

Eastern Connecticut Health Network, Inc. and Subsidiaries

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

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Eastern Connecticut Health Network, Inc.
Manchester, Connecticut

We have audited the accompanying consolidated balance sheets of Eastern Connecticut Health Network, Inc. and subsidiaries (the "Network") as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Network's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2009 financial statements of Connecticut Healthcare Insurance Company (a consolidated subsidiary), which statements reflect total assets and excess of revenues over expenses constituting 4% and 20%, respectively, of consolidated total assets and excess of revenues over expenses as of and for the year ended September 30, 2009. Those 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the 2009 report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Eastern Connecticut Health Network, Inc. and subsidiaries as of September 30, 2009 and 2008, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating information as of and for the years ended September 30, 2009 and 2008, listed in the table of contents is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual companies, and is not a required part of the basic consolidated financial statements. This supplemental consolidating information is the responsibility of the Network's management. Such supplemental consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, based on our audits and (as to the 2009 amounts included for Connecticut Healthcare Insurance Company) the report of the other auditors, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

January 27, 2009

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,001,547	\$ 19,069,672
Current portion of assets whose use is limited	1,277,330	2,856,556
Accounts receivable — net of allowance for doubtful accounts of \$4,407,443 and \$3,154,702 in 2009 and 2008, respectively	38,270,688	39,388,331
Inventory	3,421,510	3,127,974
Current portion of estimated settlements due from third-party payors	1,491,254	2,439,694
Prepaid expenses and other current assets	<u>5,802,567</u>	<u>3,724,854</u>
Total current assets	<u>78,264,896</u>	<u>70,607,081</u>
ASSETS WHOSE USE IS LIMITED — Net of current portion:		
Board-designated and donor-restricted investments	29,370,191	29,312,758
Investments held in trust for estimated self-insurance liabilities	8,243,340	8,174,965
Beneficial interest in trust assets	6,793,869	6,957,588
Investments held under bond indentures	<u>4,947,207</u>	<u>5,061,160</u>
Total assets whose use is limited — net of current portion	<u>49,354,607</u>	<u>49,506,471</u>
INVESTMENTS	<u>6,312,056</u>	<u>7,933,441</u>
INVESTMENTS IN JOINT VENTURES	<u>17,574,828</u>	<u>15,991,419</u>
PROPERTY AND EQUIPMENT — Net	<u>101,307,100</u>	<u>98,801,600</u>
OTHER ASSETS:		
Estimated settlements due from third-party payors — net of current portion	1,957,690	1,590,801
Intangible assets — net	1,452,426	1,168,200
Other — net	<u>5,409,155</u>	<u>6,236,617</u>
Total other assets	<u>8,819,271</u>	<u>8,995,618</u>
TOTAL	<u>\$ 261,632,758</u>	<u>\$ 251,835,630</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 27,605,953	\$ 32,763,200
Current portion of long-term debt	9,728,914	9,141,824
Current portion of estimated settlements due to third-party payors	885,738	2,464,561
Other current liabilities	<u>5,325,724</u>	<u>3,481,863</u>
Total current liabilities	<u>43,546,329</u>	<u>47,851,448</u>
LONG-TERM LIABILITIES:		
Long-term debt — net of current portion	85,300,571	74,804,174
Estimated self-insurance liabilities	7,042,135	6,536,664
Accrued pension and other postretirement benefits	49,853,992	26,559,471
Estimated settlements due to third-party payors — net of current portion		65,466
Other liabilities	<u>456,055</u>	<u>519,825</u>
Total long-term liabilities	<u>142,652,753</u>	<u>108,485,600</u>
Total liabilities	<u>186,199,082</u>	<u>156,337,048</u>
NET ASSETS:		
Unrestricted	59,586,141	77,487,476
Temporarily restricted	4,654,617	6,655,414
Permanently restricted	<u>11,192,918</u>	<u>11,355,692</u>
Total net assets	<u>75,433,676</u>	<u>95,498,582</u>
TOTAL	<u>\$ 261,632,758</u>	<u>\$ 251,835,630</u>

See notes to consolidated financial statements.

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

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

	2009	2008
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Net patient service revenue	\$ 261,403,024	\$ 247,269,909
Contributions	1,495,496	1,179,057
Other revenues	15,133,447	17,231,308
Net assets released from restrictions used for operations	<u>283,705</u>	<u>152,165</u>
Total unrestricted revenues, gains, and other support	<u>278,315,672</u>	<u>265,832,439</u>
EXPENSES:		
Salaries and wages	129,751,717	122,401,216
Fringe benefits	32,090,035	29,880,729
Supplies and other	80,484,451	80,664,214
Provision for bad debts	12,652,590	9,783,192
Depreciation and amortization	12,231,958	11,906,435
Interest and financing costs	<u>3,985,420</u>	<u>3,893,162</u>
Total expenses	<u>271,196,171</u>	<u>258,528,948</u>
INCOME FROM OPERATIONS	<u>7,119,501</u>	<u>7,303,491</u>
NONOPERATING (EXPENSE) INCOME — Net:		
Other	(3,815,280)	1,349,409
Other-than-temporary impairment charge	<u>(88,168)</u>	<u>(3,678,077)</u>
Total nonoperating expense — net	<u>(3,903,448)</u>	<u>(2,328,668)</u>
EXCESS OF REVENUES OVER EXPENSES	3,216,053	4,974,823
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Change in unrealized appreciation (depreciation) on investments	1,352,330	(8,935,455)
Net loss on interest rate swap	(664,088)	(349,403)
Revised classification of net assets		1,588
Net assets released from restrictions used for capital acquisitions	92,416	85,131
Pension and postretirement related adjustments	<u>(21,898,046)</u>	<u>268,410</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ (17,901,335)</u>	<u>\$ (3,954,906)</u>

See notes to consolidated financial statements.

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

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

	2009	2008
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 3,216,053	\$ 4,974,823
Change in unrealized appreciation (depreciation) on investments	1,352,330	(8,935,455)
Net loss on interest rate swap	(664,088)	(349,403)
Net assets released from restrictions used for capital acquisitions	92,416	85,131
Revised classification of net assets		1,588
Pension and postretirement related adjustments	<u>(21,898,046)</u>	<u>268,410</u>
Change in unrestricted net assets	<u>(17,901,335)</u>	<u>(3,954,906)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	425,622	276,060
Investment income	9,450	166,054
Net assets released from restrictions for operations	(283,705)	(152,165)
Net assets released from restrictions for capital acquisitions	(92,416)	(85,131)
Change in unrealized depreciation on investments	<u>(2,059,749)</u>	<u>(317,468)</u>
Change in temporarily restricted net assets	<u>(2,000,798)</u>	<u>(112,650)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	946	1,160,454
Change in beneficial interest in trust assets	<u>(163,719)</u>	<u>(1,686,870)</u>
Change in permanently restricted net assets	<u>(162,773)</u>	<u>(526,416)</u>
CHANGE IN NET ASSETS	(20,064,906)	(4,593,972)
NET ASSETS — Beginning of year	<u>95,498,582</u>	<u>100,092,554</u>
NET ASSETS — End of year	<u>\$ 75,433,676</u>	<u>\$ 95,498,582</u>

See notes to consolidated financial statements.

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

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

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (20,064,906)	\$ (4,593,972)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,101,171	11,804,697
Amortization of bond issuance costs	130,787	101,738
Provision for bad debts	12,652,590	9,783,192
Change in unrealized depreciation on investments	707,419	9,252,923
Other-than-temporary impairment charge	88,168	3,678,077
Change in beneficial interest in trust assets	163,719	1,686,870
Income on investments in joint ventures	(2,232,845)	(2,614,731)
Pension and postretirement related adjustments	21,898,046	(268,410)
Contributions restricted for capital acquisitions	(230,355)	(615,894)
Permanently restricted contributions	(946)	(1,160,454)
Change in pledges receivable	(193,989)	321,741
Loss on disposal of fixed assets	47,414	158,605
Loss on interest rate swap	664,088	349,403
Changes in operating assets and liabilities:		
Accounts receivable	(11,534,951)	(12,619,268)
Inventory	(293,536)	481,175
Prepaid expenses and other current assets	(2,220,059)	(1,846,844)
Intangible assets — net	(284,226)	319,119
Other — net	1,820,677	877,805
Accounts payable and accrued expenses	(5,821,335)	26,320
Accrued pension and other postretirement benefits	2,691,475	(292,933)
Estimated settlements due to/from third-party payors	(1,062,736)	1,342,940
Estimated self-insurance liabilities	505,471	99,905
Other current liabilities	548,861	896,551
Other liabilities	(63,769)	(52,737)
	<u>10,016,233</u>	<u>17,115,818</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(14,399,764)	(8,666,090)
Purchases of investments	(10,607,265)	(16,852,154)
Proceeds from sales of investments	13,000,434	15,457,599
Investment in joint ventures	(644,879)	(140,676)
Distributions from joint ventures	1,189,666	924,186
	<u>(11,461,808)</u>	<u>(9,277,135)</u>

(Continued)

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

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

	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	\$ (9,206,513)	\$ (3,861,279)
Payments for bond issuance costs	(937,338)	(51,663)
Contributions restricted for capital acquisitions	230,355	615,894
Permanently restricted contributions	946	1,160,454
Proceeds from issuance of debt	<u>20,290,000</u>	<u>9,100,000</u>
Net cash provided by financing activities	<u>10,377,450</u>	<u>6,963,406</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,931,875	14,802,089
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>19,069,672</u>	<u>4,267,583</u>
End of year	<u>\$ 28,001,547</u>	<u>\$ 19,069,672</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest		
	<u>\$ 4,324,887</u>	<u>\$ 3,970,851</u>
NONCASH FINANCING ACTIVITIES — Equipment acquisitions under capital lease arrangements		
	<u>\$ 113,000</u>	<u>\$ 1,600,000</u>
See notes to consolidated financial statements.		(Concluded)

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

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

1. ORGANIZATION

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

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

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

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

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

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

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

ECHN Health Services, Inc. (EHS) — EHS is a not-for-profit organization that currently operates physician office practices in the Network’s service area and a hospitalist program that serves MMH and RGH. Its mission allows it to operate other not-for-profit, separately incorporated allied health ventures.

ECHN Enterprises, Inc. (Enterprises) — Enterprises is a for-profit organization formed under the laws of the State of Connecticut, with ECHN as the sole shareholder. It is the parent corporation of Haynes Street Property Management, LLC (HSPM). HSPM is a for-profit, limited liability company formed under the laws of the State of Connecticut, which manages the Glastonbury Wellness Center and sublets space to various MMH departments and physician offices, as well as to EHS.

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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

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

Temporarily Restricted — Net assets whose use by the 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.

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.

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

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

Assets Whose Use is Limited — Assets whose use is limited primarily include cash and investments held by trustees under indenture agreements; cash and investments held for estimated self-insurance liabilities; designated cash and investments set aside by the Board for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes; beneficial interests in trust assets, which are donor restricted; and other donor-restricted investments. Amounts required to meet current liabilities of the Network have been classified as current assets in the consolidated balance sheets as of September 30, 2009 and 2008.

The income earned on restricted funds is generally available for operations of the Network at the discretion of management and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future annuity obligations, at which time the income is added to the appropriate restricted net asset balance. However, if a specific gift instrument explicitly requires the permanent reinvestment of appreciation, or a portion thereof, such reinvested amounts are classified within permanently restricted net assets. There were no gifts with reinvestment restrictions during the years ended September 30, 2009 and 2008.

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

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

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

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

Investments — Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are recorded at fair value at the balance sheet date. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless the income or loss is restricted by donor or law.

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

Other-Than-Temporary Impairment of Investments — The Network periodically reviews its investments to identify those individual investments for which fair value is below cost. The Network then makes a determination as to whether the investment should be considered other-than-temporarily impaired based on guidelines established in the revised Accounting Standards Codification (ASC) 320 (Financial Accounting Standards Board (FASB) Staff Position FAS 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). Impairment charges of \$88,168 and \$3,678,077 were recorded for the years ended September 30, 2009 and 2008, respectively.

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

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

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

Depreciation expense was \$10,806,942 and \$10,004,687 for the years ended September 30, 2009 and 2008, respectively.

Equipment under capital leases is amortized utilizing the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Equipment under capital leases amortization totaling \$259,946 and \$125,937 for the years ended September 30, 2009 and 2008, respectively, is

included in depreciation and amortization expense in the consolidated financial statements. Interest cost incurred on borrowed funds during the construction period of capital assets is capitalized as a component of the cost of acquiring those assets.

Physician loan amortization totaling \$922,308 and \$1,553,822 for the years ended September 30, 2009 and 2008, respectively, is included within depreciation and amortization in the accompanying consolidated statements of operations.

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

Investments in Joint Ventures — The 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, 2009 and 2008, include the Network's investments in the following:

	2009	Ownership Percentage	2008	Ownership Percentage
Northeast Regional Radiation Oncology Network, Inc.	\$ 5,007,791	50 %	\$ 3,811,227	50 %
Metro Wheelchair Service Inc.	320,800	50	339,103	50
Ambulance Service of Manchester, LLC	5,364,884	50	5,041,554	50
AETNA Ambulance Service Inc.	1,795,578	50	1,702,200	50
Visiting Nurse and Health Services of Connecticut Inc.	3,455,773	50	3,663,347	50
Evergreen Endoscopy Center, LLC	400,000	50		50
Haynes Street Medical Associates	160,921	50	168,297	50
Evergreen Imaging Center, LLC	216,735	50	176,516	50
Evergreen Medical Associates, LLC	317,427	20	322,182	20
Evergreen Medical Associates II, LLC	499,772	25	505,797	25
Tolland Imaging Center		70	<u>240,196</u>	70
Total joint venture assets	17,539,681		15,970,419	
Other miscellaneous assets	<u>35,147</u>		<u>21,000</u>	
Total joint venture investments	<u>\$17,574,828</u>		<u>\$15,991,419</u>	

Distributions from these joint ventures totaled \$1,189,666 and \$924,186 for the years ended September 30, 2009 and 2008, respectively. ECHN's share of the earnings of the joint ventures is reported as other revenue — net and totaled \$2,232,845 and \$2,614,731 for the years ended September 30, 2009 and 2008, respectively.

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

	Total Assets	Net Assets	Change in Net Assets	Excess (Deficiency) of Revenues Over Expenses
Northeast Regional Radiation Oncology Network, Inc.	\$10,048,809	\$10,015,584	\$2,597,203	\$2,985,608
Metro Wheelchair Service Inc.	521,934	397,657	(36,605)	(36,605)
Ambulance Service of Manchester, LLC	7,679,299	6,968,504	360,655	2,560,655
AETNA Ambulance Service Inc.	3,209,315	2,175,181	186,756	186,756
Visiting Nurse and Health Services of Connecticut Inc.	10,518,838	6,804,471	(358,168)	(415,148)
Haynes Street Medical Associates	2,450,130	422,235	(175,583)	16,748
Evergreen Endoscopy Center, LLC	2,360,421	474,712	474,712	
Evergreen Imaging Center, LLC	1,069,812	431,448	78,616	161,438
Evergreen Medical Associates, LLC	5,135,200	698,308	(257,305)	212,890
Evergreen Medical Associates II, LLC	5,302,711	1,252,897	(466,592)	(24,104)
Tolland Imaging Center	2,212,891	(29,279)	(372,416)	(543,137)

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

	Total Assets	Net Assets	Change in Net Assets	Excess (Deficiency) of Revenues Over Expenses
Northeast Regional Radiation Oncology Network, Inc.	\$7,464,538	\$7,418,381	\$2,562,597	\$2,338,972
Metro Wheelchair Service Inc.	519,088	434,262	54,467	54,878
Ambulance Service of Manchester, LLC	7,174,112	6,607,849	318,301	2,088,038
AETNA Ambulance Service Inc.	3,102,928	1,988,425	499,881	545,944
Visiting Nurse and Health Services of Connecticut Inc.	9,442,940	7,162,639	39,921	7,618
Haynes Street Medical Associates	2,599,664	597,818	58,376	17,612
Evergreen Imaging Center, LLC	1,214,989	352,832	256,047	281,910
Evergreen Medical Associates, LLC	5,411,067	955,613	99,634	116,260
Evergreen Medical Associates II, LLC	4,044,275	1,719,489	(94)	23,188
Tolland Imaging Center	2,647,317	343,137	343,137	(116,863)

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

Intangible Assets — Intangible assets, principally license enhancements and goodwill, are amortized over the life of the respective intangible. 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 the unamortized carrying value is recorded within 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.

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

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

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

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

	As Originally Reported	As Reclassified	Effect of the Reclassification
Unrestricted revenues, gains, and other support	\$ 267,094	\$ 265,832	\$ (1,262)
Expenses	<u>258,660</u>	<u>258,529</u>	<u>131</u>
Income from operations	8,434	7,303	(1,131)
Nonoperating (expense) income	<u>(3,459)</u>	<u>(2,328)</u>	<u>1,131</u>
Excess of revenues over expenses	<u>\$ 4,975</u>	<u>\$ 4,975</u>	<u>\$ -</u>

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

Charity Care — 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. Charity care was \$1,969,726 and \$2,848,553 for the years ended September 30, 2009 and 2008, respectively. These amounts were determined based on charges foregone.

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

Contracts, laws, and regulations governing Medicare, Medicaid, Blue Cross, and the uncompensated care pool programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. During 2009 and 2008, the Network recorded adjustments in amounts accrued for estimated settlements related to prior years. The net effect of such adjustments was an increase in net patient service revenue of approximately \$273,000 and \$528,612 in 2009 and 2008, respectively.

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

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

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

Medicaid — Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospective fee schedules. The hospitals are reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the hospitals.

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

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

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

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

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

Income Taxes — ECHN and its subsidiaries, except for Enterprises and CHIC, are in compliance with the provisions of Internal Revenue Code (IRC) Sec. 501(c)(3) and are exempt from federal tax under IRC Sec. 501(a).

Enterprises and its subsidiaries are for-profit entities subject to federal and state taxes. For these entities, ECHN applies the provisions of ASC 740 (FASB Statement No. 109, *Accounting for Income Taxes*). 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, 2009 and 2008, the Network has recognized \$448,809 and \$511,987, respectively, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the consolidated balance sheets within other liabilities.

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

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

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

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

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

Interest Rate Swap Agreements — Interest rate swap agreements are recognized as either assets or liabilities in the 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 nonoperating expense — net 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 \$1,857,600 and \$707,067 for the years ended September 30, 2009 and 2008, respectively, and is recorded in supplies and other in the consolidated statements of operations.

Recently Issued Accounting Pronouncements:

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

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

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

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

Disclosures about Derivative Instruments and Hedging Activities — In March 2008, the FASB updated ASC 815, *Derivatives and Hedging*, to enhance disclosure requirements for derivative instruments and hedging activities regarding how and why derivative instruments are used; how derivative instruments and related hedged items are accounted for under ASC 815 and its related interpretations; and how they affect financial position, financial performance, and cash flows. The updates to ASC 815 require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The updates to ASC 815 are effective for fiscal years beginning after November 15, 2008, with early adoption encouraged. ASC 815 enhances disclosure requirements and will not impact the Network's financial condition, results of operations, changes in net assets, or cash flows.

Endowments Held by Not-For-Profit Organizations — In August 2008, the FASB issued a staff position that provides guidance that is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. The staff position provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that were subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The staff position also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The adoption of the staff position did not impact the Network's financial position, results of operations, changes in net assets, or cash flows. Disclosures regarding the Network's endowments are included in Note 14, Temporarily and Permanently Restricted Net Assets, in the notes to the consolidated financial statements.

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

Network's financial instruments are included in Note 17, Fair Value Measurements of Financial Instruments, in the Network's notes to consolidated financial statements.

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

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

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

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

3. ASSETS WHOSE USE IS LIMITED AND INVESTMENTS

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

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
By Board of Trustees and donors:				
Cash and cash equivalents	\$ 47,465	\$ 47,465	\$ 67,145	\$ 67,145
Mutual funds	<u>32,857,672</u>	<u>29,322,726</u>	<u>32,321,003</u>	<u>29,245,613</u>
	<u>32,905,137</u>	<u>29,370,191</u>	<u>32,388,148</u>	<u>29,312,758</u>
Assets held in trust for estimated self-insurance liabilities —				
Mutual funds and fixed income securities	<u>7,571,369</u>	<u>8,243,340</u>	<u>8,228,721</u>	<u>8,174,965</u>
Assets held in trust under bond indentures:				
Cash and cash equivalents	6,224,340	6,224,537	2,661,885	2,659,781
Short-term investments	<u> </u>	<u> </u>	<u>5,258,402</u>	<u>5,257,934</u>
	6,224,340	6,224,537	7,920,287	7,917,715
Less current portion	<u>(1,279,137)</u>	<u>(1,277,330)</u>	<u>(2,859,127)</u>	<u>(2,856,555)</u>
	<u>4,945,203</u>	<u>4,947,207</u>	<u>5,061,160</u>	<u>5,061,160</u>
Total	<u>\$45,421,709</u>	<u>\$42,560,738</u>	<u>\$45,678,029</u>	<u>\$42,548,883</u>

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

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	<u>\$6,914,437</u>	<u>\$6,312,056</u>	<u>\$8,591,758</u>	<u>\$7,933,441</u>

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

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2009						
Long-term investments — mutual funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,211,486</u>	<u>\$(4,143,562)</u>	<u>\$24,211,486</u>	<u>\$(4,143,562)</u>
2008						
Long-term investments — mutual funds	<u>\$25,321,651</u>	<u>\$(3,786,249)</u>	<u>\$17,111</u>	<u>\$(1,214)</u>	<u>\$25,338,762</u>	<u>\$(3,787,463)</u>

The Network's unrealized losses on its investments in mutual funds consist of unrealized losses in the Vanguard Group and Dodge & Cox diversified mutual funds at September 30, 2009 and 2008. The Network has evaluated the near-term prospects of the investments in relation to the severity of the impairment (fair value is approximately 6% to 27% less than cost at September 30, 2009) and recent

market trends. Based on that evaluation and the Network's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Network does not consider those investments to be other-than-temporarily impaired at September 30, 2009 or 2008.

The amortized cost of the Network's fixed income securities maturing between one and five years, five and ten years, and ten years or more was \$1,913,945, \$1,607,012, and \$200,000, respectively, as of September 30, 2009. The fair value of the Network's fixed income securities maturing between one and five years, five and ten years, and ten years or more was \$2,003,275, \$1,667,942, and \$200,688, respectively, as of September 30, 2009.

MMH and RGH record the fair value of assets held in trust by third parties from which they have the right to receive income. All of the income from the funds held in trust by third parties is for the general operating purposes of MMH and RGH and is recorded in other revenue — net. The fair value of and income received from MMH's and RGH's beneficial interest in trust assets as of September 30, 2009 and 2008, are as follows:

	2009		2008	
	Fair Value	Income Received	Fair Value	Income Received
MMH — assets held in trust by third parties	\$4,888,284	\$ 150,079	\$5,011,260	\$ 194,100
RGH — assets held in trust by third parties	<u>1,905,585</u>	<u>33,032</u>	<u>1,946,328</u>	<u>81,736</u>
Total	<u>\$6,793,869</u>	<u>\$ 183,111</u>	<u>\$6,957,588</u>	<u>\$ 275,836</u>

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

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

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

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

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

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

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Fair Value
Cash and cash equivalents	\$ 6,272,002	\$ -	\$ 6,272,002
Mutual funds	43,878,122		43,878,122
Trust assets	<u> </u>	<u>6,793,869</u>	<u>6,793,869</u>
Total	<u>\$50,150,124</u>	<u>\$6,793,869</u>	<u>\$56,943,993</u>

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

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

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

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

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

	2009	2008
Interest on trustee funds	\$ 183,111	\$ 275,836
Interest income and dividends	1,197,449	1,269,880
Interest income and dividends from donor-restricted investments	88,603	870,352
Realized (losses) gains on investments — net	(1,536,034)	1,237,023
Realized (losses) gains on donor-restricted investments — net	(351,428)	24,757
Other-than-temporary impairment charge	(88,168)	(3,678,077)
Change in net unrealized losses on investments	(608,795)	(5,275,429)
Change in net unrealized losses on donor-restricted investments	<u>(98,624)</u>	<u>(3,660,026)</u>
	<u>\$ (1,213,886)</u>	<u>\$ (8,935,684)</u>
Reported as:		
Other operating revenue	\$ 1,381,056	\$ 2,326,305
Nonoperating other (expense) income	(1,799,355)	1,351,543
Other-than-temporary impairment charge	(88,168)	(3,678,077)
Change in net unrealized depreciation on investments	<u>(707,419)</u>	<u>(8,935,455)</u>
	<u>\$ (1,213,886)</u>	<u>\$ (8,935,684)</u>

4. OTHER — NET

Other — net as of September 30, 2009 and 2008, consists of the following:

	2009	2008
Pledges receivable	\$ 470,573	\$ 1,052,757
Other accounts receivable — net	513,867	1,026,662
Notes receivable — net	1,166,430	1,807,113
Unamortized bond issuance costs — net	2,798,666	1,997,669
Other — net	<u>459,619</u>	<u>352,416</u>
Total other — net	<u>\$ 5,409,155</u>	<u>\$ 6,236,617</u>

Pledges Receivable — Unconditional promises to give are expected to be realized as follows:

	2009		
	Capital	All Other	Total
In one year or less	\$ 135,236	\$ 252,959	\$ 388,195
Between one and five years	<u>54,869</u>	<u>461,720</u>	<u>516,589</u>
	190,105	714,679	904,784
Less discount for present value	<u>(10,350)</u>	<u>(35,666)</u>	<u>(46,016)</u>
Pledges receivable — net	<u>\$ 179,755</u>	<u>\$ 679,013</u>	<u>\$ 858,768</u>

	2008		
	Capital	All Other	Total
In one year or less	\$ 275,224	\$ 284,742	\$ 559,966
Between one and five years	<u>186,134</u>	<u>363,278</u>	<u>549,412</u>
	461,358	648,020	1,109,378
Less discount for present value	<u>(28,995)</u>	<u>(27,626)</u>	<u>(56,621)</u>
Pledges receivable — net	<u>\$ 432,363</u>	<u>\$ 620,394</u>	<u>\$ 1,052,757</u>

Pledges receivable are reported at their net present value, discounted at rates from 1.15% to 4.90%. There was no allowance for uncollectible amounts recorded as of September 30, 2009 or 2008.

Unamortized Bond Issue Costs — As of September 30, 2009 and 2008, unamortized bond issue costs consist of the following:

	2009	2008
Deferred financing costs	\$ 3,470,573	\$ 2,538,789
Less accumulated amortization	<u>(671,907)</u>	<u>(541,120)</u>
	<u>\$ 2,798,666</u>	<u>\$ 1,997,669</u>

5. PROPERTY AND EQUIPMENT

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

	2009	2008
Land and land improvements	\$ 4,967,890	\$ 3,555,386
Buildings and building improvements	149,821,798	136,969,549
Fixed equipment	24,732,890	25,548,348
Movable equipment	<u>103,404,668</u>	<u>112,134,242</u>
	282,927,246	278,207,525
Less accumulated depreciation and amortization	<u>(182,579,690)</u>	<u>(185,468,884)</u>
	100,347,556	92,738,641
Construction in progress	<u>959,544</u>	<u>6,062,959</u>
	<u>\$ 101,307,100</u>	<u>\$ 98,801,600</u>

For the years ended September 30, 2009 and 2008, the Network capitalized interest related to construction financed with tax-exempt debt of \$220,316 and \$198,035, respectively.

6. INTANGIBLE ASSETS

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

2009	Gross Carrying	Accumulated	Net Carrying
Class of Intangible Asset	Amount	Amortization	Amount
License enhancements	\$ 1,898,684	\$ (655,898)	\$ 1,242,786
Goodwill	<u>588,400</u>	<u>(378,760)</u>	<u>209,640</u>
	<u>\$2,487,084</u>	<u>\$(1,034,658)</u>	<u>\$1,452,426</u>
2008	Gross Carrying	Accumulated	Net Carrying
Class of Intangible Asset	Amount	Amortization	Amount
License enhancements	\$ 1,385,485	\$ (419,125)	\$ 966,360
Goodwill	<u>492,400</u>	<u>(290,560)</u>	<u>201,840</u>
	<u>\$1,877,885</u>	<u>\$(709,685)</u>	<u>\$1,168,200</u>

Amortization expense related to intangible assets was \$324,973 and \$319,119 for the years ended September 30, 2009 and 2008, respectively.

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

Years Ending	
September 30	
2010	\$ 325,390
2011	311,806
2012	202,822
2013	48,526
2014	<u>43,726</u>
	<u>\$932,270</u>

7. ESTIMATED SELF-INSURANCE LIABILITIES

The Network is self-insured for workers' compensation insurance coverage. The Network has established the Workers' Compensation Trust, a revocable trust, for the purpose of setting aside assets based on actuarial funding recommendations. The Network has a \$350,000 limit per occurrence for workers' compensation claims. The Network has employed independent actuaries to estimate the ultimate costs, if any, of workers' compensation claims. Accrued workers' compensation reserves have been discounted at 5% as of September 30, 2009 and 2008, and in management's opinion provide an adequate reserve for loss contingencies.

On December 18, 2001, ECHN formed a revocable trust for the purpose of setting aside assets for estimated self-insured medical malpractice and general liabilities of MMH, RGH, EES, EHS, and EWS with a retroactive effective date of October 1, 2001. The initial funding of the trust was from previously existing trust assets of MMH and RGH. Concurrent with the formation of this trust, ECHN's annual

coverage limit for medical malpractice and general liability claims was increased to \$3,000,000 per occurrence and \$9,000,000 in the aggregate and remained at those levels for the year ended September 30, 2006. This excess of loss coverage is provided by an external insurance carrier.

Certain assets of the trust and the liabilities for medical malpractice and general liabilities have been allocated to the entities that are included in the trust based on each entity's respective contributions of assets to the trust and each entity's actuarially determined costs of final resolution of its claims.

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

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

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

The coverage levels for CHIC, including excess of loss, are consistent with the coverage levels previously under the self-insurance trust.

The activity in the reserve for outstanding losses and loss-related expenses at ECHN for malpractice and workers' compensation claims as of September 30, 2009 and 2008, is as follows:

Balance — October 1 , 2008 and 2007	<u>\$ 9,275,065</u>	<u>\$8,441,779</u>
Workers' compensation:		
Losses incurred related to:		
Current year	789,177	980,371
Prior year	<u>601,776</u>	<u>(55,691)</u>
Total incurred	<u>1,390,953</u>	<u>924,680</u>
Paid losses related to:		
Current year	(200,086)	(327,932)
Prior year	<u>(898,867)</u>	<u>(572,748)</u>
Total paid	<u>(1,098,953)</u>	<u>(900,680)</u>
Professional and general:		
Losses incurred related to:		
Current year	268,567	967,080
Prior year	<u>1,282,636</u>	<u>347,539</u>
Total incurred	<u>1,551,203</u>	<u>1,314,619</u>
Paid losses related to:		
Current year	(23,021)	(434,458)
Prior year	<u>(970,256)</u>	<u>(70,875)</u>
Total paid	<u>(993,277)</u>	<u>(505,333)</u>
Balance — September 30, 2009 and 2008	<u>\$10,124,991</u>	<u>\$9,275,065</u>

Professional and General — The development on prior-year incurred losses increased by approximately \$1,283,000 and \$348,000 as of September 30, 2009 and 2008, respectively.

Workers' Compensation — The development on prior-year incurred losses increased by approximately \$602,000 and decreased by approximately \$56,000 as of September 30, 2009 and 2008, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, included estimates of claims incurred but not reported. Approximately, \$3,082,000 and \$2,738,401 of the reserve as of September 30, 2009 and 2008, respectively, are included in other current liabilities with the balance of the reserve included in estimated self-insurance liabilities in the accompanying consolidated balance sheets as of September 30, 2009 and 2008, respectively.

8. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

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

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

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

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

The pension and postretirement plans change in benefit obligation and change in plan assets for the years ended September 30, 2009 and 2008, are as follows:

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

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

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

The plan's components of net periodic benefit cost for the years ended September 30, 2009 and 2008, are as follows:

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

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

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

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	8.04/7.60 % ⁽¹⁾	6.35 %	8.04 %	6.35 %
Expected long-term rate of return	8.75	8.75	N/A	N/A
Rate of compensation increase	4.00	4.00		
Initial medical trend rate			9.00	11.00
Ultimate medical trend rate			5.00	5.00
Number of years to ultimate medical trend rate			8 years	7 years

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

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

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on year-end postretirement benefit obligation	\$ 335,252	\$ (289,848)
Effect on total service and interest cost components	36,338	(31,301)

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

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

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

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

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

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

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

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

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

MMH also has a money match plan, whereby eligible employees who contribute to a tax-sheltered annuity will have 50% of their contributions matched by the Network up to a maximum of 1.5% to 2.5% of annual compensation dependent upon years of service. The Network contributions to the money match plan were \$1,138,601 and \$873,326 for the years ended September 30, 2009 and 2008, respectively.

RGH also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% to 50%, depending upon years of service, of contributions matched by RGH up to a maximum of 6% of annual compensation. RGH contributions to the employee savings plan were \$255,431 and \$269,436 for the years ended September 30, 2009 and 2008, respectively.

9. LONG-TERM DEBT

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

	2009	2008
Connecticut Health and Educational Facilities Authority (CHEFA) Hospital Revenue Bonds, ECHN Issue Series 2000A, bearing interest at rates ranging from 4.375% to 6.5% — net of unamortized original issue discount of \$75,401 and \$82,625, respectively	\$12,304,599	\$13,227,375
CHEFA Hospital Variable Rate Demand Revenue Bonds, ECHN Issue, Series 2004B, bearing interest at a variable rate, adjusted weekly	17,740,000	18,175,000
CHEFA Hospital Revenue Bonds ECHN Issue Series C, bearing interest at rates ranging from 3.25% to 5.125% — net of unamortized original issue premium of \$433,540 and \$454,185, respectively	36,443,540	36,844,185
CHEFA Hospital Revenue Bonds, ECHN Issue Series 2009D bearing interest at a variable rate, adjusted weekly	15,162,000	
Loan due to Chase Equipment Leasing Inc., face amount of \$4,922,567 due and payable in monthly principal and interest installments maturing on July 13, 2001, bearing interest at 4.1%	1,923,912	2,913,537
Promissory note payable to the Siemens Medical Solutions USA, face amount of \$1,609,306 due and payable in monthly principal and interest installments maturing on April 30, 2011, bearing interest at rates ranging from 5.8% to 6.0%	760,882	1,068,298
Loan due to Chase Equipment Leasing Inc., face amount of \$4,000,000 due and payable in monthly principal and interest installments maturing on March 20, 2013, and bearing interest at 3.24%	2,867,185	3,628,486
Promissory note payable to NewAlliance Bank due and payable in monthly principal and interest installments, maturing on June 1, 2012, bearing interest at a variable rate	90,833	100,000
Promissory note payable to Rockville Bank due and payable in monthly principal and interest installments maturing on July 1, 2025, bearing interest at 5.87%	964,804	997,649
Mortgage payable to Rockville Bank — \$176,000 for 20 years, bearing interest at 6.6% for the first five years, adjustable thereafter, every five years	163,622	168,520
Mortgage payable to Rockville Bank — \$236,800 for 15 years, bearing interest at 6.5% for the first five years, adjustable thereafter every five years	212,373	222,948
Revolving line of credit with Sovereign Bank, bearing interest at a variable rate	5,000,000	5,000,000
Capital Lease Obligation (Note 10)	<u>1,395,735</u>	<u>1,600,000</u>
Total long-term debt and capital lease obligation	95,029,485	83,945,998
Less current maturities	<u>(9,728,914)</u>	<u>(9,141,824)</u>
Total long-term debt and capital lease obligation — net of current portion	<u>\$85,300,571</u>	<u>\$74,804,174</u>

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

On October 1, 2005, MMH, RGH, EES, and ECHF (collectively, the “Series C Obligated Group”) entered into an agreement and open-ended mortgage with the CHEFA to borrow \$37,065,000 in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network Issue, Series C (the “Series C Bonds”). The proceeds from the Series C Bonds, net of the original issue premium and amounts used to establish required reserve accounts, were placed in an irrevocable trust to advance refund and defease a portion of the Series 2000A Bonds. MMH, RGH, and EES (collectively, the “Series A Obligated Group”) have been legally released from any future debt service on the portion of defeased Series 2000A Bonds. The Series C Bonds are due on various due dates through July 1, 2034, bearing interest at rates ranging from 3.25% to 5.125%.

In July 2004, 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, were used to finance additions and renovations and purchases of equipment for RGH and MMH.

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.

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

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

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

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

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

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

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

Years Ending September 30	
2010	\$ 9,728,914
2011	4,740,346
2012	3,558,213
2013	4,009,081
2014	2,545,239
Thereafter	<u>70,089,553</u>
	94,671,346
Plus — premium	<u>358,139</u>
	<u><u>\$95,029,485</u></u>

In October 2009, the Network entered into capital lease agreements with payments totaling \$2,539,367 to be paid over 60 months.

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

	2009	2008
Notional amount of contract	\$ 8,870,000	\$ 9,087,500
Fair value of swap contract recognized in accounts payable and accrued expenses	725,000	278,000
Net interest expense recognized in nonoperating expense — net	447,000	131,000

In December 2005, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$9,750,000 of its Series B variable rate debt. Under the terms of this agreement, ECHN pays a fixed rate of 3.708%. The swap is accounted for as a cash flow hedge in accordance with ASC 815 (FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*). This accounting treatment requires the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument to be reported as a component of other changes in unrestricted net assets and reclassified into operations in the same period or periods during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, is recognized currently in nonoperating other (expense) income — net. As of September 30, 2009 and 2008, the following schedule presents the swap agreement in force related to this strategy as of September 30, 2009 and 2008, is as follows:

	2009	2008
Notional amount of contract	\$ 8,870,000	\$ 9,087,500
Fair value of swap contract recognized in accounts payable and accrued expenses	1,067,000	402,000
Unrealized loss recognized as an reduction of unrestricted net assets	(664,000)	(349,403)

In May 2009, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with \$15,250,000 of its Series D variable rate debt. Under the terms of this agreement, ECHN pays a fixed rate of 3.89%. Changes in the fair value of this swap are recorded in the statement of operations. The Network's portion of the swap agreement in force related to this strategy as of September 30, 2009 and 2008, and the liability and interest expense recognized by the Network are as follows:

	2009
Notional amount of contract	\$ 15,250,000
Fair value of swap contract recognized in accounts payable and accrued expenses	217,804
Net interest expense recognized in nonoperating expense — net	217,804

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

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

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

10. LEASE COMMITMENTS

ECHN leases equipment under a capital lease agreement entered into on April 18, 2008, and which expires in 2014. The interest rate is fixed at 7%. The net carrying value of equipment under the capital lease was \$1,490,239 as of September 30, 2009. ECHN leases various office spaces 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 noncancelable operating leases as of September 30, 2009, consisted of the following:

	Capital Lease	Operating Leases
2010	\$ 404,473	\$ 2,345,773
2011	384,232	1,708,101
2012	380,184	1,162,520
2013	380,184	943,568
2014	63,364	1,247,243
Thereafter	<u> </u>	<u>8,406,224</u>
	1,612,437	<u>\$ 15,813,429</u>
Less interest on capital lease	<u>(216,702)</u>	
Principal amount of capital lease	<u>\$ 1,395,735</u>	

Rent expense under operating leases was \$4,777,410 and \$4,763,301 for the years ended September 30, 2009 and 2008, respectively.

11. CONCENTRATIONS OF CREDIT RISK

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

	2009	2008
Self-pay	22 %	21 %
Medicare	32	26
Managed care	19	34
Commercial insurance	7	6
Medicaid	12	5
Other	<u>8</u>	<u>8</u>
	<u>100 %</u>	<u>100 %</u>

12. NET PATIENT SERVICE REVENUE

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

	2009	2008
Patient service revenue:		
Inpatient services	\$ 238,039,752	\$ 221,458,367
Outpatient services	<u>371,546,371</u>	<u>356,769,733</u>
Gross patient service revenue	609,586,123	578,228,100
Deductions — allowances	<u>(348,183,099)</u>	<u>(330,958,191)</u>
Net patient service revenue	<u>\$ 261,403,024</u>	<u>\$ 247,269,909</u>

For the years ended September 30, 2009 and 2008, MMH and RGH granted total charity care of \$1,969,726 and \$2,848,553, respectively. Such amounts are determined based on charges foregone.

13. FUNCTIONAL EXPENSES

ECHN provides general health care services to residents within its geographical location. For the years ended September 30, 2009 and 2008, expenses relating to providing these services are as follows:

	2009	2008
Health care services	\$ 213,706,920	\$ 202,950,655
Fund raising	802,580	652,488
General and administrative	<u>56,686,671</u>	<u>54,925,805</u>
	<u>\$ 271,196,171</u>	<u>\$ 258,528,948</u>

14. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2009	2008
Departmental purposes	\$ 1,737,332	\$ 2,082,783
Capital campaign and pledges	<u>2,917,285</u>	<u>4,572,631</u>
	<u>\$ 4,654,617</u>	<u>\$ 6,655,414</u>

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

As of September 30, 2009 and 2008, permanently restricted net assets consist of the following:

	2009	2008
Interest in trust assets held by third parties	\$ 6,793,869	\$ 6,957,588
Health care services and other departmental purposes	3,920,402	3,919,378
Charity care	320,817	320,896
Special needs	151,579	151,579
Cancer research	<u>6,251</u>	<u>6,251</u>
	<u>\$ 11,192,918</u>	<u>\$ 11,355,692</u>

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

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets September 30, 2008	\$ 13,595,160	\$ 4,584,266	\$ 4,398,103	\$ 22,577,529
Interest income and dividends	536,727	30,175		566,902
Realized losses on investments	(924,346)	(16,326)		(940,672)
Unrealized appreciation (depreciation) on investments	1,713,536	(2,049,040)		(335,504)
Contributions			946	946
Distributions	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net assets September 30, 2009	<u>\$ 14,921,077</u>	<u>\$ 2,549,075</u>	<u>\$ 4,399,049</u>	<u>\$ 21,869,201</u>
	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets September 30, 2007	\$ 19,867,016	\$ 4,772,537	\$ 3,237,649	\$ 27,877,202
Interest income and dividends	1,162,483	123,766		1,286,249
Realized gains on investments	605,288	60,846		666,134
Unrealized depreciation on investments	(7,303,830)	(372,883)		(7,676,713)
Contributions			1,160,454	1,160,454
Distributions	<u>(735,797)</u>	<u> </u>	<u> </u>	<u>(735,797)</u>
Net assets September 30, 2008	<u>\$ 13,595,160</u>	<u>\$ 4,584,266</u>	<u>\$ 4,398,103</u>	<u>\$ 22,577,529</u>

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

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 2,549,075	\$ 4,399,049	\$ 6,948,124
Board-designated endowment funds	<u>14,921,077</u>	<u> </u>	<u> </u>	<u>14,921,077</u>
Net assets September 30, 2009	<u>\$ 14,921,077</u>	<u>\$ 2,549,075</u>	<u>\$ 4,399,049</u>	<u>\$ 21,869,201</u>

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 4,584,266	\$ 4,398,103	\$ 8,982,369
Board-designated endowment funds	<u>13,595,160</u>	<u> </u>	<u> </u>	<u>13,595,160</u>
Total funds	<u>\$ 13,595,160</u>	<u>\$ 4,584,266</u>	<u>\$ 4,398,103</u>	<u>\$ 22,577,529</u>

15. 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, upon the consolidated balance sheets or on the related consolidated statements of operations, changes in net assets, or cash flows of the Network.

Corporate Guaranty — In 2007, the Network was established as a guarantor of Sports Medicine Partners, Orthopedics & Rehabilitation Therapy, P.C. (“Sports”), a Friendly PC, allowing Sports to borrow \$800,000 from North Fork Equipment Leasing for equipment and improvements to the space at Evergreen Walk. Under the terms of the Corporate Guaranty, which is for 60 months and will expire in June 2012, the Network is responsible for payment of any and all debts owed by Sports to North Fork Equipment Leasing. There was no collateral pledged as part of the Corporate Guaranty and \$411,468 and \$555,253 of the original \$800,000 loan from North Fork Equipment Leasing was outstanding as of September 30, 2009 and 2008, respectively.

16. STATUTORY CAPITAL AND SURPLUS

CHIC was incorporated in the Cayman Islands on September 15, 2006, and was granted an Unrestricted Class “B” insurance license under the Insurance Law of the Cayman Islands with effect from September 26, 2006. CHIC is regulated by the Cayman Islands Monetary Authority (CIMA) and related relations, and is obligated to comply with CIMA regulations regarding minimum levels of solvency and liquidity. Statutory capital and surplus as of September 30, 2009, was \$3,377,946, with a minimum amount required to be maintained by CHIC of \$120,000. ECHN reports all of CHIC's investments as investments held in trust for estimated self-insurance liabilities in the accompanying balance sheets.

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

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Long-Term Debt — Fair values of the Network's bonds are based on current traded value. The fair value of the Network's fixed rate CHEFA Series A and C Bonds as of September 30, 2009 and 2008, is approximately \$45,046,000 and \$39,488,465, respectively. The fair value of the remaining long-term debt approximates its carrying value.

Interest Rate Swaps — See Note 9, Long-Term Debt.

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

* * * * *

SUPPLEMENTAL CONSOLIDATING INFORMATION

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2009

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Groups	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
ASSETS															
CURRENT ASSETS:															
Cash and cash equivalents	\$ 10,660,990	\$ 5,978,582	\$ 2,318,929	\$ -	\$ 18,958,501	\$ 3,697,583	\$ -	\$ 22,656,084	\$ 542,777	\$ 284,209	\$ 524,308	\$ 97,110	\$3,897,059	\$ -	\$ 28,001,547
Current portion — investments under bond indenture	794,015	273,342	209,973		1,277,330			1,277,330							1,277,330
Accounts receivable — net	24,557,822	9,336,815	1,406,219		35,300,856			35,300,856	2,690,976		126,649	46,576	105,631		38,270,688
Inventory	2,215,756	1,150,786	54,968		3,421,510			3,421,510							3,421,510
Due from affiliated entities	21,442,283	11,783,388	959,905	(11,486,584)	22,698,992	1,183,792		23,882,784	6,311,997		3,894	1,668,697		(31,867,372)	-
Current portion of estimated settlements due from third parties	514,722	976,533			1,491,255			1,491,255							1,491,255
Prepaid expenses and other current assets	486,845	1,181,196	13,822		1,681,863	410,345		2,092,208	1,989,587	20,790	32,123	1,625,857	42,002		5,802,567
Total current assets	60,672,433	30,680,642	4,963,816	(11,486,584)	84,830,307	5,291,720	-	90,122,027	11,535,337	304,999	686,974	3,438,240	4,044,692	(31,867,372)	78,264,897
ASSETS WHOSE USE IS LIMITED — Net of current portion:															
Board-designated and donor-restricted investments	7,837,163	15,586,866			23,424,029	5,946,162		29,370,191							29,370,191
Investments held in trust for estimated self-insurance liabilities	2,519,181				2,519,181			2,519,181					5,724,159		8,243,340
Beneficial interest in trust assets	4,888,284	1,905,585			6,793,869			6,793,869							6,793,869
Investments held under bond indentures	3,263,355	932,370	751,482		4,947,207			4,947,207							4,947,207
Total assets whose use is limited — net of current portion	18,507,983	18,424,821	751,482	-	37,684,286	5,946,162	-	43,630,448	-	-	-	-	5,724,159	-	49,354,607
INTEREST IN NET ASSETS OF ECHN CHF, INC.	3,828,998	2,008,301	314,924		6,152,223		(6,152,223)	-			487,680	3,232,243		(3,719,923)	-
INVESTMENTS	6,312,056				6,312,056			6,312,056				3,138,665		(3,138,665)	6,312,056
INVESTMENTS IN JOINT VENTURE	3,120,631	2,503,896			5,624,527			5,624,527		992,266		10,958,035			17,574,828
PROPERTY AND EQUIPMENT — Net	54,573,162	35,109,870	9,166,029		98,849,061			98,849,061	474,815	1,587,623	395,601				101,307,100
OTHER ASSETS:															
Estimated settlements due from third parties — net of current portion	805,860	1,151,829			1,957,689			1,957,689							1,957,689
Intangible assets — net	288,000	288,000	666,786		1,242,786			1,242,786	209,640						1,452,426
Other — net	2,499,251	733,684	423,423		3,656,358	470,573		4,126,931		354,648	1,146	926,430			5,409,155
Total other assets	3,593,111	2,173,513	1,090,209	-	6,856,833	470,573	-	7,327,406	209,640	354,648	1,146	926,430	-	-	8,819,270
TOTAL	\$ 150,608,374	\$ 90,901,043	\$ 16,286,460	\$(11,486,584)	\$ 246,309,293	\$ 11,708,455	\$(6,152,223)	\$ 251,865,525	\$ 12,219,792	\$ 3,239,536	\$ 1,571,401	\$ 21,693,613	\$ 9,768,851	\$(38,725,960)	\$ 261,632,758

(Continued)

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2009

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Groups	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
LIABILITIES, EQUITY, AND NET ASSETS															
CURRENT LIABILITIES:															
Accounts payable and accrued expenses	\$ 17,435,198	\$ 6,774,322	\$ 1,066,777	\$ -	\$ 25,276,297	\$ 124,578	\$ -	\$ 25,400,875	\$ 1,218,418	\$ 38,834	\$ 84,367	\$ 770,545	\$ 92,914	\$ -	\$ 27,605,953
Current portion of long-term debt and capital lease obligations	7,816,773	1,341,414	450,793		9,608,980			9,608,980		16,512	103,422				9,728,914
Due to affiliated entities	11,579,429	7,047,172	115,334	(11,486,584)	7,255,351			7,255,351	11,029,065	1,984,252	80,750	14,219,432		(34,568,850)	-
Current portion of estimated settlements due to third-party payors	251,398	343,065	291,275		885,738			885,738							885,738
Other current liabilities	2,456,430	508,873	224,565		3,189,868			3,189,868					2,135,856		5,325,724
Total current liabilities	39,539,228	16,014,846	2,148,744	(11,486,584)	46,216,234	124,578	-	46,340,812	12,247,483	2,039,598	268,539	14,989,977	2,228,770	(34,568,850)	43,546,329
LONG-TERM LIABILITIES:															
Long-term debt and capital lease obligations — net of current portion	49,230,702	25,255,757	10,365,130		84,851,589			84,851,589		359,485	89,497				85,300,571
Estimated self-insurance liabilities	2,216,390	559,610	104,000		2,880,000			2,880,000					4,162,135		7,042,135
Accrued pension and postretirement benefits	37,414,390	12,439,602			49,853,992			49,853,992							49,853,992
Estimated settlements due to third-party payors — net current portion					-			-							-
Other liabilities	279,797	169,013			448,810	7,245		456,055							456,055
Total long-term liabilities	89,141,279	38,423,982	10,469,130	-	138,034,391	7,245	-	138,041,636	-	359,485	89,497	-	4,162,135	-	142,652,753
Total liabilities	128,680,507	54,438,828	12,617,874	(11,486,584)	184,250,625	131,823	-	184,382,448	12,247,483	2,399,083	358,036	14,989,977	6,390,905	(34,568,850)	186,199,082
NET ASSETS (DEFICIT):															
Unrestricted	12,898,050	31,533,927	3,432,410		47,864,387	1,704,485		49,568,872	(27,691)	840,453	1,208,503	5,055,246	3,377,946	(437,188)	59,586,141
Temporarily restricted	1,262,823	1,502,364	236,176		3,001,363	8,304,835	(4,584,911)	6,721,287			4,862	1,648,390		(3,719,922)	4,654,617
Permanently restricted	7,766,994	3,425,924			11,192,918	1,567,312	(1,567,312)	11,192,918							11,192,918
Total net assets (deficit)	21,927,867	36,462,215	3,668,586	-	62,058,668	11,576,632	(6,152,223)	67,483,077	(27,691)	840,453	1,213,365	6,703,636	3,377,946	(4,157,110)	75,433,676
TOTAL	\$ 150,608,374	\$ 90,901,043	\$ 16,286,460	\$(11,486,584)	\$ 246,309,293	\$ 11,708,455	\$(6,152,223)	\$ 251,865,525	\$ 12,219,792	\$ 3,239,536	\$ 1,571,401	\$ 21,693,613	\$ 9,768,851	\$(38,725,960)	\$ 261,632,758

(Concluded)

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2008

	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 Obligated Group and Series C Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
ASSETS															
CURRENT ASSETS:															
Cash and cash equivalents	\$ 8,080,207	\$ 2,961,001	\$ 2,701,702	\$ -	\$ 13,742,910	\$ 2,279,006	\$ -	\$ 16,021,916	\$ 44,539	\$ 265,845	\$ 291,836	\$ 97,084	\$ 2,348,452	\$ -	\$ 19,069,672
Current portion — investments under bond indenture	1,664,970	959,562	232,024		2,856,556			2,856,556							2,856,556
Accounts receivable — net	25,254,121	9,591,444	1,333,864		36,179,429			36,179,429	2,663,916		167,551	46,294	331,141		39,388,331
Inventory	1,989,456	1,072,145	66,373		3,127,974			3,127,974							3,127,974
Due from affiliated entities	17,493,383	13,432,987	740,756	(14,503,015)	17,164,111	1,487,274		18,651,385	4,529,675		481	1,616,197		(24,797,738)	-
Current portion of estimated settlements due from third parties	879,184	1,558,509	2,001		2,439,694			2,439,694							2,439,694
Prepaid expenses and other current assets	309,622	731,475	17,043		1,058,140	49,151		1,107,291	1,575,520	30,756	36,110	972,890	2,287		3,724,854
Total current assets	55,670,943	30,307,123	5,093,763	(14,503,015)	76,568,814	3,815,431	-	80,384,245	8,813,650	296,601	495,978	2,732,465	2,681,880	(24,797,738)	70,607,081
ASSETS WHOSE USE IS LIMITED — Net of current portion:															
Board-designated and donor-restricted investments	6,131,019	17,423,370			23,554,389	5,758,369		29,312,758							29,312,758
Investments held in trust for estimated self-insurance liabilities	2,625,489				2,625,489			2,625,489					5,549,476		8,174,965
Beneficial interest in trust assets	5,011,260	1,946,328			6,957,588			6,957,588							6,957,588
Investments held under bond indentures	3,347,229	951,143	762,788		5,061,160			5,061,160							5,061,160
Total assets whose use is limited — net of current portion	17,114,997	20,320,841	762,788	-	38,198,626	5,758,369	-	43,956,995	-	-	-	-	5,549,476	-	49,506,471
INTEREST IN NET ASSETS OF ECHN CHF, INC.	4,505,972	2,202,523	381,704		7,090,199		(7,090,199)	-			388,027	3,372,097		(3,760,124)	-
INVESTMENTS	7,879,324	54,117			7,933,441			7,933,441				2,506,223		(2,506,223)	7,933,441
INVESTMENTS IN JOINT VENTURE	2,025,509	2,025,915			4,051,424			4,051,424		996,275		10,943,720			15,991,419
PROPERTY AND EQUIPMENT — Net	52,319,036	36,880,442	6,900,106		96,099,584			96,099,584	528,417	1,660,472	513,127				98,801,600
OTHER ASSETS:															
Estimated settlements due from third parties — net of current portion	558,991	1,031,810			1,590,801			1,590,801							1,590,801
Intangible assets — net	396,000	396,000	174,360		966,360			966,360	201,840						1,168,200
Other — net	2,476,934	729,744	168,282		3,374,960	1,052,757		4,427,717			1,786	1,807,114			6,236,617
Total other assets	3,431,925	2,157,554	342,642	-	5,932,121	1,052,757	-	6,984,878	201,840	-	1,786	1,807,114	-	-	8,995,618
TOTAL	\$ 142,947,706	\$ 93,948,515	\$ 13,481,003	\$ (14,503,015)	\$ 235,874,209	\$ 10,626,557	\$ (7,090,199)	\$ 239,410,567	\$ 9,543,907	\$ 2,953,348	\$ 1,398,918	\$ 21,361,619	\$ 8,231,356	\$ (31,064,085)	\$ 251,835,630

(Continued)

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2008

	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 Obligated Group and Series C Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
LIABILITIES, EQUITY, AND NET ASSETS															
CURRENT LIABILITIES:															
Accounts payable and accrued expenses	\$ 22,173,757	\$ 6,502,929	\$ 1,364,786	\$ -	\$ 30,041,472	\$ 78,763	\$ -	\$ 30,120,235	\$1,465,484	\$ 49,574	\$ 64,354	\$ 947,985	\$ 115,568	\$ -	\$ 32,763,200
Current portion of long-term debt and capital lease obligations	3,451,379	5,225,735	350,000		9,027,114			9,027,114		15,471	99,239				9,141,824
Due to affiliated entities	12,491,221	5,197,157	1,308,803	(14,503,015)	4,494,166	102,248		4,596,414	8,106,114	1,628,624	72,649	13,095,416		(27,499,217)	-
Current portion of estimated settlements due to third-party payors	1,618,701	536,720	309,140		2,464,561			2,464,561							2,464,561
Other current liabilities	1,038,999	331,329	267,134		1,637,462			1,637,462					1,844,401		3,481,863
Total current liabilities	40,774,057	17,793,870	3,599,863	(14,503,015)	47,664,775	181,011	-	47,845,786	9,571,598	1,693,669	236,242	14,043,401	1,959,969	(27,499,217)	47,851,448
LONG-TERM LIABILITIES:															
Long-term debt and capital lease obligations — net of current portion	41,462,437	26,599,969	6,172,853		74,235,259			74,235,259		375,996	192,919				74,804,174
Estimated self-insurance liabilities	2,171,000	556,000	85,000		2,812,000			2,812,000					3,724,664		6,536,664
Accrued pension and postretirement benefits	19,477,017	7,082,454			26,559,471			26,559,471							26,559,471
Estimated settlements due to third-party payors — net of current portion	65,466				65,466			65,466							65,466
Other liabilities	357,833	154,154			511,987	7,838		519,825							519,825
Total long-term liabilities	63,533,753	34,392,577	6,257,853	-	104,184,183	7,838	-	104,192,021	-	375,996	192,919	-	3,724,664	-	108,485,600
Total liabilities	104,307,810	52,186,447	9,857,716	(14,503,015)	151,848,958	188,849	-	152,037,807	9,571,598	2,069,665	429,161	14,043,401	5,684,633	(27,499,217)	156,337,048
NET ASSETS (DEFICIT):															
Unrestricted	28,644,838	36,356,992	3,294,860		68,296,690	(413,297)		67,883,393	(27,691)	883,683	954,351	5,051,761	2,546,723	195,256	77,487,476
Temporarily restricted	2,106,033	1,938,409	328,427		4,372,869	9,284,638	(5,523,832)	8,133,675			15,406	2,266,457		(3,760,124)	6,655,414
Permanently restricted	7,889,025	3,466,667			11,355,692	1,566,367	(1,566,367)	11,355,692							11,355,692
Total net assets (deficit)	38,639,896	41,762,068	3,623,287	-	84,025,251	10,437,708	(7,090,199)	87,372,760	(27,691)	883,683	969,757	7,318,218	2,546,723	(3,564,868)	95,498,582
TOTAL	\$ 142,947,706	\$93,948,515	\$13,481,003	\$ (14,503,015)	\$ 235,874,209	\$10,626,557	\$ (7,090,199)	\$ 239,410,567	\$9,543,907	\$2,953,348	\$1,398,918	\$21,361,619	\$8,231,356	\$ (31,064,085)	\$ 251,835,630

(Concluded)

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Groups	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:															
Net patient service revenue	\$ 167,264,862	\$ 64,940,252	\$ 12,163,163	\$ -	\$ 244,368,277	\$ -	\$ -	\$ 244,368,277	\$ 15,553,633	\$ -	\$ 1,481,114	\$ -	\$ -	\$ -	\$ 261,403,024
Change in unrestricted net assets of Eastern Connecticut HealthCare Community Foundation, Inc.	506,416	365,114	34,691		906,221			906,221			110,673	478,602			1,495,496
Contributions															
Other revenues	9,559,338	4,639,363	125,531	(783,330)	13,540,902	1,241,011	(817,098)	13,964,815	6,282,598	604,418	42,997	2,309,242	2,758,657	(10,829,280)	15,133,447
Net assets released from restrictions used for operations	99,591	36,472	34,924		170,987	25,306		196,293			10,607	76,805			283,705
Total unrestricted revenue, gains, and other support	177,430,207	69,981,201	12,358,309	(783,330)	258,986,387	1,266,317	(817,098)	259,435,606	21,836,231	604,418	1,645,391	2,864,649	2,758,657	(10,829,280)	278,315,672
EXPENSES:															
Salaries and wages	75,094,805	30,097,396	6,220,006		111,412,207	624,973	(403,238)	111,633,942	17,662,652		676,856	10,865,440		(11,087,173)	129,751,717
Fringe benefits	20,465,024	7,053,677	1,712,170		29,230,871	155,060	(100,049)	29,285,882	2,730,067		129,097	2,259,207		(2,314,218)	32,090,035
Supplies and other	56,092,399	19,953,479	3,390,465	(783,330)	78,653,013	486,284	(313,811)	78,825,486	4,655,827	535,115	444,764	(11,319,632)	2,038,048	5,304,843	80,484,451
Provision for bad debts	7,895,004	3,876,624	40,000		11,811,628			11,811,628	830,477		10,485				12,652,590
Depreciation and amortization	8,204,355	3,982,798	439,631		12,626,784			12,626,784	320,445	87,948	119,089			(922,308)	12,231,958
Interest and financing costs	2,265,597	1,275,285	368,119		3,909,001			3,909,001	71,020	25,404	10,176	253		(30,434)	3,985,420
Total expenses	170,017,184	66,239,259	12,170,391	(783,330)	247,643,504	1,266,317	(817,098)	248,092,723	26,270,488	648,467	1,390,467	1,805,268	2,038,048	(9,049,290)	271,196,171
INCOME (LOSS) FROM OPERATIONS	7,413,023	3,741,942	187,918	-	11,342,883	-	-	11,342,883	(4,434,257)	(44,049)	254,924	1,059,381	720,609	(1,779,990)	7,119,501
NONOPERATING (EXPENSE) INCOME — Net:															
Other	(1,408,380)	(2,351,702)	(54,959)		(3,815,041)			(3,815,041)		819	(1,058)	(1,059,381)		1,059,381	(3,815,280)
Other-than-temporary impairment charge	(59,073)	(29,095)			(88,168)			(88,168)					(88,168)	88,168	(88,168)
Total nonoperating (expense) income — net	(1,467,453)	(2,380,797)	(54,959)	-	(3,903,209)	-	-	(3,903,209)	-	819	(1,058)	(1,059,381)	(88,168)	1,147,549	(3,903,448)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	5,945,570	1,361,145	132,959	-	7,439,674	-	-	7,439,674	(4,434,257)	(43,230)	253,866	-	632,441	(632,441)	3,216,053
OTHER CHANGES IN UNRESTRICTED NET ASSETS:															
(Decrease) increase in unrealized appreciation on investments	(171,494)	(778,483)	(2,422)		(952,399)	2,105,948		1,153,549					198,781		1,352,330
Net loss on interest rate swap	(66,409)	(597,679)			(664,088)			(664,088)							(664,088)
Equity transfer to ECHN Health Services, Inc.	(4,434,257)				(4,434,257)			(4,434,257)	4,434,257						-
Transfer to other affiliates — net	(24,963)	9,360			(15,603)	11,834		(3,769)			284	3,485			-
Net assets released from restrictions for capital acquisitions	32,433	52,970	7,013		92,416			92,416							92,416
Change in accrued pension and postretirement liability	(17,027,668)	(4,870,378)			(21,898,046)			(21,898,046)							(21,898,046)
CHANGE IN UNRESTRICTED NET ASSETS	\$ (15,746,788)	\$ (4,823,065)	\$ 137,550	\$ -	\$ (20,432,303)	\$ 2,117,782	\$ -	\$ (18,314,521)	\$ -	\$ (43,230)	\$ 254,150	\$ 3,485	\$ 831,222	\$ (632,441)	\$ (17,901,335)

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2008

	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 Obligated Group and Series C Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:															
Net patient service revenue	\$ 158,787,196	\$ 61,803,014	\$ 10,586,235	\$ -	\$ 231,176,445	\$ -	\$ -	\$ 231,176,445	\$ 14,553,956	\$ -	\$ 1,539,508	\$ -	\$ -	\$ -	\$ 247,269,909
Change in unrestricted net assets of Eastern Connecticut HealthCare Community Foundation, Inc.	411,180	265,747	12,047		688,974			688,974			68,119	421,964			1,179,057
Contributions															
Other revenues	11,605,656	5,153,621	245,430	(661,239)	16,343,468	993,902	(716,725)	16,620,645	5,763,125	624,920	53,646	2,684,587	2,349,000	(10,864,615)	17,231,308
Net assets released from restrictions used for operations	37,394	7,058	6,109		50,561	129,250		179,811			12,589	115,710		(155,945)	152,165
Total unrestricted revenue, gains, and other support	170,841,426	67,229,440	10,849,821	(661,239)	248,259,448	1,123,152	(716,725)	248,665,875	20,317,081	624,920	1,673,862	3,222,261	2,349,000	(11,020,560)	265,832,439
EXPENSES:															
Salaries and wages	71,396,575	29,000,247	5,091,290		105,488,112	403,148	(256,284)	105,634,976	16,257,665	10,451	644,985	10,455,046		(10,601,907)	122,401,216
Fringe benefits	18,095,360	7,583,121	1,407,898		27,086,379	101,143	(62,561)	27,124,961	2,276,455	2,183	109,578	2,559,953		(2,192,401)	29,880,729
Supplies and other	55,412,273	21,121,110	3,290,348	(661,239)	79,162,492	618,861	(397,880)	79,383,473	4,399,241	527,096	470,572	(9,791,156)	1,478,449	4,196,539	80,664,214
Provision for bad debts	6,287,004	2,740,855	50,000		9,077,859			9,077,859	698,637		6,696				9,783,192
Depreciation and amortization	8,658,482	4,020,822	375,016		13,054,320			13,054,320	194,249	91,703	119,985			(1,553,822)	11,906,435
Interest and financing costs	2,062,683	1,346,200	332,912		3,741,795			3,741,795	110,529	26,429	14,409	444		(444)	3,893,162
Total expenses	161,912,377	65,812,355	10,547,464	(661,239)	237,610,957	1,123,152	(716,725)	238,017,384	23,936,776	657,862	1,366,225	3,224,287	1,478,449	(10,152,035)	258,528,948
INCOME (LOSS) FROM OPERATIONS	8,929,049	1,417,085	302,357	-	10,648,491	-	-	10,648,491	(3,619,695)	(32,942)	307,637	(2,026)	870,551	(868,525)	7,303,491
NONOPERATING INCOME (EXPENSE) — Net:															
Other	818,117	487,569	41,880		1,347,566			1,347,566		1,841	2	2,026		(2,026)	1,349,409
Other-than-temporary impairment charge	(823,829)	(2,854,248)			(3,678,077)			(3,678,077)					(360,554)	360,554	(3,678,077)
Total nonoperating (expense) income — net	(5,712)	(2,366,679)	41,880	-	(2,330,511)	-	-	(2,330,511)	-	1,841	2	2,026	(360,554)	358,528	(2,328,668)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	8,923,337	(949,594)	344,237	-	8,317,980	-	-	8,317,980	(3,619,695)	(31,101)	307,639	-	509,997	(509,997)	4,974,823
OTHER CHANGES IN UNRESTRICTED NET ASSETS:															
Decrease in unrealized appreciation on investments	(3,191,390)	(3,531,224)			(6,722,614)	(2,105,948)		(8,828,565)					(106,890)		(8,935,455)
Net loss on interest rate swap	(34,940)	(314,463)			(349,403)			(349,403)							(349,403)
Equity transfer to ECHN Health Services, Inc.	(3,619,695)				(3,619,695)			(3,619,695)	3,619,695						-
Transfer to other affiliates — net	(72,000)	13,908	2,850		(55,242)	54,532		(710)			480	230			-
Other changes in net assets		1,588			1,588			1,588							1,588
Net assets released from restrictions for capital acquisitions	54,675	30,456			85,131			85,131							85,131
Change in accrued pension and postretirement liability	1,321,803	(1,053,393)			268,410			268,410							268,410
CHANGE IN UNRESTRICTED NET ASSETS	\$ 3,381,790	\$ (5,802,722)	\$ 347,087	\$ -	\$ (2,073,845)	\$ (2,051,416)	\$ -	\$ (4,125,264)	\$ -	\$ (31,101)	\$ 308,119	\$ 230	\$ 403,107	\$ (509,997)	\$ (3,954,906)

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Groups	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
UNRESTRICTED NET ASSETS:															
Excess (deficiency) of revenues over expenses	\$ 5,945,570	\$ 1,361,145	\$ 132,959	\$ -	\$ 7,439,674	\$ -	\$ -	\$ 7,439,674	\$(4,434,257)	\$ (43,230)	\$ 253,866	\$ -	\$ 632,441	\$ (632,441)	\$ 3,216,053
Change in unrealized (depreciation) appreciation on investments	(171,494)	(778,483)	(2,421)		(952,398)	2,105,946		1,153,548					198,782		1,352,330
Net loss on interest rate swap	(66,409)	(597,679)			(664,088)			(664,088)							(664,088)
Net assets released from restrictions for capital acquisitions	32,433	52,970	7,013		92,416			92,416							92,416
Operating subsidy to ECHN Health Services, Inc.	(4,434,257)				(4,434,257)			(4,434,257)	4,434,257						-
Transfer (to) from other affiliates — net	(24,963)	9,360			(15,603)	11,837		(3,766)			283	3,483			-
Pension and postretirement-related adjustments	(17,027,668)	(4,870,378)			(21,898,046)			(21,898,046)							(21,898,046)
Change in unrestricted net assets	(15,746,788)	(4,823,065)	137,551	-	(20,432,302)	2,117,783	-	(18,314,519)	-	(43,230)	254,149	3,483	831,223	(632,441)	(17,901,335)
TEMPORARILY RESTRICTED NET ASSETS:															
Contributions	(685,234)	(361,108)	(50,315)		(1,096,657)	1,465,299	645,780	1,014,422			(5,935)	(558,028)		(24,837)	425,622
Investment income (loss)	21,566	(12,116)			9,450			9,450							9,450
Net assets released from restrictions for operations	(99,591)	(36,472)	(34,924)		(170,987)	(291,067)	200,727	(261,327)			(10,606)	(76,808)		65,036	(283,705)
Net assets released from restrictions for capital acquisitions	(32,433)	(52,970)	(7,013)		(92,416)	(92,413)	92,413	(92,416)							(92,416)
Change in unrealized appreciation (depreciation) on investments	1,873				1,873	(2,061,622)		(2,059,749)							(2,059,749)
Transfer from affiliates	(49,392)	26,621			(22,771)			(22,771)			6,000	16,771			-
Change in temporarily restricted net assets	(843,211)	(436,045)	(92,252)	-	(1,371,508)	(979,803)	938,920	(1,412,391)	-	-	(10,541)	(618,065)	-	40,199	(2,000,798)
PERMANENTLY RESTRICTED NET ASSETS:															
Contributions	946				946	946	(946)	946							946
Change in beneficial interest in trust assets	(122,976)	(40,743)			(163,719)			(163,719)							(163,719)
Change in permanently restricted net assets	(122,030)	(40,743)	-	-	(162,773)	946	(946)	(162,773)	-	-	-	-	-	-	(162,773)
CHANGE IN NET ASSET BALANCES — Change in net assets	(16,712,029)	(5,299,853)	45,299		(21,966,583)	1,138,926	937,974	(19,889,683)		(43,230)	243,608	(614,582)	831,223	(592,242)	(20,064,906)
NET ASSETS — Beginning of year	38,639,896	41,762,068	3,623,287		84,025,251	10,437,708	(7,090,199)	87,372,760	(27,691)	883,683	969,757	7,318,218	2,546,723	(3,564,868)	95,498,582
NET ASSETS — End of year	<u>\$ 21,927,867</u>	<u>\$36,462,215</u>	<u>\$3,668,586</u>	<u>\$ -</u>	<u>\$62,058,668</u>	<u>\$11,576,634</u>	<u>\$(6,152,225)</u>	<u>\$67,483,077</u>	<u>\$ (27,691)</u>	<u>\$840,453</u>	<u>\$1,213,365</u>	<u>\$6,703,636</u>	<u>\$3,377,946</u>	<u>\$(4,157,110)</u>	<u>\$ 75,433,676</u>

EASTERN CONNECTICUT HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED SEPTEMBER 30, 2008

	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 Obligated Group and Series C Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
UNRESTRICTED NET ASSETS:															
Excess (deficiency) of revenues over expenses	\$ 8,923,337	\$ (949,594)	\$ 344,237	\$ -	\$ 8,317,980	\$ -	\$ -	\$ 8,317,980	\$(3,619,695)	\$ (31,101)	\$307,639	\$ -	\$ 509,997	\$ (509,997)	\$ 4,974,823
Change in unrealized depreciation on investments	(3,191,390)	(3,531,225)			(6,722,615)	(2,105,948)		(8,828,565)					(106,890)		(8,935,455)
Net loss on interest rate swap	(34,940)	(314,463)			(349,403)			(349,403)							(349,403)
Net assets released from restrictions for capital acquisitions	54,675	30,456			85,131			85,131							85,131
Operating subsidy to ECHN Health Services, Inc.	(3,619,695)				(3,619,695)			(3,619,695)	3,619,695						-
Transfer (to) from other affiliates — net	(72,000)	13,908	2,850		(55,242)	54,532		(710)			480	230			-
Other changes in net assets		1,588			1,588			1,588							1,588
Pension and postretirement-related adjustments	1,321,803	(1,053,392)			268,410			268,410							268,410
Change in unrestricted net assets	<u>3,381,790</u>	<u>(5,802,722)</u>	<u>347,087</u>	<u>-</u>	<u>(2,073,846)</u>	<u>(2,051,416)</u>	<u>-</u>	<u>(4,125,264)</u>	<u>-</u>	<u>(31,101)</u>	<u>308,119</u>	<u>230</u>	<u>403,107</u>	<u>(509,997)</u>	<u>(3,954,906)</u>
TEMPORARILY RESTRICTED NET ASSETS:															
Contributions	(127,964)	58,429	191,013		121,478	1,420,194	(666,976)	874,696			9,144	171,352		(779,132)	276,060
Investment income	155,421	10,633			166,054			166,054							166,054
Net assets released from restrictions for operations	(37,394)	(8,646)	(6,110)		(52,150)	(308,753)	164,002	(196,901)			(11,002)	(115,711)		171,449	(152,165)
Net assets released from restrictions for capital acquisitions	(54,675)	(30,456)			(85,131)	(85,131)	85,131	(85,131)							(85,131)
Change in unrealized depreciation on investments	(317,468)				(317,468)			(317,468)							(317,468)
Other transfers — net	(73,243)	7,983			(65,260)			(65,260)			24	65,236			-
Change in temporarily restricted net assets	<u>(455,323)</u>	<u>37,943</u>	<u>184,903</u>	<u>-</u>	<u>(232,477)</u>	<u>1,026,310</u>	<u>(417,843)</u>	<u>375,990</u>	<u>-</u>	<u>-</u>	<u>(1,834)</u>	<u>120,877</u>	<u>-</u>	<u>(607,683)</u>	<u>(112,650)</u>
PERMANENTLY RESTRICTED NET ASSETS:															
Contributions	1,160,454				1,160,454	1,160,455	(1,160,455)	1,160,454							1,160,454
Change in beneficial interest in trust assets	(1,209,955)	(476,915)			(1,686,870)			(1,686,870)							(1,686,870)
Change in permanently restricted net assets	<u>(49,501)</u>	<u>(476,915)</u>	<u>-</u>	<u>-</u>	<u>(526,416)</u>	<u>1,160,455</u>	<u>(1,160,455)</u>	<u>(526,416)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(526,416)</u>
CHANGE IN NET ASSET BALANCES:															
Change in net assets	2,876,966	(6,241,694)	531,990	-	(2,832,739)	135,349	(1,578,298)	(4,275,688)	-	(31,101)	306,285	121,107	403,107	(1,117,683)	(4,593,972)
NET ASSETS — Beginning of year	<u>35,762,930</u>	<u>48,003,762</u>	<u>3,091,297</u>		<u>86,857,989</u>	<u>10,302,359</u>	<u>(5,511,901)</u>	<u>91,648,447</u>	<u>(27,691)</u>	<u>914,784</u>	<u>663,472</u>	<u>7,197,111</u>	<u>2,143,616</u>	<u>(2,447,185)</u>	<u>100,092,554</u>
NET ASSETS — End of year	<u>\$38,639,896</u>	<u>\$41,762,068</u>	<u>\$3,623,287</u>	<u>\$ -</u>	<u>\$84,025,250</u>	<u>\$10,437,708</u>	<u>\$(7,090,199)</u>	<u>\$87,372,759</u>	<u>\$ (27,691)</u>	<u>\$883,683</u>	<u>\$969,757</u>	<u>\$7,318,218</u>	<u>\$2,546,723</u>	<u>\$(3,564,868)</u>	<u>\$ 95,498,582</u>