

The Manchester Memorial Hospital

Financial Statements as of and for the
Years Ended September 30, 2009 and 2008, and
Independent Auditors' Report

THE MANCHESTER MEMORIAL HOSPITAL

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008:	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-36

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Manchester Memorial Hospital
Manchester, Connecticut

We have audited the accompanying balance sheets of The Manchester Memorial Hospital (the "Hospital") (a wholly owned subsidiary of Eastern Connecticut Health Network, Inc.) as of September 30, 2009 and 2008, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of The Manchester Memorial Hospital as of September 30, 2009 and 2008, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

January 27, 2010

THE MANCHESTER MEMORIAL HOSPITAL

BALANCE SHEETS AS OF SEPTEMBER 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,660,990	\$ 8,080,207
Current portion of assets whose use is limited	794,015	1,664,970
Accounts receivable — net of allowance for doubtful accounts of \$1,996,812 and \$1,399,698 in 2009 and 2008, respectively	24,557,822	25,254,121
Inventory	2,215,756	1,989,456
Due from affiliated entities	6,841,862	17,493,383
Current portion of estimated settlements due from third-party payors	514,722	879,184
Prepaid expenses and other current assets	486,845	309,622
Total current assets	<u>46,072,012</u>	<u>55,670,943</u>
ASSETS WHOSE USE IS LIMITED — Net of current portion:		
Board-designated and donor-restricted investments	7,837,163	6,131,019
Investments held in trust for estimated self-insurance liabilities	2,519,181	2,625,489
Beneficial interest in trust assets	4,888,284	5,011,260
Investments held under bond indentures	3,263,355	3,347,229
Total assets whose use is limited — net of current portion	<u>18,507,983</u>	<u>17,114,997</u>
INTEREST IN NET ASSETS OF ECHN COMMUNITY HEALTHCARE FOUNDATION, INC.	<u>3,828,998</u>	<u>4,505,972</u>
INVESTMENTS	<u>6,312,056</u>	<u>7,879,324</u>
INVESTMENTS IN JOINT VENTURES	<u>3,120,631</u>	<u>2,025,509</u>
PROPERTY AND EQUIPMENT — Net	<u>54,573,162</u>	<u>52,319,036</u>
OTHER ASSETS:		
Estimated settlements due from third-party payors — net of current portion	805,860	558,991
Due from affiliated entities — net of current portion	14,600,421	
Intangible assets — net	288,000	396,000
Other — net	2,499,251	2,476,934
Total other assets	<u>18,193,532</u>	<u>3,431,925</u>
TOTAL	<u>\$ 150,608,374</u>	<u>\$ 142,947,706</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 17,435,198	\$ 22,173,757
Current portion of long-term debt	7,816,773	3,451,379
Due to affiliated entities	11,579,429	12,491,221
Current portion of estimated settlements due to third-party payors	251,398	1,618,701
Other current liabilities	2,456,430	1,038,999
Total current liabilities	<u>39,539,228</u>	<u>40,774,057</u>
LONG-TERM LIABILITIES:		
Long-term debt — net of current portion	49,230,702	41,462,437
Estimated self-insurance liabilities	2,216,390	2,171,000
Accrued pension and other postretirement benefits	37,414,390	19,477,017
Estimated settlements due to third-party payors — net of current portion		65,466
Other liabilities	279,797	357,833
Total long-term liabilities	<u>89,141,279</u>	<u>63,533,753</u>
Total liabilities	<u>128,680,507</u>	<u>104,307,810</u>
COMMITMENTS AND CONTINGENCIES (Note 16)		
NET ASSETS:		
Unrestricted	12,898,050	28,644,838
Temporarily restricted	1,262,823	2,106,034
Permanently restricted	7,766,994	7,889,024
Total net assets	<u>21,927,867</u>	<u>38,639,896</u>
TOTAL	<u>\$ 150,608,374</u>	<u>\$ 142,947,706</u>

See notes to financial statements.

THE MANCHESTER MEMORIAL HOSPITAL

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Net patient service revenue	\$ 167,264,862	\$ 158,787,196
Change in interest in unrestricted net assets of ECHN Community Healthcare Foundation, Inc.	506,416	411,180
Other revenues	9,559,338	11,605,656
Net assets released from restrictions used for operations	<u>99,591</u>	<u>37,394</u>
 Total unrestricted revenues, gains, and other support	 <u>177,430,207</u>	 <u>170,841,426</u>
EXPENSES:		
Salaries and wages	75,094,805	71,396,575
Fringe benefits	20,465,024	18,095,360
Supplies and other	56,092,399	55,412,273
Provision for bad debts	7,895,004	6,287,004
Depreciation and amortization	8,204,355	8,658,482
Interest and financing costs	<u>2,265,597</u>	<u>2,062,683</u>
 Total expenses	 <u>170,017,184</u>	 <u>161,912,377</u>
INCOME FROM OPERATIONS	<u>7,413,023</u>	<u>8,929,049</u>
NONOPERATING (EXPENSE) INCOME — Net:		
Other	(1,408,380)	818,117
Other-than-temporary impairment charge	<u>(59,073)</u>	<u>(823,829)</u>
 Total nonoperating expense — net	 <u>(1,467,453)</u>	 <u>(5,712)</u>
EXCESS OF REVENUES OVER EXPENSES	5,945,570	8,923,337
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Change in unrealized depreciation on investments	(171,494)	(3,191,390)
Net loss on interest rate swap	(66,409)	(34,940)
Equity transfer to ECHN Health Services, Inc.	(4,434,257)	(3,619,695)
Transfer to other affiliates — net	(24,963)	(72,000)
Net assets released from restrictions for capital acquisitions	32,433	54,675
Pension and postretirement-related adjustments	<u>(17,027,668)</u>	<u>1,321,803</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ (15,746,788)</u>	<u>\$ 3,381,790</u>

See notes to financial statements.

THE MANCHESTER MEMORIAL HOSPITAL

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 5,945,570	\$ 8,923,337
Change in unrealized depreciation on investments	(171,494)	(3,191,390)
Net loss on interest rate swap	(66,409)	(34,940)
Equity transfer to ECHN Health Services, Inc.	(4,434,257)	(3,619,695)
Transfers to other affiliates — net	(24,963)	(72,000)
Net assets released from restrictions for capital acquisitions	32,433	54,675
Pension and postretirement-related adjustments	<u>(17,027,668)</u>	<u>1,321,803</u>
Change in unrestricted net assets	<u>(15,746,788)</u>	<u>3,381,790</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	(685,234)	(127,964)
Investment income	21,566	155,421
Net assets released from restrictions for operations	(99,591)	(37,394)
Net assets released from restrictions for capital acquisitions	(32,433)	(54,675)
Change in unrealized appreciation (depreciation) on investments	1,873	(317,468)
Other transfers	<u>(49,392)</u>	<u>(73,243)</u>
Change in temporarily restricted net assets	<u>(843,211)</u>	<u>(455,323)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	946	1,160,454
Change in beneficial interest in trust assets	<u>(122,976)</u>	<u>(1,209,955)</u>
Change in permanently restricted net assets	<u>(122,030)</u>	<u>(49,501)</u>
CHANGE IN NET ASSETS	(16,712,029)	2,876,966
NET ASSETS — Beginning of year	<u>38,639,896</u>	<u>35,762,930</u>
NET ASSETS — End of year	<u>\$ 21,927,867</u>	<u>\$ 38,639,896</u>

See notes to financial statements.

THE MANCHESTER MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (16,712,029)	\$ 2,876,966
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,126,788	8,590,096
Amortization of bond issuance costs	77,567	68,387
Provision for bad debts	7,895,004	6,287,004
Net loss on interest rate swap	66,409	34,940
Change in unrealized depreciation on investments	169,621	3,508,858
Other-than-temporary impairment charge	59,073	823,829
Income on investment in joint venture	(489,106)	(543,841)
Loss on disposal of assets	4,040	157,905
Transfer to other affiliated entities	24,963	145,243
Equity transfer to ECHN Health Services, Inc.	4,434,257	3,619,695
Pension and postretirement-related adjustments	17,027,668	(1,321,803)
Change in beneficial interest in trust assets	122,976	1,209,955
Permanently restricted contributions	(946)	(1,160,454)
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	676,974	(1,006,819)
Changes in operating assets and liabilities:		
Accounts receivable	(7,198,707)	(8,473,742)
Inventory	(226,300)	302,611
Prepaid expenses and other current assets	(177,223)	(73,855)
Due to/from affiliated entities	(5,680,582)	8,733
Intangible assets — net	108,000	108,000
Other assets — net	266,821	(180,318)
Accounts payable and accrued expenses	(4,804,968)	186,459
Accrued pension and other postretirement benefits	2,004,705	(1,497,238)
Other liabilities	244,395	147,848
Estimated settlements due from/to third-party payors	(1,315,176)	1,200,510
Estimated self-insurance liabilities	45,390	(162,921)
Net cash provided by operating activities	<u>4,749,614</u>	<u>14,856,048</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(9,741,579)	(4,708,293)
Purchases of investments	(8,422,448)	(11,630,667)
Investment in joint ventures	(220,000)	(147,000)
Distributions from joint ventures	40,500	
Proceeds from sales of investments	9,116,017	10,982,781
Net cash used in investing activities	<u>(9,227,510)</u>	<u>(5,503,179)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(3,489,341)	(2,161,357)
Transfer to ECHN Health Services, Inc.	(4,434,257)	(3,619,695)
Payments for bond issuance costs	(616,706)	
Transfer to other affiliated entities	(24,963)	(145,243)
Permanently restricted contributions	946	1,160,454
Proceeds from issuance of debt	15,623,000	2,780,000
Net cash provided by (used in) financing activities	<u>7,058,679</u>	<u>(1,985,841)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,580,783	7,367,028
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>8,080,207</u>	<u>713,179</u>
End of year	<u>\$ 10,660,990</u>	<u>\$ 8,080,207</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest	<u>\$ 2,463,029</u>	<u>\$ 2,156,128</u>
NONCASH FINANCING ACTIVITIES — Equipment acquisitions under capital lease arrangements	<u>\$ 113,000</u>	<u>\$ 1,600,000</u>

See notes to financial statements.

THE MANCHESTER MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

1. ORGANIZATION

The Manchester Memorial Hospital (the “Hospital” or “MMH”) is a not-for-profit, 249-bed acute care hospital that provides inpatient, outpatient, and emergency care services for residents of Manchester and surrounding towns. The Hospital is a subsidiary of Eastern Connecticut Health Network, Inc. (ECHN or the “Network”), which was formed in 1995 by a merger of MMH Corp. and Rockville Area Health Services, Inc. ECHN was organized to provide a broader health care system for the surrounding communities with quality medical care at a reasonable cost and to foster an environment conducive to health and well-being whether in the home or in the community.

Other related entities of MMH include:

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.

ECHN Wellness Services, Inc. d/b/a Women’s Center for Wellness (EWS) — EWS is a not-for-profit organization that currently operates a facility located in South Windsor, Connecticut, which offers health services to meet the special needs of women.

ECHN Health Services, Inc. (EHS) — EHS 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. It is 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 EHS.

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 of ECHN.

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, 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) in accordance with the American Institute of Certified Public Accountants’ Audit and Accounting Guide, *Health Care Organizations*, and other pronouncements applicable to health care organizations.

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 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 Hospital in perpetuity are classified as permanently restricted. Such permanently restricted net assets include endowment funds and the Hospital’s share of its beneficial interest in trust assets held by third parties. Generally, the donors of these assets permit the Hospital to use all or part of the investment return on these assets for operating purposes.

The Hospital is obligated to administer donor-restricted endowment funds in accordance with the State of Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA). Further, Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 117-1 requires the Hospital to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until any purpose restriction is met and the funds are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Temporarily Restricted — Net assets whose use by the Hospital is subject to explicit donor-imposed stipulations that can be fulfilled upon incurrence of expenditures by the Hospital 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 balance sheets.

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 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 the appropriate rate commensurate with the risks involved. Amortization of the discount is included in other revenues. 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.

Cash and Cash Equivalents — Cash and cash equivalents include investments in highly liquid instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited or restricted by the Board designation or other arrangements under trust agreements.

The Hospital's banking activity, including cash and cash equivalents, is maintained with several regional banks and, from time to time, deposits exceed federal insurance limits. It is the Hospital's policy to monitor these banks' financial strength on an ongoing basis.

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; designated 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; beneficial interests in trust assets, which are donor restricted; and other donor-restricted investments. Amounts required to meet current liabilities of the Hospital have been classified as current assets in the balance sheets as of September 30, 2009 and 2008.

The income earned on restricted funds is generally available for operations of the Hospital at the discretion of management 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 recorded within permanently restricted net assets. There were no gifts with reinvestment restrictions for the years ended September 30, 2009 and 2008.

The Hospital relies on a balanced return strategy in which endowment returns are achieved through both capital appreciation and interest and dividends. The Hospital targets a diversified asset allocation of equity, fixed income, and money market securities.

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 has been named sole or participating beneficiary in several perpetual trusts, for which third parties act as the trustee. Under the terms of these trusts, MMH has the irrevocable right to receive the income earned on the trust assets in perpetuity. The estimated present value of the future payments to MMH is recorded at the fair value of the assets held in the trust as beneficial interest in trust assets and is classified as permanently restricted.

The unrestricted income from the trusts is included in other revenues and the change in interest in unrestricted net assets of ECHF as unrestricted support. Changes in the fair value of the trust assets are recognized as changes in permanently restricted net assets. MMH records the beneficial interest in trust assets when it is notified of the existence of the trust or when information becomes available to record the fair value of the trust assets.

Investments — Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are recorded at fair value at the balance sheet date. 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.

Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the Hospital's financial statements.

Other-Than-Temporary Impairment of Investments — The Hospital periodically reviews its investments to identify those individual investments for which fair value is below cost. The Hospital then makes a determination as to whether the investment should be considered other-than-temporarily impaired based on guidelines established in the revised Accounting Standards Codification (ASC) 320 FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment*). Impairment charges of \$59,073 and \$823,829 were recorded for the years ended September 30, 2009 and 2008, respectively.

Property and Equipment — Property 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 and equipment, the cost and related accumulated depreciation and amortization are eliminated from the respective accounts, and any resulting gain or loss is included within income or loss from operations.

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

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

Depreciation expense was \$7,223,467 and \$7,381,411 for the years ended September 30, 2009 and 2008, respectively.

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. Equipment under capital leases amortization totaling \$259,946 and \$125,937 for the years ended September 30, 2009 and 2008, respectively, is included in depreciation and amortization expense in the financial statements. 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 \$643,374 and \$1,082,748 for the years ended September 30, 2009 and 2008, respectively, are included within depreciation and amortization in the accompanying statements of operations.

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 those 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.

Investments in Joint Ventures — The Hospital has invested in joint ventures, which are accounted for under the equity method of accounting. These joint ventures include the Hospital's investment in the following:

	2009	Ownership Percentage	2008	Ownership Percentage
Northeast Regional Radiation Oncology Network, Inc.	\$2,503,896	25 %	\$1,905,411	25 %
Evergreen Endoscopy Center, LLC	400,000	50		N/A
Evergreen Imaging Center, LLC	216,735	50		N/A
Tolland Imaging Center	<u> </u>	35	<u>120,098</u>	35
Total joint venture investments	<u>\$3,120,631</u>		<u>\$2,025,509</u>	

Distributions from these joint ventures for the year ended September 30, 2009, were insignificant. The Hospital's share of the earnings of the joint venture is reported as other revenues totaling \$489,106 and \$543,841 for the years ended September 30, 2009 and 2008, respectively.

Summarized financial information from the financial statements of these organizations as of September 30, 2009, and for the year then ended is as follows:

	Total Assets	Net Assets	Change in Net Assets	Excess (Deficiency) of Revenues Over Expenses
Northeast Regional Radiation Oncology Network, Inc.	\$ 10,048,809	\$ 10,015,584	\$ 2,597,203	\$ 2,985,608
Evergreen Endoscopy Center, LLC	2,360,421	474,712	474,712	
Evergreen Imaging Center, LLC	1,069,812	431,448	78,616	161,438
Tolland Imaging Center	2,212,891	(29,279)	(372,416)	(543,137)

Summarized financial information from the financial statements of these organizations as of September 30, 2008, and for the year then ended is as follows:

	Total Assets	Net Assets	Change in Net Assets	Excess (Deficiency) of Revenues Over Expenses
Northeast Regional Radiation Oncology Network, Inc.	\$7,464,538	\$7,418,381	\$2,562,597	\$2,338,972
Evergreen Imaging Center, LLC	1,214,989	352,832	256,047	281,910
Tolland Imaging Center	2,647,317	343,137	343,137	(116,863)

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 statements of operations, and the unamortized carrying value is recorded within other — net in the accompanying balance sheets.

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

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

Statements of Operations — The statements of operations include the excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, consistent with industry practice, include changes in unrealized depreciation on investments; net loss on interest rate swap that qualifies for hedge accounting; equity transfer to EHS; 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 the provision 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 nonoperating gains, losses, and expenses. Nonoperating gains and losses include investment income and expenses related to property management, realized gains and losses on sales of investments, losses recognized on investments representing declines in value considered to be other-than-temporary in nature, changes in the fair values of interest rate swaps that do not qualify for hedge accounting, and the costs associated with pursuing business combinations.

Prior to 2009, realized gains and losses on sales of investments and changes in the fair values of interest rate swaps that did not qualify for hedge accounting were included in income from operations. During 2009, management concluded that such gains and losses should not be considered ongoing, major, or central to the provision of health care services and, accordingly, are more appropriately classified as nonoperating. The Hospital believes that this change in presentation provides a more meaningful measure of its income from operations, which is a useful measure of profitability and operating performance.

The following amounts in the 2008 statement of operations have been reclassified to conform to the current presentation (in thousands):

	As Originally Reported	As Reclassified	Effect of the Reclassification
Unrestricted revenues, gains, and other support	\$ 171,535	\$ 170,841	\$ (694)
Expenses	<u>161,925</u>	<u>161,912</u>	<u>13</u>
Income from operations	9,610	8,929	(681)
Nonoperating (expense) income	<u>(687)</u>	<u>(6)</u>	<u>681</u>
Excess of revenues over expenses	<u>\$ 8,923</u>	<u>\$ 8,923</u>	<u>\$ -</u>

Use of Estimates — The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from these estimates and such estimates are susceptible to change in the near term. The Hospital's primary estimates relate to the valuation of investments and interest rate swap agreements, allowance for doubtful patient accounts receivable, contractual allowances on accounts receivable due from third parties, estimated settlements due to and from third parties, self-insurance liabilities, conditional asset retirement obligations, and pension and postretirement benefit costs and the related obligations.

Charity Care — The Hospital provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than its established and contractual rates. The Hospital does not pursue collection of amounts determined to qualify as charity care; as such, these amounts are not reported as revenue. Charity care was \$1,418,730 and \$1,886,079 for the years ended September 30, 2009 and 2008, respectively. These amounts were determined based upon charges forgone.

Net Patient Service Revenue — Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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 within the State of Connecticut 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. During 2008, the Hospital recorded adjustments to the amounts accrued for estimated settlements related to prior years. The net effect of such adjustments was an increase in net patient service revenue of approximately \$388,612 in 2008.

A portion of the accrual for estimated settlements with third-party payors 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.

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment agreements with major third-party payors 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 nonphysician services. These rates vary according to the Diagnosis Related Group or Ambulatory Payment Classification of each patient.

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 based on prospective fee schedules. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital.

Other Payors — The Hospital 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 Hospital 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.

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 payors, 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 Hospital.

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 ECHF's Board of Directors is appointed by ECHN. The Hospital follows the provisions of ASC 958 (FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*). Accordingly, the Hospital has reflected its proportionate interest in the net assets of ECHF in the Hospital's financial statements.

Income Taxes — The Hospital is a not-for-profit organization which is in compliance with the provisions of Internal Revenue Code (IRC) Sec. 501(c)(3) and is exempt from federal tax under IRC Sec. 501(a).

Asset Retirement Obligations — The Hospital 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 Hospital recognizes are those for which the Hospital 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, 2009 and 2008, the Hospital has recognized \$279,796 and \$357,833, respectively, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the balance sheets within other liabilities.

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

Inventory — The Hospital records inventory at cost using the first-in, first-out method.

Impairment of Long-Lived Assets — Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed 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 balance sheets.

Effective October 1, 2006, malpractice losses on a claims-made basis have been transferred to a wholly owned captive of ECHN and CHIC.

Concentration of Credit Risk — Financial instruments which potentially subject the Hospital 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 Hospital receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, 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 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 nonoperating expense — net or if designated and effective as hedge transactions, as changes in unrestricted net assets.

Advertising Costs — The Hospital expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was \$1,295,806 and \$493,228 for the years ended September 30, 2009 and 2008, respectively, and is recorded in supplies and other in the accompanying statements of operations.

Recently Issued Accounting Pronouncements:

Fair Value Measurements and Disclosures — In September 2006, the FASB updated ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also prioritizes the use of market-based assumptions, or observable inputs, over entity-specific assumptions or unobservable inputs when measuring fair value and establishes a three-level hierarchy based upon the relative reliability and availability of the inputs to market participants for the valuation of an asset or liability as of the measurement date. The fair value hierarchy designates quoted prices in active markets for identical assets or liabilities at the highest level and unobservable inputs at the lowest level. The Hospital adopted the provisions of ASC 820 for assets and liabilities that are measured at fair value on a recurring basis effective October 1, 2008.

In February 2008, the FASB updated ASC 820 to delay the effective date for one year for nonfinancial assets and nonfinancial liabilities, except for those that are recognized or disclosed at fair value on a recurring basis. The Hospital elected the deferral for nonfinancial assets and nonfinancial liabilities.

In April 2009, the FASB updated ASC 820 to provide additional guidance for determining fair value when the volume and level of activity for an asset or liability has significantly decreased and on identifying circumstances that indicate a transaction is not orderly. The Hospital adopted the provisions of the updates to ASC 820 effective September 30, 2009. The adoption of the updates to ASC 820 did not impact the Hospital's financial statements.

In August 2009, the FASB issued Accounting Standards Updates (ASU) No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) — Measuring Liabilities at Fair Value*, an update to ASC 820. ASU No. 2009-05 clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, fair value measurement of the liability is to be estimated with one or more valuation techniques that use (i) the quoted price of the identical liability when traded as an asset, (ii) quoted prices for similar liabilities or similar liabilities when traded as assets, or (iii) another valuation technique consistent with the principles of ASC 820, such as an income or market approach. ASU No. 2009-05 is effective for the first reporting period, including interim periods, beginning after the issuance with early adoption permitted. A change, if any, in valuation techniques and related inputs resulting from the application of the principles of ASU No. 2009-05 and quantification of the total effect, if practicable, shall be disclosed in the period of adoption. The Hospital is currently evaluating the impact of adopting ASU No. 2009-05 on its financial statements.

Disclosures About Derivative Instruments and Hedging Activities — In March 2008, the FASB updated ASC 815, *Derivatives and Hedging*, to enhance disclosure requirements for derivative instruments and hedging activities regarding how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for under ASC 815 and its related interpretations and how they

affect financial position, financial performance, and cash flows. The updates to ASC 815 require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The updates to ASC 815 are effective for fiscal years beginning after November 15, 2008, with early adoption encouraged. ASC 815 enhances disclosure requirements and will not impact the Hospital's financial condition, results of operations, changes in net assets, or cash flows.

Endowments Held by Not-For-Profit Organizations — In August 2008, the FASB issued a staff position that provides guidance that is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. The staff position provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that were subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The staff position also requires additional disclosures about endowments (both donor-restricted funds and Board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The adoption of the staff position did not impact the Hospital's financial position, results of operations, changes in net assets, or cash flows. Disclosures regarding the Hospital's endowments are included in Note 15, Temporarily and Permanently Restricted Net Assets, in the Hospital's notes to the financial statements.

Disclosures About Fair Value of Financial Instruments — In April 2009, the FASB updated ASC 825, *Financial Instruments*, to require the disclosure of fair value for interim and annual reporting periods for all financial instruments for which it is practicable to estimate the value, whether recognized or not recognized in the statement of financial position. The Hospital adopted the updates to ASC 825 effective September 30, 2009. The adoption of the updates to ASC 825 did not impact the Hospital's financial position, results of operations, changes in net assets, or cash flows. Disclosures of the fair value of the Hospital's financial instruments are included in Note 17, Fair Values of Financial Instruments, in the Hospital's notes to financial statements.

Recognition and Presentation of Other-Than-Temporary Impairments — In April 2009, the FASB updated ASC 320, *Investments — Debt and Equity Securities*, to require entities to evaluate investments in debt securities for impairment considering an entity's intent to sell the security or the likelihood that it will be required to sell the security before recovery of the entire amortized cost basis or maturity of the security. If an entity either intends to sell or determines it will more likely than not be required to sell a debt security before recovery of the entire amortized cost basis or maturity of the security, the entire impairment must be recognized in earnings. If an entity does not intend to sell the security and determines it will not more likely than not be required to sell the security but does not expect to recover the entire amortized cost basis, the impairment must be bifurcated into the amount attributed to the credit loss, which must be recognized in earnings, and all other causes, which must be recognized as a change in unrestricted net assets. The Hospital adopted the updates to ASC 320 effective September 30, 2009. The adoption of the updates to ASC 320 did not impact the Hospital's financial position, results of operations, changes in net assets, or cash flows.

Not-for-Profit Entities: Mergers and Acquisition — In May 2009, the FASB updated ASC 958, *Not-for-Profit Entities*, to non-for-profit organizations with specific guidance on accounting for mergers and acquisitions, including determining whether a combination between two or more not-for-profit entities is a merger or an acquisition, how to account for each, and the disclosures that should be made. The guidance is to be applied prospectively to mergers with merger dates on or after December 15, 2009, and to acquisitions with acquisition dates on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Early application is prohibited. The adoption of ASC 958 will impact the Hospital's financial statements prospectively in the event of any mergers or acquisitions entered into on or after the effective date in which the Hospital is the acquirer.

Subsequent Events — In May 2009, the FASB updated ASC 855, *Subsequent Events*, to establish the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The Hospital adopted the updates to ASC 855 effective September 30, 2009. The updates to ASC 855 did not impact the Hospital's financial position, results of operations, changes in net assets, or cash flows. The Hospital evaluated subsequent events through January 27, 2010, the date of issuance of its financial statements.

Accounting Standards Codification — In June 2009, the FASB updated ASC 105, *Generally Accepted Accounting Principles*, to establish the FASB ASC as the single source of authoritative nongovernmental GAAP. The ASC reorganizes GAAP pronouncements into accounting topics and displays all topics using a consistent structure. The Hospital adopted the updates to ASC 105 effective September 30, 2009. The ASC impacted the reference to accounting pronouncements within the Hospital's notes to financial statements, but had no impact on its financial position, results of operations, changes in net assets, or cash flows.

3. ASSETS WHOSE USE IS LIMITED AND INVESTMENTS

Assets whose use is limited as of September 30, 2009 and 2008, include the following:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
By Board of Trustees and donors:				
Cash and cash equivalents	\$ 47,465	\$ 47,465	\$ 9,693	\$ 9,693
Mutual funds	<u>8,438,677</u>	<u>7,789,698</u>	<u>6,634,936</u>	<u>6,121,326</u>
	<u>\$ 8,486,142</u>	<u>\$ 7,837,163</u>	<u>\$ 6,644,629</u>	<u>\$ 6,131,019</u>
Assets held in trust for estimated self-insurance liabilities — mutual funds	<u>\$ 2,463,421</u>	<u>\$ 2,519,181</u>	<u>\$ 2,662,026</u>	<u>\$ 2,625,489</u>
Assets held in trust under bond indentures:				
Cash and cash equivalents	\$ 4,056,238	\$ 4,057,370	\$ 5,013,763	\$ 5,012,199
Less current portion	<u>(794,888)</u>	<u>(794,015)</u>	<u>(1,666,534)</u>	<u>(1,664,970)</u>
	<u>\$ 3,261,350</u>	<u>\$ 3,263,355</u>	<u>\$ 3,347,229</u>	<u>\$ 3,347,229</u>

Investments as of September 30, 2009 and 2008, consist of the following:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	<u>\$ 6,914,437</u>	<u>\$ 6,312,056</u>	<u>\$ 8,551,527</u>	<u>\$ 7,879,324</u>

The fair values and gross unrealized losses for all investment categories whose fair value is below its cost as of September 30, 2009 and 2008, and the length of time that the securities have been in an unrealized loss position as of September 30, 2009 and 2008, are as follows:

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2009						
Long-term investments — mutual funds	\$-	\$-	\$10,208,807	\$(1,258,265)	\$10,208,807	\$(1,258,265)
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2008						
Long-term investments — mutual funds	\$10,931,382	\$(1,221,146)	\$17,111	\$(1,214)	\$10,948,493	\$(1,222,360)

The Hospital's unrealized losses on its investments in mutual funds consist of unrealized losses in the Vanguard Group and Dodge & Cox diversified mutual funds at September 30, 2009 and 2008. The Hospital has evaluated the near-term prospects of the investments in relation to the severity of the impairment (fair value is approximately 6% to 27% less than cost at September 30, 2009) and recent market trends. Based on that evaluation and the Hospital's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Hospital does not consider those investments to be other-than-temporarily impaired at September 30, 2009 or 2008.

The Hospital records the fair value of assets held in trust by third parties from which it has the right to receive income. All of the income from the funds held in trust by third parties is for the general operating purposes of the Hospital. The fair value of and income received from the Hospital's beneficial interest in trust assets as of September 30, 2009 and 2008, was as follows:

	2009		2008	
	Fair Value	Income Received	Fair Value	Income Received
Assets held in trust by third parties	\$4,888,284	\$150,079	\$5,011,260	\$194,100

The Hospital adopted ASC 820 (FASB Statement No. 157) as discussed in Note 2 to the financial statements as of October 1, 2008. This standard defines fair value, provides a framework for measuring fair value, and expands disclosures for fair value measurements. The fair value hierarchy is as follows:

Level 1 — Quoted (unadjusted) prices for identical assets in active markets

Level 2 — Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by observable market data

Level 3 — Unobservable inputs that cannot be corroborated by observable market data

The information as of September 30, 2009, about the Hospital's financial assets that are measured at fair value on a recurring basis, is as follows (in thousands):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Fair Value
Cash and cash equivalents	\$ 4,104,835	\$ -	\$ 4,104,835
Mutual funds	16,620,935		16,620,935
Trust assets	<u> </u>	<u>4,888,284</u>	<u>4,888,284</u>
Total	<u>\$20,725,770</u>	<u>\$4,888,284</u>	<u>\$25,614,054</u>

As of September 30, 2009, Level 1 investments include board-designated investments, investments held in trust for estimated self-insurance liabilities, investments held under bond indenture, and investments. Level 2 investments are composed of beneficial interest in trust assets. There were no Level 3 investments as of September 30, 2009. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents — The carrying value of cash investments approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and actively traded.

Mutual Funds — Fair value estimates for mutual funds are based on quoted market prices.

Beneficial Interest in Trust Assets — Fair values of these assets are based on the underlying value of the trust assets, which consist of assets that are based on quoted prices in an active market.

Return on investments for the years ended September 30, 2009 and 2008, is composed of the following:

	2009	2008
Interest on trustee held funds	\$ 150,079	\$ 194,100
Interest income and dividends	700,068	1,044,481
Interest income and dividends from donor-restricted investments	38,070	131,735
Realized (losses) gains on investments	(316,397)	694,045
Other-than-temporary impairment charge	(59,073)	(823,829)
Change in net unrealized losses on investments	(172,864)	(2,737,657)
Change in net unrealized gains (losses) on donor-restricted investments	<u>3,243</u>	<u>(453,733)</u>
	<u>\$ 343,126</u>	<u>\$ (1,950,858)</u>
Reported as:		
Other revenues	\$ 815,991	\$ 1,283,023
Nonoperating other (expense) income	(244,171)	781,338
Other-than-temporary impairment charge	(59,073)	(823,829)
Change in net unrealized depreciation on investments	<u>(169,621)</u>	<u>(3,191,390)</u>
	<u>\$ 343,126</u>	<u>\$ (1,950,858)</u>

4. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2009 and 2008, consist of the following:

	2009	2008
Land and land improvements	\$ 2,852,720	\$ 1,440,216
Building and building improvements	89,129,017	80,564,154
Fixed equipment	15,918,371	16,821,034
Moveable equipment	<u>70,440,515</u>	<u>78,789,883</u>
	178,340,623	177,615,287
Less accumulated depreciation and amortization	<u>(123,886,476)</u>	<u>(128,969,362)</u>
	54,454,147	48,645,925
Construction in progress	<u>119,015</u>	<u>3,673,111</u>
	<u>\$ 54,573,162</u>	<u>\$ 52,319,036</u>

For the years ended September 30, 2009 and 2008, the Hospital capitalized interest related to construction financed with tax-exempt debt of \$208,898 and \$85,437, respectively.

5. UNAMORTIZED BOND ISSUE COSTS

Unamortized bond issue costs that are recorded within other assets — net in the accompanying balance sheets as of September 30, 2009 and 2008, are as follows:

	2009	2008
Deferred financing costs	\$2,042,087	\$1,425,381
Less accumulated amortization	<u>(390,526)</u>	<u>(312,959)</u>
	<u>\$1,651,561</u>	<u>\$1,112,422</u>

6. INTANGIBLE ASSETS

The gross carrying amount and accumulated amortization as of September 30, 2009 and 2008, by class of intangible assets, consisted of the following:

2009	Gross	Accumulated	Net
Class of Intangible Asset	Carrying	Amortization	Carrying
	Amount	Amount	Amount
License enhancements	<u>\$ 540,000</u>	<u>\$ (252,000)</u>	<u>\$ 288,000</u>
	<u>\$ 540,000</u>	<u>\$ (252,000)</u>	<u>\$ 288,000</u>
2008	Gross	Accumulated	Net
Class of Intangible Asset	Carrying	Amortization	Carrying
	Amount	Amount	Amount
License enhancements	<u>\$ 540,000</u>	<u>\$ (144,000)</u>	<u>\$ 396,000</u>
	<u>\$ 540,000</u>	<u>\$ (144,000)</u>	<u>\$ 396,000</u>

Amortization expense related to intangible assets was \$108,000 for the years ended September 30, 2009 and 2008.

The estimated amortization expense in each of the succeeding five fiscal years as of September 30, 2009, is as follows:

Years Ending	
September 30	
2010	\$ 108,000
2011	108,000
2012	72,000
2013	
2014	
	<u>\$ 288,000</u>

7. RELATED-PARTY TRANSACTIONS

The Network provides certain administrative and operating services to the Hospital and allocates these expenses along with revenues back to the Hospital. The net amounts allocated were \$15,247,529 and \$14,229,287 for the years ended September 30, 2009 and 2008, respectively.

Amounts due from related entities as of September 30, 2009 and 2008, consist of the following:

	2009	2008
EHS	\$ 9,535,175	\$ 6,088,017
ECHN	12,795,580	11,711,824
EES		945,548
Enterprises	1,804,841	1,449,472
EWS	<u>8,165</u>	<u></u>
	24,143,761	20,194,861
Less allowance for uncollectible amounts	<u>(2,701,478)</u>	<u>(2,701,478)</u>
	<u>\$21,442,283</u>	<u>\$ 17,493,383</u>

Of the amount due from EHS for the years ended September 30, 2009 and 2008, \$2.7 million consists of start-up costs and working capital advances during EHS' initial phase of operations, paid by the Hospital on behalf of EHS. During the year ended September 30, 2002, the amounts due from EHS to MMH were deemed to be uncollectible and MMH recorded an allowance for uncollectible amounts related to the receivable. MMH management continues to expect repayment of such amounts over the long term.

The Hospital provided an equity transfer to EHS, for the years ended September 30, 2009 and 2008, in the amounts of \$4,434,257 and \$3,619,695, respectively, for the start-up and ramp-up costs associated with the new physician and specialty practices, which are included in the statements of operations and changes in net assets.

Amounts due to related entities as of September 30, 2009 and 2008, consist of the following:

	2009	2008
RGH	\$ 10,527,649	\$ 11,753,749
EES	914,891	
EWS		481
ECHF	<u>136,889</u>	<u>736,991</u>
	<u>\$ 11,579,429</u>	<u>\$ 12,491,221</u>

Intercompany receivables have been classified in the accompanying balance sheet in accordance with management's anticipated repayment schedule.

8. ESTIMATED SELF-INSURANCE LIABILITIES

On December 18, 2001, ECHN formed a revocable trust for the purpose of setting aside assets for estimated self-insurance medical malpractice and general liabilities of the Hospital, RGH, EES, EHS, and EWS with a retroactive effective date of October 1, 2001. The initial funding of the trust was from previously existing trust assets of the Hospital and RGH. Concurrent with the formation of the new trust, ECHN's annual coverage limit for medical malpractice and general liability claims was increased to \$3,000,000 per occurrence and \$9,000,000 in the aggregate and remained at those levels for the year ended September 30, 2006. This excess of loss coverage is provided by an external insurance carrier.

Effective October 1, 2006, ECHN established a single-parent captive, CHIC, which covers all of its subsidiaries, including the Hospital. Assets and liabilities of the trust were transferred to CHIC. The captive provides malpractice and general insurance coverage for ECHN and its subsidiaries. The assets in the self-insurance trust as of September 30, 2006, and the related self-insured liabilities were transferred from the trust to CHIC effective October 1, 2006.

Claims that fall within ECHN's self-insured policies of medical malpractice and general liability insurance have been asserted against the Hospital by various claimants. The claims are in various stages and some may ultimately be brought to trial. CHIC has employed independent actuaries to estimate the ultimate costs, if any, of the resolution of such claims. Accrued medical malpractice and general liability reserves have been discounted at 1.25% and 2.5% as of September 30, 2009 and 2008, respectively, and in management's opinion provide an adequate reserve for loss contingencies.

The coverage levels for CHIC, including excess of loss which is provided by an external carrier, are consistent with the coverage levels previously under the self-insurance trust.

The Hospital is self-insured for workers' compensation insurance coverage. The Hospital participates in Workers' Compensation Trust, a revocable trust, for the purpose of setting aside assets based on actuarial funding recommendations. The Hospital has a \$350,000 limit per occurrence for workers' compensation claims. The Hospital 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, 2009 and 2008, and in management's opinion, provide an adequate reserve for loss contingencies.

Under the trust agreement, the trust assets can only be used for payment of losses, related expenses, and the costs of administering the trusts. The assets and related liabilities of the trust are reported in the accompanying balance sheets (the current portion of liabilities within other current liabilities) and income from the trust assets is reported within other revenues in the statements of operations.

9. PENSION AND OTHER POSTRETIREMENT BENEFITS

ECHN has a defined benefit pension plan covering substantially all of the employees of the Hospital 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. MMH makes 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 a match of 3% of employee salaries. This match is non-guaranteed for all employees except certain union workers. ECHN did not make contributions to the defined contribution plan in 2009.

MMH and RGH also sponsor a postretirement benefit plan that provides health care benefits to full-time employees who retire on or after age 62 with at least five years of service who were hired prior to July 1, 1995, and employees who retired in September 1994, under the Voluntary Early Retirement Program. Plan participants may choose individual or family coverage. The postretirement health care plan is contributory. MMH and RGH will contribute 50% of the premium amount for individual coverage. The retiree pays the difference between the actual premium and the amount MMH and RGH pays.

Unrestricted net assets as of September 30, 2009, include unrecognized actuarial losses of \$29,573,338 related to the defined-benefit pension plan and unrecognized actuarial gains of \$630,532 related to the postretirement plan. Of this amount, \$157,268 is expected to be recognized in net periodic pension costs in 2010. Unrestricted net assets as of September 30, 2008, include unrecognized actuarial gains of \$32,948,239 and \$409,462 related to the defined-benefit pension plan and the postretirement plan, respectively. Of this amount, \$108,755 was recognized in net periodic pension costs in 2009.

The effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 were reflected as of September 30, 2009 and 2008, assuming that ECHN will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and that ECHN will receive the federal subsidy. This reduced plan liabilities by approximately \$1,300,000 and \$1,400,000 as of September 30, 2009 and 2008, respectively. Subsidies of \$84,650 and 66,562 were received in the years ended September 30, 2009 and 2008. Future benefits of \$443,252 are expected to be paid and future subsidies of \$93,085 are expected to be received related to the year ended September 30, 2009.

The pension and postretirement plans change in benefit obligation and change in plan assets for the years ended September 30, 2009 and 2008, are as follows (information presented is for the Network (MMH and RGH combined), based on September 30 measurement date):

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Change in benefit obligation:				
Benefit obligation — beginning of year	\$ 132,769,088	\$ 157,548,123	\$ 4,647,988	\$ 4,965,231
Service cost	2,199,972	4,334,961	89,143	96,777
Interest cost	10,384,748	9,815,144	357,290	302,939
Plan amendments	(2,652,251)			
Plan participants' contributions			712,867	596,882
Receipt of Medicare Part D reimbursement			84,650	66,562
Actuarial loss (gain)	18,859,015	(32,948,239)	(452,679)	(409,462)
Benefits paid	(6,478,527)	(5,980,901)	(952,210)	(970,941)
Benefit obligation — end of year	<u>155,082,045</u>	<u>132,769,088</u>	<u>4,487,049</u>	<u>4,647,988</u>
Change in plan assets:				
Fair value of plan assets — beginning of year	110,478,143	135,263,751		
Actual return on plan assets	4,872,458	(22,104,707)		
Employer contributions	500,000	3,300,000	154,693	307,497
Plan participants' contributions			712,867	596,882
Receipt of Medicare Part D reimbursement			84,650	66,562
Benefits paid	(6,478,527)	(5,980,901)	(952,210)	(970,941)
Fair value of plan assets — end of year	<u>109,372,074</u>	<u>110,478,143</u>	<u>-</u>	<u>-</u>
Accrued pension and other postretirement benefits	<u>\$ (45,709,971)</u>	<u>\$ (22,290,945)</u>	<u>\$ (4,487,049)</u>	<u>\$ (4,647,988)</u>
Accumulated benefit obligation	<u>\$ 151,899,523</u>	<u>\$ 122,051,751</u>	<u>\$ -</u>	<u>\$ -</u>

The amounts recognized in the Network's consolidated balance sheets as of September 30, 2009 and 2008, are as follows:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Current liabilities	\$ -	\$ -	\$ (343,028)	\$ (379,462)
Noncurrent liabilities	<u>(45,709,971)</u>	<u>(22,290,945)</u>	<u>(4,144,021)</u>	<u>(4,268,526)</u>
Net amount recognized	<u>\$ (45,709,971)</u>	<u>\$ (22,290,945)</u>	<u>\$ (4,487,049)</u>	<u>\$ (4,647,988)</u>

The allocation of the accrued pension and postretirement benefits for the years ended September 30, 2009 and 2008, is as follows:

	2009	2008
MMH	\$ 37,622,545	\$ 19,710,150
RGH	<u>12,574,475</u>	<u>7,228,783</u>
	<u>\$ 50,197,020</u>	<u>\$ 26,938,933</u>

The plan's components of net periodic benefit cost for the years ended September 30, 2009 and 2008, are as follows (pension benefits information presented is for MMH and RGH combined):

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Service cost	\$ 2,199,972	\$ 4,334,961	\$ 89,143	\$ 96,777
Interest cost	10,384,748	9,815,144	357,290	302,939
Expected return on plan assets	(10,862,580)	(11,118,396)		
Amortization of prior service costs	(186,479)	56,089	77,724	77,724
Recognized actuarial gain	<u>(7,752)</u>	<u> </u>	<u>(37,332)</u>	<u> </u>
Net periodic benefit cost	<u>\$ 1,527,909</u>	<u>\$ 3,087,798</u>	<u>\$ 486,825</u>	<u>\$ 477,440</u>

The allocation of the net periodic benefit cost for the years ended September 30, 2009 and 2008, is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
MMH	\$ 1,093,267	\$ 2,471,246	\$ 299,095	\$ 295,087
RGH	<u>434,642</u>	<u>616,552</u>	<u>187,730</u>	<u>182,353</u>
	<u>\$ 1,527,909</u>	<u>\$ 3,087,798</u>	<u>\$ 486,825</u>	<u>\$ 477,440</u>

The assumptions used to determine pension and postretirement benefit obligations as of September 30, 2009 and 2008, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	6.41 %	8.04 %	6.41 %	8.04 %
Expected long-term rate of return	8.00	8.75	N/A	N/A
Rate of compensation increase	3.00	4.00		
Initial medical trend rate			9.00	10.00
Ultimate medical trend rate			5.00	5.00
Number of years to ultimate medical trend rate			8 years	8 years

The assumptions used to determine net periodic benefit cost of the pension and postretirement plans for the years ended September 30, 2009 and 2008, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	8.04/7.60 % (1)	6.35 %	8.04 %	6.35 %
Expected long-term rate of return	8.75	8.75	N/A	N/A
Rate of compensation increase	4.00	4.00		
Initial medical trend rate			9.00	10.00
Ultimate medical trend rate			5.00	5.00
Number of years to ultimate medical trend rate			8 years	7 years

⁽¹⁾ Liabilities were remeasured as of November 30, 2008 due to the plan freeze

The medical trend rate assumption 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	\$ 335,252	\$ (289,848)
Effect on total of service and interest cost components	36,338	(31,301)

The pension plan's weighted-average asset allocations as of September 30, 2009 and 2008, by asset category, are as follows:

	Pension Benefits	
	2009	2008
Asset category:		
Equity securities	56 %	57 %
Debt securities	41	40
Cash and cash equivalents	1	1
Real estate	2	2
	<u>100 %</u>	<u>100 %</u>

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

	Policy Target	Range
Asset category:		
Equity securities	58 %	41-75 %
Debt securities	39	24-49
Real estate	2	0-4
Cash and cash equivalents	1	0-2

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

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

During fiscal year 2010, ECHN anticipates contributing \$3.8 million to the pension plan.

The benefit payments, which reflect estimated future service and expected to be paid from the plans for the year ended September 30, 2009, are as follows:

Years Ending September 30	Pension Benefits	Other Postretirement Benefits
2010	\$ 6,736,028	\$ 350,167
2011	7,050,848	378,159
2012	7,494,686	401,425
2013	7,992,091	415,145
2014	8,446,385	428,756
2015–2019	51,718,940	2,183,804

The Hospital also has a money match plan where eligible employees who contribute to a tax-sheltered annuity will have 50% of their contributions matched by the Hospital, up to a maximum of 1.5%–2.5% of annual compensation depending upon years of service. The Hospital contributions to the money match plan were \$919,771 and \$731,809 for the years ended September 30, 2009 and 2008, respectively.

10. LONG-TERM DEBT

Long-term debt and capital lease obligation as of September 30, 2009 and 2008, consists of the following:

	2009	2008
The Hospital portion of Connecticut Health and Educational Facilities Authority (CHEFA) Hospital Revenue Bonds, ECHN Issue Series 2000A bearing interest at rates ranging from 4.375% to 6.375%, net of unamortized original issue discount of \$41,254 and \$45,478, respectively	\$ 6,128,746	\$ 6,704,522
The Hospital portion of CHEFA Hospital Variable Rate Demand Revenue Bonds, ECHN Issue Series 2004B, bearing interest at a variable rate, adjusted weekly	1,774,000	1,817,500
The Hospital portion of CHEFA Hospital Revenue Bonds, ECHN Issue Series C, bearing interest at rates ranging from 3.25% to 5.125%, net of unamortized original issue premium of \$333,827 and \$349,724, respectively	28,061,526	28,370,024
The Hospital portion of CHEFA Hospital Revenue Bonds, ECHN Issue Series 2009D, bearing interest at a variable rate, adjusted weekly	10,521,930	
The Hospital portion of the loan due to Chase Equipment Leasing Inc., face amount allocated to MMH of \$3,034,176 due and payable in monthly principal and interest installments maturing on July 13, 2011, and bearing interest at 4.1%	1,185,933	1,795,896
The Hospital portion of the promissory notes payable to Siemens Medical Solutions USA, face amount of \$1,547,995 due and payable in monthly principal and interest installments maturing from April 30, 2011 to August 31, 2011, bearing interest at rates ranging from 5.8% to 6.0%	719,750	1,004,259
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%	964,804	997,649
The Hospital portion of the loan due to Chase Equipment Leasing Inc., face amount allocated to MMH of \$1,680,000 due and payable in monthly principal and interest installments maturing on March 20, 2013, and bearing interest at 3.24%	1,204,218	1,523,966
Promissory note payable to NewAlliance Bank due and payable in monthly principal and interest installments, maturing on June 1, 2012, bearing interest at a variable rate	90,833	100,000
Revolving line of credit with Sovereign Bank, bearing interest at a variable rate	5,000,000	1,000,000
Capital lease obligation (Note 11)	<u>1,395,735</u>	<u>1,600,000</u>
Total long-term debt and capital lease obligation	57,047,475	44,913,816
Less current maturities	<u>(7,816,773)</u>	<u>(3,451,379)</u>
Total long-term debt and capital lease obligation — net of current portion	<u>\$ 49,230,702</u>	<u>\$ 41,462,437</u>

In May 2009, the Hospital, RGH, EES, and ECHF (collectively, the “Series D 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 D (the “Series D Bonds”). A portion of the proceeds from the Series D Bonds, net of amounts used to establish required reserve accounts, will be used to finance renovations at MMH, an expansion at EES, and other campus improvements.

On October 1, 2005, the Hospital, RGH, EES, and ECHF (collectively, the “Series C Obligated Group”) entered into an agreement and open-ended mortgage with the 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 (collectively, the “Series A Obligated Group”) 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 3.25% to 5.125%.

In July 2004, the Hospital, 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 and renovations and purchases of equipment for RGH and the Hospital.

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 the Hospital and RGH.

In February 2000, the Hospital, RGH, and EES (collectively, the “Series A 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 2000A. 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. MMH and EES have been legally released from any future debt service on the defeased bonds.

Under the terms of the Series A, Series B, Series C, and Series D Bonds, the Series A Obligated Group, Series B Obligated Group, Series C Obligated Group, and Series D 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.

In the event that the Series B Bonds are put back to the ECHN, the agreement calls for a best-efforts remarketing attempt to reissue the bonds. ECHN has employed an independent third party to serve as the remarketing agent for the bonds. In the event that the remarketing agent cannot remarket the bonds, ECHN has entered into a direct pay letter of credit with Sovereign Bank for the principal balance, plus up to 52 days of interest on the Series B Bonds. The letter of credit agreement for the bonds expires in July 2014. The debt has been classified in accordance with the terms of the bonds in the accompanying balance sheets and in the table of schedule maturities of long-term debt.

The Obligated Groups are required to comply with certain financial covenants (as defined in the trust agreements), including a debt service coverage ratio, days cash on hand requirement, and long-term debt to unrestricted net assets ratio. As of September 30, 2009 and 2008, the Obligated Groups were in compliance with the financial covenants of the debt agreements.

Under the terms of the CHEFA agreements, each member of the Obligated Groups is jointly and severally liable for the full and prompt payment of the amounts owed by the Obligated Groups. Total debt of the Obligated Groups was \$81,650,139 and \$68,246,560 as of September 30, 2009 and 2008, respectively. The debt is also secured by the gross receipts of the Obligated Groups.

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

The annual maturities of the Hospital's portion of the long-term debt and capital lease obligation in each of the succeeding five years and thereafter as of September 30, 2009, are as follows:

Years Ending September 30	
2010	\$ 7,816,773
2011	2,804,433
2012	1,926,799
2013	2,566,839
2014	1,302,668
Thereafter	<u>40,337,390</u>
	56,754,902
Plus — premium — net	<u>292,573</u>
	<u>\$ 57,047,475</u>

In October, 2009, the Network and the Hospital, jointly, entered into capital lease agreements totaling \$1,204,105, to be paid over 60 months.

In November 2004, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$9,750,000 of its Series B variable rate debt. Under the terms of this agreement, ECHN pays a fixed rate of 3.825%. Changes in the fair value of this swap are recorded in the statements of operations. The Hospital's portion of the swap agreement in force related to this strategy as of September 30, 2009 and 2008, and the liability and interest expense recognized by the Hospital are as follows:

	2009	2008
Notional amount of contract — ECHN	\$ 8,870,000	\$ 9,087,500
Fair value of swap contract recognized in MMH accounts payable and accrued expenses	73,000	28,000
Net interest expense recognized in MMH nonoperating expense — net	45,000	13,000

In December 2005, ECHN entered into a second interest rate swap agreement to manage the interest cost and risk associated with \$9,750,000 of its Series B variable rate debt. Under the terms of this agreement, ECHN pays a fixed rate of 3.708%. The swap is accounted for as a cash flow hedge in accordance with ASC 815 (FASB Statement No. 133, *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, is recognized currently in nonoperating other (expense) income — net. The Hospital's portion of swap agreement in force related to this strategy as of September 30, 2009 and 2008, is presented as follows:

	2009	2008
Notional amount of contract — ECHN	\$ 8,870,000	\$ 9,087,500
Fair value of swap contract recognized in MMH accounts payable and accrued expenses	106,000	40,000
Unrealized loss recognized as a reduction of MMH unrestricted net assets	(66,000)	(35,000)

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 Series D variable rate debt. 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 statement of operations. The Hospital's portion of the swap agreement in force related to this strategy as of September 30, 2009 and 2008, and the liability and interest expense recognized by the Hospital are as follows:

	2009
Notional amount of contract — ECHN	\$ 15,250,000
Fair value of swap contract recognized in MMH accounts payable and accrued expenses	151,149
Net interest expense recognized in MMH nonoperating expense — net	151,149

The counterparties to the swap transactions are major financial institutions that meet ECHN's criteria for financial stability and creditworthiness.

The Hospital uses inputs other than quoted prices that are observable to value the interest rate swaps. The Hospital considers these inputs to be Level 2 inputs in the context of the fair value hierarchy. The fair value of the interest rate swap liabilities are disclosed above. These values represent the estimated amounts the Hospital would receive or pay to terminate agreements, taking into consideration current interest rates and the current creditworthiness of the counterparty.

On July 30, 2007, the ECHN entered into a \$5,000,000 unsecured line of credit agreement with Sovereign Bank. ECHN has the option of choosing as the interest rate either London InterBank Offered Rate, plus 3% or the prime rate, plus 1.75%; however, advances will not bear interest below the floor rate of 4%. During 2009, the agreement was extended for an additional one-year term and expires on July 28, 2010, unless such date is extended for additional periods of time by mutual agreement of ECHN and Sovereign Bank. As of September 30, 2009 and 2008, ECHN had \$5,000,000 outstanding on the line, of which \$5,000,000 and \$1,000,000 was recorded by the Hospital, respectively.

11. LEASE COMMITMENTS

The Hospital leases equipment under a capital lease agreement entered into on April 18, 2008, which expires in 2014. The interest rate is fixed at 7%. The net carrying value of equipment under the capital lease was \$1,490,239 as of September 30, 2009. The Hospital leases various office spaces and certain equipment under operating leases that expire in various years through fiscal year 2019. Certain leases may be renewed at the end of their term.

Future minimum payments under capital leases and noncancelable operating leases as of September 30, 2009, consisted of the following:

Years Ending September 30	Capital Leases	Operating Leases
2010	\$ 404,473	\$ 819,213
2011	384,232	603,072
2012	380,184	455,315
2013	380,184	403,685
2014	63,364	403,685
Thereafter	<u> </u>	<u>1,008,740</u>
	1,612,437	<u>\$3,693,710</u>
Less interest on capital lease	<u>(216,702)</u>	
Principal amount of capital lease	<u>\$1,395,735</u>	

Rent expense under leases was \$1,626,806 and \$1,472,789 for the years ended September 30, 2009 and 2008, respectively.

12. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of patient accounts receivable as of September 30, 2009 and 2008, before allowances for doubtful accounts, consists of the following:

	2009	2008
Self-pay	16 %	17 %
Medicare	35	34
Commercial insurance	7	7
Managed care	21	23
Medicaid	16	14
Other	<u>5</u>	<u>5</u>
	<u>100 %</u>	<u>100 %</u>

13. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended September 30, 2009 and 2008, consists of the following:

	2009	2008
Patient service revenue:		
Inpatient services	\$ 159,437,227	\$ 149,231,344
Outpatient services	<u>250,774,268</u>	<u>241,196,110</u>
Gross patient service revenue	410,211,495	390,427,454
Deductions — allowances	<u>(242,946,633)</u>	<u>(231,640,258)</u>
Net patient service revenue	<u>\$ 167,264,862</u>	<u>\$ 158,787,196</u>

For the years ended September 30, 2009 and 2008, the Hospital granted charity care of \$1,418,730 and \$1,886,079, respectively. Such amounts are determined based on charges foregone.

14. FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location. Expenses relating to providing these services for the years ended September 30, 2009 and 2008, are as follows:

	2009	2008
Health care services	\$ 134,135,233	\$ 127,921,140
General and administrative	<u>35,881,951</u>	<u>33,991,237</u>
	<u>\$ 170,017,184</u>	<u>\$ 161,912,377</u>

15. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2009 and 2008, are available for the following purposes:

	2009	2008
Departmental purposes	\$ 459,575	\$ 674,496
Capital campaign and pledges	<u>803,248</u>	<u>1,431,538</u>
	<u>\$ 1,262,823</u>	<u>\$ 2,106,034</u>

Temporarily restricted net assets that are reported as endowment funds comprise the earnings on permanently restricted net assets that are restricted by donors for a specific purpose and accumulated gains on permanently restricted net assets that are subject to board appropriation in accordance with State law.

Permanently restricted net assets as of September 30, 2009 and 2008, consist of the following:

	2009	2008
Beneficial interest in trust assets	\$4,888,284	\$5,011,259
Other departmental purposes	2,400,063	2,399,039
Charity care	320,817	320,896
Special needs	151,579	151,579
Cancer research	<u>6,251</u>	<u>6,251</u>
	<u>\$7,766,994</u>	<u>\$7,889,024</u>

Changes in endowment net assets, excluding the interest in trust assets held by third parties, for the fiscal years ended September 30, 2009 and 2008, were as follows:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets September 30, 2008	\$ 5,465,799	\$ 163,833	\$ 2,877,764	\$ 8,507,396
Interest and dividends	160,216	21,563		181,779
Unrealized appreciation on investments	6,802	1,873		8,675
Contributions			<u>946</u>	<u>946</u>
Net assets September 30, 2009	<u>\$ 5,632,817</u>	<u>\$ 187,269</u>	<u>\$ 2,878,710</u>	<u>\$ 8,698,796</u>

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets September 30, 2007	\$ 7,085,516	\$ 325,881	\$ 1,717,310	\$ 9,128,707
Interest and dividends	187,376	97,739		285,115
Realized gains on investments	411,787	57,680		469,467
Unrealized depreciation on investments	(2,218,880)	(317,467)		(2,536,347)
Contributions			<u>1,160,454</u>	<u>1,160,454</u>
Net assets September 30, 2008	<u>\$ 5,465,799</u>	<u>\$ 163,833</u>	<u>\$ 2,877,764</u>	<u>\$ 8,507,396</u>

The composition of the Network's endowment by net asset class as of September 30, 2009 and 2008, was as follows:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 187,269	\$ 2,878,710	\$ 3,065,979
Board-designated endowment funds	<u>5,632,817</u>			<u>5,632,817</u>
Net assets September 30, 2009	<u>\$ 5,632,817</u>	<u>\$ 187,269</u>	<u>\$ 2,878,710</u>	<u>\$ 8,698,796</u>

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 163,833	\$ 2,877,764	\$ 3,041,597
Board-designated endowment funds	<u>5,465,799</u>	<u> </u>	<u> </u>	<u>5,465,799</u>
Net assets September 30, 2008	<u>\$ 5,465,799</u>	<u>\$ 163,833</u>	<u>\$ 2,877,764</u>	<u>\$ 8,507,396</u>

16. COMMITMENTS AND CONTINGENCIES

The Hospital is involved in various legal actions arising from the normal course of 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, upon the balance sheets or the related statements of operations, changes in net assets, or cash flows of the Hospital.

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents — See Note 3, Assets Whose Use Is Limited and Investments.

Assets Whose Use Is Limited and Investments — See Note 3, Assets Whose Use Is Limited and Investments.

Long-Term Debt — Fair values of the Hospital's bonds are based on current traded value. The fair value of the Hospital's CHEFA Series A and Series C Bonds as of September 30, 2009 and 2008, is approximately \$31,284,086 and \$27,198,138, respectively. The fair value of the Hospital's remaining long-term debt approximates the carrying value.

Interest Rate Swaps — See Note 10, Long-term Debt.

Receivables and Payables — The fair value of receivables and payables approximates the carrying amount reported in the balance sheets.

* * * * *