

The Manchester Memorial Hospital

Independent Auditors' Report and
Financial Statements

As of and for the Years Ended
September 30, 2010 and 2009



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

**The Manchester Memorial Hospital
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Independent Auditors' Report

To the Board of Directors of
The Manchester Memorial Hospital:

We have audited the accompanying balance sheet of The Manchester Memorial Hospital (the Hospital) (a subsidiary of Eastern Connecticut Health Network, Inc.), as of September 30, 2010, and the related statements of operations and changes in net assets and cash flows for the year 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 audit. The financial statements of the Hospital as of September 30, 2009, were audited by other auditors whose report dated January 27, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of The Manchester Memorial Hospital, Inc. as of September 30, 2010, and the results of its operations and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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December 14, 2010

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The Manchester Memorial Hospital
Balance Sheets
September 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,996,083	\$ 10,660,990
Current portion of assets whose use is limited	694,111	794,015
Accounts receivable, less allowance for bad debts of \$2,972,126 in 2010 and \$1,996,812 in 2009	24,506,769	24,557,822
Inventory	2,570,091	2,215,756
Due from affiliates	9,161,307	6,841,862
Current portion of estimated settlements due from third-party payers	359,760	514,722
Prepaid expenses and other current assets	1,489,763	486,845
Total current assets	45,777,884	46,072,012
Assets whose use is limited - net of current portion:		
Donor-restricted investments	1,686,438	1,617,169
Board designated investments	6,878,047	6,219,994
Investments held in trust for estimated self-insurance liabilities	2,651,750	2,519,181
Investments held under bond indentures	3,261,508	3,263,355
Beneficial interest in trust assets	5,044,846	4,888,284
Total assets whose use is limited - net of current portion	19,522,589	18,507,983
Interest in net assets of ECHN Community Healthcare Foundation, Inc.	4,852,903	3,828,998
Investments	6,905,928	6,312,056
Investments in joint ventures	3,825,778	3,120,631
Property, plant and equipment, net	51,761,983	54,573,162
Other assets:		
Estimated settlements due from third-party payers - net of current portion	546,577	805,860
Due from affiliated entities - net of current portion	14,990,124	14,600,421
Intangible assets - net	180,000	288,000
Other - net	2,278,502	2,499,251
Total other assets	17,995,203	18,193,532
Total assets	\$ 150,642,268	\$ 150,608,374
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,747,968	\$ 17,435,198
Current portion of long-term debt	7,848,007	7,816,773
Due to affiliated entities	14,838,492	11,579,429
Due to third-party payers	281,399	251,398
Current portion of accrued pension and other postretirement benefits	5,438,343	208,155
Other current liabilities	1,505,852	2,248,275
Total current liabilities	46,660,061	39,539,228
Long-term debt - net of current portion	46,420,675	49,230,702
Estimated self-insurance liabilities	2,344,478	2,216,390
Accrued pension and other postretirement benefits - net of current portion	39,765,402	37,414,390
Other liabilities	260,265	279,797
Total liabilities	135,450,881	128,680,507
Net assets:		
Unrestricted	5,363,698	12,898,050
Temporarily restricted	1,904,133	1,262,823
Permanently restricted	7,923,556	7,766,994
Total net assets	15,191,387	21,927,867
Total liabilities and net assets	\$ 150,642,268	\$ 150,608,374

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

The Manchester Memorial Hospital
Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2010 and 2009

	2010	2009
Revenues:		
Net patient service revenue	\$ 166,310,748	\$ 167,264,862
Change in interest in unrestricted net assets of ECHN Community Healthcare Foundation, Inc.	576,939	506,416
Other revenues	9,770,550	9,559,338
Net assets released from restrictions used for operations	100,773	99,591
Total revenues	176,759,010	177,430,207
Expenses:		
Salaries and wages	75,116,354	75,094,805
Fringe benefits	20,990,484	20,465,024
Supplies and other	57,220,650	56,092,399
Provision for bad debts	6,712,599	7,895,004
Depreciation and amortization	7,666,028	8,204,355
Interest and financing costs	2,528,633	2,265,597
Total expenses	170,234,748	170,017,184
Income from operations	6,524,262	7,413,023
Non-operating losses:		
Other	(827,875)	(1,408,380)
Other-than-temporary impairment charge	(14,253)	(59,073)
Total non-operating losses	(842,128)	(1,467,453)
Excess of revenues over expenses	\$ 5,682,134	\$ 5,945,570

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

The Manchester Memorial Hospital
Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2010 and 2009

	2010	2009
Unrestricted net assets:		
Excess of revenues over expenses	\$ 5,682,134	\$ 5,945,570
Change in unrealized appreciation (depreciation) on investments	904,641	(171,494)
Net loss on interest rate swap agreement	(61,076)	(66,409)
Equity transfer to ECHN Health Services, Inc.	(5,024,696)	(4,434,257)
Change in investment of ECHN Community Healthcare Foundation, Inc.	86,138	-
Transfers from (to) other affiliated entities	43,741	(24,963)
Net assets released from restrictions used for capital	17,830	32,433
Pension and postretirement-related adjustments	(9,183,064)	(17,027,668)
Change in unrestricted net assets	(7,534,352)	(15,746,788)
Temporarily restricted net assets:		
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	675,875	(685,234)
Investment income	16,121	21,566
Net assets released from restrictions for operations	(100,773)	(99,591)
Net assets released from restrictions used for capital	(17,830)	(32,433)
Change in unrealized appreciation on investments	53,036	1,873
Other transfers	14,881	(49,392)
Change in temporarily restricted net assets	641,310	(843,211)
Permanently restricted net assets:		
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	-	946
Change in beneficial interest in trust assets	156,562	(122,976)
Change in permanently restricted net assets	156,562	(122,030)
Change in net assets	(6,736,480)	(16,712,029)
Net assets at beginning of year	21,927,867	38,639,896
Net assets at end of year	\$ 15,191,387	\$ 21,927,867

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

The Manchester Memorial Hospital
Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009

	2010	2009
Operating activities:		
Change in net assets	\$ (6,736,480)	\$ (16,712,029)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,666,028	8,204,355
Provision for bad debts	6,712,599	7,895,004
Change in unrealized (appreciation) depreciation on investments	(957,677)	169,621
Other-than-temporary impairment charge	14,253	59,073
Income on investments in joint ventures	(789,991)	(489,106)
Transfers (from) to other affiliated entities	(43,741)	24,963
Equity transfer to ECHN Health Services, Inc.	5,024,696	4,434,257
Income in interest in net assets of ECHN Community Healthcare Foundation, Inc.	(1,023,905)	676,974
Change in beneficial interest in trust assets	(156,562)	122,976
Pensions and postretirement-related adjustments	9,183,064	17,027,668
Loss on disposal of assets	-	4,040
Net loss on interest rate swap	61,076	66,409
Permanently restricted contributions	-	(946)
Changes in assets and liabilities:		
Accounts receivable	(6,661,546)	(7,198,707)
Inventory	(354,335)	(226,300)
Prepaid expenses and other current assets	(1,002,918)	(177,223)
Estimated settlements due to/from third-party payers	444,246	(1,315,176)
Due (to) from affiliated entities	549,915	(5,680,582)
Intangible assets - net	108,000	108,000
Other - net	129,008	266,821
Accounts payable and accrued expenses	(687,230)	(4,804,968)
Accrued pension and other post-retirement benefits	(1,601,864)	2,004,705
Estimated self-insurance liabilities	128,088	45,390
Other liabilities	(761,955)	244,395
Net cash provided by operating activities	9,242,769	4,749,614
Investing activities:		
Purchases of property, plant and equipment	(4,763,108)	(9,741,579)
Purchases of investments	(438,846)	(8,422,448)
Investments in joint ventures	(124,156)	(220,000)
Distributions from joint ventures	209,000	40,500
Proceeds from sales of investments and assets whose use is limited	(30,818)	9,116,017
Net cash used in investing activities	(5,147,928)	(9,227,510)
Financing activities:		
Principal payments on long-term debt	(2,778,793)	(3,489,341)
Transfer to ECHN Health Services, Inc.	(5,024,696)	(4,434,257)
Payments for bond issuance costs	-	(616,706)
Transfers from (to) other affiliated entities	43,741	(24,963)
Permanently restricted contributions	-	946
Proceeds from issuance of debt	-	15,623,000
Net cash (used in) provided by financing activities	(7,759,748)	7,058,679
Change in cash and cash equivalents	(3,664,907)	2,580,783
Cash and cash equivalents at beginning of year	10,660,990	8,080,207
Cash and cash equivalents at end of year	\$ 6,996,083	\$ 10,660,990
Cash paid for interest	\$ 2,568,765	\$ 2,463,029
Equipment acquisitions under capital lease arrangements	\$ -	\$ 113,000

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

**The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009**

Note 1 - General

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. d/b/a Eastern Connecticut Medical Professionals (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 of Trustees, is the sole member of each of its members.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 1 - General (continued)

ECHN has various powers with regard to each of its members, which include approving all operating and capital budgets; controlling the investment of funds, location of services, agreements and transactions, and affiliations; controlling changes, amendments, or restatements of certificates of incorporation and bylaws; electing trustees and officers; appointing committees; adopting a system-wide vision and strategic plans; and approving debt borrowings.

Note 2 - Summary of Significant Accounting Policies

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

New Accounting Pronouncements - In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168. This guidance establishes the FASB ASC (the Codification) as the source of authoritative GAAP. The Codification did not change GAAP, but organized and consolidated authoritative guidance into a single, concise source of GAAP. Since the adoption of the Codification, the FASB issues any new authoritative accounting standards in the form of Accounting Standards Updates (ASU's). This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and was adopted by the Hospital for the year ended September 30, 2009. The adoption of the Codification did not have an impact on the Hospital's financial condition or results of operations.

In September 2009, the FASB released ASU 2009-12, which includes guidance on fair value measurements and disclosures relating to investments that calculate net asset value (NAV) per share (or its equivalent). The guidance permits, as a practical expedient, an entity holding investments in certain entities that calculate NAV per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. The guidance also requires disclosure of the attributes of investments within the scope of the guidance by major category of investment. Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investee. The guidance is effective for interim and annual periods ending after December 15, 2009. The Hospital has adopted this guidance effective with the issuance of its September 30, 2010 financial statements.

In January 2010, the FASB issued FASB ASU 2010-06, which clarifies certain existing fair value measurement disclosure requirements of FASB ASC 820 "*Fair Value Measurements and Disclosures*" and requires additional fair value measurement disclosures. The new disclosures relate to transfers in and out of Level 1 and 2 investments, and enhanced disclosures about inputs and valuation techniques. The disclosures regarding transfers in and out of Level 1 and 2 investments, and clarifications to existing disclosures are effective for interim and annual periods beginning after December 15, 2009. The disclosures of Level 3 investment roll forward of activity on a gross basis are effective for fiscal years beginning after December 15, 2010. The Hospital is currently evaluating the impact of these disclosures on its financial statements.

In March 2010, the Hospital adopted FASB ASU 2010-11, which expands the disclosure requirements for derivative instruments and hedging activities to include an explanation of the entity's reason for using derivative instruments, the risks involved, and how these instruments and related hedge items affect an entity's financial position, financial performance, and cash flow.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

To meet these objectives, FASB ASU 2010-11 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair values of derivative instruments and their gains and losses, and disclosures about credit-risk-related contingent features in derivative agreements. The enhanced disclosures about derivative instruments and hedging activities are included in Note 13.

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in FASB ASC 715 (formerly FASB Staff Position FAS 132(R) - 1, "*Employers' Disclosures about Postretirement Benefit Plan Assets*"). This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See Note 11 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Hospital's financial statements for the year ended September 30, 2010.

In April 2009, the FASB issued a new accounting pronouncement regarding mergers and acquisitions for not-for-profit entities (formerly SFAS No. 164, "*Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142*"). The pronouncement, found under FASB ASC Topic 958, establishes principles and requirements for how a not-for-profit entity accounts for mergers and acquisitions. The pronouncement also makes FASB Statement No. 142, *Goodwill and Other Intangible Assets*, found under FASB ASC Topic 350, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, found under FASB ASC Topic 810, fully applicable to not-for-profit entities. These pronouncements will be effective for the Hospital on October 1, 2010. The Hospital is currently evaluating the impact on its financial position and results of operations from the adoption of this pronouncement.

In August 2010, the FASB issued ASU 2010-23, which is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for the Hospital on October 1, 2011. The Hospital is currently evaluating the impact on its disclosures from the adoption of this pronouncement.

In August 2010, the FASB issued ASU No. 2010-24, which clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for the Hospital on October 1, 2011. The Hospital is currently evaluating the impact on its financial position and results of operations from the adoption of this pronouncement.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Net Assets - Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying 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.

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 period has elapsed, are reported as reclassifications between the applicable classes of net assets.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Assets Whose Use is Limited - Assets whose use is limited primarily include cash and investments held by trustees under indenture agreements, Board designated investments which include endowments and 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, 2010 and 2009.

The income earned on restricted funds is generally available for operations of the Hospital and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future split interest 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, 2010 and 2009.

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

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. All of the income from the trusts is for the general operating purposes of the Hospital. For the years ended September 30, 2010 and 2009, income of \$174,750 and \$150,179, respectively, was recorded in the statements of operations and changes in net assets. 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.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Other Than Temporary Impairments on Investments - The Hospital accounts for other than temporary impairments in accordance with FASB ASC 320 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. The Hospital has recorded an impairment charge of \$14,253 and \$59,073 for the years ended September 30, 2010 and 2009, respectively, related to investments held by CHIC.

Property, Plant and Equipment - Property, plant and equipment are stated at cost or, in the case of donated property, at fair value at the date of the gift, less accumulated depreciation and amortization. Major improvements and betterments to existing plant and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the lives of the applicable assets are charged to expense as incurred. Upon disposition or retirement of property, plant and equipment, the cost and related accumulated depreciation and amortization are eliminated from the respective accounts, and any resulting gain or loss is included 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 \$6,803,618 and \$7,223,467 for the years ended September 30, 2010 and 2009, 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 \$329,686 and \$259,946 for the years ended September 30, 2010 and 2009, 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.

**The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009**

Note 2 - Summary of Significant Accounting Policies (continued)

Physician loan amortization totaling \$440,983 and \$643,374 for the years ended September 30, 2010 and 2009, 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:

	<u>2010</u>	<u>Ownership Percentage</u>	<u>2009</u>	<u>Ownership Percentage</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 2,825,242	25%	\$ 2,503,896	25%
Evergreen Endoscopy Center, LLC	579,549	50%	400,000	50%
Evergreen Imaging Center, LLC	302,247	50%	216,735	50%
Medical Practice Partners	89,156	50%	-	n/a
Tolland Imaging Center	29,584	35%	-	35%
	<u>\$ 3,825,778</u>		<u>\$ 3,120,631</u>	

Distributions from these joint ventures for the years ended September 30, 2010 and 2009 was \$209,000 and \$40,500, respectively. The Hospital's share of the earnings of the joint venture is reported as other revenues totaling \$789,991 and \$489,106 for the years ended September 30, 2010 and 2009, respectively.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

Summarized financial information from the financial statements of these organizations as of September 30, 2010 and 2009, and for the years then ended, is as follows:

<u>2010</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess (Deficiency) of Revenues Over Expenses</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 15,112,267	\$ 11,300,966	\$ 1,285,382	\$ 1,307,271
Evergreen Endoscopy Center, LLC	\$ 2,820,967	\$ 1,159,098	\$ 736,863	\$ 754,111
Evergreen Imaging Center, LLC	\$ 1,006,768	\$ 604,493	\$ 173,045	\$ 164,865
Tolland Imaging Center	\$ 1,899,329	\$ 84,525	\$ 113,804	\$ 2,172
Medical Practice Partners	\$ 1,033,104	\$ 178,313	\$ 178,313	\$ (521,687)

<u>2009</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess (Deficiency) of Revenues Over Expenses</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 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)

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 changes in net assets, 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 property. On average, this amortization period for license enhancements is 5 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.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

Excess of Revenues Over Expenses - The statements of operations and changes in net assets 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 appreciation (depreciation) on investments, net loss on interest rate swap that qualifies for hedge accounting; net assets released from restrictions used for capital acquisitions; pension and postretirement-related adjustments; transfers to and from affiliates 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 non-operating gains and losses. Non-operating gains and losses include investment income and expenses related to property management, realized gains and losses on sales of investments, losses recognized on investments representing declines in value considered to be other-than-temporary in nature, and changes in the fair values of interest rate swaps that do not qualify for hedge accounting and the costs associated with pursuing business combinations.

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.

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.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Contracts, laws, and regulations governing Medicare, Medicaid, Blue Cross, and the uncompensated care pool programs in 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. The Hospital records adjustments to the amounts accrued for estimated settlements related to prior years. There were no adjustments made in 2010 or 2009.

The Hospital has agreements with third-party payers that provide for payments at amounts different from its established rates. A summary of the payment agreements with major third-party payers is as follows:

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

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Other Payers - 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 payers, and the prospect of significant changes in legislation at the state and national level. Management cannot assess or project the ultimate effect of these or other items on the future operations of the 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 FASB 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.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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). At times, the Hospital is involved with activities that subject minor amounts of unrelated business federal income tax, which are paid as they come due in accordance with the IRC and the regulations there under. Such amounts are insignificant to the Hospital's financial statements.

The Hospital accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, "Income Taxes" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as of September 30, 2010 and 2009. As of September 30, 2010 and 2009, the Hospital did not record any penalties or interest associated with uncertain tax positions.

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, 2010 and 2009, the Hospital has recognized \$260,265 and \$279,796, 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.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 payers, including Medicare (a federal program), Medicaid (a State of Connecticut program), and various health insurance companies.

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

Advertising Costs - The Hospital expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was \$474,099 and \$1,295,806 for the years ended September 30, 2010 and 2009, respectively, and is recorded in supplies and other in the accompanying statements of operations and changes in net assets.

Reclassification - Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation. These reclassifications had no impact on net assets or the excess of revenues over expenses as of and for the years ended September 30, 2009, as previously reported.

Subsequent Events - Subsequent events have been evaluated through December 14, 2010, the date through which procedures were performed to prepare the financial statements for issuance.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 3 - Assets Whose use is Limited and Investments

Assets whose use is limited and investments as of September 30, 2010 and 2009, include the following:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Board designated and donor-restricted:				
Money market funds	\$ 1,250,714	\$ 1,250,714	\$ 3,001,485	\$ 3,001,485
Fixed income mutual funds	576,868	597,755	556,223	559,840
Equity mutual funds	<u>6,792,355</u>	<u>6,716,016</u>	4,928,438	<u>4,275,838</u>
Total	<u>\$ 8,619,937</u>	<u>\$ 8,564,485</u>	<u>\$ 8,486,146</u>	<u>\$ 7,837,163</u>
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 29,192	\$ 29,192	\$ 38,228	\$ 38,228
Fixed income mutual funds	76,562	79,301	73,930	74,369
Equity mutual funds	<u>2,401,185</u>	<u>2,543,257</u>	2,351,263	<u>2,406,584</u>
Total	<u>\$ 2,506,939</u>	<u>\$ 2,651,750</u>	<u>\$ 2,463,421</u>	<u>\$ 2,519,181</u>
Investments held under bond indentures:				
Money market funds	\$ 3,955,619	\$ 3,955,619	\$ 4,056,238	\$ 4,057,370
Beneficial interest in trust assets	\$ 3,919,063	\$ 5,044,846	\$ 3,905,664	\$ 4,888,284
Investments:				
Money market funds	\$ 26,197	\$ 26,197	\$ 26,177	\$ 26,177
Short-term bond	27,000	27,872	27,000	27,051
Fixed income mutual funds	321,944	345,264	311,901	315,120
Equity mutual funds	<u>6,680,575</u>	<u>6,506,595</u>	6,549,360	<u>5,943,708</u>
Total	<u>\$ 7,055,716</u>	<u>\$ 6,905,928</u>	<u>\$ 6,914,438</u>	<u>\$ 6,312,056</u>
Total assets whose use is limited and investments	<u>\$ 26,057,274</u>	<u>\$ 27,122,628</u>	<u>\$ 25,825,907</u>	<u>\$ 25,614,054</u>

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

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

The fair values and gross unrealized losses for all investment categories whose fair value is below its cost, and the length of time that the securities have been in an unrealized loss position as of September 30, 2010 and 2009, are as follows:

<u>2010</u>	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equity mutual funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,626,866</u>	<u>\$ (675,555)</u>	<u>\$ 6,626,866</u>	<u>\$ (675,555)</u>

<u>2009</u>	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equity mutual funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,208,807</u>	<u>\$ (1,258,265)</u>	<u>\$ 10,208,807</u>	<u>\$ (1,258,265)</u>

The Hospital's unrealized losses on its investments in mutual funds consist mostly of unrealized losses in the Vanguard Group and Dodge & Cox diversified equity mutual funds as of September 30, 2010 and 2009. The Hospital has evaluated the near-term prospects of the investments in relation to the severity of the impairment (fair value is approximately 2% to 22% and 6% to 27% less than cost as of September 30, 2010 and 2009, respectively) 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 as of September 30, 2010 and 2009.

Interest and dividend income on the assets whose use is limited totaled \$181,910 and \$547,914 for the years ended September 30, 2010 and 2009, respectively. There were no realized gains or losses for the year ended September 30, 2010. Realized losses of \$1,571,065 were included within nonoperating losses for the year ended September 30, 2009.

Note 4 - Fair Value Measurements

FASB ASC 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 4 - Fair Value Measurements (continued)

- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

The following table presents the financial instruments carried at fair value as of September 30, 2010 and 2009, by the valuation hierarchy.

<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market funds	\$ 5,261,722	\$ -	\$ -	\$ 5,261,722
Short-term bond	27,872	-	-	27,872
Fixed income mutual funds	1,022,320	-	-	1,022,320
Equity mutual funds	15,765,868	-	-	15,765,868
Beneficial interest in trust assets	<u>-</u>	<u>-</u>	<u>5,044,846</u>	<u>5,044,846</u>
Total assets at fair value	<u>\$ 22,077,782</u>	<u>\$ -</u>	<u>\$ 5,044,846</u>	<u>\$27,122,628</u>
Liabilities:				
Obligations under interest rate swap agreements	<u>\$ -</u>	<u>\$ 743,956</u>	<u>\$ -</u>	<u>\$ 743,956</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 743,956</u>	<u>\$ -</u>	<u>\$ 743,956</u>

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 4 - Fair Value Measurements (continued)

<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market funds	\$ 7,123,260	\$ -	\$ -	\$ 7,123,260
Short-term bond	27,051	-	-	27,051
Fixed income mutual funds	949,329	-	-	949,329
Equity mutual funds	12,626,130	-	-	12,626,130
Beneficial interest in trust assets	-	-	4,888,284	4,888,284
Total assets at fair value	<u>\$ 20,725,770</u>	<u>\$ -</u>	<u>\$ 4,888,284</u>	<u>\$25,614,054</u>
Liabilities:				
Obligations under interest rate swap agreements	\$ -	\$ 330,263	\$ -	\$ 330,263
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 330,263</u>	<u>\$ -</u>	<u>\$ 330,263</u>

During the year ending September 30, 2010 and 2009, the value of the beneficial interest in trusts increased (decreased) for a change in market value of \$156,562 and (\$122,976), respectively.

The Hospital's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Hospital uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to money market funds, short-term bonds, fixed income and equity mutual funds.

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

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

Fair values of the Hospital's Series C Bonds are based on current traded value. The fair value of the Series C Bonds as of September 30, 2010 and 2009, is approximately \$7,891,556 and \$7,480,371, respectively. The fair value of the Hospital's remaining long-term debt approximates its carrying value.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 4 - Fair Value Measurements (continued)

As of September 30, 2010 and 2009, the Hospital's other financial instruments included accounts receivable, accounts payable and accrued expenses and estimated settlements due to third-party payers. The carrying amounts reported in the balance sheets for these financial instruments approximate their fair value.

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

Note 5 - Property, Plant and Equipment

Property, plant and equipment as of September 30, 2010 and 2009, consists of the following:

	2010	2009
Land and land improvements	\$ 2,852,720	\$ 2,852,720
Building and building improvements	90,133,964	89,129,017
Fixed equipment	15,994,611	15,918,371
Moveable equipment	73,552,964	70,440,515
	182,534,259	178,340,623
Less: accumulated depreciation and amortization	(130,971,357)	(123,886,476)
	51,562,902	54,454,147
Construction in progress	199,081	119,015
	\$ 51,761,983	\$ 54,573,162

For the years ended September 30, 2010 and 2009, the Hospital capitalized interest related to construction financed with tax-exempt debt of \$20,949 and \$208,898, respectively. The cost to complete the construction in progress is approximately \$1,200,000 and \$30,000 as of September 30, 2010 and 2009, respectively.

Note 6 - Unamortized Bond Issue Costs

Unamortized bond issue costs that are recorded within other - net in the accompanying balance sheets as of September 30, 2010 and 2009, are as follows:

	2010	2009
Deferred financing costs	\$ 2,043,087	\$ 2,042,087
Less: accumulated amortization	(492,774)	(390,526)
	\$ 1,550,313	\$ 1,651,561

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 7 - Intangible Assets

The gross carrying amount and accumulated amortization as of September 30, 2010 and 2009, by class of intangible assets, consists of the following:

	2010	2009
Gross carrying amount	\$ 540,000	\$ 540,000
Accumulated amortization	(360,000)	(252,000)
	\$ 180,000	\$ 288,000

Amortization expense related to intangible assets was \$108,000 for the years ended September 30, 2010 and 2009.

The estimated future amortization expense as of September 30, 2010 is \$108,000 and \$72,000 for 2011 and 2012, respectively.

Note 8 - 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 \$14,880,379 and \$15,247,529 for the years ended September 30, 2010 and 2009, respectively.

Amounts due from related entities as of September 30, 2010 and 2009, consist of the following:

	2010	2009
EHS	\$ 12,225,800	\$ 9,535,175
ECHF	549,375	-
ECHN	11,708,872	12,795,580
EES	161,765	-
Enterprises	2,202,346	1,804,841
EWS	4,751	8,165
	26,852,909	24,143,761
Less: allowance for uncollectible accounts	(2,701,478)	(2,701,478)
	\$ 24,151,431	\$ 21,442,283

Of the amount due from EHS for the years ended September 30, 2010 and 2009, \$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 Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 8 - Related Party Transactions (continued)

The Hospital provided an equity transfer to EHS, for the years ended September 30, 2010 and 2009, in the amounts of \$5,024,696 and \$4,434,257, 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, 2010 and 2009, consist of the following:

	2010	2009
RGH	\$ 14,838,492	\$ 10,527,649
EES	-	914,891
ECHF	-	136,889
	\$ 14,838,492	\$ 11,579,429

Note 9 - Medical Malpractice Insurance

In fiscal year 2007, ECHN established a single-parent captive, CHIC, which covers all of its subsidiaries, including the Hospital. CHIC provides malpractice and general insurance coverage for ECHN and its subsidiaries at \$3,000,000 per occurrence and \$9,000,000 in the aggregate for the years ending September 30, 2010 and 2009.

Claims that fall within CHIC's policies for 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. As of September 30, 2010, no discount was applied to the accrued medical malpractice and general liability reserves. As of September 30, 2009, accrued medical malpractice and general liability reserves have been discounted at 1.25%. Management believes these reserves provide an adequate reserve for loss contingencies.

The Hospital does not self-insure any malpractice risks other than exposures greater than its excess coverages, however, as of September 30, 2010 and 2009, the Hospital has recorded a liability for estimated incurred but not report claims, as it currently has a claims-made policy with CHIC.

Note 10 - Estimated Self-Insurance Liabilities

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 base 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, 2010 and 2009, and in management's opinion provide an adequate reserve for loss contingencies.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 11 - 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. During fiscal year 2010, ECHN made contributions to the defined contribution plan of \$2,118,206. No contributions were made to the plan during fiscal year 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. 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 of the Hospital and RGH as of September 30, 2010 include unrecognized actuarial losses of \$40,341,412 related to the defined-benefit pension plan and unrecognized actuarial gains of \$787,821 related to the postretirement plan. Of this amount, \$1,082,844 is expected to be recognized in net periodic pension costs in 2011. Unrestricted net assets of the Hospital and RGH as of September 30, 2009, include unrecognized actuarial losses of \$29,573,338 and unrecognized actuarial gains of \$630,532 related to the defined-benefit pension plan and the postretirement plan. Of this amount, \$157,268 was recognized in net periodic pension costs in 2010.

The effects of Medicare Prescription Drug, Improvement and Modernization Act of 2003 were reflected as of September 30, 2010 and 2009, 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. The subsidy reduced plan liabilities by approximately \$1,200,000 and \$1,300,000 as of September 30, 2010 and 2009, respectively. Subsidies of \$80,531 and \$84,650 were received in the years ended September 30, 2010 and 2009, respectively. Future benefits of \$430,050 are expected to be paid and future subsidies of \$75,052 are expected to be received related to the year ended September 30, 2010.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 11 - Pension and Other Postretirement Benefits (continued)

The pension and postretirement plans change in benefit obligation and change in plan assets for the years ended September 30, 2010 and 2009, are as follows (information presented is for the Network (MMH and RGH combined), based on September 30 measurement date):

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 155,082,045	\$ 132,769,088	\$ 4,487,049	\$ 4,647,988
Service cost	1,596,249	2,199,972	79,344	89,143
Interest cost	9,729,421	10,384,748	265,261	357,290
Plan amendments	-	(2,652,251)	-	-
Plan participants' contributions	-	-	691,688	712,867
Receipt of Medicare Part D reimbursement	-	-	80,531	84,650
Actuarial loss (gain)	13,949,602	18,859,015	(114,006)	(452,679)
Special termination benefits	54,784	-	-	-
Benefits paid	(7,387,979)	(6,478,527)	(987,525)	(952,210)
	<u>\$ 173,024,122</u>	<u>\$ 155,082,045</u>	<u>\$ 4,502,342</u>	<u>\$ 4,487,049</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 109,372,074	\$ 110,478,143	\$ -	\$ -
Actual return on plan assets	13,654,635	4,872,458	-	-
Employer contributions	2,896,690	500,000	215,306	154,693
Plan participants' contributions	-	-	691,688	712,867
Receipt of Medicare Part D reimbursement	-	-	80,531	84,650
Benefits paid	(7,387,979)	(6,478,527)	(987,525)	(952,210)
	<u>\$ 118,535,420</u>	<u>\$ 109,372,074</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued pension and other postretirement benefits	<u>\$ (54,488,702)</u>	<u>\$ (45,709,971)</u>	<u>\$ (4,502,342)</u>	<u>\$ (4,487,049)</u>
Accumulated benefit obligation	<u>\$ (170,445,603)</u>	<u>\$ (151,899,523)</u>	<u>\$ -</u>	<u>\$ -</u>

The amounts recognized in the Network's consolidated balance sheets as of September 30, 2010 and 2009 are as follows:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Current liabilities	\$ 6,570,000	\$ -	\$ 430,050	\$ 343,028
Noncurrent liabilities	47,918,702	45,709,971	4,072,292	4,144,021
Net amount recognized	<u>\$ 54,488,702</u>	<u>\$ 45,709,971</u>	<u>\$ 4,502,342</u>	<u>\$ 4,487,049</u>

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 11 - Pension and Other Postretirement Benefits (continued)

The allocation of the accrued pension and postretirement benefits for the years ended September 30, 2010 and 2009 is as follows:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
MMH	\$ 41,994,179	\$ 34,899,734	\$ 3,209,566	\$ 2,722,811
RGH	12,494,523	10,810,237	1,292,776	1,764,238
	\$ 54,488,702	\$ 45,709,971	\$ 4,502,342	\$ 4,487,049

The plan's components of net periodic benefit cost for the years ended September 30, 2010 and 2009, are as follows (pension benefits information presented is for MMH and RGH combined):

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 1,596,249	\$ 2,199,972	\$ 79,344	\$ 89,143
Interest cost	9,729,421	10,384,748	265,261	357,290
Expected return on plan assets	(10,238,115)	(10,862,580)	-	-
Amortization of prior service (credits) costs	(234,992)	(186,479)	77,724	77,724
Special termination benefit recognized	54,784	-	-	-
Recognized actuarial gain	-	(7,752)	(34,441)	(37,332)
Net periodic benefit cost	\$ 907,347	\$ 1,527,909	\$ 387,888	\$ 486,825

The allocation of the net periodic benefit cost for the years ended September 30, 2010 and 2009, is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
MMH	\$ 574,304	\$ 1,093,267	\$ 234,368	\$ 299,095
RGH	333,043	434,642	153,520	187,730
	\$ 907,347	\$ 1,527,909	\$ 387,888	\$ 486,825

**The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009**

Note 11 - Pension and Other Postretirement Benefits (continued)

The assumptions used to determine pension and postretirement benefit obligations as of September 30, 2010 and 2009, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Discount rate	5.67%	6.41%	4.88%	6.41%
Expected long-term rate of return	8.00	8.00	N/A	N/A
Rate of compensation increase	2.75	3.00	N/A	N/A
Initial medical trend rate	N/A	N/A	9.00	9.00
Ultimate medical trend rate	N/A	N/A	5.00	5.00
Number of years to ultimate medical trend rate	N/A	N/A	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, 2010 and 2009, were as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Discount rate	6.41%	8.04 / 7.60% (1)	5.94%	8.04%
Expected long-term rate of return	8.00	8.75	N/A	N/A
Rate of compensation increase	3.00	4.00	N/A	N/A
Initial medical trend rate	N/A	N/A	9.00	9.00
Ultimate medical trend rate	N/A	N/A	5.00	5.00
Number of years to ultimate medical trend rate	N/A	N/A	8 years	8 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:

	<u>One- Percentage Point Increase</u>	<u>One- Percentage Point Decrease</u>
Effect on year end postretirement benefit obligation	\$ 361,272	\$ 319,278
Effect on total of service and interest cost components	\$ 29,770	\$ 34,552

**The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009**

Note 11 - Pension and Other Postretirement Benefits (continued)

The pension plan's weighted-average asset allocations as of September 30, 2010 and 2009, by asset category, are as follows:

	Pension Benefits	
	2010	2009
Asset category:		
Equity securities	63%	56%
Debt securities	34	41
Cash and cash equivalents	1	1
Real estate	2	2
	100%	100%

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
Cash and cash equivalents	2	0-4
Real estate	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).

Fair value methodologies used to assign plan assets to levels in accordance with FASB ASC 820 are consistent with the inputs described in Note 4.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 11 - Pension and Other Postretirement Benefits (continued)

The following table presents the investments of the defined benefit plan carried at fair value as of September 30, 2010 and 2009, by the valuation hierarchy.

<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 1,009,311	\$ -	\$ -	\$ 1,009,311
Fixed income mutual funds	40,711,867	-	-	40,711,867
Equity mutual funds	15,531,470	-	-	15,531,470
Guaranteed investment contract	193,405	-	3,571,198	3,764,603
Real estate	-	-	2,333,339	2,333,339
Equities:				
Small cap	7,334,538	-	-	7,334,538
Mid cap	6,686,884	-	-	6,686,884
Large cap	18,876,428	-	-	18,876,428
International	22,286,980	-	-	22,286,980
Total assets at fair value	<u>\$ 112,630,883</u>	<u>\$ -</u>	<u>\$ 5,904,537</u>	<u>\$ 118,535,420</u>
<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 1,501,177	\$ -	\$ -	\$ 1,501,177
Fixed income mutual funds	40,927,027	-	-	40,927,027
Equity mutual funds	14,311,344	-	-	14,311,344
Guaranteed investment contract	194,537	-	3,818,949	4,013,486
Real estate	-	-	1,674,128	1,674,128
Equities:				
Small cap	8,784,268	-	-	8,784,268
Mid cap	5,677,183	-	-	5,677,183
Large cap	16,689,134	-	-	16,689,134
International	15,794,327	-	-	15,794,327
Total assets at fair value	<u>\$ 103,878,997</u>	<u>\$ -</u>	<u>\$ 5,493,077</u>	<u>\$ 109,372,074</u>

**The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009**

Note 11 - Pension and Other Postretirement Benefits (continued)

The rollforward of level 3 investments as of September 30, 2010 and 2009 is as follows:

2010	Real Estate Securities	Guaranteed Investment Contract	Total
Balance as of October 1, 2009	\$ 1,674,128	\$ 3,818,949	\$ 5,493,077
Investment return:			
Investment income	-	230,563	230,563
Net change in market value	659,211	-	659,211
Expenditures	-	(478,314)	(478,314)
Balance as of September 30, 2010	<u>\$ 2,333,339</u>	<u>\$ 3,571,198</u>	<u>\$ 5,904,537</u>

2009	Real Estate Securities	Guaranteed Investment Contract	Total
Balance as of October 1, 2008	\$ 2,501,081	4,085,681	\$ 6,586,762
Investment return:			
Investment income	-	252,134	252,134
Net change in market value	(826,953)	-	(826,953)
Expenditures	-	(518,866)	(518,866)
Balance as of September 30, 2009	<u>\$ 1,674,128</u>	<u>3,818,949</u>	<u>\$ 5,493,077</u>

During fiscal year 2011, ECHN anticipates contributing \$6,570,000 to the defined benefit plan.

The future benefit payments, which reflect estimated future service and expected to be paid from the plans for the year ended September 30, 2010, are as follows:

	Pension Benefits	Other Postretirement Benefits
2011	\$ 7,171,709	\$ 430,050
2012	\$ 7,487,581	\$ 422,535
2013	\$ 7,873,702	\$ 418,850
2014	\$ 8,217,564	\$ 421,306
2015	\$ 8,669,133	\$ 423,249
2016-2020	\$ 52,079,668	\$ 2,152,758

**The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009**

Note 11 - Pension and Other Postretirement Benefits (continued)

The Hospital also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% - 50%, depending upon years of service, of contributions matched by the Hospital, up to a maximum of 6% of annual compensation. Contributions to the plan were suspended for non-union employees from April 2009 to April 2010. Hospital contributions to the employee savings plan were \$1,151,283 and \$1,138,601 for the years ended September 30, 2010 and 2009, respectively.

Note 12 - Long-Term Debt

Long-term debt and capital lease obligations as of September 30, 2010 and 2009, consist of the following:

	<u>2010</u>	<u>2009</u>
The Hospital's 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 \$37,030 and \$41,254 in 2010 and 2009, respectively.	\$ 5,542,970	\$ 6,128,746
The Hospital's portion of CHEFA Hospital Variable Rate Demand Revenue Bonds, ECHN Series B Bonds, bearing interest at a variable rate, adjusted weekly.	1,721,500	1,774,000
The Hospital's portion of CHEFA Hospital Revenue Bonds, ECHN Issue Series C, bearing interest at rates ranging from 3.25% to 5.125%, net of amortized original issue premium of \$317,930 and \$333,827 in 2010 and 2009, respectively.	27,729,930	28,061,526
The Hospital's portion of CHEFA Hospital Revenue Bonds, ECHN Series D Bonds, bearing interest at a variable rate, adjusted weekly.	10,338,723	10,521,930
The Hospital's 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%.	550,262	1,185,933
The Hospital's 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%.	405,029	719,750
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%.	926,921	964,804

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 12 - Long-Term Debt (continued)

	2010	2009
The Hospital's 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%.	873,956	1,204,218
Promissory note payable to New Alliance Bank due and payable in monthly principal and interest installments, maturing on June 1, 2012, bearing interest at a variable rate.	55,165	90,833
Revolving line of credit with Sovereign Bank, bearing interest at a variable rate.	5,000,000	5,000,000
Capital lease obligation.	1,124,226	1,395,735
Total long-term debt	54,268,682	57,047,475
Less: current maturities	(7,848,007)	(7,816,773)
Long-term debt - net	\$ 46,420,675	\$ 49,230,702

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

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, 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.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 12 - Long-Term Debt (continued)

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

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 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, day's cash on hand requirement, and long-term debt to unrestricted net assets ratio. As of September 30, 2010 and 2009, 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 \$79,477,717 and \$81,650,139 as of September 30, 2010 and 2009, 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 Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 12 - Long-Term Debt (continued)

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, 2010 are as follows:

2011	\$	7,848,007
2012		1,926,381
2013		1,773,733
2014		1,351,160
2015		1,344,048
Thereafter		39,744,453
		53,987,782
Plus premium - net		280,900
		\$ 54,268,682

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 2010, the agreement was extended and expires on October 28, 2010, unless such date is extended for additional periods of time by mutual agreement of ECHN and Sovereign Bank. As of September 30, 2010 and 2009, MMH had \$5,000,000 outstanding on the line.

Note 13 - Derivatives

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

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

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

Termination risk represents the risk that the Hospital may be required to make a significant payment to the counterparty, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract.

The Manchester Memorial Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 13 - Derivatives (continued)

The test measures the ability to make a termination payment without a significant impairment to the Hospital's ability to meet its debts or liquidity covenants.

In November 2004, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$9,750,000 of its variable rate Series B Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.825%. Changes in the fair value of this swap are recorded in the statement of operations. The Hospital's portion of the swap agreement in force related to this strategy as of September 30, 2010 and 2009, and the liability and interest expense recognized by the Hospital are as follows:

	<u>2010</u>	<u>2009</u>
Notional amount of contract	\$ 8,607,500	\$ 8,870,000
Fair value of swap contract recognized in MMH		
accounts payable and accrued expenses	\$ 103,000	\$ 73,000
Net interest expense recognized in MMH		
non-operating losses	\$ 30,000	\$ 45,000

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 variable rate Series B Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.708%. The swap is accounted for as a cash flow hedge in accordance with ASC 815 "Accounting for Derivative Instruments and Hedging Activities". This accounting treatment requires the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument to be reported as a component of other changes in unrestricted net assets and to be reclassified into operations in the same period or periods during which the hedged forecasted transaction affects earnings.

The remaining gain or loss on the derivative instrument, if any, is recognized currently in non-operating losses. The Hospital's portion of swap agreement in force related to this strategy as of September 30, 2010 and 2009, is presented as follows:

	<u>2010</u>	<u>2009</u>
Notional amount of contract	\$ 8,607,500	\$ 8,870,000
Fair value of swap contract recognized in MMH		
accounts payable and accrued expenses	\$ 167,000	\$ 106,000
Unrealized loss recognized as a reduction of		
MMH unrestricted net assets	\$ 61,000	\$ (66,000)

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 and changes in net assets.

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Note 13 - Derivatives (continued)

The Hospital's portion of the swap agreement in force related to this strategy as of September 30, 2010 and 2009, and the liability and interest expense recognized by the Hospital are as follows:

	<u>2010</u>	<u>2009</u>
Notional amount of contract	\$ 10,338,724	\$ 10,521,930
Fair value of swap contract recognized in MMH		
accounts payable and accrued expenses	\$ 474,000	\$ 151,149
Net interest expense recognized in MMH		
non-operating losses	\$ 323,000	\$ 151,149

The counterparty, Lehman Brothers, to the above cash flow hedge filed for bankruptcy during 2008. The ability of Lehman Brothers to fulfill the contract is not certain as of September 30, 2010. The counterparties to the other swap transactions are major financial institutions that meet ECHN's criteria for financial stability and creditworthiness.

Note 14 - 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 \$653,901 as of September 30, 2010. 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 non-cancelable operating leases as of September 30, 2010, consists of the following:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2011	\$ 422,182	\$ 404,473
2012	386,361	384,232
2013	386,361	380,184
2014	63,878	380,184
2015	-	63,364
	<u>1,258,782</u>	<u>\$ 1,612,437</u>
Less: interest on capital lease	<u>134,556</u>	
Principal amount of capital lease	<u>\$ 1,124,226</u>	

Rent expense under operating and month-to-month leases was \$1,957,018 and \$1,626,806 for the years ended September 30, 2010 and 2009, respectively.

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Note 15 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are insured under third-party payer agreements. The mix of patient accounts receivable as of September 30, 2010 and 2009, before allowances for doubtful accounts, consists of the following:

	<u>2010</u>	<u>2009</u>
Self-pay	19%	16%
Managed care	23%	21%
Medicare	34%	35%
Commercial insurance	5%	7%
Medicaid	16%	16%
Other	3%	5%
	<u>100%</u>	<u>100%</u>

Note 16 - Net Patient Service Revenue

Net patient service revenue for the years ended September 30, 2010 and 2009, consists of the following:

	<u>2010</u>	<u>2009</u>
Patient service revenue:		
Inpatient services	\$ 160,519,223	\$ 159,437,227
Outpatient services	258,676,162	250,774,268
	<u>419,195,385</u>	<u>410,211,495</u>
Gross patient service revenue	419,195,385	410,211,495
Deductions - allowances	<u>(252,884,637)</u>	<u>(242,946,633)</u>
Net patient service revenue	<u>\$ 166,310,748</u>	<u>\$ 167,264,862</u>

Note 17 - Community Benefit

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

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

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Note 17 - Community Benefit (continued)

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

For the years ended September 30, 2010 and 2009, the Hospital granted charity care of \$2,236,613 and \$1,418,730, respectively. Such amounts are determined based on charges foregone.

Note 18 - 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, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Health care services	\$ 134,548,339	\$ 134,135,233
General and administrative	<u>35,686,409</u>	<u>35,881,951</u>
	<u>\$ 170,234,748</u>	<u>\$ 170,017,184</u>

Note 19 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of September 30, 2010 and 2009, are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Departmental and endowment purposes	\$ 674,767	\$ 459,575
Capital campaign and pledges	<u>1,229,366</u>	<u>803,248</u>
	<u>\$ 1,904,133</u>	<u>\$ 1,262,823</u>

The Manchester Memorial Hospital
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Note 19 - Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets as of September 30, 2010 and 2009, consist of the following:

	<u>2010</u>	<u>2009</u>
Beneficial interest in trust assets	\$ 5,044,846	\$ 4,888,284
Endowments restricted for:		
Other departmental purposes	2,400,063	2,400,063
Charity care	320,817	320,817
Special needs	151,579	151,579
Cancer research	6,251	6,251
	<u>\$ 7,923,556</u>	<u>\$ 7,766,994</u>

The composition of the Hospital's endowment by net asset class as of September 30, 2010 and 2009, are as follows:

<u>2010</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 92,751	\$ 1,593,687	\$ 1,686,438
Board-designated endowment funds	6,250,170	-	-	6,250,170
Net assets, September 30, 2010	<u>\$ 6,250,170</u>	<u>\$ 92,751</u>	<u>\$ 1,593,687</u>	<u>\$ 7,936,608</u>
<u>2009</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 23,482	\$ 1,593,687	\$ 1,617,169
Board-designated endowment funds	5,632,817	-	-	5,632,817
Net assets, September 30, 2009	<u>\$ 5,632,817</u>	<u>\$ 23,482</u>	<u>\$ 1,593,687</u>	<u>\$ 7,249,986</u>

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

The Hospital has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

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Note 19 - Temporarily and Permanently Restricted Net Assets (continued)

The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment policies of the Hospital.

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a reasonably stable and predictable stream of earnings to support the operations of the endowments and to preserve and enhance over time the real value of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment and management costs, over the long-term. Actual returns in any given year may vary from this amount.

The Investment Committee of the Board is responsible for defining and reviewing the investment policy to determine an appropriate long-term asset allocation policy. The asset allocation policy reflects the objective with allocations structured for capital growth and inflation protection over the long-term.

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

The Hospital has not appropriated funds for expenditure from its endowment funds for the years ending September 30, 2010 and 2009.

Changes in endowment net assets for the fiscal years ended September 30, 2010 and 2009, are as follows:

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, September 30, 2009	\$ 5,632,817	\$ 23,482	\$ 1,593,687	\$ 7,249,986
Interest income and dividends	115,093	16,233	-	131,326
Unrealized appreciation on investments	378,637	53,036	-	431,673
Transfers to Endowment	123,623	-	-	123,623
Net assets, September 30, 2010	<u>\$ 6,250,170</u>	<u>\$ 92,751</u>	<u>\$ 1,593,687</u>	<u>\$ 7,936,608</u>

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Note 19 - Temporarily and Permanently Restricted Net Assets (continued)

<u>2009</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, September 30, 2008	\$ 5,465,799	\$ 23,482	\$ 1,593,687	\$ 7,082,968
Interest income and dividends	160,216	-	-	160,216
Unrealized appreciation on investments	6,802	-	-	6,802
Contributions	-	-	-	-
Net assets, September 30, 2009	<u>\$ 5,632,817</u>	<u>\$ 23,482</u>	<u>\$ 1,593,687</u>	<u>\$ 7,249,986</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2010 and 2009, there were no funds that were below the level required by donor or law.

Note 20 - 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.