

The Rockville General Hospital, Inc.

Independent Auditors' Report and
Financial Statements

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



Saslow Lufkin & Buggy, LLP
Accounting · Tax · Advisory

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Independent Auditors' Report

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

We have audited the accompanying financial statements of The Rockville General Hospital, Inc. (the Hospital) (a subsidiary of Eastern Connecticut Health Network, Inc.), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rockville General Hospital Inc., as of September 30, 2014 and 2013, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Saslow Lufkin & Buggy, LLP

January 27, 2015



The Rockville General Hospital, Inc.
Balance Sheets
September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,772,696	\$ 1,059,290
Current portion of investments held under bond indentures	323,965	364,771
Accounts receivable, less allowance for bad debts of \$2,038,779 in 2014 and \$3,439,192 in 2013	10,900,702	10,269,970
Inventory	1,325,483	1,467,009
Due from affiliates	65,011	58,029
Current portion of estimated settlements due from third-party payers	148,435	384,274
Prepaid expenses and other current assets	201,349	276,211
Total current assets	14,737,641	13,879,554
Assets whose use is limited - net of current portion:		
Donor restricted investments	1,575,184	1,709,690
Board designated investments	10,962,908	9,895,326
Investments held under bond indentures	859,281	806,532
Beneficial interest in trust assets	2,209,693	2,182,173
Total assets whose use is limited - net of current portion	15,607,066	14,593,721
Interest in net assets of ECHN Community Healthcare Foundation, Inc.	3,599,134	3,616,191
Investments in joint ventures	3,489,604	3,208,828
Property, plant and equipment, net	25,700,876	27,654,664
Investments	2,068,819	3,088,116
Other assets:		
Estimated settlements due from third-party payers	-	668,994
Due from affiliated entities - net of current portion	7,814,717	9,022,571
Other - net	1,769,088	811,215
Total other assets	9,583,805	10,502,780
Total assets	\$ 74,786,945	\$ 76,543,854
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,181,391	\$ 6,096,840
Current portion of long-term debt and capital lease obligations	945,159	870,081
Due to affiliated entities	-	398,089
Estimated settlements due to third-party payers	1,132,410	1,040,198
Current portion of accrued pension and other postretirement benefits	288,603	1,401,749
Other current liabilities	732,322	754,403
Total current liabilities	9,279,885	10,561,360
Long-term debt and capital lease obligations - net of current portion	23,392,308	23,519,254
Estimated self-insurance liabilities	3,566,892	2,423,371
Accrued pension and other postretirement benefits - net of current portion	10,081,347	8,855,195
Other liabilities	132,211	132,211
Total liabilities	46,452,643	45,491,391
Net assets:		
Unrestricted	24,211,838	26,773,989
Temporarily restricted	549,043	561,463
Permanently restricted	3,573,421	3,717,011
Total net assets	28,334,302	31,052,463
Total liabilities and net assets	\$ 74,786,945	\$ 76,543,854

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

The Rockville General Hospital, Inc.
Statements of Operations and Changes in Net Assets
For the Year Ended September 30, 2014 and 2013

	2014	2013
Revenues:		
Net patient service revenues	\$ 71,329,965	\$ 73,037,858
Provision for bad debts	(2,801,283)	(4,127,214)
Net patient service revenues less provision for bad debts	68,528,682	68,910,644
Change in interest in unrestricted net assets of		
ECHN Community Healthcare Foundation, Inc.	315,697	253,309
Other revenues	5,227,522	4,492,026
EHR incentive payment revenue	799,300	1,220,153
Net assets released from restrictions		
used for operations	49,147	112,828
Total revenues	74,920,348	74,988,960
Expenses:		
Salaries and wages	32,460,253	31,509,639
Fringe benefits	9,360,797	10,024,601
Supplies and other	26,367,709	25,888,529
Depreciation and amortization	3,281,014	3,565,031
Interest and financing costs	689,882	682,298
Total expenses	72,159,655	71,670,098
Income from operations	2,760,693	3,318,862
Non-operating losses	(378,564)	(660,236)
Excess of revenues over expenses	\$ 2,382,129	\$ 2,658,626

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

The Rockville General Hospital, Inc.
Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2014 and 2013

	2014	2013
Unrestricted net assets:		
Excess of revenues over expenses	\$ 2,382,129	\$ 2,658,626
Unrealized (depreciation) appreciation on investments	(1,427,059)	425,983
Equity transfer to ECHN	(2,116,146)	(1,835,404)
Transfers to other affiliated entities	(229)	(6,530)
Change in investment of ECHN Community		
Healthcare Foundation, Inc.	(379,822)	270,668
Net assets released from restrictions used for capital	51,083	47,604
Pension and postretirement-related adjustments	(1,072,107)	8,152,920
Other	-	(5,975)
Change in unrestricted net assets	(2,562,151)	9,707,892
Temporarily restricted net assets:		
Change in interest in net assets of ECHN Community		
Healthcare Foundation, Inc.	19,798	32,787
Unrealized (depreciation) appreciation on investments	(67,641)	47,603
Investment income	131,269	16,725
Net assets released from restrictions for operations	(49,147)	(112,828)
Net assets released from restrictions used for capital	(51,083)	(47,604)
Transfers from ECHN and other affiliates	4,384	9,032
Change in temporarily restricted net assets	(12,420)	(54,285)
Permanently restricted net assets:		
Change in beneficial interest in trust assets	27,520	77,870
Reclassification of donations	(171,110)	5,975
Change in permanently restricted net assets	(143,590)	83,845
Change in net assets	(2,718,161)	9,737,452
Net assets at beginning of year	31,052,463	21,315,011
Net assets at end of year	\$ 28,334,302	\$ 31,052,463

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

The Rockville General Hospital, Inc.
Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (2,718,161)	\$ 9,737,452
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,281,014	3,565,031
Provision for bad debts	2,801,283	4,127,214
Unrealized depreciation (appreciation) on investments	1,494,700	(473,586)
Realized gains on sales of investments	(2,355,166)	(1,788,610)
Income on investments in joint venture	(280,776)	(81,275)
Transfers to other affiliated entities	2,111,991	1,832,902
Change in interest in net assets of ECHN Community Healthcare Foundation, Inc.	17,057	(361,609)
Change in beneficial interest in trust assets	(27,520)	(77,870)
Pensions and postretirement-related adjustments	1,072,107	(8,152,920)
Changes in assets and liabilities:		
Accounts receivable	(3,432,015)	(3,437,599)
Inventory	141,526	52,657
Prepaid expenses and other current assets	74,862	(57,409)
Estimated settlements due to/from third-party payers	997,045	(317,428)
Due (from) to affiliates	802,783	(8,577,784)
Other - net	(957,873)	20,404
Accounts payable and accrued expenses and other current liabilities	62,470	166,198
Accrued pension and other postretirement benefits	(959,101)	98,023
Estimated self-insurance liabilities	1,143,521	(884,087)
Other liabilities	-	3,633
Net cash provided by (used in) operating activities	3,269,747	(4,606,663)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,327,226)	(746,921)
Sales of investments, net	934,744	8,058,373
Net cash (used in) provided by investing activities	(392,482)	7,311,452
Cash flows from financing activities:		
Principal payments on long-term debt	(874,828)	(1,276,420)
Proceeds from issuance of debt	822,960	-
Transfers to other affiliated entities	(2,111,991)	(1,832,902)
Net cash used in financing activities	(2,163,859)	(3,109,322)
Change in cash and cash equivalents	713,406	(404,533)
Cash and cash equivalents at beginning of year	1,059,290	1,463,823
Cash and cash equivalents at end of year	\$ 1,772,696	\$ 1,059,290
Cash paid for interest	\$ 673,684	\$ 652,170

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 1 - General

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

Other related entities of RGH include:

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

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

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

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

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

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

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 1 - General (continued)

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

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law.

Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or stipulated period has elapsed, are reported as reclassifications between the applicable classes of net assets.

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

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

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

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

The income from the trusts is included in the change in interest in unrestricted net assets of ECHF as unrestricted and temporarily restricted support. For the years ended September 30, 2014 and 2013, income of \$94,828 and \$85,956, respectively, was recorded in the statements of operations and changes in net assets. Changes in the fair value of the trust assets are recognized as changes in permanently restricted net assets. RGH records the beneficial interest in trust assets when it is notified of the existence of the trust or when information becomes available to record the fair value of the trust assets.

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Other Than Temporary Impairments on Investments - The Hospital accounts for other than temporary impairments in accordance with FASB ASC 320 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. The Hospital has not recorded an impairment charge for the years ended September 30, 2014 and 2013.

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

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

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

Equipment under capital leases is amortized utilizing the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Depreciation and amortization expense was \$3,183,174 and \$3,460,934 for the years ended September 30, 2014 and 2013, respectively.

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

Physician loan amortization totaling \$58,151 and \$42,877 as of September 30, 2014 and 2013, respectively, is included within depreciation and amortization in the accompanying statements of operations and changes in net assets.

Gifts of property and equipment are reported as unrestricted support and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used.

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Investments in Joint Ventures - The Hospital has invested in joint ventures, which are accounted for under the equity method of accounting. These joint ventures, as of September 30, 2014 and 2013, include the Hospital's investment in the following:

	<u>2014</u>	<u>Ownership Percentage</u>	<u>2013</u>	<u>Ownership Percentage</u>
Northeast Regional Radiation				
Oncology Network, Inc.	\$ 3,299,195	25%	\$ 3,108,323	25%
Tolland Imaging Center	<u>190,409</u>	35%	<u>100,505</u>	35%
	<u>\$ 3,489,604</u>		<u>\$ 3,208,828</u>	

There were no distributions received from these joint ventures in 2014 and 2013. The Hospital's share of the earnings or losses of the joint ventures are reported within other revenues and are \$280,776 and \$81,275 for the years ended September 30, 2014 and 2013, respectively.

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

<u>2014</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess of Revenues Over Expenses</u>
Northeast Regional Radiation				
Oncology Network, Inc.	\$ 13,250,462	\$ 13,196,779	\$ 763,486	\$ 335,595
Tolland Imaging Center	\$ 775,884	\$ 544,026	\$ 256,871	\$ 241,197
<u>2013</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess of Revenues Over Expenses</u>
Northeast Regional Radiation				
Oncology Network, Inc.	\$ 12,490,586	\$ 12,433,293	\$ 212,661	\$ 295,288
Tolland Imaging Center	\$ 934,135	\$ 287,155	\$ 72,449	\$ 65,048

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

Inpatient rehabilitation and mental health services, outpatient services, capital and medical education costs related to Medicare beneficiaries are paid based on a prospective payment system, subject to certain limitations. Certain other outpatient services are reimbursed according to fee screens.

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

EHR Incentive Payment Revenue - The American Recovery and Reinvestment Act of 2009 authorized the Centers for Medicare and Medicaid Services (CMS) to award incentive payments to eligible health care providers who demonstrate Meaningful Use of certified electronic health records (EHR). These incentive programs are designed to support providers in this period of health information technology transition and instill the use of EHRs in meaningful ways to help our nation to improve the quality, safety, and efficiency of patient health care. Total revenue recognized for Medicare amounted to \$799,300 and \$1,220,153, for the years ended September 30, 2014 and 2013, respectively.

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

The Hospital does not have any uncertain tax positions as of September 30, 2014 and 2013. As of September 30, 2014 and 2013, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital's prior three tax years are open and subject to examination by the Internal Revenue Service.

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

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

As of September 30, 2014 and 2013, the Hospital has recognized \$132,211, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the balance sheets within other liabilities.

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

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

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Advertising Costs - The Hospital expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was \$456,092 and \$467,582 for the years ended September 30, 2014 and 2013, respectively, and is recorded in supplies and other expenses in the accompanying statements of operations and changes in net assets.

Accounting Pronouncements Adopted - In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "*Disclosures about Offsetting Assets and Liabilities*", which was later clarified by ASU 2013-01, "*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*". This guidance contained new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance became effective for the Hospital beginning on October 1, 2013, and did not have an impact on its consolidated financial statements.

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

Note 3 - Assets Whose Use is Limited and Investments

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

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Board designated and donor-restricted:				
Money market funds	\$ 12,538,092	\$ 12,538,092	\$ 276,000	\$ 276,000
Mutual funds:				
Short-term bond fund	-	-	4,498,319	4,469,164
Large value fund	-	-	5,461,499	6,859,852
Total	<u>\$ 12,538,092</u>	<u>\$ 12,538,092</u>	<u>\$ 10,235,818</u>	<u>\$ 11,605,016</u>
Investments held under bond indenture:				
Money market funds	\$ 860,416	\$ 860,416	\$ 932,178	\$ 932,178
U.S. government securities	322,970	322,830	239,304	239,125
Total	<u>\$ 1,183,386</u>	<u>\$ 1,183,246</u>	<u>\$ 1,171,482</u>	<u>\$ 1,171,303</u>
Beneficial interest in trust assets	<u>\$ 2,011,041</u>	<u>\$ 2,209,693</u>	<u>\$ 2,066,973</u>	<u>\$ 2,182,173</u>
Investments:				
Money market funds	\$ 2,068,819	\$ 2,068,819	\$ 1,159	\$ 1,159
Mutual funds:				
Short-term bond fund	-	-	2,004,178	1,991,460
Foreign large growth fund	-	-	531,306	593,598
Large value fund	-	-	356,807	444,712
Moderate allocation funds	-	-	43,749	57,187
Total	<u>\$ 2,068,819</u>	<u>\$ 2,068,819</u>	<u>\$ 2,937,199</u>	<u>\$ 3,088,116</u>
Total assets whose use is limited and investments	<u>\$ 17,801,338</u>	<u>\$ 17,999,850</u>	<u>\$ 16,411,472</u>	<u>\$ 18,046,608</u>

Interest and dividend income on the assets whose use is limited and investments included within other revenues on the statements of operations and changes in net assets totaled \$185,355 and \$480,538 for the years ended September 30, 2014 and 2013, respectively. The Hospital recorded realized gains of \$2,981,741 and \$1,788,610 during the years ended September 30, 2014 and 2013, which are included within other revenues.

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 4 - Fair Value Measurements

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

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

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

Level 2 - Inputs to the valuation methodology include:

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

If the asset or liability has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following table presents the financial instruments carried at fair value as of September 30, 2014, by the valuation hierarchy:

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market funds	\$ 15,467,327	\$ -	\$ -	\$15,467,327
U.S. Government securities	322,830	-	-	322,830
Beneficial interest in trusts	-	-	2,209,693	2,209,693
 Total assets at fair value	 <u>\$ 15,790,157</u>	 <u>\$ -</u>	 <u>\$ 2,209,693</u>	 <u>\$17,999,850</u>

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 4 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2013, by the valuation hierarchy:

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market funds	\$ 1,209,337	\$ -	\$ -	\$ 1,209,337
Fixed income mutual funds	239,125	-	-	239,125
Short-term bond fund	6,460,624	-	-	6,460,624
Foreign large growth fund	593,598	-	-	593,598
Large value fund	7,304,564	-	-	7,304,564
Moderate allocation funds	57,187	-	-	57,187
Beneficial interest in trusts	-	-	2,182,173	2,182,173
	<u>\$ 15,864,435</u>	<u>\$ -</u>	<u>\$ 2,182,173</u>	<u>\$ 18,046,608</u>

During the years ended September 30, 2014 and 2013, the value of the beneficial interest in trusts increased for a change in market value of \$122,348 and \$163,826, respectively. In addition, the Hospital received \$94,828 and \$85,956 in distributions from these trusts in 2014 and 2013, respectively.

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

If quoted prices in active markets for identical assets and liabilities are not available, then quoted prices for similar assets and liabilities, quoted prices for identical assets or liabilities in inactive markets or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, will be used to determine fair value (Level 2 inputs). As of September 30, 2014 and 2013, the Hospital has no Level 2 inputs.

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

Fair values of the Hospital's Series C Bonds are based on current traded value. The fair value of the Series C Bonds as of September 30, 2014 and 2013, is approximately \$7,561,255 and \$7,521,977, respectively. The fair value of the Hospital's remaining long-term debt approximates its carrying value.

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 4 - Fair Value Measurements (continued)

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

Note 5 - Property, Plant and Equipment

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

	2014	2013
Land and land improvements	\$ 1,152,087	\$ 1,152,087
Building and building improvements	48,530,267	48,378,238
Fixed equipment	8,772,671	8,985,743
Moveable equipment	28,284,492	27,153,327
	86,739,517	85,669,395
Less: accumulated depreciation and amortization	(61,358,971)	(58,070,717)
	25,380,546	27,598,678
Construction in progress	320,330	55,986
	\$ 25,700,876	\$ 27,654,664

For the years ended September 30, 2014 and 2013, the Hospital capitalized interest related to construction financed with tax-exempt debt of \$850 and \$1,819, respectively. The cost to complete the construction in progress is approximately \$420,329 and \$758,380 as of September 30, 2014 and 2013, respectively. For the years ended September 30, 2014 and 2013, the Hospital disposed of property, plant and equipment in the amounts of \$148,363 and \$8,536,389, respectively, all disposals were of fully depreciated assets.

Note 6 - Unamortized Bond Issue Costs

Unamortized bond issue costs that are recorded within other - net in the accompanying balance sheets as of September 30, 2014 and 2013, are as follows:

	2014	2013
Deferred financing costs	\$ 977,321	\$ 977,321
Less: accumulated amortization	(237,415)	(197,726)
	\$ 739,906	\$ 779,595

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 7 - Related Party Transactions

The Network provides certain administrative and operating services to the Hospital and allocates these expenses along with revenues back to the Hospital. The allocation percentage is as follows: MMH 71.1% and 70.76%, RGH 27.7% and 27.94%, and EES 1.2% and 1.3%, respectively, during the years ended September 30, 2014 and 2013. The net expenses allocated to the Hospital were \$8,016,128 and \$8,590,886 for the years ended September 30, 2014 and 2013, respectively.

Amounts due from related entities as of September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
EES	\$ 55,195	\$ 58,029
ECHN	467,341	-
MMH	5,298,863	7,220,571
Foundation	7,353	-
CHIC	2,050,976	1,802,000
	<u>\$ 7,879,728</u>	<u>\$ 9,080,600</u>

Amounts due to related entities as of September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Foundation	\$ -	\$ 8,446
ECHN	-	389,643
	<u>\$ -</u>	<u>\$ 398,089</u>

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

The Hospital made an equity transfer to ECHN during 2014 and 2013 of \$2,116,146 and \$1,835,404, respectively, to help support the ECHN activities.

Note 8 - Medical Malpractice Insurance

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 8 - Medical Malpractice Insurance (continued)

Claims that fall within CHIC's policies for medical malpractice and general liability insurance have been asserted against the Hospital by various claimants. The claims are in various stages and some may ultimately be brought to trial. CHIC has employed independent actuaries to estimate the ultimate costs, if any, of the resolution of such claims. As of September 30, 2014 and 2013, no discount was applied to the accrued medical malpractice and general liability reserves.

The Hospital does not self-insure any malpractice risks other than exposures greater than its excess coverage's, however, as of September 30, 2014 and 2013, the Hospital has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with CHIC. In addition, the Hospital recorded additional claim liabilities and insurance recoveries from CHIC in the amounts of \$2,050,976 and \$1,802,000, as of September 30, 2014 and 2013, respectively.

Note 9 - Estimated Self-Insurance Liabilities

The Hospital is self-insured for workers' compensation insurance coverage. The Hospital participates in Workers' Compensation Trust, a revocable trust, for the purpose of setting aside assets based on actuarial funding recommendations. As of September 30, 2014 and 2013, the Hospital has a \$450,000 and \$400,000, respectively limit per occurrence for workers' compensation claims. Prior to September 30, 2013, the per occurrence limit was \$350,000. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of workers' compensation claims. Accrued workers' compensation reserves have been discounted at 5% as of September 30, 2014 and 2013 and in management's opinion provide an adequate reserve for loss contingencies.

Note 10 - Pension and Other Post-Retirement Benefits

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

On December 31, 2008, ECHN implemented a soft freeze on the defined-benefit pension plan. During September 2013 the Trustees passed a resolution to freeze all benefits related to the defined-benefit pension plan. Qualifying employees with age and service credits greater than 65 were given the option to stay in the defined-benefit pension plan or freeze their defined benefits and enter into a defined contribution plan. All other employees were required to enter into the defined contribution plan. Under the defined contribution plan, ECHN contributes 3% of eligible employees' salaries. This contribution is non-guaranteed for all employees except certain union workers. During fiscal years 2014 and 2013, the Hospital incurred expenses of \$493,100 and \$449,868, respectively, related to this plan.

MMH and RGH also sponsor a post-retirement benefit plan that provides health care benefits to those employees who retire. The criterion to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. MMH full-time registered nurse retirees (retired prior to October 1, 2005 and were eligible per the Union contract) are grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan. Grandfathered eligible retirees are required to pay 100% of the total cost of the medical and dental coverage they elect for an eligible spouse. For non-grandfathered retirees, the post-retirement health care plan is contributory and the retiree pays 100% of the premium.

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Pension and Other Post-Retirement Benefits (continued)

The Hospital and MMH as of September 30, 2014 and 2013 have no unrecognized actuarial losses related the defined benefit pension plan.

The effects of Medicare Prescription Drug, Improvement and Modernization Act of 2003 were reflected as of September 30, 2014 and 2013, assuming that ECHN will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and that ECHN will receive the federal subsidy.

The subsidy reduced plan liabilities by approximately \$60,000 and \$900,000 for the years ended September 30, 2014 and 2013, respectively. Subsidies of \$82,280 and \$90,769 were received in the years ended September 30, 2014 and 2013, respectively. Future benefits of \$193,769 are expected to be paid and future subsidies of \$57,671 are expected to be received related to the year ended September 30, 2015.

The pension and post-retirement plans change in benefit obligation and change in plan assets for the years ended September 30, 2014 and 2013, are as follows (information presented is for the Network (MMH and RGH combined), based on September 30 measurement date):

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 192,294,259	\$ 223,101,495	\$ 4,193,572	\$ 4,633,005
Service cost	1,511,408	2,709,867	54,345	72,548
Interest cost	9,912,203	9,475,222	183,189	162,852
Plan participants' contributions	-	-	252,224	296,951
Receipt of Medicare Part D reimbursement	-	-	82,280	90,769
Plan amendments	-	-	(1,500,168)	-
Plan curtailments	-	(7,795,069)	-	-
Actuarial loss (gain)	18,293,175	(26,124,678)	103,272	(499,239)
Benefits paid	(9,352,892)	(9,072,578)	(520,055)	(563,314)
Benefit obligation, end of year	<u>\$ 212,658,153</u>	<u>\$ 192,294,259</u>	<u>\$ 2,848,659</u>	<u>\$ 4,193,572</u>
	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 152,290,851	\$ 149,218,728	\$ -	\$ -
Actual return on plan assets	21,778,598	9,144,701	-	-
Employer contributions	4,800,000	3,000,000	185,551	175,594
Plan participants' contributions	-	-	252,224	296,951
Receipt of Medicare Part D reimbursement	-	-	82,280	90,769
Benefits paid	(9,352,892)	(9,072,578)	(520,055)	(563,314)
Fair value of plan assets, end of year	<u>\$ 169,516,557</u>	<u>\$ 152,290,851</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued pension and other postretirement benefits	<u>\$ (43,141,596)</u>	<u>\$ (40,003,408)</u>	<u>\$ (2,848,659)</u>	<u>\$ (4,193,572)</u>
Accumulated benefit obligation	<u>\$ 212,658,153</u>	<u>\$ 192,294,259</u>	<u>\$ -</u>	<u>\$ -</u>

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Pension and Other Post-Retirement Benefits (continued)

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

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current liabilities	\$ 1,120,000	\$ 5,700,000	\$ 193,769	\$ 385,518
Non-current liabilities	<u>42,021,596</u>	<u>34,303,408</u>	<u>2,654,890</u>	<u>3,808,054</u>
Net amount recognized	<u>\$ 43,141,596</u>	<u>\$ 40,003,408</u>	<u>\$ 2,848,659</u>	<u>\$ 4,193,572</u>

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

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
MMH	\$ 33,243,046	\$ 30,733,609	\$ 2,377,259	\$ 3,206,427
RGH	<u>9,898,550</u>	<u>9,269,799</u>	<u>471,400</u>	<u>987,145</u>
Total	<u>\$ 43,141,596</u>	<u>\$ 40,003,408</u>	<u>\$ 2,848,659</u>	<u>\$ 4,193,572</u>

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

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Service cost	\$ 1,511,408	\$ 2,709,867	\$ 54,345	\$ 72,548
Interest cost	9,912,203	9,475,222	183,189	162,852
Expected return on plan assets	(12,179,861)	(11,692,676)	-	-
Amortization of prior service (credits) costs	-	(234,992)	77,724	77,724
Amortization of net loss (gain)	887,441	4,123,868	(105,863)	(55,153)
Curtailement gain	-	(1,148,330)	-	-
Net periodic benefit cost	<u>\$ 131,191</u>	<u>\$ 3,232,959</u>	<u>\$ 209,395</u>	<u>\$ 257,971</u>

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

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
MMH	\$ 103,762	\$ 2,475,143	\$ 174,744	\$ 197,246
RGH	<u>27,429</u>	<u>757,816</u>	<u>34,651</u>	<u>60,725</u>
	<u>\$ 131,191</u>	<u>\$ 3,232,959</u>	<u>\$ 209,395</u>	<u>\$ 257,971</u>

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Pension and Other Post-Retirement Benefits (continued)

The assumptions used to determine the pension and post-retirement benefit obligations as of September 30, 2014 and 2013, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Discount rate	4.54%	5.27%	4.11%	4.54%
Expected long-term rate of return	8.00%	8.00%	N/A	N/A
Rate of compensation increase	0.00%	3.00%	N/A	N/A
Initial medical trend rate	N/A	N/A	9.44%	9.44%
Ultimate medical trend rate	N/A	N/A	4.50%	4.50%
Number of years to ultimate medical trend rate	N/A	N/A	15 years	15 years

The assumptions used to determine net periodic benefit costs of the pension and post-retirement benefit obligations for the years ended September 30, 2014 and 2013, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Discount rate	5.27%	4.32%	4.54%	3.64%
Expected long-term rate of return	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A
Initial medical trend rate	N/A	N/A	9.44%	7.62%
Ultimate medical trend rate	N/A	N/A	4.50%	4.50%
Number of years to ultimate medical trend rate	N/A	N/A	15 years	15 years

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Pension and Other Post-Retirement Benefits (continued)

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

	Pension Benefits	
	2014	2013
Asset category:		
Equity securities	0%	56%
Debt securities	99%	43%
Cash and cash equivalents	1%	1%
Total	100%	100%

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

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

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Pension and Other Post-Retirement Benefits (continued)

The following table presents the investments of the defined benefit plan carried at fair value as of September 30, 2014 and 2013, by the valuation hierarchy.

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 708,333	\$ -	\$ -	\$ 708,333
Fixed income mutual funds:				
Long duration	150,668,190	-	-	150,668,190
US core opportunistic	7,500,003	-	-	7,500,003
US passive	7,558,893	-	-	7,558,893
Guaranteed investment contract	-	-	3,081,138	3,081,138
 Total	 <u>\$ 166,435,419</u>	 <u>\$ -</u>	 <u>\$ 3,081,138</u>	 <u>\$ 169,516,557</u>
<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 633,333	\$ -	\$ -	\$ 633,333
Fixed income mutual funds:				
Long duration	64,833,809	-	-	64,833,809
US Core Opportunistic	13,328,905	-	-	13,328,905
US Passive	2,935,983	-	-	2,935,983
Guaranteed investment contract	-	-	3,230,137	3,230,137
Equities:				
Small/mid cap	8,925,030	-	-	8,925,030
Active long cap	-	-	-	-
Large cap	31,678,382	-	-	31,678,382
International	26,725,272	-	-	26,725,272
 Total	 <u>\$ 149,060,714</u>	 <u>\$ -</u>	 <u>\$ 3,230,137</u>	 <u>\$ 152,290,851</u>

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 10 - Pension and Other Post-Retirement Benefits (continued)

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

<u>2014</u>	<u>Guaranteed Investment Contract</u>
Balance as of October 1, 2013	\$ 3,230,137
Investment income	133,795
Expenditures	<u>(282,794)</u>
Balance as of September 30, 2014	<u>\$ 3,081,138</u>
<u>2013</u>	<u>Guaranteed Investment Contract</u>
Balance as of October 1, 2012	\$ 3,195,313
Investment income	326,682
Expenditures	<u>(291,858)</u>
Balance as of September 30, 2013	<u>\$ 3,230,137</u>

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

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

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

The Hospital also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% - 50%, depending upon years of service, of contributions matched by the Hospital, up to a maximum of 6% of annual compensation. Contributions to the plan were suspended for non-union employees from April 2009 to April 2010. The Hospital incurred expenses related to the employee savings plan amounting to \$339,567 and \$244,405 for the years ended September 30, 2014 and 2013, respectively.

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 11 - Long-Term Debt

Long-term debt, as of September 30, 2014 and 2013, consists of the following:

	2014	2013
The Hospital's portion of CHEFA Hospital Revenue Bonds, ECHN Issue, Series C, bearing interest at rates ranging from 4.00% to 5.125% - net of amortized original issue premium of \$75,971 and \$80,719 in 2014 and 2013, respectively.	\$ 7,587,770	\$ 7,765,019
The Hospital's portion of the CHEFA Hospital Demand Revenue Bonds, ECHN Issue Series E bearing interest at a variable rate, adjusted weekly.	15,381,000	15,822,000
Promissory notes payable with Philips Medical Capital, payable in monthly installments, maturing in fiscal year 2021 and bearing interest at rates between 4.3% and 6.8%.	822,963	-
Capital lease obligations (see Note 12)	545,734	802,316
Total long-term debt	24,337,467	24,389,335
Less: current maturities	(945,159)	(870,081)
Long-term debt - net	\$ 23,392,308	\$ 23,519,254

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

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

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 11 - Long-Term Debt (continued)

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

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

The Obligated Groups are required to comply with certain financial covenants (as defined in the trust agreements) including a debt service coverage ratio, days cash on hand requirement and minimum cash to debt ratio. As of September 30, 2014 and 2013, the Obligated Groups were in compliance with the financial covenants of the debt agreements.

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

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

The annual maturities of the Hospital's portion of the long-term debt in each of the succeeding five years and thereafter as of September 30, 2014 are as follows:

2015	\$	945,159
2016		925,366
2017		982,853
2018		1,108,677
2019		1,130,585
Thereafter		19,168,856
		24,261,496
Plus premium - net		75,971
Total	\$	24,337,467

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 12 - Lease Commitments

The Hospital leases equipment under capital lease agreements entered into on May 19, 2011, which expire in 2016. The interest rates range from 3.71% to 4.09%. The net carrying value of the equipment under the capital lease was \$1,032,034 and \$1,444,436 as of September 30, 2014 and 2013, respectively and is included in property, plant and equipment.

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

Future minimum payments under capital and non-cancelable operating leases as of September 30, 2014 are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2015	\$ 278,135	\$ 899,770
2016	218,973	815,708
2017	67,104	739,907
2018	-	663,507
2019	-	636,477
Thereafter	-	3,115,058
	<u>564,212</u>	<u>\$ 6,870,427</u>
Less: interest on capital lease	<u>18,478</u>	
Principal amount of capital lease	<u>\$ 545,734</u>	

Rent expense under month-to-month leases was \$1,013,626 and \$969,291 for the years ended September 30, 2014 and 2013, respectively.

Note 13 - Concentrations of Credit Risk

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

	<u>2014</u>	<u>2013</u>
Self-pay	34%	44%
Managed care	22%	23%
Medicare	23%	15%
Commercial insurance	3%	4%
Medicaid	12%	8%
Other	6%	6%
	<u>100%</u>	<u>100%</u>

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 14 - Net Patient Service Revenue

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

	<u>2014</u>	<u>2013</u>
Patient service revenue:		
Inpatient services	\$ 76,888,785	\$ 79,250,361
Outpatient services	<u>150,411,287</u>	<u>143,414,268</u>
Gross patient service revenue	227,300,072	222,664,629
Deductions - allowances	<u>(155,970,107)</u>	<u>(149,626,771)</u>
Net patient service revenue	<u>\$ 71,329,965</u>	<u>\$ 73,037,858</u>

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

For uninsured patients that do not qualify for financial assistance, the Hospital offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Hospital's allowance for doubtful accounts covers all accounts greater than 6 months for both self-pay accounts receivable and third party payors as of September 30, 2014. The Hospital's self-pay and third-party payors write-offs totaled \$3,391,184 and \$3,487,600 for 2014 and 2013, respectively. The Hospital did not change its charity care or financial assistance policy during 2014 or 2013.

At September 30, 2014 and 2013, 26.2% and 26.4% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 73.8% and 73.6% were from nongovernmental payors, respectively. Nongovernmental payors are primarily insurance companies and self-pay payors. Management has recorded an allowance for doubtful accounts as noted above, which, in its opinion, is sufficient to provide for risk of nonpayment.

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 15 - Community Benefit

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

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

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

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Since the Hospital does not expect payment, estimated charges for charity care are not included in revenue. The amount of traditional charity care provided, determined on the basis of cost, was estimated at \$333,537 and \$367,583 for the years ended September 30, 2014 and 2013, respectively.

Note 16 - Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses relating to providing these services for the years ended September 30, 2014 and 2013, are as follows:

	2014	2013
Health care services	\$ 60,446,819	\$ 59,916,334
General and administrative	11,712,836	11,753,764
Total	\$ 72,159,655	\$ 71,670,098

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 17 - Temporarily and Permanently Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Departmental purposes	\$ 541,400	\$ 554,939
Capital campaign and pledges	<u>7,643</u>	<u>6,524</u>
Total	<u>\$ 549,043</u>	<u>\$ 561,463</u>

Permanently restricted net assets as of September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Endowment restricted for other health care services	\$ 1,137,865	\$ 1,309,475
Endowment restricted for charity care	<u>225,863</u>	<u>225,363</u>
Beneficial interest in trust assets	<u>2,209,693</u>	<u>2,182,173</u>
Total	<u>\$ 3,573,421</u>	<u>\$ 3,717,011</u>

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

<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 493,744	\$ 1,081,440	\$ 1,575,184
Board-designated endowment funds	<u>10,962,908</u>	<u>-</u>	<u>-</u>	<u>10,962,908</u>
Net assets, September 30, 2014	<u>\$ 10,962,908</u>	<u>\$ 493,744</u>	<u>\$ 1,081,440</u>	<u>\$ 12,538,092</u>
<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 457,142	\$ 1,252,548	\$ 1,709,690
Board-designated endowment funds	<u>9,895,326</u>	<u>-</u>	<u>-</u>	<u>9,895,326</u>
Net assets, September 30, 2013	<u>\$ 9,895,326</u>	<u>\$ 457,142</u>	<u>\$ 1,252,548</u>	<u>\$ 11,605,016</u>

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

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

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

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

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

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

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

The Hospital has appropriated funds amounting to \$12,392 and \$56,662, respectively for expenditure from its endowment funds for the years ended September 30, 2014 and 2013.

Changes in Hospital's endowments for the year ended September 30, 2014 are as follows:

<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, October 1, 2013	\$ 9,895,326	\$ 457,142	\$ 1,252,548	\$ 11,605,016
Interest income and dividends	137,673	7,529	-	145,202
Realized gains	2,010,775	109,106	-	2,119,881
Unrealized appreciation on investments	(1,258,431)	(67,641)	-	(1,326,072)
Appropriated for expenditure	12,392	(12,392)	-	-
Distributions	(5,935)	-	-	(5,935)
Transfers (to)/from endowment	171,108	-	(171,108)	-
Net assets, September 30, 2014	<u>\$ 10,962,908</u>	<u>\$ 493,744</u>	<u>\$ 1,081,440</u>	<u>\$ 12,538,092</u>

The Rockville General Hospital, Inc.
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

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

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

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

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

Note 18 - Commitments and Contingencies

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

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