bristol Hospital and Health Care Group
SUPPLEMENTAL CONSOLIDATING BALANCE SHEET
September 30, 2015

	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	\$ -	\$ 11,966,693	\$ 168,174	\$ -	\$ 691,689	\$ -	\$ 12,826,556	\$ 218,107	\$ -	\$ 13,044,663
Accrued payroll and other accrued expenses	-	6,634,907	190,887	-	792,344	-	7,618,138	2,383,924	-	10,002,062
Estimated settlements to third-party payers	-	1,130,211	-	-	-	-	1,130,211	-	-	1,130,211
Accrued interest payable	-	-	-	-	59,879	-	59,879	-	-	59,879
Borrowings on line of credit and demand loan	-	1,800,000	-	-	-	-	1,800,000	-	-	1,800,000
Current portion of capital lease liabilities	-	690,414	-	-	-	-	690,414	-	-	690,414
Current portion of long-term debt	-	811,425	-	-	588,335	-	1,399,760	-	-	1,399,760
Total current liabilities	-	23,033,650	359,061	-	2,132,247	-	25,524,958	2,602,031	-	28,126,989
Other liabilities:										
Other accrued liabilities	-	6,770,777	586,354	348,889	781,889	-	8,487,909	567,780	-	9,055,689
Due to affiliates	-	-	324,793	-	2,204,009	(2,528,802)	-	-	-	-
Long-term capital lease liabilities										
less current portion	-	1,854,778	-	-	-	-	1,854,778	-	-	1,854,778
Long-term debt, less current portion	-	25,024,410	-	-	2,663,757	-	27,688,167	-	-	27,688,167
Accrued postretirement benefit liability	-	-	-	-	-	-	-	-	-	-
Asset retirement obligation	-	604,800	-	-	-	-	604,800	-	-	604,800
Accrued pension liability	-	32,795,767	-	-	-	-	32,795,767	-	-	32,795,767
Total liabilities	-	90,084,182	1,270,208	348,889	7,781,902	(2,528,802)	96,956,379	3,169,811	-	100,126,190
Net assets (deficit)	22,895,820	21,907,472	1,114,680	6,042,677	(379,490)	(28,685,339)	22,895,820	253,158	(253,158)	22,895,820
Total liabilities and net assets	\$ 22,895,820	\$111,991,654	\$ 2,384,888	\$ 6,391,566	\$ 7,402,412	\$ (31,214,141)	\$119,852,199	\$ 3,422,969	\$ (253,158)	\$ 123,022,010

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, 2015

	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	\$ -	\$ 135,540,204	\$ 3,821,691	\$ -	\$ 11,881,027	\$ -	\$ 151,242,922	\$ 18,382,488	\$ -	\$ 169,625,410
Provision for bad debts	-	(2,212,274)	(434,606)	-	-	-	(2,646,880)	(464,181)	-	(3,111,061)
Net patient service revenues less provision for bad debts	-	133,327,930	3,387,085	-	11,881,027	-	148,596,042	17,918,307	-	166,514,349
Other revenues:										
Other operating revenues	-	3,838,007	1,437,523	1,015,072	18,615	-	6,309,217	7,162,502	(7,153,741)	6,317,978
Net income on subsidiaries	(5,637,497)	-	-	-	-	5,896,068	258,571	-	(258,571)	-
Total other revenues	(5,637,497)	3,838,007	1,437,523	1,015,072	18,615	5,896,068	6,567,788	7,162,502	(7,412,312)	6,317,978
Total operating revenues	(5,637,497)	137,165,937	4,824,608	1,015,072	11,899,642	5,896,068	155,163,830	25,080,809	(7,412,312)	172,832,327
Operating expenses:										
Salaries, wages and fees	-	63,048,493	2,470,246	242,235	5,710,369	-	71,471,343	17,922,876	(4,329,103)	85,065,116
Supplies and other expenses	-	65,140,654	2,160,869	946,448	5,398,420	-	73,646,391	6,986,627	(2,824,638)	77,808,380
Depreciation and amortization	-	7,176,664	141,720	-	436,109	-	7,754,493	205,123	-	7,959,616
Provision for bad debts, net of recoveries	-	-	-	-	404,898	-	404,898	-	-	404,898
Interest expense	-	1,267,462	-	-	239,514	-	1,506,976	-	-	1,506,976
Total operating expenses	-	136,633,273	4,772,835	1,188,683	12,189,310	-	154,784,101	25,114,626	(7,153,741)	172,744,986
Gain (loss) from operations	(5,637,497)	532,664	51,773	(173,611)	(289,668)	5,896,068	379,729	(33,817)	(258,571)	87,341
Other income:										
Investment and other income, net	-	795,166	-	162,778	39,099	-	997,043	-	-	997,043
Excess of revenues over (under) expenses	\$ (5,637,497)	\$ 1,327,830	\$ 51,773	\$ (10,833)	\$ (250,569)	\$ 5,896,068	\$ 1,376,772	\$ (33,817)	\$ (258,571)	\$ 1,084,384

(Continued)

Bristol Hospital and Health Care Group
SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
For the Year Ended September 30, 2015

	Bristol Hospital and Health Care	Bristol Hospital,	Bristol Hospital	Bristol Hospital Development	Bristol Health Care, Inc.		Combined Obligated	Bristol Hospital Multi-Specialty		
	<u>Group</u>	<u>Incorporated</u>	<u>EMS, LLC</u>	<u>Foundation, Inc.</u>	<u>and Subsidiary</u>	<u>Eliminations</u>	<u>Group</u>	<u>Group, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net assets released from restrictions for capital acquisitions	-	-	-	-	-	-	-	-	-	-
Net unrealized losses on investments	-	(910,541)	-	(329,474)	(58,940)	-	(1,298,955)	-	-	(1,298,955)
Transfer from Hospital to affiliates	-	(292,388)	-	-	-	-	(292,388)	292,388	-	-
Change in interest in net assets of the Foundation	-	(340,308)	-	-	-	340,308	-	-	-	-
Transfers of net assets	-	-	-	-	-	-	-	-	-	-
Pension changes other than net periodic benefit costs	-	(5,842,926)	-	-	-	-	(5,842,926)	-	-	(5,842,926)
Changes in postretirement health and welfare benefits other than net periodic benefit costs	-	420,000	-	-	-	-	420,000	-	-	420,000
Change in unrestricted net assets	(5,637,497)	(5,638,333)	51,773	(340,307)	(309,509)	6,236,376	(5,637,497)	258,571	(258,571)	(5,637,497)
Change in temporarily restricted net assets	(603,002)	(586,034)	-	(308,533)	(16,968)	911,535	(603,002)	-	-	(603,002)
Change in permanently restricted net assets	(295,116)	(295,116)	-	-	-	295,116	(295,116)	-	-	(295,116)
Change in net assets	(6,535,615)	(6,519,483)	51,773	(648,840)	(326,477)	7,443,027	(6,535,615)	258,571	(258,571)	(6,535,615)
Net assets at beginning of year	29,431,435	28,426,955	1,062,907	6,691,517	(53,013)	(36,128,366)	29,431,435	(5,413)	5,413	29,431,435
Net assets (deficit) at end of year	\$ 22,895,820	\$ 21,907,472	\$ 1,114,680	\$ 6,042,677	\$ (379,490)	\$ (28,685,339)	\$ 22,895,820	\$ 253,158	\$ (253,158)	\$ 22,895,820

See accompanying independent auditors' report.