

The Rockville General Hospital, Inc.

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

THE ROCKVILLE GENERAL HOSPITAL, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of The Rockville General Hospital, Inc. (the "Hospital") (a wholly owned subsidiary of Eastern Connecticut Health Network, Inc.) as of September 30, 2009 and 2008, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of The Rockville General Hospital, Inc., 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.

Deloitte & Touche LLP

January 27, 2010

THE ROCKVILLE GENERAL HOSPITAL, INC.

BALANCE SHEETS AS OF SEPTEMBER 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,978,582	\$ 2,961,001
Current portion of assets whose use is limited	273,342	959,562
Accounts receivable — net of allowance for doubtful accounts of \$635,628 and \$470,259 in 2009 and 2008, respectively	9,336,815	9,591,444
Inventory	1,150,786	1,072,145
Due from affiliated entities	10,587,145	13,432,987
Current portion of estimated settlements due from third-party payors	976,533	1,558,509
Prepaid expenses and other current assets	1,181,196	731,475
Total current assets	<u>29,484,399</u>	<u>30,307,123</u>
ASSETS WHOSE USE IS LIMITED — Net of current portion:		
Board designated and donor-restricted investments	15,586,866	17,423,370
Investments held under bond indentures	932,370	951,143
Beneficial interest in trust assets	1,905,585	1,946,328
Total assets whose use is limited — net of current portion	<u>18,424,821</u>	<u>20,320,841</u>
INTEREST IN NET ASSETS OF ECHN COMMUNITY HEALTHCARE FOUNDATION, INC.	<u>2,008,301</u>	<u>2,202,523</u>
INVESTMENTS		54,117
INVESTMENTS IN JOINT VENTURES	<u>2,503,896</u>	<u>2,025,915</u>
PROPERTY AND EQUIPMENT — Net	<u>35,109,870</u>	<u>36,880,442</u>
OTHER ASSETS:		
Estimated settlements due from third-party payors — net of current portion	1,151,829	1,031,810
Due from affiliated entities — net of current portion	1,196,243	
Intangible assets — net	288,000	396,000
Other — net	733,684	729,744
Total other assets	<u>3,369,756</u>	<u>2,157,554</u>
TOTAL	<u>\$90,901,043</u>	<u>\$93,948,515</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 6,774,322	\$ 6,502,929
Current portion of long-term debt	1,341,414	5,225,735
Due to affiliated entities	7,047,172	5,197,157
Current portion of estimated settlements due to third-party payors	343,065	536,720
Other current liabilities	508,873	331,329
Total current liabilities	<u>16,014,846</u>	<u>17,793,870</u>
LONG-TERM LIABILITIES:		
Long-term debt — net of current portion	25,255,757	26,599,969
Estimated self-insurance liabilities	559,610	556,000
Accrued pension and other postretirement benefits	12,439,602	7,082,454
Estimated settlements due to third-party payors — net of current portion		
Other liabilities	169,013	154,154
Total long-term liabilities	<u>38,423,982</u>	<u>34,392,577</u>
Total liabilities	<u>54,438,828</u>	<u>52,186,447</u>
COMMITMENTS AND CONTINGENCIES (Note 16)		
NET ASSETS:		
Unrestricted	31,533,927	36,356,992
Temporarily restricted	1,502,364	1,938,409
Permanently restricted	3,425,924	3,466,667
Total net assets	<u>36,462,215</u>	<u>41,762,068</u>
TOTAL	<u>\$90,901,043</u>	<u>\$93,948,515</u>

See notes to financial statements.

THE ROCKVILLE GENERAL HOSPITAL, INC.

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

	2009	2008
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Net patient service revenue	\$ 64,940,252	\$ 61,803,014
Change in interest in unrestricted net assets of ECHN Community Healthcare Foundation, Inc.	365,114	265,747
Other revenues	4,639,363	5,153,621
Net assets released from restrictions used for operations	<u>36,472</u>	<u>7,058</u>
Total unrestricted revenues, gains, and other support	<u>69,981,201</u>	<u>67,229,440</u>
EXPENSES:		
Salaries and wages	30,097,396	29,000,247
Fringe benefits	7,053,677	7,583,121
Supplies and other	19,953,479	21,121,110
Provision for bad debts	3,876,624	2,740,855
Depreciation and amortization	3,982,798	4,020,822
Interest and financing costs	<u>1,275,285</u>	<u>1,346,200</u>
Total expenses	<u>66,239,259</u>	<u>65,812,355</u>
INCOME FROM OPERATIONS	<u>3,741,942</u>	<u>1,417,085</u>
NONOPERATING (EXPENSE) INCOME — Net:		
Other	(2,351,702)	487,569
Other-than-temporary impairment charge	<u>(29,095)</u>	<u>(2,854,248)</u>
Total nonoperating expense — net	<u>(2,380,797)</u>	<u>(2,366,679)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	1,361,145	(949,594)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Change in unrealized depreciation on investments	(778,483)	(3,531,225)
Net loss on interest rate swap	(597,679)	(314,463)
Transfer from other affiliates — net	9,360	13,908
Net assets released from restrictions for capital acquisitions	52,970	30,456
Other changes in net assets		1,588
Pension and postretirement-related adjustments	<u>(4,870,378)</u>	<u>(1,053,392)</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ (4,823,065)</u>	<u>\$ (5,802,722)</u>

See notes to financial statements.

THE ROCKVILLE GENERAL HOSPITAL, INC.

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

	2009	2008
UNRESTRICTED NET ASSETS:		
Excess (deficiency) of revenues over expenses	\$ 1,361,145	\$ (949,594)
Change in unrealized depreciation on investments	(778,483)	(3,531,225)
Net loss on interest rate swap	(597,679)	(314,463)
Transfers from other affiliates	9,360	13,908
Net assets released from restrictions for capital acquisitions	52,970	30,456
Other changes in net assets		1,588
Pension and postretirement-related adjustments	<u>(4,870,378)</u>	<u>(1,053,392)</u>
Change in unrestricted net assets	<u>(4,823,065)</u>	<u>(5,802,722)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	(361,108)	58,429
Investment income	(12,116)	10,633
Net assets released from restrictions for operations	(36,472)	(8,646)
Net assets released from restrictions for capital acquisitions	(52,970)	(30,456)
Transfer from ECHN	<u>26,621</u>	<u>7,983</u>
Change in temporarily restricted net assets	<u>(436,045)</u>	<u>37,943</u>
PERMANENTLY RESTRICTED NET ASSETS — Change in beneficial interest in trust assets	<u>(40,743)</u>	<u>(476,915)</u>
CHANGE IN NET ASSETS	(5,299,853)	(6,241,694)
NET ASSETS — Beginning of year	<u>41,762,068</u>	<u>48,003,762</u>
NET ASSETS — End of year	<u>\$ 36,462,215</u>	<u>\$ 41,762,068</u>

See notes to financial statements.

THE ROCKVILLE GENERAL HOSPITAL, INC.

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

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$(5,299,853)	\$(6,241,694)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,947,082	3,987,471
Amortization of bond issuance costs and premium	35,716	33,351
Provision for bad debts	3,876,624	2,740,855
Change in unrealized depreciation on investments	778,483	3,531,225
Other-than-temporary impairment charge	29,095	2,854,248
Income on investments in joint venture	(407,981)	(543,841)
Transfers from other affiliated entities	9,360	21,891
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	194,222	(381,479)
Change in beneficial interest in trust assets	40,743	476,915
Pension and postretirement-related adjustments	4,870,378	1,053,392
Loss on disposal of assets	43,374	
Net loss on interest rate swap	597,679	314,463
Changes in operating assets and liabilities:		
Accounts receivable	(3,621,994)	(3,571,707)
Inventory	(78,641)	189,887
Prepaid expenses and other current assets	(449,721)	(419,452)
Change in estimated settlements due from third-party payors	268,302	115,906
Due to affiliates	3,233,593	(5,711,503)
Intangible assets — net	108,000	108,000
Other — net	3,416	(48,813)
Accounts payable and accrued expenses	(348,743)	(212,151)
Other current liabilities		
Accrued pension and other postretirement benefits	686,770	1,204,305
Estimated self-insurance liabilities	3,610	(83,079)
Other liabilities	14,859	(13,185)
Net cash provided by (used in) operating activities	<u>8,534,373</u>	<u>(594,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,953,861)	(2,626,504)
Purchases of investments	(948,348)	(2,566,750)
Distributions from joint ventures		
Investment in joint ventures	(70,000)	(147,000)
Proceeds from sales of investments and assets whose use is limited	<u>2,736,385</u>	<u>3,462,441</u>
Net cash used in investing activities	<u>(235,824)</u>	<u>(1,877,813)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(5,228,534)	(1,145,188)
Payments for bond issuance costs	(43,073)	
Transfers to other affiliated entities	(9,361)	(21,891)
Proceeds from issuance of long-term debt	<u>6,320,000</u>	<u>6,320,000</u>
Net cash (used in) provided by financing activities	<u>(5,280,968)</u>	<u>5,152,921</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,017,581	2,680,113
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>2,961,001</u>	<u>280,888</u>
End of year	<u>\$ 5,978,582</u>	<u>\$ 2,961,001</u>

See notes to financial statements.

THE ROCKVILLE GENERAL HOSPITAL, INC.

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

1. ORGANIZATION

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

Other related entities of RGH include:

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

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

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

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 of ECHN.

ECHN and each of its subsidiaries, except for Enterprises and CHIC, are separate Connecticut not-for-profit corporations, qualified as exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC) and governed by separate Boards of Trustees (the “Board”) — although the membership of the ECHN, MMH, and RGH boards are currently identical. ECHN, acting through its Board of Trustees, is the sole member of each of its members. 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 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 financial statements, net assets that have similar characteristics have been combined as follows:

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

The Hospital 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 Hospital 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 Hospital is subject to explicit donor-imposed stipulations that can be fulfilled upon incurrence of expenditures by the Hospital pursuant to those stipulations or that expire by the passage of time are classified as temporarily restricted.

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

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or stipulated 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 the appropriate rate commensurate with the risks involved. Amortization of the discount is included in other revenues. Contributions restricted for the acquisition of land, buildings, and equipment are reported as temporarily restricted support. These contributions are reclassified to unrestricted net assets when the capital asset is acquired or constructed and placed in service.

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 Hospital'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 Hospital'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, 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 Hospital have been classified as current assets in the balance sheets as of September 30, 2009 and 2008.

Permanently restricted funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. The Hospital has a split interest agreement with a donor, consisting of a charitable gift annuity. This charitable gift annuity requires the Hospital to pay a stipulated amount to a designated individual. A liability has been recorded based on the present value of future payments for the expected life of the annuitant. Such payments terminate upon the death of the beneficiary. Upon termination, the remaining principal will become part of the permanent endowment funds of the Hospital.

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

The Hospital relies on a balanced return strategy in which endowment returns are achieved through both capital appreciation and interest and dividends. The Hospital 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 — RGH has been named sole or participating beneficiary in several perpetual trusts, for which third parties act as the trustee. Under the terms of these trusts, RGH has the irrevocable right to receive the income earned on the trust assets in perpetuity. The estimated present value of the future payments to RGH is recorded at the fair value of the assets held in the trust as beneficial interest in trust assets and is classified as permanently restricted.

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

Investments — 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 Hospital's financial statements.

Other-Than-Temporary Impairment of Investments — The Hospital periodically reviews its investments to identify those individual investments for which fair value is below cost. The Hospital 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 Impairment*). Impairment charges of \$29,095 and \$2,854,248 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 which 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 estimated useful lives as follows:

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

Depreciation expense was \$3,681,061 and \$3,539,768 for the years ended September 30, 2009 and 2008, respectively.

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

Physician loan amortization totaling \$266,021 and \$447,702 as of September 30, 2009 and 2008, respectively, is included within depreciation and amortization in the accompanying statements of operations.

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

Investments in Joint Ventures — The Hospital has invested in joint ventures which are accounted for under the equity method of accounting. These joint ventures, as of September 30, 2009 and 2008, include the Hospital's investment in the following:

	2009	Ownership Percentage	2008	Ownership Percentage
Northeast Regional Radiation Oncology Network, Inc.	\$2,503,896	25 %	\$1,905,817	25 %
Tolland Imaging Center	<u> </u>	35	<u>120,098</u>	35
Total joint venture investments	<u>\$2,503,896</u>		<u>\$2,025,915</u>	

There were no distributions in 2009. The Hospital's share of the earnings of the joint venture is reported as other revenues totaling \$556,305 and \$543,841 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
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
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 statements of operations and the unamortized carrying value is recorded within other — net in the accompanying balance sheets.

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

Statements of Operations — The statements of operations include the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess of revenues over expenses, consistent with industry practice, include changes in unrealized 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 revenues 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 Hospital 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	\$ 67,797	\$ 67,230	\$ (567)
Expenses	<u>65,930</u>	<u>65,812</u>	<u>118</u>
Income from operations	1,867	1,418	(449)
Nonoperating (expense) income	<u>(2,816)</u>	<u>(2,367)</u>	<u>449</u>
Excess of revenues over expenses	<u>\$ (949)</u>	<u>\$ (949)</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 Hospital'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, self-insurance liabilities, estimated settlements due to and from third parties, conditional asset retirement obligations, postretirement and pension benefit costs and the related obligations.

Charity Care — The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established and contractual rates. The Hospital does not pursue collection of amounts determined to qualify as charity care; as such, these amounts are not reported as revenue. Charity care was \$550,997 and \$962,474 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 in the State of Connecticut are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. During 2009 and 2008, the Hospital recorded adjustments to the amounts accrued for estimated settlements related to prior years. The net effect of such adjustment was an increase in net patient service revenue of approximately \$273,000 and \$140,000 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.

The Hospital has agreements with third-party payors that provide for payments at amounts different from its 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 Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital.

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

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

Future Operations — Current trends in the health care industry include mergers and other forms of affiliations among providers, increasing shifts to managed care, overall reduction in inpatient average length of stay, increasingly restrictive reimbursement policies by governmental and private 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 Hospital.

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

Income Taxes — The Hospital is a not-for-profit organization which is in compliance with the provisions of Internal Revenue Code (IRC) Sec. 501(c)(3) and is exempt from federal tax under IRC Sec. 501(a).

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

As of September 30, 2009 and 2008, the Hospital has recognized \$169,013 and \$154,154, respectively, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the balance sheets within other liabilities.

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

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

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

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

Effective October 1, 2006, malpractice losses on a claims-made basis have been transferred to a wholly owned captive of ECHN and CHIC.

Concentration of Credit Risk — Financial instruments which potentially subject the Hospital to concentration of credit risk consist of accounts receivable, investments, including temporary cash investments, marketable equity and debt securities, mutual funds, government securities, and interest rate swap agreements. The Hospital receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party 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 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 Hospital expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was \$535,788 and \$203,939 for the years ended September 30, 2009 and 2008, respectively, and is recorded in supplies and other in the accompanying 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 Hospital 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 Hospital 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 Hospital 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 Hospital's 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 Hospital is currently evaluating the impact of adopting ASU No. 2009-05 on its 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 Hospital'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 Hospital's financial position, results of operations, changes in net assets, or cash flows. Disclosures regarding the Hospital's endowments are included in Note 15, Temporarily and Permanently Restricted Net Assets, in the Hospital's notes to the 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 Hospital adopted the updates to ASC 825 effective September 30, 2009. The adoption of the updates to ASC 825 did not impact the Hospital's financial position, results of operations, changes in net assets, or cash flows. Disclosures of the fair value of the Hospital's financial instruments are included in Note 17, Fair Values of Financial Instruments, in the Hospital's notes to 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 Hospital adopted the updates to ASC 320 effective September 30, 2009. The adoption of the updates to ASC 320 did not impact the Hospital's financial position, results of operations, changes in net assets, or cash flows as the Hospital did not have any previously realized impairments that were required to be reclassified as a change in unrestricted net assets upon adoption.

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 Hospital's financial statements prospectively in the event of any mergers or acquisitions entered into on or after the effective date in which the Hospital 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 Hospital adopted the updates to ASC 855 effective September 30, 2009. The updates to ASC 855 did not impact the Hospital's financial position, results of operations, changes in net assets, or cash flows. The Hospital 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 Hospital adopted the updates to ASC 105 effective September 30, 2009. The ASC impacted the reference to accounting pronouncements within the Hospital's notes to 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	\$ 7,550,686	\$ 7,550,393	\$ 57,452	\$ 57,452
Mutual funds	<u>10,260,417</u>	<u>8,036,473</u>	<u>18,833,760</u>	<u>17,365,918</u>
	<u>\$ 17,811,103</u>	<u>\$ 15,586,866</u>	<u>\$ 18,891,212</u>	<u>\$ 17,423,370</u>
Assets held in trust under bond indentures:				
Cash equivalents	\$ 1,206,290	\$ 1,205,711	\$ 1,911,173	\$ 1,910,705
Less current portion	<u>(273,920)</u>	<u>(273,341)</u>	<u>(960,029)</u>	<u>(959,562)</u>
	<u>\$ 932,370</u>	<u>\$ 932,370</u>	<u>\$ 951,144</u>	<u>\$ 951,143</u>

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

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,193</u>	<u>\$ 54,117</u>

The 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>\$ 8,036,473</u>	<u>\$ (2,224,254)</u>	<u>\$ 8,036,473</u>	<u>\$ (2,224,254)</u>
2008						
Long-term investments — mutual funds	<u>\$ 8,633,147</u>	<u>\$ (1,469,919)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,633,147</u>	<u>\$ (1,469,919)</u>

The Hospital's unrealized losses on its investments in mutual funds consist of unrealized losses in the Vanguard Group diversified mutual funds at September 30, 2009 and 2008. The Hospital has evaluated the near-term prospects of the investments in relation to the severity of the impairment (fair value is approximately 22% less than cost at September 30, 2009) and recent market trends. Based on that

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

The Hospital records the fair value of assets held in trust by third parties from which it has the right to receive income. All of the income from funds held in trust by third parties is for the general operating purposes of the Hospital. The fair value of and income received from the Hospital's beneficial interest in trust assets as of September 30, 2009 and 2008, was as follows:

	2009		2008	
	Fair Value	Income Received	Fair Value	Income Received
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>

The Hospital adopted ASC 820 (FASB Statement No. 157) as discussed in Note 2 to the 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 Hospital'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	\$ 8,756,105	\$ -	\$ 8,756,105
Mutual funds	8,036,473		8,036,473
Trust assets		<u>1,905,585</u>	<u>1,905,585</u>
Total	<u>\$ 16,792,578</u>	<u>\$ 1,905,585</u>	<u>\$ 18,698,163</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	\$ 33,032	\$ 81,736
Interest income and dividends	497,381	809,254
Interest income and dividends from donor-restricted investments	50,533	154,762
Realized (losses) gains on investments — net	(1,219,637)	541,845
Realized (losses) gains on donor-restricted investments — net	(351,428)	25,890
Other-than-temporary impairment charge	(29,025)	(2,854,248)
Change in net unrealized losses on investments	(632,290)	(2,430,649)
Change in net unrealized losses on donor-restricted investments	<u>(146,193)</u>	<u>(1,100,576)</u>
	<u>\$ (1,797,627)</u>	<u>\$ (4,771,986)</u>
Reported as:		
Other revenues	\$ 565,135	\$ 1,043,282
Nonoperating other (expense) income	(1,555,184)	570,205
Other-than-temporary impairment charge	(29,095)	(2,854,248)
Change in net unrealized depreciation on investments	<u>(778,483)</u>	<u>(3,531,225)</u>
	<u>\$ (1,797,627)</u>	<u>\$ (4,771,986)</u>

4. PROPERTY AND EQUIPMENT

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

	2009	2008
Land and land improvements	\$ 1,126,927	\$ 1,126,927
Building and building improvements	46,725,921	46,680,423
Fixed equipment	8,408,547	8,437,964
Moveable equipment	<u>29,849,697</u>	<u>30,520,195</u>
	86,111,092	86,765,509
Less accumulated depreciation and amortization	<u>(51,499,588)</u>	<u>(49,988,274)</u>
	34,611,504	36,777,235
Construction in progress	<u>498,366</u>	<u>103,207</u>
	<u>\$ 35,109,870</u>	<u>\$ 36,880,442</u>

For the years ended September 30, 2009 and 2008, the Hospital capitalized interest related to construction financed with tax-exempt debt of \$11,418 and \$38,293, respectively.

5. UNAMORTIZED BOND ISSUE COSTS

Unamortized bond issue costs that are recorded within other assets — net in the accompanying balance sheets as of September 30, 2009 and 2008, are as follows:

	2009	2008
Deferred financing costs	\$ 869,201	\$ 826,127
Less accumulated amortization	<u>(146,665)</u>	<u>(110,949)</u>
	<u>\$ 722,536</u>	<u>\$ 715,178</u>

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		<u>\$ 540,000</u>	<u>\$ (252,000)</u>	<u>\$ 288,000</u>
		<u>\$ 540,000</u>	<u>\$ (252,000)</u>	<u>\$ 288,000</u>
2008		Gross Carrying	Accumulated	Net Carrying
Class of Intangible Asset		Amount	Amortization	Amount
License enhancements		<u>\$ 540,000</u>	<u>\$ (144,000)</u>	<u>\$ 396,000</u>
		<u>\$ 540,000</u>	<u>\$ (144,000)</u>	<u>\$ 396,000</u>

Amortization expense related to intangible assets was \$108,000 for the years ended September 30, 2009 and 2008.

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		\$ 108,000
2011		108,000
2012		72,000
2013		
2014		
		<u>\$ 288,000</u>

7. RELATED-PARTY TRANSACTIONS

The Network provides certain administrative and operating services to the Hospital and allocates these expenses along with revenues back to the Hospital. The net amounts allocated to the Hospital were \$6,306,595 and \$5,886,883 for the years ended September 30, 2009 and 2008, respectively.

Amounts due from related entities as of September 30, 2009 and 2008, consist of the following:

	2009	2008
EES	\$ -	\$ 243,045
MMH	10,527,650	11,753,749
EWS	29,301	22,666
Enterprises	30,194	29,935
ECHN	<u>1,196,243</u>	<u>1,383,592</u>
	<u>\$ 11,783,388</u>	<u>\$ 13,432,987</u>

Amounts due to related entities as of September 30, 2009 and 2008, consist of the following:

	2009	2008
ECHF	\$ 744,911	\$ 667,482
EES	44,044	
EHS	<u>6,258,217</u>	<u>4,529,675</u>
	<u>\$ 7,047,172</u>	<u>\$ 5,197,157</u>

Intercompany receivables have been classified in the accompanying balance sheet in accordance with management's anticipated repayment schedule.

8. ESTIMATED SELF-INSURANCE LIABILITIES

On December 18, 2001, ECHN formed a revocable trust for the purpose of setting aside assets for estimated self-insurance medical malpractice and general liabilities of the Hospital, MMH, 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 the Hospital and MMH. Concurrent with the formation of the new 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.

Effective October 1, 2006, ECHN established a single-parent captive, CHIC, which covers all of its subsidiaries, including the Hospital. Assets and liabilities of the trust were transferred to CHIC. 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.

Claims that fall within ECHN's self-insured policies of medical malpractice and general liability insurance have been asserted against the Hospital by various claimants. The claims are in various stages and some may ultimately be brought to trial. CHIC has employed independent actuaries to estimate the ultimate costs, if any, of the resolution of such claims. 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.

The coverage levels for CHIC, including excess of loss, which is provided by an external carrier, are consistent with the coverage levels previously under the self-insurance trust.

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

9. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

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

RGH and MMH 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. RGH and MMH will contribute 50% of the premium rate for individual coverage. The retiree pays the difference between the actual premium and the amount RGH and MMH pay.

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 (information presented is for the Network (MMH and RGH combined), based on September 30 measurement date):

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
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 amounts recognized in the Network's consolidated balance sheets as of September 30, 2009 and 2008, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
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 allocation of the accrued pension and postretirement benefits for the years ended September 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
MMH	\$ 37,622,545	\$ 19,710,150
RGH	<u>12,574,475</u>	<u>7,228,783</u>
	<u>\$ 50,197,020</u>	<u>\$ 26,938,933</u>

The plan's components of net periodic benefit cost for the years ended September 30, 2009 and 2008, are as follows (pension benefits information presented is for MMH and RGH combined):

	Pension Benefits		Other 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 costs	(186,479)	56,089	77,724	77,724
Recognized actuarial gain	<u>(7,752)</u>	<u> </u>	<u>(37,332)</u>	<u> </u>
Net periodic benefit cost	<u>\$ 1,527,909</u>	<u>\$ 3,087,798</u>	<u>\$ 486,825</u>	<u>\$ 477,440</u>

The allocation of the net periodic benefit cost for the years ended September 30, 2009 and 2008, is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
MMH	\$ 1,093,267	\$ 2,471,246	\$ 299,095	\$ 295,087
RGH	<u>434,642</u>	<u>616,552</u>	<u>187,730</u>	<u>182,353</u>
	<u>\$ 1,527,909</u>	<u>\$ 3,087,798</u>	<u>\$ 486,825</u>	<u>\$ 477,440</u>

The assumptions used to determine the 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	9.00
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 benefits cost of the pension and postretirement plans for the years ended September 30, 2009 and 2008, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
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	10.00
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 assumption has a significant effect on the amounts reported. A one-percentage-point change in assumed medical trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on year-end postretirement benefit obligation	\$ 335,252	\$ (289,848)
Effect on total of 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:

	<u>Pension Benefits</u>	
	<u>2009</u>	<u>2008</u>
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, which exceed a composite index consisting of the S&P 500, the Russell 2000 Index, Ryan Labs GIC Index, and the Barclays Capital Aggregate Bond Index in the same proportion as the fund's average commitment to equity and fixed income, respectively, and to rank in the top quartile of a broad universe of corporate pension plans of similar size.

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

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

The benefit payments, which reflect estimated future service and 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

The Hospital 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 the Hospital, up to a maximum of 6% of annual compensation. Hospital contributions to the employee savings plan were \$255,431 and \$269,436 for the years ended September 30, 2009 and 2008, respectively.

10. LONG-TERM DEBT

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

	2009	2008
The Hospital portion of CHEFA Variable Rate Demand Revenue Bonds, ECHN Issue, Series B, bearing interest at a variable rate, adjusted weekly	\$ 15,966,000	\$ 16,357,500
The Hospital portion of 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 \$99,713 and \$104,461, respectively	8,382,013	8,474,161
The Hospital portion of the loan due to Chase Equipment Leasing Inc., face amount allocated to RGH of \$2,320,000, due and payable in monthly principal and interest installments maturing on March 20, 2013, and bearing interest at 3.24%	1,662,967	2,104,522
The Hospital portion of the loan due to Chase Equipment Leasing Inc., face amount allocated to RGH of \$1,394,768, due and payable in monthly principal and interest installments maturing on July 13, 2011, and bearing interest at 4.1%	545,059	825,482
The Hospital portion of the promissory note payable to Siemens Medical Solution USA due and payable in monthly principal and interest installments maturing on April 26, 2011, bearing interest at 5.6%	41,132	64,039
Revolving line of credit with Sovereign Bank, bearing interest at a variable rate		<u>4,000,000</u>
Total long-term debt	26,597,171	31,825,704
Less current maturities	<u>(1,341,414)</u>	<u>(5,225,735)</u>
Long-term debt — net	<u>\$ 25,255,757</u>	<u>\$ 26,599,969</u>

In May 2009, the Hospital, MMH, EES, and ECHF (collectively, the “Series D Obligated Group”) entered into an agreement and open-ended mortgage with Connecticut Health and Educational Facilities Authority (CHEFA) in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network, Issue Series 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 EEH and other campus improvements.

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

In July 2004, the Hospital, MMH, EES, and ECHF (collectively, the “Series B Obligated Group”) entered into an agreement and open-ended mortgage with CHEFA in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network Issue, Series B (the “Series B Bonds”). A portion of the proceeds from the Series B Bonds, net of the original issue discount and amounts used to establish required reserve accounts, was used to finance additions 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, the Hospital, 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, was placed in an irrevocable trust from which the remaining debt service payments for defeased CHEFA bonds were 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 the debt agreements.

Under the terms of the CHEFA agreements, each member of the Obligated Groups is jointly and severally liable for the full and prompt payment of the amounts owed by the Obligated Groups. Total debt of the Obligated Groups was \$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 Hospital's portion of the long-term debt in each of the succeeding five years and thereafter as of September 30, 2009, are as follows:

Years Ending September 30

2010	\$ 1,341,414
2011	1,354,327
2012	1,116,916
2013	897,501
2014	667,500
Thereafter	<u>21,119,800</u>
	26,497,458
Plus premium — net	<u>99,713</u>
	<u><u>\$26,597,171</u></u>

In October, 2009, the Network and the Hospital, jointly, entered into capital lease agreements totaling \$1,204,105, 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%. The Hospital'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 Hospital are as follows:

	2009	2008
Notional amount of contract — ECHN	\$7,983,000	\$8,178,750
Fair value of swap contract recognized in RGH accounts payable and accrued expenses	652,000	250,000
Net interest expense recognized in RGH nonoperating expense — net	402,000	118,000

In December 2005, ECHN entered into a second interest rate swap agreement to manage the interest cost and risk associated with \$9,750,000 of its 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 to be reclassified into operations in the same period or periods during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, is recognized currently in nonoperating other (expense) income — net. The Hospital’s portion of swap agreement in force related to this strategy as of September 30, 2009 and 2008, is as follows:

	2009	2008
Notional amount of contract — ECHN	\$7,983,000	\$8,178,750
Fair value of swap contract recognized in RGH accounts payable and accrued expenses	961,000	362,000
Unrealized loss recognized as a reduction of RGH unrestricted net assets	(598,000)	(314,000)

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

The Hospital uses inputs other than quoted prices that are observable to value the interest rate swaps. The Hospital 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 Hospital 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, of which \$4,000,000 was recorded by the Hospital at September 30, 2008. None of the line of credit borrowing was recorded by the Hospital at September 30, 2009.

11. LEASE COMMITMENTS

The Hospital leases various office spaces and certain equipment under operating leases expire in various years through fiscal year 2012. Certain leases may be renewed at the end of their term.

Future minimum payments under noncancelable operating leases as of September 30, 2009, consisted of the following:

Years Ending September 30	Operating Leases
2010	\$ 222,201
2011	32,986
2012	<u>11,718</u>
	<u>\$ 266,905</u>

Rent expense under leases was \$375,569 and \$573,091 for the years ended September 30, 2009 and 2008, respectively.

12. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who 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	19 %	20 %
Managed care	19	23
Medicare	33	31
Commercial insurance	6	8
Medicaid	17	14
Other	<u>6</u>	<u>4</u>
	<u>100 %</u>	<u>100 %</u>

13. 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	\$ 59,356,992	\$ 55,903,099
Outpatient services	<u>81,569,620</u>	<u>80,085,402</u>
Gross patient service revenue	140,926,612	135,988,501
Deductions — allowances	<u>(75,986,360)</u>	<u>(74,185,487)</u>
Net patient service revenue	<u>\$ 64,940,252</u>	<u>\$ 61,803,014</u>

For the years ended September 30, 2009 and 2008, the Hospital granted charity care of \$550,997 and \$962,474, respectively. Such amounts are determined based on charges foregone.

14. FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location. Expenses relating to providing these services for the years ended September 30, 2009 and 2008, are as follows:

	2009	2008
Health care services	\$ 56,221,132	\$ 56,040,838
General and administrative	<u>10,018,127</u>	<u>9,771,517</u>
	<u>\$ 66,239,259</u>	<u>\$ 65,812,355</u>

15. 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	\$ 987,061	\$ 1,071,565
Capital campaign and pledges	<u>515,303</u>	<u>866,844</u>
	<u>\$ 1,502,364</u>	<u>\$ 1,938,409</u>

Permanently restricted net assets as of September 30, 2009 and 2008, consist of the following:

	2009	2008
Health care services	\$ 1,520,339	\$ 1,520,339
Beneficial interest in trust assets	<u>1,905,585</u>	<u>1,946,328</u>
	<u>\$ 3,425,924</u>	<u>\$ 3,466,667</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 the law.

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			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets September 30, 2008	\$8,144,260	\$ 19,270	\$ 1,520,339	\$9,683,869
Interest income and dividends	239,238	4,210		243,448
Realized losses on investments	(924,346)	(16,326)		(940,672)
Unrealized depreciation on investments	(384,530)	(6,787)		(391,317)
Distributions	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net assets September 30, 2009	<u>\$7,074,622</u>	<u>\$ 367</u>	<u>\$ 1,520,339</u>	<u>\$8,595,328</u>

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets September 30, 2007	\$11,266,966	\$ 64,053	\$1,520,339	\$12,851,358
Interest income and dividends	413,276	7,467		420,743
Realized gains on investments	193,501	3,166		196,667
Unrealized depreciation on investments	(2,993,686)	(55,416)		(3,049,102)
Distributions	<u>(735,797)</u>			<u>(735,797)</u>
Net assets September 30, 2008	<u>\$ 8,144,260</u>	<u>\$ 19,270</u>	<u>\$1,520,339</u>	<u>\$ 9,683,869</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	\$ -	\$367	\$1,520,339	\$1,520,706
Board-designated endowment funds	<u>7,074,622</u>			<u>7,074,622</u>
Net assets September 30, 2009	<u>\$7,074,622</u>	<u>\$367</u>	<u>\$1,520,339</u>	<u>\$8,595,328</u>

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$19,270	\$1,520,339	\$1,539,609
Board-designated endowment funds	<u>8,144,260</u>			<u>8,144,260</u>
Net assets September 30, 2008	<u>\$8,144,260</u>	<u>\$19,270</u>	<u>\$1,520,339</u>	<u>\$9,683,869</u>

16. COMMITMENTS AND CONTINGENCIES

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

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Hospital 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 Hospital's Series C Bonds are based on current traded value. The fair value of the Series C Bonds as of September 30, 2009 and 2008, is approximately \$7,480,371 and \$6,275,421, respectively. The fair value of the Hospital's remaining long-term debt approximates its carrying value.

Interest Rate Swaps — See Note 10, Long-term Debt.

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

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