

Eastern Connecticut Health Network, Inc. and Subsidiaries

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

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

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Eastern Connecticut Health Network, Inc. and Subsidiaries (the Network) a not-for-profit, non-stock corporation, as of September 30, 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Network's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Connecticut Healthcare Insurance Company, a wholly owned subsidiary, whose statement reflects total assets of \$10,316,176 as of September 30, 2010 and total revenues of \$2,778,188 for the year then ended. This statement was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Connecticut Healthcare Insurance Company, is based solely on the report of the other auditors. The consolidated financial statements of the Network 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Connecticut Health Network, Inc. and Subsidiaries as of September 30, 2010, and the results of its consolidated operations and its consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Saslow Luftkin & Buggy, LLP

December 14, 2010

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,538,406	\$ 28,001,547
Current portion of assets whose use is limited	1,222,858	1,277,330
Accounts receivable, less allowance for bad debts of \$6,897,069 in 2010 and \$4,407,443 in 2009	39,298,163	38,270,688
Inventory	4,115,275	3,421,510
Current portion of estimated settlements due from third-party payers	721,274	1,491,254
Prepaid expenses and other current assets	5,214,799	5,802,567
Total current assets	70,110,775	78,264,896
Assets whose use is limited - net of current portion:		
Donor restricted investments	8,782,302	8,194,898
Board designated investments	26,066,057	21,175,293
Investments held in trust for estimated self-insurance liabilities	11,193,777	8,243,340
Beneficial interest in trust assets	7,003,197	6,793,869
Investments held under bond indentures	4,944,754	4,947,207
Total assets whose use is limited - net of current portion	57,990,087	49,354,607
Investments	9,253,473	6,312,056
Investments in joint ventures	17,200,900	14,869,204
Property, plant and equipment - net	97,359,862	101,307,100
Other assets:		
Estimated settlements due from third-party payers - net of current portion	1,561,332	1,957,690
Goodwill and intangible assets - net	5,328,498	4,158,050
Other - net	4,531,795	5,409,155
Total other assets	11,421,625	11,524,895
Total assets	\$ 263,336,722	\$ 261,632,758
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 26,271,706	\$ 27,605,953
Current portion of long-term debt	11,994,518	9,728,914
Current portion of estimated settlements due to third-party payers	423,893	885,738
Current portion of accrued pension and other postretirement benefits	7,000,050	343,028
Other current liabilities	4,650,399	4,982,696
Total current liabilities	50,340,566	43,546,329
Long-term debt and capital lease obligations, net of current portion	81,733,082	85,300,571
Estimated self-insurance liabilities	7,046,597	7,042,135
Accrued pension and other postretirement benefits	51,990,994	49,853,992
Estimated settlements due to third-party payers - net of current portion	361,253	-
Other liabilities	387,747	456,055
Total liabilities	191,860,239	186,199,082
Net assets:		
Unrestricted	54,654,325	59,586,141
Temporarily restricted	5,411,388	4,654,617
Permanently restricted	11,410,770	11,192,918
Total net assets	71,476,483	75,433,676
Total liabilities and net assets	\$ 263,336,722	\$ 261,632,758

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Net patient service revenues	\$ 262,817,891	\$ 261,403,024
Contributions	1,747,825	1,495,496
Other revenues	15,539,915	15,133,447
Net assets released from restrictions used for operations	<u>539,109</u>	<u>283,705</u>
Total revenues	<u>280,644,740</u>	<u>278,315,672</u>
Expenses:		
Salaries and wages	131,183,113	129,751,717
Fringe benefits	32,963,007	32,090,035
Supplies and other expenses	81,432,967	80,484,451
Provision for bad debts	11,481,356	12,652,590
Depreciation and amortization	12,555,983	12,231,958
Interest and financing costs	<u>4,489,986</u>	<u>3,985,420</u>
Total expenses	<u>274,106,412</u>	<u>271,196,171</u>
Income from operations	6,538,328	7,119,501
Non-operating losses:		
Other	(1,764,230)	(3,815,280)
Other-than-temporary impairment charge	<u>(21,273)</u>	<u>(88,168)</u>
Total non-operating losses	<u>(1,785,503)</u>	<u>(3,903,448)</u>
Excess of revenue over expenses	<u>\$ 4,752,825</u>	<u>\$ 3,216,053</u>

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 4,752,825	\$ 3,216,053
Change in unrealized appreciation on investments	2,213,159	1,352,330
Other changes	(786,524)	-
Net loss on interest rate swap agreement	(608,544)	(664,088)
Net assets released from restrictions for capital acquisitions	108,055	92,416
Pension and postretirement related adjustments	<u>(10,610,787)</u>	<u>(21,898,046)</u>
Change in unrestricted net assets	(4,931,816)	(17,901,335)
Temporarily restricted net assets:		
Contributions	847,706	425,622
Investment income	42,255	9,450
Net assets released from restrictions for operations	(539,109)	(283,705)
Net assets released from restrictions for capital acquisitions	(108,055)	(92,416)
Change in unrealized appreciation (depreciation) on investments	<u>513,974</u>	<u>(2,059,749)</u>
Change in temporarily restricted net assets	756,771	(2,000,798)
Permanently restricted net assets:		
Contributions	8,524	946
Change in beneficial interest in trust assets	<u>209,328</u>	<u>(163,719)</u>
Change in permanently restricted net assets	<u>217,852</u>	<u>(162,773)</u>
Change in net assets	(3,957,193)	(20,064,906)
Net assets, beginning of year	<u>75,433,676</u>	<u>95,498,582</u>
Net assets, end of year	<u>\$ 71,476,483</u>	<u>\$ 75,433,676</u>

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (3,957,193)	\$ (20,064,906)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,555,983	12,231,958
Provision for bad debts	11,481,356	12,652,590
Change in unrealized (appreciation) depreciation on investments	(2,727,133)	707,419
Other-than-temporary impairment charge	21,273	88,168
Change in beneficial interest in trust assets	(209,328)	163,719
Income on investments in joint ventures	(2,249,537)	(2,232,845)
Pension and postretirement related adjustments	10,610,787	21,898,046
Permanently restricted contributions	(8,524)	(946)
Change in pledges receivable	(47,464)	(193,989)
Loss on disposal of fixed assets	-	47,414
Loss on interest rate swap	608,544	664,088
Changes in assets and liabilities:		
Accounts receivable	(12,508,831)	(11,534,951)
Inventory	(693,765)	(293,536)
Prepaid expenses and other current assets	587,768	(2,220,059)
Goodwill and intangible assets - net	(1,170,448)	(284,226)
Other - net	924,824	1,820,677
Accounts payable and accrued expenses	(1,942,791)	(5,821,335)
Accrued pension and other postretirement benefits	(1,816,763)	2,691,475
Estimated settlements to/from third-party payers	1,065,746	(1,062,736)
Estimated self-insurance liabilities	4,462	505,471
Other current liabilities	(332,297)	548,861
Other liabilities	(68,308)	(63,769)
Net cash provided by operating activities	10,128,361	10,246,588
Cash flows from investing activities:		
Purchases of property and equipment	(7,394,458)	(14,399,764)
(Purchases) sales of investments, net	(8,607,237)	2,393,169
Investment in joint ventures	(1,235,348)	(644,879)
Distributions from joint ventures	1,153,189	1,189,666
Net cash used in investing activities	(16,083,854)	(11,461,808)
Cash flows from financing activities:		
Principal payments on long-term debt	(4,421,172)	(9,206,513)
Payments for bond issuance costs	-	(937,338)
Permanently restricted contributions	8,524	946
Proceeds from borrowings	1,905,000	20,290,000
Net cash (used in) provided by financing activities	(2,507,648)	10,147,095
Change in cash and cash equivalents	(8,463,141)	8,931,875
Cash and cash equivalents at beginning of year	28,001,547	19,069,672
Cash and cash equivalents at end of year	\$ 19,538,406	\$ 28,001,547
Cash paid for interest	\$ 4,995,959	\$ 4,324,887
Equipment acquisitions under capital lease arrangements	\$ 1,214,287	\$ 113,000

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 1 - Organization

Eastern Connecticut Health Network, Inc. (ECHN) and Subsidiaries (collectively, the Network) is a not-for-profit, locally governed health system created on September 12, 1995, through the merger of the corporate parents of Manchester Memorial Hospital and Rockville General Hospital, Inc. Its purpose is to provide a health care system for the communities it serves, with quality medical care at a reasonable cost; to foster an environment conducive to health and well-being, whether in the home or in the community; and to enable the health care system to expand to meet the future needs of its communities. ECHN, through its subsidiaries (or members), provides health care, health education, and community services to residents of more than 20 towns in eastern Connecticut, regardless of their ability to pay.

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

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

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

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

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

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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 1 - Organization (continued)

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of ECHN and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The assets of any member of the consolidated group may not be available to meet the obligations of other members in the group.

New Accounting Pronouncements - In June 2009, 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, 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 Network for the year ended September 30, 2009. The adoption of the Codification did not have an impact on the Network's consolidated financial condition or consolidated results of operations.

In September 2009, 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 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 Network has adopted this guidance effective with the issuance of its September 30, 2010 consolidated financial statements.

In January 2010, 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 also 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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

The disclosures of Level 3 investment rollforward of activity on a gross basis are effective for fiscal years beginning after December 15, 2010. The Network is currently evaluating the impact of these disclosures on its consolidated financial statements.

In March 2010, the Network 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. 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 11.

In December 2008, 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 9 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Network's consolidated financial statements for the year ended September 30, 2010.

In April 2009, 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 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 350, and FASB Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements*, found under FASB ASC 810, fully applicable to not-for-profit entities. These pronouncements will be effective for the Network on October 1, 2010. The Network is currently evaluating the impact on its consolidated financial position and consolidated results of operations from the adoption of these pronouncements.

In August 2010, 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 Network on October 1, 2011. The Network is currently evaluating the impact on its disclosures from the adoption of this pronouncement.

In August 2010, the FASB issued ASU 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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

This ASU is effective for the Network on October 1, 2011. The Network is currently evaluating the impact on its consolidated financial position and results of its consolidated operations from the adoption of this pronouncement.

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

The Network's significant estimates relate to the valuation of investments and interest rate swap agreements, allowance for doubtful patient accounts receivable, contractual allowances on patient accounts receivable 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.

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.

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

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

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

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

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Assets Whose Use is Limited - Assets whose use is limited primarily include cash and investments held by trustees under indenture agreements, cash and investments held for estimated self-insurance liabilities, Board designated investments, which include endowments 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 Network have been classified as current assets in the consolidated balance sheets as of September 30, 2010 and 2009.

The income earned on restricted funds is generally available for operations of the Network and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future annuity obligations, at which time the income is added to the appropriate restricted net asset balance. However, if a specific gift instrument explicitly requires the permanent reinvestment of appreciation, or a portion thereof, such reinvested amounts are classified within permanently restricted net assets. There were no gifts with reinvestment restrictions for the years ended September 30, 2010 and 2009.

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

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Other-Than-Temporary Impairments on Investments - The Network accounts for other than temporary impairments in accordance with FASB ASC 320-10 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other-than-temporary. The Network has recorded an impairment charge of \$21,273 and \$88,168 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 in the results of consolidated operations.

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

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

Depreciation expense was \$11,455,750 and \$10,806,942 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 \$355,739 and \$259,946 for the years ended September 30, 2010 and 2009, respectively, is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

Physician loan amortization totaling \$632,170 and \$922,308 for the years ended September 30, 2010 and 2009, respectively, is included within depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

Gifts of property and equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations about how long 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 Network has invested in several joint ventures with other area hospitals, which are accounted for under the equity method of accounting. These joint ventures as of September 30, 2010 and 2009 include the Network's investments in the following:

	<u>2010</u>	<u>Ownership Percentage</u>	<u>2009</u>	<u>Ownership Percentage</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 5,620,034	50 %	\$ 5,007,791	50 %
Tolland Imaging Center	59,168	70	-	-
Medical Malpractice Partners	89,156	50	-	-
Metro Wheelchair Service Inc.	197,998	50	263,066	50
Ambulance Service of Manchester, LLC	3,727,619	50	3,200,065	50
AETNA Ambulance Service Inc.	1,273,744	50	1,312,507	50
Visiting Nurse and Health Services of Connecticut Inc.	3,950,422	50	3,455,773	50
Evergreen Endoscopy Center, LLC	610,000	50	400,000	50
Haynes Street Medical Associates	572,885	20 / 30	160,921	20 / 30
Evergreen Imaging Center, LLC	302,247	50	216,735	50
Evergreen Medical Associates, LLC	311,207	20	317,427	20
Evergreen Medical Associates II, LLC	452,758	25	499,772	25
	<u>17,167,238</u>		<u>14,834,057</u>	
Total joint venture assets				
Other miscellaneous assets	<u>33,662</u>		<u>35,147</u>	
Total investments in joint ventures	<u>\$ 17,200,900</u>		<u>\$ 14,869,204</u>	

Distributions from these joint ventures totaled \$1,153,189 and \$1,189,666 for the years ended September 30, 2010 and 2009, respectively. ECHN's share of the earnings of the joint ventures is reported within other revenues and are \$2,249,537 and \$2,232,845 for the years ended September 30, 2010 and 2009, respectively.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated 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:

2010	Total Assets	Net Assets	Change in Net Assets	Excess (Deficiency) of Revenues Over Expenses
Northeast Regional Radiation Oncology				
Network, Inc.	\$ 15,112,267	\$ 11,300,966	\$ 1,285,382	\$ 1,307,271
Metro Wheelchair Service Inc.	\$ 526,202	\$ 395,996	\$ (1,661)	\$ 2,290
Ambulance Service of Manchester, LLC	\$ 8,408,808	\$ 7,455,328	\$ 486,824	\$ 1,065,845
AETNA Ambulance Service Inc.	\$ 3,508,883	\$ 2,547,488	\$ 372,207	\$ 111,924
Visiting Nurse and Health Services of				
Connecticut Inc.	\$ 11,135,638	\$ 7,900,844	\$ 1,096,373	\$ 867,959
Haynes Street Medical Associates	\$ 7,460,132	\$ 2,317,166	\$ (59,538)	\$ (59,538)
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
Evergreen Medical Associates, LLC	\$ 6,122,038	\$ 1,707,951	\$ 134,085	\$ 134,085
Evergreen Medical Associates II, LLC	\$ 6,255,905	\$ 1,542,171	\$ 25,840	\$ 25,840
Tolland Imaging Center	\$ 1,899,329	\$ 84,525	\$ 113,804	\$ 2,172
Medical Practice Partners	\$ 1,033,104	\$ 178,313	\$ 178,313	\$ (521,687)

2009	Total Assets	Net Assets (Deficit)	Change in Net Assets	Excess (Deficiency) of Revenues Over Expenses
Northeast Regional Radiation Oncology				
Network, Inc.	\$ 10,048,809	\$ 10,015,584	\$ 2,597,203	\$ 2,985,608
Metro Wheelchair Service Inc.	\$ 521,934	\$ 397,657	\$ (36,605)	\$ (36,605)
Ambulance Service of Manchester, LLC	\$ 7,679,299	\$ 6,968,504	\$ 360,655	\$ 2,560,655
AETNA Ambulance Service Inc.	\$ 3,209,315	\$ 2,175,181	\$ 186,756	\$ 186,756
Visiting Nurse and Health Services of				
Connecticut Inc.	\$ 10,518,838	\$ 6,804,471	\$ (358,168)	\$ (415,148)
Haynes Street Medical Associates	\$ 7,519,670	\$ 2,376,704	\$ (175,583)	\$ 16,748
Evergreen Endoscopy Center, LLC	\$ 2,360,421	\$ 474,712	\$ 474,712	\$ -
Evergreen Imaging Center, LLC	\$ 1,069,812	\$ 431,448	\$ 78,616	\$ 161,438
Evergreen Medical Associates, LLC	\$ 5,987,953	\$ 1,573,866	\$ (257,305)	\$ 212,890
Evergreen Medical Associates II, LLC	\$ 6,230,065	\$ 1,516,331	\$ (466,592)	\$ (24,104)
Tolland Imaging Center	\$ 2,212,891	\$ (29,279)	\$ (372,416)	\$ (543,137)

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Excess of Revenues Over Expenses - The consolidated statements of operations and changes in net assets include 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 the 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; 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 revenue and operating expenses. Operating revenues include net patient service revenues, grant income, and investment income. Peripheral or incidental transactions are reported as non-operating gains, losses, and expenses. Non-operating gains and losses include investment income and expenses related to property management, realized gains and losses on sales of investments, losses recognized on investments representing declines in value considered to be other-than-temporary in nature, 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 - MMH and RGH provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established and contractual rates. The hospitals do not pursue collection of amounts determined to qualify as charity care; as such, these amounts are not reported as revenue.

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

Contracts, laws, and regulations governing Medicare, Medicaid, Blue Cross, and the uncompensated care pool programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Network records adjustments in amounts accrued for estimated settlements related to prior years. There were no adjustments made in 2010. In 2009, the net effect of such adjustments was an increase in net patient service revenue of approximately \$273,000.

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

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

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

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

Other Payers - MMH and RGH have 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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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 Network has recognized \$383,247 and \$448,809, respectively, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the consolidated balance sheets within other liabilities.

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

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

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

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

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

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

Advertising Costs - The Network expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was \$1,349,773 and \$1,857,600 for the years ended September 30, 2010 and 2009, respectively, and is recorded in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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

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	\$ 5,738,489	\$ 5,738,489	\$ 10,539,687	\$ 10,539,687
Fixed income mutual funds	10,607,088	10,055,640	7,443,931	6,413,481
Equity mutual funds	<u>20,379,083</u>	<u>19,054,230</u>	<u>15,310,319</u>	<u>12,417,023</u>
Total	<u>\$ 36,724,660</u>	<u>\$ 34,848,359</u>	<u>\$ 33,293,937</u>	<u>\$ 29,370,191</u>
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 29,192	\$ 29,192	\$ 706,932	\$ 706,932
Fixed income mutual funds	2,037,729	2,117,580	390,112	391,342
Equity mutual funds	7,977,057	8,312,850	5,695,292	6,278,940
U.S. equities	601,552	691,841	779,033	866,126
Other investments	<u>42,314</u>	<u>42,314</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 10,687,844</u>	<u>\$ 11,193,777</u>	<u>\$ 7,571,369</u>	<u>\$ 8,243,340</u>
Investments held under bond indenture:				
Money market funds	\$ 6,167,612	\$ 6,167,612	\$ 6,225,115	\$ 6,224,537
Beneficial interest in trust assets	\$ 5,664,832	\$ 7,003,197	\$ 5,621,128	\$ 6,793,869
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	721,944	733,252	311,901	315,120
Equity mutual funds	<u>8,680,575</u>	<u>8,466,152</u>	<u>6,549,360</u>	<u>5,943,708</u>
Total	<u>\$ 9,455,716</u>	<u>\$ 9,253,473</u>	<u>\$ 6,914,438</u>	<u>\$ 6,312,056</u>
Total assets whose use is limited and investments	<u>\$ 68,700,664</u>	<u>\$ 68,466,418</u>	<u>\$ 59,625,987</u>	<u>\$ 56,943,993</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

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

Fair values and gross unrealized losses for all investment categories whose fair value is below its cost as of September 30, 2010 and 2009, 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>\$ 2,347,545</u>	<u>\$ (52,457)</u>	<u>\$ 21,830,628</u>	<u>\$ (3,021,184)</u>	<u>\$ 24,178,173</u>	<u>\$ (3,073,641)</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>
Fixed income mutual funds	\$ -	\$ -	\$ 20,044	\$ (299)	\$ 20,044	\$ (299)
Equity mutual funds	-	-	24,192,442	(4,143,263)	24,192,442	(4,143,263)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,212,486</u>	<u>\$ (4,143,562)</u>	<u>\$ 24,212,486</u>	<u>\$ (4,143,562)</u>

The Network's unrealized losses on its investments in mutual funds consist mostly of unrealized losses in the Vanguard Group and Dodge & Cox diversified equity mutual funds as of September 30, 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 two-percent to twenty-two percent and six-percent to twenty-seven percent less than cost as of September 30, 2010 and 2009, respectively) and recent market trends. Based on that evaluation and the Network's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Network does not consider those investments to be other-than-temporarily impaired as of September 30, 2010 and 2009.

Interest and dividend income on the assets whose use is limited totaled \$800,950 and \$1,381,560 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 \$1,536,034 were included within non-operating 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 Network has the ability to access.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 4 - Fair Value Measurements (continued)

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

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

2010	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 11,961,490	\$ -	\$ -	\$ 11,961,490
Short-term bond	27,872	-	-	27,872
Fixed income mutual funds	12,906,472	-	-	12,906,472
Equity mutual funds	35,833,232	-	-	35,833,232
U.S. equities	691,841	-	-	691,841
Other investments	42,314	-	-	42,314
 Beneficial interest in trusts	 -	 -	 7,003,197	 7,003,197
 Total assets at fair value	 <u>\$ 61,463,221</u>	 <u>\$ -</u>	 <u>\$ 7,003,197</u>	 <u>\$ 68,466,418</u>
Liabilities:				
Obligations under interest rate swap agreements	\$ -	\$ 3,381,315	\$ -	\$ 3,381,315
 Total liabilities at fair value	 <u>\$ -</u>	 <u>\$ 3,381,315</u>	 <u>\$ -</u>	 <u>\$ 3,381,315</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated 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	\$ 17,497,333	\$ -	\$ -	\$17,497,333
Short-term bond	27,051	-	-	27,051
Fixed income mutual funds	7,119,943	-	-	7,119,943
Equity mutual funds	24,639,671	-	-	24,639,671
U.S. equities	866,126	-	-	866,126
Beneficial interest in trusts	-	-	6,793,869	6,793,869
Total assets at fair value	<u>\$ 50,150,124</u>	<u>\$ -</u>	<u>\$ 6,793,869</u>	<u>\$56,943,993</u>
Liabilities:				
Obligations under interest rate swap agreements	\$ -	\$ 2,009,804	\$ -	\$ 2,009,804
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 2,009,804</u>	<u>\$ -</u>	<u>\$ 2,009,804</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 \$209,328 and (\$163,719), respectively.

The Network's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Network uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to money market funds, 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 classifications include 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 Network's beneficial interest in trusts. The value of the Network's assets is based on total fund values and the Network's corresponding beneficiary percentage.

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

The fair value of the Network's Series C Bonds is 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 Network's remaining long-term debt approximates its carrying value.

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

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

Note 5 - Other Assets

Other assets as of September 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Pledges receivable	\$ 518,037	\$ 470,573
Other receivable	718,818	513,867
Notes receivable	253,007	1,166,430
Unamortized bond issuance costs	2,634,649	2,801,221
Other	407,284	457,064
Total	<u>\$ 4,531,795</u>	<u>\$ 5,409,155</u>

As of September 30, 2010 and 2009, \$518,622 and \$383,195 of pledges receivables have been included within prepaid expenses and other current assets as management anticipates them to be collected within the next year. Pledges receivable are expected to be realized as follows:

<u>2010</u>	<u>Capital</u>	<u>All Other</u>	<u>Total</u>
In one year or less	\$ 137,854	\$ 387,875	\$ 525,729
Between one and five years	140,750	416,277	557,027
Less: discount for present value	<u>(7,602)</u>	<u>(38,495)</u>	<u>(46,097)</u>
Pledges receivable - net	<u>\$ 271,002</u>	<u>\$ 765,657</u>	<u>\$ 1,036,659</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
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Note 5 - Other Assets (continued)

<u>2009</u>	<u>Capital</u>	<u>All Other</u>	<u>Total</u>
In one year or less	\$ 135,236	\$ 252,959	\$ 388,195
Between one and five years	54,869	461,720	516,589
Less: discount for present value	<u>(10,350)</u>	<u>(35,666)</u>	<u>(46,016)</u>
 Pledges receivable - net	 <u>\$ 179,755</u>	 <u>\$ 679,013</u>	 <u>\$ 858,768</u>

Pledges receivable are reported at their net present value, discounted at rates from 1.15% to 4.90%. There was no allowance for uncollectible amounts recorded as of September 30, 2010 and 2009.

As of September 30, 2010 and 2009, unamortized bond issuance costs consist of the following:

	<u>2010</u>	<u>2009</u>
Deferred financing costs	\$ 3,489,572	\$ 3,470,573
Less accumulated amortization	<u>(854,923)</u>	<u>(669,352)</u>
	 <u>\$ 2,634,649</u>	 <u>\$ 2,801,221</u>

Note 6 - Property, Plant and Equipment

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

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 4,981,110	\$ 4,967,890
Buildings and building improvements	152,050,532	149,821,798
Fixed equipment	25,474,232	24,732,890
Movable equipment	<u>108,402,129</u>	<u>103,404,668</u>
	 290,908,003	 282,927,246
Less: accumulated depreciation and amortization	<u>(194,035,440)</u>	<u>(182,579,690)</u>
	 96,872,563	 100,347,556
Construction in progress	<u>487,299</u>	<u>959,544</u>
	 <u>\$ 97,359,862</u>	 <u>\$ 101,307,100</u>

For the years ended September 30, 2010 and 2009, the Network capitalized interest related to construction financed with tax-exempt debt of \$31,057 and \$220,316, respectively.

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Note 7 - Intangible Assets

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

<u>2010</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (901,224)	\$ 997,460
Goodwill	4,789,161	(458,123)	4,331,038
	<u>\$ 6,687,845</u>	<u>\$ (1,359,347)</u>	<u>\$ 5,328,498</u>
<u>2009</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (655,898)	\$ 1,242,786
Goodwill	3,294,024	(378,760)	2,915,264
	<u>\$ 5,192,708</u>	<u>\$ (1,034,658)</u>	<u>\$ 4,158,050</u>

Amortization expense related to intangible assets was \$324,689 and \$324,973 for the years ended September 30, 2010 and 2009, respectively.

The estimated amortization expense in each of the succeeding five fiscal years as of September 30, 2010 is as follows:

2011	\$ 325,390
2012	311,806
2013	202,822
2014	48,526
2015	43,726
	<u>\$ 932,270</u>

Note 8 - Estimated Self-Insurance Liabilities

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

The Network has a \$350,000 limit per occurrence for workers' compensation claims. The Network has employed independent actuaries to estimate the ultimate costs, if any, of workers' compensation claims. Accrued workers' compensation reserves have been discounted at 5% as of September 30, 2010 and 2009, and in management's opinion provide an adequate reserve for loss contingencies.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 8 - Estimated Self-Insurance Liabilities (continued)

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

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

The activity in the reserve for outstanding losses and loss-related expenses at ECHN for workers' compensation and malpractice claims as of September 30, 2010 and 2009 is as follows:

	2010	2009
Balance at beginning of year	\$ 10,124,991	\$ 9,275,065
Workers' compensation:		
Losses incurred related to:		
Current year	829,483	789,177
Prior year	223,362	601,776
Total incurred	1,052,845	1,390,953
Paid losses related to:		
Current year	(250,397)	(200,086)
Prior year	(804,448)	(898,867)
Total paid	(1,054,845)	(1,098,953)
Professional and general:		
Losses incurred related to:		
Current year	1,594,411	268,567
Prior year	703,034	1,282,636
Total incurred	2,297,445	1,551,203
Paid losses related to:		
Current year	(69,699)	(23,021)
Prior year	(2,422,669)	(970,256)
Total paid	(2,492,368)	(993,277)
Balance at end of year	\$ 9,928,068	\$ 10,124,991

Workers Compensation - The development on prior-year incurred losses increased by approximately \$223,000 and increased by approximately \$602,000 as of September 30, 2010 and 2009, respectively.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
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Note 8 - Estimated Self-Insurance Liabilities (continued)

Professional and General - The development on prior-year incurred losses increased by approximately \$703,000 and \$1,283,000 as of September 30, 2010 and 2009, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, included estimates of claims incurred but not reported. Approximately, \$2,882,000 and \$3,082,000 of the reserve as of September 30, 2010 and 2009, respectively, are included in other current liabilities with the balance of the reserve included in estimated self-insurance liabilities in the accompanying consolidated balance sheets as of September 30, 2010 and 2009, respectively.

Note 9 - Pension and Other Postretirement Benefits

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

Effective December 31, 2008, ECHN implemented a soft freeze on the defined benefit pension plan. All employees with age and service credits greater than 65 were given the option to stay in the defined benefit pension plan or freeze their defined benefits and enter into a defined contribution plan. All other employees were required to enter into the defined contribution plan. Under the defined contribution plan, ECHN contributes a match of 3% of employee salaries. This match is non-guaranteed for all employees except certain union workers. ECHN did not make contributions to the defined contribution plan in 2009.

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

Unrestricted net assets of the Network 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 Network as of September 30, 2009, include unrecognized actuarial gains of \$29,573,338 and \$630,532 related to the defined-benefit pension plan and the postretirement plan, respectively. 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 (the Act) 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. This reduced plan liabilities by approximately \$1,200,000 and \$1,300,000 as of September 30, 2010 and 2009, respectively.

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

The 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:

	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 amount 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>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 9 - 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:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
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
	<u>\$ 54,488,702</u>	<u>\$ 45,709,971</u>	<u>\$ 4,502,342</u>	<u>\$ 4,487,049</u>

The plans' 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):

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
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	<u>\$ 907,347</u>	<u>\$ 1,527,909</u>	<u>\$ 387,888</u>	<u>\$ 486,825</u>

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

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

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

The assumptions used to determine net periodic benefit cost of the pension and postretirement plans for the years ended September 30, 2010 and 2009, were as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement</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 re-measured as of November 30, 2008, due to the plan freeze.

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

	<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

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

The 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 that exceed a composite index consisting of the S&P 500, the Russell 2000 Index, Ryan Labs GIC Index, and the Barclays Capital Aggregate Bond Index in the same proportion as the fund's average commitment to equity and fixed income, respectively, and to rank in the top quartile of a broad universe of corporate pension plans of similar size.

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

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

Fair value methodologies used to assign plan assets to levels in accordance with ASC 820 are consistent with the inputs described in Note 4. The following table presents the investments of the defined benefit plan carried at fair value as of September 30, 2010 and 2009, by the valuation hierarchy.

2010	Level 1	Level 2	Level 3	Total
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>
2009	Level 1	Level 2	Level 3	Total
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>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 9 - 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 2010, ECHN anticipates contributing \$6,570,000 to the defined benefit pension plan.

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

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

The Network also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% - 50%, depending upon years of service, of contributions matched by the 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. Network contributions to the employee savings plan were \$1,405,861 and \$1,394,032 for the years ended September 30, 2010 and 2009, respectively.

Note 10 - Long-term Debt

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

	2010	2009
Connecticut Health and Educational Facilities Authority (CHEFA) Hospital Revenue Bonds, ECHN Series A Bonds, bearing interest at rates ranging from 4.375% to 6.5% - net of unamortized original issue discount of \$68,177 and \$75,401 for 2010 and 2009, respectively	\$ 11,351,823	\$ 12,304,599
CHEFA Hospital Variable Rate Demand Revenue Bonds, ECHN Series B Bonds, bearing interest at a variable rate, adjusted weekly	17,215,000	17,740,000
CHEFA Hospital Revenue Bonds, ECHN Series C Bonds, bearing interest ranging from 3.25% to 5.125% - net of unamortized original issue premium of \$412,894 and \$433,540 for 2010 and 2009, respectively	36,012,895	36,443,540
CHEFA Hospital Revenue Bonds, ECHN Series D Bonds bearing interest at a variable rate, adjusted weekly	14,897,999	15,162,000
Loan due to Chase Equipment Leasing Inc., face amount of \$4,922,567 due and payable in monthly principal and interest installments maturing on July 13, 2011, bearing interest at 4.14%	892,577	1,923,912
Promissory note payable to the Siemens Medical Solutions USA, face amount of \$1,609,306 due and payable in monthly principal and interest installments maturing on April 30, 2011, bearing interest at rates ranging from 5.72% to 6.02%	419,866	760,882
Loan due to Chase Equipment Leasing Inc., face amount of \$4,000,000 due and payable in monthly principal and interest installments maturing on March 20, 2013, and bearing interest at 3.24%	2,080,847	2,867,185

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 10 - Long-term Debt (continued)

	2010	2009
Promissory note payable to NewAlliance Bank due and payable in monthly principal and interest installments, maturing on June 1, 2012, bearing interest at a variable rate	55,165	90,833
Promissory note payable to Rockville Bank due and payable in monthly principal and interest installments maturing on July 1, 2025, bearing interest at 5.02%	926,921	964,804
Mortgage payable to Rockville Bank - \$176,000 for 20 years, bearing interest at 6.6% for the first five years, adjustable thereafter, every five years	158,391	163,622
Mortgage payable to Rockville Bank - \$236,800 for 15 years, bearing interest at 6.5% for the first five years, adjustable thereafter every five years	201,094	212,373
Revolving line of credit with Rockville Bank, bearing interest at a variable rate	1,905,000	-
Revolving line of credit with Sovereign Bank, bearing interest at a variable rate	5,000,000	5,000,000
Capital lease obligation	2,610,022	1,395,735
Total long-term debt and capital lease obligations	93,727,600	95,029,485
Less: current maturities	(11,994,518)	(9,728,914)
Total long-term debt and capital lease obligations - net of current portion	\$ 81,733,082	\$ 85,300,571

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

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 10 - Long-term Debt (continued)

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

On October 1, 2005, MMH, 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 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, MMH, RGH, EES, and ECHF (collectively, the Series D Obligated Group) entered into an agreement and open-ended mortgage with CHEFA in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network, Issue Series D (the Series D Bonds). A portion of the proceeds from the Series D Bonds, net of amounts used to establish required reserve accounts, 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 the ECHN, the agreement calls for a best-efforts remarketing attempt to reissue the bonds. ECHN has employed an independent third party to serve as the remarketing agent for the bonds. In the event that the remarketing agent cannot remarket the bonds, ECHN has entered into a direct pay letter of credit with Sovereign Bank for the principal balance, plus up to 52 days of interest on the Series B Bonds. The letter of credit agreement for the bonds expires in July 2014. The debt has been classified in accordance with the terms of the bonds in the accompanying consolidated 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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 10 - Long-term Debt (continued)

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

The annual maturities of the long-term debt and capital lease obligations in each of the succeeding five years and thereafter as of September 30, 2010 are as follows:

2011	\$ 11,994,518
2012	3,864,810
2013	3,535,606
2014	2,926,506
2015	2,832,562
Thereafter	<u>68,228,881</u>
	93,382,883
Plus - premium	<u>344,717</u>
	<u><u>\$ 93,727,600</u></u>

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, ECHN had \$5,000,000 outstanding on the line.

On October 28, 2009, ECHN entered into a \$2,000,000 unsecured line of credit agreement with Rockville Bank. The line of credit bears a variable interest rate equal to the prime rate plus .5%. As of September 30, 2010, ECHN had \$1,905,000 outstanding on the line.

Note 11 - Derivatives

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

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 11 - Derivatives (continued)

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

Termination risk represents the risk that the Network may be required to make a significant payment to the counterparty, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to the Network's ability to meet its 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 consolidated statements of operations and changes in net assets. The Network's portion of the swap agreement in force related to this strategy as of September 30, 2010 and 2009, and the liability and interest expense recognized by the Network 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 accounts payable and accrued expenses	\$ 1,020,740	\$ 725,000
Net interest expense recognized in non-operating losses	\$ 295,740	\$ 447,000

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

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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 11 - Derivatives (continued)

The remaining gain or loss on the derivative instrument, if any, is recognized currently in non-operating losses. The Network'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 accounts payable and accrued expenses	\$ 1,677,331	\$ 1,067,000
Unrealized loss recognized as a reduction of unrestricted net assets	\$ (609,000)	\$ (664,000)

The counterparty to the above cash flow hedge for the Series B Bonds filed for bankruptcy during 2008. The ability of Lehman Brothers to fulfill the contract is not certain as of September 30, 2010.

In May 2009, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$15,250,000 of its variable rate Series D Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.89%.

Changes in the fair value of this swap are recorded in the consolidated statements of operations and changes in net assets. The Network's portion of the swap agreement in force related to this strategy as of September 30, 2010 and 2009, and the liability and interest expense recognized by the Network are as follows:

	<u>2010</u>	<u>2009</u>
Notional amount of contract	\$ 14,898,000	\$ 15,250,000
Fair value of swap contract recognized in accounts payable and accrued expenses	\$ 683,244	\$ 217,804
Net interest expense recognized in non-operating losses	\$ 465,440	\$ 217,804

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

Note 12 - Lease Commitments

ECHN leases equipment under a capital lease agreement entered into on April 18, 2008, and which expires in 2015. The interest rate is fixed at 7%. The net carrying value of equipment under the capital lease was \$1,133,436 and \$1,490,239 as of September 30, 2010 and 2009, respectively. ECHN leases various office space and certain equipment under operating leases that expire in various years through fiscal year 2024. Certain leases may be renewed at the end of their term.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 12 - Lease Commitments (continued)

Future minimum payments under capital leases and non-cancelable operating leases as of September 30, 2010, consisted of the following:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2011	\$ 785,092	\$ 1,935,124
2012	735,576	1,285,052
2013	735,576	1,126,564
2014	413,094	1,117,635
2015	224,250	1,116,413
Thereafter	<u>-</u>	<u>6,668,632</u>
	2,893,588	<u>\$ 13,249,420</u>
Less: interest on capital lease	<u>283,566</u>	
Principal amount of capital lease	<u>\$ 2,610,022</u>	

Rent expense under operating and month-to-month leases was \$5,221,471 and \$4,777,410 for the years ended September 30, 2010 and 2009, respectively.

Note 13 - Concentrations of Credit Risk

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

	<u>2010</u>	<u>2009</u>
Self-pay	20 %	22 %
Medicare	30	32
Managed care	21	19
Commercial insurance	7	7
Medicaid	18	12
Other	<u>4</u>	<u>8</u>
	<u>100 %</u>	<u>100 %</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 14 - Net Patient Service Revenues

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

	<u>2010</u>	<u>2009</u>
Patient service revenues:		
Inpatient services	\$ 243,586,483	\$ 238,039,752
Outpatient services	<u>391,192,386</u>	<u>371,546,371</u>
Gross patient service revenues	<u>634,778,869</u>	609,586,123
Deductions - allowances	<u>(371,960,978)</u>	<u>(348,183,099)</u>
Net patient service revenues	<u>\$ 262,817,891</u>	<u>\$ 261,403,024</u>

Note 15 - Community Benefit

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

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

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

For the years ended September 30, 2010 and 2009, MMH and RGH granted total charity care of \$3,008,857 and \$1,969,726 respectively. Such amounts are determined based on charges foregone.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 16 - Functional Expenses

ECHN provides general health care services to residents within its geographical location. For the years ended September 30, 2010 and 2009, expenses relating to providing these services are as follows:

	<u>2010</u>	<u>2009</u>
Health care services	\$ 215,013,928	\$ 213,706,920
Fund raising	448,272	802,580
General and administrative	<u>58,644,212</u>	<u>56,686,671</u>
	<u>\$ 274,106,412</u>	<u>\$ 271,196,171</u>

Note 17 - Temporarily and Permanently Restricted Net Assets

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

	<u>2010</u>	<u>2009</u>
Departmental and endowment purposes	\$ 2,232,708	\$ 1,737,332
Capital campaign and pledges	<u>3,178,680</u>	<u>2,917,285</u>
	<u>\$ 5,411,388</u>	<u>\$ 4,654,617</u>

As of September 30, 2010 and 2009, permanently restricted net assets consist of the following:

	<u>2010</u>	<u>2009</u>
Beneficial interest in trust assets	\$ 7,003,197	\$ 6,793,869
Endowments restricted for:		
Other departmental purposes	3,928,926	3,920,402
Charity care	320,817	320,817
Special needs	151,579	151,579
Cancer research	<u>6,251</u>	<u>6,251</u>
	<u>\$ 11,410,770</u>	<u>\$ 11,192,918</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

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

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

<u>2010</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 4,374,729	\$ 4,407,573	\$ 8,782,302
Board-designated endowment funds	<u>14,030,714</u>	<u>-</u>	<u>-</u>	<u>14,030,714</u>
Net assets, September 30, 2010	<u>\$ 14,030,714</u>	<u>\$ 4,374,729</u>	<u>\$ 4,407,573</u>	<u>\$ 22,813,016</u>
<u>2009</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,795,849	\$ 4,399,049	\$ 8,194,898
Board-designated endowment funds	<u>14,921,077</u>	<u>-</u>	<u>-</u>	<u>14,921,077</u>
Net assets, September 30, 2009	<u>\$ 14,921,077</u>	<u>\$ 3,795,849</u>	<u>\$ 4,399,049</u>	<u>\$ 23,115,975</u>

The Network's endowments consist of multiple funds established for a variety of purposes. The endowments include both donor-restricted endowment funds, funds designated by the Board of Directors to function as endowments and assets held in trust by others. 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 Network has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Network.

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

The Network has adopted investment and spending policies for endowment assets that attempt to provide a reasonably stable and predictable stream of earnings to support the operations of the endowments and to preserve and enhance over time the real value of the endowment assets. Under this policy, as approved by the Board of 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.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

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

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

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

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

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

<u>2010</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, September 30, 2009	\$ 14,921,077	\$ 3,795,849	\$ 4,399,049	\$ 23,115,975
Interest income and dividends	-	42,255	-	42,255
Unrealized appreciation on investments	-	513,974	-	513,974
Appropriations for expenditure	-	(647,165)	-	(647,165)
Contributions and other	(890,363)	669,816	8,524	(212,023)
Net assets, September 30, 2010	<u>\$ 14,030,714</u>	<u>\$ 4,374,729</u>	<u>\$ 4,407,573</u>	<u>\$ 22,813,016</u>
<u>2009</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, September 30, 2008	\$ 13,595,160	\$ 5,792,248	\$ 4,398,103	\$ 23,785,511
Interest income and dividends	536,727	30,175	-	566,902
Unrealized appreciation on investments	1,713,536	(2,059,749)	-	(346,213)
Appropriations for expenditure	-	(376,121)	-	(376,121)
Realized losses on investments	(924,346)	(16,326)	-	(940,672)
Contributions	-	425,622	946	426,568
Net assets, September 30, 2009	<u>\$ 14,921,077</u>	<u>\$ 3,795,849</u>	<u>\$ 4,399,049</u>	<u>\$ 23,115,975</u>

Eastern Connecticut Health Network, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

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

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

Note 18 - Commitments and Contingencies

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

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

Corporate Guaranty - In 2007, the Network was established as a guarantor of Sports Medicine Partners, Orthopedics & Rehabilitation Therapy, P.C. (Sports), a Friendly PC, allowing Sports to borrow \$800,000 from North Fork Equipment Leasing for equipment and improvements to the space at Evergreen Walk. Under the terms of the corporate guaranty, which is for 60 months and will expire in June 2012, the Network is responsible for payment of any and all debts owed by Sports to North Fork Equipment Leasing. There was no collateral pledged as part of the corporate guaranty and \$278,210 and \$411,468 of the original \$800,000 loan from North Fork Equipment Leasing was outstanding as of September 30, 2010 and 2009, respectively.

Note 19 - Statutory Capital and Surplus

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

Statutory capital and surplus as of September 30, 2010, was \$3,736,081, with a minimum amount required to be maintained by CHIC of \$120,000. ECHN reports all of CHIC's investments as investments held in trust for estimated self-insurance liabilities in the accompanying consolidated balance sheets.

CHIC's Board of Directors has recommended that equity of \$973,000 be retained to pay claims in the event of adverse development. Distribution of dividends is subject to approval by the Board of Directors. No dividends were declared or paid during the years ended September 30, 2010 and 2009.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2010

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Assets															
Current assets:															
Cash and cash equivalents	\$ 6,996,083	\$ 5,837,411	\$ 1,175,799	\$ -	\$ 14,009,293	\$ 2,785,632	\$ -	\$ 16,794,925	\$ 485,610	\$ 382,345	\$ 221,221	\$ 360,160	\$ 1,294,145	\$ -	\$ 19,538,406
Current portion of assets whose use is limited	694,111	256,662	219,888	-	1,170,661	-	-	1,170,661	-	-	-	-	52,197	-	1,222,858
Accounts receivable - net	24,506,769	9,664,890	1,842,557	-	36,014,216	-	-	36,014,216	2,975,050	-	184,904	123,993	-	-	39,298,163
Inventory	2,570,091	1,499,178	46,006	-	4,115,275	-	-	4,115,275	-	-	-	-	-	-	4,115,275
Due from affiliated entities	24,151,431	16,826,275	-	(15,212,409)	25,765,297	1,147,181	-	26,912,478	8,091,833	-	3,665	1,367,880	-	(36,375,856)	-
Current portion of estimated settlements due from third-party payers	359,760	361,514	-	-	721,274	-	-	721,274	-	-	-	-	-	-	721,274
Prepaid expenses and other current assets	1,489,763	229,941	307,134	-	2,026,838	548,850	-	2,575,688	1,255,424	14,259	14,971	1,333,934	20,523	-	5,214,799
Total current assets	60,768,008	34,675,871	3,591,384	(15,212,409)	83,822,854	4,481,663	-	88,304,517	12,807,917	396,604	424,761	3,185,967	1,366,865	(36,375,856)	70,110,775
Assets whose use is limited - net of current portion:															
Donor restricted investments	1,686,438	2,071,703	-	-	3,758,141	5,024,161	-	8,782,302	-	-	-	-	-	-	8,782,302
Board designated investments	6,878,047	14,649,856	-	-	21,527,903	4,538,154	-	26,066,057	-	-	-	-	-	-	26,066,057
Investments held in trust for estimated self-insurance liabilities	2,651,750	-	-	-	2,651,750	-	-	2,651,750	-	-	-	-	8,542,027	-	11,193,777
Beneficial interest in trust assets	5,044,846	1,958,351	-	-	7,003,197	-	-	7,003,197	-	-	-	-	-	-	7,003,197
Investments held under bond indentures	3,261,508	932,060	751,186	-	4,944,754	-	-	4,944,754	-	-	-	-	-	-	4,944,754
Total assets whose use is limited	19,522,589	19,611,970	751,186	-	39,885,745	9,562,315	-	49,448,060	-	-	-	-	8,542,027	-	57,990,087
Interest in net assets of ECHN CHF, Inc.	4,852,903	2,673,866	324,101	-	7,850,870	-	(7,850,870)	-	-	-	567,876	3,837,466	-	(4,405,342)	-
Investments	6,905,928	-	1,959,555	-	8,865,483	-	-	8,865,483	-	-	387,990	3,374,960	-	(3,374,960)	9,253,473
Investments in joint ventures	3,825,778	2,854,826	-	-	6,680,604	-	-	6,680,604	-	1,349,513	-	9,170,783	-	-	17,200,900
Property, plant and equipment - net	51,761,983	32,803,719	8,801,427	-	93,367,129	-	-	93,367,129	1,753,381	1,495,574	280,548	463,230	-	-	97,359,862
Other assets:															
Estimated settlements due from third-party payers - net of current portion	546,577	1,014,755	-	-	1,561,332	-	-	1,561,332	-	-	-	-	-	-	1,561,332
Goodwill and intangible assets - net	180,000	180,000	637,460	-	997,460	-	-	997,460	124,277	-	-	4,206,761	-	-	5,328,498
Other - net	2,278,502	673,671	400,787	-	3,352,960	518,037	-	3,870,997	-	-	507	253,007	407,284	-	4,531,795
Total other assets	3,005,079	1,868,426	1,038,247	-	5,911,752	518,037	-	6,429,789	124,277	-	507	4,459,768	407,284	-	11,421,625
Total assets	\$ 150,642,268	\$ 94,488,678	\$ 16,465,900	\$ (15,212,409)	\$ 246,384,437	\$ 14,562,015	\$ (7,850,870)	\$ 253,095,582	\$ 14,685,575	\$ 3,241,691	\$ 1,661,682	\$ 24,492,174	\$ 10,316,176	\$ (44,156,158)	\$ 263,336,722

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2010

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Groups	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Liabilities and Net Assets															
Current liabilities:															
Accounts payable and accrued expenses	\$ 16,747,968	\$ 6,637,694	\$ 1,010,396	\$ -	\$ 24,396,058	\$ 104,829	\$ -	\$ 24,500,887	\$ 1,321,159	\$ 35,833	\$ 47,176	\$ 246,908	\$ 119,743	\$ -	\$ 26,271,706
Current portion of long-term debt	7,848,007	1,354,327	474,465	-	9,676,799	-	-	9,676,799	-	17,624	89,498	2,210,597	-	-	11,994,518
Due to affiliates	14,838,492	8,798,644	398,944	(15,212,409)	8,823,671	549,375	-	9,373,046	13,392,107	2,418,843	29,936	13,863,400	-	(39,077,332)	-
Current portion of estimated settlements due to third-party payers	281,399	142,494	-	-	423,893	-	-	423,893	-	-	-	-	-	-	423,893
Current portion of accrued pension and postretirement benefits	5,438,343	1,561,707	-	-	7,000,050	-	-	7,000,050	-	-	-	-	-	-	7,000,050
Other current liabilities	1,505,852	509,896	183,662	-	2,199,410	-	-	2,199,410	-	-	-	-	2,450,989	-	4,650,399
Total current liabilities	46,660,061	19,004,762	2,067,467	(15,212,409)	52,519,881	654,204	-	53,174,085	14,713,266	2,472,300	166,610	16,320,905	2,570,732	(39,077,332)	50,340,566
Long-term debt and capital lease obligations net of current portion															
Estimated self-insurance liabilities	46,420,675	23,896,681	9,893,664	-	80,211,020	-	-	80,211,020	-	341,862	-	1,180,200	-	-	81,733,082
Accrued pension and postretirement benefits	2,344,478	574,030	118,726	-	3,037,234	-	-	3,037,234	-	-	-	-	4,009,363	-	7,046,597
Estimated settlements due to third-party payers - net of current portion	39,765,402	12,225,592	-	-	51,990,994	-	-	51,990,994	-	-	-	-	-	-	51,990,994
Other liabilities	-	-	361,253	-	361,253	-	-	361,253	-	-	-	-	-	-	361,253
Other liabilities	260,265	122,982	-	-	383,247	4,500	-	387,747	-	-	-	-	-	-	387,747
Total liabilities	135,450,881	55,824,047	12,441,110	(15,212,409)	188,503,629	658,704	-	189,162,333	14,713,266	2,814,162	166,610	17,501,105	6,580,095	(39,077,332)	191,860,239
Net assets (deficit):															
Unrestricted	5,363,698	33,744,284	3,795,828	-	42,903,810	1,647,100	-	44,550,910	(27,691)	427,529	1,488,026	5,152,954	3,736,081	(673,484)	54,654,325
Temporarily restricted	1,904,133	1,433,133	228,962	-	3,566,228	10,688,899	(6,283,558)	7,971,569	-	-	7,046	1,838,115	-	(4,405,342)	5,411,388
Permanently restricted	7,923,556	3,487,214	-	-	11,410,770	1,567,312	(1,567,312)	11,410,770	-	-	-	-	-	-	11,410,770
Total net assets (deficit)	15,191,387	38,664,631	4,024,790	-	57,880,808	13,903,311	(7,850,870)	63,933,249	(27,691)	427,529	1,495,072	6,991,069	3,736,081	(5,078,826)	71,476,483
Total liabilities and net assets	\$ 150,642,268	\$ 94,488,678	\$ 16,465,900	\$ (15,212,409)	\$ 246,384,437	\$ 14,562,015	\$ (7,850,870)	\$ 253,095,582	\$ 14,685,575	\$ 3,241,691	\$ 1,661,682	\$ 24,492,174	\$ 10,316,176	\$ (44,156,158)	\$ 263,336,722

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2010

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Revenues:															
Net patient service revenues	\$ 166,310,748	\$ 64,174,022	\$ 14,419,386	\$ -	\$ 244,904,156	\$ -	\$ -	\$ 244,904,156	\$ 16,458,025	\$ -	\$ 1,455,710	\$ -	\$ -	\$ -	\$ 262,817,891
Contributions	576,939	785,566	16,825	-	1,379,330	-	-	1,379,330	-	-	50,379	318,116	-	-	1,747,825
Other revenues	9,770,550	4,457,055	406,089	(1,166,939)	13,466,755	765,797	(748,014)	13,484,538	7,156,904	564,554	84,724	3,197,213	2,778,188	(11,726,206)	15,539,915
Net assets released from restrictions used for operations	100,773	23,672	8,208	-	132,653	401,377	-	534,030	-	-	3,392	1,687	-	-	539,109
Total revenues	176,759,010	69,440,315	14,850,508	(1,166,939)	259,882,894	1,167,174	(748,014)	260,302,054	23,614,929	564,554	1,594,205	3,517,016	2,778,188	(11,726,206)	280,644,740
Expenses:															
Salaries and wages	75,116,354	29,677,566	6,996,743	-	111,790,663	472,610	(302,885)	111,960,388	18,768,392	-	624,051	10,008,343	-	(10,178,061)	131,183,113
Fringe benefits	20,990,484	7,309,138	2,090,479	-	30,390,101	118,096	(369,557)	30,138,640	2,895,734	-	135,721	2,239,929	-	(2,447,017)	32,963,007
Supplies and other expenses	57,220,650	19,963,391	4,097,295	(1,166,939)	80,114,397	576,468	(75,572)	80,615,293	4,746,988	537,674	437,207	(10,279,400)	2,520,620	2,854,585	81,432,967
Provision for bad debts	6,712,599	3,601,814	50,000	-	10,364,413	-	-	10,364,413	1,106,570	-	10,373	-	-	-	11,481,356
Depreciation and amortization	7,666,028	3,824,200	534,476	-	12,024,704	-	-	12,024,704	322,080	92,049	117,150	632,170	-	(632,170)	12,555,983
Interest and financing costs	2,528,633	1,507,868	551,342	-	4,587,843	-	-	4,587,843	21,861	24,223	6,059	26,269	-	(176,269)	4,489,986
Total expenses	170,234,748	65,883,977	14,320,335	(1,166,939)	249,272,121	1,167,174	(748,014)	249,691,281	27,861,625	653,946	1,330,561	2,627,311	2,520,620	(10,578,932)	274,106,412
Income (loss) from operations	6,524,262	3,556,338	530,173	-	10,610,773	-	-	10,610,773	(4,246,696)	(89,392)	263,644	889,705	257,568	(1,147,274)	6,538,328
Non-operating losses:															
Other	(827,875)	(461,446)	(150,487)	-	(1,439,808)	-	-	(1,439,808)	-	(323,532)	(890)	(889,705)	-	889,705	(1,764,230)
Other-than-temporary impairment charge	(14,253)	(7,020)	-	-	(21,273)	-	-	(21,273)	-	-	-	-	(21,273)	21,273	(21,273)
Total non-operating losses	(842,128)	(468,466)	(150,487)	-	(1,461,081)	-	-	(1,461,081)	-	(323,532)	(890)	(889,705)	(21,273)	910,978	(1,785,503)
Excess (deficiency) of revenues over expenses	\$ 5,682,134	\$ 3,087,872	\$ 379,686	\$ -	\$ 9,149,692	\$ -	\$ -	\$ 9,149,692	\$ (4,246,696)	\$ (412,924)	\$ 262,754	\$ -	\$ 236,295	\$ (236,296)	\$ 4,752,825

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (continued)
For the Year Ended September 30, 2010

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Unrestricted net assets:															
Excess (deficiency) of revenues over expenses	\$ 5,682,134	\$ 3,087,872	\$ 379,686	\$ -	\$ 9,149,692	\$ -	\$ -	\$ 9,149,692	\$ (4,246,696)	\$ (412,924)	\$ 262,754	\$ -	\$ 236,295	\$ (236,296)	\$ 4,752,825
Change in unrealized appreciation (depreciation) on investments	990,779	1,009,901	(35,754)	-	1,964,926	13,073	-	1,977,999	-	-	15,939	97,381	121,840	-	2,213,159
Other changes	-	(8,524)	-	-	(8,524)	-	-	(8,524)	(778,000)	-	-	-	-	-	(786,524)
Net loss on interest rate swap agreement	(61,076)	(549,680)	-	-	(610,756)	-	-	(610,756)	-	-	-	-	-	2,212	(608,544)
Net assets released from restrictions for capital acquisitions	17,830	73,957	16,268	-	108,055	-	-	108,055	-	-	-	-	-	-	108,055
Operating subsidy to ECHN Health Services, Inc.	(5,024,696)	-	-	-	(5,024,696)	-	-	(5,024,696)	5,024,696	-	-	-	-	-	-
Transfers (to) from other affiliates - net	43,741	24,554	3,218	-	71,513	(70,458)	-	1,055	-	-	830	327	-	(2,212)	-
Pension and postretirement related adjustments	(9,183,064)	(1,427,723)	-	-	(10,610,787)	-	-	(10,610,787)	-	-	-	-	-	-	(10,610,787)
Change in unrestricted net assets	(7,534,352)	2,210,357	363,418	-	(4,960,577)	(57,385)	-	(5,017,962)	-	(412,924)	279,523	97,708	358,135	(236,296)	(4,931,816)
Temporarily restricted net assets:															
Contributions	675,875	9,274	17,262	-	702,411	2,567,486	(1,965,281)	1,304,616	-	-	4,951	224,183	-	(686,044)	847,706
Investment income	16,121	1,858	-	-	17,979	24,276	-	42,255	-	-	-	-	-	-	42,255
Net assets released from restrictions for operations	(100,773)	(23,672)	(8,208)	-	(132,653)	(559,956)	158,579	(534,030)	-	-	(3,392)	(1,687)	-	-	(539,109)
Net assets released from restrictions for capital acquisitions	(17,830)	(73,957)	(16,268)	-	(108,055)	(108,055)	108,055	(108,055)	-	-	-	-	-	-	(108,055)
Change in unrealized appreciation on investments	53,036	-	-	-	53,036	460,313	-	513,349	-	-	625	-	-	-	513,974
Transfers from affiliates	14,881	17,266	-	-	32,147	-	-	32,147	-	-	-	(32,771)	-	624	-
Change in temporarily restricted net assets	641,310	(69,231)	(7,214)	-	564,865	2,384,064	(1,698,647)	1,250,282	-	-	2,184	189,725	-	(685,420)	756,771
Permanently restricted net assets:															
Contributions	-	8,524	-	-	8,524	-	-	8,524	-	-	-	-	-	-	8,524
Change in beneficial interest in trust assets	156,562	52,766	-	-	209,328	-	-	209,328	-	-	-	-	-	-	209,328
Change in permanently restricted net assets	156,562	61,290	-	-	217,852	-	-	217,852	-	-	-	-	-	-	217,852
Change in net assets	(6,736,480)	2,202,416	356,204	-	(4,177,860)	2,326,679	(1,698,647)	(3,549,828)	-	(412,924)	281,707	287,433	358,135	(921,716)	(3,957,193)
Net assets (deficiency), beginning of year	21,927,867	36,462,215	3,668,586	-	62,058,668	11,576,632	(6,152,223)	67,483,077	(27,691)	840,453	1,213,365	6,703,636	3,377,946	(4,157,110)	75,433,676
Net assets (deficiency), end of year	\$ 15,191,387	\$ 38,664,631	\$ 4,024,790	\$ -	\$ 57,880,808	\$ 13,903,311	\$ (7,850,870)	\$ 63,933,249	\$ (27,691)	\$ 427,529	\$ 1,495,072	\$ 6,991,069	\$ 3,736,081	\$ (5,078,826)	\$ 71,476,483

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2009

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Assets															
Current assets:															
Cash and cash equivalents	\$ 10,660,990	\$ 5,978,582	\$ 2,318,929	\$ -	\$ 18,958,501	\$ 3,697,583	\$ -	\$ 22,656,084	\$ 542,777	\$ 284,209	\$ 524,308	\$ 97,110	\$ 3,897,059	\$ -	\$ 28,001,547
Current portion of assets whose use is limited	794,015	273,342	209,973	-	1,277,330	-	-	1,277,330	-	-	-	-	-	-	1,277,330
Accounts receivable - net	24,557,822	9,336,815	1,406,219	-	35,300,856	-	-	35,300,856	2,690,976	-	126,649	46,576	105,631	-	38,270,688
Inventory	2,215,756	1,150,786	54,968	-	3,421,510	-	-	3,421,510	-	-	-	-	-	-	3,421,510
Due from affiliated entities	21,442,283	11,783,388	959,905	(11,486,584)	22,698,992	1,183,792	-	23,882,784	6,311,997	-	3,894	1,668,697	-	(31,867,372)	-
Current portion of estimated settlements due from third-party payers	514,722	976,532	-	-	1,491,254	-	-	1,491,254	-	-	-	-	-	-	1,491,254
Prepaid expenses and other current assets	486,845	1,181,196	13,822	-	1,681,863	410,345	-	2,092,208	1,989,587	20,790	32,123	1,625,857	42,002	-	5,802,567
Total current assets	60,672,433	30,680,641	4,963,816	(11,486,584)	84,830,306	5,291,720	-	90,122,026	11,535,337	304,999	686,974	3,438,240	4,044,692	(31,867,372)	78,264,896
Assets whose use is limited - net of current portion:															
Donor restricted investments	1,617,169	2,061,431	-	-	3,678,600	4,516,298	-	8,194,898	-	-	-	-	-	-	8,194,898
Board designated investments	6,219,994	13,525,435	-	-	19,745,429	1,429,864	-	21,175,293	-	-	-	-	-	-	21,175,293
Investments held in trust for estimated self-insurance liabilities	2,519,181	-	-	-	2,519,181	-	-	2,519,181	-	-	-	-	5,724,159	-	8,243,340
Beneficial interest in trust assets	4,888,284	1,905,585	-	-	6,793,869	-	-	6,793,869	-	-	-	-	-	-	6,793,869
Investments held under bond indentures	3,263,355	932,370	751,482	-	4,947,207	-	-	4,947,207	-	-	-	-	-	-	4,947,207
Total assets whose use is limited	18,507,983	18,424,821	751,482	-	37,684,286	5,946,162	-	43,630,448	-	-	-	-	5,724,159	-	49,354,607
Interest in net assets of ECHN CHF, Inc.	3,828,998	2,008,301	314,924	-	6,152,223	-	(6,152,223)	-	-	-	487,680	3,232,243	-	(3,719,923)	-
Investments	6,312,056	-	-	-	6,312,056	-	-	6,312,056	-	-	-	3,138,665	-	(3,138,665)	6,312,056
Investments in joint ventures	3,120,631	2,503,896	-	-	5,624,527	-	-	5,624,527	-	992,266	-	8,252,411	-	-	14,869,204
Property, plant and equipment - net	54,573,162	35,109,870	9,166,029	-	98,849,061	-	-	98,849,061	474,815	1,587,623	395,601	-	-	-	101,307,100
Other assets:															
Estimated settlements due from third party payers - net of current portion	805,860	1,151,830	-	-	1,957,690	-	-	1,957,690	-	-	-	-	-	-	1,957,690
Goodwill and intangible assets - net	288,000	288,000	666,786	-	1,242,786	-	-	1,242,786	209,640	-	-	2,705,624	-	-	4,158,050
Other - net	2,499,251	733,684	423,423	-	3,656,358	470,573	-	4,126,931	-	354,648	1,146	926,430	-	-	5,409,155
Total other assets	3,593,111	2,173,514	1,090,209	-	6,856,834	470,573	-	7,327,407	209,640	354,648	1,146	3,632,054	-	-	11,524,895
Total assets	\$ 150,608,374	\$ 90,901,043	\$ 16,286,460	\$ (11,486,584)	\$ 246,309,293	\$ 11,708,455	\$ (6,152,223)	\$ 251,865,525	\$ 12,219,792	\$ 3,239,536	\$ 1,571,401	\$ 21,693,613	\$ 9,768,851	\$ (38,725,960)	\$ 261,632,758

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2009

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Liabilities and Net Assets															
Current liabilities:															
Accounts payable and accrued expenses	\$ 17,435,198	\$ 6,774,322	\$ 1,066,777	\$ -	\$ 25,276,297	\$ 124,578	\$ -	\$ 25,400,875	\$ 1,218,418	\$ 38,834	\$ 84,367	\$ 770,545	\$ 92,914	\$ -	\$ 27,605,953
Current portion of long-term debt and capital lease obligations	7,816,773	1,341,414	450,793	-	9,608,980	-	-	9,608,980	-	16,512	103,422	-	-	-	9,728,914
Due to affiliated entities	11,579,429	7,047,172	115,334	(11,486,584)	7,255,351	-	-	7,255,351	11,029,065	1,984,252	80,750	14,219,432	-	(34,568,850)	-
Current portion of estimated settlements due to third-party payers	251,398	343,065	291,275	-	885,738	-	-	885,738	-	-	-	-	-	-	885,738
Current portion of accrued pension and postretirement benefits	208,155	134,873	-	-	343,028	-	-	343,028	-	-	-	-	-	-	343,028
Other current liabilities	2,248,275	374,000	224,565	-	2,846,840	-	-	2,846,840	-	-	-	-	2,135,856	-	4,982,696
Total current liabilities	39,539,228	16,014,846	2,148,744	(11,486,584)	46,216,234	124,578	-	46,340,812	12,247,483	2,039,598	268,539	14,989,977	2,228,770	(34,568,850)	43,546,329
Long-term debt and capital lease obligations net of current portion															
Estimated self-insurance liabilities	49,230,702	25,255,757	10,365,130	-	84,851,589	-	-	84,851,589	-	359,485	89,497	-	-	-	85,300,571
Accrued pension and postretirement benefits	2,216,390	559,610	104,000	-	2,880,000	-	-	2,880,000	-	-	-	-	4,162,135	-	7,042,135
Estimated settlements due to third-party payers -net of current portion	37,414,390	12,439,602	-	-	49,853,992	-	-	49,853,992	-	-	-	-	-	-	49,853,992
Other liabilities	279,797	169,013	-	-	448,810	7,245	-	456,055	-	-	-	-	-	-	456,055
Total liabilities	128,680,507	54,438,828	12,617,874	(11,486,584)	184,250,625	131,823	-	184,382,448	12,247,483	2,399,083	358,036	14,989,977	6,390,905	(34,568,850)	186,199,082
Net assets (deficit):															
Unrestricted	12,898,050	31,533,927	3,432,410	-	47,864,387	1,704,485	-	49,568,872	(27,691)	840,453	1,208,503	5,055,246	3,377,946	(437,188)	59,586,141
Temporarily restricted	1,262,823	1,502,364	236,176	-	3,001,363	8,304,835	(4,584,911)	6,721,287	-	-	4,862	1,648,390	-	(3,719,922)	4,654,617
Permanently restricted	7,766,994	3,425,924	-	-	11,192,918	1,567,312	(1,567,312)	11,192,918	-	-	-	-	-	-	11,192,918
Total net assets (deficit)	21,927,867	36,462,215	3,668,586	-	62,058,668	11,576,632	(6,152,223)	67,483,077	(27,691)	840,453	1,213,365	6,703,636	3,377,946	(4,157,110)	75,433,676
Total liabilities and net assets	\$ 150,608,374	\$ 90,901,043	\$ 16,286,460	\$ (11,486,584)	\$ 246,309,293	\$ 11,708,455	\$ (6,152,223)	\$ 251,865,525	\$ 12,219,792	\$ 3,239,536	\$ 1,571,401	\$ 21,693,613	\$ 9,768,851	\$ (38,725,960)	\$ 261,632,758

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2009

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Revenues:															
Net patient service revenues	\$ 167,264,862	\$ 64,940,252	\$ 12,163,163	\$ -	\$ 244,368,277	\$ -	\$ -	\$ 244,368,277	\$ 15,553,633	\$ -	\$ 1,481,114	\$ -	\$ -	\$ -	\$ 261,403,024
Contributions	506,416	365,114	34,691	-	906,221	-	-	906,221	-	-	110,673	478,602	-	-	1,495,496
Other revenues	9,559,338	4,639,363	125,531	(783,330)	13,540,902	1,241,011	(817,098)	13,964,815	6,282,598	604,418	42,997	2,309,242	2,758,657	(10,829,280)	15,133,447
Net assets released from restrictions used for operations	99,591	36,472	34,924	-	170,987	25,306	-	196,293	-	-	10,607	76,805	-	-	283,705
Total revenues	177,430,207	69,981,201	12,358,309	(783,330)	258,986,387	1,266,317	(817,098)	259,435,606	21,836,231	604,418	1,645,391	2,864,649	2,758,657	(10,829,280)	278,315,672
Expenses:															
Salaries and wages	75,094,805	30,097,396	6,220,006	-	111,412,207	624,973	(403,238)	111,633,942	17,662,652	-	676,856	10,865,440	-	(11,087,173)	129,751,717
Fringe benefits	20,465,024	7,053,677	1,712,170	-	29,230,871	155,060	(100,049)	29,285,882	2,730,067	-	129,097	2,259,207	-	(2,314,218)	32,090,035
Supplies and other expenses	56,092,399	19,953,479	3,390,465	(783,330)	78,653,013	486,284	(313,811)	78,825,486	4,655,827	535,115	444,764	(11,319,632)	2,038,048	5,304,843	80,484,451
Provision for bad debts	7,895,004	3,876,624	40,000	-	11,811,628	-	-	11,811,628	830,477	-	10,485	-	-	-	12,652,590
Depreciation and amortization	8,204,355	3,982,798	439,631	-	12,626,784	-	-	12,626,784	320,445	87,948	119,089	-	-	(922,308)	12,231,958
Interest and financing costs	2,265,597	1,275,285	368,119	-	3,909,001	-	-	3,909,001	71,020	25,404	10,176	253	-	(30,434)	3,985,420
Total expenses	170,017,184	66,239,259	12,170,391	(783,330)	247,643,504	1,266,317	(817,098)	248,092,723	26,270,488	648,467	1,390,467	1,805,268	2,038,048	(9,049,290)	271,196,171
Income (loss) from operations	7,413,023	3,741,942	187,918	-	11,342,883	-	-	11,342,883	(4,434,257)	(44,049)	254,924	1,059,381	720,609	(1,779,990)	7,119,501
Non-operating losses:															
Other	(1,408,380)	(2,351,702)	(54,959)	-	(3,815,041)	-	-	(3,815,041)	-	819	(1,058)	(1,059,381)	-	1,059,381	(3,815,280)
Other-than-temporary impairment charge	(59,073)	(29,095)	-	-	(88,168)	-	-	(88,168)	-	-	-	-	(88,168)	88,168	(88,168)
Total non-operating losses	(1,467,453)	(2,380,797)	(54,959)	-	(3,903,209)	-	-	(3,903,209)	-	819	(1,058)	(1,059,381)	(88,168)	1,147,549	(3,903,448)
Excess (deficiency) of revenues over expenses	\$ 5,945,570	\$ 1,361,145	\$ 132,959	\$ -	\$ 7,439,674	\$ -	\$ -	\$ 7,439,674	\$ (4,434,257)	\$ (43,230)	\$ 253,866	\$ -	\$ 632,441	\$ (632,441)	\$ 3,216,053

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (continued)
For the Year Ended September 30, 2009

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Unrestricted net assets:															
Excess (deficiency) of revenues over expenses	\$ 5,945,570	\$ 1,361,145	\$ 132,959	\$ -	\$ 7,439,674	\$ -	\$ -	\$ 7,439,674	\$ (4,434,257)	\$ (43,230)	\$ 253,866	\$ -	\$ 632,441	\$ (632,441)	\$ 3,216,053
Change in unrealized appreciation (depreciation) on investments	(171,494)	(778,483)	(2,421)	-	(952,398)	2,105,946	-	1,153,548	-	-	-	-	198,782	-	1,352,330
Net loss on interest rate swap agreement	(66,409)	(597,679)	-	-	(664,088)	-	-	(664,088)	-	-	-	-	-	-	(664,088)
Net assets released from restrictions for capital acquisitions	32,433	52,970	7,013	-	92,416	-	-	92,416	-	-	-	-	-	-	92,416
Operating subsidy to ECHN Health Services, Inc.	(4,434,257)	-	-	-	(4,434,257)	-	-	(4,434,257)	4,434,257	-	-	-	-	-	-
Transfer (to) from other affiliates — net	(24,963)	9,360	-	-	(15,603)	11,837	-	(3,766)	-	-	283	3,483	-	-	-
Pension and postretirement-related adjustments	(17,027,668)	(4,870,378)	-	-	(21,898,046)	-	-	(21,898,046)	-	-	-	-	-	-	(21,898,046)
Change in unrestricted net assets	(15,746,788)	(4,823,065)	137,551	-	(20,432,302)	2,117,783	-	(18,314,519)	-	(43,230)	254,149	3,483	831,223	(632,441)	(17,901,335)
Temporarily restricted net assets:															
Contributions	(685,234)	(361,108)	(50,315)	-	(1,096,657)	1,465,299	645,780	1,014,422	-	-	(5,935)	(558,028)	-	(24,837)	425,622
Investment income (loss)	21,566	(12,116)	-	-	9,450	-	-	9,450	-	-	-	-	-	-	9,450
Net assets released from restrictions for operations	(99,591)	(36,472)	(34,924)	-	(170,987)	(291,067)	200,727	(261,327)	-	-	(10,606)	(76,808)	-	65,036	(283,705)
Net assets released from restrictions for capital acquisitions	(32,433)	(52,970)	(7,013)	-	(92,416)	(92,413)	92,413	(92,416)	-	-	-	-	-	-	(92,416)
Change in unrealized appreciation (depreciation) on investments	1,873	-	-	-	1,873	(2,061,622)	-	(2,059,749)	-	-	-	-	-	-	(2,059,749)
Transfer from affiliates	(49,392)	26,621	-	-	(22,771)	-	-	(22,771)	-	-	6,000	16,771	-	-	-
Change in temporarily restricted net assets	(843,211)	(436,045)	(92,252)	-	(1,371,508)	(979,803)	938,920	(1,412,391)	-	-	(10,541)	(618,065)	-	40,199	(2,000,798)
Permanently restricted net assets:															
Contributions	946	-	-	-	946	946	(946)	946	-	-	-	-	-	-	946
Change in beneficial interest in trust assets	(122,976)	(40,743)	-	-	(163,719)	-	-	(163,719)	-	-	-	-	-	-	(163,719)
Change in permanently restricted net assets	(122,030)	(40,743)	-	-	(162,773)	946	(946)	(162,773)	-	-	-	-	-	-	(162,773)
Change in net assets	(16,712,029)	(5,299,853)	45,299	-	(21,966,583)	1,138,926	937,974	(19,889,683)	-	(43,230)	243,608	(614,582)	831,223	(592,242)	(20,064,906)
Net assets, beginning of year	38,639,896	41,762,068	3,623,287	-	84,025,251	10,437,706	(7,090,197)	87,372,760	(27,691)	883,683	969,757	7,318,218	2,546,723	(3,564,868)	95,498,582
Net assets, end of year	\$ 21,927,867	\$ 36,462,215	\$ 3,668,586	\$ -	\$ 62,058,668	\$ 11,576,632	\$ (6,152,223)	\$ 67,483,077	\$ (27,691)	\$ 840,453	\$ 1,213,365	\$ 6,703,636	\$ 3,377,946	\$ (4,157,110)	\$ 75,433,676

See accompanying independent auditors' report.