

Bristol Hospital, Incorporated

Independent Auditors' Report and
Financial Statements

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



Saslow Lufkin & Buggy, LLP
Accounting · Tax · Advisory

Bristol Hospital, Incorporated
Independent Auditors' Report and Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	2
Statements of Operations and Changes in Net Assets.....	3
Statements of Cash Flows	5
Notes to Financial Statements	6



Independent Auditors' Report

To the Board of Directors of
Bristol Hospital, Incorporated:

We have audited the accompanying financial statements of Bristol Hospital, Incorporated (the Hospital), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the 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 Hospital'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 financial statements.

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

Opinion

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

Saslow Lufkin & Buggy, LLP

December 15, 2014



Bristol Hospital, Incorporated
Balance Sheets
September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,617,245	\$ 12,810,191
Short-term investments	96,550	96,526
Accounts receivable, less allowance for doubtful accounts of \$4,499,778 (2014) and \$5,277,916 (2013)	17,715,144	16,887,452
Other receivables	2,785,093	2,653,347
Inventories of supplies	1,413,639	1,445,186
Estimated settlements with third-party payers	581,194	2,757,898
Prepaid expenses	947,594	808,566
Debt service funds	394,825	444,904
Total current assets	37,551,284	37,904,070
Assets limited as to use:		
Funds held for malpractice self-insurance fund	5,597,992	6,934,622
Board designated investments	6,835,761	6,966,473
Beneficial interest in assets held in trust by others	3,285,532	3,220,623
Funds held under bond indenture agreements, Series B Bonds	2,506,471	2,506,471
Interest in net assets of Foundation	6,665,478	6,180,143
Donor restricted investments	1,140,058	1,154,124
Total assets limited as to use	26,031,292	26,962,456
Other assets:		
Long-term investments	6,665,386	6,800,181
Investments in joint ventures	764,613	969,890
Due from affiliates	2,986,089	1,022,462
Deferred expenses and other assets	286,346	476,307
Unamortized bond finance costs	981,539	1,037,107
Total other assets	11,683,973	10,305,947
Property, plant and equipment:		
Land and land improvements	4,009,071	4,009,071
Buildings	64,881,894	59,603,461
Fixtures and equipment	86,560,455	83,654,370
Construction in progress	1,942,559	3,256,357
	157,393,979	150,523,259
Less: accumulated depreciation	118,322,799	111,762,978
	39,071,180	38,760,281
Total assets	\$ 114,337,729	\$ 113,932,754
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 12,409,451	\$ 12,607,684
Accrued payroll and other accrued expenses	11,289,636	10,500,617
Borrowings on line of credit and demand loan	2,900,000	3,125,000
Current portion of long-term debt	684,763	662,492
Total current liabilities	27,283,850	26,895,793
Other accrued liabilities	8,805,650	9,667,590
Long-term debt, less current portion	25,576,658	26,298,523
Accrued postretirement benefit liability	170,972	5,310,964
Asset retirement obligation	604,800	604,800
Accrued pension liability, less current portion	23,468,844	18,682,813
Total liabilities	85,910,774	87,460,483
Net assets:		
Unrestricted	17,633,376	15,896,282
Temporarily restricted	3,708,091	3,555,410
Permanently restricted	7,085,488	7,020,579
Total net assets	28,426,955	26,472,271
Total liabilities and net assets	\$ 114,337,729	\$ 113,932,754

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

Bristol Hospital, Incorporated
Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Net patient service revenues	\$ 141,984,205	\$ 131,717,516
Provision for bad debts	(4,007,799)	(4,909,425)
Net patient service revenues less provision for bad debts	137,976,406	126,808,091
Other operating revenues	4,301,391	4,242,269
Total operating revenues	142,277,797	131,050,360
Operating expenses:		
Salaries, wages and fees	62,917,346	59,480,579
Supplies and other expenses	70,284,720	62,437,776
Depreciation and amortization	6,614,415	6,363,743
Interest expense	1,412,468	1,421,576
Total operating expenses	141,228,949	129,703,674
Gain from operations	1,048,848	1,346,686
Non-operating income	1,263,862	844,070
Excess of revenues over expenses	\$ 2,312,710	\$ 2,190,756

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

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

	2014	2013
Unrestricted net assets:		
Excess of revenues over expenses	\$ 2,312,710	\$ 2,190,756
Net change in unrealized (losses) gains on investments	(626,654)	486,296
Transfer to Bristol Hospital Development Foundation	-	(1,473,516)
Transfer to Bristol Health Care, Inc.	-	(1,414,373)
Transfer from (to) Bristol Hospital Multispecialty Group	470,637	(472,971)
Change in interest in net assets of Foundation	318,588	(45,099)
Net assets released from restrictions for capital acquisitions	175,459	3,024,686
Pension changes other than net periodic benefit costs	(6,242,251)	12,746,301
Changes in postretirement health and welfare benefits other than net periodic benefit costs	5,307,399	1,933,951
Other transfers	21,206	24,000
	1,737,094	17,000,031
Temporarily restricted net assets:		
Change in interest in net assets of Foundation	342,206	1,740,267
Net change in unrealized (losses) gains on investments	(37,671)	32,348
Contributions	23,605	-
Net assets released from restrictions	(175,459)	(3,024,686)
	152,681	(1,252,071)
Permanently restricted net assets:		
Other transfers	-	(24,000)
Change in assets held in trust by others	64,909	116,976
	64,909	92,976
Change in net assets	1,954,684	15,840,936
Net assets, beginning of year	26,472,271	10,631,335
Net assets, end of year	\$ 28,426,955	\$ 26,472,271

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

Bristol Hospital, Incorporated
Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 1,954,684	\$ 15,840,936
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,614,415	6,363,743
Provision for bad debts	4,007,799	4,909,425
Transfer (from) to affiliates	(470,637)	3,360,860
Change in assets held in trust by others	(64,909)	(116,976)
Net realized and unrealized losses (gains) on investments	410,485	(518,692)
Change in net assets of the Foundation	(485,335)	528,422
Accrued pension and postretirement liabilities	934,852	(14,680,252)
Changes in assets and liabilities:		
Accounts receivable	(4,835,491)	(5,234,734)
Other receivables	(131,746)	2,346,125
Inventories of supplies	31,547	147,036
Estimated settlements with third-party payers	2,176,704	(793,823)
Prepaid expenses	(139,028)	3,075
Due from affiliates	(1,963,627)	2,119,635
Deferred expenses and other assets	189,961	(138,010)
Trade accounts payable	(198,233)	2,631,884
Accrued payroll and other accrued expenses	789,019	(2,421,897)
Other accrued liabilities	(861,940)	149,007
Asset retirement obligation	-	(1,511,481)
Accrued pension and postretirement liabilities	(1,288,813)	1,076,638
Net cash provided by operating activities	6,669,707	14,060,921
Cash flows from investing activities:		
Additions to property, plant and equipment	(6,870,720)	(7,303,929)
Purchases of investments	(263,836)	(68,858)
Sales of investments	133,874	79,331
Changes in debt service funds	50,079	14,028
Change in investments in joint ventures	205,277	(36,301)
Changes in funds held for malpractice self insurance fund, net	1,336,630	(144,471)
Net cash used in investing activities	(5,408,696)	(7,460,200)
Cash flows from financing activities:		
Repayments and borrowings of long-term debt, net	(699,594)	443,881
Transfer from (to) affiliates	470,637	(3,360,860)
Payments on line of credit and demand loan	(225,000)	(250,000)
Net cash used in financing activities	(453,957)	(3,166,979)
Net change in cash and cash equivalents	807,054	3,433,742
Cash and cash equivalents at beginning of year	12,810,191	9,376,449
Cash and cash equivalents at end of year	\$ 13,617,245	\$ 12,810,191

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

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 1 - General

Organization - Bristol Hospital, Incorporated (the Hospital), a not-for-profit, non-stock corporation incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Bristol Hospital and Health Care Group (BHHCG). BHHCG is the sole member of the Hospital, Bristol Hospital Development Foundation, Inc. (BHDF or the Foundation), Bristol Health Care, Inc. and Subsidiary (BHC), Bristol Hospital EMS, LLC (EMS) and Bristol Hospital Multispecialty Group (BHMSG). The Board of BHHCG elects the Hospital's Board of Directors, which manages the properties and affairs of the Hospital.

The Foundation was formed as a non-profit corporation for the purpose of raising funds for the Hospital and other members of BHHCG. The Foundation is a subsidiary of BHHCG and its Board of Directors is appointed by BHHCG. The Foundation also holds certain endowment funds on behalf of the Hospital. These endowment funds are reflected by the Hospital as an interest in the net assets of the Foundation, within the net asset categories of the Hospital and on the balance sheets. Assets held by the Foundation in which the Hospital has a net interest in are classified by the Hospital within the applicable net asset class. Increases or decreases in the Hospital's interest in the net assets of the Foundation are reflected in the statements of operations and changes in net assets within the applicable net asset categories.

Note 2 - Summary of Significant Accounting Policies

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

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

Use of Estimates - The preparation of 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 financial statements. Estimates also impact the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Hospital's significant estimates relate to the allowance for doubtful accounts and contractual allowances on patient accounts receivable, valuation of investments, estimated settlements due to third-party payers, reserves for self-insurance liabilities and the pension and other postretirement employee benefit plan liability assumptions.

Cash and Cash Equivalents - The Hospital considers all highly liquid investments with maturities of ninety days 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). 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 one bank including one investment bank sponsored money market fund and from time to time cash balances exceed FDIC limits. It is the Hospital's policy to monitor the bank's financial strength on an ongoing basis.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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 interest in net assets of 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.

Investments - The Hospital 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 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 Hospital's investments as of September 30, 2014 and 2013, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value. Realized gains and losses, relating to available for sale securities, determined on the specific identification basis, along with interest and dividend income, are reported as a component of non-operating income on the 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 financial statements.

Other Than Temporary Impairment of Investments - The Hospital 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 Hospital'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 Hospital's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

No impairment losses were recognized in 2014 and 2013.

Property, Plant and Equipment - Property, plant and equipment is recorded at cost or, if received as a donation, at the fair value on the date received. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their useful lives. Useful lives assigned to assets are as follows: Land improvements - 2 to 25 years; Leasehold improvements - 15 to 20 years; Buildings - 15 to 40 years; and Fixtures and equipment - 3 to 20 years. For the years ended September 30, 2014 and 2013, depreciation expense amounted to \$6,559,821 and \$6,309,149, respectively.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Donor Restricted Gifts - Unconditional promises to give cash and other assets to the Hospital 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 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 statements of operations and changes in net assets.

Assets Held in Trust by Others - The Hospital has been named sole or participating beneficiary in several perpetual trusts. Under the terms of these trusts, the Hospital 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 Hospital is recorded at the fair value of the assets held in the trust by others. Fluctuations in the value of such assets are recognized as changes in permanently restricted net assets.

Board Restricted Endowment - As of September 30, 2014 and 2013, the Hospital has \$6,835,761 and \$6,966,473, 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.

Bond Financing Costs - Costs incurred with debt financings are capitalized and are being amortized on a straight-line basis over the life of the debt. Amortization expense on bond financing costs was \$54,594, for the years ended September 30, 2014 and 2013.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

EHR Incentive Payment Revenue - The American Recovery and Reinvestment Act of 2009 authorized the Centers for Medicare and Medicaid Services (CMS) to award incentive payments to eligible health care providers who demonstrate Meaningful Use of certified electronic health records (EHR). These incentive programs are designed to support providers in this period of health information technology transition and instill the use of EHRs in meaningful ways to help our nation to improve the quality, safety and efficiency of patient health care. As of September 30, 2014 and 2013, the Hospital has recorded EHR meaningful use revenue of \$580,499 and \$1,000,075, respectively, which is included in other operating revenues on the statements of operations and changes in net assets.

Income Taxes - The Hospital 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 and state income taxes on related income pursuant to Section 501(a) of the Code.

The Hospital 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 Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as September 30, 2014 and 2013. It is the Hospital's policy to record penalties and interest associated with uncertain tax provisions as a component of operating expenses. As of September 30, 2014 and 2013, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital's prior three tax years are open and subject to examination by the Internal Revenue Service.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

Malpractice, General and Workers’ Compensation Self-Insurance - The Hospital maintains self-insurance coverage for medical malpractice, general liability and workers’ compensation insurance. Reference is made in Note 12 and Note 13. The Hospital has continually maintained a liability for reserves relating to these coverages. These liabilities are recorded within other accrued liabilities on the balance sheets. The liability for malpractice insurance includes an estimated incurred but not reported claim reserve. The Hospital has recorded an additional liability and related recoverable from their commercial insurers relating to estimated reserves in excess of the self-insured layer. These amounts are recorded as increases under the captions “other receivables” and “other accrued liabilities” in the accompanying balance sheets by \$2,290,000 and \$2,400,000 as of September 30, 2014 and 2013, respectively. The increases represent the Hospital’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 in excess of the self-insured retention.

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

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

Note 3 - Revenues from Services to Patients and Charity Care

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

	<u>2014</u>	<u>2013</u>
Gross revenues from service to patients	\$ 453,092,171	\$ 427,704,210
Deductions and exclusions:		
Allowances	306,577,343	290,680,238
Charity care	<u>4,530,623</u>	<u>5,306,456</u>
Net revenues from service to patients	<u>\$ 141,984,205</u>	<u>\$ 131,717,516</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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

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

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

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

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

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

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

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue based on its discounted rates. On the basis of historical experience, a significant portion of the Hospital'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.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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

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

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts. This would generally be for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill, the Hospital 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 Hospital offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Hospital's allowance for doubtful accounts covers approximately 98% and 89% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively. The Hospital's allowance for doubtful accounts covers 100% and 91% of accounts greater than 150 days for both self-pay accounts receivable and third party payers as of September 30, 2014 and 2013, respectively. The Hospital's total write-offs amounted to \$5,749,826 and \$5,988,770 for 2014 and 2013, respectively.

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity care patient by reference to established policies. During 2012, the Hospital amended its charity care policy providing for more offered charity care. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, generally recognized annual poverty income guidelines published in the Federal Register are utilized, but also included are certain cases where incurred charges are significant when compared to income. For the years ended September 30, 2014 and 2013, the Hospital granted charity care charges of \$4,530,623 and \$5,306,456, respectively. The Hospital did not change its charity care or financial assistance policy during 2014 or 2013.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 4 - Investments

The Hospital has investments carried on the balance sheets within assets held in trust under bond indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA or the Authority), funds held within a malpractice self insurance fund, assets held in trust by others, board designated investments, long-term investments and temporary and permanently donor restricted investments. Cost and fair values of investments, as of September 30, 2014 and 2013, are summarized as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Debt Service Funds:				
U.S. treasury obligations	<u>\$ 394,825</u>	<u>\$ 394,825</u>	<u>\$ 444,904</u>	<u>\$ 444,904</u>
Assets Limited as to Use:				
Board designated investments:				
Cash and interest bearing accounts	\$ 954,890	\$ 954,890	\$ 5,427,833	\$ 5,427,833
Equity mutual funds	6,173,749	5,815,095	1,237,945	1,474,134
Fixed income mutual funds	<u>66,318</u>	<u>65,776</u>	<u>65,158</u>	<u>64,506</u>
Total	<u>\$ 7,194,957</u>	<u>\$ 6,835,761</u>	<u>\$ 6,730,936</u>	<u>\$ 6,966,473</u>
Held for malpractice self insurance fund:				
Cash and money market funds	\$ 23,884	\$ 23,884	\$ 103,233	\$ 103,233
Corporate and foreign bonds	1,289,440	1,301,084	1,173,478	1,192,084
Preferred equity securities	65,556	85,988	154,206	154,053
Equity mutual funds	1,301,586	1,748,696	1,698,955	2,130,376
Fixed income mutual funds	<u>2,442,242</u>	<u>2,438,340</u>	<u>3,388,916</u>	<u>3,354,876</u>
Total	<u>\$ 5,122,708</u>	<u>\$ 5,597,992</u>	<u>\$ 6,518,788</u>	<u>\$ 6,934,622</u>
Held by trustee under bond indenture agreement:				
U.S. treasury obligations	<u>\$ 2,506,471</u>	<u>\$ 2,506,471</u>	<u>\$ 2,506,471</u>	<u>\$ 2,506,471</u>
Long-term Investments:				
Cash and interest bearing accounts	\$ 1,116,120	\$ 1,116,120	\$ 5,655,564	\$ 5,655,564
Equity mutual funds	<u>5,348,704</u>	<u>5,549,266</u>	<u>815,013</u>	<u>1,144,617</u>
Total	<u>\$ 6,464,824</u>	<u>\$ 6,665,386</u>	<u>\$ 6,470,577</u>	<u>\$ 6,800,181</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 4 - Investments (continued)

Beneficial interest assets held in trust by others of \$3,285,532 and \$3,220,623, as of September 30, 2014 and 2013, respectively, are held by bank trustees and are not under the Hospital's investment control. These assets are invested within diversified portfolios.

As of September 30, 2014 and 2013, investment amounts not included in the aforementioned table include donor restricted investments in the amounts of \$1,140,058 and \$1,154,124, respectively, which are investments in mutual funds and are classified as temporarily and permanently restricted net assets. Also not included in the above table are cash and investments held within the Hospital's interest in the net assets of the Foundation. The Hospital has cash and investments totaling \$6,665,478 and \$6,180,143 held within the Foundation, of which \$3,405,814 are permanently restricted as of September 30, 2014 and 2013, respectively. Other temporarily restricted cash and investments and the Foundation's unrestricted net assets, which total \$3,259,664 and \$2,774,329 are included within the Hospital's interest in the Foundation, as of September 30, 2014 and 2013, respectively.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at September 30, 2014 and 2013:

	<u>Less than 12 months</u>		<u>12 months and greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
As of September 30, 2014:						
Corporate and foreign bonds	\$ 5,556,339	\$ (27,691)	\$ 709,325	\$ (4,075)	\$ 6,265,664	\$ (31,766)
Equity mutual funds	<u>10,691,590</u>	<u>(442,307)</u>	<u>12,655</u>	<u>(882)</u>	<u>10,704,245</u>	<u>(443,189)</u>
Total	<u>\$ 16,247,929</u>	<u>\$ (469,998)</u>	<u>\$ 721,980</u>	<u>\$ (4,957)</u>	<u>\$ 16,969,909</u>	<u>\$ (474,955)</u>
As of September 30, 2013:						
Corporate and foreign bonds	\$ 275,127	\$ (1,216)	\$ 49,543	\$ (457)	\$ 324,670	\$ (1,673)
Equity mutual funds	<u>2,173,364</u>	<u>(53,738)</u>	<u>6,221</u>	<u>(383)</u>	<u>2,179,585</u>	<u>(54,121)</u>
Total	<u>\$ 2,448,491</u>	<u>\$ (54,954)</u>	<u>\$ 55,764</u>	<u>\$ (840)</u>	<u>\$ 2,504,255</u>	<u>\$ (55,794)</u>

In 2014, investments with unrealized losses for greater than one year relate to 4 individual holdings in corporate and foreign bonds and mutual funds. There are 10 investments with unrealized losses for less than one year which are investments in corporate and foreign bonds and mutual funds.

In 2013, investments with unrealized losses for greater than one year relate to 2 individual holdings in corporate and foreign bonds and mutual funds. There are 19 investments with unrealized losses for less than one year which are investments in corporate and foreign bonds and mutual funds.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements

The following table presents the financial instruments, carried at fair value, as of September 30, 2014, by the valuation hierarchy. This table includes assets limited as to use, including the assets held within the Hospital's interest in the net assets of BHDF, and long-term investments:

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 5,309,169	\$ -	\$ -	\$ 5,309,169
Equities:				
Mutual Funds:				
U.S. large cap	1,289,366	-	-	1,289,366
U.S. mid cap	391,862	-	-	391,862
U.S. small cap	3,229,690	-	-	3,229,690
Internationally developed	8,912,429	-	-	8,912,429
Commodities	308,006	-	-	308,006
Public REIT	254,021	-	-	254,021
Emerging markets	300,416	-	-	300,416
Preferred equity securities	-	85,988	-	85,988
Domestic equity securities	-	1,492,506	-	1,492,506
Fixed Income:				
U.S. treasury obligations	-	2,901,295	-	2,901,295
Corporate and foreign bonds	-	1,301,091	-	1,301,091
Taxable fixed income mutual funds	-	3,465,286	-	3,465,286
Closed-end fixed income mutual funds	-	251,771	-	251,771
Internationally developed	-	78,479	-	78,479
Global high yield taxable	-	234,596	-	234,596
	<u>19,994,959</u>	<u>9,811,012</u>	<u>-</u>	<u>29,805,971</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>\$ 19,994,959</u>	<u>\$ 9,811,012</u>	<u>\$ 3,285,532</u>	<u>\$ 33,091,503</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments, carried at fair value, as of September 30, 2013, by the valuation hierarchy. This table includes assets limited as to use, including the assets held within the Hospital's interest in the net assets of BHDF, and long-term investments:

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 16,060,758	\$ -	\$ -	\$ 16,060,758
Equities:				
Mutual Funds:				
U.S. large cap	536,987	-	-	536,987
U.S. mid cap	165,288	-	-	165,288
U.S. small cap	3,389,237	-	-	3,389,237
Internationally developed	479,000	-	-	479,000
Closed-end	223,789	-	-	223,789
Commodities	104,001	-	-	104,001
Public REIT	89,594	-	-	89,594
Emerging markets	113,913	-	-	113,913
Preferred equity securities	-	154,053	-	154,053
Domestic equity securities	-	1,593,825	-	1,593,825
Fixed Income:				
U.S. treasury obligations	-	2,951,375	-	2,951,375
Corporate and foreign bonds	-	1,192,084	-	1,192,084
Taxable fixed income mutual funds	-	3,240,119	-	3,240,119
Closed-end fixed income mutual funds	-	347,784	-	347,784
Internationally developed	-	266,157	-	266,157
Global high yield taxable	-	78,954	-	78,954
	<u>21,162,567</u>	<u>9,824,351</u>	<u>-</u>	<u>30,986,918</u>
Beneficial interest in assets held in trust by others	<u>-</u>	<u>-</u>	<u>3,220,623</u>	<u>3,220,623</u>
Total	<u>\$ 21,162,567</u>	<u>\$ 9,824,351</u>	<u>\$ 3,220,623</u>	<u>\$ 34,207,541</u>

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

Balance as of October 1, 2012	\$ 3,103,647
Investment activity, net	(135,399)
Net change in market value	<u>252,375</u>
Balance as of September 30, 2013	3,220,623
Investment activity, net	(67,265)
Net change in market value	<u>132,174</u>
Balance as of September 30, 2014	<u>\$ 3,285,532</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

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

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

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

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

The Hospital evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. There were no significant transfers in or out of Levels 1, 2, or 3 during 2014 and 2013.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

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

Note 6 - Net Assets and Endowments

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

	<u>2014</u>	<u>2013</u>
Library operations and improvements	\$ 745,916	\$ 759,982
Healthcare services - Foundation	<u>2,962,175</u>	<u>2,795,428</u>
Total	<u>\$ 3,708,091</u>	<u>\$ 3,555,410</u>

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

	<u>2014</u>	<u>2013</u>
Held in perpetuity, income restricted for healthcare services - Foundation	\$ 3,405,814	\$ 3,405,814
Other donor restricted investments	394,142	394,142
Beneficial interest in assets held in trust by others	<u>3,285,532</u>	<u>3,220,623</u>
Total	<u>\$ 7,085,488</u>	<u>\$ 7,020,579</u>

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

The Hospital 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 Hospital during its annual budgeting process.

The Board of Directors of the Hospital 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 Hospital 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 Hospital; and (7) the investment policies of the Hospital.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 6 - Net Assets and Endowments (continued)

The Hospital 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 Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

During its annual budgeting process, the Hospital appropriates donor restricted endowment funds and other restricted assets for expenditure in accordance with donor purpose and time restrictions. The Hospital has appropriated \$175,459 and \$3,024,686 of funds for expenditure from its temporarily restricted endowment funds and other net assets for the years ending September 30, 2014 and 2013, respectively. The Hospital appropriated \$23,405 and \$5,786 of funds for expenditure from the Hospital's Board restricted endowment funds for the years ended September 30, 2014 and 2013, respectively. The Board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

Changes in net assets for endowments and other restricted assets for the years ended September 30, 2014 and 2013, are as follows:

<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2013	\$ 6,966,473	\$ 3,555,410	\$ 7,020,579	\$ 17,542,462
Investment return:				
Investment income	227,591	-	-	227,591
Net change in market value	(334,898)	304,535	64,909	34,546
Contributions	-	23,605	-	23,605
Expenditures	(23,405)	(175,459)	-	(198,864)
Balance at September 30, 2014	<u>\$ 6,835,761</u>	<u>\$ 3,708,091</u>	<u>\$ 7,085,488</u>	<u>\$ 17,629,340</u>

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 6 - Net Assets and Endowments (continued)

<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2012	\$ 6,662,023	\$ 4,807,481	\$ 6,927,603	\$ 18,397,107
Investment return:				
Investment income	81,846	-	-	81,846
Net change in market value	228,390	1,772,615	116,976	2,117,981
Transfers	-	-	(24,000)	(24,000)
Expenditures	(5,786)	(3,024,686)	-	(3,030,472)
Balance at September 30, 2013	<u>\$ 6,966,473</u>	<u>\$ 3,555,410</u>	<u>\$ 7,020,579</u>	<u>\$ 17,542,462</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 Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2014 and 2013, the Hospital's interest in the permanently restricted investment in donor restricted endowment funds did not drop below the amount required to be retained in perpetuity. Therefore, there were no reductions to unrestricted net assets.

Note 7 - Leases

The Hospital leases property and equipment under non-cancelable operating leases that expire in various years through fiscal year 2019. Certain leases may be renewed at the end of their term. In 2012, the Hospital entered into a new lease agreement for equipment. This lease has been classified as a capital lease under the lease arrangement. Payments are due monthly in the amount of \$9,694 per month. Amounts due are included in other liabilities on the balance sheet. Future minimum payments under non-cancelable capital and operating leases with initial terms of one year or more consisted of the following as of September 30, 2014:

	<u>Capital Lease</u>	<u>Operating Leases</u>
2015	\$ 116,330	\$ 355,988
2016	116,330	173,991
2017	-	173,991
2018	-	173,991
2019	-	173,991
Thereafter	-	173,991
Total	<u>\$ 232,660</u>	<u>\$ 1,225,943</u>

Rental expense on operating leases was approximately \$1,476,000 and \$1,553,000 for the years ended September 30, 2014 and 2013, respectively.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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, which includes, the Hospital, BHC, EMS and the 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 3.0 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 30th and December 31st.

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, in fiscal 2008, the Obligated Group was required to deposit \$2,678,000 into a separate debt service reserve fund as well as amend the Series B Loan Agreement to conform to the terms and conditions of the forbearance agreement. In 2009, the required separate debt service reserve fund was returned and no longer required based on conditions of the forbearance agreement being met.

In January 2008, the CHEFA Loan Agreement and related Trust Indenture were amended. The amended agreement requires the debt service coverage ratio to be not less than 1.35 to 1 and the days cash on hand to be not less than 70 days. The Obligated Group, for the years ended September 30, 2014 and 2013, is in compliance with the terms of the forbearance agreement, the amended Series B Loan Agreement and the 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, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 8 - Long-Term Debt (continued)

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

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

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

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

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

On May 28, 2004, the Hospital purchased a building in Bristol, 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 at September 30, 2014 and 2013 is \$281,909 and \$290,136, respectively.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 8 - Long-Term Debt (continued)

On July 24, 2007, the Hospital financed an existing building for \$1,400,000. The term of the mortgage note is for twenty years. The initial interest rate is 6.38%, fixed for five years, and then changing on each fifth year anniversary to the then current interest rate paid on the FHLB Five Year Classic Advance Rate plus 1.25%. The balance outstanding as of September 30, 2014 and 2013 is \$1,053,912 and \$1,121,289, respectively.

On July 16, 2010, the Hospital entered into a commercial mortgage loan with United Bank in the amount of \$850,000 as part of a purchase and refinance of a medical office building. The term of the mortgage is for fifteen years. Initial monthly payments on the loan for the first five years are \$7,173 and are subject to change based on the following adjustment to the interest rate. The initial interest rate is 6%, fixed for five years, and then changing on each fifth year anniversary to the then current FHLB Classic Advance Rate plus 2.50%. The balance outstanding as of September 30, 2014 and 2013 was \$687,856 and \$730,652, respectively.

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

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

As of September 30, 2014 and 2013, the Hospital is in compliance with all financial covenants related to previously noted debt.

Below is a summary of the Hospital's annual principal long-term debt payments due subsequent to September 30, 2014, as described above:

2015	\$ 684,763
2016	724,902
2017	751,651
2018	785,201
2019	755,275
Thereafter	<u>22,211,818</u>
Total	<u><u>\$ 25,913,610</u></u>

Interest paid for the years ended September 30, 2014 and 2013 was \$1,403,840 and \$1,426,491, respectively.

Note 9 - Pension Plan and Postretirement Health Benefits

Pension Plan - The Hospital and BHC have a defined benefit pension plan (the Plan) covering substantially all of its and 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, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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

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

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

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

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

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

Pension Plan Amendments - Effective October 1, 2003, the formula for calculating benefits under the Plan was changed, on a prospective basis, to calculate accumulated benefits based on each eligible participant's annual compensation in each Plan year versus each eligible participant's five-year average compensation for each plan year. Benefits earned by plan participants prior to September 30, 2003, under the old benefit formulation, remain unchanged.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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

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

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

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

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

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

	<u>2014</u>	<u>2013</u>
Discount rate	5.25%	4.25%
Expected return on plan assets	8.50%	9.00%

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

The Plan's target and actual weighted-average asset allocations as of September 30, 2014 and 2013, by asset category, are as follows:

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

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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

The fair values of the Hospital's pension plan assets, by asset category, are as follows for the years ended September 30, 2014 and 2013:

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

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

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

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

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

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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

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

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

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

Amounts recognized in the balance sheets, are as follows:

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

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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

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

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

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

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

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

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

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

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

The Hospital expects to contribute \$249,028 to its Medical Plan in 2015 which is accrued within accrued payroll and other accrued expenses on the balance sheet.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

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

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

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

Note 10 - Other Employee Benefit Plans

The Hospital's employees are eligible to participate in a 403(b) plan, which requires that employees work a minimum 1,000 hours per year beginning on January 1 to remain eligible. Employees are eligible to participate at their hire date and must be employed on December 31 to receive employer contributions. As of September 30, 2014 and 2013, the Hospital 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 balance sheets. The Hospital incurred \$413,562 and \$159,489 of expense related to its 403(b) plan for the years ended September 30, 2014 and 2013, respectively.

Note 11 - Amounts Due From Affiliates and Related Parties

The Hospital provided rental space to related entities. The revenues included in other operating revenues and were approximately \$335,000 and \$308,000 in 2014 and 2013, respectively.

The Hospital sent approximately \$0 and \$896,249 of patient accounts receivable to a related collection agency in 2014 and 2013, respectively. During 2014, the Hospital no longer submitted claims to its collection agency.

The following are the balances due from affiliates as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Bristol Health Care, Inc. and Subsidiary	\$ 1,848,983	\$ 471,457
Bristol Hospital Development Foundation	964,565	491,172
Bristol Hospital EMS, LLC	<u>172,541</u>	<u>59,833</u>
Total	<u>\$ 2,986,089</u>	<u>\$ 1,022,465</u>

As of September 30, 2014 and 2013, the Hospital forgave \$0 and \$3,360,860 of amounts due from affiliates through an equity transfer. As of September 30, 2014, BHMSG forgave \$470,637 of amounts due from the Hospital through an equity transfer.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 12 - Malpractice and General Insurance

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

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

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

Note 13 - Self-Insurance of Workers' Compensation

The Hospital self-insures workers' compensation claims with a retention of the first \$350,000 per claim. The Hospital 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 Hospital's third-party administrator and accrued based upon estimates that incorporate the Hospital's past experience, as well as the nature of each claim or incident and relevant trend factors. The Hospital's year-end workers' compensation reserve, as estimated by third-party administrator and the Hospital's management in conjunction with its independent actuaries, is included in other accrued liabilities on the balance sheets and is discounted at 3.0% in 2014 and 2013, respectively. The balances as of September 30, 2014 and 2013 are \$1,527,872 and \$1,233,267, respectively.

Note 14 - Contingencies

Malpractice claims that fall within the Hospital's malpractice insurance have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through September 30, 2014 and 2013 that may result in the assertion of additional claims. Hospital management has accrued its best estimate of these contingent losses.

The Hospital 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 balance sheets, statements of operations and changes in net assets or cash flows.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 15 - Functional Expenses and Non-operating Income

The Hospital provides general health care services to residents primarily within their geographic location. Functional expenses related to their operating activities for the fiscal years ended September 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Healthcare services	\$ 116,716,054	\$ 107,191,204
General and administrative	<u>24,512,895</u>	<u>22,512,470</u>
Total	<u>\$ 141,228,949</u>	<u>\$ 129,703,674</u>

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

	<u>2014</u>	<u>2013</u>
Investment and interest income	\$ 364,945	\$ 288,208
Realized gains on sales of investments	406,370	48
Gain on equity investments	<u>492,547</u>	<u>555,814</u>
Total non-operating income	<u>\$ 1,263,862</u>	<u>\$ 844,070</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 Hospital 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 Hospital 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 Hospital 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 Hospital’s operating indicator as the effective or ineffective portion of the hedge.

In March 2007, the swap was terminated and the Hospital received a payment of \$40,000, net of commission. The remaining offsetting adjustment to debt that arose from the historical swap accounting to book the fair value of the debt of \$680,539 is being amortized as an element of interest expense over the remaining life of the debt.

Bristol Hospital, Incorporated
Notes to the Financial Statements
As of and For the Years Ended September 30, 2014 and 2013

Note 17 - Asset Retirement Obligations

FASB ASC 410, “*Asset Retirement and Environmental Obligations*,” was issued in March 2005. This guidance provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. The Hospital has recorded an asset retirement obligation related to asbestos contamination in buildings of \$604,800 as of September 30, 2014 and 2013. Management reduced this liability during 2013 by \$1,511,481 based on funds spent during the remediation process.