Eastern Connecticut Health Network, Inc. and Subsidiaries

Independent Auditors' Report, Consolidated Financial Statements and Supplemental Information

As of and for the Years Ended September 30, 2011 and 2010

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Eastern Connecticut Health Network, Inc. and Subsidiaries (the Network) a not-for-profit, non-stock corporation, as of September 30, 2011 and 2010 and the related consolidated statements of operations and 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 financial statements of Connecticut Healthcare Insurance Company, a wholly owned subsidiary, whose statement reflects total assets of $8,858,307 and $10,316,176 as of September 30, 2011 and 2010, and total revenues of $2,833,383 and $2,778,188 for the years then ended. This statement was audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Connecticut Healthcare Insurance Company, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Connecticut Health Network, Inc. and Subsidiaries as of September 30, 2011 and 2010, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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January 25, 2012

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Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 20,991,180**	$ 19,538,406
Current portion of assets whose use is limited	**1,504,988**	1,170,661
Accounts receivable, less allowance for bad debts of $7,209,985 in 2011 and $6,897,069 in 2010	**39,643,428**	39,411,447
Inventory	**4,228,568**	4,115,275
Current portion of estimated settlements due from third-party payers	**432,832**	721,274
Prepaid expenses and other current assets	**4,345,929**	4,951,462
Total current assets	**71,146,925**	69,908,525
Assets whose use is limited - net of current portion:		
Donor restricted investments	**6,084,582**	8,986,028
Board designated investments	**19,558,790**	17,476,568
Investments held in trust for estimated self-insurance liabilities	**8,891,170**	11,193,777
Beneficial interest in trust assets	**6,688,165**	7,003,197
Investments held under bond indentures	**5,900,811**	4,944,754
Total assets whose use is limited - net of current portion	**47,123,518**	49,604,324
Investments	**16,944,697**	17,639,236
Investments in joint ventures	**16,969,568**	17,200,900
Property, plant and equipment - net	**96,189,597**	97,359,862
Other assets:		
Estimated settlements due from third-party payers - net of current portion	**3,163,284**	1,561,332
Goodwill and intangible assets - net	**5,243,142**	5,530,748
Other - net	**5,508,958**	4,531,795
Total other assets	**13,915,384**	11,623,875
Total assets	**$ 262,289,689**	$ 263,336,722
Liabilities and Net Assets		
Current liabilities:		
Lines of credit	**$ 8,272,642**	$ 6,905,000
Accounts payable and accrued expenses	**23,618,145**	26,271,706
Current portion of long-term debt and capital lease obligations	**5,652,447**	5,089,518
Current portion of estimated settlements due to third-party payers	**2,104,534**	423,893
Current portion of accrued pension and other postretirement benefits	**11,329,346**	7,000,050
Other current liabilities	**5,700,671**	4,650,399
Total current liabilities	**56,677,785**	50,340,566
Long-term debt and capital lease obligations, net of current portion	**86,635,165**	81,733,082
Estimated self-insurance liabilities	**6,311,338**	7,046,597
Accrued pension and other postretirement benefits	**56,772,305**	51,990,994
Estimated settlements due to third-party payers, net of current portion	**335,416**	361,253
Other liabilities	**396,023**	387,747
Total liabilities	**207,128,032**	191,860,239
Net assets:		
Unrestricted	**41,815,956**	54,654,325
Temporarily restricted	**2,249,963**	5,411,388
Permanently restricted	**11,095,738**	11,410,770
Total net assets	**55,161,657**	71,476,483
Total liabilities and net assets	**$ 262,289,689**	$ 263,336,722

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2011 and 2010

	2011	2010
Revenues:		
Net patient service revenues	**$ 261,348,876**	$ 262,817,891
Contributions	**732,256**	1,747,825
Other revenues	**18,107,930**	15,539,915
Net assets released from restrictions used for operations	**801,123**	539,109
Total revenues	**280,990,185**	280,644,740
Expenses:		
Salaries and wages	**134,218,139**	131,341,594
Fringe benefits	**35,696,855**	32,963,007
Supplies and other expenses	**83,802,696**	81,274,486
Provision for bad debts	**11,106,480**	11,481,356
Depreciation and amortization	**11,898,918**	12,555,983
Interest and financing costs	**4,224,420**	4,489,986
Total expenses	**280,947,508**	274,106,412
Income from operations	**42,677**	6,538,328
Non-operating losses	**(1,341,596)**	(1,785,503)
(Deficiency) excess of revenue over expenses	**$ (1,298,919)**	$ 4,752,825

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted net assets:		
(Deficiency) excess of revenues over expenses	**$ (1,298,919)**	$ 4,752,825
Change in unrealized (depreciation) appreciation on investments	**(2,428,922)**	2,213,159
Change in unrealized depreciation on joint venture	**(248,292)**	-
Other changes	**-**	(786,524)
Net change in interest rate swap agreements	**1,677,331**	(608,544)
Net assets released from restrictions for capital acquisitions	**3,007,796**	108,055
Transfers between asset classes	**67,091**	-
Pension and postretirement related adjustments	**(13,614,453)**	(10,610,787)
Change in unrestricted net assets	**(12,838,368)**	(4,931,816)
Temporarily restricted net assets:		
Contributions	**735,462**	847,706
Investment income	**68,560**	42,255
Net assets released from restrictions for operations	**(801,123)**	(539,109)
Net assets released from restrictions for capital acquisitions	**(3,007,796)**	(108,055)
Transfers between asset classes	**(67,091)**	-
Change in unrealized (depreciation) appreciation on investments	**(89,438)**	513,974
Change in temporarily restricted net assets	**(3,161,426)**	756,771
Permanently restricted net assets:		
Contributions	**-**	8,524
Change in beneficial interest in trust assets	**(315,032)**	209,328
Change in permanently restricted net assets	**(315,032)**	217,852
Change in net assets	**(16,314,826)**	(3,957,193)
Net assets, beginning of year	**71,476,483**	75,433,676
Net assets, end of year	**$ 55,161,657**	$ 71,476,483

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

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ **(16,314,826)**	$ (3,957,193)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**11,898,918**	12,555,983
Amortization of bond costs related to Series B defeasement	**416,928**	-
Provision for bad debts	**11,106,480**	11,481,356
Change in unrealized depreciation (appreciation) on investments	**2,518,360**	(2,727,133)
Change in unrealized depreciation on joint venture	**248,292**	-
Loss on disposals of fixed assets	**65,000**	-
Change in beneficial interest in trust assets	**315,032**	(209,328)
Income on investments in joint ventures	**(1,806,166)**	(2,249,537)
Pension and postretirement related adjustments	**13,614,453**	10,610,787
Permanently restricted contributions	**-**	(8,524)
Change in pledges receivable	**(142,060)**	(47,464)
Change in interest rate swap	**(1,259,369)**	608,544
Changes in assets and liabilities:		
Accounts receivable	**(11,338,461)**	(12,508,831)
Inventory	**(113,293)**	(693,765)
Prepaid expenses and other current assets	**605,533**	587,768
Goodwill and intangible assets - net	**287,606**	(1,170,448)
Other - net	**(714,361)**	924,824
Accounts payable and accrued expenses	**140,035**	(1,942,791)
Accrued pension and other postretirement benefits	**(4,503,846)**	(1,816,763)
Estimated settlements to/from third-party payers	**341,294**	1,065,746
Estimated self-insurance liabilities	**(735,259)**	4,462
Other current liabilities	**1,050,272**	(332,297)
Other liabilities	**8,276**	(68,308)
Net cash provided by operating activities	**5,688,838**	10,107,088
Cash flows from investing activities:		
Purchases of property and equipment	**(10,620,037)**	(7,394,458)
Sales (purchases) of investments, net	**7,626**	(8,585,964)
Investment in joint ventures	**(182,838)**	(1,235,348)
Distributions from joint ventures	**1,972,044**	1,153,189
Net cash used in investing activities	**(8,823,205)**	(16,062,581)
Cash flows from financing activities:		
Principal payments on long-term debt	**(22,586,335)**	(4,421,172)
Net borrowings on line of credit	**1,367,642**	1,905,000
Payments for bond issuance costs	**(711,286)**	-
Payment for termination of interest rate swaps	**(1,534,227)**	-
Permanently restricted contributions	**-**	8,524
Proceeds from borrowings	**28,051,347**	-
Net cash provided by (used in) financing activities	**4,587,141**	(2,507,648)
Change in cash and cash equivalents	**1,452,774**	(8,463,141)
Cash and cash equivalents at beginning of year	**19,538,406**	28,001,547
Cash and cash equivalents at end of year	$ **20,991,180**	$ 19,538,406
Cash paid for interest	$ **4,289,195**	$ 4,995,959
Equipment acquisitions under capital lease arrangements	$ **7,858,364**	$ 1,214,287

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

Note 1 - Organization

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

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

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

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

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

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

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. Effective July 1, 2011, EWS merged into RGH.

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

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

Note 1 - Organization (continued)

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

Note 2 - Summary of Significant Accounting Policies

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

Recent Accounting Pronouncements - In January 2010, the FASB issued guidance that clarifies and requires new disclosures about fair value measurements. The clarifications and requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2, as well as significant transfers in and out of Level 3 of the fair value hierarchy, is effective for interim and annual reporting periods beginning after December 15, 2009. The new guidance also requires that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation and that requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it did not impact the Network's financial position, results of operations or cash flows.

In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-23, *"Health Care Entities (Topic 954): Measuring Charity Care for Disclosure"*. ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care and requires disclosure of the method used to identify or determine such costs. The adoption of this new guidance is effective for the Network beginning October 1, 2011.

In August 2010, the FASB issued ASU No. 2010-24, *"Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries"*. ASU No. 2010-24 is intended to address current diversity in practice to the accounting by healthcare entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. Most healthcare entities have netted anticipated insurance recoveries against the related accrued liability, although some entities have presented the anticipated insurance recovery and related liability on a gross basis. The existing guidance does not permit offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. This update clarifies that a healthcare entity should not net insurance recoveries against related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of this new guidance is effective for the Network beginning October 1, 2011.

Note 2 - Summary of Significant Accounting Policies (continued)

In July 2011, the FASB issued ASU No. 2011-07, *"Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities"*, which requires a healthcare entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 is effective for the Network beginning October 1, 2012.

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

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Assets Whose Use is Limited - Assets whose use is limited primarily include cash and investments held by trustees under indenture agreements, cash and investments held for estimated self-insurance liabilities, Board designated investments, which include endowments, 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 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, 2011 and 2010.

The income earned on restricted funds is generally available for operations of the Network and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future annuity obligations, at which time the income is added to the appropriate restricted net asset balance. However, if a specific gift instrument explicitly requires the permanent reinvestment of appreciation, or a portion thereof, such reinvested amounts are classified within permanently restricted net assets. There were no gifts with reinvestment restrictions for the years ended September 30, 2011 and 2010.

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

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

The income from the trusts is included in the change in interest in net assets of ECHF as unrestricted and temporarily restricted support. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Other-Than-Temporary Impairments on Investments - The Network accounts for other than temporary impairments in accordance with FASB ASC 320-10 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other-than-temporary. The Network has recorded an impairment charge of $91,329 and $21,273 for the years ended September 30, 2011 and 2010, respectively, related to investments held by CHIC.

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

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

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

Depreciation expense was $11,054,024 and $11,455,750 for the years ended September 30, 2011 and 2010, 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 $491,431 and $355,739 for the years ended September 30, 2011 and 2010, respectively, is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

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 $127,780 and $596,537 for the years ended September 30, 2011 and 2010, respectively, is included within depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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, 2011 and 2010 include the Network's investments in the following:

	2011	**Ownership Percentage**	**2010**	**Ownership Percentage**
Northeast Regional Radiation Oncology Network, Inc.	**$ 5,638,135**	50 %	$ 5,620,034	50 %
Tolland Imaging Center	**79,289**	70	59,168	70
Medical Practice Partners, LLC	**121,637**	50	89,156	50
Metro Wheelchair Service Inc.	**126,460**	50	197,998	50
Ambulance Service of Manchester, LLC	**3,508,000**	50	3,727,619	50
Aetna Ambulance Service Inc.	**1,385,137**	50	1,273,744	50
Visiting Nurse and Health Services of Connecticut Inc.	**3,917,130**	50	3,950,422	50
Evergreen Endoscopy Center, LLC	**381,284**	50	610,000	50
Haynes Street Medical Associates	**196,841**	23	155,513	23
Haynes Street Medical Associates II	**241,830**	15	417,372	20
Evergreen Imaging Center, LLC	**358,201**	50	302,247	50
Evergreen Medical Associates, LLC	**301,789**	20	311,207	20
Evergreen Medical Associates II, LLC	**692,833**	25	452,758	25
Total joint venture assets	**16,948,566**		17,167,238	
Other miscellaneous assets	**21,002**		33,662	
Total investments in joint ventures	**$ 16,969,568**		$ 17,200,900	

Distributions from these joint ventures totaled $1,972,044 and $1,153,189 for the years ended September 30, 2011 and 2010, respectively. ECHN's share of the earnings of the joint ventures is reported within other revenues and are $1,806,166 and $2,249,537 for the years ended September 30, 2011 and 2010, respectively.

Note 2 - Summary of Significant Accounting Policies (continued)

Summarized financial information from the financial statements of these organizations as of September 30, 2011 and 2010 and for the years then ended, is as follows:

2011	Total Assets	Net Assets	Change in Net Assets	Excess (Deficiency) of Revenues Over Expenses
Northeast Regional Radiation Oncology Network, Inc.	$ 14,987,787	$ 11,276,270	$ (24,696)	$ (24,809)
Metro Wheelchair Service Inc.	$ 354,985	$ 252,921	$ (143,075)	$ 143,075
Ambulance Service of Manchester, LLC	$ 8,179,093	$ 7,016,846	$ (438,482)	$ 2,161,516
Aetna Ambulance Service Inc.	$ 3,613,084	$ 2,770,274	$ 222,786	$ 222,786
Visiting Nurse and Health Services of Connecticut Inc.	$ 10,719,930	$ 7,834,262	$ (66,582)	$ 217,304
Haynes Street Medical Associates	$ 2,210,782	$ 843,825	$ 179,777	$ 237,606
Haynes Street Medical Associates II	$ 6,664,534	$ 1,386,357	$ (355,210)	$ (242,710)
Evergreen Endoscopy Center, LLC	$ 2,511,718	$ 762,568	$ (396,530)	$ 668,513
Evergreen Imaging Center, LLC	$ 1,210,664	$ 716,401	$ 111,908	$ 232,726
Evergreen Medical Associates, LLC	$ 5,713,159	$ 1,491,529	$ (47,090)	$ 117,910
Evergreen Medical Associates II, LLC	$ 9,139,988	$ 2,846,751	$ 40,300	$ 113,300
Tolland Imaging Center	$ 1,696,739	$ 113,270	$ 28,745	$ (52,019)
Medical Practice Partners, LLC	$ 1,459,023	$ 243,273	$ 64,960	$ 44,960

2010	Total Assets	Net Assets	Change in Net Assets	Excess (Deficiency) of Revenues Over Expenses
Northeast Regional Radiation Oncology Network, Inc.	$ 15,112,267	$ 11,300,966	$ 1,285,382	$ 1,307,271
Metro Wheelchair Service Inc.	$ 526,202	$ 395,996	$ (1,661)	$ 2,290
Ambulance Service of Manchester, LLC	$ 8,408,808	$ 7,455,328	$ 486,824	$ 1,065,845
Aetna Ambulance Service Inc.	$ 3,508,883	$ 2,547,488	$ 372,207	$ 111,924
Visiting Nurse and Health Services of Connecticut Inc.	$ 11,135,638	$ 7,900,844	$ 1,096,373	$ 867,959
Haynes Street Medical Associates	$ 2,638,493	$ 664,048	$ (20,647)	$ 50,353
Haynes Street Medical Associates II	$ 8,649,489	$ 1,741,567	$ 49,558	$ 49,558
Evergreen Endoscopy Center, LLC	$ 2,820,967	$ 1,159,098	$ 736,863	$ 754,111
Evergreen Imaging Center, LLC	$ 1,006,768	$ 604,493	$ 173,045	$ 164,865
Evergreen Medical Associates, LLC	$ 5,836,977	$ 1,538,619	$ (35,247)	$ 174,753
Evergreen Medical Associates II, LLC	$ 7,378,151	$ 2,806,451	$ 1,290,120	$ 26,120
Tolland Imaging Center	$ 1,899,329	$ 84,525	$ 113,804	$ 2,172
Medical Practice Partners, LLC	$ 1,033,104	$ 178,313	$ 178,313	$ (521,687)

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

***(Deficiency) Excess of Revenues Over Expenses* -** The consolidated statements of operations and changes in net assets include (deficiency) excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from the (deficiency) excess of revenues over expenses, consistent with industry practice, include the changes in unrealized appreciation (depreciation) on investments; net change in fair value of 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 providing of health care services are reported as operating revenue and operating expenses. Operating revenues include net patient service revenues, grant income, and investment income. Peripheral or incidental transactions are reported as non-operating gains, losses, and expenses. Non-operating gains and losses include investment income and expenses related to property management, realized gains and losses on sales of investments, losses recognized on investments representing declines in value considered to be other-than-temporary in nature, gains and losses related to the termination of certain swap instruments, changes in the fair values of interest rate swaps that do not qualify for hedge accounting (net interest expense) and the costs associated with pursuing business combinations.

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

The Network accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, "*Income Taxes"* which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Network may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Network does not have any uncertain tax positions as of September 30, 2011 and 2010. As of September 30, 2011 and 2010, the Network did not record any penalties or interest associated with uncertain tax positions. Generally, the Network's prior three tax years are open and subject to examination by the Internal Revenue Service.

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

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

The fair value of a liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized. As of September 30, 2011 and 2010, the Network has recognized $391,870 and $383,247, respectively, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the consolidated balance sheets within other liabilities.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

***Advertising Costs* -** The Network expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was $1,738,571 and $1,528,431 for the years ended September 30, 2011 and 2010, respectively, and is recorded in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

***Reclassification* -** Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation. These reclassifications had no material effect on the 2010 financial statements.

***Subsequent Events* -** Subsequent events have been evaluated through January 25, 2012, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes that there are no subsequent events having a material impact on the financial statements.

Note 3 - Assets Whose Use is Limited and Investments

Assets whose use is limited and investments as of September 30, 2011 and 2010, include the following:

	2011		2010	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Board designated and donor-restricted:				
Money market funds	**$ 72,074**	**$ 72,074**	$ 4,461,544	$ 4,461,544
Mutual funds:				
Short-term bond fund	**4,474,955**	**4,425,166**	-	-
Large value fund	**5,493,506**	**4,616,340**	-	-
Moderate allocation funds	**15,470,520**	**14,081,371**	20,576,972	18,829,496
Foreign growth fund	**2,699,632**	**2,448,421**	3,000,000	3,171,556
Total	**$ 28,210,687**	**$ 25,643,372**	$ 28,038,516	$ 26,462,596
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	**$ 415,571**	**$ 415,571**	$ 627,736	$ 627,736
U.S. government securities	**2,336,625**	**2,425,959**	3,395,176	3,470,453
Corporate bonds	**1,773,604**	**1,847,092**	2,180,696	2,299,140
U.S. equities	**525,222**	**607,838**	601,552	691,841
Mutual funds:				
Bond fund	**600,417**	**606,851**	800,000	817,878
Short-term government fund	**255,932**	**255,932**	449,322	449,726
Emerging markets fund	**138,872**	**138,872**	170,000	188,770
Midcap stock fund	**103,789**	**111,434**	130,000	145,421
International stock fund	**88,053**	**88,219**	100,000	108,140
Short-term bond fund	**78,504**	**79,743**	76,564	79,301
Moderate allocation fund	**1,831,333**	**1,943,493**	1,802,641	1,944,713
Other investments	**364,734**	**370,166**	354,159	370,658
Total	**$ 8,512,656**	**$ 8,891,170**	$ 10,687,846	$ 11,193,777
Investments held under bond indenture:				
Money market funds	**$ 6,252,334**	**$ 6,252,334**	$ 6,115,415	$ 6,115,415
U.S. government securities	**1,155,151**	**1,153,465**	-	-
Total	**$ 7,407,485**	**$ 7,405,799**	$ 6,115,415	$ 6,115,415
Beneficial interest in trust assets	**$ 7,519,514**	**$ 6,688,165**	$ 5,664,832	$ 7,003,197

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

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Investments:				
Money market funds	$ 377,287	$ 377,287	$ 1,303,139	$ 1,303,139
U.S. equities	112,549	105,379	117,659	112,969
Corporate bonds	-	-	10,000	10,230
Certificates of deposit	115,000	114,909	90,000	90,853
Mutual funds:				
Short-term bond	1,670,136	1,668,152	622,479	647,005
Large value fund	7,257,643	5,918,420	6,653,264	5,886,155
Moderate allocation funds	1,718,163	1,698,002	1,676,104	1,672,410
Foreign large fund	7,615,481	7,062,548	7,400,001	7,916,475
Total	$ 18,866,259	$ 16,944,697	$ 17,872,646	$ 17,639,236
Total assets whose use is limited and investments	$ 70,516,601	$ 65,573,203	$ 68,379,255	$ 68,414,221

Fair values and gross unrealized losses for all investment categories whose fair value is below its cost as of September 30, 2011 and 2010, and the length of time that the securities have been in an unrealized loss position as of September 30, 2011 and 2010, are as follows:

2011	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Large value fund	$ -	$ -	$ 10,534,760	$ (2,216,389)	$ 10,534,760	$ (2,216,389)
Foreign growth fund	4,725,717	(390,690)	4,785,252	(413,454)	9,510,969	(804,144)
Short-term bond fund	6,065,985	(52,106)	-	-	6,065,985	(52,106)
Common stock	-	-	105,379	(7,170)	105,379	(7,170)
Certificates of deposit	114,938	(62)	-	-	114,938	(62)
U.S. government securities	556,607	(1,012)	-	-	556,607	(1,012)
Moderate allocation funds	4,453,928	(63,375)	10,933,391	(1,375,752)	15,387,319	(1,439,127)
	$ 15,917,175	$ (507,245)	$ 26,358,782	$ (4,012,765)	$ 42,275,957	$ (4,520,010)

2010	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity mutual funds	$ 2,347,545	$ (52,457)	$ 21,830,628	$ (3,021,184)	$ 24,178,173	$ (3,073,641)

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

The Network's unrealized losses on its investments in mutual funds consist mostly of unrealized losses in the Vanguard Group and Dodge & Cox diversified equity mutual funds as of September 30, 2011 and 2010. The Network has evaluated the near-term prospects of the investments in relation to the severity of the impairment (fair value is approximately 1% to 24% and 2% to 22% less than cost as of September 30, 2011 and 2010, respectively) and recent market trends. Based on that evaluation and the Network's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Network does not consider those investments to be other-than-temporarily impaired as of September 30, 2011 and 2010.

Interest and dividend income, which is included in other operating revenue, on the assets whose use is limited and investments totaled $1,356,553 and $956,382 for the years ended September 30, 2011 and 2010, respectively. There were no realized gains or losses for the years ended September 30, 2011 or 2010.

Note 4 - Fair Value Measurements

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

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

> *Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Network has the ability to access.
>
> *Level 2* - Inputs to the valuation methodology include:
>
> - Quoted prices for similar assets or liabilities in active markets;
> - Quoted prices for identical or similar assets or liabilities in inactive markets;
> - Inputs other than quoted prices that are observable for the asset or liability;
> - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
>
> If the asset or liability has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset or liability.
>
> *Level 3* - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Note 4 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2011 and 2010, by the valuation hierarchy.

2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Money market funds	$ 7,117,266	$ -	$ -	$ 7,117,266
U.S. government agency securities	3,579,424	-	-	3,579,424
Corporate bonds	-	1,847,092	-	1,847,092
Certificates of deposit	114,909	-	-	114,909
U.S. equities	713,217	-	-	713,217
Mutual funds:				
Bond fund	606,851	-	-	606,851
Short-term bond	6,173,061	-	-	6,173,061
Large value fund	10,534,760	-	-	10,534,760
Moderate allocation fund	17,722,866	-	-	17,722,866
Foreign growth fund	2,448,421	-	-	2,448,421
Short-term government fund	255,932	-	-	255,932
Emerging markets fund	138,872	-	-	138,872
Midcap stock fund	111,434	-	-	111,434
International stock fund	88,219	-	-	88,219
Foreign large fund	7,062,548	-	-	7,062,548
Other investments	370,166	-	-	370,166
Beneficial interest in trusts	-	-	6,688,165	6,688,165
Total assets at fair value	$ 57,037,946	$ 1,847,092	$ 6,688,165	$ 65,573,203
Liabilities:				
Obligations under interest rate swap agreements	$ -	$ 587,718	$ -	$ 587,718
Total liabilities at fair value	$ -	$ 587,718	$ -	$ 587,718

Note 4 - Fair Value Measurements (continued)

2010	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 11,961,490	$ -	$ -	$ 11,961,490
Fixed income mutual funds	12,934,344	-	-	12,934,344
Equity mutual funds	35,833,232	-	-	35,833,232
U.S. equities	639,644	-	-	639,644
Other investments	42,314	-	-	42,314
Beneficial interest in trusts	-	-	7,003,197	7,003,197
Total assets at fair value	$ 61,411,024	$ -	$ 7,003,197	$ 68,414,221
Liabilities:				
Obligations under interest rate swap agreements	$ -	$ 3,381,315	$ -	$ 3,381,315
Total liabilities at fair value	$ -	$ 3,381,315	$ -	$ 3,381,315

During the year ending September 30, 2011 and 2010, the value of the beneficial interest in trusts (decreased) increased for a change in market value of $(315,032) and $209,328, respectively.

The Network's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Network uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to money market funds, short-term bonds, fixed income and equity mutual funds.

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

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

Note 4 - Fair Value Measurements (continued)

The fair value of the Network's Series A and C Bonds are based on current traded value. The fair value of the Series A and C Bonds as of September 30, 2011 and 2010, is approximately $43,669,343 and $45,821,161, respectively. The fair value of the Network's remaining long-term debt approximates its carrying value.

As of September 30, 2011 and 2010, the Network's other financial instruments included accounts receivable, accounts payable and accrued expenses and estimated settlements due to and from third-party payers. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

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

Note 5 - Other Assets

Other assets as of September 30, 2011 and 2010 consist of the following:

	2011	**2010**
Pledges receivable	**$ 375,977**	$ 518,037
Other receivables	**1,493,578**	718,818
Notes receivable	**236,955**	253,007
Unamortized bond issuance costs	**2,733,617**	2,634,649
Losses recoverable	**668,831**	407,284
Total	**$ 5,508,958**	$ 4,531,795

As of September 30, 2011 and 2010, $431,031 and $518,622 of pledges receivables have been included within prepaid expenses and other current assets as management anticipates them to be collected within the next year. Pledges receivable are expected to be realized as follows:

	2011	**2010**
In one year or less	**$ 435,220**	$ 525,729
Between one and five years	**387,188**	557,027
Greater than five years	**11,295**	-
Less: discount for present value	**(26,695)**	(46,097)
Pledges receivable - net	**$ 807,008**	$ 1,036,659

Note 5 - Other Assets (continued)

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, 2011 and 2010.

As of September 30, 2011 and 2010, unamortized bond issuance costs consist of the following:

	2011	2010
Deferred financing costs	**$ 4,007,394**	$ 3,489,572
Less accumulated amortization	**(1,273,777)**	(854,923)
	$ 2,733,617	$ 2,634,649

Note 6 - Property, Plant and Equipment

Property, plant and equipment as of September 30, 2011 and 2010, consist of the following:

	2011	2010
Land and land improvements	**$ 4,990,960**	$ 4,981,110
Buildings and building improvements	**153,080,146**	152,050,532
Fixed equipment	**25,461,887**	25,474,232
Movable equipment	**115,285,955**	108,402,129
	298,818,948	290,908,003
Less: accumulated depreciation and amortization	**(205,118,802)**	(194,035,440)
	93,700,146	96,872,563
Construction in progress	**2,489,451**	487,299
	$ 96,189,597	$ 97,359,862

For the years ended September 30, 2011 and 2010, the Network capitalized interest related to construction financed with tax-exempt debt of $56,180 and $31,057, respectively.

Note 7 - Intangible Assets

The gross carrying amount and accumulated amortization, by class of intangible assets, as of September 30, 2011 and 2010, consisted of the following:

2011	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
License enhancements	$ 1,898,684	$ (1,146,550)	$ 752,134
Goodwill	5,017,411	(526,403)	4,491,008
	$ 6,916,095	$ (1,672,953)	$ 5,243,142

2010	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
License enhancements	$ 1,898,684	$ (901,224)	$ 997,460
Goodwill	4,991,411	(458,123)	4,533,288
	$ 6,890,095	$ (1,359,347)	$ 5,530,748

Amortization expense related to intangible assets was $313,606 and $324,689 for the years ended September 30, 2011 and 2010, respectively.

The estimated amortization expense in each of the succeeding five fiscal years as of September 30, 2011 is as follows:

2012	$ 173,326
2013	29,326
2014	29,326
2015	29,326
2016	29,326
Thereafter	461,504
	$ 752,134

Note 8 - Estimated Self-Insurance Liabilities

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

The Network has a $350,000 limit per occurrence for workers' compensation claims. The Network has employed independent actuaries to estimate the ultimate costs, if any, of workers' compensation claims. Accrued workers' compensation reserves have been discounted at 5% as of September 30, 2011 and 2010, and in management's opinion provide an adequate reserve for loss contingencies.

Note 8 - Estimated Self-Insurance Liabilities (continued)

In fiscal year 2007, ECHN established a single-parent captive, CHIC, which covers all of its subsidiaries. The captive provides malpractice and general insurance coverage for ECHN and its subsidiaries at $3,000,000 per occurrence and $9,000,000 in the aggregate for the years ending September 30, 2011 and 2010.

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

ECHN does not self-insure any malpractice risks other than exposures greater than its excess coverages, however, as of September 30, 2011 and 2010, ECHN has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with CHIC.

The activity in the reserve for outstanding losses and loss related expenses at ECHN for workers' compensation and malpractice claims as of September 30, 2011 and 2010 is as follows:

	2011	**2010**
Balance at beginning of year	**$ 9,928,068**	$ 10,124,991
Workers' compensation:		
Losses incurred related to:		
Current year	**760,598**	829,483
Prior year	**519,971**	223,362
Total incurred	**1,280,569**	1,052,845
Paid losses related to:		
Current year	**(369,365)**	(250,397)
Prior year	**(862,189)**	(804,448)
Total paid	**(1,231,554)**	(1,054,845)
Professional and general:		
Losses incurred related to:		
Current year	**1,217,479**	1,594,411
Prior year	**1,865,848**	703,034
Total incurred	**3,083,327**	2,297,445
Paid losses related to:		
Current year	**(157)**	(69,699)
Prior year	**(4,043,915)**	(2,422,669)
Total paid	**(4,044,072)**	(2,492,368)
Balance at end of year	**$ 9,016,338**	$ 9,928,068

Note 8 - Estimated Self-Insurance Liabilities (continued)

Workers Compensation **-** The development on prior-year incurred losses increased by approximately $520,000 and $223,000 as of September 30, 2011 and 2010, respectively.

Professional and General **-** The development on prior-year incurred losses increased by approximately $1,870,000 and $703,000 as of September 30, 2011 and 2010, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, included estimates of claims incurred but not reported. Approximately, $2,705,000 and $2,882,000 of the reserve as of September 30, 2011 and 2010, 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, 2011 and 2010, respectively.

Note 9 - Pension and Other Postretirement Benefits

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

Effective December 31, 2008, ECHN implemented a soft freeze on the defined benefit pension plan. All employees with age and service credits greater than 65 were given the option to stay in the defined benefit pension plan or freeze their defined benefits and enter into a defined contribution plan. All other employees were required to enter into the defined contribution plan. Under the defined contribution plan, ECHN contributes a match of 3% of employee salaries. This match is non-guaranteed for all employees except certain union workers. During fiscal year 2011 and 2010, the Network incurred expenses of $1,636,926 and $1,900,006, respectively, related to this plan.

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

Unrestricted net assets of the Network as of September 30, 2011, include unrecognized actuarial losses of $53,870,879 related to the defined-benefit pension plan and unrecognized actuarial gains of $702,834 related to the postretirement plan. Of this amount, $2,636,799 is expected to be recognized in net periodic pension costs in 2012. Unrestricted net assets of the Network as of September 30, 2010, include unrecognized actuarial losses of $40,341,412 related to the defined-benefit pension plan and unrecognized actuarial gains of $787,821 related to the postretirement plan. Of this amount, $1,082,844 was recognized in net periodic pension costs in 2011.

The effects of Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) were reflected as of September 30, 2011 and 2010, 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 $1,100,000 and $1,200,000 as of September 30, 2011 and 2010, respectively. Subsidies of $95,233 and $80,531 were received in the years ended September 30, 2011 and 2010, respectively. Future benefits of $420,466 are expected to be paid and future subsidies of $73,907 are expected to be received related to the year ended September 30, 2011.

Note 9 - Pension and Other Postretirement Benefits (continued)

The pension and postretirement plans' change in benefit obligation and change in plan assets for the years ended September 30, 2011 and 2010, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Change in benefit obligation:				
Benefit obligation, beginning of year	**$ 173,024,122**	$ 155,082,045	**$ 4,502,342**	$ 4,487,049
Service cost	**1,694,601**	1,596,249	**62,573**	79,344
Interest cost	**9,607,108**	9,729,421	**211,052**	265,261
Plan participants' contributions	**-**	-	**676,830**	691,688
Receipt of Medicare Part D reimbursement	**-**	-	**95,233**	80,531
Actuarial loss (gain)	**11,875,070**	13,949,602	**105,204**	(114,006)
Special termination benefits	**-**	54,784	**-**	-
Benefits paid	**(7,485,957)**	(7,387,979)	**(972,547)**	(987,525)
Benefit obligation, end of year	**$ 188,714,944**	$ 173,024,122	**$ 4,680,687**	$ 4,502,342
Change in plan assets:				
Fair value of plan assets, beginning of year	**$ 118,535,420**	$ 109,372,074	**$ -**	$ -
Actual return on plan assets	**7,674,517**	13,654,635	**-**	-
Employer contributions	**6,570,000**	2,896,690	**200,484**	215,306
Plan participants' contributions	**-**	-	**676,830**	691,688
Receipt of Medicare Part D reimbursement	**-**	-	**95,233**	80,531
Benefits paid	**(7,485,957)**	(7,387,979)	**(972,547)**	(987,525)
Fair value of plan assets, end of year	**$ 125,293,980**	$ 118,535,420	**$ -**	$ -
Accrued pension and other postretirement benefits	**$ (63,420,964)**	$ (54,488,702)	**$ (4,680,687)**	$ (4,502,342)
Accumulated benefit obligation	**$ (183,312,903)**	$ (170,445,603)	**$ -**	$ -

The amount recognized in the Network's consolidated balance sheets as of September 30, 2011 and 2010 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Current liabilities	**$ 10,910,000**	$ 6,570,000	**$ 419,346**	$ 430,050
Noncurrent liabilities	**52,510,964**	47,918,702	**4,261,341**	4,072,292
Net amount recognized	**$ 63,420,964**	$ 54,488,702	**$ 4,680,687**	$ 4,502,342

Note 9 - Pension and Other Postretirement Benefits (continued)

The allocation of the accrued pension and postretirement benefits for the years ended September 30, 2011 and 2010 is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
MMH	**$ 48,712,087**	$ 41,994,179	**$ 3,336,703**	$ 3,209,566
RGH	**14,708,877**	12,494,523	**1,343,984**	1,292,776
	$ 63,420,964	$ 54,488,702	**$ 4,680,687**	$ 4,502,342

The plans' components of net periodic benefit cost for the years ended September 30, 2011 and 2010, are as follows (pension benefits information presented is for MMH and RGH combined):

	Pension Benefits		Other Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Service cost	**$ 1,694,601**	$ 1,596,249	**$ 62,573**	$ 79,344
Interest cost	**9,607,108**	9,729,421	**211,052**	265,261
Expected return on plan assets	**(10,398,180)**	(10,238,115)	**-**	-
Amortization of prior service (credits) costs	**(234,992)**	(234,992)	**77,724**	77,724
Special termination benefit recognized	**-**	54,784	**-**	-
Recognized actuarial gain	**1,304,258**	-	**(57,507)**	(34,441)
Net periodic benefit cost	**$ 1,972,795**	$ 907,347	**$ 293,842**	$ 387,888

The allocation of the net periodic benefit cost for the years ended September 30, 2011 and 2010, is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
MMH	**$ 1,340,948**	$ 574,304	**$ 209,470**	$ 234,368
RGH	**631,847**	333,043	**84,372**	153,520
	$ 1,972,795	$ 907,347	**$ 293,842**	$ 387,888

Note 9 - Pension and Other Postretirement Benefits (continued)

The assumptions used to determine net periodic benefit cost of the pension and postretirement plans for the years ended September 30, 2011 and 2010, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Discount rate	**5.47%**	5.67%	**5.03%**	4.88%
Expected long-term rate of return	**8.00%**	8.00%	**N/A**	N/A
Rate of compensation increase	**2.75%**	2.75%	**N/A**	N/A
Initial medical trend rate	**N/A**	N/A	**8.91%**	9.00%
Ultimate medical trend rate	**N/A**	N/A	**4.50%**	5.00%
Number of years to ultimate medical trend rate	**N/A**	N/A	**17 years**	8 years

The assumptions used to determine pension and postretirement benefit obligations as of September 30, 2011 and 2010, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Discount rate	**5.67%**	6.41%	**4.88%**	5.94%
Expected long-term rate of return	**8.00%**	8.00%	**N/A**	N/A
Rate of compensation increase	**2.75%**	3.00%	**N/A**	N/A
Initial medical trend rate	**N/A**	N/A	**9.00%**	9.00%
Ultimate medical trend rate	**N/A**	N/A	**5.00%**	5.00%
Number of years to ultimate medical trend rate	**N/A**	N/A	**17 years**	8 years

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

	One Percentage Point Increase	One Percentage Point Decrease
Effect on year-end postretirement benefit obligation	$ 382,273	$ (348,083)
Effect on total of service and interest cost components	$ 23,979	$ (21,172)

Note 9 - Pension and Other Postretirement Benefits (continued)

The pension plan's weighted-average asset allocations as of September 30, 2011 and 2010, by asset category, are as follows:

	Pension Benefits	
	2011	**2010**
Asset category:		
Equity securities	**42%**	63%
Debt securities	**57%**	34%
Cash and cash equivalents	**1%**	1%
Real estate	**0%**	2%
	100%	100%

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

	2011		**2010**	
	Policy Target	**Range**	**Policy Target**	**Range**
Asset category:				
Equity securities	**44%**	**34-54%**	58%	41-75%
Debt securities	**56%**	**51-61%**	39%	24-49%
Cash and cash equivalents	**0%**	**0-4%**	2%	0-4%
Real estate	**0%**	**0-2%**	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).

Note 9 - Pension and Other Postretirement Benefits (continued)

Fair value methodologies used to assign plan assets to levels in accordance with ASC 820 are consistent with the inputs described in Note 4. The following table presents the investments of the defined benefit plan carried at fair value as of September 30, 2011 and 2010, by the valuation hierarchy.

2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 588,004	$ -	$ -	$ 588,004
Fixed income mutual funds:				
Long duration	56,839,238	-	-	56,839,238
US Core Opportunistic	9,716,075	-	-	9,716,075
US Passive	1,738,106	-	-	1,738,106
Guaranteed investment contract	170,915	-	3,374,535	3,545,450
Equities:				
Small/mid cap	5,699,196	-	-	5,699,196
Large cap	26,548,136	-	-	26,548,136
International	20,619,775	-	-	20,619,775
Total assets at fair value	$ 121,919,445	$ -	$ 3,374,535	$ 125,293,980

2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 1,009,311	$ -	$ -	$ 1,009,311
Fixed income mutual funds	40,711,867	-	-	40,711,867
Equity mutual funds	15,531,470	-	-	15,531,470
Guaranteed investment contract	193,405	-	3,571,198	3,764,603
Real estate	-	-	2,333,339	2,333,339
Equities:				
Small cap	7,334,538	-	-	7,334,538
Mid cap	6,686,884	-	-	6,686,884
Large cap	18,876,428	-	-	18,876,428
International	22,286,980	-	-	22,286,980
Total assets at fair value	$ 112,630,883	$ -	$ 5,904,537	$ 118,535,420

Note 9 - Pension and Other Postretirement Benefits (continued)

The changes within the level 3 investments as of September 30, 2011 and 2010 are as follows:

2011	Real Estate Securities	Guaranteed Investment Contract	Total
Balance as of October 1, 2010	$ 2,333,339	$ 3,571,198	$ 5,904,537
Investment return:			
Investment income	-	237,985	237,985
Net change in market value	498,504	-	498,504
Proceeds from sale of investment	(2,831,843)	-	(2,831,843)
Expenditures	-	(434,648)	(434,648)
Balance as of September 30, 2011	$ -	$ 3,374,535	$ 3,374,535

2010	Real Estate Securities	Guaranteed Investment Contract	Total
Balance as of October 1, 2009	$ 1,674,128	$ 3,818,949	$ 5,493,077
Investment return:			
Investment income	-	230,563	230,563
Net change in market value	659,211	-	659,211
Expenditures	-	(478,314)	(478,314)
Balance as of September 30, 2010	$ 2,333,339	$ 3,571,198	$ 5,904,537

During fiscal year 2012, ECHN anticipates contributing $10,910,000 to the defined benefit pension plan.

The benefit payments, which reflect estimated future service, expected to be paid from the plans for the year ended September 30, 2011, are as follows:

	Pension Benefits	Other Postretirement Benefits
2012	$ 7,598,773	$ 420,446
2013	$ 8,023,564	$ 428,474
2014	$ 8,392,873	$ 435,840
2015	$ 8,876,428	$ 438,113
2016	$ 9,402,030	$ 433,606
2017-2020	$ 56,851,565	$ 2,250,307

Note 9 - Pension and Other Postretirement Benefits (continued)

The Network also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% - 50%, depending upon years of service, of contributions matched by the Hospital, up to a maximum of 6% of annual compensation. Contributions to the plan were suspended for non-union employees from April 2009 to April 2010. The Network incurred expenses related to the employee savings plan amounting to $1,729,474 and $1,788,564 for the years ended September 30, 2011 and 2010, respectively.

Note 10 - Long-term Debt and Lines of Credit

Long-term debt and capital lease obligations as of September 30, 2011 and 2010 consist of the following:

	2011	2010
Connecticut Health and Educational Facilities Authority (CHEFA) Hospital Revenue Bonds, ECHN Series A Bonds, bearing interest at rates ranging from 5.625% to 6.375% - net of unamortized original issue discount of $60,953 and $68,177 for 2011 and 2010, respectively.	**$ 10,639,047**	$ 11,351,823
CHEFA Hospital Variable Rate Demand Revenue Bonds, ECHN Series B Bonds, bearing interest at a variable rate, adjusted weekly.	**-**	17,215,000
CHEFA Hospital Revenue Bonds, ECHN Series C Bonds, bearing interest ranging from 3.25% to 5.125% - net of unamortized original issue premium of $392,250 and $412,894 for 2011 and 2010, respectively.	**35,272,250**	36,012,895
CHEFA Hospital Revenue Bonds, ECHN Series D Bonds bearing interest at a variable rate, adjusted weekly.	**14,619,999**	14,897,999
CHEFA Hospital Demand Revenue Bonds, ECHN Series E Bonds, bearing interest at a variable rate, adjusted weekly.	**19,625,000**	-
Loan due to Chase Equipment Leasing Inc., face amount of $4,922,567 due and payable in monthly principal and interest installments maturing on July 13, 2011, bearing interest at 4.14%.	**-**	892,577
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 from April 30, 2011 to August 31, 2012, bearing interest at rates ranging from 5.8% to 6%.	**165,166**	419,866
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%.	**1,268,650**	2,080,847

Note 10 - Long-term Debt and Lines of Credit (continued)

	2011	2010
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.	**22,286**	55,165
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%.	**884,113**	926,921
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.	**152,796**	158,391
Mortgage payable to Rockville Bank - $236,800 for 15 years, bearing interest at 6.5% for the first five years, adjustable thereafter every five years.	**189,275**	201,094
Capital lease obligations (see Note 12)	**9,449,030**	2,610,022
Total long-term debt and capital lease obligations	**92,287,612**	86,822,600
Less: current maturities	**(5,652,447)**	(5,089,518)
Total long-term debt and capital lease obligations - net of current portion	**$ 86,635,165**	$ 81,733,082

Lines of credit as of September 30, 2011 and 2010 consist of the following:

	2011	2010
Revolving line of credit with Rockville Bank, bearing interest at a variable rate.	**$ 1,772,642**	$ 1,905,000
Revolving line of credit with TD Bank in 2011 and Sovereign Bank in 2010, bearing interest at a variable rate.	**6,500,000**	5,000,000
	$ 8,272,642	$ 6,905,000

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

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

Note 10 - Long-term Debt and Lines of Credit (continued)

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

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

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

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

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

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

The Obligated Groups are required to comply with certain financial covenants (as defined in the trust agreements), including a debt service coverage ratio, day's cash on hand requirement, and minimum cash to debt ratio. As of September 30, 2011 and 2010, the Obligated Groups were in compliance with the financial covenants of the debt agreements, however, ECHN had to receive a waiver from TD Bank, N.A. (under a letter of credit agreement for Series D and E bonds) for transfers to affiliated organizations outside the Obligated Group in excess of $4.0 million for the years ended September 30, 2011 and 2010.

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 $80,156,296 and $79,477,717 as of September 30, 2011 and 2010, respectively. The debt is also secured by the gross receipts of the Obligated Groups.

Note 10 - Long-term Debt and Lines of Credit (continued)

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

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

The annual maturities of the long-term debt and capital lease obligations in each of the succeeding five years and thereafter as of September 30, 2011 are as follows:

2012	$ 5,652,447
2013	5,177,711
2014	4,490,212
2015	4,296,080
2016	3,834,389
Thereafter	68,505,476
	91,956,315
Plus - premium	331,297
	$ 92,287,612

On July 30, 2007, 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 (LIBOR) plus 3%, or the prime rate plus 1.75%; however, advances will not bear interest below the floor rate of 4%. During 2010, the agreement was extended and expired on October 28, 2010, at which time the line of credit was not renewed. On November 11, 2010, ECHN entered into a $6,500,000 unsecured line of credit with TD Bank, N.A., to replace the line of credit agreement with Sovereign Bank. This line of credit carries an interest rate of LIBOR plus 2.25% and expires one year after issuance date. Subsequent to year end, ECHN renewed this line of credit. As of September 30, 2011 and 2010, MMH had $6,500,000 and $5,000,000 outstanding.

On October 28, 2009, ECHN entered into a $2,000,000 unsecured line of credit agreement with Rockville Bank. The line of credit bears a variable interest rate equal to the prime rate plus .5%. As of September 30, 2011 and 2010, ECHN had $1,772,642 and $1,905,000, respectively, outstanding on the line.

Note 11 - Derivatives

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

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

Note 11 - Derivatives (continued)

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

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

In November 2004, ECHN entered into an interest rate swap agreement to manage the interest cost and risk associated with $9,750,000 of its variable rate Series B Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.825%. Changes in the fair value of this swap are recorded in the consolidated statements of operations and changes in net assets. The Network's portion of the swap agreement in force related to this strategy as of September 30, 2010, and the liability and interest expense recognized by the Network was as follows:

		2010
Notional amount of contract	$	8,607,500
Fair value of swap contract recognized in accounts payable and accrued expenses	$	1,020,740
Net interest expense recognized in non-operating losses	$	295,740

In connection with the redemption of Series B Bonds and the issuance of Series E Bonds, the swap was terminated and paid off in February 2011. Total cash paid was $711,352 and a gain of $309,388 was recognized in non-operating losses in the statements of operations and changes in net assets for the year ended September 30, 2011.

In December 2005, ECHN entered into a second interest rate swap agreement to manage the interest cost and risk associated with $9,750,000 of its variable rate Series B Bonds. Under the terms of this agreement, ECHN pays a fixed rate of 3.708%. The swap is accounted for as a cash flow hedge in accordance with ASC 815, *"Accounting for Derivative Instruments and Hedging Activities"*. This accounting treatment requires the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument to be reported as a component of other changes in unrestricted net assets and to be reclassified into operations in the same period or periods during which the hedged forecasted transaction affects earnings.

Note 11 - Derivatives (continued)

The remaining gain or loss on the derivative instrument, if any, is recognized currently in non-operating losses. The Network's portion of swap agreement in force related to this strategy as of September 20, 2010, is presented as follows:

		2010
Notional amount of contract	$	8,607,500
Fair value of swap contract recognized in accounts payable and accrued expenses	$	1,677,331
Unrealized loss recognized as a reduction of unrestricted net assets	$	(609,000)

In connection with the redemption of Series B Bonds and the issuance of Series E Bonds, the swap was terminated and paid off in May 2011. Total cash paid was $822,875 and a loss of $822,875 was recognized in non-operating losses in the statements of operations and changes in net assets for the year ended September 30, 2011.

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

Changes in the fair value of this swap are recorded in the consolidated statements of operations and changes in net assets. The Network's portion of the swap agreement in force related to this strategy as of September 30, 2011 and 2010, and the liability and interest expense recognized by the Network are as follows:

		2011		2010
Notional amount of contract	**$**	**14,622,000**	$	14,898,000
Fair value of swap contract recognized in accounts payable and accrued expenses	**$**	**588,000**	$	683,244
Net interest (income) expense recognized in non-operating losses	**$**	**(95,000)**	$	465,440

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

Note 12 - Lease Commitments

ECHN leases equipment under capital lease agreements which begin to expire in 2015. The interest rates range from 4% to 7%. The net carrying value of equipment under the capital lease was $8,905,687 and $1,133,436 as of September 30, 2011 and 2010, respectively. ECHN leases various office space and certain equipment under operating leases that expire in various years through fiscal year 2024. Certain leases may be renewed at the end of their term.

Note 12 - Lease Commitments (continued)

Future minimum payments under capital leases and non-cancelable operating leases as of September 30, 2011, consisted of the following:

	Capital Leases	Operating Leases
2012	$ 2,562,945	$ 3,241,852
2013	2,573,681	2,724,644
2014	2,135,909	2,669,929
2015	1,766,824	2,539,447
2016	1,192,431	2,047,817
Thereafter	-	4,880,995
	10,231,790	$ 18,104,684
Less: interest on capital lease	782,760	
Principal amount of capital lease	$ 9,449,030	

Rent expense under operating and month-to-month leases was $5,865,625 and $5,221,471 for the years ended September 30, 2011 and 2010, respectively.

Note 13 - Concentrations of Credit Risk

ECHN grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix in patient accounts receivable as of September 30, 2011 and 2010, before allowances for doubtful accounts, consists of the following:

	2011	**2010**
Self-pay	**21 %**	20 %
Medicare	**31**	30
Managed care	**24**	21
Commercial insurance	**5**	7
Medicaid	**14**	18
Other	**5**	4
	100 %	100 %

Note 14 - Net Patient Service Revenues

Net patient service revenues for the years ended September 30, 2011 and 2010, consists of the following:

	2011	2010
Patient service revenues:		
Inpatient services	**$ 228,912,612**	$ 243,586,483
Outpatient services	**409,922,763**	391,192,386
Gross patient service revenues	**638,835,375**	634,778,869
Deductions - allowances	**(377,486,499)**	(371,960,978)
Net patient service revenues	**$ 261,348,876**	$ 262,817,891

Note 15 - Community Benefit

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

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

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

For the years ended September 30, 2011 and 2010, MMH and RGH granted total charity care of $5,660,092 and $3,008,857 respectively. Such amounts are determined based on charges foregone.

Note 16 - Functional Expenses

ECHN provides general health care services to residents within its geographical location. For the years ended September 30, 2011 and 2010, expenses relating to providing these services are as follows:

	2011	2010
Health care services	**$ 224,862,546**	$ 215,013,928
Fund raising	**360,468**	448,272
General and administrative	**55,724,494**	58,644,212
	$ 280,947,508	$ 274,106,412

Note 17 - Temporarily and Permanently Restricted Net Assets

The temporarily restricted net assets available as of September 30, 2011 and 2010, are available for the following purposes:

	2011	2010
Departmental and endowment purposes	**$ 1,676,961**	$ 2,232,708
Capital campaign and pledges	**573,002**	3,178,680
	$ 2,249,963	$ 5,411,388

As of September 30, 2011 and 2010, permanently restricted net assets consist of the following:

	2011	2010
Beneficial interest in trust assets	**$ 6,688,165**	$ 7,003,197
Endowments restricted for:		
Other departmental purposes	**3,929,053**	3,929,053
Charity care	**320,817**	320,817
Special needs	**151,579**	151,579
Cancer research	**6,124**	6,124
	$ 11,095,738	$ 11,410,770

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

The composition of the Network's endowment by net asset class as of September 30, 2011 and 2010, was as follows:

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,677,008	$ 4,407,574	$ 6,084,582
Board-designated endowment funds	19,558,790	-	-	19,558,790
Net assets, September 30, 2011	$ 19,558,790	$ 1,677,008	$ 4,407,574	$ 25,643,372

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,578,454	$ 4,407,574	$ 8,986,028
Board-designated endowment funds	17,476,568	-	-	17,476,568
Net assets, September 30, 2010	$ 17,476,568	$ 4,578,454	$ 4,407,574	$ 26,462,596

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

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

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

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

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

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

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

The Network has not appropriated funds for expenditure from its endowment funds for the years ending September 30, 2011 and 2010.

Changes in endowment net assets for the fiscal years ended September 30, 2011 and 2010 were as follows:

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, October 1, 2010	$ 17,476,568	$ 4,578,454	$ 4,407,574	$ 26,462,596
Interest income and dividends	562,989	34,183	-	597,172
Unrealized (depreciation) appreciation on investments	(1,079,410)	88,014	-	(991,396)
Appropriations for expenditure	2,598,643	(2,598,643)	-	-
Distributions	-	(425,000)	-	(425,000)
Net assets, September 30, 2011	$ 19,558,790	$ 1,677,008	$ 4,407,574	$ 25,643,372

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, October 1, 2009	$ 12,595,828	$ 4,872,134	$ 4,398,105	$ 21,866,067
Interest income and dividends	335,016	42,255	-	377,271
Unrealized appreciation on investments	697,496	513,350	-	1,210,846
Appropriations for expenditure	849,285	(849,285)	-	-
Transfer to (from) endowment	2,998,943	-	945	2,999,888
Contributions	-	-	8,524	8,524
Net assets, September 30, 2010	$ 17,476,568	$ 4,578,454	$ 4,407,574	$ 26,462,596

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Network to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2011 and 2010, there were no funds that were below the level required by donor or law.

Note 18 - Commitments and Contingencies

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

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

Corporate Guaranty - In 2007, the Network was established as a guarantor of Sports Medicine Partners, Orthopedics & Rehabilitation Therapy, P.C. (Sports), a Friendly PC, allowing Sports to borrow $800,000 from North Fork Equipment Leasing for equipment and improvements to the space at Evergreen Walk. Under the terms of the corporate guaranty, which is for 60 months and will expire in June 2012, the Network is responsible for payment of any and all debts owed by Sports to North Fork Equipment Leasing. There was no collateral pledged as part of the corporate guaranty and $121,921 and $278,210 of the original $800,000 loan from North Fork Equipment Leasing was outstanding as of September 30, 2011 and 2010, respectively.

Note 19 - Statutory Capital and Surplus

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

Statutory capital and surplus as of September 30, 2011 was $3,510,183, with a minimum amount required to be maintained by CHIC of $120,000. ECHN reports all of CHIC's investments as investments held in trust for estimated self-insurance liabilities in the accompanying consolidated balance sheets.

CHIC's Board of Directors has recommended that equity of $973,000 be retained to pay claims in the event of adverse development. Distribution of dividends is subject to approval by the Board of Directors. No dividends were declared or paid during the years ended September 30, 2011 and 2010.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2011

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group	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	$ 10,880,739	$ 4,739,454	$ 894,458	$ -	$ 16,514,651	$ 1,510,689	$ -	$ 18,025,340	$ 360,213	$ 628,407	$ -	$ 292,976	$ 1,684,244	$ -	$ 20,991,180
Current portion of assets whose use is limited	803,195	501,284	200,509	-	1,504,988	-	-	1,504,988	-	-	-	-	-	-	1,504,988
Accounts receivable - net	24,700,330	10,246,785	2,234,552	-	37,181,667	-	-	37,181,667	2,302,311	-	-	122,030	37,420	-	39,643,428
Inventory	2,591,838	1,576,966	59,764	-	4,228,568	-	-	4,228,568	-	-	-	-	-	-	4,228,568
Due from affiliated entities	419,887	2,196,771	298,927	(2,464,200)	451,385	18,169	-	469,554	2,711,714	-	-	1,425,642	-	(4,606,910)	-
Current portion of estimated settlements due from third-party payers	432,832	-	-	-	432,832	-	-	432,832	-	-	-	-	-	-	432,832
Prepaid expenses and other current assets	1,380,570	270,651	9,594	-	1,660,815	456,278	-	2,117,093	855,501	3,531	-	1,354,342	15,462	-	4,345,929
Total current assets	41,209,391	19,531,911	3,697,804	(2,464,200)	61,974,906	1,985,136	-	63,960,042	6,229,739	631,938	-	3,194,990	1,737,126	(4,606,910)	71,146,925
Assets whose use is limited - net of current portion:															
Donor restricted investments	1,677,029	2,018,549	-	-	3,695,578	2,389,004	-	6,084,582	-	-	-	-	-	-	6,084,582
Board designated investments	6,346,662	7,095,031	-	-	13,441,693	6,117,097	-	19,558,790	-	-	-	-	-	-	19,558,790
Investments held in trust for estimated self-insurance liabilities	2,438,807	-	-	-	2,438,807	-	-	2,438,807	-	-	-	-	6,452,363	-	8,891,170
Beneficial interest in trust assets	4,800,923	1,887,242	-	-	6,688,165	-	-	6,688,165	-	-	-	-	-	-	6,688,165
Investments held under bond indentures	3,259,163	1,890,523	751,125	-	5,900,811	-	-	5,900,811	-	-	-	-	-	-	5,900,811
Total assets whose use is limited	18,522,584	12,891,345	751,125	-	32,165,054	8,506,101	-	40,671,155	-	-	-	-	6,452,363	-	47,123,518
Interest in net assets of ECHN CHF, Inc.	3,872,533	2,629,614	170,548	-	6,672,695	-	(6,672,695)	-	-	-	-	2,348,934	-	(2,348,934)	-
Investments	7,217,602	7,740,794	1,759,038	-	16,717,434	227,263	-	16,944,697	-	-	-	3,245,067	-	(3,245,067)	16,944,697
Investments in joint ventures	3,719,835	2,858,713	-	-	6,578,548	-	-	6,578,548	-	1,433,293	-	8,957,727	-	-	16,969,568
Property, plant and equipment - net	52,084,498	31,151,854	8,429,985	-	91,666,337	-	-	91,666,337	2,727,773	1,403,523	-	391,964	-	-	96,189,597
Other assets:															
Estimated settlements due from third-party payers - net of current portion	1,306,869	1,856,415	-	-	3,163,284	-	-	3,163,284	-	-	-	-	-	-	3,163,284
Due from affiliated entities - net of current portion	17,047,090	2,793,961	-	-	19,841,051	-	-	19,841,051	-	-	-	-	-	(19,841,051)	-
Goodwill and intangible assets - net	72,000	72,000	608,134	-	752,134	-	-	752,134	81,997	-	-	4,409,011	-	-	5,243,142
Other - net	2,982,086	866,926	378,196	-	4,227,208	375,977	-	4,603,185	15,000	-	-	221,955	668,818	-	5,508,958
Total other assets	21,408,045	5,589,302	986,330	-	27,983,677	375,977	-	28,359,654	96,997	-	-	4,630,966	668,818	(19,841,051)	13,915,384
Total assets	$ 148,034,488	$ 82,393,533	$ 15,794,830	$ (2,464,200)	$ 243,758,651	$ 11,094,477	$ (6,672,695)	$ 248,180,433	$ 9,054,509	$ 3,468,754	$ -	$ 22,769,648	$ 8,858,307	$ (30,041,962)	$ 262,289,689

See accompanying independent auditors' report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2011

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Groups	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Liabilities and Net Assets															
Current liabilities:															
Lines of credit	$ 6,500,000	$ -	$ -	$ -	$ 6,500,000	$ -	$ -	$ 6,500,000	$ -	$ -	$ -	$ 1,772,642	$ -	$ -	$ 8,272,642
Accounts payable and accrued expenses	15,698,845	4,898,568	846,533	-	21,443,946	33,500	-	21,477,446	1,273,629	35,765	-	743,228	88,077	-	23,618,145
Current portion of long-term debt	3,467,143	1,247,313	495,689	-	5,210,145	-	-	5,210,145	-	17,623	-	424,679	-	-	5,652,447
Due to affiliates	2,283,655	2,717,350	182,566	(2,464,200)	2,719,371	250,212	-	2,969,583	7,808,571	2,849,130	-	13,522,154	-	(27,149,438)	-
Current portion of estimated settlements due to third-party payers	1,420,022	684,512	-	-	2,104,534	-	-	2,104,534	-	-	-	-	-	-	2,104,534
Current portion of accrued pension and other postretirement benefits	8,678,593	2,650,753	-	-	11,329,346	-	-	11,329,346	-	-	-	-	-	-	11,329,346
Other current liabilities	2,557,626	1,240,661	229,657	-	4,027,944	-	-	4,027,944	-	-	-	-	1,672,727	-	5,700,671
Total current liabilities	40,605,884	13,439,157	1,754,445	(2,464,200)	53,335,286	283,712	-	53,618,998	9,082,200	2,902,518	-	16,462,703	1,760,804	(27,149,438)	56,677,785
Long-term debt and capital lease obligations, net of current portion	49,708,745	25,860,313	9,400,372	-	84,969,430	-	-	84,969,430	-	324,447	-	1,341,288	-	-	86,635,165
Estimated self-insurance liabilities	1,941,899	548,842	233,277	-	2,724,018	-	-	2,724,018	-	-	-	-	3,587,320	-	6,311,338
Accrued pension and postretirement benefits	43,370,197	13,402,108	-	-	56,772,305	-	-	56,772,305	-	-	-	-	-	-	56,772,305
Estimated settlements due to third-party payers, net of current portion	-	-	335,416	-	335,416	-	-	335,416	-	-	-	-	-	-	335,416
Other liabilities	266,121	125,749	-	-	391,870	4,153	-	396,023	-	-	-	-	-	-	396,023
Total liabilities	135,892,846	53,376,169	11,723,510	(2,464,200)	198,528,325	287,865	-	198,816,190	9,082,200	3,226,965	-	17,803,991	5,348,124	(27,149,438)	207,128,032
Net assets (deficit):															
Unrestricted	3,473,307	24,688,727	3,997,833	-	32,159,867	1,784,983	-	33,944,850	(27,691)	241,789	-	4,690,415	3,510,183	(543,590)	41,815,956
Temporarily restricted	988,702	912,532	73,487	-	1,974,721	7,454,317	(5,105,383)	4,323,655	-	-	-	275,242	-	(2,348,934)	2,249,963
Permanently restricted	7,679,633	3,416,105	-	-	11,095,738	1,567,312	(1,567,312)	11,095,738	-	-	-	-	-	-	11,095,738
Total net assets (deficit)	12,141,642	29,017,364	4,071,320	-	45,230,326	10,806,612	(6,672,695)	49,364,243	(27,691)	241,789	-	4,965,657	3,510,183	(2,892,524)	55,161,657
Total liabilities and net assets	$ 148,034,488	$ 82,393,533	$ 15,794,830	$ (2,464,200)	$ 243,758,651	$ 11,094,477	$ (6,672,695)	$ 248,180,433	$ 9,054,509	$ 3,468,754	$ -	$ 22,769,648	$ 8,858,307	$ (30,041,962)	$ 262,289,689

See accompanying independent auditors’ report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2011

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Revenues:															
Net patient service revenues	$ 166,602,261	$ 63,387,116	$ 14,647,939	$ -	$ 244,637,316	$ -	$ -	$ 244,637,316	$ 15,639,457	$ -	$ 1,072,103	$ -	$ -	$ -	$ 261,348,876
Contributions	455,096	237,954	20,224	-	713,274	-	-	713,274	-	-	18,982	296,332	-	(296,332)	732,256
Other revenues	12,214,756	4,507,057	186,575	(1,496,005)	15,412,383	830,979	(719,211)	15,524,151	8,082,679	627,766	53,726	2,669,854	2,833,383	(11,683,629)	18,107,930
Net assets released from restrictions used for operations	478,506	48,044	250	-	526,800	266,386	-	793,186	-	-	7,395	542	-	-	801,123
Total revenues	179,750,619	68,180,171	14,854,988	(1,496,005)	261,289,773	1,097,365	(719,211)	261,667,927	23,722,136	627,766	1,152,206	2,966,728	2,833,383	(11,979,961)	280,990,185
Expenses:															
Salaries and wages	77,581,560	29,535,778	6,983,892	-	114,101,230	499,695	(327,539)	114,273,386	19,498,733	-	446,025	10,907,025	-	(10,907,030)	134,218,139
Fringe benefits	21,779,464	8,838,640	2,285,123	-	32,903,227	116,068	(315,378)	32,703,917	2,892,399	-	100,539	2,074,933	-	(2,074,933)	35,696,855
Supplies and other expenses	58,149,870	21,930,029	4,112,353	(1,496,005)	82,696,247	481,602	(76,294)	83,101,555	5,980,385	549,507	351,095	(10,624,685)	2,871,947	1,572,892	83,802,696
Provision for bad debts	6,164,670	2,925,278	178,000	-	9,267,948	-	-	9,267,948	1,832,115	-	6,417	-	-	-	11,106,480
Depreciation and amortization	7,107,904	3,672,297	543,591	-	11,323,792	-	-	11,323,792	396,849	92,050	86,227	199,046	-	(199,046)	11,898,918
Interest and financing costs	2,539,198	1,115,177	528,704	-	4,183,079	-	-	4,183,079	15,977	23,543	1,821	202,857	-	(202,857)	4,224,420
Total expenses	173,322,666	68,017,199	14,631,663	(1,496,005)	254,475,523	1,097,365	(719,211)	254,853,677	30,616,458	665,100	992,124	2,759,176	2,871,947	(11,810,974)	280,947,508
Income (loss) from operations	6,427,953	162,972	223,325	-	6,814,250	-	-	6,814,250	(6,894,322)	(37,334)	160,082	207,552	(38,564)	(168,987)	42,677
Non-operating (losses) gains	(364,307)	(855,256)	26,536	-	(1,193,027)	-	-	(1,193,027)	-	(148,406)	(162)	(207,552)	(91,329)	298,880	(1,341,596)
Excess (deficiency) of revenues over expenses	$ 6,063,646	$ (692,284)	$ 249,861	$ -	$ 5,621,223	$ -	$ -	$ 5,621,223	$ (6,894,322)	$ (185,740)	$ 159,920	$ -	$ (129,893)	$ 129,893	$ (1,298,919)

See accompanying independent auditors’ report.

Eastern Connecticut Health Network, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (continued)
For the Year Ended September 30, 2011

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group	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	$ 6,063,646	$ (692,284)	$ 249,861	$ -	$ 5,621,223	$ -	$ -	$ 5,621,223	$ (6,894,322)	$ (185,740)	$ 159,920	$ -	$ (129,893)	$ 129,893	$ (1,298,919)
Change in unrealized (depreciation) appreciation on investments	(911,544)	(958,610)	(271,887)	-	(2,142,041)	3,839	-	(2,138,202)	-	-	91,106	(285,821)	(96,005)	-	(2,428,922)
Change in unrealized depreciation on joint ventures	-	-	-	-	-	-	-	-	-	-	-	(248,292)	-	-	(248,292)
Net change in interest rate swap agreement	167,734	1,509,597	-	-	1,677,331	-	-	1,677,331	-	-	-	-	-	-	1,677,331
Net assets released from restrictions for capital acquisitions	1,652,194	1,132,631	220,159	-	3,004,984	-	-	3,004,984	-	-	-	2,812	-	-	3,007,796
Equity transfer to ECHN	(4,481,309)	(8,575,553)	-	-	(13,056,862)	-	-	(13,056,862)	-	-	-	13,056,862	-	-	-
Equity transfer from ECHN	6,162,540	-	-	-	6,162,540	-	-	6,162,540	6,894,322	-	-	(13,056,862)	-	-	-
Transfer of WCW to RGH	-	1,740,285	-	-	1,740,285	-	-	1,740,285	-	-	(1,740,285)	-	-	-	-
Transfers (to) from other affiliates - net	(147,612)	6,790	3,872	-	(136,950)	134,044	-	(2,906)	-	-	1,235	1,671	-	-	-
Pension and postretirement related adjustments	(10,396,040)	(3,218,413)	-	-	(13,614,453)	-	-	(13,614,453)	-	-	-	-	-	-	(13,614,453)
Transfers between net asset classifications	-	-	-	-	-	-	-	-	-	-	-	67,091	-	-	67,091
Change in unrestricted net assets	(1,890,391)	(9,055,557)	202,005	-	(10,743,943)	137,883	-	(10,606,060)	-	(185,740)	(1,488,024)	(462,539)	(225,898)	129,893	(12,838,368)
Temporarily restricted net assets:															
Contributions	308,877	55,652	4,095	-	368,624	1,324,168	(1,542,685)	150,107	-	-	17,453	112,762	-	455,140	735,462
Investment income	17,339	9,785	-	-	27,124	41,436	-	68,560	-	-	-	-	-	-	68,560
Net assets released from restrictions for operations	(478,506)	(48,044)	(3,209)	-	(529,759)	(908,155)	644,728	(793,186)	-	-	(7,395)	(542)	-	-	(801,123)
Net assets released from restrictions for capital acquisitions	(1,652,194)	(1,132,631)	(220,159)	-	(3,004,984)	(3,007,797)	3,004,985	- (3,007,796)	-	-	-	(2,812)	-	2,812	(3,007,796)
Transfers between net asset classifications	-	-	-	-	-	-	-	-	-	-	-	(67,091)	-	-	(67,091)
Change in unrealized (depreciation) appreciation on investments	(26,748)	(62,933)	14,152	-	(75,529)	(684,234)	670,082	(89,681)	-	-	243	-	-	-	(89,438)
Transfer of WCW to RGH	-	24,082	-	-	24,082	-	-	24,082	-	-	(24,082)	-	-	-	-
Transfers from affiliates	915,801	633,488	49,646	-	1,598,935	-	(1,598,935)	-	-	-	6,733	(1,605,190)	-	1,598,457	-
Change in temporarily restricted net assets	(915,431)	(520,601)	(155,475)	-	(1,591,507)	(3,234,582)	1,178,175	(3,647,914)	-	-	(7,048)	(1,562,873)	-	2,056,409	(3,161,426)
Permanently restricted net assets:															
Change in beneficial interest in trust assets	(243,923)	(71,109)	-	-	(315,032)	-	-	(315,032)	-	-	-	-	-	-	(315,032)
Change in permanently restricted net assets	(243,923)	(71,109)	-	-	(315,032)	-	-	(315,032)	-	-	-	-	-	-	(315,032)
Change in net assets	(3,049,745)	(9,647,267)	46,530	-	(12,650,482)	(3,096,699)	1,178,175	(14,569,006)	-	(185,740)	(1,495,072)	(2,025,412)	(225,898)	2,186,302	(16,314,826)
Net assets (deficiency), beginning of year	15,191,387	38,664,631	4,024,790	-	57,880,808	13,903,311	(7,850,870)	63,933,249	(27,691)	427,529	1,495,072	6,991,069	3,736,081	(5,078,826)	71,476,483
Net assets (deficiency), end of year	$ 12,141,642	$ 29,017,364	$ 4,071,320	$ -	$ 45,230,326	$ 10,806,612	$ (6,672,695)	$ 49,364,243	$ (27,691)	$ 241,789	$ -	$ 4,965,657	$ 3,510,183	$ (2,892,524)	$ 55,161,657

See accompanying independent auditors' report.

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

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Assets															
Current assets:															
Cash and cash equivalents	$ 6,996,083	$ 5,837,411	$ 1,175,799	$ -	$ 14,009,293	$ 2,785,632	$ -	$ 16,794,925	$ 485,610	$ 382,345	$ 221,221	$ 360,160	$ 1,294,145	$ -	$ 19,538,406
Current portion of assets whose use is limited	694,111	256,662	219,888	-	1,170,661	-	-	1,170,661	-	-	-	-	-	-	1,170,661
Accounts receivable - net	24,506,769	9,664,890	1,842,557	-	36,014,216	-	-	36,014,216	2,975,050	-	184,904	185,080	52,197	-	39,411,447
Inventory	2,570,091	1,499,178	46,006	-	4,115,275	-	-	4,115,275	-	-	-	-	-	-	4,115,275
Due from affiliated entities	24,151,431	16,826,275	-	(15,212,409)	25,765,297	1,147,181	-	26,912,478	8,091,833	-	3,665	1,367,880	-	(36,375,856)	-
Current portion of estimated settlements due from third-party payers	359,760	361,514	-	-	721,274	-	-	721,274	-	-	-	-	-	-	721,274
Prepaid expenses and other current assets	1,489,763	229,941	307,134	-	2,026,838	548,850	-	2,575,688	1,255,424	14,259	14,971	1,070,597	20,523	-	4,951,462
Total current assets	60,768,008	34,675,871	3,591,384	(15,212,409)	83,822,854	4,481,663	-	88,304,517	12,807,917	396,604	424,761	2,983,717	1,366,865	(36,375,856)	69,908,525
Assets whose use is limited - net of current portion:															
Donor restricted investments	1,686,438	2,071,703	-	-	3,758,141	5,227,887	-	8,986,028	-	-	-	-	-	-	8,986,028
Board designated investments	6,413,845	6,955,185	-	-	13,369,030	4,107,538	-	17,476,568	-	-	-	-	-	-	17,476,568
Investments held in trust for estimated self-insurance liabilities	2,651,750	-	-	-	2,651,750	-	-	2,651,750	-	-	-	-	8,542,027	-	11,193,777
Beneficial interest in trust assets	5,044,846	1,958,351	-	-	7,003,197	-	-	7,003,197	-	-	-	-	-	-	7,003,197
Investments held under bond indentures	3,261,508	932,060	751,186	-	4,944,754	-	-	4,944,754	-	-	-	-	-	-	4,944,754
Total assets whose use is limited	19,058,387	11,917,299	751,186	-	31,726,872	9,335,425	-	41,062,297	-	-	-	-	8,542,027	-	49,604,324
Interest in net assets of ECHN CHF, Inc.	4,852,903	2,673,866	324,101	-	7,850,870	-	(7,850,870)	-	-	-	567,876	3,837,466	-	(4,405,342)	-
Investments	7,370,130	7,694,671	1,959,555	-	17,024,356	226,890	-	17,251,246	-	-	387,990	3,374,960	-	(3,374,960)	17,639,236
Investments in joint ventures	3,825,778	2,854,826	-	-	6,680,604	-	-	6,680,604	-	1,349,513	-	9,170,783	-	-	17,200,900
Property, plant and equipment - net	51,761,983	32,803,719	8,801,427	-	93,367,129	-	-	93,367,129	1,753,381	1,495,574	280,548	463,230	-	-	97,359,862
Other assets:															
Estimated settlements due from third party payers - net of current portion	546,577	1,014,755	-	-	1,561,332	-	-	1,561,332	-	-	-	-	-	-	1,561,332
Goodwill and intangible assets - net	180,000	180,000	637,460	-	997,460	-	-	997,460	124,277	-	-	4,409,011	-	-	5,530,748
Other - net	2,278,502	673,671	400,787	-	3,352,960	518,037	-	3,870,997	-	-	507	253,007	407,284	-	4,531,795
Total other assets	3,005,079	1,868,426	1,038,247	-	5,911,752	518,037	-	6,429,789	124,277	-	507	4,662,018	407,284	-	11,623,875
Total assets	$ 150,642,268	$ 94,488,678	$ 16,465,900	$ (15,212,409)	$ 246,384,437	$ 14,562,015	$ (7,850,870)	$ 253,095,582	$ 14,685,575	$ 3,241,691	$ 1,661,682	$ 24,492,174	$ 10,316,176	$ (44,156,158)	$ 263,336,722

See accompanying independent auditors' report.

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

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Liabilities and Net Assets															
Current liabilities:															
Lines of Credit	$ 5,000,000	$ -	$ -	$ -	$ 5,000,000	$ -	$ -	$ 5,000,000	$ -	$ -	$ -	$ 1,905,000	$ -	$ -	$ 6,905,000
Accounts payable and accrued expenses	16,747,968	6,637,694	1,010,396	-	24,396,058	104,829	-	24,500,887	1,321,159	35,833	47,176	246,908	119,743	-	26,271,706
Current portion of long-term debt and capital lease obligations	2,848,007	1,354,327	474,465	-	4,676,799	-	-	4,676,799	-	17,624	89,498	305,597	-	-	5,089,518
Due to affiliated entities	14,838,492	8,798,644	398,944	(15,212,409)	8,823,671	549,375	-	9,373,046	13,392,107	2,418,843	29,936	13,863,400	-	(39,077,332)	-
Current portion of estimated settlements due to third-party payers	281,399	142,494	-	-	423,893	-	-	423,893	-	-	-	-	-	-	423,893
Current portion of accrued pension and other postretirement benefits	5,438,343	1,561,707	-	-	7,000,050	-	-	7,000,050	-	-	-	-	-	-	7,000,050
Other current liabilities	1,505,852	509,896	183,662	-	2,199,410	-	-	2,199,410	-	-	-	-	2,450,989	-	4,650,399
Total current liabilities	46,660,061	19,004,762	2,067,467	(15,212,409)	52,519,881	654,204	-	53,174,085	14,713,266	2,472,300	166,610	16,320,905	2,570,732	(39,077,332)	50,340,566
Long-term debt and capital lease obligations, net of current portion	46,420,675	23,896,681	9,893,664	-	80,211,020	-	-	80,211,020	-	341,862	-	1,180,200	-	-	81,733,082
Estimated self-insurance liabilities	2,344,478	574,030	118,726	-	3,037,234	-	-	3,037,234	-	-	-	-	4,009,363	-	7,046,597
Accrued pension and postretirement benefits	39,765,402	12,225,592	-	-	51,990,994	-	-	51,990,994	-	-	-	-	-	-	51,990,994
Estimated settlements due to third-party payers, net of current portion	-	-	361,253	-	361,253	-	-	361,253	-	-	-	-	-	-	361,253
Other liabilities	260,265	122,982	-	-	383,247	4,500	-	387,747	-	-	-	-	-	-	387,747
Total liabilities	135,450,881	55,824,047	12,441,110	(15,212,409)	188,503,629	658,704	-	189,162,333	14,713,266	2,814,162	166,610	17,501,105	6,580,095	(39,077,332)	191,860,239
Net assets (deficit):															
Unrestricted	5,363,698	33,744,284	3,795,828	-	42,903,810	1,647,100	-	44,550,910	(27,691)	427,529	1,488,026	5,152,954	3,736,081	(673,484)	54,654,325
Temporarily restricted	1,904,133	1,433,133	228,962	-	3,566,228	10,688,899	(6,283,558)	7,971,569	-	-	7,046	1,838,115	-	(4,405,342)	5,411,388
Permanently restricted	7,923,556	3,487,214	-	-	11,410,770	1,567,312	(1,567,312)	11,410,770	-	-	-	-	-	-	11,410,770
Total net assets (deficit)	15,191,387	38,664,631	4,024,790	-	57,880,808	13,903,311	(7,850,870)	63,933,249	(27,691)	427,529	1,495,072	6,991,069	3,736,081	(5,078,826)	71,476,483
Total liabilities and net assets	$ 150,642,268	$ 94,488,678	$ 16,465,900	$ (15,212,409)	$ 246,384,437	$ 14,562,015	$ (7,850,870)	$ 253,095,582	$ 14,685,575	$ 3,241,691	$ 1,661,682	$ 24,492,174	$ 10,316,176	$ (44,156,158)	$ 263,336,722

See accompanying independent auditors' report.

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

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series B, Series C, and Series D Obligated Group	ECHN Health Services, Inc.	ECHN Enterprises, Inc. and Subsidiaries	ECHN Wellness Services, Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Revenues:															
Net patient service revenues	$ 166,310,748	$ 64,174,022	$ 14,419,386	$ -	$ 244,904,156	$ -	$ -	$ 244,904,156	$ 16,458,025	$ -	$ 1,455,710	$ -	$ -	$ -	$ 262,817,891
Contributions	576,939	785,566	16,825	-	1,379,330	-	-	1,379,330	-	-	50,379	318,116	-	-	1,747,825
Other revenues	9,770,550	4,457,055	406,089	(1,166,939)	13,466,755	765,797	(748,014)	13,484,538	7,156,904	564,554	84,724	3,197,213	2,778,188	(11,726,206)	15,539,915
Net assets released from restrictions used for operations	100,773	23,672	8,208	-	132,653	401,377	-	534,030	-	-	3,392	1,687	-	-	539,109
Total revenues	176,759,010	69,440,315	14,850,508	(1,166,939)	259,882,894	1,167,174	(748,014)	260,302,054	23,614,929	564,554	1,594,205	3,517,016	2,778,188	(11,726,206)	280,644,740
Expenses:															
Salaries and wages	75,116,354	29,677,566	7,155,224	-	111,949,144	472,610	(302,885)	112,118,869	18,768,392	-	624,051	10,008,343	-	(10,178,061)	131,341,594
Fringe benefits	20,990,484	7,309,138	2,090,479	-	30,390,101	118,096	(369,557)	30,138,640	2,895,734	-	135,721	2,239,929	-	(2,447,017)	32,963,007
Supplies and other expenses	57,220,650	19,963,391	3,938,814	(1,166,939)	79,955,916	576,468	(75,572)	80,456,812	4,746,988	537,674	437,207	(10,279,400)	2,520,620	2,854,585	81,274,486
Provision for bad debts	6,712,599	3,601,814	50,000	-	10,364,413	-	-	10,364,413	1,106,570	-	10,373	-	-	-	11,481,356
Depreciation and amortization	7,666,028	3,824,200	534,476	-	12,024,704	-	-	12,024,704	322,080	92,049	117,150	632,170	-	(632,170)	12,555,983
Interest and financing costs	2,528,633	1,507,868	551,342	-	4,587,843	-	-	4,587,843	21,861	24,223	6,059	26,269	-	(176,269)	4,489,986
Total expenses	170,234,748	65,883,977	14,320,335	(1,166,939)	249,272,121	1,167,174	(748,014)	249,691,281	27,861,625	653,946	1,330,561	2,627,311	2,520,620	(10,578,932)	274,106,412
Income (loss) from operations	6,524,262	3,556,338	530,173	-	10,610,773	-	-	10,610,773	(4,246,696)	(89,392)	263,644	889,705	257,568	(1,147,274)	6,538,328
Non-operating losses	(842,128)	(468,466)	(150,487)	-	(1,461,081)	-	-	(1,461,081)	-	(323,532)	(890)	(889,705)	(21,273)	910,978	(1,785,503)
Excess (deficiency) of revenues over expenses	$ 5,682,134	$ 3,087,872	$ 379,686	$ -	$ 9,149,692	$ -	$ -	$ 9,149,692	$ (4,246,696)	$ (412,924)	$ 262,754	$ -	$ 236,295	$ (236,296)	$ 4,752,825

See accompanying independent auditors’ report.

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

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

See accompanying independent auditors’ report.