The Rockville General Hospital, Inc.

Independent Auditors' Report and
Financial Statements

As of and for the Years Ended
September 30, 2013 and 2012

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

To the Board of Trustees of
The Rockville General Hospital, Inc.:

We have audited the accompanying financial statements of The Rockville General Hospital, Inc. (the Hospital) (a subsidiary of Eastern Connecticut Health Network, Inc.), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rockville General Hospital Inc., as of September 30, 2013 and 2012, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Saslow Lufkin & Buggy, LLP

December 17, 2013

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The Rockville General Hospital, Inc.
Balance Sheets
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,059,290**	$ 1,463,823
Current portion of investments held under bond indentures	**364,771**	467,222
Accounts receivable, less allowance for bad debts of $3,439,192 in 2013 and $2,265,004 in 2012	**10,269,970**	10,959,585
Inventory	**1,467,009**	1,519,666
Due from affiliates	**58,029**	781,899
Current portion of estimated settlements due from third-party payers	**384,274**	853,555
Prepaid expenses and other current assets	**276,211**	218,802
Total current assets	**13,879,554**	16,264,552
Assets whose use is limited - net of current portion:		
Donor restricted investments	**1,709,690**	1,696,049
Board designated investments	**9,895,326**	9,011,067
Investments held under bond indentures	**806,532**	931,963
Beneficial interest in trust assets	**2,182,173**	2,104,303
Total assets whose use is limited - net of current portion	**14,593,721**	13,743,382
Interest in net assets of ECHN Community Healthcare Foundation, Inc.	**3,616,191**	3,254,582
Investments in joint ventures	**3,208,828**	3,127,553
Property, plant and equipment, net	**27,654,664**	30,472,774
Investments	**3,088,116**	9,554,311
Other assets:		
Estimated settlements due from third-party payers	**668,994**	-
Due from affiliated entities - net of current portion	**9,022,571**	2,620,000
Other - net	**811,215**	831,619
Total other assets	**10,502,780**	3,451,619
Total assets	**$ 76,543,854**	$ 79,868,773
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 6,096,840**	$ 5,969,615
Current portion of long-term debt and capital lease obligations	**870,081**	1,271,671
Due to affiliated entities	**398,089**	3,297,172
Estimated settlements due to third-party payers	**1,040,198**	1,157,913
Current portion of accrued pension and other postretirement benefits	**1,401,749**	1,164,039
Other current liabilities	**754,403**	715,430
Total current liabilities	**10,561,360**	13,575,840
Long-term debt and capital lease obligations - net of current portion	**23,519,254**	24,394,084
Estimated self-insurance liabilities	**2,423,371**	3,307,458
Accrued pension and other postretirement benefits - net of current portion	**8,855,195**	17,147,802
Other liabilities	**132,211**	128,578
Total liabilities	**45,491,391**	58,553,762
Net assets:		
Unrestricted	**26,773,989**	17,066,097
Temporarily restricted	**561,463**	615,748
Permanently restricted	**3,717,011**	3,633,166
Total net assets	**31,052,463**	21,315,011
Total liabilities and net assets	**$ 76,543,854**	$ 79,868,773

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

The Rockville General Hospital, Inc.
Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2013 and 2012

	2013	2012
Revenues:		
Net patient service revenues	**$ 73,037,858**	$ 67,847,638
Provision for bad debts	**(4,127,214)**	(3,309,948)
Net patient service revenues less provision for bad debts	**68,910,644**	64,537,690
Change in interest in unrestricted net assets of ECHN Community Healthcare Foundation, Inc.	**253,309**	192,851
Other revenues	**4,492,026**	5,020,030
EHR incentive payment revenue	**1,220,153**	1,626,870
Net assets released from restrictions used for operations	**112,828**	31,857
Total revenues	**74,988,960**	71,409,298
Expenses:		
Salaries and wages	**31,509,639**	30,268,391
Fringe benefits	**10,024,601**	10,223,293
Supplies and other	**25,888,529**	25,886,843
Depreciation and amortization	**3,565,031**	3,811,952
Interest and financing costs	**682,298**	719,107
Total expenses	**71,670,098**	70,909,586
Income from operations	**3,318,862**	499,712
Non-operating losses	**(660,236)**	(179,961)
Excess of revenues over expenses	**$ 2,658,626**	$ 319,751

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

The Rockville General Hospital, Inc.
Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2013 and 2012

	2013	2012
Unrestricted net assets:		
Excess of revenues over expenses	**$ 2,658,626**	$ 319,751
Change in unrealized appreciation on investments	**425,983**	2,852,929
Equity transfer to ECHN	**(1,835,404)**	(8,205,356)
Transfers (to) from other affiliated entities	**(6,530)**	424,971
Change in investment of ECHN Community Healthcare Foundation, Inc.	**270,668**	560,369
Net assets released from restrictions used for capital	**47,604**	48,524
Pension and postretirement-related adjustments	**8,152,920**	(3,623,818)
Other	**(5,975)**	-
Change in unrestricted net assets	**9,707,892**	(7,622,630)
Temporarily restricted net assets:		
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	**32,787**	54,835
Change in unrealized appreciation on investments	**47,603**	119,637
Investment income	**16,725**	18,801
Net assets released from restrictions for operations	**(112,828)**	(31,857)
Net assets released from restrictions used for capital	**(47,604)**	(48,524)
Transfers from (to) ECHN and other affiliates	**9,032**	(409,676)
Change in temporarily restricted net assets	**(54,285)**	(296,784)
Permanently restricted net assets:		
Change in beneficial interest in trust assets	**77,870**	217,061
Other changes	**5,975**	-
Change in permanently restricted net assets	**83,845**	217,061
Change in net assets	**9,737,452**	(7,702,353)
Net assets at beginning of year	**21,315,011**	29,017,364
Net assets at end of year	**$ 31,052,463**	$ 21,315,011

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

The Rockville General Hospital, Inc.
Statements of Cash Flows
For the Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 9,737,452	$ (7,702,353)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,565,031	3,811,952
Provision for bad debts	4,127,214	3,309,948
Unrealized appreciation on investments	(473,586)	(3,092,203)
Realized gains on sales of investments	(1,788,610)	-
Income on investments in joint venture	(81,275)	(268,841)
Transfers to other affiliated entities	1,832,902	8,190,061
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	(361,609)	(624,968)
Change in beneficial interest in trust assets	(77,870)	(217,061)
Pensions and postretirement-related adjustments	(8,152,920)	3,804,398
Changes in assets and liabilities:		
Accounts receivable	(3,437,599)	(4,022,748)
Inventory	52,657	57,300
Prepaid expenses and other current assets	(57,409)	51,849
Estimated settlements due to/from third-party payers	(317,428)	1,476,261
Due (from) to affiliates	(8,577,784)	2,992,557
Intangible assets - net	-	72,000
Other - net	20,404	(9,986)
Accounts payable and accrued expenses and other current liabilities	166,198	545,816
Accrued pension and other postretirement benefits	98,023	(1,545,418)
Estimated self-insurance liabilities	(884,087)	1,493,616
Other liabilities	3,633	2,829
Net cash (used in) provided by operating activities	(4,606,663)	8,325,009
Cash flows from investing activities:		
Purchases of property and equipment	(746,921)	(1,728,554)
Proceeds from sales of investments and assets whose use is limited, net	8,058,373	635,645
Net cash provided by (used in) investing activities	7,311,452	(1,092,909)
Cash flows from financing activities:		
Principal payments on long-term debt	(1,276,420)	(2,317,670)
Transfers to other affiliated entities	(1,832,902)	(8,190,061)
Net cash used in financing activities	(3,109,322)	(10,507,731)
Change in cash and cash equivalents	(404,533)	(3,275,631)
Cash and cash equivalents at beginning of year	1,463,823	4,739,454
Cash and cash equivalents at end of year	$ 1,059,290	$ 1,463,823
Cash paid for interest	$ 652,170	$ 824,710
Equipment acquisitions under capital lease arrangements	$ -	$ 875,799

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

Note 1 - General

The Rockville General Hospital, Inc. (the Hospital or RGH) is a not-for-profit, 102-bed acute care hospital that provides inpatient, outpatient and emergency care services for residents of Vernon-Rockville and surrounding towns. The Hospital is a subsidiary of the Eastern Connecticut Health Network, Inc. (ECHN or the Network), which was formed in 1995 by a merger of MMH Corp. and Rockville Area Health Services, Inc. ECHN was organized to provide a broader health care system for the surrounding communities with quality medical care at a reasonable cost and to foster an environment conducive to health and well-being whether in the home or in the community.

Other related entities of RGH include:

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.

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

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

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

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

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

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

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

Note 1 - General (continued)

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

In August, the ECHN Board of Trustees announced that it had signed a non-binding letter of intent to negotiate the sale of ECHN to a newly formed joint partnership between Tenet Healthcare Corporation (Tenet) and Yale New Haven Health System (Yale). Since signing the letter of intent, ECHN, Tenet and Yale have been reviewing the opportunity in greater detail, conducting additional due diligence and negotiating a definitive agreement. A definitive agreement is expected to be reached by sometime in early calendar year 2014. As of September 30, 2013, management has not finalized a purchase agreement and the Trustees believe that the Hospital will continue with its normal operations and as a going concern for the foreseeable future.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying 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).

In 2013, the Hospital retrospectively changed its method of accounting for pension benefits. The Hospital has elected to immediately recognize actuarial gains and losses in its operating results in the year in which the gains and losses occur and no longer calculates expected return on plan assets using an averaging technique permitted under GAAP for market-related value of plan assets but instead uses actual fair value of plan assets. The effect of this change was to restate the 2012 statement of operations and changes in net assets, whereby the pension expense was increased by $180,580 and the accumulated pension liability recognized within net assets was reduced by $180,580. The 2012 excess of revenues over expenses of $500,331, as previously reported, was restated to $319,751. This change in accounting method had no effect on the 2012 Hospital's net assets.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Hospital's significant estimates relate to the valuation of investments and interest rate swap agreements, allowance for doubtful patient accounts receivable, contractual allowances on patient accounts receivable, self-insurance liabilities, estimated settlements due to and from third parties, conditional asset retirement obligations, postretirement and pension benefit costs and the related obligations.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Assets Whose Use is Limited **-** Assets whose use is limited primarily include cash and investments held by trustees under indenture agreements, Board designated investments which include endowments and cash and investments set aside by the Board for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, beneficial interests in trust assets, donor restricted and other restricted investments. Amounts required to meet current liabilities of the Hospital have been classified as current assets in the balance sheets as of September 30, 2013 and 2012.

The income earned on restricted funds is generally available for operations of the Hospital and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future split interest obligations, at which time the income is added to the appropriate restricted net asset balance. However, if a specific gift instrument explicitly requires the permanent reinvestment of appreciation, or a portion thereof, such reinvested amounts are recorded within permanently restricted net assets. There were no gifts with reinvestment restrictions for the years ended September 30, 2013 and 2012.

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

> ***Permanently Restricted*** **-** Net assets subject to explicit donor-imposed stipulations that they be maintained by the Hospital in perpetuity are classified as permanently restricted. Such permanently restricted assets include endowment funds and the Hospital's share of its beneficial interest in trust assets held by third parties. Generally, the donors of these assets permit the Hospital to use all or part of the investment return on these assets for operating purposes.
>
> ***Temporarily Restricted*** - Net assets whose use by the Hospital is subject to explicit donor-imposed stipulations that can be fulfilled upon incurrence of expenditures by the Hospital pursuant to those stipulations or that expire by the passage of time are classified as temporarily restricted.
>
> ***Unrestricted*** **-** Net assets that are not subject to explicit donor-imposed stipulations are classified as unrestricted. Unrestricted net assets may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties. Such designated assets are classified as assets whose use is limited in the accompanying balance sheets.
>
> Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law.
>
> Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or stipulated period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

The income from the trusts is included in the change in interest in unrestricted net assets of ECHF as unrestricted and temporarily restricted support. For the years ended September 30, 2013 and 2012, income of $85,956 and $93,826, respectively, was recorded in the statements of operations and changes in net assets. Changes in the fair value of the trust assets are recognized as changes in permanently restricted net assets. RGH records the beneficial interest in trust assets when it is notified of the existence of the trust or when information becomes available to record the fair value of the trust assets.

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

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

***Other Than Temporary Impairments on Investments* -** The Hospital accounts for other than temporary impairments in accordance with FASB ASC 320 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. The Hospital has not recorded an impairment charge for the years ended September 30, 2013 and 2012.

Note 2 - Summary of Significant Accounting Policies (continued)

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, which 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 operations.

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

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

Equipment under capital leases is amortized utilizing the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Depreciation and amortization expense was $3,460,934 and $3,724,532 for the years ended September 30, 2013 and 2012, respectively.

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

Physician loan amortization totaling $42,877 and $22,213 as of September 30, 2013 and 2012, respectively, is included within depreciation and amortization in the accompanying 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, plant and equipment must be maintained, expirations of donor restrictions are reported as released from restrictions when the donated or acquired property, plant and equipment assets are placed in service.

Investments in Joint Ventures - The Hospital has invested in joint ventures, which are accounted for under the equity method of accounting. These joint ventures, as of September 30, 2013 and 2012, include the Hospital's investment in the following:

	2013	**Ownership Percentage**	**2012**	**Ownership Percentage**
Northeast Regional Radiation Oncology Network, Inc.	**$ 3,108,323**	**25%**	$ 3,055,158	25%
Tolland Imaging Center	**100,505**	**35%**	72,395	35%
	$ 3,208,828		$ 3,127,553	

Note 2 - Summary of Significant Accounting Policies (continued)

There were no distributions received from these joint ventures in 2013 and 2012. The Hospital's share of the earnings or losses of the joint ventures are reported within other revenues and are $81,275 and $268,841 for the years ended September 30, 2013 and 2012, respectively.

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

2013	Total Assets	Net Assets	Change in Net Assets	Excess of Revenues Over Expenses
Northeast Regional Radiation Oncology Network, Inc.	$ 12,490,586	$ 12,433,293	$ 212,661	$ 295,288
Tolland Imaging Center	$ 934,135	$ 287,155	$ 72,449	$ 65,048

2012	Total Assets	Net Assets	Change in Net Assets	Excess of Revenues Over Expenses
Northeast Regional Radiation Oncology Network, Inc.	$ 12,257,336	$ 12,220,632	$ 944,362	$ 961,990
Tolland Imaging Center	$ 1,258,544	$ 214,706	$ 101,436	$ 100,840

***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 depreciation and amortization costs in the accompanying statements of operations and changes in net assets and the unamortized carrying value is recorded within other - net in the accompanying balance sheets.

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

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

For purposes of display, transactions deemed by management to be ongoing, major or central to providing of health care services are reported as operating revenues and operating expenses. Operating revenues include net patient service revenue, grant income and investment income. Peripheral or incidental transactions are reported as non-operating gains, losses and expenses.

Note 2 - Summary of Significant Accounting Policies (continued)

Non-operating gains and losses include investment income and expenses related to property management, losses recognized on investments representing declines in value considered to be other-than-temporary in nature, changes in the fair values of interest rate swaps that do not qualify for hedge accounting (net interest expense) and the costs associated with pursuing business combinations.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established and contractual rates. The Hospital does not pursue collection of amounts determined to qualify as charity care; as such, these amounts are not reported as revenue.

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

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

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

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.

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

> ***Medicare*** - Acute care hospitals are subject to a federal prospective payment system for most Medicare inpatient hospital services and for certain outpatient services. Under this prospective payment methodology, Medicare pays a prospectively determined per discharge or per visit rate for non-physician services. These rates vary according to the Diagnosis-Related Group or Ambulatory Payment Classification of each patient.
>
> Inpatient rehabilitation and mental health services, outpatient services, capital and medical education costs related to Medicare beneficiaries are paid based on a prospective payment system, subject to certain limitations. Certain other outpatient services are reimbursed according to fee screens.
>
> ***Medicaid*** - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

EHR Incentive Payment Revenue - The American Recovery and Reinvestment Act of 2009 authorized the Centers for Medicare and Medicaid Services (CMS) to award incentive payments to eligible health care providers who demonstrate Meaningful Use of certified electronic health records (EHR). These incentive programs are designed to support providers in this period of health information technology transition and instill the use of EHRs in meaningful ways to help our nation to improve the quality, safety, and efficiency of patient health care. Total revenue recognized for Medicare amounted to $1,220,153 and $1,626,870, for the years ended September 30, 2013 and 2012, respectively.

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

Interest in Net Assets of ECHF - ECHF was formed as a not-for-profit organization to supervise the development activities and engage in investment activities for the benefit of all of the ECHN subsidiaries. ECHN is the sole member of ECHF and ECHF's Board of Directors is appointed by ECHN. The Hospital follows the provisions of FASB ASC 958 (formerly, FASB Statement No. 136, "*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*"). Accordingly, the Hospital has reflected its proportionate interest in the net assets of ECHF in the Hospital's financial statements.

Income Taxes - The Hospital is a not-for-profit organization, which is in compliance with the provisions of Internal Revenue Code (IRC) Sec. 501(c)(3) and is exempt from federal tax under IRC Sec. 501(a). At times, the Hospital is involved with activities that subject minor amounts of unrelated business federal income tax, which are paid as they come due in accordance with the Code and the regulations there under. Such amounts are insignificant to the Hospital's financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

The Hospital accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, "*Income Taxes*" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

The Hospital does not have any uncertain tax positions as of September 30, 2013 and 2012. As of September 30, 2013 and 2012, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital's prior three tax years are open and subject to examination by the Internal Revenue Service.

***Asset Retirement Obligations* -** The Hospital recognizes a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation is factored into the measurement of the liability when sufficient information exists.

The types of asset retirement obligations that the Hospital recognizes are those for which the Hospital has a legal obligation to perform an asset retirement activity, however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within its control. The fair value of a liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

As of September 30, 2013 and 2012, the Hospital has recognized $132,211 and $128,578, respectively, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the balance sheets within other liabilities.

***Accounting for Defined Benefit Pension and Other Postretirement Plans* -** The Hospital recognizes the overfunded or underfunded status of their defined-benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) in the balance sheets as an asset or liability.

The Hospital recognizes changes in the funded status of the plans in the year in which the changes occur as a change in unrestricted net assets presented below the excess of revenues over expenses in its statements of operations and changes in net assets.

***Inventory* -** The Hospital records inventory at cost using the average cost method.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

***Advertising Costs* -** The Hospital expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was $467,582 and $399,319 for the years ended September 30, 2013 and 2012, respectively, and is recorded in supplies and other expenses in the accompanying statements of operations and changes in net assets.

***Accounting Pronouncements Adopted* -** In May 2011, FASB issued Accounting Standards Update (ASU) 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US. GAAP and IFRS*", which amends ASC 820, "*Fair Value Measurements and Disclosures.*" ASU 2011-04 amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements, but for which the fair value is required to be disclosed. This guidance became effective for the Hospital beginning on October 1, 2012. The adoption of this guidance had no impact on the Hospital's financial statements.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

Subsequent Events - Subsequent events have been evaluated through December 17, 2013, the date through which procedures were performed to prepare the financial statements for issuance. Management believes that there are no subsequent events having a material impact on the financial statements.

Note 3 - Assets Whose Use is Limited and Investments

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

	2013		**2012**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Board designated and donor-restricted:				
Money market funds	**$ 276,000**	**$ 276,000**	$ 173,616	$ 173,616
Mutual funds:				
Short-term bond fund	**4,498,319**	**4,469,164**	4,486,385	4,523,909
Large value fund	**5,461,499**	**6,859,852**	5,610,061	6,009,591
Total	**$ 10,235,818**	**$ 11,605,016**	$ 10,270,062	$ 10,707,116
Investments held under bond indenture:				
Money market funds	**$ 932,178**	**$ 932,178**	$ 958,137	$ 958,137
U.S. government securities	**239,304**	**239,125**	440,896	441,048
Total	**$ 1,171,482**	**$ 1,171,303**	$ 1,399,033	$ 1,399,185
Beneficial interest in trust assets	**$ 2,066,973**	**$ 2,182,173**	$ 1,878,052	$ 2,104,303

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

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Investments:				
Money market funds	**$ 1,159**	**$ 1,159**	$ 12,307	$ 12,307
Mutual funds:				
Short-term bond fund	**2,004,178**	**1,991,460**	22,300	22,633
Foreign large growth fund	**531,306**	**593,598**	3,675,987	3,877,646
Large value fund	**356,807**	**444,712**	5,217,633	5,591,406
Moderate allocation funds	**43,749**	**57,187**	41,664	50,319
Total	**$ 2,937,199**	**$ 3,088,116**	$ 8,969,891	$ 9,554,311
Total assets whose use is limited and investments	**$ 16,411,472**	**$ 18,046,608**	$ 22,517,038	$ 23,764,915

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

2013	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Short-term bond fund	$ 6,460,623	$ (41,874)	$ -	$ -	$ 6,460,623	$ (41,874)

2012	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Foreign large growth fund	$ 400,220	$ (23,713)	$ -	$ -	$ 400,220	$ (23,713)

Based on the Hospital's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Hospital does not consider those investments to be other-than-temporarily impaired as of September 30, 2013 and 2012.

Interest and dividend income on the assets whose use is limited and investments included within other revenues on the statements of operations and changes in net assets totaled $480,538 and $449,329 for the years ended September 30, 2013 and 2012, respectively. The Hospital recorded realized gains of $1,788,610 during the year ended September 30, 2013. There were no realized gains or losses for the year ended September 30, 2012.

Note 4 - Fair Value Measurements

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

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

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- 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, 2013, by the valuation hierarchy:

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Money market funds	$ 1,209,337	$ -	$ -	$ 1,209,337
U.S. Government securities	239,125	-	-	239,125
Short-term bond fund	6,460,624	-	-	6,460,624
Foreign large growth fund	593,598	-	-	593,598
Large value fund	7,304,564	-	-	7,304,564
Moderate allocation funds	57,187	-	-	57,187
Beneficial interest in trusts	-	-	2,182,173	2,182,173
Total assets at fair value	$ 15,864,435	$ -	$ 2,182,173	$18,046,608

Note 4 - Fair Value Measurements (continued)

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

2012	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 1,144,060	$ -	$ -	$ 1,144,060
Fixed income mutual funds	441,048	-	-	441,048
Short-term bond fund	4,546,542	-	-	4,546,542
Foreign large growth fund	3,877,646	-	-	3,877,646
Large value fund	11,600,997	-	-	11,600,997
Moderate allocation funds	50,319	-	-	50,319
Beneficial interest in trusts	-	-	2,104,303	2,104,303
Total assets at fair value	$ 21,660,612	$ -	$ 2,104,303	$23,764,915

During the years ended September 30, 2013 and 2012, the value of the beneficial interest in trusts increased for a change in market value of $163,826 and $310,887, respectively. In addition, the Hospital received $85,956 and $93,826 in distributions from these trusts in 2013 and 2012, respectively.

The Hospital's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Hospital uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to money market funds, short-term bonds, foreign large growth funds, value index funds, moderate allocation funds and U.S. government securities.

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). As of September 30, 2013 and 2012, the Hospital has no Level 2 inputs.

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

Fair values of the Hospital's Series C Bonds are based on current traded value. The fair value of the Series C Bonds as of September 30, 2013 and 2012, is approximately $7,521,977 and $7,995,981, respectively. The fair value of the Hospital's remaining long-term debt approximates its carrying value.

As of September 30, 2013 and 2012, the Hospitals other financial instruments included accounts receivable, accounts payable and accrued expenses and estimated settlements due from (to) third-party payers. The carrying amounts reported in the balance sheets for these financial instruments approximate their fair value.

Note 4 - Fair Value Measurements (continued)

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

Note 5 - Property, Plant and Equipment

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

	2013	2012
Land and land improvements	**$ 1,152,087**	$ 1,152,087
Building and building improvements	**48,378,238**	48,381,424
Fixed equipment	**8,985,743**	8,686,362
Moveable equipment	**27,153,327**	35,311,149
	85,669,395	93,531,022
Less: accumulated depreciation and amortization	**(58,070,717)**	(63,146,530)
	27,598,678	30,384,492
Construction in progress	**55,986**	88,282
	$ 27,654,664	$ 30,472,774

For the years ended September 30, 2013 and 2012, the Hospital capitalized interest related to construction financed with tax-exempt debt of $1,000 and $15,110, respectively. The cost to complete the construction in progress is approximately $758,380 and $90,000 as of September 30, 2013 and 2012, respectively. For the years ended September 30, 2013 and 2012, the Hospital disposed of property, plant and equipment in the amounts of $8,536,389 and $15,088, respectively, all disposals were of fully depreciated assets.

Note 6 - Unamortized Bond Issue Costs

Unamortized bond issue costs that are recorded within other - net in the accompanying balance sheets as of September 30, 2013 and 2012, are as follows:

	2013	2012
Deferred financing costs	**$ 977,321**	$ 1,346,197
Less: accumulated amortization	**(197,726)**	(524,578)
	$ 779,595	$ 821,619

Note 7 - Related Party Transactions

The Network provides certain administrative and operating services to the Hospital and allocates these expenses along with revenues back to the Hospital. The allocation percentage is as follows: MMH 70.76%, RGH 27.94%, and EES 1.3%. The net expenses allocated to the Hospital were $8,418,856 and $6,390,430 for the years ended September 30, 2013 and 2012, respectively.

Note 7 - Related Party Transactions (continued)

Amounts due from related entities as of September 30, 2013 and 2012, consist of the following:

	2013	2012
EES	**$ 58,029**	$ 3,947
MMH	**7,220,571**	774,082
Foundation	**-**	3,870
CHIC	**1,802,000**	2,620,000
	$ 9,080,600	$ 3,401,899

Amounts due to related entities as of September 30, 2013 and 2012, consist of the following:

	2013	2012
Foundation	**$ 8,446**	$ -
ECHN	**389,643**	3,297,172
	$ 398,089	$ 3,297,172

Amounts due from affiliates consist of operational, working capital, amounts due from CHIC for insurance recoveries and other advances made to ECHN and its affiliates. Management believes the amounts due from affiliates can be repaid by the individual entities and if necessary through ECHN's overall consolidated net asset value. Amounts due to affiliates relate to general operational cash flows.

The Hospital made an equity transfer to ECHN during 2013 and 2012 of $1,835,404 and $8,205,356, respectively, to help support the ECHN Network activities.

Note 8 - Medical Malpractice Insurance

In fiscal year 2007, ECHN established a single-parent captive, CHIC, which covers all of its subsidiaries, including the Hospital. CHIC provides malpractice and general insurance coverage for ECHN and its subsidiaries at $3,000,000 per occurrence and $9,000,000 in the aggregate for the years ended September 30, 2013 and 2012.

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

Claims that fall within CHIC's policies for medical malpractice and general liability insurance have been asserted against the Hospital by various claimants. The claims are in various stages and some may ultimately be brought to trial. CHIC has employed independent actuaries to estimate the ultimate costs, if any, of the resolution of such claims. As of September 30, 2013 and 2012, no discount was applied to the accrued medical malpractice and general liability reserves.

Note 8 - Medical Malpractice Insurance (continued)

The Hospital does not self-insure any malpractice risks other than exposures greater than its excess coverage's, however, as of September 30, 2013 and 2012, the Hospital has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with CHIC. In addition, as mentioned in Note 2, the adoption of ASU 2011-24 resulted in the recording of additional claim liabilities and insurance recoveries from CHIC in the amounts of $1,802,000 and $2,620,000, as of September 30, 2013 and 2012, respectively.

Note 9 - Estimated Self-Insurance Liabilities

The Hospital is self-insured for workers' compensation insurance coverage. The Hospital participates in Workers' Compensation Trust, a revocable trust, for the purpose of setting aside assets based on actuarial funding recommendations. For 2013, the Hospital has a $400,000 limit per occurrence for workers' compensation claims the limit for all years prior was $350,000. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of workers' compensation claims. Accrued workers' compensation reserves have been discounted at 5% as of September 30, 2013 and 2012 and in management's opinion provide an adequate reserve for loss contingencies.

Note 10 - Pension and Other Postretirement Benefits

ECHN has a defined benefit pension plan covering substantially all of the employees of the Hospital and MMH. 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 Hospital and MMH contribute amounts sufficient to meet the minimum funding requirements of the Employment Retirement Income Security Act of 1974, as well as such additional amounts as deemed appropriate.

On December 31, 2008, ECHN implemented a soft freeze on the defined-benefit pension plan. All employees with age and service credits greater than 65 were given the option to stay in the defined-benefit pension plan or freeze their defined benefits and enter into a defined contribution plan. All other employees were required to enter into the defined contribution plan. Under the defined contribution plan, ECHN contributes 3% of eligible employees' salaries. This match is non-guaranteed for all employees except certain union workers. During September 2013 the Trustees passed a resolution to freeze all benefits related to the defined-benefit pension plan. During fiscal years 2013 and 2012, the Hospital incurred expenses of $449,868 and $757,156, respectively, related to this plan.

MMH and RGH also sponsor a postretirement benefit plan that provides health care benefits to those employees who retire. The criterion to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. MMH full-time registered nurse retirees (retired prior to October 1, 2005 and were eligible per the Union contract) are grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan. Grandfathered eligible retirees are required to pay 100% of the total cost of the medical and dental coverage they elect for an eligible spouse. For non-grandfathered retirees, the postretirement health care plan is contributory and the retiree pays 100% of the premium. The Hospital and MMH as of September 30, 2013 and 2012 have no unrecognized actuarial losses related the defined benefit pension plan.

The effects of Medicare Prescription Drug, Improvement and Modernization Act of 2003 were reflected as of September 30, 2013 and 2012, assuming that ECHN will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and that ECHN will receive the federal subsidy.

Note 10 - Pension and Other Postretirement Benefits (continued)

The subsidy reduced plan liabilities by approximately $900,000 and $1,100,000 for the years ended September 30, 2013 and 2012, respectively. Subsidies of $90,769 and $95,241 were received in the years ended September 30, 2013 and 2012, respectively. Future benefits of $385,518 are expected to be paid and future subsidies of $63,055 are expected to be received related to the year ended September 30, 2014.

The pension and postretirement plans change in benefit obligation and change in plan assets for the years ended September 30, 2013 and 2012, are as follows (information presented is for the Network (MMH and RGH combined), based on September 30 measurement date):

	Pension Benefits		Other Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Change in benefit obligation:				
Benefit obligation, beginning of year	**$ 223,101,495**	$ 188,714,944	**$ 4,633,005**	$ 4,680,687
Service cost	**2,709,867**	2,233,145	**72,548**	63,127
Interest cost	**9,475,222**	10,105,635	**162,852**	226,498
Plan participants' contributions	-	-	**296,951**	507,918
Receipt of Medicare Part D reimbursement	-	-	**90,769**	95,241
Plan curtailments	**(7,795,069)**	-	**-**	-
Actuarial loss (gain)	**(26,124,678)**	30,013,892	**(499,239)**	(140,180)
Benefits paid	**(9,072,578)**	(7,966,121)	**(563,314)**	(800,286)
Benefit obligation, end of year	**$ 192,294,259**	$ 223,101,495	**$ 4,193,572**	$ 4,633,005

	Pension Benefits		Other Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Change in plan assets:				
Fair value of plan assets, beginning of year	**$ 149,218,728**	$ 125,293,980	**$ -**	$ -
Actual return on plan assets	**9,144,701**	20,980,869	**-**	-
Employer contributions	**3,000,000**	10,910,000	**175,594**	197,127
Plan participants' contributions	**-**	-	**296,951**	507,918
Receipt of Medicare Part D reimbursement	**-**	-	**90,769**	95,241
Benefits paid	**(9,072,578)**	(7,966,121)	**(563,314)**	(800,286)
Fair value of plan assets, end of year	**$ 152,290,851**	$ 149,218,728	**$ -**	$ -
Accrued pension and other postretirement benefits	**$ (40,003,408)**	$ (73,882,768)	**$ (4,193,572)**	$ (4,633,005)
Accumulated benefit obligation	**$ 192,294,259**	$ 213,696,232	**$ -**	$ -

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

	Pension Benefits		Other Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Current liabilities	**$ 5,700,000**	$ 3,500,001	**$ 385,518**	$ 397,164
Non-current liabilities	**34,303,408**	70,382,767	**3,808,054**	4,235,841
Net amount recognized	**$ 40,003,408**	$ 73,882,768	**$ 4,193,572**	$ 4,633,005

Note 10 - Pension and Other Postretirement Benefits (continued)

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

	Pension Benefits		Other Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
MMH	**$ 30,733,609**	$ 56,594,969	**$ 3,206,427**	$ 3,608,963
RGH	**9,269,799**	17,287,799	**987,145**	1,024,042
Total	**$ 40,003,408**	$ 73,882,768	**$ 4,193,572**	$ 4,633,005

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

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

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

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

Note 10 - Pension and Other Postretirement Benefits (continued)

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

	Pension Benefits		Other Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Discount rate	**5.27%**	4.32%	**4.54%**	3.64%
Expected long-term rate of return	**8.00%**	8.00%	**N/A**	N/A
Rate of compensation increase	**3.00%**	3.00%	**N/A**	N/A
Initial medical trend rate	**N/A**	N/A	**9.44%**	7.62%
Ultimate medical trend rate	**N/A**	N/A	**4.50%**	4.50%
Number of years to ultimate medical trend rate	**N/A**	N/A	**15 years**	15 years

The assumptions used to determine net periodic benefit costs of the pension and postretirement benefit obligations for the years ended September 30, 2013 and 2012, are as follows:

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

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

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

Note 10 - Pension and Other Postretirement Benefits (continued)

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

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

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

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

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

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

Note 10 - Pension and Other Postretirement Benefits (continued)

The following table presents the investments of the defined benefit plan carried at fair value as of September 30, 2013 and 2012, by the valuation hierarchy.

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 633,333	$ -	$ -	$ 633,333
Fixed income mutual funds:				
Long duration	64,833,809	-	-	64,833,809
US Core Opportunistic	13,328,905	-	-	13,328,905
US Passive	2,935,983	-	-	2,935,983
Guaranteed investment contract	-	-	3,230,137	3,230,137
Equities:				
Small/mid cap	8,925,030	-	-	8,925,030
Active long cap	-	-	-	-
Large cap	31,678,382	-	-	31,678,382
International	26,725,272	-	-	26,725,272
Total	$ 149,060,714	$ -	$ 3,230,137	$ 152,290,851

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 944,555	$ -	$ -	$ 944,555
Fixed income mutual funds:				
Long duration	53,025,749	-	-	53,025,749
US Core Opportunistic	12,088,551	-	-	12,088,551
US Passive	2,983,658	-	-	2,983,658
Guaranteed investment contract	183,256	-	3,195,313	3,378,569
Equities:				
Small/mid cap	8,232,969	-	-	8,232,969
Active long cap	11,917,531	-	-	11,917,531
Large cap	30,277,740	-	-	30,277,740
International	26,369,406	-	-	26,369,406
Total	$ 146,023,415	$ -	$ 3,195,313	$ 149,218,728

Note 10 - Pension and Other Postretirement Benefits (continued)

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

2013		**Guaranteed Investment Contract**
Balance as of October 1, 2012	$	3,195,313
Investment income		326,682
Expenditures		(291,858)
Balance as of September 30, 2013	$	3,230,137

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

During fiscal year 2014, ECHN anticipates contributing $5,700,000 to the defined benefit plan.

The future benefit payments, which reflect estimated future service and expected to be paid from the plans for the year ended September 30, 2013, are as follows:

		Pension Benefits		**Other Postretirement Benefits**
2014	$	8,485,182	$	385,518
2015	$	8,875,571	$	388,459
2016	$	9,312,801	$	391,264
2017	$	9,886,581	$	407,323
2018	$	10,488,227	$	414,665
2019-2023	$	60,373,977	$	2,019,492

The Hospital also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% - 50%, depending upon years of service, of contributions matched by the Hospital, up to a maximum of 6% of annual compensation. Contributions to the plan were suspended for non-union employees from April 2009 to April 2010. The Hospital incurred expenses related to the employee savings plan amounting to $244,405 and $12,629 for the years ended September 30, 2013 and 2012, respectively.

Note 11 - Long-Term Debt

Long-term debt, as of September 30, 2013 and 2012, consists of the following:

	2013	2012
The Hospital's portion of CHEFA Hospital Revenue Bonds, ECHN Issue, Series C, bearing interest at rates ranging from 4.00% to 5.125% - net of amortized original issue premium of $80,719 and $85,468 in 2013 and 2012, respectively.	**$ 7,765,019**	$ 7,936,518
The Hospital's portion of the CHEFA Hospital Demand Revenue Bonds, ECHN Issue Series E bearing interest at a variable rate, adjusted weekly.	**15,822,000**	16,263,000
The Hospital's portion of the loan due to Chase Equipment Leasing Inc., face amount allocated to RGH of $2,320,000, due and payable in monthly principal and interest installments maturing on March 20, 2013 and bearing interest at 3.24%.	**-**	249,251
Capital lease obligations (see Note 13)	**802,316**	1,216,986
Total long-term debt	**24,389,335**	25,665,755
Less: current maturities	**(870,081)**	(1,271,671)
Long-term debt - net	**$ 23,519,254**	$ 24,394,084

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

On October 1, 2005, the Hospital, MMH, EES and ECHF (collectively, the Series C Obligated Group) entered into an agreement and open-ended mortgage with the CHEFA to borrow $37,065,000 in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network Issue, Series C (the Series C Bonds). The proceeds from the Series C Bonds, net of the original issue premium and amounts used to establish required reserve accounts, were placed in an irrevocable trust to advance refund and defease a portion of the Series 2000A Bonds. MMH, RGH and EES (collectively, the Series A Obligated Group) have been legally released from any future debt service on the portion of defeased Series 2000A Bonds. The Series C Bonds are due on various dates through July 1, 2030.

In May 2009, the Hospital, MMH, 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). The proceeds from the Series D Bonds, net of amounts used to establish required reserve accounts, were used to finance renovations at MMH, an expansion at EES and other campus improvements. The Series D Bonds are due on various dates through May 14, 2039.

Note 11 - Long-Term Debt (continued)

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

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

The Obligated Groups are required to comply with certain financial covenants (as defined in the trust agreements) including a debt service coverage ratio, days cash on hand requirement and minimum cash to debt ratio. As of September 30, 2013 and 2012, 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 $78,853,222 and $81,681,222 as of September 30, 2013 and 2012, respectively. The debt is also secured by the gross receipts of the Obligated Groups.

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

The Hospital is party to various capital leases, which are described in Note 13.

The annual maturities of the Hospital's portion of the long-term debt in each of the succeeding five years and thereafter as of September 30, 2013 are as follows:

2014	$	870,081
2015		886,580
2016		806,677
2017		855,978
2018		973,050
Thereafter		19,916,250
		24,308,616
Plus premium - net		80,719
Total	$	24,389,335

The Hosptial is subject to various financial covenants related to these debt agreements. The Hospital received a waiver for violating a debt service coverage ratio for 2013 and the Hospital was in compliance with these covenants in 2012.

Note 12 - Lease Commitments

The Hospital leases equipment under capital lease agreements entered into on May 19, 2011, which expire in 2016. The interest rates range from 3.71% to 4.09%. The net carrying value of the equipment under the capital lease was $1,444,436 and $1,281,139 as of September 30, 2013 and 2012, respectively and is included in property, plant and equipment.

The Hospital leases various office spaces and certain equipment under operating leases that expire in various years through fiscal year 2014. Certain leases may be renewed at the end of their term.

Future minimum payments under capital and non-cancelable operating leases as of September 30, 2013 are as follows:

	Capital Leases	Operating Leases
2014	$ 278,135	$ 1,010,713
2015	278,135	893,940
2016	218,972	861,611
2017	67,119	793,673
2018	-	744,367
Thereafter	-	4,378,976
	842,361	$ 8,683,280
Less: interest on capital lease	40,045	
Principal amount of capital lease	$ 802,316	

Rent expense under month-to-month leases was $969,291 and $716,133 for the years ended September 30, 2013 and 2012, respectively.

Note 13 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are insured under third-party payer agreements. The mix in patient accounts receivable as of September 30, 2013 and 2012, before allowances for doubtful accounts, consists of the following:

	2013	2012
Self-pay	**44%**	32%
Managed care	**23%**	20%
Medicare	**15%**	26%
Commercial insurance	**4%**	5%
Medicaid	**8%**	13%
Other	**6%**	4%
	100%	100%

Note 14 - Net Patient Service Revenue

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

	2013	2012
Patient service revenue:		
Inpatient services	**$ 79,250,361**	$ 69,889,867
Outpatient services	**143,414,268**	118,179,406
Gross patient service revenue	**222,664,629**	188,069,273
Deductions - allowances	**(149,626,771)**	(120,221,635)
Net patient service revenue	**$ 73,037,858**	$ 67,847,638

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

For uninsured patients that do not qualify for financial assistance, the Hospital offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Hospital's allowance for doubtful accounts covers all accounts greater than 6 months for both self-pay accounts receivable and third party payors as of September 30, 2013. The Hospital's self-pay and third-party payors write-offs totaled $3,487,600 and $3,475,886 for 2013 and 2012, respectively. The Hospital did not change its charity care or financial assistance policy during 2013 or 2012.

At September 30, 2013 and 2012, 26.4% and 28.6% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 73.6% and 71.4% were from nongovernmental payors, respectively. Nongovernmental payors are primarily insurance companies and self-pay payors. Management has recorded an allowance for doubtful accounts, as noted above, which, in its opinion, is sufficient to provide for risk of nonpayment.

Note 15 - Community Benefit

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

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Since the Hospital does not expect payment, estimated charges for charity care are not included in revenue. The amount of traditional charity care provided, determined on the basis of cost, was estimated at $367,583 and $742,084 for the years ended September 30, 2013 and 2012, respectively.

Note 16 - Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses relating to providing these services for the years ended September 30, 2013 and 2012, are as follows:

	2013	2012
Health care services	**$ 60,445,146**	$ 59,803,745
General and administrative	**11,224,952**	11,105,841
Total	**$ 71,670,098**	$ 70,909,586

Note 17 - Temporarily and Permanently Restricted Net Assets

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

	2013	2012
Departmental purposes	**$ 554,939**	$ 606,707
Capital campaign and pledges	**6,524**	9,041
Total	**$ 561,463**	$ 615,748

Permanently restricted net assets as of September 30, 2013 and 2012, consist of the following:

	2013	2012
Endowment restricted for other health care services	**$ 1,309,475**	$ 1,309,475
Endowment restricted for charity care	**225,363**	219,388
Beneficial interest in trust assets	**2,182,173**	2,104,303
Total	**$ 3,717,011**	$ 3,633,166

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

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 457,142	$ 1,252,548	$ 1,709,690
Board-designated endowment funds	9,895,326	-	-	9,895,326
Net assets, September 30, 2013	$ 9,895,326	$ 457,142	$ 1,252,548	$ 11,605,016

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 449,474	$ 1,246,573	$ 1,696,047
Board-designated endowment funds	9,011,067	-	-	9,011,067
Net assets, September 30, 2012	$ 9,011,067	$ 449,474	$ 1,246,573	$ 10,707,114

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

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

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

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

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

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

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

The Hospital has appropriated funds amounting to $56,662 for expenditure from its endowment funds for the year ended September 30, 2013. There were no funds appropriated for expenditure for the year ended September 30, 2012.

Changes in Hospital's endowments for the year ended September 30, 2013 are as follows:

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, October 1, 2012	$ 9,011,067	$ 449,474	$ 1,246,573	$ 10,707,114
Interest income and dividends	243,519	13,928	-	257,447
Realized gains	48,578	2,797	-	51,375
Unrealized appreciation on investments	841,475	47,605	-	889,080
Appropriated for expenditure	56,662	(56,662)	-	-
Distributions	(300,000)	-	-	(300,000)
Transfers (to)/from endowment	(5,975)	-	5,975	-
Net assets, September 30, 2013	$ 9,895,326	$ 457,142	$ 1,252,548	$ 11,605,016

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

Changes in Hospital's endowments for the year ended September 30, 2012 are as follows:

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, October 1, 2011	$ 7,095,031	$ 771,974	$ 1,246,573	$ 9,113,578
Interest income and dividends	215,487	14,039	-	229,526
Unrealized appreciation on investments	1,276,744	87,266	-	1,364,010
Transfers from/(to) endowment	423,805	(423,805)		-
Net assets, September 30, 2012	$ 9,011,067	$ 449,474	$ 1,246,573	$ 10,707,114

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2013 and 2012, there were no funds that were below the level required by donor or law.

Note 18 - Commitments and Contingencies

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

The Hospital and the Hospital'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.