

# Eastern Connecticut Health Network, Inc. and Subsidiaries

Independent Auditors' Report,  
Consolidated Financial Statements and  
Supplemental Information

As of and for the Years Ended  
September 30, 2014 and 2013



Saslow Lufkin & Buggy, LLP  
*Accounting · Tax · Advisory*

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Independent Auditors' Report, Consolidated Financial Statements**  
**and Supplemental Information**  
**As of and for the Years Ended September 30, 2014 and 2013**

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Eastern Connecticut Health Network, Inc. and Subsidiaries (the Network), a not-for-profit, non-stock corporation, which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Connecticut Healthcare Insurance Company, a wholly owned subsidiary, whose statements reflect total assets of \$7,384,595 and \$5,220,598, as of September 30, 2014 and 2013, respectively, and total revenues of \$2,251,542 and \$2,440,340, respectively, for the years then ended. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Connecticut Healthcare Insurance Company, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

**Opinion**

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Connecticut Health Network, Inc. and Subsidiaries as of September 30, 2014 and 2013, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.





### **Report on Supplementary Information**

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

*Saslow Lufkin & Buggy, LLP*

January 27, 2015

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**September 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 20,733,601	\$ 22,439,356
Current portion of investments held under bond indentures	1,163,916	1,850,531
Accounts receivable, less allowance for bad debts of \$8,915,132 in 2014 and \$10,060,009 in 2013	44,610,272	46,524,143
Inventory	5,437,285	5,065,716
Current portion of estimated settlements due from third-party payers	3,602,585	3,463,096
Prepaid expenses and other current assets	5,686,236	5,046,865
Total current assets	<b>81,233,895</b>	<b>84,389,707</b>
Assets whose use is limited, net of current portion:		
Donor restricted investments	6,097,747	6,534,923
Board designated investments	37,980,275	33,138,323
Investments held in trust for estimated self-insurance liabilities	5,005,755	2,465,931
Beneficial interest in trust assets	11,809,221	7,882,372
Investments held under bond indentures	5,171,545	4,942,057
Total assets whose use is limited, net of current portion	<b>66,064,543</b>	<b>54,963,606</b>
Investments	7,138,341	13,009,540
Investments in joint ventures	14,562,738	13,731,843
Property, plant and equipment - net	94,065,559	96,188,497
Other assets:		
Estimated settlements due from third-party payers, net of current portion	685,669	6,804,542
Goodwill and intangible assets, net	6,967,353	7,145,869
Other assets	5,369,091	6,233,132
Total other assets	<b>13,022,113</b>	<b>20,183,543</b>
Total assets	<b>\$ 276,087,189</b>	<b>\$ 282,466,736</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 35,964,615	\$ 34,874,835
Line of credit	5,600,000	6,500,000
Current portion of long-term debt and capital lease obligations	6,489,656	6,832,322
Current portion of estimated settlements due to third-party payers	5,743,160	4,512,361
Current portion of accrued pension and other postretirement benefits	1,313,769	6,085,518
Other current liabilities	5,841,792	5,321,044
Total current liabilities	<b>60,952,992</b>	<b>64,126,080</b>
Long-term debt and capital lease obligations, net of current portion	82,595,414	84,416,006
Estimated self-insurance liabilities	9,683,668	9,243,930
Accrued pension and other postretirement benefits	44,676,486	38,111,463
Estimated settlements due to third-party payers, net of current portion	65,838	122,921
Other liabilities	419,002	597,187
Total liabilities	<b>198,393,400</b>	<b>196,617,587</b>
Net assets:		
Unrestricted	59,544,873	70,965,928
Temporarily restricted	2,096,313	2,587,301
Permanently restricted	16,052,603	12,295,920
Total net assets	<b>77,693,789</b>	<b>85,849,149</b>
Total liabilities and net assets	<b>\$ 276,087,189</b>	<b>\$ 282,466,736</b>

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**For the Years Ended September 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Revenues:		
Net patient service revenues	\$ 309,971,310	\$ 310,122,159
Provision for bad debts	<b>(10,216,094)</b>	<b>(11,142,202)</b>
Net patient service revenues less provision for bad debts	<b>299,755,216</b>	298,979,957
Contributions	<b>1,163,883</b>	1,614,319
Other revenues	<b>25,216,442</b>	22,871,370
EHR incentive payment revenue	<b>1,786,134</b>	2,630,820
Net assets released from restrictions used for operations	<b>833,650</b>	1,871,227
Total revenues	<b>328,755,325</b>	327,967,693
Expenses:		
Salaries and wages	<b>162,727,445</b>	163,729,402
Fringe benefits	<b>43,859,398</b>	47,592,094
Supplies and other expenses	<b>104,034,396</b>	100,342,397
Depreciation and amortization	<b>12,196,877</b>	12,290,822
Interest and financing costs	<b>3,764,488</b>	3,900,483
Total expenses	<b>326,582,604</b>	327,855,198
Income from operations	<b>2,172,721</b>	112,495
Non-operating losses	<b>(2,125,751)</b>	(2,138,589)
Excess of revenues over (under) expenses	<b>\$ 46,970</b>	<b>\$ (2,026,094)</b>

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets (continued)**  
**For the Years Ended September 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Unrestricted net assets:		
Excess of revenues over (under) expenses	\$ 46,970	\$ (2,026,094)
Unrealized (depreciation) appreciation on investments	(5,476,925)	1,235,494
Net change in interest rate swap agreements	8,379	110,862
Net assets released from restrictions for capital acquisitions	437,676	468,174
Pension and postretirement related adjustments	(6,438,240)	34,634,083
Other	1,085	(5,975)
	<b>(11,421,055)</b>	<b>34,416,544</b>
Change in unrestricted net assets		
Temporarily restricted net assets:		
Contributions	580,515	1,262,993
Investment income	533,939	200,796
Net assets released from restrictions used for operations	(833,650)	(1,871,227)
Net assets released from restrictions for capital acquisitions	(437,676)	(468,174)
Unrealized (depreciation) appreciation on investments	(334,116)	219,391
	<b>(490,988)</b>	<b>(656,221)</b>
Change in temporarily restricted net assets		
Permanently restricted net assets:		
Contributions - beneficial interest trust assets	3,751,750	-
Change in beneficial interest in trust assets	176,043	481,590
Reclassifications of donations	(171,110)	5,975
	<b>3,756,683</b>	<b>487,565</b>
Change in permanently restricted net assets		
Change in net assets	<b>(8,155,360)</b>	<b>34,247,888</b>
Net assets, beginning of year	<b>85,849,149</b>	<b>51,601,261</b>
Net assets, end of year	<b>\$ 77,693,789</b>	<b>\$ 85,849,149</b>

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended September 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Change in net assets	\$ (8,155,360)	\$ 34,247,888
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,196,877	12,290,822
Provision for bad debts	10,216,094	11,142,202
Unrealized depreciation (appreciation) on investments	5,811,041	(1,454,885)
Realized gains on sales of investments	(8,307,110)	(5,584,750)
Change in beneficial interest in trust assets	(3,926,849)	(481,590)
Income on investments in joint ventures	(2,478,524)	(2,113,663)
Pension and postretirement related adjustments	6,438,240	(34,634,083)
Change in pledges receivable	668,567	311,968
Change in interest rate swap agreements	177,835	(358,754)
Changes in assets and liabilities:		
Accounts receivable	(8,302,223)	(10,955,090)
Inventory	(371,569)	(812,116)
Prepaid expenses and other current assets	(1,097,826)	(26,258)
Amortization of intangible assets	178,516	(682,763)
Other assets	653,929	(1,310,364)
Accounts payable and accrued expenses	1,089,780	4,144,159
Accrued pension and other postretirement benefits	(4,644,966)	315,292
Estimated settlements (to)/from third-party payers	7,153,100	(4,105,711)
Other current liabilities	301,311	(509,424)
Estimated self-insurance liabilities	659,175	(2,600,672)
Other liabilities	(356,020)	10,973
Net cash provided by (used in) operating activities	<b>7,904,018</b>	<b>(3,166,819)</b>
Cash flows from investing activities:		
Purchases of property and equipment	(10,073,939)	(12,104,527)
Sales of investments, net	1,879,795	19,072,951
Distributions from joint ventures	1,647,629	1,802,805
Net cash (used in) provided by investing activities	<b>(6,546,515)</b>	<b>8,771,229</b>
Cash flows from financing activities:		
Principal payments on long-term debt	(7,235,595)	(7,079,140)
Net payments on line of credit	(900,000)	-
Payments for bond issuance costs	-	(19,346)
Proceeds from borrowings	5,072,337	3,881,365
Net cash used in financing activities	<b>(3,063,258)</b>	<b>(3,217,121)</b>
Change in cash and cash equivalents	(1,705,755)	2,387,289
Cash and cash equivalents at beginning of year	<b>22,439,356</b>	<b>20,052,067</b>
Cash and cash equivalents at end of year	<b>\$ 20,733,601</b>	<b>\$ 22,439,356</b>
Cash paid for interest	<b>\$ 3,880,091</b>	<b>\$ 4,095,398</b>
Equipment acquisitions under capital lease arrangements	<b>\$ 2,266,700</b>	<b>\$ 2,351,850</b>

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



**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 1 - Organization**

Eastern Connecticut Health Network, Inc. (ECHN) and Subsidiaries (collectively the Network) is a not-for-profit, locally governed health system created on September 12, 1995, through the merger of the corporate parents of Manchester Memorial Hospital and Rockville General Hospital, Inc. Its purpose is to provide a health care system for the communities it serves, with quality medical care at a reasonable cost; to foster an environment conducive to health and well-being, whether in the home or in the community; and to enable the health care system to expand to meet the future needs of its communities. ECHN, through its subsidiaries (or members), provides health care, health education, and community services to residents of more than 19 towns in eastern Connecticut, regardless of their ability to pay.

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

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

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

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

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

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

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

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 1 - Organization (continued)**

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

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

**CINECT** - CINECT is a for-profit organization formed to develop a clinically integrated network of community providers that offers high-quality care, value, and an enhanced patient experience. CINECT's mission is to better manage the health of the communities that we serve. While formed during 2014 CINECT has not commenced operations as of September 30, 2014.

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

In August 2013, the ECHN Board of Trustees announced that it had signed a non-binding letter of intent to negotiate the sale of ECHN to a newly formed joint partnership between Tenet Healthcare Corporation (Tenet) and Yale New Haven Health System (YNHHS). On May 12, 2014, Corporators of ECHN voted favorably on the health system's proposed Asset Purchase Agreement (APA) between ECHN and a historic joint venture between Tenet and YNHHS.

On October 24, 2014, ECHN filed its Certificate of Need (CON) application with the Connecticut State regulatory offices, including the Department of Public Health Office of Health Care Access (OCHA) and the Office of the Attorney General. This formal application process is part of the continued pursuit of the acquisition of ECHN by a joint venture between Tenet and YNHHS.

It is anticipated that the state government's review of the application will continue over the next few months and ECHN is working diligently with state and federal regulators to meet all criteria for final approval of the proposed transaction. A definitive agreement is expected to be reached by sometime in early calendar year 2015.

As of September 30, 2014, management has not finalized a purchase agreement and the Trustees believe that the Network will continue with its normal operations and as a going concern for the foreseeable future.

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

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

**Assets Whose Use is Limited** - Assets whose use is limited primarily include cash and investments held by trustees under indenture agreements, cash and investments held for estimated self-insurance liabilities, Board designated investments, which include endowments, cash and investments set aside by the Board for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes; and, beneficial interests in trust assets, which are donor restricted and other restricted investments. Amounts required to meet current liabilities of the Network have been classified as current assets in the consolidated balance sheets as of September 30, 2014 and 2013.

The income earned on restricted funds is generally available for operations of the Network and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future annuity obligations, at which time the income is added to the appropriate restricted net asset balance. However, if a specific gift instrument explicitly requires the permanent reinvestment of appreciation, or a portion thereof, such reinvested amounts are classified within permanently restricted net assets. There were no gifts with reinvestment restrictions for the years ended September 30, 2014 and 2013.

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

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

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

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

**Other-Than-Temporary Impairments on Investments** - The Network accounts for other than temporary impairments in accordance with FASB ASC 320, "*Investments - Debt and Equity Securities*" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other-than-temporary. There were no impairments recorded for the years ended September 30, 2014 and 2013.

**Property, Plant and Equipment** - Property, plant and equipment are stated at cost or, in the case of donated property, at fair value at the date of the gift, less accumulated depreciation and amortization. Major improvements and betterments to existing plant and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the lives of the applicable assets are charged to expense as incurred. Upon disposition or retirement of property, plant and equipment, the cost and related accumulated depreciation and amortization are eliminated from the respective accounts and any resulting gain or loss is included in the results of consolidated operations.

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

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

Equipment under capital leases is amortized utilizing the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Depreciation and amortization expense was \$11,988,770 and \$12,137,690 for the years ended September 30, 2014 and 2013, 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 \$208,107 and \$153,132 for the years ended September 30, 2014 and 2013, respectively, is included within depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

Gifts of property and equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property and equipment must be maintained, expirations of donor restrictions are reported as released from restrictions when the donated or acquired property and equipment assets are placed in service.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Investments in Joint Ventures** - The Network has invested in several joint ventures with other area hospitals, which are accounted for under the equity method of accounting. These joint ventures as of September 30, 2014 and 2013 include the Network's investments in the following:

	<u>2014</u>	<u>Ownership Percentage</u>	<u>2013</u>	<u>Ownership Percentage</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 6,598,390	50 %	\$ 6,216,646	50 %
Tolland Imaging Center	380,818	70 %	201,010	70 %
Metro Wheelchair Service Inc.	-	50 %	54,224	50 %
Ambulance Service of Manchester, LLC	3,798,727	50 %	3,772,317	50 %
Aetna Ambulance Service Inc.	1,961,496	50 %	1,772,500	50 %
Evergreen Endoscopy Center, LLC	359,698	50 %	292,807	50 %
Haynes Street Medical Associates	149,808	23 %	150,193	23 %
Haynes Street Medical Associates II	249,744	15 %	236,834	15 %
Evergreen Medical Associates, LLC	264,503	20 %	258,137	20 %
Evergreen Medical Associates II, LLC	583,419	20 %	559,585	20 %
Walden Behavioral Health	196,135	16 %	197,590	16 %
	<u>14,542,738</u>		<u>13,711,843</u>	
Total joint venture assets				
	14,542,738		13,711,843	
Other miscellaneous assets	<u>20,000</u>		<u>20,000</u>	
Total investments in joint ventures	<u>\$ 14,562,738</u>		<u>\$ 13,731,843</u>	

Distributions from these joint ventures totaled \$1,647,629 and \$1,802,805 for the years ended September 30, 2014 and 2013, respectively. ECHN's share of the earnings of the joint ventures is reported within other revenues and amounted to \$2,478,524 and \$2,113,663 for the years ended September 30, 2014 and 2013, respectively.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 2 - Summary of Significant Accounting Policies (continued)**

Summarized financial information from the financial statements of these organizations as of September 30, 2014 and 2013 and for the years then ended, is as follows:

<u>2014</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess of Revenues (Under) Over Expenses</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 13,250,462	\$ 13,196,779	\$ 763,486	\$ 335,328
Metro Wheelchair Service Inc.	\$ 151,744	\$ (23,958)	\$ (132,407)	\$ (132,412)
Ambulance Service of Manchester, LLC	\$ 9,224,170	\$ 7,597,455	\$ 52,822	\$ 2,052,822
Aetna Ambulance Service Inc.	\$ 4,926,263	\$ 3,922,991	\$ 377,992	\$ 378,000
Haynes Street Medical Associates	\$ 2,516,732	\$ 705,640	\$ 42,487	\$ 66,803
Haynes Street Medical Associates II	\$ 8,596,515	\$ 1,888,090	\$ 318,384	\$ 275,998
Evergreen Endoscopy Center, LLC	\$ 1,595,233	\$ 429,991	\$ (155,623)	\$ 944,374
Evergreen Medical Associates, LLC	\$ 6,612,745	\$ 1,632,513	\$ 293,056	\$ 215,698
Evergreen Medical Associates II, LLC	\$ 11,786,731	\$ 3,059,097	\$ 129,108	\$ 365,789
Tolland Imaging Center	\$ 775,884	\$ 544,026	\$ 256,871	\$ 241,197
Walden Behavioral Health	\$ 1,955,576	\$ 1,190,586	\$ (14,597)	\$ 44,830

<u>2013</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess of Revenues (Under) Over Expenses</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 12,490,586	\$ 12,433,293	\$ 212,661	\$ 295,288
Metro Wheelchair Service Inc.	\$ 221,853	\$ 108,449	\$ (60,913)	\$ (60,914)
Ambulance Service of Manchester, LLC	\$ 8,782,743	\$ 7,544,633	\$ 194,425	\$ 2,494,426
Aetna Ambulance Service Inc.	\$ 4,269,492	\$ 3,544,999	\$ 420,403	\$ 420,404
Haynes Street Medical Associates	\$ 2,542,951	\$ 663,153	\$ 23,205	\$ 79,920
Haynes Street Medical Associates II	\$ 8,435,369	\$ 1,569,706	\$ (112,714)	\$ 181,272
Evergreen Endoscopy Center, LLC	\$ 1,746,503	\$ 585,614	\$ (208,332)	\$ 370,077
Evergreen Medical Associates, LLC	\$ 6,484,054	\$ 1,339,457	\$ 45,367	\$ 239,569
Evergreen Medical Associates II, LLC	\$ 11,906,047	\$ 2,929,989	\$ (99,281)	\$ 394,554
Tolland Imaging Center	\$ 934,135	\$ 287,155	\$ 72,449	\$ 65,048
Walden Behavioral Health	\$ 1,651,417	\$ 1,205,183	\$ 53,023	\$ (16,006)

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 2 - Summary of Significant Accounting Policies (continued)**

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

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

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

For purposes of display, transactions deemed by management to be ongoing, major or central to providing of health care services are reported as operating revenues and operating expenses. Operating revenues include net patient service revenue, grant income and investment income. Peripheral or incidental transactions are reported as non-operating gains and losses. Non-operating gains and losses include investment income and expenses related to property management, losses recognized on investments representing declines in value considered to be other-than-temporary in nature, changes in the fair values of interest rate swaps that do not qualify for hedge accounting (net interest expense) and the costs associated with pursuing business combinations.

**Charity Care** - MMH and RGH provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established and contractual rates. The hospitals do not pursue collection of amounts determined to qualify as charity care; as such, these amounts are not reported as revenue.

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

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

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



**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 2 - Summary of Significant Accounting Policies (continued)**

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

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

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

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

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

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

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

**EHR Incentive Payment Revenue** - The American Recovery and Reinvestment Act of 2009 authorized the Centers for Medicare and Medicaid Services (CMS) to award incentive payments to eligible health care providers who demonstrate Meaningful Use of certified electronic health records (EHR). These incentive programs are designed to support providers in this period of health information technology transition and instill the use of EHRs in meaningful ways to help our nation to improve the quality, safety, and efficiency of patient health care. Total revenue recorded for Medicare amounted to \$1,786,134 and \$2,630,820, for the years ended September 30, 2014 and 2013, respectively.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**Interest in Net Assets of ECHF** - ECHF was formed as a not-for-profit organization to supervise the development activities and engage in investment activities for the benefit of all of the ECHN subsidiaries. ECHN is the sole member of ECHF and the ECHF's Board of Directors is appointed by ECHN. ECHN subsidiaries follow the provisions of FASB ASC 958 "Not-for-Profit Entities". Accordingly, the separate ECHN members record their interest in the net assets of ECHF in their separate financial statements. These amounts have been eliminated in consolidation.

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

The Network accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, "Income Taxes", which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Network may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Network does not have any uncertain tax positions as of September 30, 2014 and 2013. As of September 30, 2014 and 2013, the Network did not record any penalties or interest associated with uncertain tax positions. Generally, the Network's prior three tax years are open and subject to examination by the Internal Revenue Service.

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

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

The fair value of a liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized. As of September 30, 2014 and 2013, the Network has recognized \$412,007, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the consolidated balance sheets within other liabilities.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

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

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

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

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

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

**Advertising Costs** - The Network expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was \$1,576,106 and \$1,842,135 for the years ended September 30, 2014 and 2013, respectively, and is recorded in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

**Accounting Pronouncements Adopted** - In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "Disclosures about Offsetting Assets and Liabilities", which was later clarified by ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities". This guidance contained 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 became effective for the Network beginning on October 1, 2013, and did not have an impact on its consolidated financial statements.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**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 became effective for the Network beginning on October 1, 2013, and did not have a material impact on its consolidated statements of cash flows.

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

**Subsequent Events** - Subsequent events have been evaluated through January 27, 2015, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes that there are no subsequent events having a material impact on the consolidated financial statements.

**Note 3 - Assets Whose Use is Limited and Investments**

Assets whose use is limited and investments as of September 30, 2014 and 2013, include the following:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Board designated and donor-restricted:				
Money market funds	\$ 44,043,227	\$ 44,043,227	\$ 507,386	\$ 507,386
U.S. equities	-	-	215,775	206,426
Other investments	34,368	34,795	-	-
Mutual funds:				
U.S. small/mid cap	-	-	2,887,193	3,203,837
Investment grade taxable	-	-	413,221	403,449
Short-term bond fund	-	-	2,027,248	2,006,817
Large value fund	-	-	11,535,567	12,161,104
Moderate allocation funds	-	-	11,605,313	12,765,022
Foreign growth fund	-	-	6,058,560	7,104,073
Other	-	-	1,038,597	1,315,132
	<u>\$ 44,077,595</u>	<u>\$ 44,078,022</u>	<u>\$ 36,288,860</u>	<u>\$ 39,673,246</u>
Total				

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 3 - Assets Whose Use is Limited and Investments (continued)**

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 96,364	\$ 96,364	\$ 326,811	\$ 326,811
U.S. equities	247,911	255,038	30,000	48,325
Mutual funds:				
Bond fund	3,605,105	3,625,132	1,090,954	1,075,321
Equity mutual funds	704,180	798,211	-	-
Emerging markets fund	101,840	101,014	86,840	90,905
Midcap stock fund	68,647	77,581	25,000	27,609
International stock fund	-	-	23,648	30,292
Moderate allocation fund	50,000	52,415	803,904	866,668
Total	<u>\$ 4,874,047</u>	<u>\$ 5,005,755</u>	<u>\$ 2,387,157</u>	<u>\$ 2,465,931</u>
Investments held under bond indenture:				
Money market funds	\$ 5,174,324	\$ 5,174,324	\$ 5,994,581	\$ 5,994,581
U.S. government securities	1,160,527	1,161,137	797,747	798,007
Total	<u>\$ 6,334,851</u>	<u>\$ 6,335,461</u>	<u>\$ 6,792,328</u>	<u>\$ 6,792,588</u>
Beneficial interest in trust assets	<u>\$ 10,331,633</u>	<u>\$ 11,809,221</u>	<u>\$ 6,579,883</u>	<u>\$ 7,882,372</u>
Investments:				
Money market funds	\$ 7,138,341	\$ 7,138,341	\$ 455,766	\$ 455,766
U.S. equities	-	-	239,278	273,569
Corporate bonds	-	-	15,389	15,427
Certificates of deposit	-	-	100,000	100,751
Mutual funds:				
U.S. small/mid cap	-	-	933,236	1,042,212
Investment grade taxable	-	-	399,749	396,103
Global high yield taxable	-	-	81,205	81,489
Short-term bond	-	-	5,715,771	5,688,229
Large value fund	-	-	1,243,896	1,509,882
Moderate allocation funds	-	-	1,694,843	2,017,532
Foreign large fund	-	-	1,169,563	1,428,580
Total	<u>\$ 7,138,341</u>	<u>\$ 7,138,341</u>	<u>\$ 12,048,696</u>	<u>\$ 13,009,540</u>
Total assets whose use is limited and investments	<u>\$ 72,756,467</u>	<u>\$ 74,366,800</u>	<u>\$ 64,096,924</u>	<u>\$ 69,823,677</u>

Interest and dividend income, which is included in other operating revenue, on the assets whose use is limited and investments totaled \$1,327,419 and \$1,556,974 for the years ended September 30, 2014 and 2013, respectively. There were realized gains of \$7,812,247 and \$5,584,750 for the years ended September 30, 2014 and 2013, respectively, which are included within other revenues.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 4 - Fair Value Measurements**

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

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

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

*Level 2* - Inputs to the valuation methodology include:

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

*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, 2014 and 2013, by the valuation hierarchy.

<b>2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Money market funds	\$ 56,452,256	\$ -	\$ -	\$ 56,452,256
U.S. government securities	1,161,137	-	-	1,161,137
U.S. equities	255,038	-	-	255,038
Other investments	34,795	-	-	34,795
<b>Mutual funds:</b>				
Bond fund	3,625,132	-	-	3,625,132
Equity mutual funds	798,211	-	-	798,211
Emerging markets fund	101,014	-	-	101,014
Midcap stock fund	77,581	-	-	77,581
Moderate allocation fund	52,415	-	-	52,415
Beneficial interest in trusts	-	-	11,809,221	11,809,221
Total assets at fair value	<u>\$ 62,557,579</u>	<u>\$ -</u>	<u>\$ 11,809,221</u>	<u>\$ 74,366,800</u>
<b>Liabilities:</b>				
Obligations under interest rate swap agreements	<u>\$ -</u>	<u>\$ 3,800</u>	<u>\$ -</u>	<u>\$ 3,800</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 3,800</u>	<u>\$ -</u>	<u>\$ 3,800</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 4 - Fair Value Measurements (continued)**

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

During the years ended September 30, 2014 and 2013, the value of the beneficial interest in trusts increased for a change in market value of \$676,292 and \$787,751, respectively. In addition, the Network received \$500,251 and \$306,161 in distributions from these trusts in 2014 and 2013, respectively. During 2014, the Network recorded additional beneficial interest in trust assets in the amount of \$3,750,808. There were no additional amounts recorded in 2013.

The Network's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Network uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to money market funds, U.S. government securities, certificates of deposit, U.S. equities and mutual funds.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Note 4 - Fair Value Measurements (continued)**

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

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

The fair value of the Network's Series A and C Bonds are based on current traded value. The fair value of the Series A and C Bonds as of September 30, 2014 and 2013, is approximately \$41,166,328 and \$41,854,230, respectively. The fair value of the Network's remaining long-term debt approximates its carrying value.

As of September 30, 2014 and 2013, the Network's other financial instruments included accounts receivable, accounts payable and accrued expenses and estimated settlements due to and from third-party payers. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

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

**Note 5 - Other Assets**

Other assets as of September 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Pledges receivable, net	\$ -	\$ 210,112
Other receivables	795,005	887,661
Notes receivable	134,014	307,040
Unamortized bond issuance costs	2,282,438	2,580,484
Losses recoverable	<u>2,157,634</u>	<u>2,247,835</u>
Total	<u>\$ 5,369,091</u>	<u>\$ 6,233,132</u>

As of September 30, 2014 and 2013, \$228,691 and \$687,146 of pledges receivables have been included within prepaid expenses and other current assets as management anticipates them to be collected within the next year.



**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**As of and for the Years Ended September 30, 2014 and 2013**

**Note 5 - Other Assets (continued)**

Pledges receivable are expected to be realized as follows:

	<u>2014</u>	<u>2013</u>
In one year or less	\$ 237,691	\$ 688,276
Between one and five years	-	213,662
Greater than five years	-	-
Less: discount for present value and allowance for uncollectible amounts	<u>(9,000)</u>	<u>(4,680)</u>
Pledges receivable - net	<u>\$ 228,691</u>	<u>\$ 897,258</u>

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

As of September 30, 2014 and 2013, unamortized bond issuance costs, which are included within other assets, consist of the following:

	<u>2014</u>	<u>2013</u>
Deferred financing costs	\$ 3,735,675	\$ 3,735,675
Less: accumulated amortization	<u>(1,453,237)</u>	<u>(1,155,191)</u>
Total	<u>\$ 2,282,438</u>	<u>\$ 2,580,484</u>

**Note 6 - Property, Plant and Equipment**

Property, plant and equipment as of September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 5,395,243	\$ 5,333,743
Buildings and building improvements	159,603,375	160,660,529
Fixed equipment	32,403,097	31,817,532
Movable equipment	<u>112,056,204</u>	<u>104,373,295</u>
	309,457,919	302,185,099
Less: accumulated depreciation and amortization	<u>(218,033,560)</u>	<u>(206,928,185)</u>
	91,424,359	95,256,914
Construction in progress	<u>2,641,200</u>	<u>931,583</u>
Total	<u>\$ 94,065,559</u>	<u>\$ 96,188,497</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 6 - Property, Plant and Equipment (continued)**

For the years ended September 30, 2014 and 2013, the Network capitalized interest related to construction financed with tax-exempt debt of \$20,850 and \$126,000, respectively. The cost to complete the construction in progress is approximately \$4,154,000 and \$2,981,000 as of September 30, 2014 and 2013, respectively.

For the years ended September 30, 2014 and 2013, the Network disposed of property, plant and equipment in the amounts of \$657,588 and \$24,086,313, respectively and all disposals were of fully depreciated assets.

**Note 7 - Intangible Assets**

The gross carrying amount and accumulated amortization, by class of intangible assets, as of September 30, 2014 and 2013, consisted of the following:

<u>2014</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (1,378,528)	\$ 520,156
Other intangible assets	101,000	(95,950)	5,050
Goodwill	7,317,518	(875,371)	6,442,147
Total	<u>\$ 9,317,202</u>	<u>\$ (2,349,849)</u>	<u>\$ 6,967,353</u>
<u>2013</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (1,349,202)	\$ 549,482
Other intangible assets	101,000	-	101,000
Goodwill	7,252,932	(757,545)	6,495,387
Total	<u>\$ 9,252,616</u>	<u>\$ (2,106,747)</u>	<u>\$ 7,145,869</u>

Amortization expense related to intangible assets was \$243,102 and \$149,767 for the years ended September 30, 2014 and 2013, respectively.

The estimated amortization expense in each of the succeeding five fiscal years and thereafter, as of September 30, 2014, is as follows:

2015	\$ 228,440
2016	215,257
2017	200,714
2018	108,831
2019	73,359
Thereafter	<u>439,526</u>
Total	<u>\$ 1,266,127</u>

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

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

As of September 30, 2014 and 2013, the Hospital has a \$450,000 and \$400,000, respectively limit per occurrence for workers' compensation claims. Prior to September 30, 2013, the per occurrence limit was \$350,000. The Network has employed independent actuaries to estimate the ultimate costs, if any, of workers' compensation claims. Accrued workers' compensation reserves have been discounted at 5% as of September 30, 2014 and 2013, and in management's opinion provide an adequate reserve for loss contingencies.

In fiscal year 2007, ECHN established a single-parent captive, CHIC, which covers all of its subsidiaries. The captive provides malpractice and general insurance coverage for ECHN and its subsidiaries at \$3,000,000 per occurrence and \$9,000,000 in the aggregate for the years ended September 30, 2014 and 2013.

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

ECHN does not self-insure any malpractice risks other than exposures greater than its excess coverages, however, as of September 30, 2014 and 2013, ECHN has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with CHIC.

The activity in the reserve for outstanding losses and loss related expenses at ECHN for workers' compensation and malpractice claims, as of September 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 11,296,110	\$ 14,873,830
Workers' compensation:		
Losses incurred related to:		
Current year	820,878	697,778
Prior year	293,054	3,200,111
Total incurred	<u>1,113,932</u>	<u>3,897,889</u>
Paid losses related to:		
Current year	(502,541)	(414,370)
Prior year	(1,260,229)	(1,732,496)
Total paid	<u>(1,762,770)</u>	<u>(2,146,866)</u>
Professional and general:		
Losses incurred related to:		
Current year	2,500,000	997,781
Prior year	(476,182)	6,950,980
Total incurred	<u>2,023,818</u>	<u>7,948,761</u>
Paid losses related to:		
Current year	(35,098)	(45,727)
Prior year	(628,237)	(13,231,777)
Total paid	<u>(663,335)</u>	<u>(13,277,504)</u>
Balance at end of year	<u>\$ 12,007,755</u>	<u>\$ 11,296,110</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 8 - Estimated Self-Insurance Liabilities (continued)**

*Workers' Compensation* - The development on prior-year incurred losses increased by \$293,054 and \$3,200,111 for the years ended September 30, 2014 and 2013, respectively.

*Professional and General* - The development on prior-year incurred losses (decreased) increased by \$476,182 and \$6,950,980 for the years ended September 30, 2014 and 2013, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, included estimates of claims incurred but not reported. Approximately \$2,324,000 and \$2,272,000 of the reserve as of September 30, 2014 and 2013, respectively, are included in other current liabilities with the remaining balance of the reserve included in estimated self-insurance liabilities in the accompanying consolidated balance sheets.

**Note 9 - Pension and Other Postretirement Benefits**

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

On December 31, 2008, ECHN implemented a soft freeze on the defined-benefit pension plan. During September 2013 the Trustees passed a resolution to freeze all benefits related to the defined-benefit pension plan. Qualifying 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 contribution is non-guaranteed for all employees except certain union workers. During fiscal year 2014 and 2013, the Hospital incurred expenses of \$2,259,145 and \$2,076,122, respectively, related to this plan.

MMH and RGH also sponsor a postretirement benefit plan that provides health care benefits to those employees who retire. The criterion to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. MMH full-time registered nurse retirees (retired prior to October 1, 2005 and were eligible per the Union contract) are grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan.

Grandfathered eligible retirees are required to pay 100% of the total cost of the medical and dental coverage they elect for an eligible spouse.

For non-grandfathered retirees, the postretirement health care plan is contributory and the retiree pays 100% of the premium.

The Network, as of September 30, 2014 and 2013, has no unrecognized actuarial losses related to the defined benefit pension plan.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 9 - Pension and Other Postretirement Benefits (continued)**

The effects of Medicare Prescription Drug, Improvement and Modernization Act of 2003 were reflected as of September 30, 2014 and 2013, assuming that ECHN will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and that ECHN will receive the federal subsidy. The subsidy reduced plan liabilities by approximately \$60,000 and \$900,000 for the years ended September 30, 2014 and 2013, respectively. Subsidies of \$82,280 and \$90,769 were received in the years ended September 30, 2014 and 2013, respectively. Future benefits of \$193,769 are expected to be paid and future subsidies of \$57,671 are expected to be received related to the year ended September 30, 2015.

The pension and postretirement plans' change in benefit obligation and change in plan assets for the years ended September 30, 2014 and 2013, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Change in benefit obligation:</b>				
Benefit obligation, beginning of year	\$ 192,294,259	\$ 223,101,495	\$ 4,193,572	\$ 4,633,005
Service cost	1,511,408	2,709,867	54,345	72,548
Interest cost	9,912,203	9,475,222	183,189	162,852
Plan participants' contributions	-	-	252,224	296,951
Receipt of Medicare Part D reimbursement	-	-	82,280	90,769
Plan amendments	-	-	(1,500,168)	-
Plan curtailments	-	(7,795,069)	-	-
Actuarial loss (gain)	18,293,175	(26,124,678)	103,272	(499,239)
Benefits paid	(9,352,892)	(9,072,578)	(520,055)	(563,314)
	<u>\$ 212,658,153</u>	<u>\$ 192,294,259</u>	<u>\$ 2,848,659</u>	<u>\$ 4,193,572</u>
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	\$ 152,290,850	\$ 149,218,728	\$ -	\$ -
Actual return on plan assets	21,778,598	9,144,700	-	-
Employer contributions	4,800,000	3,000,000	185,551	175,594
Plan participants' contributions	-	-	252,224	296,951
Receipt of Medicare Part D reimbursement	-	-	82,280	90,769
Benefits paid	(9,352,891)	(9,072,578)	(520,055)	(563,314)
	<u>\$ 169,516,557</u>	<u>\$ 152,290,850</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued pension and other postretirement benefits	<u>\$ (43,141,596)</u>	<u>\$ (40,003,409)</u>	<u>\$ (2,848,659)</u>	<u>\$ (4,193,572)</u>
Accumulated benefit obligation	<u>\$ (212,658,153)</u>	<u>\$ (192,294,259)</u>	<u>\$ -</u>	<u>\$ -</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of and for the Years Ended September 30, 2014 and 2013**

**Note 9 - Pension and Other Postretirement Benefits (continued)**

The amount recognized in the Network's consolidated balance sheets as of September 30, 2014 and 2013, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current liabilities	\$ 1,120,000	\$ 5,700,000	\$ 193,769	\$ 385,518
Noncurrent liabilities	<u>42,021,596</u>	<u>34,303,409</u>	<u>2,654,890</u>	<u>3,808,054</u>
Net amount recognized	<u>\$ 43,141,596</u>	<u>\$ 40,003,409</u>	<u>\$ 2,848,659</u>	<u>\$ 4,193,572</u>

The allocation of the accrued pension and postretirement benefits for the years ended September 30, 2014 and 2013, is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
MMH	\$ 33,243,046	\$ 30,733,610	\$ 2,377,259	\$ 3,206,427
RGH	<u>9,898,550</u>	<u>9,269,799</u>	<u>471,400</u>	<u>987,145</u>
Total	<u>\$ 43,141,596</u>	<u>\$ 40,003,409</u>	<u>\$ 2,848,659</u>	<u>\$ 4,193,572</u>

The plans' components of net periodic benefit cost for the years ended September 30, 2014 and 2013, are as follows (pension benefits information presented is for MMH and RGH combined):

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Service cost	\$ 1,511,408	\$ 2,709,867	\$ 54,345	\$ 72,548
Interest cost	9,912,203	9,475,222	183,189	162,852
Expected return on plan assets	(12,179,861)	(11,692,676)	-	-
Amortization of prior service (credits) costs	-	(234,992)	77,724	77,724
Curtailment actuarial gain	-	(1,148,330)	-	-
Recognized actuarial (gain) loss	<u>887,441</u>	<u>4,123,868</u>	<u>(105,864)</u>	<u>(55,153)</u>
Net periodic benefit cost	<u>\$ 131,191</u>	<u>\$ 3,232,959</u>	<u>\$ 209,394</u>	<u>\$ 257,971</u>

The allocation of the net periodic benefit cost for the years ended September 30, 2014 and 2013, is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
MMH	\$ 103,762	\$ 2,475,143	\$ 174,744	\$ 197,246
RGH	<u>27,429</u>	<u>757,816</u>	<u>34,650</u>	<u>60,725</u>
Total	<u>\$ 131,191</u>	<u>\$ 3,232,959</u>	<u>\$ 209,394</u>	<u>\$ 257,971</u>

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

The assumptions used to determine pension and postretirement benefit obligations as of September 30, 2014 and 2013, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Discount rate	<b>4.54%</b>	5.27%	<b>4.11%</b>	4.54%
Expected long-term rate of return	<b>8.00%</b>	8.00%	N/A	N/A
Rate of compensation increase	<b>0.00%</b>	3.00%	N/A	N/A
Initial medical trend rate	N/A	N/A	<b>9.44%</b>	7.62%
Ultimate medical trend rate	N/A	N/A	<b>4.50%</b>	4.50%
Number of years to ultimate medical trend rate	N/A	N/A	<b>13 years</b>	14 years

The assumptions used to determine net periodic benefit cost of the pension and postretirement plans for the years ended September 30, 2014 and 2013, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Discount rate	<b>5.27%</b>	4.32%	<b>4.54%</b>	3.64%
Expected long-term rate of return	<b>8.00%</b>	8.00%	N/A	N/A
Rate of compensation increase	<b>3.00%</b>	3.00%	N/A	N/A
Initial medical trend rate	N/A	N/A	<b>9.44%</b>	7.62%
Ultimate medical trend rate	N/A	N/A	<b>4.50%</b>	4.50%
Number of years to ultimate medical trend rate	N/A	N/A	<b>13 years</b>	14 years

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

	<b>One Percentage Point Increase</b>	<b>One Percentage Point Decrease</b>
Effect on year-end postretirement benefit obligation	\$ 225,033	\$ (233,728)
Effect on total of service and interest cost components	\$ 20,880	\$ (18,565)

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

The pension plan's weighted-average asset allocations as of September 30, 2014 and 2013, by asset category, are as follows:

	<b>Pension Benefits</b>	
	<b>2014</b>	<b>2013</b>
Asset category:		
Equity securities	<b>0%</b>	56%
Debt securities	<b>99%</b>	43%
Cash and cash equivalents	<b>1%</b>	1%
	<b>100%</b>	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.



**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**As of and for the Years Ended September 30, 2014 and 2013**

**Note 9 - 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, 2014 and 2013, by the valuation hierarchy.

<b>2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 708,333	\$ -	\$ -	\$ 708,333
Fixed income mutual funds:				
Long duration	150,668,190	-	-	150,668,190
U.S. Core Opportunistic	7,500,003	-	-	7,500,003
U.S. Passive	7,558,893	-	-	7,558,893
Guaranteed investment contract	-	-	3,081,138	3,081,138
Total plan assets at fair value	\$ 166,435,419	\$ -	\$ 3,081,138	\$ 169,516,557
<b>2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 633,333	\$ -	\$ -	\$ 633,333
Fixed income mutual funds:				
Long duration	64,833,809	-	-	64,833,809
U.S. Core Opportunistic	13,328,905	-	-	13,328,905
U.S. 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 corp	-	-	-	-
Large cap	31,678,381	-	-	31,678,381
International	26,725,272	-	-	26,725,272
Total plan assets at fair value	\$ 149,060,713	\$ -	\$ 3,230,137	\$ 152,290,850

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**Note 9 - Pension and Other Postretirement Benefits (continued)**

The changes within the Level 3 investments as of September 30, 2014 and 2013, are as follows:

<b>2014</b>	<b>Guaranteed Investment Contract</b>
Balance as of October 1, 2013	\$ 3,230,137
Investment income	133,795
Expenditures	(282,794)
Balance as of September 30, 2014	\$ 3,081,138
<b>2013</b>	<b>Guaranteed Investment Contract</b>
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

During fiscal year 2015, ECHN anticipates contributing \$1,120,000 to the defined benefit pension plan.

The benefit payments, which reflect estimated future service, expected to be paid from the plans for the year ended September 30, 2014, are as follows:

	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
2015	\$ 9,255,587	\$ 193,769
2016	\$ 9,656,312	\$ 205,006
2017	\$ 10,171,865	\$ 224,486
2018	\$ 10,703,439	\$ 235,707
2019	\$ 11,264,848	\$ 247,455
2020-2024	\$ 63,572,682	\$ 1,227,224

The Network also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% - 50%, depending upon years of service, of contributions matched by the Network, up to a maximum of 6% of annual compensation. The Network incurred expenses related to the employee savings plan amounting to \$2,558,753 and \$2,199,235, for the years ended September 30, 2014 and 2013, respectively.

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**Note 10 - Long-term Debt and Lines of Credit**

Long-term debt and capital lease obligations, as of September 30, 2014 and 2013, consist of the following:

	<b>2014</b>	<b>2013</b>
Connecticut Health and Educational Facilities Authority (CHEFA) Hospital Revenue Bonds, ECHN Series A Bonds, bearing interest at rates ranging from 5.625% to 6.375% - net of unamortized original issue discount of \$39,281 and \$46,505 for 2014 and 2013, respectively.	<b>\$ 8,245,719</b>	\$ 9,093,495
CHEFA Hospital Revenue Bonds, ECHN Series C Bonds, bearing interest ranging from 4.00% to 5.125% - net of unamortized original issue premium of \$330,315 and \$350,960 for 2014 and 2013, respectively.	<b>32,990,315</b>	33,760,059
CHEFA Hospital Revenue Bonds, ECHN Series D Bonds bearing interest at a variable rate, adjusted weekly.	<b>13,743,000</b>	14,049,000
CHEFA Hospital Demand Revenue Bonds, ECHN Series E Bonds, bearing interest at a variable rate, adjusted weekly.	<b>17,090,000</b>	17,580,000
Loan due to Sovereign Bank, face amount \$5,200,000 due and payable in semi-annual principal and interest installments maturing on January 3, 2022 and bearing interest at 3.38%	<b>4,154,222</b>	4,674,222
Promissory note payable to Rockville Bank due and payable in monthly principal and interest installments maturing on January 15, 2015, bearing interest at a fixed rate of 3.75%.	<b>172,331</b>	883,270
Promissory note payable to Rockville Bank due and payable in monthly principal and interest installments maturing on July 1, 2025, bearing interest at 5.87%.	<b>742,092</b>	791,933
Promissory note payable to Webster Bank due and payable in monthly principal and interest installments with a balloon payment due on May 1, 2018, bearing interest at 4.22%	<b>601,219</b>	615,659
Promissory note payable to Webster Bank due and payable in monthly principal and interest installments with a balloon payment due on December 1, 2017, bearing interest at 4.11%	<b>554,013</b>	568,058
Promissory note payable to Webster Bank due and payable in monthly principal and interest installments with a balloon payment due on May 1, 2019 bearing interest at 5.14%	<b>517,406</b>	-
Promissory note payable to 428 Hartford Turnpike Associates, LLP payable in monthly principal and interest installments, maturing September 1, 2021, bearing interest at 6%.	<b>223,265</b>	247,832

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 10 - Long-term Debt and Lines of Credit (continued)**

	<u>2014</u>	<u>2013</u>
Debt of ECHN Corporate Services. Various due dates and interest rates.	43,215	210,556
Mortgage payable to Rockville Bank, maturing April 1, 2022, bearing interest at 6.5% for the first five years, adjustable thereafter every five years.	144,715	160,955
Promissory note payable to Joseph Hanna MD, LLC due and payable in one principal payment due in December 2013. This is a non interest bearing note.	-	119,890
Promissory notes with Philips Medical Capital, payable in monthly installments, maturing in fiscal year 2021 and bearing interest at rates between 4.3% and 6.8%	2,542,664	-
Mortgage payable to Rockville Bank, maturing January 1, 2027 bearing interest at 6.6% for the first five years, adjustable thereafter, every five years.	129,901	138,019
Capital lease obligations (see Note 12)	<u>7,190,993</u>	<u>8,355,380</u>
Total long-term debt and capital lease obligations	<u>89,085,070</u>	<u>91,248,328</u>
Less: current maturities	<u>(6,489,656)</u>	<u>(6,832,322)</u>
Total long-term debt and capital lease obligations - net of current portion	<u>\$ 82,595,414</u>	<u>\$ 84,416,006</u>

Lines of credit as of September 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Revolving line of credit with TD Bank, bearing interest at a variable rate.	<u>\$ 5,600,000</u>	<u>\$ 6,500,000</u>

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

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 10 - Long-term Debt and Lines of Credit (continued)**

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

The Series B bonds were refinanced as part of the issuance of Series E bonds as described below.

On October 1, 2005, MMH, RGH, EES, and ECHF (collectively, the Series C Obligated Group) entered into an agreement and open-ended mortgage with CHEFA to borrow \$37,065,000 in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network Issue, Series C (the Series C Bonds). The proceeds from the Series C Bonds, net of the original issue premium and amounts used to establish required reserve accounts, were placed in an irrevocable trust to advance refund and defease a portion of the Series 2000A Bonds. MMH, RGH, and EES have been legally released from any future debt service on the portion of defeased Series 2000A Bonds. The Series C Bonds are due on various due dates through July 1, 2034, bearing interest at rates ranging from 4.00% to 5.125%.

In May 2009, MMH, RGH, EES, and ECHF (collectively, the Series D Obligated Group) entered into an agreement and open-ended mortgage with CHEFA in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network, Issue Series D (the Series D Bonds). A portion of the proceeds from the Series D Bonds, net of amounts used to establish required reserve accounts, were used to finance renovations at MMH, an expansion at EES, and other campus improvements. The Series D Bonds are due on various due dates through May 14, 2039.

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

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

Under the terms of the CHEFA agreements, each member of the Obligated Groups is jointly and severally liable for the full and prompt payment of the amounts owed by the Obligated Groups. Total debt of the Obligated Groups was \$75,932,222 and \$78,853,222 as of September 30, 2014 and 2013, respectively. The debt is also secured by the gross receipts of the Obligated Groups.

In June 2012, the Obligated Group entered into a loan agreement with Sovereign Bank, through CHEFA's Tax-Exempt Equipment Loan Program, for \$5,200,000 in connection with purchase of equipment and renovation costs. Semi-annual principal and interest payments are due through January 2022.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 10 - Long-term Debt and Lines of Credit (continued)**

The Hospital is party to various capital leases, which are described in Note 12.

The annual maturities of the long-term debt and capital lease obligations in each of the succeeding five years and thereafter, as of September 30, 2014, are as follows:

2015	\$	6,489,656
2016		5,988,958
2017		5,168,357
2018		5,809,969
2019		5,048,249
Thereafter		60,288,847
		88,794,036
Plus - premium		291,034
		89,085,070
Total	\$	89,085,070

On November 11, 2010, ECHN entered into a \$6,500,000 unsecured line of credit with TD Bank, N.A. This line of credit carries an interest rate of LIBOR plus 2.25% and expires one year after issuance date. ECHN renewed this line of credit in 2013. In 2014, the line of credit agreement was modified. The amount available was reduced to \$5,750,000, the interest rate was increased to LIBOR plus 2.5% and the maturity was extended to September 29, 2015. As of September 30, 2014 and 2013, MMH had \$5,600,000 and \$6,500,000, respectively, outstanding under this line of credit.

The Network is subject to various financial covenants related to these debt agreements. The Network was in compliance with these covenants in 2014. The Network received a waiver for violating a debt service coverage ratio for 2013.

**Note 11 - Derivatives**

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

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

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 11 - Derivatives (continued)**

Termination risk represents the risk that the Network may be required to make a significant payment to the counterparty, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to the Network's ability to meet its debt or liquidity covenants.

In May 2009, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$15,250,000 of its variable rate Series D Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.89%. Changes in the fair value of this swap are recorded in the consolidated statements of operations and changes in net assets. Effective May 14, 2014, the interest rate swap agreement on the Series D variable rate debt expired. The Network's portion of the swap agreement in force related to this strategy as of September 30, 2014 and 2013, and the liability and interest expense recognized by the Network are as follows:

	<b>2014</b>	<b>2013</b>
Notional amount of contract	\$ -	\$ 14,049,000
Fair value of swap contract recognized in other liabilities	\$ -	\$ 170,000
Net interest income recognized in non-operating losses	\$ (170,000)	\$ (248,000)

In June 2012, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$5,200,000 of its debt with Sovereign Bank. Under the terms, ECHN pays a fixed rate of 3.38%. The swap is accounted for as a cash flow hedge in accordance with ASC 815 "Accounting for Derivative Instruments and Hedging Activities". This accounting treatment requires the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument to be reported as a component of other changes in unrestricted net assets and to be reclassified into operations in the same period or periods during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, shall be recognized currently in non-operating losses.

The Network's portion of the swap agreement in force related to this strategy as of September 30, 2014 and 2013, and the liability and unrealized (gain) loss recognized by the Network are as follows:

	<b>2014</b>	<b>2013</b>
Notional amount of contract	\$ 4,154,222	\$ 4,674,222
Fair value of swap contract recognized in other liabilities	\$ 3,800	\$ 12,000
Unrealized (gain) loss recognized in unrestricted net assets	\$ (8,200)	\$ (111,000)

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 12 - Lease Commitments**

ECHN leases equipment under capital lease agreements, which begin to expire in 2015. The interest rates range from 4% to 8%. The net carrying value of equipment under the capital lease was \$8,111,729 and \$8,332,943 as of September 30, 2014 and 2013, respectively. ECHN leases various office space and certain equipment under operating leases that expire in various years through fiscal year 2024. Certain leases may be renewed at the end of their term.

Future minimum payments under capital leases and non-cancelable operating leases as of September 30, 2014, consisted of the following:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2015	\$ 3,174,905	\$ 5,689,694
2016	2,493,549	5,204,009
2017	1,255,956	4,128,009
2018	500,418	2,902,495
2019	173,140	2,437,115
Thereafter	<u>26,426</u>	<u>12,606,442</u>
	7,624,394	<u>\$ 32,967,764</u>
Less: interest on capital lease	<u>433,401</u>	
Principal amount of capital lease	<u>\$ 7,190,993</u>	

Rent expense under operating and month-to-month leases was \$6,622,257 and \$6,264,706 for the years ended September 30, 2014 and 2013, respectively.

**Note 13 - Concentrations of Credit Risk**

ECHN grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix in patient accounts receivable as of September 30, 2014 and 2013, before allowances for doubtful accounts, consists of the following:

	<u>2014</u>	<u>2013</u>
Medicare	23%	24%
Self-pay	32%	40%
Managed care	24%	17%
Medicaid	13%	4%
Commercial insurance	3%	9%
Other	<u>5%</u>	<u>6%</u>
	<u>100 %</u>	<u>100 %</u>



**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 14 - Net Patient Service Revenues**

Net patient service revenues for the years ended September 30, 2014 and 2013, consists of the following:

	<u>2014</u>	<u>2013</u>
Patient service revenues:		
Inpatient services	\$ 333,197,293	\$ 328,063,718
Outpatient services	<u>592,717,508</u>	<u>572,644,188</u>
Gross patient service revenues	<u>925,914,801</u>	900,707,906
Deductions - allowances	<u>(615,943,491)</u>	<u>(590,585,747)</u>
Net patient service revenues	<u>\$ 309,971,310</u>	<u>\$ 310,122,159</u>

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

For uninsured patients that do not qualify for financial assistance, the Network offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Network's allowance for doubtful accounts covers all accounts greater than 6 months for both self-pay accounts receivable and third party payors as of September 30, 2014 and 2013. The Network's self-pay and third-party payors write-offs totaled \$11,700,441 and \$11,403,046 for 2014 and 2013, respectively. The Network did not change its charity care or financial assistance policy during 2014 or 2013.

At September 30, 2014 and 2013, 30.4% and 32.3% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 69.6% and 67.7% were from nongovernmental payors, respectively. Nongovernmental payors are primarily insurance companies and self-pay payors. Management has recorded an allowance for doubtful accounts, as noted above, which, in its opinion, is sufficient to provide for risk of nonpayment.

**Note 15 - Community Benefit**

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

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 15 - Community Benefit (continued)**

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

MMH and RGH provide care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because MMH and RGH do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of traditional charity care provided, determined on the basis of cost, was \$2,144,342 and \$2,591,214 for the years ended September 30, 2014 and 2013, respectively.

**Note 16 - Functional Expenses**

ECHN provides general health care services to residents within its geographical location. For the years ended September 30, 2014 and 2013, expenses relating to providing these services are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 273,670,130	\$ 272,099,247
Fund raising	1,210,885	544,391
General and administrative	<u>51,701,589</u>	<u>55,211,560</u>
Total	<u>\$ 326,582,604</u>	<u>\$ 327,855,198</u>

**Note 17 - Temporarily and Permanently Restricted Net Assets**

The temporarily restricted net assets available, as of September 30, 2014 and 2013, are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Departmental and endowment purposes	\$ 1,910,003	\$ 2,114,039
Capital campaign and pledges	<u>186,310</u>	<u>473,262</u>
Total	<u>\$ 2,096,313</u>	<u>\$ 2,587,301</u>

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
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**Note 17 - Temporarily and Permanently Restricted Net Assets (continued)**

As of September 30, 2014 and 2013, permanently restricted net assets consist of the following:

	<u>2014</u>	<u>2013</u>
Beneficial interest in trust assets	\$ 11,809,221	\$ 7,882,372
Endowments restricted for:		
Other departmental purposes	3,553,655	3,709,665
Charity care	532,024	546,180
Special needs	151,579	151,579
Cancer research	6,124	6,124
	<u>6,124</u>	<u>6,124</u>
Total	<u>\$ 16,052,603</u>	<u>\$ 12,295,920</u>

The composition of the Network's endowment by net asset class as of September 30, 2014 and 2013, was as follows:

<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,854,365	\$ 4,243,382	\$ 6,097,747
Board-designated endowment funds	37,980,275	-	-	37,980,275
Net assets, September 30, 2014	<u>\$ 37,980,275</u>	<u>\$ 1,854,365</u>	<u>\$ 4,243,382</u>	<u>\$ 44,078,022</u>
<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,121,375	\$ 4,413,548	\$ 6,534,923
Board-designated endowment funds	33,138,323	-	-	33,138,323
Net assets, September 30, 2013	<u>\$ 33,138,323</u>	<u>\$ 2,121,375</u>	<u>\$ 4,413,548</u>	<u>\$ 39,673,246</u>

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

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

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

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

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

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

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

The Network has appropriated \$1,271,326 and \$2,339,401 for expenditure from its endowment funds for the years ending September 30, 2014 and 2013, respectively.

Changes in endowment net assets for the fiscal year ended September 30, 2014 were as follows:

<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, October 1, 2013	\$ 33,138,323	\$ 2,121,375	\$ 4,413,548	\$ 39,673,246
Interest income and dividends	940,682	47,448	-	988,130
Realized gains	6,547,406	486,492	-	7,033,898
Unrealized depreciation on investments	(4,673,650)	(334,112)	-	(5,007,762)
Released from restrictions	122,263	(1,271,326)	-	(1,149,063)
Contributions	237,342	804,488	-	1,041,830
Reclassification of donations	-	-	(170,166)	(170,166)
Fees	(32,211)	-	-	(32,211)
Transfers to Endowment	1,700,120	-	-	1,700,120
Net assets, September 30, 2014	<u>\$ 37,980,275</u>	<u>\$ 1,854,365</u>	<u>\$ 4,243,382</u>	<u>\$ 44,078,022</u>

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

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

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Network to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2014 and 2013, there were no funds that were below the level required by donor or law.

**Note 18 - Commitments and Contingencies**

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

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

**Note 19 - Statutory Capital and Surplus**

CHIC was incorporated in the Cayman Islands on September 15, 2006 and was granted an Unrestricted Class "B" insurance license under the Insurance Law of the Cayman Islands with an effective date of September 26, 2006. As of October 14, 2013, in accordance with Section 4(3)(b) of The Insurance Law, 2010, the company is now classified as a Class B (i) insurer. CHIC is regulated by the Cayman Islands Monetary Authority (CIMA) and related relations, and is obligated to comply with CIMA regulations regarding minimum levels of solvency and liquidity.

Statutory capital and surplus as of September 30, 2014 was \$501,168 with a minimum amount required to be maintained by CHIC of \$100,000. Distribution of dividends is subject to approval by the Board of Directors. No dividends were declared or paid during the years ended September 30, 2014 and 2013.

ECHN reports all of CHIC's investments as investments held in trust for estimated self-insurance liabilities in the accompanying consolidated balance sheets.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2014**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 9,361,439	\$ 1,772,696	\$ 1,363,027	\$ -	\$ 12,497,162	\$ 1,107,266	\$ -	\$ 13,604,428
Current portion of investments held under bond indentures	653,623	323,965	186,328	-	1,163,916	-	-	1,163,916
Accounts receivable - net	25,099,884	10,900,702	1,681,218	-	37,681,804	-	-	37,681,804
Inventory	3,873,042	1,325,483	38,849	-	5,237,374	-	-	5,237,374
Due from affiliated entities	142,498	65,011	23,158	(78,353)	152,314	8,485	-	160,799
Current portion of estimated settlements due from third-party payers	3,454,150	148,435	-	-	3,602,585	-	-	3,602,585
Prepaid expenses and other current assets	2,357,425	201,349	5,768	-	2,564,542	252,432	-	2,816,974
<b>Total current assets</b>	<b>44,942,061</b>	<b>14,737,641</b>	<b>3,298,348</b>	<b>(78,353)</b>	<b>62,899,697</b>	<b>1,368,183</b>	<b>-</b>	<b>64,267,880</b>
Assets whose use is limited - net of current portion:								
Donor restricted investments	1,778,680	1,575,184	-	-	3,353,864	2,669,078	-	6,022,942
Board designated investments	9,495,379	10,962,908	-	-	20,458,287	14,611,914	-	35,070,201
Investments held in trust for estimated self-insurance liabilities	1,488,787	-	-	-	1,488,787	-	-	1,488,787
Beneficial interest in trust assets	9,599,529	2,209,692	-	-	11,809,221	-	-	11,809,221
Investments held under bond indentures	3,498,353	859,282	813,910	-	5,171,545	-	-	5,171,545
<b>Total assets whose use is limited</b>	<b>25,860,728</b>	<b>15,607,066</b>	<b>813,910</b>	<b>-</b>	<b>42,281,704</b>	<b>17,280,992</b>	<b>-</b>	<b>59,562,696</b>
Interest in net assets of ECHN CHF, Inc.	7,323,190	3,599,134	195,587	-	11,117,911	-	(11,117,911)	-
Investments	1,339,234	2,068,819	3,730,288	-	7,138,341	-	-	7,138,341
Investments in joint ventures	3,849,302	3,489,604	-	-	7,338,906	-	-	7,338,906
Property, plant and equipment - net	55,717,642	25,700,876	7,264,624	-	88,683,142	-	-	88,683,142
Other assets:								
Estimated settlements due from third-party payers - net of current portion	685,669	-	-	-	685,669	-	-	685,669
Due from affiliated entities - net of current portion	20,113,458	7,814,717	-	(5,298,863)	22,629,312	-	-	22,629,312
Goodwill and intangible assets - net	-	-	520,156	-	520,156	-	-	520,156
Other assets	1,923,107	1,769,088	456,032	-	4,148,227	-	-	4,148,227
<b>Total other assets</b>	<b>22,722,234</b>	<b>9,583,805</b>	<b>976,188</b>	<b>(5,298,863)</b>	<b>27,983,364</b>	<b>-</b>	<b>-</b>	<b>27,983,364</b>
<b>Total assets</b>	<b>\$ 161,754,391</b>	<b>\$ 74,786,945</b>	<b>\$ 16,278,945</b>	<b>\$ (5,377,216)</b>	<b>\$ 247,443,065</b>	<b>\$ 18,649,175</b>	<b>\$ (11,117,911)</b>	<b>\$ 254,974,329</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2014**

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 192,024	\$ 66,259	\$ 76,614	\$ 4,558,501	\$ 162,984	\$ 2,072,791	\$ -	\$ 20,733,601
Current portion of investments held under bond indentures	-	-	-	-	-	-	-	1,163,916
Accounts receivable - net	2,090,800	827,182	36	3,835,448	169,322	5,680	-	44,610,272
Inventory	15,926	183,985	-	-	-	-	-	5,437,285
Due from affiliated entities	-	-	-	-	4,049	-	(164,848)	-
Current portion of estimated settlements due from third-party payers	-	-	-	-	-	-	-	3,602,585
Prepaid expenses and other current assets	405,503	24,503	4,046	232,277	970,358	1,232,575	-	5,686,236
<b>Total current assets</b>	<b>2,704,253</b>	<b>1,101,929</b>	<b>80,696</b>	<b>8,626,226</b>	<b>1,306,713</b>	<b>3,311,046</b>	<b>(164,848)</b>	<b>81,233,895</b>
Assets whose use is limited - net of current portion:								
Donor restricted investments	-	-	-	74,805	-	-	-	6,097,747
Board designated investments	-	-	-	2,910,074	-	-	-	37,980,275
Investments held in trust for estimated self-insurance liabilities	-	-	-	-	-	3,516,968	-	5,005,755
Beneficial interest in trust assets	-	-	-	-	-	-	-	11,809,221
Investments held under bond indentures	-	-	-	-	-	-	-	5,171,545
<b>Total assets whose use is limited</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,984,879</b>	<b>-</b>	<b>3,516,968</b>	<b>-</b>	<b>66,064,543</b>
Interest in net assets of ECHN CHF, Inc.	-	-	-	-	4,480,831	-	(4,480,831)	-
Investments	-	-	-	-	463,940	-	(463,940)	7,138,341
Investments in joint ventures	-	-	1,247,474	-	5,976,358	-	-	14,562,738
Property, plant and equipment - net	2,469,251	366,651	1,120,456	1,426,059	-	-	-	94,065,559
Other assets:								
Estimated settlements due from third-party payers - net of current portion	-	-	-	-	-	-	-	685,669
Due from affiliated entities - net of current portion	-	-	-	-	867,580	-	(23,496,892)	-
Goodwill and intangible assets - net	592,420	153,550	-	-	5,701,227	-	-	6,967,353
Other assets	-	-	-	530,269	134,014	556,581	-	5,369,091
<b>Total other assets</b>	<b>592,420</b>	<b>153,550</b>	<b>-</b>	<b>530,269</b>	<b>6,702,821</b>	<b>556,581</b>	<b>(23,496,892)</b>	<b>13,022,113</b>
<b>Total assets</b>	<b>\$ 5,765,924</b>	<b>\$ 1,622,130</b>	<b>\$ 2,448,626</b>	<b>\$ 13,567,433</b>	<b>\$ 18,930,663</b>	<b>\$ 7,384,595</b>	<b>\$ (28,606,511)</b>	<b>\$ 276,087,189</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2014**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
<b>Liabilities and Net Assets (Deficit)</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 21,842,838	\$ 6,181,391	\$ 1,055,957	\$ -	\$ 29,080,186	\$ 31,007	\$ -	\$ 29,111,193
Line of credit	5,600,000	-	-	-	5,600,000	-	-	5,600,000
Current portion of long-term debt	4,092,102	945,159	624,756	-	5,662,017	-	-	5,662,017
Current portion of due to affiliates	23,158	-	60,602	(78,353)	5,407	150,797	-	156,204
Current portion of estimated settlements due to third-party payers	4,285,117	1,132,410	248,895	-	5,666,422	-	-	5,666,422
Current portion of accrued pension and other postretirement benefits	1,025,166	288,603	-	-	1,313,769	-	-	1,313,769
Other current liabilities	2,653,756	732,322	391,627	-	3,777,705	-	-	3,777,705
<b>Total current liabilities</b>	<b>39,522,137</b>	<b>9,279,885</b>	<b>2,381,837</b>	<b>(78,353)</b>	<b>51,105,506</b>	<b>181,804</b>	<b>-</b>	<b>51,287,310</b>
Long-term debt and capital lease obligations, net of current portion								
	50,421,026	23,392,308	7,841,125	-	81,654,459	-	-	81,654,459
Estimated self-insurance liabilities	6,835,215	3,566,892	493,923	-	10,896,030	-	-	10,896,030
Accrued pension and postretirement benefits	34,595,139	10,081,347	-	-	44,676,486	-	-	44,676,486
Estimated settlements due to third-party payers, net of current portion	-	-	-	-	-	-	-	-
Due to affiliates	5,298,863	-	-	(5,298,863)	-	-	-	-
Other liabilities	283,594	132,211	-	-	415,805	3,197	-	419,002
<b>Total liabilities</b>	<b>136,955,974</b>	<b>46,452,643</b>	<b>10,716,885</b>	<b>(5,377,216)</b>	<b>188,748,286</b>	<b>185,001</b>	<b>-</b>	<b>188,933,287</b>
Net assets (deficit):								
Unrestricted	11,344,473	24,211,838	5,537,374	-	41,093,685	2,865,431	-	43,959,116
Temporarily restricted	974,762	549,043	24,686	-	1,548,491	14,031,431	(9,550,599)	6,029,323
Permanently restricted	12,479,182	3,573,421	-	-	16,052,603	1,567,312	(1,567,312)	16,052,603
<b>Total net assets (deficit)</b>	<b>24,798,417</b>	<b>28,334,302</b>	<b>5,562,060</b>	<b>-</b>	<b>58,694,779</b>	<b>18,464,174</b>	<b>(11,117,911)</b>	<b>66,041,042</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 161,754,391</b>	<b>\$ 74,786,945</b>	<b>\$ 16,278,945</b>	<b>\$ (5,377,216)</b>	<b>\$ 247,443,065</b>	<b>\$ 18,649,175</b>	<b>\$ (11,117,911)</b>	<b>\$ 254,974,329</b>

See accompanying independent auditors' report.



**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2014**

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Liabilities and Net Assets (Deficit)</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 2,145,168	\$ 283,874	\$ 15,665	\$ 2,170,645	\$ 2,159,817	\$ 78,253	\$ -	\$ 35,964,615
Lines of credit	-	-	-	-	-	-	-	5,600,000
Current portion of long-term debt	26,082	58,633	25,279	6,488	711,157	-	-	6,489,656
Current portion of due to affiliates	-	-	-	-	-	-	(156,204)	-
Current portion of estimated settlements due to third-party payers	-	-	-	76,738	-	-	-	5,743,160
Current portion of accrued pension and other postretirement benefits	-	-	-	-	-	-	-	1,313,769
Other current liabilities	-	-	-	851,726	-	1,212,361	-	5,841,792
<b>Total current liabilities</b>	<b>2,171,250</b>	<b>342,507</b>	<b>40,944</b>	<b>3,105,597</b>	<b>2,870,974</b>	<b>1,290,614</b>	<b>(156,204)</b>	<b>60,952,992</b>
Long-term debt and capital lease obligations, net of current portion	197,183	50,687	249,337	-	443,748	-	-	82,595,414
Estimated self-insurance liabilities	-	-	-	-	-	5,592,813	(6,805,175)	9,683,668
Accrued pension and postretirement benefits	-	-	-	-	-	-	-	44,676,486
Estimated settlements due to third-party payers, net of current portion	65,838	-	-	-	-	-	-	65,838
Due to affiliates	2,813,908	474,706	2,030,668	-	11,381,079	-	(16,700,361)	-
Other liabilities	-	-	-	-	-	-	-	419,002
<b>Total liabilities</b>	<b>5,248,179</b>	<b>867,900</b>	<b>2,320,949</b>	<b>3,105,597</b>	<b>14,695,801</b>	<b>6,883,427</b>	<b>(23,661,740)</b>	<b>198,393,400</b>
Net assets (deficit):								
Unrestricted	517,745	754,230	127,677	10,387,031	3,761,845	501,168	(463,939)	59,544,873
Temporarily restricted	-	-	-	74,805	473,017	-	(4,480,832)	2,096,313
Permanently restricted	-	-	-	-	-	-	-	16,052,603
<b>Total net assets (deficit)</b>	<b>517,745</b>	<b>754,230</b>	<b>127,677</b>	<b>10,461,836</b>	<b>4,234,862</b>	<b>501,168</b>	<b>(4,944,771)</b>	<b>77,693,789</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 5,765,924</b>	<b>\$ 1,622,130</b>	<b>\$ 2,448,626</b>	<b>\$ 13,567,433</b>	<b>\$ 18,930,663</b>	<b>\$ 7,384,595</b>	<b>\$ (28,606,511)</b>	<b>\$ 276,087,189</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**For the Year Ended September 30, 2014**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
Revenues:								
Net patient service revenues	\$ 178,026,737	\$ 71,329,965	\$ 15,194,102	\$ -	\$ 264,550,804	\$ -	\$ -	\$ 264,550,804
Provision for bad debts	(5,822,470)	(2,801,283)	(181,495)	-	(8,805,248)	-	-	(8,805,248)
Net patient service revenues less provision for bad debts	172,204,267	68,528,682	15,012,607	-	255,745,556	-	-	255,745,556
Contributions	496,356	315,697	9,235	-	821,288	-	-	821,288
Other revenues	15,370,698	5,227,522	282,491	(143,096)	20,737,615	548,340	(537,649)	20,748,306
EHR incentive payment revenue	986,834	799,300	-	-	1,786,134	-	-	1,786,134
Net assets released from restrictions used in operations	486,908	49,147	1,794	-	537,849	197,133	-	734,982
Total revenues	189,545,063	74,920,348	15,306,127	(143,096)	279,628,442	745,473	(537,649)	279,836,266
Expenses:								
Salaries and wages	83,606,297	32,460,253	7,495,632	-	123,562,182	300,253	(217,087)	123,645,348
Fringe benefits	25,720,253	9,360,797	1,961,418	-	37,042,468	91,045	(65,731)	37,067,782
Supplies and other expenses	66,276,903	26,367,709	4,016,613	(143,096)	96,518,129	354,175	(254,831)	96,617,473
Depreciation and amortization	7,116,905	3,281,014	557,532	-	10,955,451	-	-	10,955,451
Interest and financing costs	2,589,201	689,882	431,848	-	3,710,931	-	-	3,710,931
Total expenses	185,309,559	72,159,655	14,463,043	(143,096)	271,789,161	745,473	(537,649)	271,996,985
Income (loss) from operations	4,235,504	2,760,693	843,084	-	7,839,281	-	-	7,839,281
Non-operating (losses) gains	(1,743,322)	(378,564)	27,867	-	(2,094,019)	-	-	(2,094,019)
Excess of revenues (under) over expenses	<u>\$ 2,492,182</u>	<u>\$ 2,382,129</u>	<u>\$ 870,951</u>	<u>\$ -</u>	<u>\$ 5,745,262</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,745,262</u>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2014**

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Revenues:								
Net patient service revenues	\$ 20,269,147	\$ -	\$ -	\$ 25,151,359	\$ -	\$ -	\$ -	\$ 309,971,310
Provision for bad debts	(1,261,083)	-	-	(149,763)	-	-	-	(10,216,094)
Net patient service revenues less provision for bad debts	19,008,064	-	-	25,001,596	-	-	-	299,755,216
Contributions	-	-	-	342,595	335,662	-	(335,662)	1,163,883
Other revenues	7,661,388	4,207,997	542,446	1,372,276	3,258,466	2,251,542	(14,825,979)	25,216,442
EHR incentive payment revenue	-	-	-	-	-	-	-	1,786,134
Net assets released from restrictions used in operations	-	-	-	86,733	11,935	-	-	833,650
<b>Total revenues</b>	<b>26,669,452</b>	<b>4,207,997</b>	<b>542,446</b>	<b>26,803,200</b>	<b>3,606,063</b>	<b>2,251,542</b>	<b>(15,161,641)</b>	<b>328,755,325</b>
Expenses:								
Salaries and wages	19,262,878	2,414,238	-	17,488,152	10,582,722	-	(10,665,893)	162,727,445
Fringe benefits	2,966,456	376,616	-	3,473,859	2,404,890	-	(2,430,205)	43,859,398
Supplies and other expenses	10,846,227	1,001,633	302,414	4,462,199	(11,783,558)	2,078,542	509,466	104,034,396
Depreciation and amortization	634,455	140,684	69,878	396,409	208,107	-	(208,107)	12,196,877
Interest and financing costs	14,202	26,708	10,745	1,902	85,197	-	(85,197)	3,764,488
<b>Total expenses</b>	<b>33,724,218</b>	<b>3,959,879</b>	<b>383,037</b>	<b>25,822,521</b>	<b>1,497,358</b>	<b>2,078,542</b>	<b>(12,879,936)</b>	<b>326,582,604</b>
Income (loss) from operations	(7,054,766)	248,118	159,409	980,679	2,108,705	173,000	(2,281,705)	2,172,721
Non-operating (losses) gains	-	-	(31,732)	-	(2,108,705)	-	2,108,705	(2,125,751)
<b>Excess of revenues (under) over expenses</b>	<b>\$ (7,054,766)</b>	<b>\$ 248,118</b>	<b>\$ 127,677</b>	<b>\$ 980,679</b>	<b>\$ -</b>	<b>\$ 173,000</b>	<b>\$ (173,000)</b>	<b>\$ 46,970</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2014**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
Unrestricted net assets:								
Excess of revenues (under) over expenses	\$ 2,492,182	\$ 2,382,129	\$ 870,951	\$ -	\$ 5,745,262	\$ -	\$ -	\$ 5,745,262
Unrealized depreciation on investments	(2,455,966)	(1,806,881)	(113,134)	-	(4,375,981)	-	-	(4,375,981)
Net change in interest rate swap agreement	8,379	-	-	-	8,379	-	-	8,379
Net assets released from restrictions for capital acquisitions	385,647	51,083	-	-	436,730	-	-	436,730
Equity transfer to ECHN	(4,937,674)	(2,116,146)	-	-	(7,053,820)	-	-	(7,053,820)
Equity transfer from ECHN	-	-	-	-	-	-	-	-
ECHN Corporate Services transfer	-	-	-	-	-	-	-	-
Transfers (to) from other affiliates - net	(6,541,891)	(229)	7,130	-	(6,534,990)	273,716	-	(6,261,274)
Pension and postretirement related adjustments	(5,366,133)	(1,072,107)	-	-	(6,438,240)	-	-	(6,438,240)
Other	-	-	-	-	-	-	-	-
Change in unrestricted net assets	(16,415,456)	(2,562,151)	764,947	-	(18,212,660)	273,716	-	(17,938,944)
Temporarily restricted net assets:								
Contributions	44,454	19,798	(33)	-	64,219	1,066,825	(290,398)	840,646
Investment income	321,703	131,269	2,038	-	455,010	2,408,300	(1,663,779)	1,199,531
Net assets released from restrictions for operations	(486,908)	(49,147)	(1,794)	-	(537,849)	(829,423)	619,265	(748,007)
Net assets released from restrictions for capital acquisitions	(385,647)	(51,083)	-	-	(436,730)	(436,730)	436,730	(436,730)
Unrealized depreciation on investments	(95,535)	(67,641)	-	-	(163,176)	(1,702,269)	1,044,231	(821,214)
Transfers (to) from affiliates	183,793	4,384	-	-	188,177	-	(187,306)	871
Change in temporarily restricted net assets	(418,140)	(12,420)	211	-	(430,349)	506,703	(41,257)	35,097
Permanently restricted net assets:								
Contributions - beneficial interest trust assets	3,751,750	-	-	-	3,751,750	-	-	3,751,750
Change in beneficial interest in trust assets	148,523	27,520	-	-	176,043	-	-	176,043
Reclassifications of donations	-	(171,110)	-	-	(171,110)	-	-	(171,110)
Change in permanently restricted net assets	3,900,273	(143,590)	-	-	3,756,683	-	-	3,756,683
Change in net assets (deficit)	(12,933,323)	(2,718,161)	765,158	-	(14,886,326)	780,419	(41,257)	(14,147,164)
Net assets (deficit), beginning of year	37,731,740	31,052,463	4,796,902	-	73,581,105	17,683,755	(11,076,654)	80,188,206
Net assets (deficit), end of year	\$ 24,798,417	\$ 28,334,302	\$ 5,562,060	\$ -	\$ 58,694,779	\$ 18,464,174	\$ (11,117,911)	\$ 66,041,042

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2014**

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Unrestricted net assets:								
Excess of revenues (under) over expenses	\$ (7,054,766)	\$ 248,118	\$ 127,677	\$ 980,679	\$ -	\$ 173,000	\$ (173,000)	\$ 46,970
Unrealized depreciation on investments	-	-	-	(598,592)	(487,108)	(15,244)	-	(5,476,925)
Net change in interest rate swap agreement	-	-	-	-	-	-	-	8,379
Net assets released from restrictions for capital acquisitions	946	-	-	-	-	-	-	437,676
Equity transfer to ECHN	-	-	-	-	7,053,820	-	-	-
Equity transfer from ECHN	7,053,820	-	-	-	(7,053,820)	-	-	-
ECHN Corporate Services transfer	-	-	-	-	-	-	-	-
Transfers (to) from other affiliates - net	545,436	125,000	84,174	-	8,208,215	1,200,000	(3,901,551)	-
Pension and postretirement related adjustments	-	-	-	-	-	-	-	(6,438,240)
Other	-	1,003	-	-	-	-	82	1,085
Change in unrestricted net assets	545,436	374,121	211,851	382,087	7,721,107	1,357,756	(4,074,469)	(11,421,055)
Temporarily restricted net assets:								
Contributions	-	-	-	74,805	79,003	-	(413,939)	580,515
Investment income	-	-	-	-	73,349	-	(738,941)	533,939
Net assets released from restrictions for operations	-	-	-	(86,733)	(11,935)	-	13,025	(833,650)
Net assets released from restrictions for capital acquisitions	(946)	-	-	-	-	-	-	(437,676)
Change in unrealized appreciation on investments	-	-	-	-	-	-	487,098	(334,116)
Transfers (to) from affiliates	946	-	-	-	(189,123)	-	187,306	-
Change in temporarily restricted net assets	-	-	-	(11,928)	(48,706)	-	(465,451)	(490,988)
Permanently restricted net assets:								
Contributions - beneficial interest trust assets	-	-	-	-	-	-	-	3,751,750
Change in beneficial interest in trust assets	-	-	-	-	-	-	-	176,043
Reclassifications of donations	-	-	-	-	-	-	-	(171,110)
Change in permanently restricted net assets	-	-	-	-	-	-	-	3,756,683
Change in net assets (deficit)	545,436	374,121	211,851	370,159	7,672,401	1,357,756	(4,539,920)	(8,155,360)
Net assets (deficit), beginning of year	(27,691)	380,109	(84,174)	10,091,677	(3,437,539)	(856,588)	(404,851)	85,849,149
Net assets (deficit), end of year	\$ 517,745	\$ 754,230	\$ 127,677	\$ 10,461,836	\$ 4,234,862	\$ 501,168	\$ (4,944,771)	\$ 77,693,789

See accompanying independent auditors' report.

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

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

See accompanying independent auditors' report.

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

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

See accompanying independent auditors' report.

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

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
<b>Liabilities and Net Assets (Deficit)</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 21,391,578	\$ 6,096,840	\$ 870,615	\$ -	\$ 28,359,033	\$ 96,089	\$ -	\$ 28,455,122
Lines of credit	6,500,000	-	-	-	6,500,000	-	-	6,500,000
Current portion of long-term debt	3,909,618	870,081	588,866	-	5,368,565	-	-	5,368,565
Due to affiliates	-	398,089	83,694	(79,590)	402,193	348,957	-	751,150
Current portion of estimated settlements due to third-party payers	2,943,941	1,040,198	408,222	-	4,392,361	-	-	4,392,361
Current portion of accrued pension and other postretirement benefits	4,683,769	1,401,749	-	-	6,085,518	-	-	6,085,518
Other current liabilities	2,482,951	754,403	170,562	-	3,407,916	-	-	3,407,916
<b>Total current liabilities</b>	<b>41,911,857</b>	<b>10,561,360</b>	<b>2,121,959</b>	<b>(79,590)</b>	<b>54,515,586</b>	<b>445,046</b>	<b>-</b>	<b>54,960,632</b>
Long-term debt and capital lease obligations, net of current portion	50,793,813	23,519,254	8,462,882	-	82,775,949	-	-	82,775,949
Estimated self-insurance liabilities	6,830,954	2,423,371	1,041,008	-	10,295,333	-	-	10,295,333
Accrued pension and postretirement benefits	29,256,268	8,855,195	-	-	38,111,463	-	-	38,111,463
Estimated settlements due to third-party payers, net of current portion	-	-	-	-	-	-	-	-
Due to affiliates	7,220,571	-	-	(7,220,571)	-	-	-	-
Other liabilities	409,571	132,211	51,860	-	593,642	3,545	-	597,187
<b>Total liabilities</b>	<b>136,423,034</b>	<b>45,491,391</b>	<b>11,677,709</b>	<b>(7,300,161)</b>	<b>186,291,973</b>	<b>448,591</b>	<b>-</b>	<b>186,740,564</b>
Net assets (deficit):								
Unrestricted	27,759,929	26,773,989	4,772,427	-	59,306,345	2,591,715	-	61,898,060
Temporarily restricted	1,392,902	561,463	24,475	-	1,978,840	13,524,728	(9,509,342)	5,994,226
Permanently restricted	8,578,909	3,717,011	-	-	12,295,920	1,567,312	(1,567,312)	12,295,920
<b>Total net assets (deficit)</b>	<b>37,731,740</b>	<b>31,052,463</b>	<b>4,796,902</b>	<b>-</b>	<b>73,581,105</b>	<b>17,683,755</b>	<b>(11,076,654)</b>	<b>80,188,206</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 174,154,774</b>	<b>\$ 76,543,854</b>	<b>\$ 16,474,611</b>	<b>\$ (7,300,161)</b>	<b>\$ 259,873,078</b>	<b>\$ 18,132,346</b>	<b>\$ (11,076,654)</b>	<b>\$ 266,928,770</b>

See accompanying independent auditors' report.



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

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Liabilities and Net Assets (Deficit)</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 2,272,436	\$ 923,287	\$ 16,422	\$ 1,834,866	\$ 1,301,847	\$ 70,855	\$ -	\$ 34,874,835
Lines of credit	-	-	-	-	-	-	-	6,500,000
Current portion of long-term debt	143,567	33,458	24,357	51,971	1,210,404	-	-	6,832,322
Due to affiliates	-	89,856	-	-	-	-	(841,006)	-
Current portion of estimated settlements due to third-party payers	-	-	-	120,000	-	-	-	4,512,361
Current portion of accrued pension and other postretirement benefits	-	-	-	-	-	-	-	6,085,518
Other current liabilities	-	-	-	861,394	-	1,051,734	-	5,321,044
<b>Total current liabilities</b>	<b>2,416,003</b>	<b>1,046,601</b>	<b>40,779</b>	<b>2,868,231</b>	<b>2,512,251</b>	<b>1,122,589</b>	<b>(841,006)</b>	<b>64,126,080</b>
Long-term debt and capital lease obligations, net of current portion	223,265	183,678	274,616	6,488	952,010	-	-	84,416,006
Estimated self-insurance liabilities	-	-	-	-	-	4,954,597	(6,006,000)	9,243,930
Accrued pension and postretirement benefits	-	-	-	-	-	-	-	38,111,463
Estimated settlements due to third-party payers, net of current portion	122,921	-	-	-	-	-	-	122,921
Due to affiliates	3,917,177	-	2,269,134	-	18,031,973	-	(24,218,284)	-
Other liabilities	-	-	-	-	-	-	-	597,187
<b>Total liabilities</b>	<b>6,679,366</b>	<b>1,230,279</b>	<b>2,584,529</b>	<b>2,874,719</b>	<b>21,496,234</b>	<b>6,077,186</b>	<b>(31,065,290)</b>	<b>196,617,587</b>
Net assets (deficit):								
Unrestricted	(27,691)	380,109	(84,174)	10,004,944	(3,959,262)	(856,588)	3,610,530	70,965,928
Temporarily restricted	-	-	-	86,733	521,723	-	(4,015,381)	2,587,301
Permanently restricted	-	-	-	-	-	-	-	12,295,920
<b>Total net assets (deficit)</b>	<b>(27,691)</b>	<b>380,109</b>	<b>(84,174)</b>	<b>10,091,677</b>	<b>(3,437,539)</b>	<b>(856,588)</b>	<b>(404,851)</b>	<b>85,849,149</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 6,651,675</b>	<b>\$ 1,610,388</b>	<b>\$ 2,500,355</b>	<b>\$ 12,966,396</b>	<b>\$ 18,058,695</b>	<b>\$ 5,220,598</b>	<b>\$ (31,470,141)</b>	<b>\$ 282,466,736</b>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**For the Year Ended September 30, 2013**

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

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2013**

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Revenues:								
Net patient service revenue	\$ 21,949,662	\$ -	\$ -	\$ 24,638,275	\$ -	\$ -	\$ (70,435)	\$ 310,122,159
Provision for bad debts	(1,249,472)	-	-	(137,055)	-	-	-	(11,142,202)
Net patient service revenue less provision for bad debts	20,700,190	-	-	24,501,220	-	-	(70,435)	298,979,957
Contributions	-	-	-	385,141	345,435	-	(345,435)	1,614,319
Other revenues	8,353,432	3,232,600	425,834	717,140	3,048,899	2,440,340	(16,249,743)	22,871,370
EHR initiative payment revenue	-	-	-	-	-	-	-	2,630,820
Net assets released from restrictions used for operations	-	-	-	2,353	5,489	-	-	1,871,227
Total revenues	29,053,622	3,232,600	425,834	25,605,854	3,399,823	2,440,340	(16,665,613)	327,967,693
Expenses:								
Salaries and wages	21,887,013	1,880,216	-	17,154,890	11,400,866	-	(11,400,863)	163,729,402
Fringe benefits	3,477,219	320,611	-	3,354,064	2,316,394	-	(2,316,391)	47,592,094
Supplies and other expenses	9,246,348	876,567	284,772	4,119,020	(12,524,809)	8,133,343	(6,433,767)	100,342,397
Depreciation and amortization	545,428	57,332	71,228	384,891	228,411	-	(228,410)	12,290,822
Interest and financing costs	15,629	15,216	11,681	4,654	138,065	-	(138,065)	3,900,483
Total expenses	35,171,637	3,149,942	367,681	25,017,519	1,558,927	8,133,343	(20,517,496)	327,855,198
Income (loss) from operations	(6,118,015)	82,658	58,153	588,335	1,840,896	(5,693,003)	3,851,883	112,495
Non-operating (losses) gains	-	-	(63,728)	55	(1,840,896)	-	1,840,896	(2,138,589)
Excess of revenues over (under) expenses	<u>\$ (6,118,015)</u>	<u>\$ 82,658</u>	<u>\$ (5,575)</u>	<u>\$ 588,390</u>	<u>\$ -</u>	<u>\$ (5,693,003)</u>	<u>\$ 5,692,779</u>	<u>\$ (2,026,094)</u>

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2013**

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

See accompanying independent auditors' report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2013**

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

See accompanying independent auditors' report.