

# Eastern Connecticut Health Network, Inc. and Subsidiaries

Independent Auditors' Report,  
Consolidated Financial Statements and  
Supplemental Information

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



Saslow Lufkin & Buggy, LLP  
*Certified Public Accountants and Consultants*

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**and Supplemental Information**  
**As of and for the Years Ended September 30, 2012 and 2011**

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Independent Auditors' Report

To the Board of Trustees of  
Eastern Connecticut Health Network, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Eastern Connecticut Health Network, Inc. and Subsidiaries (the Network) a not-for-profit, non-stock corporation, as of September 30, 2012 and 2011 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Network's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Connecticut Healthcare Insurance Company, a wholly owned subsidiary, whose statements reflect total assets of \$10,802,509 and \$8,858,307, respectively, as of September 30, 2012 and 2011, and total revenues of \$2,299,700 and \$2,833,383, respectively, for the years then ended. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Connecticut Healthcare Insurance Company, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Connecticut Health Network, Inc. and Subsidiaries as of September 30, 2012 and 2011, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Saslow Lufkin & Buggy, LLP*

December 18, 2012

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**September 30, 2012 and 2011**

	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 20,052,067	\$ 20,991,180
Current portion of assets whose use is limited	5,435,445	1,504,988
Accounts receivable, less allowance for bad debts of \$10,509,985 in 2012 and \$7,209,985 in 2011	46,711,255	39,643,428
Inventory	4,253,600	4,228,568
Current portion of estimated settlements due from third-party payers	4,402,920	432,832
Prepaid expenses and other current assets	5,020,607	4,345,929
Total current assets	85,875,894	71,146,925
Assets whose use is limited, net of current portion:		
Donor restricted investments	6,971,970	6,084,582
Board designated investments	26,269,872	19,558,790
Investments held in trust for estimated self-insurance liabilities	8,844,698	8,891,170
Beneficial interest in trust assets	7,400,782	6,688,165
Investments held under bond indentures	4,941,820	5,900,811
Total assets whose use is limited, net of current portion	54,429,142	47,123,518
Investments	21,510,816	16,944,697
Investments in joint ventures	13,500,324	16,969,568
Property, plant and equipment - net	96,295,455	96,189,597
Other assets:		
Estimated settlements due from third-party payers, net of current portion	-	3,163,284
Goodwill and intangible assets, net	6,463,106	5,243,142
Other, net	5,215,388	5,508,958
Total other assets	11,678,494	13,915,384
Total assets	\$ 283,290,125	\$ 262,289,689
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 30,730,676	\$ 23,210,287
Lines of credit	6,500,000	8,272,642
Current portion of long-term debt and capital lease obligations	6,904,354	5,652,447
Current portion of estimated settlements due to third-party payers	2,793,775	2,104,534
Current portion of accrued pension and other postretirement benefits	3,897,164	11,329,346
Other current liabilities	8,153,373	5,700,671
Total current liabilities	58,979,342	56,269,927
Long-term debt and capital lease obligations, net of current portion	87,541,749	86,635,165
Estimated self-insurance liabilities	9,521,697	6,311,338
Accrued pension and other postretirement benefits	74,618,608	56,772,305
Estimated settlements due to third-party payers, net of current portion	82,500	335,416
Total liabilities	231,688,864	207,128,032
Net assets:		
Unrestricted	36,549,384	41,815,956
Temporarily restricted	3,243,522	2,249,963
Permanently restricted	11,808,355	11,095,738
Total net assets	51,601,261	55,161,657
Total liabilities and net assets	\$ 283,290,125	\$ 262,289,689

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**For the Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Revenues:		
Net patient service revenues	\$ 277,042,997	\$ 261,348,876
Contributions	2,243,112	732,256
Other revenues	17,532,328	17,132,518
EHR incentive payment revenue	3,833,172	975,412
Contribution of VNHSC	4,592,459	-
Net assets released from restrictions used for operations	638,113	801,123
Total revenues	<b>305,882,181</b>	280,990,185
Expenses:		
Salaries and wages	139,915,729	134,218,139
Fringe benefits	40,155,469	35,696,855
Supplies and other expenses	93,804,618	83,802,696
Provision for bad debts	11,285,210	11,106,480
Depreciation and amortization	11,811,633	11,898,918
Interest and financing costs	3,981,831	4,224,420
Total expenses	<b>300,954,490</b>	280,947,508
Income from operations	4,927,691	42,677
Non-operating losses	<b>(1,200,536)</b>	(1,341,596)
Excess (deficiency) of revenues over expenses	<b>\$ 3,727,155</b>	<b>\$ (1,298,919)</b>

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets (continued)**  
**For the Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Unrestricted net assets:		
Excess (deficiency) of revenues over expenses	\$ 3,727,155	\$ (1,298,919)
Change in unrealized appreciation (depreciation) on investments	7,974,260	(2,428,922)
Change in unrealized depreciation on joint venture	-	(248,292)
Net change in interest rate swap agreements	(123,039)	1,677,331
Net assets released from restrictions		
for capital acquisitions	336,077	3,007,796
Transfers between asset classes	-	67,091
Pension and postretirement related adjustments	(17,181,025)	(13,614,453)
	<b>(5,266,572)</b>	<b>(12,838,368)</b>
Change in unrestricted net assets		
Temporarily restricted net assets:		
Contributions	1,327,278	735,462
Investment income	37,322	68,560
Net assets released from restrictions used for operations	(638,113)	(801,123)
Net assets released from restrictions		
for capital acquisitions	(336,077)	(3,007,796)
Transfers between asset classes	-	(67,091)
Contribution of VNHSC	72,586	-
Change in unrealized appreciation (depreciation)		
on investments	530,563	(89,438)
	<b>993,559</b>	<b>(3,161,426)</b>
Change in temporarily restricted net assets		
Permanently restricted net assets:		
Change in beneficial interest in trust assets	712,617	(315,032)
	<b>712,617</b>	<b>(315,032)</b>
Change in permanently restricted net assets		
Change in net assets	<b>(3,560,396)</b>	<b>(16,314,826)</b>
Net assets, beginning of year	<b>55,161,657</b>	<b>71,476,483</b>
Net assets, end of year	<b>\$ 51,601,261</b>	<b>\$ 55,161,657</b>

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended September 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Change in net assets	\$ (3,560,396)	\$ (16,314,826)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,811,633	11,898,918
Contribution of VNHSC	(4,665,045)	-
Amortization of bond costs related to Series B defeasement	-	416,928
Provision for bad debts	11,285,210	11,106,480
Change in unrealized (appreciation) depreciation on investments	(8,504,823)	2,518,360
Change in unrealized (appreciation) depreciation on joint venture	(343,398)	248,292
Loss on disposals of fixed assets	-	65,000
Change in beneficial interest in trust assets	(712,617)	315,032
Income on investments in joint ventures	(2,588,091)	(1,806,166)
Pension and postretirement related adjustments	17,181,025	13,614,453
Change in pledges receivable	(402,218)	(142,060)
Change in interest rate swap agreements	(47,331)	(1,259,369)
Changes in assets and liabilities:		
Accounts receivable	(14,476,440)	(11,338,461)
Inventory	(25,032)	(113,293)
Prepaid expenses and other current assets	(112,771)	605,533
Goodwill and intangible assets, net	(903)	287,606
Other, net	880,133	(714,361)
Accounts payable and accrued expenses	5,564,691	140,035
Accrued pension and other postretirement benefits	(6,766,904)	(4,503,846)
Estimated settlements to/from third-party payers	(452,979)	341,294
Other current liabilities	1,522,469	1,050,272
Estimated self-insurance liabilities	3,210,359	(735,259)
Other liabilities	141,087	8,276
Net cash provided by operating activities	8,937,659	5,688,838
Cash flows from investing activities:		
Purchases of property and equipment	(7,498,197)	(10,620,037)
(Purchases) sales of investments, net	(3,244,502)	7,626
Investment in joint ventures	(244,600)	(182,838)
Acquisition of Evergreen Imaging Center	(1,450,000)	-
Cash received from contribution of VNHSC	2,917,808	-
Distributions from joint ventures	1,654,409	1,972,044
Net cash used in investing activities	(7,865,082)	(8,823,205)
Cash flows from financing activities:		
Principal payments on long-term debt	(11,717,439)	(22,586,335)
Net (payments) borrowings on line of credit	(1,772,642)	1,367,642
Payments for bond issuance costs	(154,649)	(711,286)
Payment for termination of interest rate swap agreement	-	(1,534,227)
Proceeds from borrowings	11,633,040	28,051,347
Net cash (used in) provided by financing activities	(2,011,690)	4,587,141
Change in cash and cash equivalents	(939,113)	1,452,774
Cash and cash equivalents at beginning of year	20,991,180	19,538,406
Cash and cash equivalents at end of year	\$ 20,052,067	\$ 20,991,180
Cash paid for interest	\$ 4,240,359	\$ 4,289,195
Equipment acquisitions under capital lease arrangements	\$ 1,742,149	\$ 7,858,364

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 1 - Organization**

Eastern Connecticut Health Network, Inc. (ECHN) and Subsidiaries (collectively the Network) is a not-for-profit, locally governed health system created on September 12, 1995, through the merger of the corporate parents of Manchester Memorial Hospital and Rockville General Hospital, Inc. Its purpose is to provide a health care system for the communities it serves, with quality medical care at a reasonable cost; to foster an environment conducive to health and well-being, whether in the home or in the community; and to enable the health care system to expand to meet the future needs of its communities. ECHN, through its subsidiaries (or members), provides health care, health education, and community services to residents of more than 19 towns in eastern Connecticut, regardless of their ability to pay.

ECHN is the sole member or shareholder of the following subsidiaries:

***The Manchester Memorial Hospital (MMH)*** - MMH is a not-for-profit hospital with 249 licensed beds, located in Manchester, Connecticut. MMH, which admitted its first patient in 1920, is a short-term, acute-care general hospital, which provides inpatient, outpatient, and emergency care services to the residents of Manchester and 19 nearby towns.

***The Rockville General Hospital, Inc. (RGH)*** - RGH is a not-for-profit hospital with 102 licensed beds, located in the Rockville section of Vernon, Connecticut. RGH, which admitted its first patient in 1921, is a short-term, acute-care general hospital, which provides inpatient, outpatient, and emergency care services for residents of Tolland County and nearby towns, for a total service area of 19 towns.

***ECHN ElderCare Services, Inc. (EES)*** - EES is a not-for-profit, skilled nursing facility with 130 licensed beds and physical, occupational and speech rehabilitation services located in Tolland, Connecticut.

***ECHN Community Healthcare Foundation, Inc. (ECHF)*** - ECHF is a not-for-profit organization whose purpose is to raise funds on behalf of ECHN and its not-for-profit subsidiaries. It was established in 2000, when the fund-raising efforts of ECHN were consolidated into a single not-for-profit foundation. ECHF focuses primarily on the capital and program needs of ECHN and its not-for-profit subsidiaries.

***Eastern Connecticut Medical Professionals Foundation, Inc. (ECMPF)*** - ECMPF is a not-for-profit organization that currently operates physician office practices in the Network's service area and a hospitalist program that serves MMH and RGH. Its mission allows it to operate other not-for-profit, separately incorporated allied health ventures.

***ECHN Enterprises, Inc. (Enterprises)*** - Enterprises is a for-profit organization formed under the laws of the State of Connecticut, with ECHN as the sole shareholder. Enterprises owns, leases and has an interest in real estate to support the mission and vision for ECHN. It is also the parent corporation of Haynes Street Property Management, LLC (HSPM). HSPM is a for-profit, limited liability company formed under the laws of the State of Connecticut, which manages the Glastonbury Wellness Center and sublets space to various MMH departments and physician offices, as well as to ECMPF.

***Visiting Nurse and Health Services of Connecticut, Inc. (VNHSC)*** - VNHSC is a not-for-profit, nonstock Connecticut corporation that provides and administers a comprehensive, multi-disciplinary home health program, hospice program and wellness programs to promote the health of individuals, families and groups in the Greater Northern Central Connecticut area. In addition, VNHSC is the sole member of A Caring Hand, LLC, which is a for-profit Connecticut limited liability company providing and administering homemaker, companion, live-in and personal care assistance services to individuals and families in the Greater Northern Central Connecticut area.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 1 - Organization (continued)**

**Connecticut Healthcare Insurance Company (CHIC)** - CHIC, a captive insurance company, provides hospital and physician professional and general liability coverage to MMH, RGH, EES, and all other subsidiaries.

ECHN and each of its subsidiaries, except for Enterprises, CHIC and A Caring Hand, LLC, are separate Connecticut not-for-profit corporations, qualified as exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC) and governed by separate Boards of Trustees (the Board) - although the membership of the ECHN, MMH and RGH boards are currently identical. ECHN, acting through its Board of Trustees, is the sole member of each of its members. ECHN has various powers with regard to each of its members, which include approving all operating and capital budgets; controlling the investment of funds, location of services, agreements and transactions, and affiliations; controlling changes, amendments, or restatements of certificates of incorporation and bylaws; electing trustees and officers; appointing committees; adopting a system-wide vision and strategic plans; and approving debt borrowings.

**Note 2 - Summary of Significant Accounting Policies**

**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). The consolidated financial statements include the accounts of ECHN and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The assets of any member of the consolidated group may not be available to meet the obligations of other members in the group.

**Acquisition of Visiting Nurses and Health Services of Connecticut, Inc.** - Prior to September 30, 2012, ECHN held a 50% interest in VNHSC, which had been accounted for under the equity method of accounting as a joint venture. On September 30, 2012, ECHN acquired the other 50% of VNHSC, including its wholly owned subsidiary, A Caring Hand, LLC. VNHSC is a not-for-profit home health agency located in Manchester, Connecticut, which provides skilled nursing, physical therapy, occupational therapy, speech therapy, medical social work and home health aide services.

Pursuant to the acquisition agreement, ECHN acquired VNHSC by means of an inherent contribution where no consideration was transferred by ECHN. ECHN accounted for this business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the acquisition date. The results of VNHSC's operations have not been included due to the acquisition date corresponding with the fiscal year end.

The estimated fair values of the assets acquired were \$12,237,525 and the liabilities assumed were \$2,907,435. Net assets acquired amounted to \$9,330,090 of which \$72,586 are temporarily restricted.

On a pro forma basis, there was no effect on the September 30, 2012, consolidated balance sheet as the acquisition date occurred on September 30, 2012. For the year ended September 30, 2012, the effect on the results of operations is only the classification of revenue and expenses, as ECHN has included within the consolidated statements of operations the results of operations totaling \$1,092,910 for the twelve months ended September 30, 2012 of VNHSC. Other revenues contain \$546,455 of joint venture income and \$546,455 is included within the contribution of VNHSC on the consolidated statements of operations.

On a pro forma basis as of and for the year ended September 30, 2011, the effect on the consolidated balance sheet would be to increase net assets by \$3,917,130 and to increase excess of revenue over expenses by \$110,338 as ECHN was already carrying 50% of VNHSC as a joint venture investment.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

*Use of Estimates* - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Network's significant estimates relate to the valuation of investments and interest rate swap agreements, allowance for doubtful patient accounts receivable, contractual allowances on patient accounts receivable, self-insurance liabilities, estimated settlements due to and from third parties, conditional asset retirement obligations, postretirement and pension benefit costs and the related obligations.

*Cash and Cash Equivalents* - The Network considers all highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents, excluding amounts whose use is limited or restricted by Board designation or other arrangements under trust agreements. Cash equivalents include money market funds. Cash balances maintained at banks are insured by the Federal Deposit Insurance Corporation (FDIC). At times, the Network maintains cash balances that are in excess of the \$250,000 insured FDIC limits. The Network maintains its cash at various banks and it is the Network's policy to monitor the banks' financial strength on an ongoing basis.

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

*Net Assets* - Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined as follows:

*Permanently Restricted* - Net assets subject to explicit donor imposed stipulations that they be maintained by the Network in perpetuity are classified as permanently restricted. Such permanently restricted net assets include endowment funds and MMH's and RGH's share of their beneficial interest in trust assets held by third parties. Generally, the donors of these assets permit the members of ECHN to use all or part of the investment return on these assets for operating purposes.

*Temporarily Restricted* - Net assets whose use by the Network is subject to explicit donor imposed stipulations that can be fulfilled upon incurrence of expenditures by the Network pursuant to those stipulations or that expire by the passage of time are classified as temporarily restricted.

*Unrestricted* - Net assets that are not subject to explicit donor-imposed stipulations are classified as unrestricted. Unrestricted net assets may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties; such designated assets are classified as assets whose use is limited in the accompanying consolidated balance sheets.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets, that is, the donor imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues at the date the promise is received. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is included in other revenue. Contributions restricted for the acquisition of land, buildings, and equipment are reported as temporarily restricted support. These contributions are reclassified to unrestricted net assets when the capital asset is acquired or constructed and placed in service.

**Assets Whose Use is Limited** - Assets whose use is limited primarily include cash and investments held by trustees under indenture agreements, cash and investments held for estimated self-insurance liabilities, Board designated investments, which include endowments, cash and investments set aside by the Board for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes; and, beneficial interests in trust assets, which are donor restricted and other restricted investments. Amounts required to meet current liabilities of the Network have been classified as current assets in the consolidated balance sheets as of September 30, 2012 and 2011.

The income earned on restricted funds is generally available for operations of the Network and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future annuity obligations, at which time the income is added to the appropriate restricted net asset balance. However, if a specific gift instrument explicitly requires the permanent reinvestment of appreciation, or a portion thereof, such reinvested amounts are classified within permanently restricted net assets. There were no gifts with reinvestment restrictions for the years ended September 30, 2012 and 2011.

Assets received as donations or bequests are recorded as contributions on the date received at the estimated fair value. The average cost method is used to determine realized gains or losses on sales of marketable equity securities.

**Beneficial Interest in Trust Assets** - MMH and RGH have been named sole or participating beneficiaries in several perpetual trusts, for which third parties act as the trustee. Under the terms of these trusts, MMH and RGH have the irrevocable right to receive the income earned on the trust assets held in perpetuity. The estimated present value of the future payments to MMH and RGH is recorded at the fair value of the assets held in the trust as beneficial interest in trust assets in the respective balance sheets of MMH and RGH and are permanently restricted as to use.

The income from the trusts is included in the change in interest in net assets of ECHF as unrestricted and temporarily restricted support. Fluctuations in the fair value of the trust assets are recognized as changes in permanently restricted net assets. MMH and RGH record their beneficial interest in trust assets when they are notified of the existence of the trust or when information becomes available to record the fair value of the trust assets.

**Investments** - The Network's investment portfolio is classified as available for sale, with unrealized gains and losses excluded from excess of revenues over expenses, unless the losses are deemed to be other than temporary. Investments with readily determinable fair values are measured at fair value in the consolidated balance sheets.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless the income or loss is restricted by donor or law.

**Other-Than-Temporary Impairments on Investments** - The Network accounts for other than temporary impairments in accordance with FASB ASC 320, “*Investments - Debt and Equity Securities*” and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other-than-temporary. The Network has recorded an impairment charge of \$0 and \$91,329 for the years ended September 30, 2012 and 2011, respectively, related to investments held by CHIC.

**Property, Plant and Equipment** - Property, plant and equipment are stated at cost or, in the case of donated property, at fair value at the date of the gift, less accumulated depreciation and amortization. Major improvements and betterments to existing plant and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the lives of the applicable assets are charged to expense as incurred. Upon disposition or retirement of property, plant and equipment, the cost and related accumulated depreciation and amortization are eliminated from the respective accounts and any resulting gain or loss is included in the results of consolidated operations.

Depreciation expense is computed on a straight-line basis over the following estimated useful lives:

Buildings	10-40 years
Building improvements	5-40 years
Machinery and equipment	3-15 years
Furniture and fixtures	5-20 years

Equipment under capital leases is amortized utilizing the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Depreciation and amortization expense was \$10,907,304 and \$11,054,024 for the years ended September 30, 2012 and 2011, respectively.

Interest cost incurred on borrowed funds during the construction period of capital assets is capitalized as a component of the cost of acquiring those assets.

Physician loan amortization totaling \$79,493 and \$127,780 for the years ended September 30, 2012 and 2011, respectively, is included within depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

Gifts of property and equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property and equipment must be maintained, expirations of donor restrictions are reported as released from restrictions when the donated or acquired property and equipment assets are placed in service.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Investments in Joint Ventures** - The Network has invested in several joint ventures with other area hospitals, which are accounted for under the equity method of accounting. These joint ventures as of September 30, 2012 and 2011 include the Network's investments in the following:

	<b>2012</b>	<b>Ownership Percentage</b>	<b>2011</b>	<b>Ownership Percentage</b>
Northeast Regional Radiation Oncology Network, Inc.	\$ 6,110,316	50 %	\$ 5,638,135	50 %
Tolland Imaging Center	144,789	70	79,289	70
Medical Practice Partners, LLC	41,269	50	121,637	50
Metro Wheelchair Service Inc.	84,681	50	126,460	50
Ambulance Service of Manchester, LLC	3,675,104	50	3,508,000	50
Aetna Ambulance Service Inc.	1,562,298	50	1,385,137	50
Visiting Nurse and Health Services of Connecticut Inc.	-	100	3,917,130	50
Evergreen Endoscopy Center, LLC	397,153	50	381,284	50
Haynes Street Medical Associates	146,676	23	196,841	23
Haynes Street Medical Associates II	252,365	15	241,830	15
Evergreen Imaging Center, LLC	-	100	358,201	50
Evergreen Medical Associates, LLC	258,818	20	301,789	20
Evergreen Medical Associates II, LLC	605,854	20	692,833	25
Walden Behavioral Health	200,000	15	-	-
	<b>13,479,323</b>		<b>16,948,566</b>	
Total joint venture assets				
Other miscellaneous assets	<b>21,001</b>		<b>21,002</b>	
Total investments in joint ventures	<b>\$ 13,500,324</b>		<b>\$ 16,969,568</b>	

Distributions from these joint ventures totaled \$1,654,409 and \$1,972,044 for the years ended September 30, 2012 and 2011, respectively. ECHN's share of the earnings of the joint ventures is reported within other revenues and are \$2,931,489 and \$1,806,166 for the years ended September 30, 2012 and 2011, respectively.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

Summarized financial information from the financial statements of these organizations as of September 30, 2012 and 2011 and for the years then ended, is as follows:

<u>2012</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess (Deficiency) of Revenues Over Expenses</u>
Northeast Regional Radiation Oncology				
Network, Inc.	\$ 12,257,336	\$ 12,220,632	\$ 944,362	\$ 961,990
Metro Wheelchair Service Inc.	\$ 289,879	\$ 169,362	\$ (83,559)	\$ (83,559)
Ambulance Service of Manchester, LLC	\$ 8,473,110	\$ 7,350,208	\$ 333,362	\$ 2,434,208
Aetna Ambulance Service Inc.	\$ 3,886,956	\$ 3,124,596	\$ 354,322	\$ 354,322
Haynes Street Medical Associates	\$ 2,576,327	\$ 639,948	\$ (203,877)	\$ 65,951
Haynes Street Medical Associates II	\$ 8,380,885	\$ 1,682,420	\$ 296,063	\$ 205,180
Evergreen Endoscopy Center, LLC	\$ 2,199,308	\$ 793,946	\$ 31,378	\$ 731,378
Evergreen Medical Associates, LLC	\$ 6,698,447	\$ 1,294,090	\$ (197,439)	\$ 140,755
Evergreen Medical Associates II, LLC	\$ 11,934,962	\$ 3,029,270	\$ 182,519	\$ 440,655
Tolland Imaging Center	\$ 1,258,554	\$ 214,706	\$ 101,436	\$ 100,840
Walden Behavioral Health	\$ 1,363,512	\$ 1,152,160	\$ 1,152,160	\$ (203,705)
Medical Practice Partners, LLC	\$ 1,569,742	\$ 185,290	\$ (57,983)	\$ (127,183)

<u>2011</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess (Deficiency) of Revenues Over Expenses</u>
Northeast Regional Radiation Oncology				
Network, Inc.	\$ 14,987,787	\$ 11,276,270	\$ (24,696)	\$ (24,809)
Metro Wheelchair Service Inc.	\$ 354,985	\$ 252,921	\$ (143,075)	\$ 143,075
Ambulance Service of Manchester, LLC	\$ 8,179,093	\$ 7,016,846	\$ (438,482)	\$ 2,161,516
Aetna Ambulance Service Inc.	\$ 3,613,084	\$ 2,770,274	\$ 222,786	\$ 222,786
Visiting Nurse and Health Services of				
Connecticut, Inc.	\$ 10,719,930	\$ 7,834,262	\$ (66,582)	\$ 217,304
Haynes Street Medical Associates	\$ 2,210,782	\$ 843,825	\$ 179,777	\$ 237,606
Haynes Street Medical Associates II	\$ 6,664,534	\$ 1,386,357	\$ (355,210)	\$ (242,710)
Evergreen Endoscopy Center, LLC	\$ 2,511,718	\$ 762,568	\$ (396,530)	\$ 668,513
Evergreen Imaging Center, LLC	\$ 1,210,664	\$ 716,401	\$ 111,908	\$ 232,726
Evergreen Medical Associates, LLC	\$ 5,713,159	\$ 1,491,529	\$ (47,090)	\$ 117,910
Evergreen Medical Associates II, LLC	\$ 9,139,988	\$ 2,846,751	\$ 40,300	\$ 113,300
Tolland Imaging Center	\$ 1,696,739	\$ 113,270	\$ 28,745	\$ (52,019)
Medical Practice Partners, LLC	\$ 1,459,023	\$ 243,273	\$ 64,960	\$ 44,960

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Unamortized Bond Issue Costs** - Financing costs associated with the issuance of long-term debt are amortized over the term of the bonds using the effective interest method. Amortization is included in interest and financing costs in the accompanying consolidated statements of operations and changes in net assets, and the unamortized carrying value is recorded within other - net in the accompanying consolidated balance sheets.

**Intangible Assets** - Intangible assets, principally license enhancements and goodwill, are amortized over the life of the respective intangible property. On average, this amortization period for license enhancements and goodwill is 18 and 5 years, respectively. Amortization is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets and the unamortized carrying value is recorded within goodwill and intangible assets - net in the accompanying consolidated balance sheets. Any residual value remaining after the amortization period is considered insignificant.

**Deferred Revenue** - Deferred revenue represents payments received for services to be rendered in the next fiscal year and is recorded within other current liabilities in the accompanying consolidated balance sheets.

**Excess (Deficiency) of Revenues Over Expenses** - The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets, which are excluded from the excess (deficiency) of revenues over expenses, consistent with industry practice, include the changes in unrealized appreciation (depreciation) on investments; net change in fair value of interest rate swap agreements that qualifies for hedge accounting; net assets released from restrictions used for capital acquisitions; pension and postretirement-related adjustments; and other changes in net assets.

For purposes of display, transactions deemed by management to be ongoing, major, or central to providing of health care services are reported as operating revenue and operating expenses. Operating revenues include net patient service revenues, grant income, investment income and, in 2012, the contribution of VNHSC. Peripheral or incidental transactions are reported as non-operating gains, losses, and expenses. Non-operating gains and losses include investment income and expenses related to property management, realized gains and losses on sales of investments, losses recognized on investments representing declines in value considered to be other-than-temporary in nature, gains and losses related to the termination of certain swap instruments, changes in the fair values of interest rate swaps that do not qualify for hedge accounting (net interest expense) and the costs associated with pursuing business combinations.

**Charity Care** - MMH and RGH provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established and contractual rates. The hospitals do not pursue collection of amounts determined to qualify as charity care; as such, these amounts are not reported as revenue.

**Net Patient Service Revenues** - Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive 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.

Contracts, laws, and regulations governing Medicare, Medicaid, Blue Cross, and the uncompensated care pool programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Network records adjustments in amounts accrued for estimated settlements related to prior years.

A portion of the accrual for estimated settlements with third-party payers has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, are not expected to be paid within one year.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

MMH and RGH have agreements with third-party payers that provide for payments at amounts different from their established rates. A summary of the payment agreements with major third-party payers is as follows:

**Medicare** - Acute care hospitals are subject to a federal prospective payment system for most Medicare inpatient hospital services and for certain outpatient services. Under this prospective payment methodology, Medicare pays a prospectively determined per-discharge or per-visit rate for non-physician services. These rates vary according to the Diagnosis Related Group or Ambulatory Payment Classification of each patient.

Inpatient rehabilitation and mental health services, outpatient services, capital and medical education costs related to Medicare beneficiaries are paid based on a prospective payment system, subject to certain limitations. The Hospital is reimbursed for cost-reimbursement for certain items at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Certain other outpatient services are reimbursed according to fee screens.

**Medicaid** - Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. The hospitals are reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the hospitals.

**Other Payers** - The Network has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes rates per discharge, discounts from established charges, per diem rates, and fee schedule payments.

**Health Care Industry** - The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Network is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to further governmental review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**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. Total received for Medicare amounted to \$3,507,760 and \$0, respectively, and the total received for Medicaid amounted to \$325,412 and \$975,412, respectively, for the years ended September 30, 2012 and 2011.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Future Operations** - Current trends in the health care industry include mergers and other forms of affiliations among providers, increasing shifts to managed care, overall reduction in inpatient average length of stay, increasingly restrictive reimbursement policies by governmental and private payers, and the prospect of significant changes in legislation at the state and national level. Management cannot assess or project the ultimate effect of these or other items on the future operations of the Network.

**Interest in Net Assets of ECHF** - ECHF was formed as a not-for-profit organization to supervise the development activities and engage in investment activities for the benefit of all of the ECHN subsidiaries. ECHN is the sole member of ECHF and the ECHF's Board of Directors is appointed by ECHN. ECHN subsidiaries follow the provisions of ASC 958 (formerly, FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*). Accordingly, the separate ECHN members record their interest in the net assets of ECHF in their separate financial statements. These amounts have been eliminated in consolidation.

**Income Taxes** - ECHN and its subsidiaries, except for Enterprises and CHIC, are in compliance with the provisions of Internal Revenue Code (the Code) Sec. 501(c)(3) and are exempt from federal tax under IRC Sec. 501(a). At times, the Network is involved with activities that subject minor amounts of unrelated business federal income tax, which are paid as they come due in accordance with the Code and the regulations there under. Such amounts are insignificant to the Network's consolidated financial statements.

The Network accounts for uncertain tax positions in accordance 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 consolidated financial statements. The Network 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 Network does not have any uncertain tax positions as of September 30, 2012 and 2011. As of September 30, 2012 and 2011, the Network did not record any penalties or interest associated with uncertain tax positions. Generally, the Network's prior three tax years are open and subject to examination by the Internal Revenue Service.

Enterprise and its subsidiaries are for-profit entities subject to federal and state taxes. For these entities, ECHN applies the provisions of FASB ASC 740. The tax provisions, and related tax assets and liabilities, are not material. CHIC has received an undertaking from the Cayman Islands government exempting it from all local income, profits, and capital gains taxes until January 3, 2026. No such taxes are currently levied in the Cayman Islands. Accordingly, no provision for federal income taxes has been recorded in the accompanying consolidated financial statements.

**Asset Retirement Obligations** - The Network recognizes a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation is factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that the Network recognizes are those for which the Network has a legal obligation to perform an asset retirement activity, however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within its control.

The fair value of a liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized. As of September 30, 2012 and 2011, the Network has recognized \$400,687 and \$391,870, respectively, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the consolidated balance sheets within other liabilities.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Accounting for Defined Benefit Pension and Other Postretirement Plans** - The Network recognizes the overfunded or underfunded status of their defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) in the consolidated balance sheets as an asset or liability. The Network recognizes changes in the funded status of the plans in the year in which the changes occur as a change in unrestricted net assets presented below the excess of revenues over expenses in its consolidated statements of operations and changes in net assets.

**Inventory** - The Network records inventory at cost using the first-in, first-out method.

**Impairment of Long-Lived Assets** - Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell.

**Estimated Self-Insurance Liabilities** - The liabilities for outstanding losses and loss related expenses, and the related provision for losses and loss related expenses include estimates for malpractice losses, general liability, and workers' compensation incurred but not reported claims, as well as losses pending settlement. Such liabilities are necessarily based on estimates and, while management believes the amounts provided are adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The methods for making such estimates and the resulting liability are actuarially reviewed on an annual basis, and any adjustments required are reflected in operations in the current period. The current portion of estimated self-insurance liabilities is recorded within other current liabilities in the accompanying consolidated balance sheets.

**Concentration of Credit Risk** - Financial instruments, which potentially subject the Network to concentration of credit risk, consist of accounts receivable, investments, including temporary cash investments, marketable equity and debt securities, mutual funds, government securities and interest rate swap agreements. The Network receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payers, including Medicare (a federal program), Medicaid (a State of Connecticut program), and various health insurance companies.

**Interest Rate Swap Agreements** - Interest rate swap agreements are recognized as either assets or liabilities in the consolidated balance sheet at fair value regardless of the purpose or intent for holding them. Changes in the fair value of interest rate swap agreements are recognized in non-operating losses or if designated and effective as hedge transactions, as changes in unrestricted net assets.

**Advertising Costs** - The Network expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was \$1,596,878 and \$1,738,571 for the years ended September 30, 2012 and 2011, respectively, and is recorded in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 2 - Summary of Significant Accounting Policies (continued)**

In August 2010, the FASB issued ASU No. 2010-24, "*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*". ASU No. 2010-24 clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010. The Network's adoption of ASU 2010-24 did not have an impact on its overall consolidated financial statements.

**Pending Accounting Pronouncements** - In July 2011, the FASB issued ASU No. 2011-07, "*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*", which requires a healthcare entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 is effective for the Network beginning October 1, 2012.

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

**Reclassification** - Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no material effect on the 2011 financial statements.

**Subsequent Events** - Subsequent events have been evaluated through December 18, 2012, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes that there are no subsequent events having a material impact on the financial statements.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 3 - Assets Whose Use is Limited and Investments**

Assets whose use is limited and investments as of September 30, 2012 and 2011, include the following:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Board designated and donor-restricted:				
Money market funds	\$ 265,287	\$ 265,287	\$ 72,074	\$ 72,074
U.S. equities	150,241	163,427	-	-
Mutual funds:				
U.S. small/mid cap	196,636	252,510	-	-
Investment grade taxable	264,483	278,626	-	-
International developed bonds	20,050	21,302	-	-
Global high yield taxable	60,312	62,517	-	-
Other	89,947	96,383	-	-
Emerging markets fund	121,105	128,406	-	-
Short-term bond fund	4,486,385	4,523,908	4,474,955	4,425,166
Large value fund	6,349,959	6,952,883	5,493,506	4,616,340
Moderate allocation funds	15,795,794	17,344,909	15,470,520	14,081,371
Foreign growth fund	2,838,789	3,151,684	2,699,632	2,448,421
Total	<u>\$ 30,638,988</u>	<u>\$ 33,241,842</u>	<u>\$ 28,210,687</u>	<u>\$ 25,643,372</u>
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 120,455	\$ 120,455	\$ 415,571	\$ 415,571
U.S. government securities	2,265,438	2,352,152	2,336,625	2,425,959
Corporate bonds	1,822,751	1,946,269	1,773,604	1,847,092
U.S. equities	539,532	789,253	525,222	607,838
Mutual funds:				
Bond fund	700,417	720,276	600,417	606,851
Short-term government fund	355,932	353,901	255,932	255,932
Emerging markets fund	138,872	152,650	138,872	138,872
Midcap stock fund	103,788	131,765	103,789	111,434
International stock fund	88,053	102,075	88,053	88,219
Short-term bond fund	-	-	78,504	79,743
Moderate allocation fund	1,439,996	1,736,180	1,831,333	1,943,493
Other investments	<u>379,893</u>	<u>439,722</u>	<u>364,734</u>	<u>370,166</u>
Total	<u>\$ 7,955,127</u>	<u>\$ 8,844,698</u>	<u>\$ 8,512,656</u>	<u>\$ 8,891,170</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 3 - Assets Whose Use is Limited and Investments (continued)**

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Investments held under bond indenture:				
Money market funds	\$ 9,085,534	\$ 9,085,534	\$ 6,252,334	\$ 6,252,334
U.S. government securities	<u>1,292,701</u>	<u>1,291,731</u>	<u>1,155,151</u>	<u>1,153,465</u>
Total	<u>\$ 10,378,235</u>	<u>\$ 10,377,265</u>	<u>\$ 7,407,485</u>	<u>\$ 7,405,799</u>
Beneficial interest in trust assets	<u>\$ 6,570,962</u>	<u>\$ 7,400,782</u>	<u>\$ 6,650,295</u>	<u>\$ 6,688,165</u>
Investments:				
Money market funds	\$ 468,063	\$ 468,063	\$ 377,287	\$ 377,287
U.S. equities	175,201	196,112	112,549	105,379
Certificates of deposit	115,000	116,065	115,000	114,909
Mutual funds:				
U.S. small/mid cap	128,060	138,105	-	-
Investment grade taxable	272,165	283,621	-	-
Global high yield taxable	94,450	96,902	-	-
Emerging markets fund	47,200	49,593	-	-
Short-term bond	1,711,777	1,743,074	1,670,136	1,668,152
Large value fund	7,750,713	8,067,571	7,257,643	5,918,420
Moderate allocation funds	1,786,976	2,030,778	1,718,163	1,698,002
Foreign large fund	<u>7,864,153</u>	<u>8,320,932</u>	<u>7,615,481</u>	<u>7,062,548</u>
Total	<u>\$ 20,413,758</u>	<u>\$ 21,510,816</u>	<u>\$ 18,866,259</u>	<u>\$ 16,944,697</u>
Total assets whose use is limited and investments	<u>\$ 75,957,070</u>	<u>\$ 81,375,403</u>	<u>\$ 69,647,382</u>	<u>\$ 65,573,203</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 3 - Assets Whose Use is Limited and Investments (continued)**

Fair values and gross unrealized losses for all investment categories whose fair value is below its cost as of September 30, 2012 and 2011, and the length of time that the securities have been in an unrealized loss position as of September 30, 2012 and 2011, are as follows:

<u>2012</u>	<u>Less than 12 months</u>		<u>Greater than 12 months</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>
Large value fund	\$ -	\$ -	\$ 4,106,546	\$ (216,359)	\$ 4,106,546	\$ (216,359)
Foreign growth fund	-	-	400,220	(23,711)	400,220	(23,711)
Short-term government fund	353,901	(2,031)	-	-	353,901	(2,031)
U.S. government securities	-	-	1,291,731	(970)	1,291,731	(970)
	<u>\$ 353,901</u>	<u>\$ (2,031)</u>	<u>\$ 5,798,497</u>	<u>\$ (241,040)</u>	<u>\$ 6,152,398</u>	<u>\$ (243,071)</u>
<u>2011</u>	<u>Less than 12 months</u>		<u>Greater than 12 months</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>
Large value fund	\$ -	\$ -	\$ 10,534,760	\$ (2,216,389)	\$ 10,534,760	\$ (2,216,389)
Foreign growth fund	4,725,717	(390,690)	4,785,252	(413,454)	9,510,969	(804,144)
Short-term bond fund	6,065,985	(52,106)	-	-	6,065,985	(52,106)
U.S. equities	-	-	105,379	(7,170)	105,379	(7,170)
Certificates of deposit	114,938	(62)	-	-	114,938	(62)
U.S. government securities	556,607	(1,012)	-	-	556,607	(1,012)
Moderate allocation funds	4,453,928	(63,375)	10,933,391	(1,375,752)	15,387,319	(1,439,127)
	<u>\$ 15,917,175</u>	<u>\$ (507,245)</u>	<u>\$ 26,358,782</u>	<u>\$ (4,012,765)</u>	<u>\$ 42,275,957</u>	<u>\$ (4,520,010)</u>

The Network's unrealized losses on its investments in mutual funds consist mostly of unrealized losses in the Vanguard Group and Dodge & Cox diversified equity mutual funds as of September 30, 2012 and 2011. The Network has evaluated the near-term prospects of the investments in relation to the severity of the impairment (fair value is approximately 1% to 24% less than cost as of September 30, 2012 and 2011, respectively) and recent market trends. Based on that evaluation and the Network's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Network does not consider those investments to be other-than-temporarily impaired as of September 30, 2012 and 2011.

Interest and dividend income, which is included in other operating revenue, on the assets whose use is limited and investments totaled \$1,326,767 and \$1,356,553 for the years ended September 30, 2012 and 2011, respectively. There were no realized gains or losses for the years ended September 30, 2012 or 2011.

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**Note 4 - Fair Value Measurements**

FASB ASC 820 provides a framework for measuring fair value. 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 or liabilities (Level 1 measurements) and the 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 or liabilities in active markets that the Network has the ability to access.

*Level 2* - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or 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 specified (contractual) terms, 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.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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**Note 4 - Fair Value Measurements (continued)**

The following table presents the financial instruments carried at fair value as of September 30, 2012 and 2011, by the valuation hierarchy.

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market funds	\$ 9,939,339	\$ -	\$ -	\$ 9,939,339
U.S. government securities	3,643,883	-	-	3,643,883
Corporate bonds	-	1,946,269	-	1,946,269
Certificates of deposit	116,065	-	-	116,065
U.S. equities	1,148,792	-	-	1,148,792
Mutual funds:				
U.S. small/mid cap	390,615	-	-	390,615
Investment grade taxable	562,247	-	-	562,247
International developed bonds	21,302	-	-	21,302
Global high yield taxable	159,419	-	-	159,419
Other	96,383	-	-	96,383
Bond fund	720,276	-	-	720,276
Short-term bond fund	6,266,982	-	-	6,266,982
Large value fund	15,020,454	-	-	15,020,454
Moderate allocation fund	21,111,867	-	-	21,111,867
Foreign growth fund	3,151,684	-	-	3,151,684
Short-term government fund	353,901	-	-	353,901
Emerging markets fund	330,649	-	-	330,649
Midcap stock fund	131,765	-	-	131,765
International stock fund	102,075	-	-	102,075
Foreign large fund	8,320,932	-	-	8,320,932
Other investments	439,722	-	-	439,722
Beneficial interest in trusts	-	-	7,400,782	7,400,782
Total assets at fair value	<u>\$ 72,028,352</u>	<u>\$ 1,946,269</u>	<u>\$ 7,400,782</u>	<u>\$ 81,375,403</u>
Liabilities:				
Obligations under interest rate swap agreements	\$ -	\$ 540,389	\$ -	\$ 540,389
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 540,389</u>	<u>\$ -</u>	<u>\$ 540,389</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 4 - Fair Value Measurements (continued)**

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market funds	\$ 7,117,266	\$ -	\$ -	\$ 7,117,266
U.S. government securities	3,579,424	-	-	3,579,424
Corporate bonds	-	1,847,092	-	1,847,092
Certificates of deposit	114,909	-	-	114,909
U.S. equities	713,217	-	-	713,217
Mutual funds:				
Bond fund	606,851	-	-	606,851
Short-term bond fund	6,173,061	-	-	6,173,061
Large value fund	10,534,760	-	-	10,534,760
Moderate allocation fund	17,722,866	-	-	17,722,866
Foreign growth fund	2,448,421	-	-	2,448,421
Short-term government fund	255,932	-	-	255,932
Emerging markets fund	138,872	-	-	138,872
Midcap stock fund	111,434	-	-	111,434
International stock fund	88,219	-	-	88,219
Foreign large fund	7,062,548	-	-	7,062,548
Other investments	370,166	-	-	370,166
 Beneficial interest in trusts	 -	 -	 6,688,165	 6,688,165
 Total assets at fair value	 <u>\$ 57,037,946</u>	 <u>\$ 1,847,092</u>	 <u>\$ 6,688,165</u>	 <u>\$ 65,573,203</u>
 Liabilities:				
Obligations under interest rate swap agreements	 \$ -	 \$ 587,718	 \$ -	 \$ 587,718
 Total liabilities at fair value	 <u>\$ -</u>	 <u>\$ 587,718</u>	 <u>\$ -</u>	 <u>\$ 587,718</u>

During the years ended September 30, 2012 and 2011, the value of the beneficial interest in trusts increased (decreased) for a change in market value of \$1,141,645 and \$(52,218), respectively. In addition, the Network received \$429,028 and \$262,814 in distributions from these trusts in 2012 and 2011, respectively.

The Network's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Network uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to money market funds, U.S. government securities, certificates of deposit, U.S. equities and mutual funds.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 4 - Fair Value Measurements (continued)**

If quoted prices in active markets for identical assets and liabilities are not available, then quoted prices for similar assets and liabilities, quoted prices for identical assets or liabilities in inactive markets or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, will be used to determine fair value (Level 2 inputs). The Level 2 classifications include the corporate bonds and interest rate swap agreements. The interest rate swap agreements are valued based on a determination of market expectations relating to the future cash flows associated with the swap contract using sophisticated modeling based on observable market-based inputs, such as interest rate curves.

Assets and liabilities that are valued using significant unobservable inputs, such as extrapolated data, proprietary models, or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. The Level 3 classification includes the Network's beneficial interest in trusts. The value of the Network's assets is based on total fund values and the Network's corresponding beneficiary percentage.

The fair value of the Network's Series A and C Bonds are based on current traded value. The fair value of the Series A and C Bonds as of September 30, 2012 and 2011, is approximately \$44,721,911 and \$43,669,343, respectively. The fair value of the Network's remaining long-term debt approximates its carrying value.

As of September 30, 2012 and 2011, the Network's other financial instruments included accounts receivable, accounts payable and accrued expenses and estimated settlements due to and from third-party payers. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

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 Network 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.

**Note 5 - Other Assets**

Other assets as of September 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Pledges receivable, net	\$ 376,165	\$ 375,977
Other receivables	916,543	1,493,578
Notes receivable	326,935	236,955
Unamortized bond issuance costs	2,728,593	2,733,617
Losses recoverable	<u>867,152</u>	<u>668,831</u>
Total	<u>\$ 5,215,388</u>	<u>\$ 5,508,958</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 5 - Other Assets (continued)**

As of September 30, 2012 and 2011, \$833,061 and \$431,031 of pledges receivables have been included within prepaid expenses and other current assets as management anticipates them to be collected within the next year. Pledges receivable are expected to be realized as follows:

	<u>2012</u>	<u>2011</u>
In one year or less	\$ 834,922	\$ 435,220
Between one and five years	384,003	387,188
Greater than five years	4,313	11,295
Less: discount for present value	<u>(14,012)</u>	<u>(26,695)</u>
 Pledges receivable - net	 <u>\$ 1,209,226</u>	 <u>\$ 807,008</u>

Pledges receivable are reported at their net present value, discounted at rates from .13% to 4.90%. There was no allowance for uncollectible amounts recorded as of September 30, 2012 and 2011.

As of September 30, 2012 and 2011, unamortized bond issuance costs, which are included within other-net assets, consist of the following:

	<u>2012</u>	<u>2011</u>
Deferred financing costs	\$ 4,162,046	\$ 4,007,394
Less accumulated amortization	<u>(1,433,453)</u>	<u>(1,273,777)</u>
 Total	 <u>\$ 2,728,593</u>	 <u>\$ 2,733,617</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 6 - Property, Plant and Equipment**

Property, plant and equipment as of September 30, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 5,311,030	\$ 4,990,960
Buildings and building improvements	157,921,015	153,080,146
Fixed equipment	25,744,837	25,461,887
Movable equipment	<u>124,349,089</u>	<u>115,285,955</u>
	313,325,971	298,818,948
Less: accumulated depreciation and amortization	<u>(219,601,455)</u>	<u>(205,118,802)</u>
	93,724,516	93,700,146
Construction in progress	<u>2,570,939</u>	<u>2,489,451</u>
Total	<u>\$ 96,295,455</u>	<u>\$ 96,189,597</u>

For the years ended September 30, 2012 and 2011, the Network capitalized interest related to construction financed with tax-exempt debt of \$68,838 and \$56,180, respectively. The cost to complete the construction in progress is approximately \$4,225,000 and \$3,150,000 as of September 30, 2012 and 2011, respectively.

**Note 7 - Intangible Assets**

The gross carrying amount and accumulated amortization, by class of intangible assets, as of September 30, 2012 and 2011, consisted of the following:

<u>2012</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (1,319,877)	\$ 578,807
Goodwill	6,461,402	(577,103)	5,884,299
Total	<u>\$ 8,360,086</u>	<u>\$ (1,896,980)</u>	<u>\$ 6,463,106</u>
<u>2011</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (1,146,550)	\$ 752,134
Goodwill	5,017,411	(526,403)	4,491,008
Total	<u>\$ 6,916,095</u>	<u>\$ (1,672,953)</u>	<u>\$ 5,243,142</u>

Amortization expense related to intangible assets was \$224,027 and \$313,606 for the years ended September 30, 2012 and 2011, respectively.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 7 - Intangible Assets (continued)**

The estimated amortization expense in each of the succeeding five fiscal years and thereafter as of September 30, 2012 is as follows:

2013	\$	29,326
2014		29,326
2015		29,326
2016		29,326
2017		29,326
Thereafter		432,177
		432,177
Total	\$	578,807

**Note 8 - Estimated Self-Insurance Liabilities**

The Network is self-insured for workers' compensation insurance coverage. The Network participates in Workers' Compensation Trust, a revocable trust, for the purpose of setting aside assets based on actuarial funding recommendations.

The Network has a \$350,000 limit per occurrence for workers' compensation claims. The Network has employed independent actuaries to estimate the ultimate costs, if any, of workers' compensation claims. Accrued workers' compensation reserves have been discounted at 5% as of September 30, 2012 and 2011, and in management's opinion provide an adequate reserve for loss contingencies.

In fiscal year 2007, ECHN established a single-parent captive, CHIC, which covers all of its subsidiaries. The captive provides malpractice and general insurance coverage for ECHN and its subsidiaries at \$3,000,000 per occurrence and \$9,000,000 in the aggregate for the years ending September 30, 2012 and 2011.

Effective October 1, 2009, CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims made basis covering healthcare professional liability, general care liability, automobile liability, employers liability, helipad liability and non-owned aircraft liability. The limit provided is \$30,000,000 for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage is fully reinsured.

ECHN does not self-insure any malpractice risks other than exposures greater than its excess coverages, however, as of September 30, 2012 and 2011, ECHN has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with CHIC.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 8 - Estimated Self-Insurance Liabilities (continued)**

The activity in the reserve for outstanding losses and loss related expenses at ECHN for workers' compensation and malpractice claims as of September 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 9,016,338	\$ 9,928,068
Workers' compensation:		
Losses incurred related to:		
Current year	941,403	760,598
Prior year	1,456,175	519,971
Total incurred	<u>2,397,578</u>	<u>1,280,569</u>
Paid losses related to:		
Current year	(412,068)	(369,365)
Prior year	(1,482,261)	(862,189)
Total paid	<u>(1,894,329)</u>	<u>(1,231,554)</u>
Professional and general:		
Losses incurred related to:		
Current year	1,062,024	1,217,479
Prior year	4,997,849	1,865,848
Total incurred	<u>6,059,873</u>	<u>3,083,327</u>
Paid losses related to:		
Current year	(11,458)	(157)
Prior year	(694,172)	(4,043,915)
Total paid	<u>(705,630)</u>	<u>(4,044,072)</u>
Balance at end of year	<u>\$ 14,873,830</u>	<u>\$ 9,016,338</u>

**Workers Compensation** - The development on prior-year incurred losses increased by approximately \$1,456,000 and \$520,000 as of September 30, 2012 and 2011, respectively.

**Professional and General** - The development on prior-year incurred losses increased by approximately \$4,998,000 and \$1,866,000 as of September 30, 2012 and 2011, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, included estimates of claims incurred but not reported. Approximately \$5,352,000 and \$2,705,000 of the reserve as of September 30, 2012 and 2011, respectively, are included in other current liabilities with the remaining balance of the reserve included in estimated self-insurance liabilities in the accompanying consolidated balance sheets as of September 30, 2012 and 2011, respectively.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 9 - Pension and Other Postretirement Benefits**

ECHN has a defined benefit pension plan covering substantially all of the employees of MMH and RGH. The benefits are based upon years of service and compensation for the five highest years during the employee's last 10 years of service. The hospitals make contributions in amounts sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as well as such additional amounts as deemed appropriate.

Effective December 31, 2008, ECHN implemented a soft freeze on the defined benefit pension plan. All employees with age and service credits greater than 65 were given the option to stay in the defined benefit pension plan or freeze their defined benefits and enter into a defined contribution plan. All other employees were required to enter into the defined contribution plan. Under the defined contribution plan, ECHN contributes 3% of eligible employees' salaries. This match is non-guaranteed for all employees except certain union workers. During fiscal year 2012 and 2011, the Network incurred expenses of \$1,815,351 and \$1,636,926, respectively, related to this plan.

MMH and RGH also sponsor a postretirement benefit plan that provides health care benefits to those employees who retire. The criterion to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. The postretirement health care plan is contributory and the retiree pays 100% of the premium.

Unrestricted net assets of the Network as of September 30, 2012, include unrecognized actuarial losses of \$71,226,109 related to the defined-benefit pension plan and unrecognized actuarial gains of \$877,039 related to the postretirement plan. Of this amount, \$5,481,445 is expected to be recognized in net periodic pension costs in 2013. Unrestricted net assets of the Network as of September 30, 2011, include unrecognized actuarial losses of \$53,870,879 related to the defined-benefit pension plan and unrecognized actuarial gains of \$702,834 related to the postretirement plan. Of this amount, \$2,636,799 was recognized in net periodic pension costs in 2012.

The effects of Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) were reflected as of September 30, 2012 and 2011, assuming that ECHN will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and that ECHN will receive the federal subsidy. This reduced plan liabilities by approximately \$1,100,000 for each of the years ended September 30, 2012 and 2011, respectively. Subsidies of \$95,241 and \$95,233 were received in the years ended September 30, 2012 and 2011, respectively. Future benefits of \$397,164 are expected to be paid and future subsidies of \$69,237 are expected to be received related to the year ended September 30, 2013.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**As of and for the Years Ended September 30, 2012 and 2011**

**Note 9 - Pension and Other Postretirement Benefits (continued)**

The pension and postretirement plans' change in benefit obligation and change in plan assets for the years ended September 30, 2012 and 2011, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Change in benefit obligation:</b>				
Benefit obligation, beginning of year	\$ 188,714,944	\$ 173,024,122	\$ 4,680,687	\$ 4,502,342
Service cost	2,233,145	1,694,601	63,127	62,573
Interest cost	10,105,635	9,607,108	226,498	211,052
Plan participants' contributions	-	-	507,918	676,830
Receipt of Medicare Part D reimbursement	-	-	95,241	95,233
Actuarial loss (gain)	30,013,892	11,875,070	(140,180)	105,204
Benefits paid	(7,966,121)	(7,485,957)	(800,286)	(972,547)
	<u>\$ 223,101,495</u>	<u>\$ 188,714,944</u>	<u>\$ 4,633,005</u>	<u>\$ 4,680,687</u>
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	\$ 125,293,980	\$ 118,535,420	\$ -	\$ -
Actual return on plan assets	20,980,869	7,674,517	-	-
Employer contributions	10,910,000	6,570,000	197,127	200,484
Plan participants' contributions	-	-	507,918	676,830
Receipt of Medicare Part D reimbursement	-	-	95,241	95,233
Benefits paid	(7,966,121)	(7,485,957)	(800,286)	(972,547)
	<u>\$ 149,218,728</u>	<u>\$ 125,293,980</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued pension and other postretirement benefits	<u>\$ (73,882,767)</u>	<u>\$ (63,420,964)</u>	<u>\$ (4,633,005)</u>	<u>\$ (4,680,687)</u>
Accumulated benefit obligation	<u>\$ (213,696,232)</u>	<u>\$ (183,312,903)</u>	<u>\$ -</u>	<u>\$ -</u>

The amount recognized in the Network's consolidated balance sheets as of September 30, 2012 and 2011 are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current liabilities	\$ 3,500,000	\$ 10,910,000	\$ 397,164	\$ 419,346
Noncurrent liabilities	<u>70,382,767</u>	<u>52,510,964</u>	<u>4,235,841</u>	<u>4,261,341</u>
Net amount recognized	<u>\$ 73,882,767</u>	<u>\$ 63,420,964</u>	<u>\$ 4,633,005</u>	<u>\$ 4,680,687</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 9 - Pension and Other Postretirement Benefits (continued)**

The allocation of the accrued pension and postretirement benefits for the years ended September 30, 2012 and 2011 is as follows:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
MMH	\$ 56,594,968	\$ 48,712,087	\$ 3,608,963	\$ 3,336,703
RGH	17,287,799	14,708,877	1,024,042	1,343,984
Total	<u>\$ 73,882,767</u>	<u>\$ 63,420,964</u>	<u>\$ 4,633,005</u>	<u>\$ 4,680,687</u>

The plans' components of net periodic benefit cost for the years ended September 30, 2012 and 2011, are as follows (pension benefits information presented is for MMH and RGH combined):

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Service cost	\$ 2,233,145	\$ 1,694,601	\$ 63,127	\$ 62,573
Interest cost	10,105,635	9,607,108	226,498	211,052
Expected return on plan assets	(10,959,005)	(10,398,180)	-	-
Amortization of prior service (credits) costs	(234,992)	(234,992)	77,724	77,724
Recognized actuarial gain	<u>2,871,791</u>	<u>1,304,258</u>	<u>(43,699)</u>	<u>(57,507)</u>
Net periodic benefit cost	<u>\$ 4,016,574</u>	<u>\$ 1,972,795</u>	<u>\$ 323,650</u>	<u>\$ 293,842</u>

The allocation of the net periodic benefit cost for the years ended September 30, 2012 and 2011, is as follows:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
MMH	\$ 3,060,240	\$ 1,340,948	\$ 252,113	\$ 209,470
RGH	956,334	631,847	71,537	84,372
Total	<u>\$ 4,016,574</u>	<u>\$ 1,972,795</u>	<u>\$ 323,650</u>	<u>\$ 293,842</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 9 - Pension and Other Postretirement Benefits (continued)**

The assumptions used to determine net periodic benefit cost of the pension and postretirement plans for the years ended September 30, 2012 and 2011, were as follows:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Discount rate	<b>4.32%</b>	5.47%	<b>3.64%</b>	5.03%
Expected long-term rate of return	<b>8.00%</b>	8.00%	N/A	N/A
Rate of compensation increase	<b>2.75%</b>	2.75%	N/A	N/A
Initial medical trend rate	N/A	N/A	<b>7.91%</b>	8.91%
Ultimate medical trend rate	N/A	N/A	<b>4.50%</b>	4.50%
Number of years to ultimate medical trend rate	N/A	N/A	<b>17 years</b>	17 years

The assumptions used to determine pension and postretirement benefit obligations as of September 30, 2012 and 2011, are as follows:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Discount rate	<b>5.47%</b>	5.67%	<b>5.03%</b>	4.88%
Expected long-term rate of return	<b>8.00%</b>	8.00%	N/A	N/A
Rate of compensation increase	<b>2.75%</b>	2.75%	N/A	N/A
Initial medical trend rate	N/A	N/A	<b>7.91%</b>	8.91%
Ultimate medical trend rate	N/A	N/A	<b>4.50%</b>	4.50%
Number of years to ultimate medical trend rate	N/A	N/A	<b>15 years</b>	17 years

The medical trend rate has a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<b>One Percentage Point Increase</b>	<b>One Percentage Point Decrease</b>
Effect on year-end postretirement benefit obligation	\$ 382,130	\$ (338,354)
Effect on total of service and interest cost components	\$ 25,275	\$ (22,288)

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 9 - Pension and Other Postretirement Benefits (continued)**

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

	<b>Pension Benefits</b>	
	<b>2012</b>	<b>2011</b>
Asset category:		
Equity securities	<b>51%</b>	42%
Debt securities	<b>48%</b>	57%
Cash and cash equivalents	<b>1%</b>	1%
	<b>100%</b>	100%

The pension plan's investment policy includes the following asset allocation guidelines:

	<b>2012</b>		<b>2011</b>	
	<b>Policy Target</b>	<b>Range</b>	<b>Policy Target</b>	<b>Range</b>
Asset category:				
Equity securities	<b>53%</b>	<b>40-60%</b>	44%	34-54%
Debt securities	<b>46%</b>	<b>45-50%</b>	56%	51-61%
Cash and cash equivalents	<b>1%</b>	<b>0-4%</b>	0%	0-4%

The asset allocation policy was developed in consideration of the following long-term investment objectives: maximizing portfolio returns with at least a return of 4%, net of all trading expenses and fees, above inflation, as measured by the Consumer Price Index, and achieving portfolio returns that exceed a composite index consisting of the S&P 500, the Russell 2000 Index, Ryan Labs GIC Index and the Barclays Capital Aggregate Bond Index in the same proportion as the fund's average commitment to equity and fixed income, respectively, and to rank in the top quartile of a broad universe of corporate pension plans of similar size.

The expected long-term rate-of-return-on-assets assumption was determined by evaluating portfolio returns based on capital market assumptions over a 20-year time horizon, which are reduced by expected transaction costs and expected investment management fees for passively invested assets (to the extent that such fees are expected to be paid out of plan assets rather than directly by the Network).

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 9 - Pension and Other Postretirement 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 4. The following table presents the investments of the defined benefit plan carried at fair value as of September 30, 2012 and 2011, by the valuation hierarchy.

<b>2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 944,555	\$ -	\$ -	\$ 944,555
Fixed income mutual funds:				
Long duration	53,025,749	-	-	53,025,749
US Core Opportunistic	12,088,551	-	-	12,088,551
US Passive	2,983,658	-	-	2,983,658
Guaranteed investment contract	183,256	-	3,195,313	3,378,569
Equities:				
Small/mid cap	8,232,969	-	-	8,232,969
Active long corp	11,917,531	-	-	11,917,531
Large cap	30,277,740	-	-	30,277,740
International	26,369,406	-	-	26,369,406
Total plan assets at fair value	<u>\$ 146,023,415</u>	<u>\$ -</u>	<u>\$ 3,195,313</u>	<u>\$ 149,218,728</u>
<b>2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 588,004	\$ -	\$ -	\$ 588,004
Fixed income mutual funds:				
Long duration	56,839,238	-	-	56,839,238
US Core Opportunistic	9,716,075	-	-	9,716,075
US Passive	1,738,106	-	-	1,738,106
Guaranteed investment contract	170,915	-	3,374,535	3,545,450
Equities:				
Small/mid cap	5,699,196	-	-	5,699,196
Large cap	26,548,136	-	-	26,548,136
International	20,619,775	-	-	20,619,775
Total plan assets at fair value	<u>\$ 121,919,445</u>	<u>\$ -</u>	<u>\$ 3,374,535</u>	<u>\$ 125,293,980</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 9 - Pension and Other Postretirement Benefits (continued)**

The changes within the Level 3 investments as of September 30, 2012 and 2011 are as follows:

<u>2012</u>	<u>Guaranteed Investment Contract</u>		
Balance as of October 1, 2011	\$	3,374,535	
Investment income		194,239	
Expenditures		<u>(373,461)</u>	
Balance as of September 30, 2012	\$	<u>3,195,313</u>	

  

<u>2011</u>	<u>Real Estate Securities</u>	<u>Guaranteed Investment Contract</u>	<u>Total</u>
Balance as of October 1, 2010	\$ 2,333,339	\$ 3,571,198	\$ 5,904,537
Investment return:			
Investment income	-	237,985	237,985
Net change in market value	498,504	-	498,504
Proceeds from sale of investment	(2,831,843)	-	(2,831,843)
Expenditures	<u>-</u>	<u>(434,648)</u>	<u>(434,648)</u>
Balance as of September 30, 2011	<u>\$ -</u>	<u>\$ 3,374,535</u>	<u>\$ 3,374,535</u>

During fiscal year 2013, ECHN anticipates contributing \$3,500,000 to the defined benefit pension plan.

The benefit payments, which reflect estimated future service, expected to be paid from the plans for the year ended September 30, 2012, are as follows:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
2013	\$ 7,839,728	\$ 397,164
2014	\$ 8,177,609	\$ 409,051
2015	\$ 8,613,029	\$ 401,768
2016	\$ 9,079,307	\$ 405,187
2017	\$ 9,773,496	\$ 418,484
2018-2021	\$ 58,816,410	\$ 2,087,013

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 9 - Pension and Other Postretirement Benefits (continued)**

The Network also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% - 50%, depending upon years of service, of contributions matched by the Network, up to a maximum of 6% of annual compensation. The Network incurred expenses related to the employee savings plan amounting to \$1,203,448 and \$1,729,474 for the years ended September 30, 2012 and 2011, respectively.

**Note 10 - Long-term Debt and Lines of Credit**

Long-term debt and capital lease obligations as of September 30, 2012 and 2011 consist of the following:

	<b>2012</b>	<b>2011</b>
Connecticut Health and Educational Facilities Authority (CHEFA) Hospital Revenue Bonds, ECHN Series A Bonds, bearing interest at rates ranging from 5.625% to 6.375% - net of unamortized original issue discount of \$53,729 and \$60,953 for 2012 and 2011, respectively.	<b>\$ 9,886,271</b>	\$ 10,639,047
CHEFA Hospital Revenue Bonds, ECHN Series C Bonds, bearing interest ranging from 4.00% to 5.125% - net of unamortized original issue premium of \$371,605 and \$392,250 for 2012 and 2011, respectively.	<b>34,506,605</b>	35,272,250
CHEFA Hospital Revenue Bonds, ECHN Series D Bonds bearing interest at a variable rate, adjusted weekly.	<b>14,342,000</b>	14,619,999
CHEFA Hospital Demand Revenue Bonds, ECHN Series E Bonds, bearing interest at a variable rate, adjusted weekly.	<b>18,070,000</b>	19,625,000
Promissory note payable to the Siemens Medical Solutions USA, face amount of \$1,609,306 due and payable in monthly principal and interest installments maturing from April 30, 2011 to August 31, 2012, bearing interest at rates ranging from 5.8% to 6%.	-	165,166
Loan due to Chase Equipment Leasing Inc., face amount of \$4,000,000 due and payable in monthly principal and interest installments maturing on March 20, 2013, and bearing interest at 3.24%.	<b>180,492</b>	1,268,650
Promissory note payable to New Alliance Bank due and payable in monthly principal and interest installments, maturing on June 1, 2012, bearing interest at a variable rate.	-	22,286
Promissory note payable to 428 Hartford Turnpike Associates, LLP payable in monthly principal and interest installments, maturing September 1, 2021, bearing interest at 6%.	<b>270,972</b>	-

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 10 - Long-term Debt and Lines of Credit (continued)**

	<u>2012</u>	<u>2011</u>
Loan due to Sovereign Bank, face amount \$5,200,000 due and payable in semi-annual principal and interest installments maturing on January 3, 2022 and bearing interest at 3.38%	5,194,222	-
Promissory note payable to Rockville Bank due and payable in monthly principal and interest installments maturing on July 1, 2025, bearing interest at 5.87%.	1,092,218	884,113
Promissory note payable to Rockville Bank due and payable in monthly principle and interest installments maturing on January 15, 2015, bearing interest at a fixed rate of 3.75%.	1,595,192	-
Mortgage payable to Rockville Bank - \$176,000 for 20 years, bearing interest at 6.6% for the first five years, adjustable thereafter, every five years.	145,836	152,796
Mortgage payable to Rockville Bank - \$236,800 for 15 years, bearing interest at 6.5% for the first five years, adjustable thereafter every five years.	176,605	189,275
Capital lease obligations (see Note 12)	8,985,690	9,449,030
Total long-term debt and capital lease obligations	<u>94,446,103</u>	92,287,612
Less: current maturities	<u>(6,904,354)</u>	(5,652,447)
Total long-term debt and capital lease obligations - net of current portion	<u><u>\$ 87,541,749</u></u>	<u><u>\$ 86,635,165</u></u>

Lines of credit as of September 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Revolving line of credit with Rockville Bank, bearing interest at a variable rate.	\$ -	\$ 1,772,642
Revolving line of credit with TD Bank, bearing interest at a variable rate.	<u>6,500,000</u>	6,500,000
Total revolving line of credit	<u><u>\$ 6,500,000</u></u>	<u><u>\$ 8,272,642</u></u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 10 - Long-term Debt and Lines of Credit (continued)**

In February 2000, MMH, RGH, and EES (collectively, the Series A Obligated Group) entered into an agreement and open-ended mortgage with Connecticut Health and Educational Facilities Authority (CHEFA) in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network, Issue Series 2000A (the Series A Bonds). A portion of the proceeds from the Series 2000A Bonds, net of the original issue discount and amounts used to establish required reserve accounts, was placed in an irrevocable trust from which the remaining debt service payments for defeased CHEFA bonds will be paid. The remainder was used to finance additions and renovations for various facilities. The Series A Obligated Group has been legally released from any future debt service on the defeased bonds. The Series A Bonds are due on various due dates through July 1, 2030.

In July 2004, MMH, RGH, EES, and ECHF (collectively, the Series B Obligated Group) entered into an agreement and open-ended mortgage with CHEFA in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network Issue, Series B (the Series B Bonds). A portion of the proceeds from the Series B Bonds, net of the original issue discount and amounts used to establish required reserve accounts, was used to finance additions, renovations, and purchases of equipment for RGH and MMH.

The additions and renovations financed by the Series B Bonds consist of improvements and expansion of the emergency department at RGH; the purchase, renovation, and equipping of the Dialysis Center at RGH; construction of the heliport at RGH, improvements to the Gastrointestinal and Rehabilitation Departments at RGH, and capital equipment purchases for MMH and RGH.

The Series B bonds were refinanced as part of the issuance of Series E bonds as described below.

On October 1, 2005, MMH, RGH, EES, and ECHF (collectively, the Series C Obligated Group) entered into an agreement and open-ended mortgage with CHEFA to borrow \$37,065,000 in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network Issue, Series C (the Series C Bonds). The proceeds from the Series C Bonds, net of the original issue premium and amounts used to establish required reserve accounts, were placed in an irrevocable trust to advance refund and defease a portion of the Series 2000A Bonds. MMH, RGH, and EES have been legally released from any future debt service on the portion of defeased Series 2000A Bonds. The Series C Bonds are due on various due dates through July 1, 2034, bearing interest at rates ranging from 4.00% to 5.125%.

In May 2009, MMH, RGH, EES, and ECHF (collectively, the Series D Obligated Group) entered into an agreement and open-ended mortgage with CHEFA in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network, Issue Series D (the Series D Bonds). A portion of the proceeds from the Series D Bonds, net of amounts used to establish required reserve accounts, were used to finance renovations at MMH, an expansion at EES, and other campus improvements. The Series D Bonds are due on various due dates through May 14, 2039.

In December 2010, MMH, RGH, EES, and ECHF (collectively, the Series E Obligated Group) entered into an agreement and open-ended mortgage with CHEFA in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network, Issue Series E (the Series E Bonds). The proceeds from the Series E Bonds, net of amounts used to establish required reserve accounts, were used to redeem the Series B Bonds and fund interest rate swap agreement termination payments relating to the Series B Bonds. The Series E Bonds are due on various due dates through July 1, 2034.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 10 - Long-term Debt and Lines of Credit (continued)**

Under the terms of the Series A, Series B, Series C, Series D, and Series E Bonds, the Series A Obligated Group, Series B Obligated Group, Series C Obligated Group, Series D Obligated Group, and Series E Obligated Group (the Obligated Groups) are required to maintain certain deposits with a trustee. Such deposits are included in assets whose use is limited. The indenture also places limits on the incurrence of additional borrowings and dispositions of property and requires that the Obligated Groups satisfy certain measures of financial performance as long as the notes are outstanding.

The Obligated Groups are required to comply with certain financial covenants (as defined in the trust agreements), including a debt service coverage ratio, day's cash on hand requirement, and minimum cash to debt ratio. As of September 30, 2012 and 2011, the Obligated Groups were in compliance with the financial covenants of the debt agreements; however, ECHN had to receive a waiver from TD Bank, N.A. (under a letter of credit agreement for Series D and E bonds) for transfers to affiliated organizations outside the Obligated Group in excess of \$4.0 million for the year ended September 30, 2011. The letter of credit agreement was amended in fiscal year 2012 to eliminate this requirement.

Under the terms of the CHEFA agreements, each member of the Obligated Groups is jointly and severally liable for the full and prompt payment of the amounts owed by the Obligated Groups. Total debt of the Obligated Groups was \$81,999,098 and \$80,156,296 as of September 30, 2012 and 2011, respectively. The debt is also secured by the gross receipts of the Obligated Groups.

In June 2012, the Obligated Group entered into a loan agreement with CHEFA for \$5,200,000 in connection with purchase of equipment and renovation costs. The proceeds of the loan, net of disbursements, are included in the current portion of assets whose use is limited. Semi-annual principal and interest payments are due through January 2022.

The loans due to Chase Equipment Leasing, Inc. are collateralized by the related equipment, accessories, attachments, software, and other property relating thereto.

The Hospital is party to various capital leases, which are described in Note 12.

The annual maturities of the long-term debt and capital lease obligations in each of the succeeding five years and thereafter as of September 30, 2012 are as follows:

2013	\$ 6,904,356
2014	6,170,158
2015	5,327,259
2016	4,773,726
2017	3,732,787
Thereafter	<u>67,219,941</u>
	94,128,227
Plus - premium	<u>317,876</u>
Total	<u><u>\$ 94,446,103</u></u>

On November 11, 2010, ECHN entered into a \$6,500,000 unsecured line of credit with TD Bank, N.A. This line of credit carries an interest rate of LIBOR plus 2.25% and expires one year after issuance date. Subsequent to year end, ECHN renewed this line of credit. As of September 30, 2012 and 2011, MMH had \$6,500,000 outstanding.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 10 - Long-term Debt and Lines of Credit (continued)**

On October 28, 2009, ECHN entered into a \$2,000,000 unsecured line of credit agreement with Rockville Bank. The line of credit bears a variable interest rate equal to the prime rate plus .5%. On June 29, 2012, the line of credit was converted to a loan bearing interest at a fixed rate of 3.75%. The loan is fully due on December 15, 2014 and as of September 30, 2012, the outstanding balance was \$1,595,192. As of September 30, 2011, ECHN had \$1,772,642, outstanding on the line.

VNHSC has available a line of credit with a bank, expiring January 2013, for a maximum amount of \$600,000. Advances under the line of credit are secured by all of VNHSC's assets and bear interest at the bank's variable base rate. There were no amounts outstanding on this line as of September 30, 2012.

**Note 11 - Derivatives**

The Network uses derivative instruments, specifically interest rate swap agreements, to manage its exposure to changes in the interest rate on its CHEFA bonds. The use of derivative instruments exposes the Network to additional risks related to the derivative instrument, including market risk, credit risk and termination risk as described below, and the Network has defined risk management practices to mitigate these risks, as appropriate.

Market risk represents the potential adverse effect on the fair value and cash flow of a derivative instrument due to changes in interest rates or rate spreads. Market risk is managed through ongoing monitoring of interest rate exposure based on set parameters regarding the type and degree of market risk that the Network will accept. Credit risk is the risk that the counterparty on a derivative instrument may be unable to perform its obligation during the term of the contract. When the fair value of a derivative contract is positive, the counterparty owes the Network, which creates credit risk.

Credit risk is managed by setting stringent requirements for qualified counterparties at the date of execution of a derivative transaction and requiring counterparties to post collateral in the event of a credit rating downgrade or if the fair value of the derivative contract exceeds a negotiated threshold.

Termination risk represents the risk that the Network may be required to make a significant payment to the counterparty, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to the Network's ability to meet its debt or liquidity covenants.

In November 2004, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$9,750,000 of its variable rate Series B Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.825%. Changes in the fair value of this swap are recorded in the consolidated statements of operations and changes in net assets.

In connection with the redemption of Series B Bonds and the issuance of Series E Bonds, the swap was terminated and paid off in February 2011. Total cash paid was \$711,352 and a gain of \$309,388 was recognized in non-operating losses in the consolidated statements of operations and changes in net assets for the year ended September 30, 2011.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 11 - Derivatives (continued)**

In December 2005, ECHN entered into a second interest rate swap agreement to manage the interest cost and risk associated with \$9,750,000 of its variable rate Series B Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.708%. The swap is accounted for as a cash flow hedge in accordance with ASC 815, “Accounting for Derivative Instruments and Hedging Activities”. This accounting treatment requires the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument to be reported as a component of other changes in unrestricted net assets and to be reclassified into operations in the same period or periods during which the hedged forecasted transaction affects earnings. In connection with the redemption of Series B Bonds and the issuance of Series E Bonds, the swap was terminated and paid off in May 2011. Total cash paid was \$822,875 and a loss of \$822,875 was recognized in non-operating losses in the consolidated statements of operations and changes in net assets for the year ended September 30, 2011.

In May 2009, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$15,250,000 of its variable rate Series D Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.89%. Changes in the fair value of this swap are recorded in the consolidated statements of operations and changes in net assets. The Network’s portion of the swap agreement in force related to this strategy as of September 30, 2012 and 2011, and the liability and interest expense recognized by the Network are as follows:

	2012	2011
Notional amount of contract	\$ 14,342,000	\$ 14,622,000
Fair value of swap contract recognized in other liabilities	\$ 417,000	\$ 588,000
Net interest income recognized in non-operating losses	\$ (170,000)	\$ (95,000)

In June 2012, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$5,200,000 of its debt with Sovereign Bank. Under the terms, ECHN pays a fixed rate of 3.38%. The swap is accounted for as a cash flow hedge in accordance with ASC 815. This accounting treatment requires the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument to be reported as a component of other changes in unrestricted net assets and to be reclassified into operations in the same period or periods during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, shall be recognized currently in non-operating losses. The Network’s portion of the swap agreement schedule in force related to this strategy as of September 30, 2012 is as follows:

	2012
Notional amount of contract	\$ 5,194,222
Fair value of swap contract recognized in other liabilities	\$ 123,000
Unrealized loss recognized as a reduction of unrestricted net assets	\$ 123,000

The counterparty to the above swap transactions is a major financial institution that meets ECHN’s criteria for financial stability and creditworthiness.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 12 - Lease Commitments**

ECHN leases equipment under capital lease agreements, which begin to expire in 2015. The interest rates range from 4% to 8%. The net carrying value of equipment under the capital lease was \$9,876,879 and \$9,749,426 as of September 30, 2012 and 2011, respectively. ECHN leases various office space and certain equipment under operating leases that expire in various years through fiscal year 2024. Certain leases may be renewed at the end of their term.

Future minimum payments under capital leases and non-cancelable operating leases as of September 30, 2012, consisted of the following:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2013	\$ 3,204,659	\$ 4,521,206
2014	2,512,962	3,982,658
2015	2,104,056	3,808,004
2016	1,508,672	3,371,090
2017	240,132	2,503,486
Thereafter	<u>48,126</u>	<u>10,977,686</u>
	9,618,607	<u>\$ 29,164,130</u>
Less: interest on capital lease	<u>632,917</u>	
Principal amount of capital lease	<u>\$ 8,985,690</u>	

Rent expense under operating and month-to-month leases was \$6,009,478 and \$5,865,625 for the years ended September 30, 2012 and 2011, respectively.

**Note 13 - Concentrations of Credit Risk**

ECHN grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix in patient accounts receivable as of September 30, 2012 and 2011, before allowances for doubtful accounts, consists of the following:

	<u>2012</u>	<u>2011</u>
Medicare	29%	31%
Self-pay	28%	21%
Managed care	21%	24%
Medicaid	13%	14%
Commercial insurance	6%	5%
Other	<u>3%</u>	<u>5%</u>
	<u>100 %</u>	<u>100 %</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 14 - Net Patient Service Revenues**

Net patient service revenues for the years ended September 30, 2012 and 2011, consists of the following:

	<u>2012</u>	<u>2011</u>
Patient service revenues:		
Inpatient services	\$ 278,843,185	\$ 228,912,612
Outpatient services	<u>476,021,456</u>	<u>409,922,763</u>
Gross patient service revenues	<u>754,864,641</u>	638,835,375
Deductions - allowances	<u>(477,821,644)</u>	<u>(377,486,499)</u>
Net patient service revenues	<u>\$ 277,042,997</u>	<u>\$ 261,348,876</u>

**Note 15 - Community Benefit**

ECHN's mission is to improve the health of the people and the communities ECHN serves.

ECHN provides quality health care to all, regardless of their ability to pay. Charity care is provided to those who are eligible based on ECHN's policy. ECHN also incurs unpaid costs for government programs because reimbursement is not sufficient to cover costs associated with Medicare and Medicaid patients. In addition to the charity care responsibilities, ECHN provides numerous other community benefits. These community benefits include medical education and research, community health education, screenings, support groups, counseling services, and in-kind support. To address the need for health care providers, a number of programs are offered for young people who may be interested in a career in health care.

ECHN utilizes guidelines developed by various organizations to quantify community benefit activities. ECHN defines community benefit activities as those that improve access to care, as well as the health of the broader community. In addition to charity care and the unpaid costs of government sponsored health care (Medicare and/or Medicaid shortfalls), community benefit activities will normally fall into one of the following categories: nonbilled community health services / community health improvement services, health professions education, subsidized health services, research, financial and in-kind contributions, community building activities, and community benefit operations.

MMH and RGH provide care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because MMH and RGH do 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 \$2,344,731 and \$2,100,957 for the years ended September 30, 2012 and 2011, respectively. Previously, MMH and RGH reported its estimates of services provided under its charity care programs based on gross charges. In connection with MMH and RGH's adoption of ASU 2010-23, "Health Care Entities (Topic 954): Measuring Charity Care for Disclosure," amounts previously reported for care provided under its charity care programs have been restated to reflect MMH and RGH's estimates of its direct and indirect cost of providing these services. This change had no impact on the consolidated results of operations.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 16 - Functional Expenses**

ECHN provides general health care services to residents within its geographical location. For the years ended September 30, 2012 and 2011, expenses relating to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 250,058,835	\$ 224,862,546
Fund raising	396,574	360,468
General and administrative	<u>50,499,081</u>	<u>55,724,494</u>
Total	<u>\$ 300,954,490</u>	<u>\$ 280,947,508</u>

**Note 17 - Temporarily and Permanently Restricted Net Assets**

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

	<u>2012</u>	<u>2011</u>
Departmental and endowment purposes	\$ 2,565,533	\$ 1,676,961
Capital campaign and pledges	<u>677,989</u>	<u>573,002</u>
Total	<u>\$ 3,243,522</u>	<u>\$ 2,249,963</u>

As of September 30, 2012 and 2011, permanently restricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Beneficial interest in trust assets	\$ 7,400,782	\$ 6,688,165
Endowments restricted for:		
Other departmental purposes	3,709,665	3,709,665
Charity care	540,205	540,205
Special needs	151,579	151,579
Cancer research	<u>6,124</u>	<u>6,124</u>
Total	<u>\$ 11,808,355</u>	<u>\$ 11,095,738</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 17 - Temporarily and Permanently Restricted Net Assets (continued)**

The composition of the Network's endowment by net asset class as of September 30, 2012 and 2011, was as follows:

<u>2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,564,396	\$ 4,407,574	\$ 6,971,970
Board-designated endowment funds	<u>26,269,872</u>	<u>-</u>	<u>-</u>	<u>26,269,872</u>
Net assets, September 30, 2012	<u>\$ 26,269,872</u>	<u>\$ 2,564,396</u>	<u>\$ 4,407,574</u>	<u>\$ 33,241,842</u>
<u>2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,677,008	\$ 4,407,574	\$ 6,084,582
Board-designated endowment funds	<u>19,558,790</u>	<u>-</u>	<u>-</u>	<u>19,558,790</u>
Net assets, September 30, 2011	<u>\$ 19,558,790</u>	<u>\$ 1,677,008</u>	<u>\$ 4,407,574</u>	<u>\$ 25,643,372</u>

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

The Network 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 Network.

The Network 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 Network 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 Network; and (7) the investment policies of the Network.

The Network 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. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment and management costs, over the long-term. Actual returns in any given year may vary from this amount.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 17 - Temporarily and Permanently Restricted Net Assets (continued)**

The Investment Committee of the Board is responsible for defining and reviewing the investment policy 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 Network 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 Network 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.

The Network has not appropriated funds for expenditure from its endowment funds for the years ending September 30, 2012 and 2011.

Changes in endowment net assets for the fiscal years ended September 30, 2012 and 2011 were as follows:

<u>2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, October 1, 2011	\$ 19,558,790	\$ 1,677,008	\$ 4,407,574	\$ 25,643,372
Interest income and dividends	174,204	37,521	-	211,725
Unrealized appreciation on investments	4,639,604	530,565	-	5,170,169
Contributions	2,146,543	70,033	-	2,216,576
Transfers (to) from Endowment	<u>(249,269)</u>	<u>249,269</u>	<u>-</u>	<u>-</u>
Net assets, September 30, 2012	<u>\$ 26,269,872</u>	<u>\$ 2,564,396</u>	<u>\$ 4,407,574</u>	<u>\$ 33,241,842</u>
<u>2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, October 1, 2010	\$ 17,476,568	\$ 4,578,454	\$ 4,407,574	\$ 26,462,596
Interest income and dividends	562,989	34,183	-	597,172
Unrealized (depreciation) appreciation on investments	(1,079,410)	88,014	-	(991,396)
Transfers (to) from Endowment	2,598,643	(2,598,643)	-	-
Distributions	<u>-</u>	<u>(425,000)</u>	<u>-</u>	<u>(425,000)</u>
Net assets, September 30, 2011	<u>\$ 19,558,790</u>	<u>\$ 1,677,008</u>	<u>\$ 4,407,574</u>	<u>\$ 25,643,372</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 Network 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, 2012 and 2011, there were no funds that were below the level required by donor or law.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2012 and 2011**

**Note 18 - Commitments and Contingencies**

The Network is involved in various legal actions arising from its activities. Although the ultimate outcome is not determinable at this time, management, after taking into consideration the advice of legal counsel, believes that the resolution of these pending matters will not have a material adverse effect, individually or in the aggregate, on the consolidated balance sheets or on the related consolidated statements of operations and changes in net assets, or consolidated cash flows of the Network.

The Network and the Network's defined benefit pension plans invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

*Corporate Guaranty* - In 2007, the Network was established as a guarantor of Sports Medicine Partners, Orthopedics & Rehabilitation Therapy, P.C. (Sports), a Friendly PC, allowing Sports to borrow \$800,000 from North Fork Equipment Leasing for equipment and improvements to the space at Evergreen Walk. Under the terms of the corporate guaranty, which was for 60 months and expired in June 2012, the Network was responsible for payment of any and all debts owed by Sports to North Fork Equipment Leasing. There was no collateral pledged as part of the corporate guaranty and \$0 and \$121,921 of the original \$800,000 loan from North Fork Equipment Leasing was outstanding as of September 30, 2012 and 2011, respectively.

**Note 19 - Statutory Capital and Surplus**

CHIC was incorporated in the Cayman Islands on September 15, 2006 and was granted an Unrestricted Class "B" insurance license under the Insurance Law of the Cayman Islands with an effective date of September 26, 2006. CHIC is regulated by the Cayman Islands Monetary Authority (CIMA) and related relations, and is obligated to comply with CIMA regulations regarding minimum levels of solvency and liquidity.

Statutory capital and surplus as of September 30, 2012 was \$4,023 with a minimum amount required to be maintained by CHIC of \$120,000. CHIC's equity was below the minimum required capital amount as of September 30, 2012, which was primarily the result of adverse loss development experienced on a limited number of claims relating to prior years. Subsequent to September 30, 2012, ECHN contributed \$1,000,000 of additional capital to ensure that the capital balance is in compliance with the CIMA's statutory regulations.

ECHN reports all of CHIC's investments as investments held in trust for estimated self-insurance liabilities in the accompanying consolidated balance sheets.

CHIC's Board of Directors has recommended that equity of \$973,000 be retained to pay claims in the event of adverse development. Distribution of dividends is subject to approval by the Board of Directors. No dividends were declared or paid during the years ended September 30, 2012 and 2011.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2012**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group	Eastern CT Medical Professionals Foundation, Inc.	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Assets</b>															
<b>Current assets:</b>															
Cash and cash equivalents	\$ 6,414,687	\$ 1,463,823	\$ 2,104,524	\$ -	\$ 9,983,034	\$ 3,322,992	\$ -	\$ 13,306,026	\$ 693,999	\$ 140,014	\$ 2,917,808	\$ 115,453	\$ 2,878,767	\$ -	\$ 20,052,067
Current portion of assets whose use is limited	4,781,749	467,222	186,474	-	5,435,445	-	-	5,435,445	-	-	-	-	-	-	5,435,445
Accounts receivable - net	26,534,856	10,959,585	1,858,191	-	39,352,632	-	-	39,352,632	2,958,828	-	3,438,643	926,570	34,582	-	46,711,255
Inventory	2,660,785	1,519,666	57,223	-	4,237,674	-	-	4,237,674	15,926	-	-	-	-	-	4,253,600
Due from affiliated entities	484,258	781,899	138,837	(822,530)	582,464	29,255	-	611,719	-	-	-	3,631,838	-	(4,243,557)	-
Current portion of estimated settlements due from third-party payers	3,549,365	853,555	-	-	4,402,920	-	-	4,402,920	-	-	-	-	-	-	4,402,920
Prepaid expenses and other current assets	2,028,449	218,802	12,150	-	2,259,401	852,507	-	3,111,908	321,126	3,712	159,877	1,390,039	33,945	-	5,020,607
<b>Total current assets</b>	<b>46,454,149</b>	<b>16,264,552</b>	<b>4,357,399</b>	<b>(822,530)</b>	<b>66,253,570</b>	<b>4,204,754</b>	<b>-</b>	<b>70,458,324</b>	<b>3,989,879</b>	<b>143,726</b>	<b>6,516,328</b>	<b>6,063,900</b>	<b>2,947,294</b>	<b>(4,243,557)</b>	<b>85,875,894</b>
<b>Assets whose use is limited - net of current portion:</b>															
Donor restricted investments	2,312,582	1,696,049	-	-	4,008,631	2,893,106	-	6,901,737	-	-	70,233	-	-	-	6,971,970
Board designated investments	7,434,591	9,011,067	-	-	16,445,658	7,677,672	-	24,123,330	-	-	2,146,542	-	-	-	26,269,872
Investments held in trust for estimated self-insurance liabilities	1,856,635	-	-	-	1,856,635	-	-	1,856,635	-	-	-	-	6,988,063	-	8,844,698
Beneficial interest in trust assets	5,296,479	2,104,303	-	-	7,400,782	-	-	7,400,782	-	-	-	-	-	-	7,400,782
Investments held under bond indentures	3,258,804	931,963	751,053	-	4,941,820	-	-	4,941,820	-	-	-	-	-	-	4,941,820
<b>Total assets whose use is limited</b>	<b>20,159,091</b>	<b>13,743,382</b>	<b>751,053</b>	<b>-</b>	<b>34,653,526</b>	<b>10,570,778</b>	<b>-</b>	<b>45,224,304</b>	<b>-</b>	<b>-</b>	<b>2,216,775</b>	<b>-</b>	<b>6,988,063</b>	<b>-</b>	<b>54,429,142</b>
Interest in net assets of ECHN CHF, Inc.	6,199,192	3,254,582	165,279	-	9,619,053	-	(9,619,053)	-	-	-	-	3,483,853	-	(3,483,853)	-
Investments	8,547,933	9,554,311	2,021,333	-	20,123,577	259,390	-	20,382,967	-	-	1,127,849	(589,367)	-	589,367	21,510,816
Investments in joint ventures	3,565,975	3,127,553	-	-	6,693,528	-	-	6,693,528	-	1,263,713	-	5,543,083	-	-	13,500,324
Property, plant and equipment - net	51,317,622	30,472,774	7,868,327	-	89,658,723	-	-	89,658,723	3,213,132	1,261,561	1,785,171	376,868	-	-	96,295,455
<b>Other assets:</b>															
Due from affiliated entities - net of current portion	31,960,910	2,620,000	250,000	-	34,830,910	-	-	34,830,910	-	-	-	-	-	(34,830,910)	-
Goodwill and intangible assets - net	-	-	578,808	-	578,808	-	-	578,808	256,271	-	-	5,628,027	-	-	6,463,106
Other - net	1,866,512	831,619	355,605	-	3,053,736	376,164	-	3,429,900	-	-	591,402	326,934	867,152	-	5,215,388
<b>Total other assets</b>	<b>33,827,422</b>	<b>3,451,619</b>	<b>1,184,413</b>	<b>-</b>	<b>38,463,454</b>	<b>376,164</b>	<b>-</b>	<b>38,839,618</b>	<b>256,271</b>	<b>-</b>	<b>591,402</b>	<b>5,954,961</b>	<b>867,152</b>	<b>(34,830,910)</b>	<b>11,678,494</b>
<b>Total assets</b>	<b>\$ 170,071,384</b>	<b>\$ 79,868,773</b>	<b>\$ 16,347,804</b>	<b>\$ (822,530)</b>	<b>\$ 265,465,431</b>	<b>\$ 15,411,086</b>	<b>\$ (9,619,053)</b>	<b>\$ 271,257,464</b>	<b>\$ 7,459,282</b>	<b>\$ 2,669,000</b>	<b>\$ 12,237,525</b>	<b>\$ 20,833,298</b>	<b>\$ 10,802,509</b>	<b>\$ (41,968,953)</b>	<b>\$ 283,290,125</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2012**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group	Eastern CT Medical Professionals Foundation, Inc.	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Liabilities and Net Assets (Deficit)															
Current liabilities:															
Accounts payable and accrued expenses	\$ 17,702,182	\$ 5,969,615	\$ 1,430,433	\$ -	\$ 25,102,230	\$ 70,933	\$ -	\$ 25,173,163	\$ 1,870,967	\$ 16,376	\$ 2,003,029	\$ 1,572,926	\$ 94,215	\$ -	\$ 30,730,676
Lines of credit	6,500,000	-	-	-	6,500,000	-	-	6,500,000	-	-	-	-	-	-	6,500,000
Current portion of long-term debt	3,898,759	1,271,671	524,668	-	5,695,098	-	-	5,695,098	23,140	23,469	-	1,162,647	-	6,904,354	
Due to affiliates	818,583	3,297,172	3,947	(822,530)	3,297,172	540,547	-	3,837,719	5,345,034	2,408,782	-	19,489,410	-	(31,080,945)	
Current portion of estimated settlements due to third-party payers	1,343,126	1,157,913	292,736	-	2,793,775	-	-	2,793,775	-	-	-	-	-	2,793,775	
Current portion of accrued pension and other postretirement benefits	2,733,125	1,164,039	-	-	3,897,164	-	-	3,897,164	-	-	-	-	-	3,897,164	
Other current liabilities	2,426,820	715,430	179,157	-	3,321,407	-	-	3,321,407	-	-	707,490	-	4,124,476	8,153,373	
<b>Total current liabilities</b>	<b>35,422,595</b>	<b>13,575,840</b>	<b>2,430,941</b>	<b>(822,530)</b>	<b>50,606,846</b>	<b>611,480</b>	<b>-</b>	<b>51,218,326</b>	<b>7,239,141</b>	<b>2,448,627</b>	<b>2,710,519</b>	<b>22,224,983</b>	<b>4,218,691</b>	<b>(31,080,945)</b>	<b>58,979,342</b>
Long-term debt and capital lease obligations, net of current portion															
Estimated self-insurance liabilities	51,672,633	24,394,084	8,879,308	-	84,946,025	-	-	84,946,025	247,832	298,972	114,416	1,934,504	-	-	87,541,749
Accrued pension and postretirement benefits	9,814,802	3,307,458	514,642	-	13,636,902	-	-	13,636,902	-	-	-	-	6,579,795	(10,695,000)	9,521,697
Estimated settlements due to third-party payers, net of current portion	57,470,806	17,147,802	-	-	74,618,608	-	-	74,618,608	-	-	-	-	-	-	74,618,608
Other liabilities	-	-	-	-	-	-	-	-	-	-	82,500	-	-	-	82,500
<b>Total liabilities</b>	<b>155,065,611</b>	<b>58,553,762</b>	<b>11,952,614</b>	<b>(822,530)</b>	<b>224,749,457</b>	<b>615,372</b>	<b>-</b>	<b>225,364,829</b>	<b>7,486,973</b>	<b>2,747,599</b>	<b>2,907,435</b>	<b>24,159,487</b>	<b>10,798,486</b>	<b>(41,775,945)</b>	<b>231,688,864</b>
Net assets (deficit):															
Unrestricted	4,925,515	17,066,097	4,363,849	-	26,355,461	1,692,807	-	28,048,268	(27,691)	(78,599)	9,257,504	(3,944,964)	4,023	3,290,843	36,549,384
Temporarily restricted	1,905,069	615,748	31,341	-	2,552,158	11,535,595	(8,051,741)	6,036,012	-	-	72,586	618,775	-	(3,483,851)	3,243,522
Permanently restricted	8,175,189	3,633,166	-	-	11,808,355	1,567,312	(1,567,312)	11,808,355	-	-	-	-	-	-	11,808,355
<b>Total net assets (deficit)</b>	<b>15,005,773</b>	<b>21,315,011</b>	<b>4,395,190</b>	<b>-</b>	<b>40,715,974</b>	<b>14,795,714</b>	<b>(9,619,053)</b>	<b>45,892,635</b>	<b>(27,691)</b>	<b>(78,599)</b>	<b>9,330,090</b>	<b>(3,326,189)</b>	<b>4,023</b>	<b>(193,008)</b>	<b>51,601,261</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 170,071,384</b>	<b>\$ 79,868,773</b>	<b>\$ 16,347,804</b>	<b>\$ (822,530)</b>	<b>\$ 265,465,431</b>	<b>\$ 15,411,086</b>	<b>\$ (9,619,053)</b>	<b>\$ 271,257,464</b>	<b>\$ 7,459,282</b>	<b>\$ 2,669,000</b>	<b>\$ 12,237,525</b>	<b>\$ 20,833,298</b>	<b>\$ 10,802,509</b>	<b>\$ (41,968,953)</b>	<b>\$ 283,290,125</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**For the Year Ended September 30, 2012**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group	Eastern CT Medical Professionals Foundation, Inc.	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Revenues:															
Net patient service revenues	\$ 175,217,566	\$ 67,847,638	\$ 14,598,768	\$ -	\$ 257,663,972	\$ -	\$ -	\$ 257,663,972	\$ 19,379,025	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 277,042,997
Contributions	2,035,698	192,851	14,563	-	2,243,112	-	-	2,243,112	-	-	-	264,366	-	(264,366)	2,243,112
Other revenues	15,303,250	5,020,030	192,114	(780,629)	19,734,765	820,595	(814,140)	19,741,220	7,809,670	330,791	-	3,436,821	2,299,700	(16,085,874)	17,532,328
EHR incentive payment revenue	2,206,302	1,626,870	-	-	3,833,172	-	-	3,833,172	-	-	-	-	-	-	3,833,172
Contribution of VNHSC	-	-	-	-	-	-	-	-	-	-	-	4,592,459	-	-	4,592,459
Net assets released from restrictions used for operations	316,686	31,857	19	-	348,562	289,326	-	637,888	-	-	-	225	-	-	638,113
<b>Total revenues</b>	<b>195,079,502</b>	<b>74,719,246</b>	<b>14,805,464</b>	<b>(780,629)</b>	<b>283,823,583</b>	<b>1,109,921</b>	<b>(814,140)</b>	<b>284,119,364</b>	<b>27,188,695</b>	<b>330,791</b>	<b>-</b>	<b>8,293,871</b>	<b>2,299,700</b>	<b>(16,350,240)</b>	<b>305,882,181</b>
Expenses:															
Salaries and wages	81,549,825	30,268,391	7,011,831	-	118,830,047	477,716	(349,888)	118,957,875	20,957,854	-	-	11,551,692	-	(11,551,692)	139,915,729
Fringe benefits	24,867,252	10,042,713	2,219,761	-	37,129,726	116,129	(379,260)	36,866,595	3,288,871	-	-	2,287,709	-	(2,287,706)	40,155,469
Supplies and other expenses	62,035,761	25,886,843	4,320,634	(780,629)	91,462,609	516,076	(84,992)	91,893,693	7,313,618	353,981	-	(6,746,516)	6,134,132	(5,144,290)	93,804,618
Provision for bad debts	6,382,307	3,309,948	162,851	-	9,855,106	-	-	9,855,106	1,430,104	-	-	-	-	-	11,285,210
Depreciation and amortization	6,896,812	3,811,952	539,694	-	11,248,458	-	-	11,248,458	477,564	85,611	-	150,759	-	(150,759)	11,811,633
Interest and financing costs	2,714,044	719,107	508,782	-	3,941,933	-	-	3,941,933	21,703	18,195	-	219,413	-	(219,413)	3,981,831
<b>Total expenses</b>	<b>184,446,001</b>	<b>74,038,954</b>	<b>14,763,553</b>	<b>(780,629)</b>	<b>272,467,879</b>	<b>1,109,921</b>	<b>(814,140)</b>	<b>272,763,660</b>	<b>33,489,714</b>	<b>457,787</b>	<b>-</b>	<b>7,463,057</b>	<b>6,134,132</b>	<b>(19,353,860)</b>	<b>300,954,490</b>
Income (loss) from operations	10,633,501	680,292	41,911	-	11,355,704	-	-	11,355,704	(6,301,019)	(126,996)	-	830,814	(3,834,432)	3,003,620	4,927,691
Non-operating (losses) gains	(868,637)	(179,961)	41,454	-	(1,007,144)	-	-	(1,007,144)	-	(193,392)	-	(830,814)	-	830,814	(1,200,536)
Excess (deficiency) of revenues over expenses	\$ 9,764,864	\$ 500,331	\$ 83,365	\$ -	\$ 10,348,560	\$ -	\$ -	\$ 10,348,560	\$ (6,301,019)	\$ (320,388)	\$ -	\$ -	\$ (3,834,432)	\$ 3,834,434	\$ 3,727,155

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2012**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group	Eastern CT Medical Professionals Foundation, Inc.	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Unrestricted net assets:															
Excess (deficiency) of revenues over expenses	\$ 9,764,864	\$ 500,331	\$ 83,365	\$ -	\$ 10,348,560	\$ -	\$ -	\$ 10,348,560	\$ (6,301,019)	\$ (320,388)	\$ -	\$ -	\$ (3,834,432)	\$ 3,834,434	\$ 3,727,155
Change in unrealized appreciation															
on investments	3,361,907	3,413,298	224,010	-	6,999,215	-	-	6,999,215	-	-	-	646,773	328,272	-	7,974,260
Net change in interest rate swap agreement	(123,039)	-	-	-	(123,039)	-	-	(123,039)	-	-	-	-	-	-	(123,039)
Net assets released from restrictions for															
capital acquisitions	231,566	48,524	55,987	-	336,077	-	-	336,077	-	-	-	-	-	-	336,077
Equity transfer to ECHN	(4,095,662)	(8,205,357)	-	-	(12,301,019)	-	-	(12,301,019)	-	-	-	12,301,019	-	-	-
Equity transfer from ECHN	6,000,000	-	-	-	6,000,000	-	-	6,000,000	6,301,019	-	-	(12,301,019)	-	-	-
VNHSC transfer	-	-	-	-	-	-	-	-	-	9,257,504	-	(9,257,504)	-	-	-
Transfers (to) from other affiliates - net	(310,801)	424,971	2,654	-	116,824	(92,176)	-	24,648	-	-	-	(24,648)	-	-	-
Pension and postretirement related adjustments	(13,376,627)	(3,804,398)	-	-	(17,181,025)	-	-	(17,181,025)	-	-	-	-	-	-	(17,181,025)
Change in unrestricted net assets	1,452,208	(7,622,631)	366,016	-	(5,804,407)	(92,176)	-	(5,896,583)	-	(320,388)	9,257,504	(8,635,379)	(3,506,160)	3,834,434	(5,266,572)
Temporarily restricted net assets:															
Contributions	450,324	54,836	3,902	-	509,062	3,570,388	(2,487,806)	1,591,644	-	-	-	528,889	-	(793,255)	1,327,278
Investment income	18,520	18,801	-	-	37,321	26,602	(26,601)	37,322	-	-	-	-	-	-	37,322
Net assets released from restrictions for operations	(316,686)	(31,857)	(19)	-	(348,562)	(1,098,260)	808,709	(638,113)	-	-	-	(225)	-	225	(638,113)
Net assets released from restrictions for															
capital acquisitions	(231,566)	(48,524)	(55,987)	-	(336,077)	(336,077)	336,077	(336,077)	-	-	-	-	-	-	(336,077)
Change in unrealized appreciation on investments	345,177	119,637	9,958	-	474,772	1,918,625	(1,311,167)	1,082,230	-	-	-	55,791	-	(607,458)	530,563
Contribution of VNHSC	-	-	-	-	-	-	-	-	-	72,586	-	-	-	-	72,586
Transfers (to) from affiliates	650,598	(409,676)	-	-	240,922	-	(265,570)	(24,648)	-	-	-	(240,922)	-	265,570	-
Change in temporarily restricted net assets	916,367	(296,783)	(42,146)	-	577,438	4,081,278	(2,946,358)	1,712,358	-	72,586	343,533	-	-	(1,134,918)	993,559
Permanently restricted net assets:															
Change in beneficial interest in trust assets	495,556	217,061	-	-	712,617	-	-	712,617	-	-	-	-	-	-	712,617
Change in permanently restricted net assets	495,556	217,061	-	-	712,617	-	-	712,617	-	-	-	-	-	-	712,617
Change in net assets (deficit)	2,864,131	(7,702,353)	323,870	-	(4,514,352)	3,989,102	(2,946,358)	(3,471,608)	-	(320,388)	9,330,090	(8,291,846)	(3,506,160)	2,699,516	(3,560,396)
Net assets (deficit), beginning of year	12,141,642	29,017,364	4,071,320	-	45,230,326	10,806,612	(6,672,695)	49,364,243	(27,691)	241,789	-	4,965,657	3,510,183	(2,892,524)	55,161,657
Net assets (deficit), end of year	\$ 15,005,773	\$ 21,315,011	\$ 4,395,190	\$ -	\$ 40,715,974	\$ 14,795,714	\$ (9,619,053)	\$ 45,892,635	\$ (27,691)	\$ (78,599)	\$ 9,330,090	\$ (3,326,189)	\$ 4,023	\$ (193,008)	\$ 51,601,261

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2011**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Assets</b>															
<b>Current assets:</b>															
Cash and cash equivalents	\$ 10,880,739	\$ 4,739,454	\$ 894,458	\$ -	\$ 16,514,651	\$ 1,510,689	\$ -	\$ 18,025,340	\$ 360,213	\$ 628,407	\$ -	\$ 292,976	\$ 1,684,244	\$ -	\$ 20,991,180
Current portion of assets whose use is limited	803,195	501,284	200,509	-	1,504,988	-	-	1,504,988	-	-	-	-	-	-	1,504,988
Accounts receivable - net	24,700,330	10,246,785	2,234,552	-	37,181,667	-	-	37,181,667	2,302,311	-	-	122,030	37,420	-	39,643,428
Inventory	2,591,838	1,576,966	59,764	-	4,228,568	-	-	4,228,568	-	-	-	-	-	-	4,228,568
Due from affiliated entities	419,887	2,196,771	298,927	(2,464,200)	451,385	18,169	-	469,554	2,711,714	-	-	(1,368,319)	-	(1,812,949)	-
Current portion of estimated settlements due from third-party payers	432,832	-	-	-	432,832	-	-	432,832	-	-	-	-	-	-	432,832
Prepaid expenses and other current assets	2,506,129	270,651	9,594	-	2,786,374	456,278	-	3,242,652	855,501	3,531	-	1,354,342	15,462	-	5,471,488
<b>Total current assets</b>	<b>42,334,950</b>	<b>19,531,911</b>	<b>3,697,804</b>	<b>(2,464,200)</b>	<b>63,100,465</b>	<b>1,985,136</b>	<b>-</b>	<b>65,085,601</b>	<b>6,229,739</b>	<b>631,938</b>	<b>-</b>	<b>401,029</b>	<b>1,737,126</b>	<b>(1,812,949)</b>	<b>72,272,484</b>
<b>Assets whose use is limited - net of current portion:</b>															
Donor restricted investments	1,677,029	2,018,549	-	-	3,695,578	2,389,004	-	6,084,582	-	-	-	-	-	-	6,084,582
Board designated investments	6,346,662	7,095,031	-	-	13,441,693	6,117,097	-	19,558,790	-	-	-	-	-	-	19,558,790
Investments held in trust for estimated self-insurance liabilities	2,438,807	-	-	-	2,438,807	-	-	2,438,807	-	-	-	-	6,452,363	-	8,891,170
Beneficial interest in trust assets	4,800,923	1,887,242	-	-	6,688,165	-	-	6,688,165	-	-	-	-	-	-	6,688,165
Investments held under bond indentures	3,259,163	1,890,523	751,125	-	5,900,811	-	-	5,900,811	-	-	-	-	-	-	5,900,811
<b>Total assets whose use is limited</b>	<b>18,522,584</b>	<b>12,891,345</b>	<b>751,125</b>	<b>-</b>	<b>32,165,054</b>	<b>8,506,101</b>	<b>-</b>	<b>40,671,155</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,452,363</b>	<b>-</b>	<b>47,123,518</b>
Interest in net assets of ECHN CHF, Inc.	3,872,533	2,629,614	170,548	-	6,672,695	-	(6,672,695)	-	-	-	-	2,348,934	-	(2,348,934)	-
Interest in net assets of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	3,245,067	-	(3,245,067)	-
Investments	7,217,602	7,740,794	1,759,038	-	16,717,434	227,263	-	16,944,697	-	-	-	-	-	-	16,944,697
Investments in joint ventures	3,719,835	2,858,713	-	-	6,578,548	-	-	6,578,548	-	1,433,293	-	8,957,727	-	-	16,969,568
Property, plant and equipment - net	52,084,498	31,151,854	8,429,985	-	91,666,337	-	-	91,666,337	2,727,773	1,403,523	-	391,964	-	-	96,189,597
<b>Other assets:</b>															
Estimated settlements due from third-party payers - net of current portion	1,306,869	1,856,415	-	-	3,163,284	-	-	3,163,284	-	-	-	-	-	-	3,163,284
Due from affiliated entities - net of current portion	20,842,090	4,058,961	200,000	-	25,101,051	-	-	25,101,051	-	-	-	-	-	(25,101,051)	-
Goodwill and intangible assets - net	72,000	72,000	608,134	-	752,134	-	-	752,134	81,997	-	-	4,409,011	-	-	5,243,142
Other - net	1,856,527	866,926	378,196	-	3,101,649	375,977	-	3,477,626	15,000	-	-	221,955	668,818	-	4,383,399
<b>Total other assets</b>	<b>24,077,486</b>	<b>6,854,302</b>	<b>1,186,330</b>	<b>-</b>	<b>32,118,118</b>	<b>375,977</b>	<b>-</b>	<b>32,494,095</b>	<b>96,997</b>	<b>-</b>	<b>-</b>	<b>4,630,966</b>	<b>668,818</b>	<b>(25,101,051)</b>	<b>12,789,825</b>
<b>Total assets</b>	<b>\$ 151,829,488</b>	<b>\$ 83,658,533</b>	<b>\$ 15,994,830</b>	<b>\$ (2,464,200)</b>	<b>\$ 249,018,651</b>	<b>\$ 11,094,477</b>	<b>\$ (6,672,695)</b>	<b>\$ 253,440,433</b>	<b>\$ 9,054,509</b>	<b>\$ 3,468,754</b>	<b>\$ -</b>	<b>\$ 19,975,687</b>	<b>\$ 8,858,307</b>	<b>\$ (32,508,001)</b>	<b>\$ 262,289,689</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2011**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Groups	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Liabilities and Net Assets (Deficit)</b>															
<b>Current liabilities:</b>															
Accounts payable and accrued expenses	\$ 15,290,987	\$ 4,898,568	\$ 846,533	\$ -	\$ 21,036,088	\$ 33,500	\$ -	\$ 21,069,588	\$ 1,273,629	\$ 35,765	\$ -	\$ 743,228	\$ 88,077	\$ -	\$ 23,210,287
Lines of credit	6,500,000	-	-	-	6,500,000	-	-	6,500,000	-	-	-	1,772,642	-	-	8,272,642
Current portion of long-term debt	3,467,143	1,247,313	495,689	-	5,210,145	-	-	5,210,145	-	17,623	-	424,679	-	-	5,652,447
Due to affiliates	2,283,655	2,717,350	182,566	(2,464,200)	2,719,371	250,212	-	2,969,583	7,808,571	2,849,130	-	10,728,193	-	(24,355,477)	-
Current portion of estimated settlements due to third-party payers	1,420,022	684,512	-	-	2,104,534	-	-	2,104,534	-	-	-	-	-	-	2,104,534
Current portion of accrued pension and other postretirement benefits	8,678,593	2,650,753	-	-	11,329,346	-	-	11,329,346	-	-	-	-	-	-	11,329,346
Other current liabilities	2,557,626	1,240,661	229,657	-	4,027,944	-	-	4,027,944	-	-	-	-	1,672,727	-	5,700,671
<b>Total current liabilities</b>	<b>40,198,026</b>	<b>13,439,157</b>	<b>1,754,445</b>	<b>(2,464,200)</b>	<b>52,927,428</b>	<b>283,712</b>	<b>-</b>	<b>53,211,140</b>	<b>9,082,200</b>	<b>2,902,518</b>	<b>-</b>	<b>13,668,742</b>	<b>1,760,804</b>	<b>(24,355,477)</b>	<b>56,269,927</b>
<b>Long-term debt and capital lease obligations, net of current portion</b>															
Estimated self-insurance liabilities	49,708,745	25,860,313	9,400,372	-	84,969,430	-	-	84,969,430	-	324,447	-	1,341,288	-	-	86,635,165
Accrued pension and postretirement benefits	5,736,899	1,813,842	433,277	-	7,984,018	-	-	7,984,018	-	-	-	-	3,587,320	(5,260,000)	6,311,338
Estimated settlements due to third-party payers, net of current portion	43,370,197	13,402,108	-	-	56,772,305	-	-	56,772,305	-	-	-	-	-	-	56,772,305
Other liabilities	-	-	335,416	-	335,416	-	-	335,416	-	-	-	-	-	-	335,416
<b>Total liabilities</b>	<b>139,687,846</b>	<b>54,641,169</b>	<b>11,923,510</b>	<b>(2,464,200)</b>	<b>203,788,325</b>	<b>287,865</b>	<b>-</b>	<b>204,076,190</b>	<b>9,082,200</b>	<b>3,226,965</b>	<b>-</b>	<b>15,010,030</b>	<b>5,348,124</b>	<b>(29,615,477)</b>	<b>207,128,032</b>
<b>Net assets (deficit):</b>															
Unrestricted	3,473,307	24,688,727	3,997,833	-	32,159,867	1,784,983	-	33,944,850	(27,691)	241,789	-	4,690,415	3,510,183	(543,590)	41,815,956
Temporarily restricted	988,702	912,532	73,487	-	1,974,721	7,454,317	(5,105,383)	4,323,655	-	-	-	275,242	-	(2,348,934)	2,249,963
Permanently restricted	7,679,633	3,416,105	-	-	11,095,738	1,567,312	(1,567,312)	11,095,738	-	-	-	-	-	-	11,095,738
<b>Total net assets (deficit)</b>	<b>12,141,642</b>	<b>29,017,364</b>	<b>4,071,320</b>	<b>-</b>	<b>45,230,326</b>	<b>10,806,612</b>	<b>(6,672,695)</b>	<b>49,364,243</b>	<b>(27,691)</b>	<b>241,789</b>	<b>-</b>	<b>4,965,657</b>	<b>3,510,183</b>	<b>(2,892,524)</b>	<b>55,161,657</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 151,829,488</b>	<b>\$ 83,658,533</b>	<b>\$ 15,994,830</b>	<b>\$ (2,464,200)</b>	<b>\$ 249,018,651</b>	<b>\$ 11,094,477</b>	<b>\$ (6,672,695)</b>	<b>\$ 253,440,433</b>	<b>\$ 9,054,509</b>	<b>\$ 3,468,754</b>	<b>\$ -</b>	<b>\$ 19,975,687</b>	<b>\$ 8,858,307</b>	<b>\$ (32,508,001)</b>	<b>\$ 262,289,689</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**For the Year Ended September 30, 2011**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Revenues:</b>															
Net patient service revenues	\$ 166,602,261	\$ 63,387,116	\$ 14,647,939	\$ -	\$ 244,637,316	\$ -	\$ -	\$ 244,637,316	\$ 15,639,457	\$ -	\$ 1,072,103	\$ -	\$ -	\$ -	\$ 261,348,876
Contributions	455,096	237,954	20,224	-	713,274	-	-	713,274	-	-	18,982	296,332	-	(296,332)	732,256
Other revenues	11,857,772	3,888,629	186,575	(1,496,005)	14,436,971	830,979	(719,211)	14,548,739	8,082,679	627,766	53,726	2,669,854	2,833,383	(11,683,629)	17,132,518
EHR initiative program revenue	356,984	618,428	-	-	975,412	-	-	975,412	-	-	-	-	-	-	975,412
Net assets released from restrictions used for operations	478,506	48,044	250	-	526,800	266,386	-	793,186	-	-	7,395	542	-	-	801,123
<b>Total revenues</b>	<b>179,750,619</b>	<b>68,180,171</b>	<b>14,854,988</b>	<b>(1,496,005)</b>	<b>261,289,773</b>	<b>1,097,365</b>	<b>(719,211)</b>	<b>261,667,927</b>	<b>23,722,136</b>	<b>627,766</b>	<b>1,152,206</b>	<b>2,966,728</b>	<b>2,833,383</b>	<b>(11,979,961)</b>	<b>280,990,185</b>
<b>Expenses:</b>															
Salaries and wages	77,581,560	29,535,778	6,983,892	-	114,101,230	499,695	(327,539)	114,273,386	19,498,733	-	446,025	10,907,025	-	(10,907,030)	134,218,139
Fringe benefits	21,779,464	8,838,640	2,285,123	-	32,903,227	116,068	(315,378)	32,703,917	2,892,399	-	100,539	2,074,933	-	(2,074,933)	35,696,855
Supplies and other expenses	58,149,870	21,930,029	4,112,353	(1,496,005)	82,696,247	481,602	(76,294)	83,101,555	5,980,385	549,507	351,095	(10,624,685)	2,871,947	1,572,892	83,802,696
Provision for bad debts	6,164,670	2,925,278	178,000	-	9,267,948	-	-	9,267,948	1,832,115	-	6,417	-	-	-	11,106,480
Depreciation and amortization	7,107,904	3,672,297	543,591	-	11,323,792	-	-	11,323,792	396,849	92,050	86,227	199,046	-	(199,046)	11,898,918
Interest and financing costs	2,539,198	1,115,177	528,704	-	4,183,079	-	-	4,183,079	15,977	23,543	1,821	202,857	-	(202,857)	4,224,420
<b>Total expenses</b>	<b>173,322,666</b>	<b>68,017,199</b>	<b>14,631,663</b>	<b>(1,496,005)</b>	<b>254,475,523</b>	<b>1,097,365</b>	<b>(719,211)</b>	<b>254,853,677</b>	<b>30,616,458</b>	<b>665,100</b>	<b>992,124</b>	<b>2,759,176</b>	<b>2,871,947</b>	<b>(11,810,974)</b>	<b>280,947,508</b>
Income (loss) from operations	6,427,953	162,972	223,325	-	6,814,250	-	-	6,814,250	(6,894,322)	(37,334)	160,082	207,552	(38,564)	(168,987)	42,677
Non-operating (losses) gains	(364,307)	(855,256)	26,536	-	(1,193,027)	-	-	(1,193,027)	-	(148,406)	(162)	(207,552)	(91,329)	298,880	(1,341,596)
Excess (deficiency) of revenues over expenses	\$ 6,063,646	\$ (692,284)	\$ 249,861	\$ -	\$ 5,621,223	\$ -	\$ -	\$ 5,621,223	\$ (6,894,322)	\$ (185,740)	\$ 159,920	\$ -	\$ (129,893)	\$ 129,893	\$ (1,298,919)

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2011**

	The Manchester Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Unrestricted net assets:															
Excess (deficiency) of revenues over expenses	\$ 6,063,646	\$ (692,284)	\$ 249,861	\$ -	\$ 5,621,223	\$ -	\$ -	\$ 5,621,223	\$ (6,894,322)	\$ (185,740)	\$ 159,920	\$ -	\$ (129,893)	\$ 129,893	\$ (1,298,919)
Change in unrealized appreciation (depreciation) on investments	(911,544)	(958,610)	(271,887)	-	(2,142,041)	3,839	-	(2,138,202)	-	-	91,106	(285,821)	(96,005)	-	(2,428,922)
Change in unrealized depreciation on joint ventures	-	-	-	-	-	-	-	-	-	-	-	(248,292)	-	-	(248,292)
Net change in interest rate swap agreements	167,734	1,509,597	-	-	1,677,331	-	-	1,677,331	-	-	-	-	-	-	1,677,331
Net assets released from restrictions for capital acquisitions															
	1,652,194	1,132,631	220,159	-	3,004,984	-	-	3,004,984	-	-	-	2,812	-	-	3,007,796
Equity transfer to ECHN Health Services, Inc.	(4,481,309)	(8,575,553)	-	-	(13,056,862)	-	-	(13,056,862)	-	-	-	13,056,862	-	-	-
Equity transfer from ECHN Health Services, Inc.	6,162,540	-	-	-	6,162,540	-	-	6,162,540	6,894,322	-	-	(13,056,862)	-	-	-
Transfer of WCW to RGH	-	1,740,285	-	-	1,740,285	-	-	1,740,285	-	-	(1,740,285)	-	-	-	-
Transfer (to) from other affiliates - net	(147,612)	6,790	3,872	-	(136,950)	134,044	-	(2,906)	-	-	1,235	1,671	-	-	-
Pension and postretirement-related adjustments	(10,396,040)	(3,218,413)	-	-	(13,614,453)	-	-	(13,614,453)	-	-	-	-	-	-	(13,614,453)
Transfers between net asset classifications	-	-	-	-	-	-	-	-	-	-	-	67,091	-	-	67,091
Change in unrestricted net assets	(1,890,391)	(9,055,557)	202,005	-	(10,743,943)	137,883	-	(10,606,060)	-	(185,740)	(1,488,024)	(462,539)	(225,898)	129,893	(12,838,368)
Temporarily restricted net assets:															
Contributions	308,877	55,652	4,095	-	368,624	1,324,168	(1,542,685)	150,107	-	-	17,453	112,762	-	455,140	735,462
Investment income	17,339	9,785	-	-	27,124	41,436	-	68,560	-	-	-	-	-	-	68,560
Net assets released from restrictions for operations	(478,506)	(48,044)	(3,209)	-	(529,759)	(908,155)	644,728	(793,186)	-	-	(7,395)	(542)	-	-	(801,123)
Net assets released from restrictions for capital acquisitions															
	(1,652,194)	(1,132,631)	(220,159)	-	(3,004,984)	(3,007,797)	3,004,985	(3,007,796)	-	-	-	(2,812)	-	2,812	(3,007,796)
Transfers between net asset classifications	-	-	-	-	-	-	-	-	-	-	-	(67,091)	-	-	(67,091)
Change in unrealized (depreciation) appreciation on investments															
	(26,748)	(62,933)	14,152	-	(75,529)	(684,234)	670,082	(89,681)	-	-	243	-	-	-	(89,438)
Transfer of WCW to RGH	-	24,082	-	-	24,082	-	-	24,082	-	-	(24,082)	-	-	-	-
Transfer from affiliates	915,801	633,488	49,646	-	1,598,935	-	(1,598,935)	-	-	-	6,733	(1,605,190)	-	1,598,457	-
Change in temporarily restricted net assets	(915,431)	(520,601)	(155,475)	-	(1,591,507)	(3,234,582)	1,178,175	(3,647,914)	-	-	(7,048)	(1,562,873)	-	2,056,409	(3,161,426)
Permanently restricted net assets:															
Change in beneficial interest in trust assets															
	(243,923)	(71,109)	-	-	(315,032)	-	-	(315,032)	-	-	-	-	-	-	(315,032)
Change in permanently restricted net assets															
	(243,923)	(71,109)	-	-	(315,032)	-	-	(315,032)	-	-	-	-	-	-	(315,032)
Change in net assets (deficit)	(3,049,745)	(9,647,267)	46,530	-	(12,650,482)	(3,096,699)	1,178,175	(14,569,006)	-	(185,740)	(1,495,072)	(2,025,412)	(225,898)	2,186,302	(16,314,826)
Net assets (deficit), beginning of year	15,191,387	38,664,631	4,024,790	-	57,880,808	13,903,311	(7,850,870)	63,933,249	(27,691)	427,529	1,495,072	6,991,069	3,736,081	(5,078,826)	71,476,483
Net assets (deficit), end of year	\$ 12,141,642	\$ 29,017,364	\$ 4,071,320	\$ -	\$ 45,230,326	\$ 10,806,612	\$ (6,672,695)	\$ 49,364,243	\$ (27,691)	\$ 241,789	\$ -	\$ 4,965,657	\$ 3,510,183	\$ (2,892,524)	\$ 55,161,657

See accompanying independent auditors' report.