

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, 2013 and 2012



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets.....	4
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7
Supplemental Information:	
Consolidating Balance Sheet - 2013	48
Consolidating Statement of Operations and Changes in Net Assets - 2013.....	52
Consolidating Balance Sheet - 2012	56
Consolidating Statement of Operations and Changes in Net Assets - 2012.....	58



Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Eastern Connecticut Health Network, Inc. and Subsidiaries (the Network), a not-for-profit, non-stock corporation, which comprise the consolidated balance sheets as of September 30, 2013 and 2012 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Connecticut Healthcare Insurance Company, a wholly owned subsidiary, whose statements reflect total assets of \$5,220,598 and \$10,802,509, as of September 30, 2013 and 2012, respectively, and total revenues of \$2,440,340 and \$2,299,700, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Network's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, based on our audits and the report of the other auditors, 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, 2013 and 2012, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Network has elected to change its method of accounting for its defined benefit pension plan costs in 2013. Such changes are reflected in the accompanying September 30, 2013 and 2012 statements of operations and changes in net assets and cash flows for the years then ended. Our opinion was not modified with respect to this matter.

Report on Supplementary Information

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 17, 2013

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Balance Sheets
For the Years Ended September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,439,356	\$ 20,052,067
Current portion of investments held under bond indentures	1,850,531	5,435,445
Accounts receivable, less allowance for bad debts of \$10,060,009 in 2013 and \$10,509,985 in 2012	46,524,143	46,711,255
Inventory	5,065,716	4,253,600
Current portion of estimated settlements due from third-party payers	3,463,096	4,402,920
Prepaid expenses and other current assets	5,046,865	5,020,607
Total current assets	84,389,707	85,875,894
Assets whose use is limited, net of current portion:		
Donor restricted investments	6,534,923	6,971,970
Board designated investments	33,138,323	26,269,872
Investments held in trust for estimated self-insurance liabilities	2,465,931	8,844,698
Beneficial interest in trust assets	7,882,372	7,400,782
Investments held under bond indentures	4,942,057	4,941,820
Total assets whose use is limited, net of current portion	54,963,606	54,429,142
Investments	13,009,540	21,510,816
Investments in joint ventures	13,731,843	13,500,324
Property, plant and equipment - net	96,188,497	96,295,455
Other assets:		
Estimated settlements due from third-party payers, net of current portion	6,804,542	-
Goodwill and intangible assets, net	7,145,869	6,463,106
Other assets	6,233,132	5,215,388
Total other assets	20,183,543	11,678,494
Total assets	\$ 282,466,736	\$ 283,290,125
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 34,874,835	\$ 30,730,676
Line of credit	6,500,000	6,500,000
Current portion of long-term debt and capital lease obligations	6,832,322	6,904,354
Current portion of estimated settlements due to third-party payers	4,512,361	2,793,775
Current portion of accrued pension and other postretirement benefits	6,085,518	3,897,164
Other current liabilities	5,540,481	8,153,373
Total current liabilities	64,345,517	58,979,342
Long-term debt and capital lease obligations, net of current portion	84,416,006	87,541,749
Estimated self-insurance liabilities	9,024,493	9,521,697
Accrued pension and other postretirement benefits	38,111,463	74,618,608
Estimated settlements due to third-party payers, net of current portion	122,921	82,500
Other liabilities	597,187	944,968
Total liabilities	196,617,587	231,688,864
Net assets:		
Unrestricted	70,965,928	36,549,384
Temporarily restricted	2,587,301	3,243,522
Permanently restricted	12,295,920	11,808,355
Total net assets	85,849,149	51,601,261
Total liabilities and net assets	\$ 282,466,736	\$ 283,290,125

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, 2013 and 2012

	2013	2012
Revenues:		
Net patient service revenues	\$ 310,122,159	\$ 277,042,997
Provision for bad debts	(11,142,202)	(11,285,210)
Net patient service revenues less provision for bad debts	298,979,957	265,757,787
Contributions	1,614,319	2,243,112
Other revenues	22,871,370	17,532,328
EHR incentive payment revenue	2,630,820	3,833,172
Contribution of VNHSC	-	4,592,459
Net assets released from restrictions used for operations	1,871,227	638,113
Total revenues	327,967,693	294,596,971
Expenses:		
Salaries and wages	163,729,402	139,915,729
Fringe benefits	47,592,094	40,920,325
Supplies and other expenses	100,335,115	93,818,377
Depreciation and amortization	12,290,822	11,811,633
Interest and financing costs	3,907,765	3,981,831
Total expenses	327,855,198	290,447,895
Income from operations	112,495	4,149,076
Non-operating losses	(2,138,589)	(1,200,536)
Excess of revenues (under) over expenses	\$ (2,026,094)	\$ 2,948,540

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, 2013 and 2012

	2013	2012
Unrestricted net assets:		
Excess of revenues (under) over expenses	\$ (2,026,094)	\$ 2,948,540
Change in unrealized appreciation on investments	1,235,494	7,974,260
Net change in interest rate swap agreements	110,862	(123,039)
Net assets released from restrictions for capital acquisitions	468,174	336,077
Pension and postretirement related adjustments	34,634,083	(16,402,410)
Other	(5,975)	-
	34,416,544	(5,266,572)
Change in unrestricted net assets		
Temporarily restricted net assets:		
Contributions	1,262,993	1,327,278
Investment income	200,796	37,322
Net assets released from restrictions used for operations	(1,871,227)	(638,113)
Net assets released from restrictions for capital acquisitions	(468,174)	(336,077)
Contribution of VNHSC	-	72,586
Change in unrealized appreciation on investments	219,391	530,563
	(656,221)	993,559
Change in temporarily restricted net assets		
Permanently restricted net assets:		
Change in beneficial interest in trust assets	481,590	712,617
Other	5,975	-
	487,565	712,617
Change in permanently restricted net assets		
Change in net assets	34,247,888	(3,560,396)
Net assets, beginning of year	51,601,261	55,161,657
Net assets, end of year	\$ 85,849,149	\$ 51,601,261

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 34,247,888	\$ (3,560,396)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	12,290,822	11,811,633
Contribution of VNHSC	-	(4,665,045)
Provision for bad debts	11,142,202	11,285,210
Change in unrealized appreciation on investments	(1,454,885)	(8,504,823)
Change in unrealized appreciation on joint venture	-	(343,398)
Realized gains on sales of investments	(5,584,750)	-
Change in beneficial interest in trust assets	(481,590)	(712,617)
Income on investments in joint ventures	(2,113,663)	(2,588,091)
Pension and postretirement related adjustments	(34,634,083)	16,402,410
Change in pledges receivable	311,968	(402,218)
Change in interest rate swap agreements	(358,754)	(47,331)
Changes in assets and liabilities:		
Accounts receivable	(10,955,090)	(14,476,440)
Inventory	(812,116)	(25,032)
Prepaid expenses and other current assets	(26,258)	(112,771)
Amortization of intangible assets	(682,763)	(903)
Other assets	(1,310,364)	880,133
Accounts payable and accrued expenses	4,144,159	5,564,691
Accrued pension and other postretirement benefits	315,292	(5,988,289)
Estimated settlements (to)/from third-party payers	(4,105,711)	(452,979)
Other current liabilities	(509,424)	1,522,469
Estimated self-insurance liabilities	(2,600,672)	3,210,359
Other liabilities	10,973	141,087
Net cash (used in) provided by operating activities	(3,166,819)	8,937,659
Cash flows from investing activities:		
Purchases of property and equipment	(12,104,527)	(7,498,197)
Sales (purchases) of investments, net	19,072,951	(3,244,502)
Investment in joint ventures	-	(244,600)
Acquisition of Evergreen Imaging Center	-	(1,450,000)
Cash received from contribution of VNHSC	-	2,917,808
Distributions from joint ventures	1,802,805	1,654,409
Net cash provided by (used in) investing activities	8,771,229	(7,865,082)
Cash flows from financing activities:		
Principal payments on long-term debt	(7,079,140)	(5,217,439)
Net payments on line of credit	-	(1,772,642)
Payments for bond issuance costs	(19,346)	(154,649)
Proceeds from borrowings	3,881,365	5,133,040
Net cash used in financing activities	(3,217,121)	(2,011,690)
Change in cash and cash equivalents	2,387,289	(939,113)
Cash and cash equivalents at beginning of year	20,052,067	20,991,180
Cash and cash equivalents at end of year	\$ 22,439,356	\$ 20,052,067
Cash paid for interest	\$ 4,095,398	\$ 4,240,359
Equipment acquisitions under capital lease arrangements	\$ 2,351,850	\$ 1,742,149

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, 2013 and 2012

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, 2013 and 2012

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 Corporate Services (ECHNCS) - ECHNCS is a for-profit stock corporation formed under the laws of the State of Connecticut, with ECHN as the sole shareholder. ECHNCS provides billing and other practice management services to the Network and other customers. It is also the parent corporation of Medical Practice Partners, LLC (MPP). MPP is a for-profit, limited liability company formed under the laws of the State of Connecticut, which provides practice management services to medical group practices throughout Connecticut.

ECHN and each of its subsidiaries, except for Enterprises and CHIC, 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.

In August, the ECHN Board of Trustees announced that it had signed a non-binding letter of intent to negotiate the sale of ECHN to a newly formed joint partnership between Tenet Healthcare Corporation (Tenet) and Yale New Haven Health System (YNHHS). Since signing the letter of intent, ECHN, Tenet and YNHHS have been reviewing the opportunity in greater detail, conducting additional due diligence and negotiating a definitive agreement. A definitive agreement is expected to be reached by sometime in early calendar year 2014.

As of September 30, 2013, management has not finalized a purchase agreement and the Trustees believe that the Network will continue with its normal operations and as a going concern for the foreseeable future.

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.

Change in Accounting Principle - In 2013, the Network retrospectively changed its method of accounting for pension benefits. The Network has elected to immediately recognize actuarial gains and losses in its operating results in the year in which the gains and losses occur and no longer calculates expected return on plan assets using an averaging technique permitted under GAAP for market-related value of plan assets but instead uses actual fair value of plan assets. The effect of this change was to restate the 2012 consolidated statement of operations and changes in net assets, whereby the pension expense was increased by \$778,615 and the accumulated pension liability recognized within net assets was reduced by \$778,615. The 2012 excess of revenues over expenses of \$3,727,155, as previously reported, was restated to \$2,948,540. This change in accounting method had no effect on the 2012 Network's net assets.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012

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, 2013 and 2012.

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, 2013 and 2012.

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, 2013 and 2012

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. There were no impairments recorded for the years ended September 30, 2013 and 2012.

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 \$12,137,690 and \$12,058,197 for the years ended September 30, 2013 and 2012, 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 \$153,132 and \$79,493 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012

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, 2013 and 2012 include the Network's investments in the following:

	<u>2013</u>	<u>Ownership Percentage</u>	<u>2012</u>	<u>Ownership Percentage</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 6,216,646	50 %	\$ 6,110,316	50 %
Tolland Imaging Center	201,010	70 %	144,789	70 %
Medical Practice Partners, LLC	-	-	41,269	50 %
Metro Wheelchair Service Inc.	54,224	50 %	84,681	50 %
Ambulance Service of Manchester, LLC	3,772,317	50 %	3,675,104	50 %
Aetna Ambulance Service Inc.	1,772,500	50 %	1,562,298	50 %
Evergreen Endoscopy Center, LLC	292,807	50 %	397,153	50 %
Haynes Street Medical Associates	150,193	23 %	146,676	23 %
Haynes Street Medical Associates II	236,834	15 %	252,365	15 %
Evergreen Medical Associates, LLC	258,137	20 %	258,818	20 %
Evergreen Medical Associates II, LLC	559,585	20 %	605,854	20 %
Walden Behavioral Health	197,590	16 %	200,000	16 %
	<u>13,711,843</u>		<u>13,479,323</u>	
Total joint venture assets	<u>13,711,843</u>		<u>13,479,323</u>	
Other miscellaneous assets	<u>20,000</u>		<u>21,001</u>	
Total investments in joint ventures	<u>\$ 13,731,843</u>		<u>\$ 13,500,324</u>	

Distributions from these joint ventures totaled \$1,802,805 and \$1,654,409 for the years ended September 30, 2013 and 2012, respectively. ECHN's share of the earnings of the joint ventures is reported within other revenues and are \$2,113,663 and \$2,931,489 for the years ended September 30, 2013 and 2012, respectively.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

Summarized financial information from the financial statements of these organizations as of September 30, 2013 and 2012 and for the years then ended, is as follows:

<u>2013</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess of Revenues (Under) Over Expenses</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 12,490,586	\$ 12,433,293	\$ 212,661	\$ 295,288
Metro Wheelchair Service Inc.	\$ 221,853	\$ 108,449	\$ (60,913)	\$ (60,914)
Ambulance Service of Manchester, LLC	\$ 8,782,743	\$ 7,544,633	\$ 194,425	\$ 2,494,426
Aetna Ambulance Service Inc.	\$ 4,269,492	\$ 3,544,999	\$ 420,403	\$ 420,404
Haynes Street Medical Associates	\$ 2,542,951	\$ 663,153	\$ 23,205	\$ 79,920
Haynes Street Medical Associates II	\$ 8,435,369	\$ 1,569,706	\$ (112,714)	\$ 181,272
Evergreen Endoscopy Center, LLC	\$ 1,746,503	\$ 585,614	\$ (208,332)	\$ 370,077
Evergreen Medical Associates, LLC	\$ 6,484,054	\$ 1,339,457	\$ 45,367	\$ 239,569
Evergreen Medical Associates II, LLC	\$ 11,906,047	\$ 2,929,989	\$ (99,281)	\$ 394,554
Tolland Imaging Center	\$ 934,135	\$ 287,155	\$ 72,449	\$ 650,448
Walden Behavioral Health	\$ 1,651,417	\$ 1,205,183	\$ 53,023	\$ (16,006)

<u>2012</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess of Revenues (Under) Over Expenses</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 12,257,336	\$ 12,220,632	\$ (24,696)	\$ 961,990
Metro Wheelchair Service Inc.	\$ 289,879	\$ 169,362	\$ (143,075)	\$ (83,559)
Ambulance Service of Manchester, LLC	\$ 8,473,110	\$ 7,350,208	\$ (438,482)	\$ 2,434,208
Aetna Ambulance Service Inc.	\$ 3,886,956	\$ 3,124,596	\$ 222,786	\$ 354,322
Haynes Street Medical Associates	\$ 2,576,327	\$ 639,948	\$ 179,777	\$ 65,951
Haynes Street Medical Associates II	\$ 8,380,885	\$ 1,682,420	\$ (355,210)	\$ 205,180
Evergreen Endoscopy Center, LLC	\$ 2,199,308	\$ 793,946	\$ (396,530)	\$ 731,378
Evergreen Medical Associates, LLC	\$ 6,698,447	\$ 1,294,090	\$ (47,090)	\$ 140,755
Evergreen Medical Associates II, LLC	\$ 11,934,962	\$ 3,029,270	\$ 40,300	\$ 440,655
Tolland Imaging Center	\$ 1,258,554	\$ 214,706	\$ 28,745	\$ 100,840
Walden Behavioral Health	\$ 1,363,512	\$ 1,152,160	\$ 1,512,160	\$ (203,705)
Medical Practice Partners, LLC	\$ 1,569,742	\$ 185,290	\$ 64,960	\$ (127,183)

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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 of Revenues (Under) Over Expenses - The consolidated statements of operations and changes in net assets include excess of revenues (under) over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenues (under) 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 revenues and operating expenses. Operating revenues include net patient service revenue, grant income and investment income. Peripheral or incidental transactions are reported as non-operating gains and losses. Non-operating gains and losses include investment income and expenses related to property management, losses recognized on investments representing declines in value considered to be other-than-temporary in nature, 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, 2013 and 2012

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 \$2,630,820 and \$3,507,760, respectively, and the total received for Medicaid amounted to \$0 and \$325,412, respectively, for the years ended September 30, 2013 and 2012.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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 FASB ASC 958 "Not-for-Profit Entities". 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, 2013 and 2012. As of September 30, 2013 and 2012, 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, 2013 and 2012, the Network has recognized \$412,007 and \$400,687, 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, 2013 and 2012

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 an operating expense and 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 average cost 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 \$1,842,135 and \$1,596,878 for the years ended September 30, 2013 and 2012, 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 May 2011, FASB issued Accounting Standards Update (ASU) 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs," which amends ASC 820, *Fair Value Measurements and Disclosures*. ASU 2011-04 amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements, but for which the fair value is required to be disclosed. This guidance became effective for the Network beginning on October 1, 2012. The adoption of this guidance had no impact on the Network's 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, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

In July 2011, the FASB issued ASU 2011-07, "*Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision of Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.*" This guidance establishes accounting and disclosure requirements for health care entities that recognize significant amounts of patient service revenue at the time services are rendered even though the entity does not assess a patient's ability to pay. Specifically, the guidance requires that health care entities present bad debt expense associated with net patient service revenue as an offset to net patient service revenue within the consolidated statements of operations and changes in net assets. Additionally, the guidance requires enhanced disclosure of the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance requires retrospective application to all prior periods presented. This guidance became effective for the Network beginning on October 1, 2012. The adoption of this guidance had no impact on the Hospital's operating income in the statements of operations and changes in net assets, but resulted in additional disclosures in Note 14. All years included have been presented in accordance with the provisions of ASU 2011-07.

Accounting Pronouncements Pending Adoption - In December 2011, the FASB issued ASU 2011-11, "*Disclosures about Offsetting Assets and Liabilities.*" This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance is effective for the Network beginning October 1, 2013, and retrospective application is required. The Network does not expect this guidance to have an impact on its consolidated financial statements.

In October 2012, the FASB issued ASU 2012-05, "*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.*" This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance is effective for the Network beginning October 1, 2013, with early adoption permitted. The Network has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In January 2013, the FASB issued ASU 2013-01, "*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.*" This guidance provides clarification on the scope of the offsetting disclosure requirements in ASU 2011-11. This guidance is effective for the Network beginning October 1, 2013, with early adoption permitted. The Network does not expect this guidance to have a material impact on its consolidated balance sheets.

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

Reclassification - Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications had no material effect on the 2012 consolidated financial statements.

Subsequent Events - Subsequent events have been evaluated through December 17, 2013, 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 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, 2013 and 2012

Note 3 - Assets Whose Use is Limited and Investments

Assets whose use is limited and investments as of September 30, 2013 and 2012, include the following:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Board designated and donor-restricted:				
Money market funds	\$ 507,386	\$ 507,386	\$ 265,287	\$ 265,287
U.S. equities	215,775	206,426	150,241	163,427
Mutual funds:				
U.S. small/mid cap	2,887,193	3,203,837	196,636	252,510
Investment grade taxable	413,221	403,449	264,483	278,626
Short-term bond fund	2,027,248	2,006,817	4,486,385	4,523,908
Large value fund	11,535,567	12,161,104	6,349,959	6,952,883
Moderate allocation funds	11,605,313	12,765,022	15,795,794	17,344,909
Foreign growth fund	6,058,560	7,104,073	2,838,789	3,151,684
Other	1,038,597	1,315,132	291,414	308,608
Total	\$ 36,288,860	\$ 39,673,246	\$ 30,638,988	\$ 33,241,842
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 326,811	\$ 326,811	\$ 120,455	\$ 120,455
U.S. government securities	-	-	2,265,438	2,352,152
Corporate bonds	-	-	1,822,751	1,946,269
U.S. equities	30,000	48,325	539,532	789,253
Mutual funds:				
Bond fund	1,090,954	1,075,321	700,417	720,276
Short-term government fund	-	-	355,932	353,901
Emerging markets fund	86,840	90,905	138,872	152,650
Midcap stock fund	25,000	27,609	103,788	131,765
International stock fund	23,648	30,292	88,053	102,075
Moderate allocation fund	803,904	866,668	1,439,996	1,736,180
Other investments	-	-	379,893	439,722
Total	\$ 2,387,157	\$ 2,465,931	\$ 7,955,127	\$ 8,844,698
Investments held under bond indenture:				
Money market funds	\$ 5,994,581	\$ 5,994,581	\$ 9,085,534	\$ 9,085,534
U.S. government securities	797,747	798,007	1,292,701	1,291,731
Total	\$ 6,792,328	\$ 6,792,588	\$ 10,378,235	\$ 10,377,265
Beneficial interest in trust assets	\$ 6,579,883	\$ 7,882,372	\$ 6,650,295	\$ 7,400,782

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Investments:				
Money market funds	\$ 455,766	\$ 455,766	\$ 468,063	\$ 468,063
U.S. equities	239,278	273,569	175,201	196,112
Corporate bonds	15,389	15,427	-	-
Certificates of deposit	100,000	100,751	115,000	116,065
Mutual funds:				
U.S. small/mid cap	933,236	1,042,212	128,060	138,105
Investment grade taxable	399,749	396,103	272,165	283,621
Global high yield taxable	81,205	81,489	94,450	96,902
Emerging markets fund	-	-	47,200	49,593
Short-term bond	5,715,771	5,688,229	1,711,777	1,743,074
Large value fund	1,243,896	1,509,882	7,750,713	8,067,571
Moderate allocation funds	1,694,843	2,017,532	1,786,976	2,030,778
Foreign large fund	1,169,563	1,428,580	7,864,153	8,320,932
Total	<u>\$ 12,048,696</u>	<u>\$ 13,009,540</u>	<u>\$ 20,413,758</u>	<u>\$ 21,510,816</u>
Total assets whose use is limited and investments	<u>\$ 64,096,924</u>	<u>\$ 69,823,677</u>	<u>\$ 76,036,403</u>	<u>\$ 81,375,403</u>

Fair values and gross unrealized losses for all investment categories whose fair value is below its cost as of September 30, 2013 and 2012, and the length of time that the securities have been in an unrealized loss position as of September 30, 2013 and 2012, are as follows:

2013	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. equities	\$ 206,426	\$ (9,349)	\$ -	\$ -	\$ 206,426	\$ (9,349)
Foreign growth fund	-	-	1,375,560	(102,856)	1,375,560	(102,856)
Investment grade taxable	799,552	(13,418)	-	-	799,552	(13,418)
Short-term bond fund	2,367,489	(52,696)	-	-	2,367,489	(52,696)
Bond fund	1,075,321	(15,633)	-	-	1,075,321	(15,633)
U.S. government securities	-	-	798,803	(900)	798,803	(900)
	<u>\$ 4,448,788</u>	<u>\$ (91,096)</u>	<u>\$ 2,174,363</u>	<u>\$ (103,756)</u>	<u>\$ 6,623,151</u>	<u>\$ (194,852)</u>
2012	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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 fund	-	-	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>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

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, 2013 and 2012.

Interest and dividend income, which is included in other operating revenue, on the assets whose use is limited and investments totaled \$1,529,821 and \$1,326,767 for the years ended September 30, 2013 and 2012, respectively. There were realized gains of \$5,584,750 and \$0 for the years ended September 30, 2013 and 2012, respectively.

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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 4 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2013 and 2012, by the valuation hierarchy.

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market funds	\$ 7,284,544	\$ -	\$ -	\$ 7,284,544
U.S. government securities	798,007	-	-	798,007
Corporate bonds	15,427	-	-	15,427
Certificates of deposit	100,751	-	-	100,751
U.S. equities	528,320	-	-	528,320
Mutual funds:				
U.S. small/mid cap	4,246,049	-	-	4,246,049
Investment grade taxable	799,552	-	-	799,552
Global high yield taxable	81,489	-	-	81,489
Bond fund	1,075,321	-	-	1,075,321
Short-term bond fund	7,695,046	-	-	7,695,046
Large value fund	13,670,986	-	-	13,670,986
Moderate allocation fund	15,649,222	-	-	15,649,222
Foreign growth fund	7,104,073	-	-	7,104,073
Emerging markets fund	90,905	-	-	90,905
Midcap stock fund	27,609	-	-	27,609
International stock fund	30,292	-	-	30,292
Foreign large fund	1,428,580	-	-	1,428,580
Other	1,315,132	-	-	1,315,132
Beneficial interest in trusts	-	-	7,882,372	7,882,372
	<u>\$ 61,941,305</u>	<u>\$ -</u>	<u>\$ 7,882,372</u>	<u>\$ 69,823,677</u>
Total assets at fair value				
Liabilities:				
Obligations under interest rate swap agreements	\$ -	\$ 181,635	\$ -	\$ 181,635
	<u>\$ -</u>	<u>\$ 181,635</u>	<u>\$ -</u>	<u>\$ 181,635</u>
Total liabilities at fair value				

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 4 - Fair Value Measurements (continued)

<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
	<u>\$ 72,028,352</u>	<u>\$ 1,946,269</u>	<u>\$ 7,400,782</u>	<u>\$ 81,375,403</u>
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	<u>\$ -</u>	<u>\$ 540,389</u>	<u>\$ -</u>	<u>\$ 540,389</u>
	<u>\$ -</u>	<u>\$ 540,389</u>	<u>\$ -</u>	<u>\$ 540,389</u>
Total liabilities at fair value				

During the years ended September 30, 2013 and 2012, the value of the beneficial interest in trusts increased for a change in market value of \$787,751 and \$1,141,645, respectively. In addition, the Network received \$306,161 and \$429,028 in distributions from these trusts in 2013 and 2012, 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
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012, is approximately \$41,854,230 and \$44,721,911, respectively. The fair value of the Network's remaining long-term debt approximates its carrying value.

As of September 30, 2013 and 2012, 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, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Pledges receivable, net	\$ 210,112	\$ 376,165
Other receivables	887,661	916,543
Notes receivable	307,040	326,935
Unamortized bond issuance costs	2,580,484	2,728,593
Losses recoverable	<u>2,247,835</u>	<u>867,152</u>
Total	<u>\$ 6,233,132</u>	<u>\$ 5,215,388</u>

As of September 30, 2013 and 2012, \$687,146 and \$833,061 of pledges receivables have been included within prepaid expenses and other current assets as management anticipates them to be collected within the next year.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 5 - Other Assets (continued)

Pledges receivable are expected to be realized as follows:

	<u>2013</u>	<u>2012</u>
In one year or less	\$ 688,276	\$ 834,922
Between one and five years	213,662	384,003
Greater than five years	-	4,313
Less: discount for present value	<u>(4,680)</u>	<u>(14,012)</u>
 Pledges receivable - net	 <u>\$ 897,258</u>	 <u>\$ 1,209,226</u>

Pledges receivable are reported at their net present value, discounted at rates from .10% to 4.90%. There was no allowance for uncollectible amounts recorded as of September 30, 2013 and 2012.

As of September 30, 2013 and 2012, unamortized bond issuance costs, which are included within other assets, consist of the following:

	<u>2013</u>	<u>2012</u>
Deferred financing costs	\$ 3,735,675	\$ 4,162,046
Less accumulated amortization	<u>(1,155,191)</u>	<u>(1,433,453)</u>
 Total	 <u>\$ 2,580,484</u>	 <u>\$ 2,728,593</u>

Note 6 - Property, Plant and Equipment

Property, plant and equipment as of September 30, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 5,333,743	\$ 5,311,030
Buildings and building improvements	160,660,529	157,921,015
Fixed equipment	31,817,532	25,744,837
Movable equipment	<u>104,373,295</u>	<u>124,349,089</u>
	302,185,099	313,325,971
Less: accumulated depreciation and amortization	<u>(206,928,185)</u>	<u>(219,601,455)</u>
	95,256,914	93,724,516
Construction in progress	<u>931,583</u>	<u>2,570,939</u>
 Total	 <u>\$ 96,188,497</u>	 <u>\$ 96,295,455</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 6 - Property, Plant and Equipment (continued)

For the years ended September 30, 2013 and 2012, the Network capitalized interest related to construction financed with tax-exempt debt of \$126,000 and \$68,838, respectively. The cost to complete the construction in progress is approximately \$2,981,000 and \$4,225,000 as of September 30, 2013 and 2012, respectively.

For the years ended September 30, 2013 and 2012, the Network disposed of property, plant and equipment in the amounts of \$24,086,313 and \$615,306, respectively, all disposals were of fully depreciated assets.

Note 7 - Intangible Assets

The gross carrying amount and accumulated amortization, by class of intangible assets, as of September 30, 2013 and 2012, consisted of the following:

<u>2013</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (1,349,202)	\$ 549,482
Other intangible assets	101,000	-	101,000
Goodwill	7,252,932	(757,545)	6,495,387
	<u>9,252,616</u>	<u>(2,106,747)</u>	<u>7,145,869</u>
Total	<u>\$ 9,252,616</u>	<u>\$ (2,106,747)</u>	<u>\$ 7,145,869</u>
<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
	<u>8,360,086</u>	<u>(1,896,980)</u>	<u>6,463,106</u>
Total	<u>\$ 8,360,086</u>	<u>\$ (1,896,980)</u>	<u>\$ 6,463,106</u>

Amortization expense related to intangible assets was \$149,767 and \$224,027 for the years ended September 30, 2013 and 2012, respectively.

The estimated amortization expense in each of the succeeding five fiscal years and thereafter, as of September 30, 2013, is as follows:

2014	\$ 228,222
2015	197,589
2016	189,456
2017	174,913
2018	80,197
Thereafter	402,852
	<u>1,273,229</u>
Total	<u>\$ 1,273,229</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012, 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 ended September 30, 2013 and 2012.

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, 2013 and 2012, 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
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 14,873,830	\$ 9,016,338
Workers' compensation:		
Losses incurred related to:		
Current year	697,778	941,403
Prior year	3,200,111	1,456,175
Total incurred	<u>3,897,889</u>	<u>2,397,578</u>
Paid losses related to:		
Current year	(414,370)	(412,068)
Prior year	(1,732,496)	(1,482,261)
Total paid	<u>(2,146,866)</u>	<u>(1,894,329)</u>
Professional and general:		
Losses incurred related to:		
Current year	997,781	1,062,024
Prior year	6,950,980	4,997,849
Total incurred	<u>7,948,761</u>	<u>6,059,873</u>
Paid losses related to:		
Current year	(45,727)	(11,458)
Prior year	(13,231,777)	(694,172)
Total paid	<u>(13,277,504)</u>	<u>(705,630)</u>
Balance at end of year	<u>\$ 11,296,110</u>	<u>\$ 14,873,830</u>

Workers' Compensation - The development on prior-year incurred losses increased by approximately \$5,185,000 and \$1,456,000 as of September 30, 2013 and 2012, respectively.

Professional and General - The development on prior-year incurred losses increased by approximately \$6,950,980 and \$4,998,000 as of September 30, 2013 and 2012, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, included estimates of claims incurred but not reported. Approximately \$2,272,000 and \$5,352,000 of the reserve as of September 30, 2013 and 2012, 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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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 September 2013 the Trustees passed a resolution to freeze all benefits related to the defined-benefit pension plan. During fiscal year 2013 and 2012, the Network incurred expenses of \$2,076,122 and \$1,815,351, 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. MMH full time registered nurse retirees (retired prior to October 1, 2005 and were eligible per the Union contract) are grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan. Grandfathered eligible retirees are required to pay 100% of the total cost of the medical and dental coverage they elect for an eligible spouse. For non-grandfathered retirees, the postretirement health care plan is contributory and the retiree pays 100% of the premium.

The Network, as of September 30, 2013 and 2012, has no unrecognized actuarial losses related to the defined benefit pension plan.

The effects of Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) were reflected as of September 30, 2013 and 2012, 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 \$900,000 and \$1,100,000 for the years ended September 30, 2013 and 2012, respectively. Subsidies of \$90,769 and \$95,241 were received in the years ended September 30, 2013 and 2012, respectively. Future benefits of \$385,518 are expected to be paid and future subsidies of \$63,055 are expected to be received related to the year ended September 30, 2014.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 223,101,495	\$ 188,714,944	\$ 4,633,005	\$ 4,680,687
Service cost	2,709,867	2,233,145	72,548	63,127
Interest cost	9,475,222	10,105,635	162,852	226,498
Plan curtailments	(7,795,069)	-	-	-
Plan participants' contributions	-	-	296,951	507,918
Receipt of Medicare Part D reimbursement	-	-	90,769	95,241
Actuarial loss (gain)	(26,124,678)	30,013,892	(499,239)	(140,180)
Benefits paid	(9,072,578)	(7,966,121)	(563,314)	(800,286)
	<u>\$ 192,294,259</u>	<u>\$ 223,101,495</u>	<u>\$ 4,193,572</u>	<u>\$ 4,633,005</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 149,218,728	\$ 125,293,980	\$ -	\$ -
Actual return on plan assets	9,144,700	20,980,869	-	-
Employer contributions	3,000,000	10,910,000	175,594	197,127
Plan participants' contributions	-	-	296,951	507,918
Receipt of Medicare Part D reimbursement	-	-	90,769	95,241
Benefits paid	(9,072,578)	(7,966,121)	(563,314)	(800,286)
	<u>\$ 152,290,850</u>	<u>\$ 149,218,728</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued pension and other postretirement benefits	<u>\$ (40,003,409)</u>	<u>\$ (73,882,767)</u>	<u>\$ (4,193,572)</u>	<u>\$ (4,633,005)</u>
Accumulated benefit obligation	<u>\$ (192,294,259)</u>	<u>\$ (213,696,232)</u>	<u>\$ -</u>	<u>\$ -</u>

The amount recognized in the Network's consolidated balance sheets as of September 30, 2013 and 2012, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current liabilities	\$ 5,700,000	\$ 3,500,000	\$ 385,518	\$ 397,164
Noncurrent liabilities	<u>34,303,409</u>	<u>70,382,767</u>	<u>3,808,054</u>	<u>4,235,841</u>
Net amount recognized	<u>\$ 40,003,409</u>	<u>\$ 73,882,767</u>	<u>\$ 4,193,572</u>	<u>\$ 4,633,005</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 9 - Pension and Other Postretirement Benefits (continued)

The allocation of the accrued pension and postretirement benefits for the years ended September 30, 2013 and 2012 is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
MMH	\$ 30,733,610	\$ 56,594,968	\$ 3,206,427	\$ 3,608,963
RGH	<u>9,269,799</u>	<u>17,287,799</u>	<u>987,145</u>	<u>1,024,042</u>
Total	<u>\$ 40,003,409</u>	<u>\$ 73,882,767</u>	<u>\$ 4,193,572</u>	<u>\$ 4,633,005</u>

The plans' components of net periodic benefit cost for the years ended September 30, 2013 and 2012, are as follows (pension benefits information presented is for MMH and RGH combined):

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Service cost	\$ 2,709,867	\$ 2,233,145	\$ 72,548	\$ 63,127
Interest cost	9,475,222	10,105,635	162,852	226,498
Expected return on plan assets	(11,692,676)	(10,242,476)	-	-
Amortization of prior service (credits) costs	(234,992)	(234,992)	77,724	77,724
Recognized actuarial (gain) loss	4,123,868	2,933,877	(55,153)	(43,699)
Curtailed actuarial (gain) loss	<u>(1,148,330)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 3,232,959</u>	<u>\$ 4,795,189</u>	<u>\$ 257,971</u>	<u>\$ 323,650</u>

The allocation of the net periodic benefit cost for the years ended September 30, 2013 and 2012, is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
MMH	\$ 2,475,143	\$ 3,658,275	\$ 197,246	\$ 252,113
RGH	<u>757,816</u>	<u>1,136,914</u>	<u>60,725</u>	<u>71,537</u>
Total	<u>\$ 3,232,959</u>	<u>\$ 4,795,189</u>	<u>\$ 257,971</u>	<u>\$ 323,650</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Discount rate	5.27%	4.32%	4.54%	3.64%
Expected long-term rate of return	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.00%	2.75%	N/A	N/A
Initial medical trend rate	N/A	N/A	7.62%	7.91%
Ultimate medical trend rate	N/A	N/A	4.50%	4.50%
Number of years to ultimate medical trend rate	N/A	N/A	17 years	17 years

The assumptions used to determine pension and postretirement benefit obligations as of September 30, 2013 and 2012, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Discount rate	4.32%	5.47%	3.64%	5.03%
Expected long-term rate of return	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.00%	2.75%	N/A	N/A
Initial medical trend rate	N/A	N/A	7.62%	7.91%
Ultimate medical trend rate	N/A	N/A	4.50%	4.50%
Number of years to ultimate medical trend rate	N/A	N/A	14 years	15 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:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on year-end postretirement benefit obligation	\$ 324,552	\$ (289,352)
Effect on total of service and interest cost components	\$ 20,058	\$ (17,776)

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 9 - Pension and Other Postretirement Benefits (continued)

The pension plan's weighted-average asset allocations as of September 30, 2013 and 2012, by asset category, are as follows:

	Pension Benefits	
	2013	2012
Asset category:		
Equity securities	56%	51%
Debt securities	43%	48%
Cash and cash equivalents	1%	1%
	100%	100%

The investment objective of ECHN is to invest the plan assets in a manner that, together with contributions, will provide for sufficient resources to pay current and projected obligations over the life of the plan. The plan shall be diversified across asset classes to achieve an optimal balance between risk and return and between income and growth of assets through capital appreciation.

Consistent with funding requirements, a secondary objective of the plan is to source benefit payments primarily through existing plan assets and anticipated future returns thereby minimizing future cash contributions. The investment objectives shall be implemented in a de-risking framework designed to manage the plan's funded status volatility and minimize future cash contributions. The funded status of the plan shall be measured by the ratio of plan assets to the projected benefit obligation. To reduce the volatility as much as possible, the goal is to attain and/or maintain a funded status of at least a 105% funding level and allocate its assets as outlined below.

The plan has approved an asset allocation strategy that shall change over time in response to future changes in the plan's funded status. Such changes in asset allocation strategy are intended to allocate additional assets to the fixed income asset class should the plan's funded status improve. Accordingly, the fixed income asset class shall be invested in such a manner that its interest rate sensitivity correlates highly with that of the plan's liabilities. Other asset classes are intended to provide additional return with associated higher levels of risk. If the plan's funded status deteriorates beyond stated thresholds, the strategy dictates that additional assets will not be re-allocated to the return-seeking assets.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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, 2013 and 2012, by the valuation hierarchy.

2013	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 633,333	\$ -	\$ -	\$ 633,333
Fixed income mutual funds:				
Long duration	64,833,809	-	-	64,833,809
US Core Opportunistic	13,328,905	-	-	13,328,905
US Passive	2,935,983	-	-	2,935,983
Guaranteed investment contract	-	-	3,230,137	3,230,137
Equities:				
Small/mid cap	8,925,030	-	-	8,925,030
Large cap	31,678,381	-	-	31,678,381
International	26,725,272	-	-	26,725,272
	<u>\$ 149,060,713</u>	<u>\$ -</u>	<u>\$ 3,230,137</u>	<u>\$ 152,290,850</u>
2012	Level 1	Level 2	Level 3	Total
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
	<u>\$ 146,023,415</u>	<u>\$ -</u>	<u>\$ 3,195,313</u>	<u>\$ 149,218,728</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 9 - Pension and Other Postretirement Benefits (continued)

The changes within the Level 3 investments as of September 30, 2013 and 2012, are as follows:

2013	Guaranteed Investment Contract
Balance as of October 1, 2012	\$ 3,195,313
Investment income	326,682
Expenditures	(291,858)
Balance as of September 30, 2013	\$ 3,230,137
2012	Guaranteed Investment Contract
Balance as of October 1, 2011	\$ 3,374,535
Investment income	194,239
Expenditures	(373,461)
Balance as of September 30, 2012	\$ 3,195,313

During fiscal year 2013, ECHN anticipates contributing \$5,700,000 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, 2013, are as follows:

	Pension Benefits	Other Postretirement Benefits
2014	\$ 7,839,728	\$ 397,164
2015	\$ 8,177,609	\$ 409,051
2016	\$ 8,613,029	\$ 401,768
2017	\$ 9,079,307	\$ 405,187
2018	\$ 9,773,496	\$ 418,484
2019-2022	\$ 58,816,410	\$ 2,087,013

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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 \$2,199,235 and \$1,203,448, for the years ended September 30, 2013 and 2012, respectively.

Note 10 - Long-term Debt and Lines of Credit

Long-term debt and capital lease obligations, as of September 30, 2013 and 2012, consist of the following:

	2013	2012
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 \$46,505 and \$53,729 for 2013 and 2012, respectively.	\$ 9,093,495	\$ 9,886,271
CHEFA Hospital Revenue Bonds, ECHN Series C Bonds, bearing interest ranging from 4.00% to 5.125% - net of unamortized original issue premium of \$350,960 and \$371,605 for 2013 and 2012, respectively.	33,760,059	34,506,605
CHEFA Hospital Revenue Bonds, ECHN Series D Bonds bearing interest at a variable rate, adjusted weekly.	14,049,000	14,342,000
CHEFA Hospital Demand Revenue Bonds, ECHN Series E Bonds, bearing interest at a variable rate, adjusted weekly.	17,580,000	18,070,000
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%	4,674,222	5,194,222
Promissory note payable to Rockville Bank due and payable in monthly principal and interest installments maturing on January 15, 2015, bearing interest at a fixed rate of 3.75%.	883,270	1,595,192
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%.	791,933	1,092,218
Promissory note payable to Webster Bank due and payable in monthly principal and interest installments with a balloon payment due on May 1, 2018, bearing interest at 4.22%	615,659	-
Promissory note payable to Webster Bank due and payable in monthly principal and interest installments with a balloon payment due on December 1, 2017, bearing interest at 4.11%	568,058	-

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 10 - Long-term Debt and Lines of Credit (continued)

	2013	2012
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%.	-	429,743
Promissory note payable to 428 Hartford Turnpike Associates, LLP payable in monthly principal and interest installments, maturing September 1, 2021, bearing interest at 6%.	247,832	270,972
Debt of ECHN Corporate Services, various due dates and interest rates	210,556	-
Mortgage payable to Rockville Bank - 15 years, due April 1, 2022, bearing interest at 6.5% for the first five years, adjustable thereafter every five years.	160,955	176,605
Promissory note payable to Joseph Hanna MD, LLC due and payable in one principal payment due in December 2013. This is a non interest bearing note.	119,890	-
Mortgage payable to Rockville Bank - 20 years, due January 1, 2007 bearing interest at 6.6% for the first five years, adjustable thereafter, every five years.	138,019	145,836
Capital lease obligations (see Note 12)	8,355,380	8,736,439
Total long-term debt and capital lease obligations	91,248,328	94,446,103
Less: current maturities	(6,832,322)	(6,904,354)
Total long-term debt and capital lease obligations - net of current portion	\$ 84,416,006	\$ 87,541,749

Lines of credit as of September 30, 2013 and 2012 consist of the following:

	2013	2012
Revolving line of credit with TD Bank, bearing interest at a variable rate.	\$ 6,500,000	\$ 6,500,000

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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 10 - Long-term Debt and Lines of Credit (continued)

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.

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.

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 \$78,853,222 and \$81,681,222 as of September 30, 2013 and 2012, 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 Sovereign Bank, through CHEFA's Tax-Exempt Equipment Loan Program, for \$5,200,000 in connection with purchase of equipment and renovation costs. The proceeds of the loan, net of disbursements, were included in the current portion of assets whose use is limited as of September 30, 2012. Semi-annual principal and interest payments are due through January 2022.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 10 - Long-term Debt and Lines of Credit (continued)

The loans due to Chase Equipment Leasing, Inc. were 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, 2013, are as follows:

2014	\$	6,832,322
2015		6,043,234
2016		5,181,475
2017		4,360,978
2018		4,962,866
Thereafter		63,562,998
		90,943,873
Plus - premium		304,455
Total		\$ 91,248,328

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, 2013 and 2012, MMH had \$6,500,000 outstanding.

The Network is subject to various financial covenants related to these debt agreements. The Network received a waiver for violating a debt service coverage ratio for 2013 and the Network was in compliance with these covenants in 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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 11 - Derivatives (continued)

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 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, 2013 and 2012, and the liability and interest expense recognized by the Network are as follows:

	<u>2013</u>	<u>2012</u>
Notional amount of contract	\$ 14,049,000	\$ 14,342,000
Fair value of swap contract recognized in other liabilities	\$ 170,000	\$ 417,000
Net interest income recognized in non-operating losses	\$ (248,000)	\$ (170,000)

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 "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. 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 in force related to this strategy as of September 30, 2013 and 2012, and the liability and unrealized (gain) loss recognized by the Network are as follows:

	<u>2013</u>	<u>2012</u>
Notional amount of contract	\$ 4,674,222	\$ 5,194,222
Fair value of swap contract recognized in other liabilities	\$ 12,000	\$ 123,000
Unrealized (gain) loss recognized in unrestricted net assets	\$ (111,000)	\$ 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
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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 \$8,332,943 and \$9,876,879 as of September 30, 2013 and 2012, 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, 2013, consisted of the following:

	Capital Leases	Operating Leases
2014	\$ 3,205,332	\$ 5,252,091
2015	2,706,145	4,952,239
2016	2,029,795	4,554,735
2017	821,597	3,641,042
2018	70,625	2,727,478
Thereafter	67,711	15,235,800
	8,901,205	\$ 36,363,385
Less: interest on capital lease	545,825	
Principal amount of capital lease	\$ 8,355,380	

Rent expense under operating and month-to-month leases was \$6,264,706 and \$6,009,478 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012, before allowances for doubtful accounts, consists of the following:

	2013	2012
Medicare	24%	29%
Self-pay	40%	28%
Managed care	17%	21%
Medicaid	4%	13%
Commercial insurance	9%	6%
Other	6%	3%
	100 %	100 %

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 14 - Net Patient Service Revenues

Net patient service revenues for the years ended September 30, 2013 and 2012, consists of the following:

	<u>2013</u>	<u>2012</u>
Patient service revenues:		
Inpatient services	\$ 328,063,718	\$ 278,843,185
Outpatient services	<u>572,644,188</u>	<u>476,021,456</u>
Gross patient service revenues	<u>900,707,906</u>	754,864,641
Deductions - allowances	<u>(590,585,747)</u>	<u>(477,821,644)</u>
Net patient service revenues	<u>\$ 310,122,159</u>	<u>\$ 277,042,997</u>

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

For uninsured patients that do not qualify for financial assistance, the Network offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Network's allowance for doubtful accounts covers all accounts greater than 6 months for both self-pay accounts receivable and third party payors as of September 30, 2013. The Network's self-pay and third-party payors write-offs totaled \$11,403,046 and \$10,998,492 for 2013 and 2012, respectively. The Network did not change its charity care or financial assistance policy during 2013 or 2012.

At September 30, 2013 and 2012, 32.3% and 35.0% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 67.7% and 65.0% were from nongovernmental payors, respectively. Nongovernmental payors are primarily insurance companies and self-pay payors. Management has recorded an allowance for doubtful accounts, as noted above, which, in its opinion, is sufficient to provide for risk of nonpayment.

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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 15 - Community Benefit (continued)

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 \$2,591,214 and \$3,398,899 for the years ended September 30, 2013 and 2012, respectively.

Note 16 - Functional Expenses

ECHN provides general health care services to residents within its geographical location. For the years ended September 30, 2013 and 2012, expenses relating to providing these services are as follows:

	<u>2013</u>	<u>2012</u>
Health care services	\$ 272,099,247	\$ 239,552,240
Fund raising	544,391	396,574
General and administrative	<u>55,211,560</u>	<u>50,499,081</u>
Total	<u>\$ 327,855,198</u>	<u>\$ 290,447,895</u>

Note 17 - Temporarily and Permanently Restricted Net Assets

The temporarily restricted net assets available, as of September 30, 2013 and 2012, are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Departmental and endowment purposes	\$ 2,114,039	\$ 2,565,533
Capital campaign and pledges	<u>473,262</u>	<u>677,989</u>
Total	<u>\$ 2,587,301</u>	<u>\$ 3,243,522</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

As of September 30, 2013 and 2012, permanently restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Beneficial interest in trust assets	\$ 7,882,372	\$ 7,400,782
Endowments restricted for:		
Other departmental purposes	3,709,665	3,709,665
Charity care	546,180	540,205
Special needs	151,579	151,579
Cancer research	6,124	6,124
	<u>6,124</u>	<u>6,124</u>
 Total	 <u>\$ 12,295,920</u>	 <u>\$ 11,808,355</u>

The composition of the Network's endowment by net asset class as of September 30, 2013 and 2012, was as follows:

<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,121,375	\$ 4,413,548	\$ 6,534,923
Board-designated endowment funds	33,138,323	-	-	33,138,323
	<u>33,138,323</u>	<u>-</u>	<u>-</u>	<u>33,138,323</u>
Net assets, September 30, 2013	<u>\$ 33,138,323</u>	<u>\$ 2,121,375</u>	<u>\$ 4,413,548</u>	<u>\$ 39,673,246</u>
	<u>33,138,323</u>	<u>2,121,375</u>	<u>4,413,548</u>	<u>39,673,246</u>
<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	26,269,872	-	-	26,269,872
	<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>26,269,872</u>	<u>2,564,396</u>	<u>4,407,574</u>	<u>33,241,842</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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

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.

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, 2013 and 2012.

Changes in endowment net assets for the fiscal year ended September 30, 2013 were as follows:

<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, October 1, 2012	\$ 26,269,872	\$ 2,564,396	\$ 4,407,574	\$ 33,241,842
Interest income and dividends	808,111	55,220	-	863,331
Realized gains	2,082,211	145,575	-	2,227,786
Unrealized appreciation on investments	2,118,875	219,391	-	2,338,266
Released from restrictions	780,616	(2,339,401)	-	(1,558,785)
Contributions	183,500	1,473,843	-	1,657,343
Distributions	(1,500,000)	-	-	(1,500,000)
Transfers to (from) Endowment	2,395,138	2,351	5,974	2,403,463
Net assets, September 30, 2013	<u>\$ 33,138,323</u>	<u>\$ 2,121,375</u>	<u>\$ 4,413,548</u>	<u>\$ 39,673,246</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

Changes in endowment net assets for the fiscal year ended September 30, 2012 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 and releases from restrictions	2,146,543	70,033	-	2,216,576
Transfers to (from) Endowment	(249,269)	249,269	-	-
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>

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, 2013 and 2012, there were no funds that were below the level required by donor or law.

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.

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, 2013 was (\$856,588) 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, 2013, which was primarily the result of adverse loss development experienced on a limited number of claims relating to prior years. Subsequent to September 30, 2013, ECHN contributed \$1,200,000 of additional capital to ensure that the capital balance is in compliance with the CIMA's statutory regulations.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 19 - Statutory Capital and Surplus (continued)

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, 2013 and 2012.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2013

	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
Assets								
Current assets:								
Cash and cash equivalents	\$ 12,239,488	\$ 1,059,290	\$ 887,544	\$ -	\$ 14,186,322	\$ 1,936,006	\$ -	\$ 16,122,328
Current portion of investments held under bond indentures	1,300,096	364,771	185,664	-	1,850,531	-	-	1,850,531
Accounts receivable - net	27,182,276	10,269,970	1,772,700	-	39,224,946	-	-	39,224,946
Inventory	3,245,125	1,467,009	38,816	-	4,750,950	-	-	4,750,950
Due from affiliated entities	370,120	58,029	282,558	(79,590)	631,117	19,043	-	650,160
Current portion of estimated settlements due from third-party payers	3,078,822	384,274	-	-	3,463,096	-	-	3,463,096
Prepaid expenses and other current assets	2,316,130	276,211	4,671	-	2,597,012	720,233	-	3,317,245
Total current assets	49,732,057	13,879,554	3,171,953	(79,590)	66,703,974	2,675,282	-	69,379,256
Assets whose use is limited - net of current portion:								
Donor restricted investments	1,806,681	1,709,690	-	-	3,516,371	2,931,819	-	6,448,190
Board designated investments	8,595,367	9,895,326	-	-	18,490,693	12,031,955	-	30,522,648
Investments held in trust for estimated self-insurance liabilities	1,258,026	-	-	-	1,258,026	-	-	1,258,026
Beneficial interest in trust assets	5,700,200	2,182,172	-	-	7,882,372	-	-	7,882,372
Investments held under bond indentures	3,321,696	806,533	813,828	-	4,942,057	-	-	4,942,057
Total assets whose use is limited	20,681,970	14,593,721	813,828	-	36,089,519	14,963,774	-	51,053,293
Interest in net assets of ECHN CHF, Inc.	7,278,631	3,616,191	181,832	-	11,076,654	-	(11,076,654)	-
Investments	4,366,493	3,088,116	3,630,706	-	11,085,315	283,179	-	11,368,494
Investments in joint ventures	3,501,635	3,208,828	-	-	6,710,463	-	-	6,710,463
Property, plant and equipment - net	54,574,351	27,654,664	7,672,388	-	89,901,403	-	-	89,901,403
Other assets:								
Estimated settlements due from third-party payers - net of current portion	6,135,548	668,994	-	-	6,804,542	-	-	6,804,542
Due from affiliated entities - net of current portion	25,064,484	9,022,571	-	(7,220,571)	26,866,484	-	-	26,866,484
Goodwill and intangible assets - net	-	-	549,482	-	549,482	-	-	549,482
Other assets	2,819,605	811,215	454,422	-	4,085,242	210,111	-	4,295,353
Total other assets	34,019,637	10,502,780	1,003,904	(7,220,571)	38,305,750	210,111	-	38,515,861
Total assets	\$ 174,154,774	\$ 76,543,854	\$ 16,474,611	\$ (7,300,161)	\$ 259,873,078	\$ 18,132,346	\$ (11,076,654)	\$ 266,928,770

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2013

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	\$ 93,515	\$ 129,143	\$ 101,334	\$ 2,766,681	\$ 243,530	\$ 2,982,825	\$ -	\$ 22,439,356
Current portion of investments held under bond indentures	-	-	-	-	-	-	-	1,850,531
Accounts receivable - net	2,881,621	748,991	35	3,338,073	328,616	1,861	-	46,524,143
Inventory	15,926	298,840	-	-	-	-	-	5,065,716
Due from affiliated entities	-	-	-	-	847,173	-	(1,497,333)	-
Current portion of estimated settlements due from third-party payers	-	-	-	-	-	-	-	3,463,096
Prepaid expenses and other current assets	295,148	14,498	3,903	159,247	1,235,148	21,676	-	5,046,865
Total current assets	3,286,210	1,191,472	105,272	6,264,001	2,654,467	3,006,362	(1,497,333)	84,389,707
Assets whose use is limited - net of current portion:								
Donor restricted investments	-	-	-	86,733	-	-	-	6,534,923
Board designated investments	-	-	-	2,615,675	-	-	-	33,138,323
Investments held in trust for estimated self-insurance liabilities	-	-	-	-	-	1,207,905	-	2,465,931
Beneficial interest in trust assets	-	-	-	-	-	-	-	7,882,372
Investments held under bond indentures	-	-	-	-	-	-	-	4,942,057
Total assets whose use is limited	-	-	-	2,702,408	-	1,207,905	-	54,963,606
Interest in net assets of ECHN CHF, Inc.	-	-	-	-	4,015,385	-	(4,015,385)	-
Investments	-	-	-	1,641,046	(909,061)	-	909,061	13,009,540
Investments in joint ventures	-	-	1,204,749	-	5,816,631	-	-	13,731,843
Property, plant and equipment - net	2,847,719	212,916	1,190,334	1,734,534	301,591	-	-	96,188,497
Other assets:								
Estimated settlements due from third-party payers - net of current portion	-	-	-	-	-	-	-	6,804,542
Due from affiliated entities - net of current portion	-	-	-	-	-	-	(26,866,484)	-
Goodwill and intangible assets - net	517,746	206,000	-	-	5,872,641	-	-	7,145,869
Other assets	-	-	-	624,407	307,041	1,006,331	-	6,233,132
Total other assets	517,746	206,000	-	624,407	6,179,682	1,006,331	(26,866,484)	20,183,543
Total assets	\$ 6,651,675	\$ 1,610,388	\$ 2,500,355	\$ 12,966,396	\$ 18,058,695	\$ 5,220,598	\$ (31,470,141)	\$ 282,466,736

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2013

	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
Liabilities and Net Assets (Deficit)								
Current liabilities:								
Accounts payable and accrued expenses	\$ 21,391,578	\$ 6,096,840	\$ 870,615	\$ -	\$ 28,359,033	\$ 96,089	\$ -	\$ 28,455,122
Line of credit	6,500,000	-	-	-	6,500,000	-	-	6,500,000
Current portion of long-term debt	3,909,618	870,081	588,866	-	5,368,565	-	-	5,368,565
Current portion of due to affiliates	-	398,089	83,694	(79,590)	402,193	348,957	-	751,150
Current portion of estimated settlements due to third-party payers	2,943,941	1,040,198	408,222	-	4,392,361	-	-	4,392,361
Current portion of accrued pension and other postretirement benefits	4,683,769	1,401,749	-	-	6,085,518	-	-	6,085,518
Other current liabilities	2,482,951	754,403	389,999	-	3,627,353	-	-	3,627,353
Total current liabilities	41,911,857	10,561,360	2,341,396	(79,590)	54,735,023	445,046	-	55,180,069
Long-term debt and capital lease obligations, net of current portion	50,793,813	23,519,254	8,462,882	-	82,775,949	-	-	82,775,949
Estimated self-insurance liabilities	6,830,954	2,423,371	821,571	-	10,075,896	-	-	10,075,896
Accrued pension and postretirement benefits	29,256,268	8,855,195	-	-	38,111,463	-	-	38,111,463
Estimated settlements due to third-party payers, net of current portion	-	-	-	-	-	-	-	-
Due to affiliates	7,220,571	-	-	(7,220,571)	-	-	-	-
Other liabilities	409,571	132,211	51,860	-	593,642	3,545	-	597,187
Total liabilities	136,423,034	45,491,391	11,677,709	(7,300,161)	186,291,973	448,591	-	186,740,564
Net assets (deficit):								
Unrestricted	27,759,929	26,773,989	4,772,427	-	59,306,345	2,591,715	-	61,898,060
Temporarily restricted	1,392,902	561,463	24,475	-	1,978,840	13,524,728	(9,509,342)	5,994,226
Permanently restricted	8,578,909	3,717,011	-	-	12,295,920	1,567,312	(1,567,312)	12,295,920
Total net assets (deficit)	37,731,740	31,052,463	4,796,902	-	73,581,105	17,683,755	(11,076,654)	80,188,206
Total liabilities and net assets (deficit)	\$ 174,154,774	\$ 76,543,854	\$ 16,474,611	\$ (7,300,161)	\$ 259,873,078	\$ 18,132,346	\$ (11,076,654)	\$ 266,928,770

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2013

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	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	\$ 2,272,436	\$ 923,287	\$ 16,422	\$ 1,834,866	\$ 1,301,847	\$ 70,855	\$ -	\$ 34,874,835
Lines of credit	-	-	-	-	-	-	-	6,500,000
Current portion of long-term debt	143,567	33,458	24,357	51,971	1,210,404	-	-	6,832,322
Current portion of due to affiliates	-	89,856	-	-	-	-	(841,006)	-
Current portion of estimated settlements due to third-party payers	-	-	-	120,000	-	-	-	4,512,361
Current portion of accrued pension and other postretirement benefits	-	-	-	-	-	-	-	6,085,518
Other current liabilities	-	-	-	861,394	-	1,051,734	-	5,540,481
Total current liabilities	2,416,003	1,046,601	40,779	2,868,231	2,512,251	1,122,589	(841,006)	64,345,517
Long-term debt and capital lease obligations, net of current portion	223,265	183,678	274,616	6,488	952,010	-	-	84,416,006
Estimated self-insurance liabilities	-	-	-	-	-	4,954,597	(6,006,000)	9,024,493
Accrued pension and postretirement benefits	-	-	-	-	-	-	-	38,111,463
Estimated settlements due to third-party payers, net of current portion	122,921	-	-	-	-	-	-	122,921
Due to affiliates	3,917,177	-	2,269,134	-	18,031,973	-	(24,218,284)	-
Other liabilities	-	-	-	-	-	-	-	597,187
Total liabilities	6,679,366	1,230,279	2,584,529	2,874,719	21,496,234	6,077,186	(31,065,290)	196,617,587
Net assets (deficit):								
Unrestricted	(27,691)	380,109	(84,174)	10,004,944	(3,959,262)	(856,588)	3,610,530	70,965,928
Temporarily restricted	-	-	-	86,733	521,723	-	(4,015,381)	2,587,301
Permanently restricted	-	-	-	-	-	-	-	12,295,920
Total net assets (deficit)	(27,691)	380,109	(84,174)	10,091,677	(3,437,539)	(856,588)	(404,851)	85,849,149
Total liabilities and net assets (deficit)	\$ 6,651,675	\$ 1,610,388	\$ 2,500,355	\$ 12,966,396	\$ 18,058,695	\$ 5,220,598	\$ (31,470,141)	\$ 282,466,736

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, 2013

	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
Revenues:								
Net patient service revenues	\$ 175,818,082	\$ 73,037,858	\$ 14,748,717	\$ -	\$ 263,604,657	\$ -	\$ -	\$ 263,604,657
Provision for bad debts	(5,518,461)	(4,127,214)	(110,000)	-	(9,755,675)	-	-	(9,755,675)
Net patient service revenues less provision for bad debts	170,299,621	68,910,644	14,638,717	-	253,848,982	-	-	253,848,982
Contributions	961,465	253,309	14,404	-	1,229,178	-	-	1,229,178
Other revenues	15,458,360	4,492,026	271,583	(141,268)	20,080,701	1,655,029	(832,862)	20,902,868
EHR incentive payment revenue	1,410,667	1,220,153	-	-	2,630,820	-	-	2,630,820
Net assets released from restrictions used in operations	1,458,982	112,828	3,500	-	1,575,310	288,075	-	1,863,385
Total revenues	189,589,095	74,988,960	14,928,204	(141,268)	279,364,991	1,943,104	(832,862)	280,475,233
Expenses:								
Salaries and wages	83,909,349	31,509,639	7,249,363	-	122,668,351	515,044	(376,115)	122,807,280
Fringe benefits	27,658,791	10,024,601	2,721,924	-	40,405,316	129,343	(94,462)	40,440,197
Supplies and other expenses	66,966,600	25,888,529	3,792,677	(141,268)	96,506,538	496,670	(362,285)	96,640,923
Depreciation and amortization	7,115,302	3,565,031	551,609	-	11,231,942	-	-	11,231,942
Interest and financing costs	2,685,044	682,298	485,961	-	3,853,303	-	-	3,853,303
Total expenses	188,335,086	71,670,098	14,801,534	(141,268)	274,665,450	1,141,057	(832,862)	274,973,645
Income (loss) from operations	1,254,009	3,318,862	126,670	-	4,699,541	802,047	-	5,501,588
Non-operating (losses) gains	(1,466,699)	(660,236)	52,019	-	(2,074,916)	-	-	(2,074,916)
Excess of revenues (under) over expenses	<u>\$ (212,690)</u>	<u>\$ 2,658,626</u>	<u>\$ 178,689</u>	<u>\$ -</u>	<u>\$ 2,624,625</u>	<u>\$ 802,047</u>	<u>\$ -</u>	<u>\$ 3,426,672</u>

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, 2013

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	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	\$ 21,949,662	\$ -	\$ -	\$ 24,638,275	\$ -	\$ -	\$ (70,435)	\$ 310,122,159
Provision for bad debts	(1,249,472)	-	-	(137,055)	-	-	-	(11,142,202)
Net patient service revenues less provision for bad debts	20,700,190	-	-	24,501,220	-	-	(70,435)	298,979,957
Contributions	-	-	-	385,141	345,435	-	(345,435)	1,614,319
Other revenues	8,353,432	3,232,600	425,834	717,140	3,048,899	2,440,340	(16,249,743)	22,871,370
EHR incentive payment revenue	-	-	-	-	-	-	-	2,630,820
Net assets released from restrictions used in operations	-	-	-	2,353	5,489	-	-	1,871,227
Total revenues	29,053,622	3,232,600	425,834	25,605,854	3,399,823	2,440,340	(16,665,613)	327,967,693
Expenses:								
Salaries and wages	21,887,013	1,880,216	-	17,154,890	11,400,866	-	(11,400,863)	163,729,402
Fringe benefits	3,477,219	320,611	-	3,354,064	2,316,394	-	(2,316,391)	47,592,094
Supplies and other expenses	9,246,348	869,285	284,772	4,119,020	(12,524,809)	8,133,343	(6,433,767)	100,335,115
Depreciation and amortization	545,428	57,332	71,228	384,891	228,411	-	(228,410)	12,290,822
Interest and financing costs	15,629	22,498	11,681	4,654	138,065	-	(138,065)	3,907,765
Total expenses	35,171,637	3,149,942	367,681	25,017,519	1,558,927	8,133,343	(20,517,496)	327,855,198
Income (loss) from operations	(6,118,015)	82,658	58,153	588,335	1,840,896	(5,693,003)	3,851,883	112,495
Non-operating (losses) gains	-	-	(63,728)	55	(1,840,896)	-	1,840,896	(2,138,589)
Excess of revenues (under) over expenses	<u>\$ (6,118,015)</u>	<u>\$ 82,658</u>	<u>\$ (5,575)</u>	<u>\$ 588,390</u>	<u>\$ -</u>	<u>\$ (5,693,003)</u>	<u>\$ 5,692,779</u>	<u>\$ (2,026,094)</u>

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, 2013

	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
Unrestricted net assets:								
Excess of revenues (under) over expenses	\$ (212,690)	\$ 2,658,626	\$ 178,689	\$ -	\$ 2,624,625	\$ 802,047	\$ -	\$ 3,426,672
Change in unrealized appreciation on investments	430,760	696,651	205,847	-	1,333,258	-	-	1,333,258
Net change in interest rate swap agreement	110,862	-	-	-	110,862	-	-	110,862
Net assets released from restrictions for capital acquisitions	401,528	47,604	19,042	-	468,174	-	-	468,174
Equity transfer to ECHN	(4,282,611)	(1,835,404)	-	-	(6,118,015)	-	-	(6,118,015)
Equity transfer from ECHN	-	-	-	-	-	-	-	-
ECHN Corporate Services transfer	-	-	-	-	-	-	-	-
Transfers (to) from other affiliates - net	(94,598)	(6,530)	5,000	-	(96,128)	96,861	-	733
Pension and postretirement related adjustments	26,481,163	8,152,920	-	-	34,634,083	-	-	34,634,083
Other	-	(5,975)	-	-	(5,975)	-	-	(5,975)
Change in unrestricted net assets	22,834,414	9,707,892	408,578	-	32,950,884	898,908	-	33,849,792
Temporarily restricted net assets:								
Contributions	580,157	32,787	14,288	-	627,232	2,475,669	(1,573,241)	1,529,660
Investment income	178,208	16,725	-	-	194,933	32,862	(26,999)	200,796
Net assets released from restrictions for operations	(1,458,982)	(112,828)	(3,500)	-	(1,575,310)	(1,093,192)	799,630	(1,868,872)
Net assets released from restrictions for capital acquisitions	(401,528)	(47,604)	(19,042)	-	(468,174)	(468,173)	468,173	(468,174)
Change in unrealized appreciation on investments	39,846	47,603	1,388	-	88,837	1,041,967	(627,530)	503,274
Transfers (to) from affiliates	550,132	9,032	-	-	559,164	-	(497,634)	61,530
Change in temporarily restricted net assets	(512,167)	(54,285)	(6,866)	-	(573,318)	1,989,133	(1,457,601)	(41,786)
Permanently restricted net assets:								
Change in beneficial interest in trust assets	403,720	77,870	-	-	481,590	-	-	481,590
Other	-	5,975	-	-	5,975	-	-	5,975
Change in permanently restricted net assets	403,720	83,845	-	-	487,565	-	-	487,565
Change in net assets (deficit)	22,725,967	9,737,452	401,712	-	32,865,131	2,888,041	(1,457,601)	34,295,571
Net assets (deficit), beginning of year	15,005,773	21,315,011	4,395,190	-	40,715,974	14,795,714	(9,619,053)	45,892,635
Net assets (deficit), end of year	\$ 37,731,740	\$ 31,052,463	\$ 4,796,902	\$ -	\$ 73,581,105	\$ 17,683,755	\$ (11,076,654)	\$ 80,188,206

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, 2013

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	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 of revenues (under) over expenses	\$ (6,118,015)	\$ 82,658	\$ (5,575)	\$ 588,390	\$ -	\$ (5,693,003)	\$ 5,692,779	\$ (2,026,094)
Change in unrealized appreciation on investments	-	-	-	159,050	283,886	(540,700)	-	1,235,494
Net change in interest rate swap agreement	-	-	-	-	-	-	-	110,862
Net assets released from restrictions for capital acquisitions	-	-	-	-	-	-	-	468,174
Equity transfer to ECHN	-	-	-	-	6,118,015	-	-	-
Equity transfer from ECHN	6,118,015	-	-	-	(6,118,015)	-	-	-
ECHN Corporate Services transfer	-	297,451	-	-	(297,451)	-	-	-
Transfers (to) from other affiliates - net	-	-	-	-	(733)	5,373,092	(5,373,092)	-
Pension and postretirement related adjustments	-	-	-	-	-	-	-	34,634,083
Other	-	-	-	-	-	-	-	(5,975)
Change in unrestricted net assets	-	380,109	(5,575)	747,440	(14,298)	(860,611)	319,687	34,416,544
Temporarily restricted net assets:								
Contributions	-	-	-	16,500	432,285	-	(715,452)	1,262,993
Investment income	-	-	-	-	-	-	-	200,796
Net assets released from restrictions for operations	-	-	-	(2,353)	(5,489)	-	5,487	(1,871,227)
Net assets released from restrictions for capital acquisitions	-	-	-	-	-	-	-	(468,174)
Change in unrealized appreciation on investments	-	-	-	-	35,316	-	(319,199)	219,391
Transfers (to) from affiliates	-	-	-	-	(559,164)	-	497,634	-
Change in temporarily restricted net assets	-	-	-	14,147	(97,052)	-	(531,530)	(656,221)
Permanently restricted net assets:								
Change in beneficial interest in trust assets	-	-	-	-	-	-	-	481,590
Other	-	-	-	-	-	-	-	5,975
Change in permanently restricted net assets	-	-	-	-	-	-	-	487,565
Change in net assets (deficit)	-	380,109	(5,575)	761,587	(111,350)	(860,611)	(211,843)	34,247,888
Net assets (deficit), beginning of year	(27,691)	-	(78,599)	9,330,090	(3,326,189)	4,023	(193,008)	51,601,261
Net assets (deficit), end of year	\$ (27,691)	\$ 380,109	\$ (84,174)	\$ 10,091,677	\$ (3,437,539)	\$ (856,588)	\$ (404,851)	\$ 85,849,149

See accompanying independent auditors' report.

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
Assets															
Current assets:															
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 investments held under bond indentures	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
Total current assets	46,454,149	16,264,552	4,357,399	(822,530)	66,253,570	4,204,754	-	70,458,324	3,989,879	143,726	6,516,328	6,063,900	2,947,294	(4,243,557)	85,875,894
Assets whose use is limited - net of current portion:															
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
Total assets whose use is limited	20,159,091	13,743,382	751,053	-	34,653,526	10,570,778	-	45,224,304	-	-	2,216,775	-	6,988,063	-	54,429,142
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
Other assets:															
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 assets	1,866,512	831,619	355,605	-	3,053,736	376,164	-	3,429,900	-	-	591,402	326,934	867,152	-	5,215,388
Total other assets	33,827,422	3,451,619	1,184,413	-	38,463,454	376,164	-	38,839,618	256,271	-	591,402	5,954,961	867,152	(34,830,910)	11,678,494
Total assets	\$ 170,071,384	\$ 79,868,773	\$ 16,347,804	\$ (822,530)	\$ 265,465,431	\$ 15,411,086	\$ (9,619,053)	\$ 271,257,464	\$ 7,459,282	\$ 2,669,000	\$ 12,237,525	\$ 20,833,298	\$ 10,802,509	\$ (41,968,953)	\$ 283,290,125

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 Groups	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
Total current liabilities	35,422,595	13,575,840	2,430,941	(822,530)	50,606,846	611,480	-	51,218,326	7,239,141	2,448,627	2,710,519	22,224,983	4,218,691	(31,080,945)	58,979,342
Long-term debt and capital lease obligations, net of current portion	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
Estimated self-insurance liabilities	9,814,802	3,307,458	514,642	-	13,636,902	-	-	13,636,902	-	-	-	-	6,579,795	(10,695,000)	9,521,697
Accrued pension and postretirement benefits	57,470,806	17,147,802	-	-	74,618,608	-	-	74,618,608	-	-	-	-	-	-	74,618,608
Estimated settlements due to third-party payers, net of current portion	-	-	-	-	-	-	-	-	-	-	82,500	-	-	-	82,500
Other liabilities	684,775	128,578	127,723	-	941,076	3,892	-	944,968	-	-	-	-	-	-	944,968
Total liabilities	155,065,611	58,553,762	11,952,614	(822,530)	224,749,457	615,372	-	225,364,829	7,486,973	2,747,599	2,907,435	24,159,487	10,798,486	(41,775,945)	231,688,864
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
Total net assets (deficit)	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
Total liabilities and net assets (deficit)	\$ 170,071,384	\$ 79,868,773	\$ 16,347,804	\$ (822,530)	\$ 265,465,431	\$ 15,411,086	\$ (9,619,053)	\$ 271,257,464	\$ 7,459,282	\$ 2,669,000	\$ 12,237,525	\$ 20,833,298	\$ 10,802,509	\$ (41,968,953)	\$ 283,290,125

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 B, Series C, and Series D 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 revenue	\$ 175,217,566	\$ 67,847,638	\$ 14,598,768	\$ -	\$ 257,663,972	\$ -	\$ -	\$ 257,663,972	\$ 19,379,025	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 277,042,997
Provision for bad debts	(6,382,307)	(3,309,948)	(162,851)	-	(9,855,106)	-	-	(9,855,106)	(1,430,104)	-	-	-	-	-	(11,285,210)
Net patient service revenue less provision for bad debts	168,835,259	64,537,690	14,435,917	-	247,808,866	-	-	247,808,866	17,948,921	-	-	-	-	-	265,757,787
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 initiative 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
Total revenues	188,697,195	71,409,298	14,642,613	(780,629)	273,968,477	1,109,921	(814,140)	274,264,258	25,758,591	330,791	-	8,293,871	2,299,700	(16,350,240)	294,596,971
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	25,465,287	10,223,293	2,219,761	-	37,908,341	116,129	(379,260)	37,645,210	3,275,112	-	-	2,287,709	-	(2,287,706)	40,920,325
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	7,327,377	353,981	-	(6,746,516)	6,134,132	(5,144,290)	93,818,377
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
Total expenses	178,661,729	70,909,586	14,600,702	(780,629)	263,391,388	1,109,921	(814,140)	263,687,169	32,059,610	457,787	-	7,463,057	6,134,132	(19,353,860)	290,447,895
Income (loss) from operations	10,035,466	499,712	41,911	-	10,577,089	-	-	10,577,089	(6,301,019)	(126,996)	-	830,814	(3,834,432)	3,003,620	4,149,076
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 of revenues over (under) expenses	\$ 9,166,829	\$ 319,751	\$ 83,365	\$ -	\$ 9,569,945	\$ -	\$ -	\$ 9,569,945	\$ (6,301,019)	\$ (320,388)	\$ -	\$ -	\$ (3,834,432)	\$ 3,834,434	\$ 2,948,540

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 B, Series C, and Series D 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 of revenues over (under) expenses	\$ 9,166,829	\$ 319,751	\$ 83,365	\$ -	\$ 9,569,945	\$ -	\$ -	\$ 9,569,945	\$ (6,301,019)	\$ (320,388)	\$ -	\$ -	\$ (3,834,432)	\$ 3,834,434	\$ 2,948,540
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 agreements	(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)	-	-	-	-
Transfer (to) from other affiliates - net	(310,801)	424,971	2,654	-	116,824	(92,176)	-	24,648	-	-	-	(24,648)	-	-	-
Pension and postretirement-related adjustments	(12,778,592)	(3,623,818)	-	-	(16,402,410)	-	-	(16,402,410)	-	-	-	-	-	-	(16,402,410)
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
Transfer (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.