

**EASTERN CONNECTICUT  
HEALTH NETWORK, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2015 and 2014

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## INDEPENDENT AUDITOR'S REPORT

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

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Eastern Connecticut Health Network, Inc. and Subsidiaries (the Network), a not-for-profit, non-stock corporation, which comprise the consolidated balance sheet as of September 30, 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Connecticut Healthcare Insurance Company, a wholly owned subsidiary, whose statements reflect total assets of \$6,093,108, as of September 30, 2015, respectively, and total revenues of \$2,747,065 for the year then ended. Those statements were audited by other auditors in accordance with international standards on auditing, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Connecticut Healthcare Insurance Company, is based solely on the report of, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by, the other auditors. We conducted our audit 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 consolidated financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, based on our audit and the report of, and additional audit procedures performed by, the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eastern Connecticut Health Network as of September 30, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

The consolidated balance sheet, consolidated statements of operations and changes in net assets and cash flows of Eastern Connecticut Health Network, Inc. and Subsidiaries as of and for the year ended September 30, 2014, were audited by Saslow, Lufkin & Buggy, LLP, who combined with Crowe Horwath, LLP as of July 1, 2015 and whose report dated January 27, 2015, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the 2015 financial statements as a whole. The consolidating statement of operations and changes in net assets for the year then ended is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 2015 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of the other auditors, the 2015 information is fairly stated in all material respects in relation to the 2015 financial statements as a whole.

The consolidating balance sheet as of September 30, 2014 and the consolidating statement of operations and changes in net assets for the year then ended is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. The 2014 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. The information has been subjected to the auditing procedures applied by other auditors in the audit of the 2014 financial statements and certain additional procedures, including comparing and reconciling other information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and whose report dated January 27, 2015 expressed an opinion that such information was fairly stated in all material respects in relation to the 2014 financial statements as a whole.

*Crowe Horwath LLP*

Simsbury, Connecticut  
January 20, 2016

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Eastern Connecticut Health Network, Inc. and Subsidiaries  
Consolidated Balance Sheet  
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,286,829	\$ 20,733,601
Current portion of investments held under bond indentures	1,097,599	1,163,916
Accounts receivable, less allowance for bad debts of \$10,541,264 in 2015 and \$8,915,132 in 2014	41,607,499	44,610,272
Inventory	5,553,809	5,437,285
Current portion of estimated settlements due from third-party payers	3,573,134	3,602,585
Prepaid expenses and other current assets	<u>6,653,091</u>	<u>5,686,236</u>
Total current assets	74,771,961	81,233,895
Assets whose use is limited, net of current portion:		
Donor restricted investments	5,590,241	6,097,747
Board designated investments	36,824,677	37,980,275
Investments held in trust for estimated self-insurance liabilities	5,278,426	5,005,755
Beneficial interest in trust assets	10,809,693	11,809,221
Investments held under bond indentures	<u>5,172,061</u>	<u>5,171,545</u>
Total assets whose use is limited, net of current portion	63,675,098	66,064,543
Investments	7,118,433	7,138,341
Investments in joint ventures	18,190,809	17,274,825
Property and equipment, net	88,275,419	94,065,559
Other assets:		
Estimated settlements due from third-party payers, net of current portion	-	685,669
Goodwill and intangible assets, net	4,026,827	4,255,266
Other assets	<u>4,541,099</u>	<u>5,369,091</u>
Total other assets	<u>8,567,926</u>	<u>10,310,026</u>
Total assets	<u>\$ 260,599,646</u>	<u>\$ 276,087,189</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 33,429,551	\$ 35,964,615
Line of credit	3,800,000	5,600,000
Current portion of long-term debt and capital lease obligations	7,018,708	6,660,757
Current portion of estimated settlements due to third-party payers	3,124,803	5,743,160
Current portion of accrued pension and other postretirement benefits	190,189	193,769
Other current liabilities	<u>4,134,712</u>	<u>5,841,792</u>
Total current liabilities	51,697,963	60,004,093
Long-term debt and capital lease obligations, net of current portion	80,122,247	82,424,313
Estimated self-insurance liabilities, net of current portion	7,196,797	9,683,668
Accrued pension and other postretirement benefits	62,407,379	45,796,486
Estimated settlements due to third-party payers, net of current portion	-	65,838
Other liabilities	<u>467,711</u>	<u>419,002</u>
Total liabilities	201,892,097	198,393,400
Net assets:		
Unrestricted	42,167,565	59,544,873
Temporarily restricted	1,486,536	2,096,313
Permanently restricted	<u>15,053,448</u>	<u>16,052,603</u>
Total net assets	<u>58,707,549</u>	<u>77,693,789</u>
Total liabilities and net assets	<u>\$ 260,599,646</u>	<u>\$ 276,087,189</u>

See accompanying notes to consolidated financial statements.

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Consolidated Statements of Operations and Changes in Net Assets  
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Revenues:</b>		
Patient service revenue, net of contractual allowances and discounts	\$ 308,044,394	\$ 309,971,310
Provision for bad debts	<u>(10,899,289)</u>	<u>(10,216,094)</u>
Net patient service revenues less provision for bad debts	297,145,105	299,755,216
Contributions	2,194,034	1,163,883
Other revenue	14,565,493	25,216,442
EHR incentive payment revenue	830,386	1,786,134
Net assets released from restrictions, used for operations	<u>832,608</u>	<u>833,650</u>
Total revenues	315,567,626	328,755,325
<b>Expenses:</b>		
Salaries and wages	156,774,464	162,727,445
Fringe benefits	44,024,084	43,859,398
Supplies and other expenses	99,682,874	104,034,396
Depreciation and amortization	11,920,720	12,196,877
Interest and financing costs	<u>3,445,934</u>	<u>3,764,488</u>
Total expenses	<u>315,848,076</u>	<u>326,582,604</u>
<b>(Loss) income from operations</b>	(280,450)	2,172,721
<b>Non-operating losses</b>	<u>(2,235,410)</u>	<u>(2,125,751)</u>
<b>Excess (deficiency) of revenues over expenses</b>	<u>\$ (2,515,860)</u>	<u>\$ 46,970</u>

See accompanying notes to consolidated financial statements.

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Consolidated Statements of Operations and Changes in Net Assets (continued)  
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Unrestricted net assets:</b>		
Excess (deficiency) of revenues over expenses	\$ (2,515,860)	\$ 46,970
Unrealized loss on investments	(210,755)	(5,476,925)
Net change in interest rate swap agreements	(49,056)	8,379
Net assets released from restrictions for capital acquisitions	309,327	437,676
Pension and postretirement related adjustments	(14,910,964)	(6,438,240)
Other	<u>-</u>	<u>1,085</u>
Change in unrestricted net assets	(17,377,308)	(11,421,055)
<b>Temporarily restricted net assets:</b>		
Contributions	531,215	580,515
Investment income	943	533,939
Net assets released from restrictions used for operations	(832,608)	(833,650)
Net assets released from restrictions used for capital acquisitions	(309,327)	(437,676)
Unrealized depreciation on investments	<u>-</u>	<u>(334,116)</u>
Change in temporarily restricted net assets	(609,777)	(490,988)
<b>Permanently restricted net assets:</b>		
Contributions - beneficial interest trust assets	373	3,751,750
Change in beneficial interest in trust assets	(999,528)	176,043
Reclassifications of donations	<u>-</u>	<u>(171,110)</u>
Change in permanently restricted net assets	<u>(999,155)</u>	<u>3,756,683</u>
<b>Change in net assets</b>	(18,986,240)	(8,155,360)
Net assets, beginning of year	<u>77,693,789</u>	<u>85,849,149</u>
<b>Net assets, end of year</b>	<u><u>\$ 58,707,549</u></u>	<u><u>\$ 77,693,789</u></u>

See accompanying notes to consolidated financial statements.

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (18,986,240)	\$ (8,155,360)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,920,720	12,196,877
Provision for bad debts	10,899,289	10,216,094
Unrealized depreciation on investments	83,591	5,811,041
Realized gains on sales of investments	(7,708)	(8,307,110)
Change in beneficial interest in trust assets	999,528	(3,926,849)
Income from investments in joint ventures	(2,005,161)	(2,478,524)
Pension and postretirement related adjustments	14,910,964	6,438,240
Impairment of joint venture goodwill	64,197	-
Amortization of intangible assets	228,439	178,516
Change in interest rate swap agreements	49,056	177,835
Changes in assets and liabilities:		
Accounts receivable	(7,896,516)	(8,302,223)
Inventory	(116,524)	(371,569)
Prepaid expenses and other current assets	(966,855)	(429,259)
Other assets	827,992	653,929
Accounts payable and accrued expenses	(2,535,064)	1,089,780
Accrued pension and other postretirement benefits	1,696,349	(4,644,966)
Estimated settlements (to) from third-party payers	(1,969,075)	7,153,100
Other current liabilities	(1,707,080)	301,311
Estimated self-insurance liabilities	(2,486,871)	659,175
Other liabilities	(347)	(356,020)
Net cash provided by operating activities	<u>3,002,684</u>	<u>7,904,018</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(6,130,580)	(10,073,939)
Purchases of investments	(4,675,098)	(9,318,926)
Sales of investments	6,075,357	11,198,721
Distributions from joint ventures	<u>1,024,980</u>	<u>1,647,629</u>
Net cash used in investing activities	(3,705,341)	(6,546,515)
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	(7,094,912)	(7,235,595)
Net payments on line of credit	(1,800,000)	(900,000)
Proceeds from borrowings	<u>5,150,797</u>	<u>5,072,337</u>
Net cash used in financing activities	<u>(3,744,115)</u>	<u>(3,063,258)</u>
<b>Change in cash and cash equivalents</b>	(4,446,772)	(1,705,755)
Cash and cash equivalents at beginning of year	<u>20,733,601</u>	<u>22,439,356</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 16,286,829</u>	<u>\$ 20,733,601</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest, net of amounts capitalized	<u>\$ 3,631,350</u>	<u>\$ 3,880,091</u>
<b>Supplemental disclosure of non-cash information:</b>		
Equipment acquisitions under capital lease arrangements (non-cash)	<u>\$ 4,125,026</u>	<u>\$ 2,266,700</u>

See accompanying notes to consolidated financial statements.



## NOTE 1 - ORGANIZATION

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

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

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

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

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

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

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

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

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

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**NOTE 1 - ORGANIZATION** (Continued)

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

**ECHN Corporate Services (EHNCS)** - EHNCS is a for-profit stock corporation formed under the laws of the State of Connecticut, with ECHN as the sole shareholder. EHNCS 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.

**CINET** - CINET 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. CINET's mission is to better manage the health of the communities that we serve. While formed during 2014 CINET has not commenced operations as of September 30, 2015.

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

On June 25, 2015, the ECHN Board of Trustees agreed to the terms of a letter of intent for ECHN to be acquired by Prospect Medical Holdings (PMH) of Los Angeles, CA.

In June 2015, ECHN's Board of Trustees agreed to the sale of substantially all assets of ECHN to PMH. On July 29, 2015, the ECHN corporators voted in favor of the acquisition of ECHN by PMH.

On October 13, 2015, ECHN and PMH filed a Certificate of Need (CON) application with the Connecticut State Department of Public Health's Office of Health Care Access and the Office of the Attorney General to approve the acquisition of ECHN by Prospect.

As of September 30, 2015, management has not finalized a purchase agreement and the Trustees believe that the Network will continue with its normal operations and as a going concern for the foreseeable future.

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

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## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Assets Whose Use is Limited: Assets whose use is limited primarily include cash and investments held by trustees under indenture agreements, cash and investments held for estimated self-insurance liabilities, Board designated investments, 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, and donor restricted and other restricted investments. Amounts required to meet current liabilities of the Network have been classified as current assets in the consolidated balance sheets as of September 30, 2015 and 2014.

The income earned on restricted funds, other than the endowment, is generally available for operations of the Network and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future annuity obligations, at which time the income is added to the appropriate restricted net asset balance. However, if a specific gift instrument explicitly requires the permanent reinvestment of appreciation, or a portion thereof, such reinvested amounts are classified within permanently restricted net assets. There were no gifts with reinvestment restrictions for the years ended September 30, 2015 and 2014.

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

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

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

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Other-Than-Temporary Impairments on Investments: The Network accounts for other than temporary impairments in accordance with FASB ASC 320, "Investments - Debt and Equity Securities" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in fair value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other-than-temporary. There were no impairments recorded for the years ended September 30, 2015 and 2014.

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

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

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

Equipment under capital leases is amortized utilizing the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Depreciation and amortization expense was \$11,873,770 and \$11,988,770 for the years ended September 30, 2015 and 2014, 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.

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

Investments in Joint Ventures: The Network accounts for its investments in joint ventures in accordance with FASB ASC 323 "Investments – Equity Method and Joint Ventures". The Network records the difference between the cost of an investment and the underlying equity in net assets of the investee as goodwill on joint ventures. Equity method investments including the goodwill associated with those investments are reviewed for impairment under the provisions of FASB ASC 323.

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(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments in Joint Ventures: The Network has invested in several joint ventures with other area hospitals, which are accounted for under the equity method of accounting. These joint ventures as of September 30, 2015 and 2014 include the Network's investments in the following:

	<u>2015</u>	<u>Ownership Percentage</u>	<u>2014</u>	<u>Ownership Percentage</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 6,572,374	50 %	\$ 6,598,390	50 %
Tolland Imaging Center	672,276	70 %	380,818	70 %
Ambulance Service of Manchester, LLC	4,344,083	50 %	3,798,727	50 %
Aetna Ambulance Service Inc.	1,881,429	50 %	1,961,496	50 %
Evergreen Endoscopy Center, LLC	564,632	50 %	359,698	50 %
Haynes Street Medical Associates	153,652	23 %	149,808	23 %
Haynes Street Medical Associates II	254,299	15 %	249,744	15 %
Evergreen Medical Associates, LLC	277,629	20 %	264,503	20 %
Evergreen Medical Associates II, LLC	584,937	20 %	583,419	20 %
Walden Behavioral Health	217,608	16 %	196,135	16 %
	<u>15,522,919</u>		14,542,738	
Total joint venture assets				
Goodwill on joint ventures	2,647,890		2,712,087	
Other miscellaneous assets	20,000		20,000	
	<u>18,190,809</u>		<u>17,274,825</u>	
Total investments in joint ventures				

Distributions from these joint ventures totaled \$1,024,980 and \$1,647,629 for the years ended September 30, 2015 and 2014, respectively. ECHN's share of the earnings of the joint ventures is reported within other revenues and amounted to \$2,005,161 and \$2,478,524 for the years ended September 30, 2015 and 2014, respectively.

During 2015, ECHN wrote off \$64,197 of goodwill related to a joint venture that ceased operations. There were no write offs or impairments of goodwill in 2014.

Summarized financial information from the unaudited financial statements of these organizations as of September 30, 2015 and for the year then ended, is as follows:

<u>2015</u>	<u>Total Assets</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>	<u>Excess (deficiency) of Revenues Over Expenses</u>
Northeast Regional Radiation Oncology Network, Inc.	\$ 13,358,858	\$ 13,144,745	\$ (111,240)	\$ (111,240)
Ambulance Service of Manchester, LLC	\$ 10,483,266	\$ 8,688,166	\$ 1,114,669	\$ 2,575,436
Aetna Ambulance Service Inc.	\$ 4,915,582	\$ 3,762,858	\$ (160,133)	\$ (160,132)
Haynes Street Medical Associates	\$ 2,427,308	\$ 670,383	\$ 16,772	\$ 71,978
Haynes Street Medical Associates II	\$ 8,218,931	\$ 1,695,326	\$ 30,361	\$ 289,623
Evergreen Endoscopy Center, LLC	\$ 1,698,935	\$ 826,898	\$ 396,907	\$ 396,907
Evergreen Medical Associates, LLC	\$ 6,364,532	\$ 1,601,896	\$ 69,383	\$ 234,137
Evergreen Medical Associates II, LLC	\$ 11,115,755	\$ 2,710,936	\$ 3,839	\$ 379,689
Tolland Imaging Center	\$ 1,139,778	\$ 960,395	\$ 416,369	\$ 395,249
Walden Behavioral Health	\$ 1,835,791	\$ 1,325,261	\$ 134,675	\$ 44,227

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

<b>2014</b>	<b>Total Assets</b>	<b>Net Assets</b>	<b>Change in Net Assets</b>	<b>Excess (deficiency) of Revenues Over Expenses</b>
Northeast Regional Radiation Oncology Network, Inc.	\$ 13,250,462	\$ 13,255,985	\$ 763,486	\$ 335,328
Metro Wheelchair Service Inc.	\$ 151,744	\$ (23,958)	\$ (132,407)	\$ (132,412)
Ambulance Service of Manchester, LLC	\$ 9,224,170	\$ 7,597,455	\$ 52,822	\$ 2,052,822
Aetna Ambulance Service Inc.	\$ 4,926,263	\$ 3,922,991	\$ 377,992	\$ 378,000
Haynes Street Medical Associates	\$ 2,464,703	\$ 653,611	\$ (9,542)	\$ 66,803
Haynes Street Medical Associates II	\$ 8,373,390	\$ 1,664,965	\$ 95,259	\$ 275,998
Evergreen Endoscopy Center, LLC	\$ 1,595,233	\$ 429,991	\$ (155,623)	\$ 944,374
Evergreen Medical Associates, LLC	\$ 6,612,745	\$ 1,532,513	\$ 196,056	\$ 215,698
Evergreen Medical Associates II, LLC	\$ 11,434,731	\$ 2,707,097	\$ (222,892)	\$ 365,789
Tolland Imaging Center	\$ 775,884	\$ 544,026	\$ 256,871	\$ 241,197
Walden Behavioral Health	\$ 1,955,576	\$ 1,190,586	\$ (14,597)	\$ 44,830

**Intangible Assets:** License enhancements included in intangible assets, are amortized over the life of the respective intangible property. On average, this amortization period for license enhancements is 5 years, respectively. Other intangible assets consists of various intangibles acquired through the purchase of physician practices. Other intangible assets are amortized over the life of the intangible, which on average is a 3 to 5 year period. Amortization is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets and the unamortized carrying value is recorded within goodwill and intangible assets, net in the accompanying consolidated balance sheets.

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

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

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Net Patient Service 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 are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Network records adjustments in amounts accrued for estimated settlements related to prior years.

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

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

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

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

EHR Incentive Payment Revenue: The American Recovery and Reinvestment Act of 2009 authorized the Centers for Medicare and Medicaid Services (CMS) to award incentive payments to eligible health care providers who demonstrate Meaningful Use of certified electronic health records (EHR). These incentive programs are designed to support providers in this period of health information technology transition and instill the use of EHRs in meaningful ways to help our nation to improve the quality, safety, and efficiency of patient health care. The Network uses a grant model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized as revenue after the Network has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the 12-month cost report period that will be used to determine the final incentive payment has ended. The Network recognizes revenue from Medicaid incentive payments after it has demonstrated compliance with the meaningful use criteria. Total revenue recorded for Medicare amounted to \$830,386 and \$1,786,134, for the years ended September 30, 2015 and 2014, respectively. These amounts have also been reflected within amounts due from third party payors as of September 30, 2015 and 2014, 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 Network.

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The Network accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, "Income Taxes", which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Network may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Network does not have any uncertain tax positions as of September 30, 2015 and 2014. The Network's policy is to include penalties and interest as a component of income tax expense, when applicable. As of September 30, 2015 and 2014, the Network did not record any penalties or interest associated with uncertain tax positions. Generally, the Network's prior three tax years are open and subject to examination by the Internal Revenue Service.

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

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

The fair value of a liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized. As of September 30, 2015 and 2014, the Network has recognized \$412,007, as an obligation to remove asbestos from various buildings upon retirement. This total is included in the consolidated balance sheets within other liabilities.

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

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

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

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**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 consolidated balance sheets.

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

Interest Rate Swap Agreements: Interest rate swap agreements are recognized as either assets or liabilities in the consolidated balance sheet at fair value regardless of the purpose or intent for holding them. Changes in the fair value of interest rate swap agreements if designated and effective as hedge transactions are recognized as changes in unrestricted net assets and excluded from excess (deficiency) of revenue over expenses. Interest rate swap agreements if designated as an ineffective hedge are recognized in non-operating losses and included in excess (deficiency) of revenue over expenses.

Advertising Costs: The Network expenses advertising costs the first time the advertising takes place. The total amount charged to advertising expense was \$706,427 and \$1,576,106 for the years ended September 30, 2015 and 2014, respectively, and is recorded in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

Reclassifications: Certain reclassifications to the 2014 consolidated financial statements have been made in order to conform with the 2015 presentation. Such reclassifications did not have a material effect on the consolidated financial statements and had no impact on the total net assets or changes in net assets of the Network.

Subsequent Events: Subsequent events have been evaluated through January 20, 2016, the date the consolidated financial statements were issued. Management believes that there are no subsequent events having a material impact on the consolidated financial statements.

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**NOTE 4 - FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

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

The following table presents the financial instruments carried at fair value as of September 30, 2015 and 2014, by the valuation hierarchy.

<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Money market funds	\$ 55,868,011	\$ -	\$ -	\$55,868,011
U.S. equities	216,816	-	-	216,816
Convertible corporate debt	25,034	-	-	25,034
Other non-exchange traded funds	239,248	-	-	239,248
<b>Mutual funds:</b>				
Bond fund	4,044,212	-	-	4,044,212
Equity mutual funds	688,116	-	-	688,116
Beneficial interest in trusts	-	-	10,809,693	10,809,693
Total assets at fair value	<u>\$ 61,081,437</u>	<u>\$ -</u>	<u>\$ 10,809,693</u>	<u>\$71,891,130</u>
<b>Liabilities:</b>				
Obligations under interest rate swap agreements	\$ -	\$ 52,854	\$ -	\$ 52,854
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 52,854</u>	<u>\$ -</u>	<u>\$ 52,854</u>

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

**NOTE 4 - FAIR VALUE MEASUREMENTS** (Continued)

The following table presents the financial instruments carried at fair value as of September 30, 2015 and 2014, by the valuation hierarchy.

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

During the years ended September 30, 2015 and 2014, the value of the beneficial interest in trusts (decreased) increased for a change in market value of (\$438,712) and \$676,292, respectively. In addition, the Network received \$560,816 and \$500,251 in distributions from these trusts in 2015 and 2014, respectively. During 2014, the Network recorded additional beneficial interest in trust assets in the amount of \$3,750,808. There were no additional amounts recorded in 2015.

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

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

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

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

**NOTE 4 - FAIR VALUE MEASUREMENTS** (Continued)

The fair value of the Network's Series A and C Bonds are based on current traded value. The fair value of the Series A and C Bonds as of September 30, 2015 and 2014, is approximately \$39,334,314 and \$41,166,328, respectively. The fair value of the Network's remaining long-term debt approximates its carrying value.

As of September 30, 2015 and 2014, the Network's other financial instruments included accounts receivable, accounts payable and accrued expenses and estimated settlements due to and from third-party payers. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

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

**NOTE 5 - OTHER ASSETS**

Other assets as of September 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Other receivables	\$ 709,994	\$ 795,005
Notes receivable	624,630	134,014
Unamortized bond issuance costs	2,136,639	2,282,438
Losses recoverable	<u>1,069,836</u>	<u>2,157,634</u>
 Total	 <u>\$ 4,541,099</u>	 <u>\$ 5,369,091</u>

Include within other assets are certain loans to physicians which the Network makes to expand its practice. Physician loans are usually forgiven and amortized over the contract period. Physician loan amortization totaling \$46,950 and \$208,107 for the years ended September 30, 2015 and 2014, respectively, is included within depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

As of September 30, 2015 and 2014, \$1,571,500 and \$228,691 of pledges receivables have been included within prepaid expenses and other current assets as management anticipates them to be collected within the next year.

Pledges receivable are expected to be realized as follows:

	<u>2015</u>	<u>2014</u>
In one year or less	\$ 1,580,500	\$ 237,691
Between one and five years	-	-
Greater than five years	-	-
Less: allowance for uncollectible amounts	<u>(9,000)</u>	<u>(9,000)</u>
 Pledges receivable - net	 <u>\$ 1,571,500</u>	 <u>\$ 228,691</u>

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

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**NOTE 5 - OTHER ASSETS** (Continued)

As of September 30, 2015 and 2014, unamortized bond issuance costs, which are included within other assets, consist of the following:

	<u>2015</u>	<u>2014</u>
Deferred financing costs	\$ 3,735,675	\$ 3,735,675
Less: accumulated amortization	<u>(1,599,036)</u>	<u>(1,453,237)</u>
Total	<u>\$ 2,136,639</u>	<u>\$ 2,282,438</u>

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment as of September 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 5,395,243	\$ 5,395,243
Buildings and building improvements	161,551,674	159,603,375
Fixed equipment	33,819,206	32,403,097
Movable equipment	<u>115,646,936</u>	<u>112,056,204</u>
	316,413,059	309,457,919
Less: accumulated depreciation and amortization	<u>(229,410,757)</u>	<u>(218,033,560)</u>
	87,002,302	91,424,359
Construction-in-progress	<u>1,273,117</u>	<u>2,641,200</u>
Total	<u>\$ 88,275,419</u>	<u>\$ 94,065,559</u>

For the years ended September 30, 2015 and 2014, the Network capitalized interest related to construction financed with tax-exempt debt of \$67,635 and \$20,850, respectively. The cost to complete the construction-in-progress is approximately \$6,070,930 and \$4,154,000 as of September 30, 2015 and 2014, respectively.

For the years ended September 30, 2015 and 2014, the Network disposed of property, plant and equipment in the amounts of \$228,440 and \$657,588, respectively and all disposals were of fully depreciated assets.

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(Continued)



**NOTE 7 - INTANGIBLE ASSETS**

The gross carrying amount and accumulated amortization, by class of intangible assets, as of September 30, 2015 and 2014, consisted of the following:

<u>2015</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (1,407,854)	\$ 490,830
Other intangible assets	1,717,291	(1,170,434)	546,857
Goodwill	<u>2,989,140</u>	<u>-</u>	<u>2,989,140</u>
Total	<u>\$ 6,605,115</u>	<u>\$ (2,578,288)</u>	<u>\$ 4,026,827</u>
<u>2014</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
License enhancements	\$ 1,898,684	\$ (1,378,528)	\$ 520,156
Other intangible assets	1,717,291	(971,321)	745,970
Goodwill	<u>2,989,140</u>	<u>-</u>	<u>2,989,140</u>
Total	<u>\$ 6,605,115</u>	<u>\$ (2,349,849)</u>	<u>\$ 4,255,266</u>

Amortization expense related to intangible assets was \$228,440 and \$243,102 for the years ended September 30, 2015 and 2014, respectively.

The estimated amortization expense in each of the succeeding five fiscal years and thereafter, as of September 30, 2015, is as follows:

2016	\$ 215,257
2017	200,714
2018	108,831
2019	73,359
2020	45,826
Thereafter	<u>393,700</u>
Total	<u>\$ 1,037,687</u>

**NOTE 8 - ESTIMATED SELF-INSURANCE LIABILITIES**

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

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
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**NOTE 8 - ESTIMATED SELF-INSURANCE LIABILITIES (Continued)**

As of September 30, 2015 and 2014, the Hospital has a \$450,000 limit per occurrence for workers' compensation claims. Prior to September 30, 2013, the per occurrence limit was \$350,000. The Network has employed independent actuaries to estimate the ultimate costs, if any, of workers' compensation claims. Accrued workers' compensation reserves have been discounted at 5% as of September 30, 2015 and 2014, and in management's opinion provide an adequate reserve for loss contingencies. As of September 30, 2015 the discount on workers' compensation reserve amounted to approximately \$275,000.

In fiscal year 2007, ECHN established a single-parent captive, CHIC, which covers all of its subsidiaries. The captive provides malpractice (\$3,000,000 per occurrence and \$9,000,000 in the aggregate) and general liability (\$1,000,000 per occurrence and \$3,000,000 in the aggregate) coverage for ECHN and its subsidiaries for the years ended September 30, 2015 and 2014.

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

ECHN does not self-insure any malpractice risks other than exposures greater than its excess coverages, however, as of September 30, 2015 and 2014, ECHN has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with CHIC.

The activity in the reserve for outstanding losses and loss related expenses at ECHN for workers' compensation, professional and general liability claims, as of September 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 12,007,755	\$ 11,296,110
Workers' compensation:		
Losses incurred related to:		
Current year	1,355,535	820,878
Prior years	<u>(307,298)</u>	<u>293,054</u>
Total incurred	1,048,237	1,113,932
Paid losses related to:		
Current year	(593,187)	(502,541)
Prior years	<u>(1,084,338)</u>	<u>(1,260,229)</u>
Total paid	(1,677,525)	(1,762,770)
Professional and general:		
Losses incurred related to:		
Current year	1,450,000	2,500,000
Prior years	<u>129,945</u>	<u>(476,182)</u>
Total incurred	1,579,945	2,023,818
Paid losses related to:		
Current year	(11,415)	(35,098)
Prior years	<u>(3,421,661)</u>	<u>(628,237)</u>
Total paid	(3,433,076)	(663,335)
Balance at end of year	<u>\$ 9,525,336</u>	<u>\$ 12,007,755</u>

(Continued)

**NOTE 8 - ESTIMATED SELF-INSURANCE LIABILITIES (Continued)**

Workers' Compensation: The development on prior-year incurred losses (decreased) increased by (\$307,298) and \$293,054 for the years ended September 30, 2015 and 2014, respectively.

Professional and General: The development on prior-year incurred losses increased (decreased) by \$129,94 and (\$476,182) for the years ended September 30, 2015 and 2014, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, included estimates of claims incurred but not reported. Approximately \$2,328,000 and \$2,324,000 of the reserve as of September 30, 2015 and 2014, respectively, are included in other current liabilities with the remaining balance of the reserve included in estimated self-insurance liabilities in the accompanying consolidated balance sheets.

**NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFITS**

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

Effective December 31, 2013, ECHN froze the defined-benefit for all remaining participants. During September 2013, the Trustees passed a resolution to freeze all benefits related to the defined-benefit pension plan. On December 31, 2008, ECHN implemented a soft freeze on the defined-benefit pension plan. All qualified employees are eligible to enter into the Under the defined contribution plan, ECHN contributes 3% of eligible employees' salaries. This contribution is non-guaranteed for all employees except certain union workers. During fiscal year 2015 and 2014, the Hospital incurred expenses of \$588,503 and \$2,259,145, respectively, related to this plan.

MMH and RGH also sponsor a postretirement benefit plan that provides health care benefits to those employees who retire. The criteria 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.

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

The effects of Medicare Prescription Drug, Improvement and Modernization Act of 2003 were reflected as of September 30, 2015 and 2014, 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 \$0 and \$60,000 for the years ended September 30, 2015 and 2014, respectively. Subsidies of \$72,784 and \$82,280 were received in the years ended September 30, 2015 and 2014, respectively. Future benefits of \$190,189 are expected to be paid. There are no future subsidies expected to be received related the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

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(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

**NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFITS (Continued)**

The pension and postretirement plans' change in benefit obligation and change in plan assets for the years ended September 30, 2015 and 2014, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
<b>Change in benefit obligation:</b>				
Benefit obligation, beginning of year	\$ 212,658,153	\$ 192,294,259	\$ 2,848,659	\$ 4,193,572
Service cost	1,540,000	1,511,408	48,328	54,345
Interest cost	9,444,578	9,912,203	114,339	183,189
Plan participants' contributions	-	-	411,972	252,224
Receipt of Medicare Part D reimbursement	-	-	72,784	82,280
Plan amendments	-	-	-	(1,500,168)
Actuarial loss (gain)	7,967,757	18,293,175	(241,294)	103,272
Benefits paid	(14,814,936)	(9,352,892)	(543,945)	(520,055)
Benefit obligation, end of year	\$ 216,795,552	\$ 212,658,153	\$ 2,710,843	\$ 2,848,659
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	\$ 169,516,557	\$ 152,290,850	\$ -	\$ -
Actual return on plan assets	1,237,206	21,778,598	-	-
Employer contributions	970,000	4,800,000	59,189	185,551
Plan participants' contributions	-	-	411,972	252,224
Receipt of Medicare Part D reimbursement	-	-	72,784	82,280
Benefits paid	(14,814,936)	(9,352,891)	(543,945)	(520,055)
Fair value of plan assets, end of year	\$ 156,908,827	\$ 169,516,557	\$ -	\$ -
Accrued pension and other postretirement benefits	\$ (59,886,725)	\$ (43,141,596)	\$ (2,710,843)	\$ (2,848,659)
Accumulated benefit obligation	\$ (216,795,552)	\$ (212,658,153)	\$ -	\$ -

The amount recognized in the Network's consolidated balance sheets as of September 30, 2015 and 2014, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Current liabilities	\$ -	\$ -	\$ 190,189	\$ 193,769
Noncurrent liabilities	59,886,725	43,141,596	2,520,654	2,654,890
Net amount recognized	\$ 59,886,725	\$ 43,141,596	\$ 2,710,843	\$ 2,848,659

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
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**NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFITS (Continued)**

The allocation of the accrued pension and postretirement benefits for the years ended September 30, 2015 and 2014, is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
MMH	\$ 46,334,359	\$ 33,243,046	\$ 2,262,167	\$ 2,377,259
RGH	<u>13,552,366</u>	<u>9,898,550</u>	<u>448,676</u>	<u>471,400</u>
Total	<u>\$ 59,886,725</u>	<u>\$ 43,141,596</u>	<u>\$ 2,710,843</u>	<u>\$ 2,848,659</u>

The plans' components of net periodic benefit cost for the years ended September 30, 2015 and 2014, are as follows (pension benefits information presented is for MMH and RGH combined):

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Service cost	\$ 1,540,000	\$ 1,511,408	\$ 48,328	\$ 54,345
Interest cost	9,444,578	9,912,203	114,339	183,189
Expected return on plan assets	(8,676,394)	(12,179,861)	-	-
Amortization of prior service (credits) costs	-	-	(179,878)	77,724
Recognized actuarial loss (gain)	<u>536,246</u>	<u>887,441</u>	<u>(101,681)</u>	<u>(105,864)</u>
Net periodic benefit cost	<u>\$ 2,844,430</u>	<u>\$ 131,191</u>	<u>\$ (118,892)</u>	<u>\$ 209,394</u>

The allocation of the net periodic benefit cost for the years ended September 30, 2015 and 2014, is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
MMH	\$ 2,191,794	\$ 103,762	\$ (99,214)	\$ 174,744
RGH	<u>652,636</u>	<u>27,429</u>	<u>(19,678)</u>	<u>34,650</u>
Total	<u>\$ 2,844,430</u>	<u>\$ 131,191</u>	<u>\$ (118,892)</u>	<u>\$ 209,394</u>

Included in unrestricted net assets are the following amounts that have not yet been recognized in net period cost:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Unrecognized prior service costs	\$ -	\$ -	\$ 1,311,468	\$ 1,491,346
Unrecognized actuarial losses	<u>(50,648,410)</u>	<u>(35,777,711)</u>	<u>1,415,873</u>	<u>1,276,260</u>
Total	<u>\$ (50,648,410)</u>	<u>\$ (35,777,711)</u>	<u>\$ 2,727,341</u>	<u>\$ 2,767,606</u>

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
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**NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFITS** (Continued)

Changes in benefit obligations recognized in unrestricted net assets include:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Actuarial losses (gains)	\$ 15,406,945	\$ 8,694,437	\$ (241,294)	\$ 103,272
New prior service costs	-	-	-	(1,500,168)
Amortization or curtailment of prior service credit (cost)	-	-	179,978	(77,724)
Amortization or settlement recognition of net gain (loss)	(536,246)	(887,441)	101,681	105,863
Total	<u>\$ 14,870,699</u>	<u>\$ 7,806,996</u>	<u>\$ 40,365</u>	<u>\$ (1,368,757)</u>

The prior service costs and actuarial gains (losses) included in unrestricted net assets and expected to be recognized in net periodic cost during the year ending September 30, 2016 are \$188,700 and (\$949,904), respectively.

The assumptions used to determine pension and postretirement benefit obligations as of September 30, 2015 and 2014, are as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Discount rate	<b>4.65%</b>	4.54%	<b>4.19%</b>	4.11%
Expected long-term rate of return	<b>5.25%</b>	8.00%	<b>N/A</b>	N/A
Rate of compensation increase	<b>0.00%</b>	0.00%	<b>N/A</b>	N/A
Initial medical trend rate	<b>N/A</b>	N/A	<b>7.20%</b>	9.44%
Ultimate medical trend rate	<b>N/A</b>	N/A	<b>4.50%</b>	4.50%
Number of years to ultimate medical trend rate	<b>N/A</b>	N/A	<b>13 years</b>	13 years

The assumptions used to determine net periodic benefit cost of the pension and postretirement plans for the years ended September 30, 2015 and 2014, were as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Discount rate	<b>4.54%</b>	5.27%	<b>4.11%</b>	5.54%
Expected long-term rate of return	<b>5.25%</b>	8.00%	<b>N/A</b>	N/A
Rate of compensation increase	<b>N/A</b>	3.00%	<b>N/A</b>	N/A
Initial medical trend rate	<b>N/A</b>	N/A	<b>7.20%</b>	9.44%
Ultimate medical trend rate	<b>N/A</b>	N/A	<b>4.50</b>	4.50%
Number of years to ultimate medical trend rate	<b>N/A</b>	N/A	<b>13 years</b>	13 years

(Continued)

**NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFITS** (Continued)

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

	<u>One Percentage Point Increase</u>	<u>One Percentage Point Decrease</u>
Effect on year-end postretirement benefit obligation	\$ 227,273	\$ 225,033
Effect on total of service and interest cost components	\$ 1,405	\$ 20,880

The pension plan's weighted-average asset allocations as of September 30, 2015 and 2014, by asset category, are as follows:

	<u>Pension Benefits</u>	
	<u>2015</u>	<u>2014</u>
Asset category:		
Equity securities	0%	0%
Debt securities	99%	99%
Cash and cash equivalents	<u>1%</u>	<u>1%</u>
	<u><b>100%</b></u>	<u><b>100%</b></u>

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.

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
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**NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFITS** (Continued)

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

*Guaranteed insurance contract.* A contract with an insurance entity under which related payments to the insurance entity are accumulated in an unallocated fund to be used to meet benefit payments when employees retire, either directly or through the purchase of annuities. Funds in an unallocated contract may also be withdrawn and otherwise invested. The fund's value is established by multiplying client contributions by an established interest rate. Because the participants transact at contract value, fair value is determined annually for financial statement reporting purposes only. In determining the reasonableness of the methodology, the Investment Committee evaluates a variety of factors including review of existing contracts, economic conditions, industry and market developments, and overall credit ratings. Certain unobservable inputs are assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data (for example, swap curve rate).

The following table presents the investments of the defined benefit plan carried at fair value as of September 30, 2015 and 2014, by the valuation hierarchy.

<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 929,519	\$ -	\$ -	\$ 929,519
Fixed income mutual funds:				
Long duration	139,490,485	-	-	139,490,485
U.S. Core Opportunistic	6,641,878	-	-	6,641,878
U.S. Passive	6,865,329	-	-	6,865,329
Guaranteed investment contract	-	-	2,981,616	2,981,616
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total plan assets at fair value	<u>\$ 153,927,211</u>	<u>\$ -</u>	<u>\$ 2,981,616</u>	<u>\$ 156,908,827</u>
<b>2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 708,333	\$ -	\$ -	\$ 708,333
Fixed income mutual funds:				
Long duration	150,668,190	-	-	150,668,190
U.S. Core Opportunistic	7,500,003	-	-	7,500,003
U.S. Passive	7,558,893	-	-	7,558,893
Guaranteed investment contract	-	-	3,081,138	3,081,138
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total plan assets at fair value	<u>\$ 166,435,419</u>	<u>\$ -</u>	<u>\$ 3,081,138</u>	<u>\$ 169,516,557</u>

(Continued)



Eastern Connecticut Health Network, Inc. and Subsidiaries  
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**NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFITS** (Continued)

The changes within the Level 3 investments as of September 30, 2015 and 2014, are as follows:

<b>2015</b>	<b>Guaranteed Investment Contract</b>
Balance as of October 1, 2014	\$ 3,081,138
Investment income	123,390
Expenditures	<u>(222,912)</u>
Balance as of September 30, 2015	<u>\$ 2,981,616</u>
<b>2014</b>	<b>Guaranteed Investment Contract</b>
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>

During fiscal year 2016, ECHN anticipates contributing \$1,840,000 to the defined benefit pension plan.

The benefit payments, which reflect estimated future service, expected to be paid from the plans for the year ended September 30, 2015, are as follows:

	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
2016	\$ 9,806,322	\$ 190,189
2017	\$ 10,326,550	\$ 206,505
2018	\$ 10,915,238	\$ 213,426
2019	\$ 11,476,209	\$ 225,015
2020	\$ 12,035,372	\$ 238,865
2021-2025	\$ 66,839,679	\$ 1,161,098

The Network also has a defined contribution employee savings plan covering substantially all employees. Eligible employees who contribute to the plan will have 20% - 50%, depending upon years of service, of contributions matched by the Network, up to a maximum of 6% of annual compensation. The Network incurred expenses related to the employee savings plan amounting to \$788,247 and \$2,558,753, for the years ended September 30, 2015 and 2014, respectively.

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
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**NOTE 10 - LONG-TERM DEBT AND LINES OF CREDIT**

Long-term debt and capital lease obligations, as of September 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Connecticut Health and Educational Facilities Authority (CHEFA) Hospital Revenue Bonds, ECHN Series A Bonds, bearing interest at rates ranging from 6.000% to 6.375% - net of unamortized original issue discount of \$32,057 and \$39,281 for 2015 and 2014, respectively.	\$ 7,347,943	\$ 8,245,719
CHEFA Hospital Revenue Bonds, ECHN Series C Bonds, bearing interest ranging from 4.125% to 5.125% - net of unamortized original issue premium of \$309,670 and \$330,315 for 2015 and 2014, respectively.	32,184,670	32,990,315
CHEFA Hospital Revenue Bonds, ECHN Series D Bonds bearing interest at a variable rate, adjusted weekly.	13,425,000	13,743,000
CHEFA Hospital Demand Revenue Bonds, ECHN Series E Bonds, bearing interest at a variable rate, adjusted weekly.	16,600,000	17,090,000
Loan due to Sovereign Bank, face amount \$5,200,000 due and payable in semi-annual principal and interest installments maturing on January 3, 2022 and bearing interest at 3.38%	3,634,222	4,154,222
Promissory note payable to Rockville Bank due and payable in monthly principal and interest installments maturing on January 15, 2015, bearing interest at a fixed rate of 3.75%.	-	172,331
Promissory note payable to Rockville Bank due and payable in monthly principal and interest installments maturing on July 1, 2025, bearing interest at 5.87%.	688,717	742,092
Promissory note payable to Webster Bank due and payable in monthly principal and interest installments with a balloon payment due on May 1, 2018, bearing interest at 4.22%	586,153	601,219
Promissory note payable to Webster Bank due and payable in monthly principal and interest installments with a balloon payment due on December 1, 2017, bearing interest at 4.11%	539,375	554,013
Promissory note payable to Webster Bank due and payable in monthly principal and interest installments with a balloon payment due on May 1, 2019 bearing interest at 5.14%	506,701	517,406

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
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**NOTE 10 - LONG-TERM DEBT AND LINES OF CREDIT (Continued)**

	<u>2015</u>	<u>2014</u>
Promissory note payable to 428 Hartford Turnpike Associates, LLP payable in monthly principal and interest installments, maturing September 1, 2021, bearing interest at 6%.	197,183	223,265
Debt of ECHN Corporate Services. Various due dates and interest rates.	10,575	43,215
Mortgage payable to Rockville Bank, maturing April 1, 2022, bearing interest at 6.5% for the first five years, adjustable thereafter every five years.	127,866	144,715
Promissory notes with Philips Medical Capital, payable in monthly installments, maturing in fiscal year 2021 and bearing interest at rates between 4.3% and 6.8%	2,359,215	2,542,664
Mortgage payable to Rockville Bank, maturing January 1, 2027 bearing interest at 6.6% for the first five years, adjustable thereafter, every five years.	121,471	129,901
Promissory notes with GE HealthCare Financial Services, payable in monthly installments, maturing in fiscal years 2019 and 2020 and bearing interest at rates ranging from 4.4% to 5.3%	549,719	661,435
Promissory note with Stryker Flex Financial, payable in monthly installments, maturing in fiscal year 2020 and bearing interest at 4.00%	994,500	-
Promissory note with Siemens Financial Services, payable in monthly installments, maturing in fiscal year 2019 and bearing interest at 3.85%	504,096	643,154
Capital lease obligations (see Note 12)	<u>6,763,549</u>	<u>5,886,404</u>
Total long-term debt and capital lease obligations	87,140,955	89,085,070
Less: current maturities	<u>(7,018,708)</u>	<u>(6,660,757)</u>
Total long-term debt and capital lease obligations - net of current portion	<u>\$ 80,122,247</u>	<u>\$ 82,424,313</u>
Lines of credit as of September 30, 2015 and 2014 consist of the following:		
	<u>2015</u>	<u>2014</u>
Revolving line of credit with TD Bank, bearing interest at a variable rate.	<u>\$ 3,800,000</u>	<u>\$ 5,600,000</u>

(Continued)

**NOTE 10 - LONG-TERM DEBT AND LINES OF CREDIT (Continued)**

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

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

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

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

On October 1, 2005, MMH, RGH, EES, and ECHF (collectively, the Series C Obligated Group) entered into an agreement and open-ended mortgage with CHEFA to borrow \$37,065,000 in connection with the issuance of CHEFA Hospital Revenue Bonds, Eastern Connecticut Health Network Issue, Series C (the Series C Bonds). The proceeds from the Series C Bonds, net of the original issue premium and amounts used to establish required reserve accounts, were placed in an irrevocable trust to advance refund and defease a portion of the Series 2000A Bonds. MMH, RGH, and EES have been legally released from any future debt service on the portion of defeased Series 2000A Bonds. The Series C Bonds are due on various due dates through July 1, 2034, bearing interest at rates ranging from 4.125% to 5.125%.

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

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

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(Continued)

**NOTE 10 - LONG-TERM DEBT AND LINES OF CREDIT** (Continued)

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

Under the terms of the CHEFA agreements, each member of the Obligated Groups is jointly and severally liable for the full and prompt payment of the amounts owed by the Obligated Groups. Total debt under the CHEFA agreements of the Obligated Groups was \$72,914,222 and \$75,932,222 as of September 30, 2015 and 2014, respectively. The debt is also secured by the gross receipts of the Obligated Groups.

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

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

The annual maturities of the long-term debt and capital lease obligations in each of the succeeding five years and thereafter, as of September 30, 2015, are as follows:

2016	\$ 7,018,708
2017	6,297,881
2018	6,682,574
2019	5,969,084
2020	5,197,338
Thereafter	<u>55,697,757</u>
	86,863,342
Plus - premium	<u>277,613</u>
Total	<u>\$ 87,140,955</u>

On December 21, 2010, ECHN entered into a \$6,500,000 unsecured line of credit with TD Bank, N.A. In 2014, the line of credit agreement was modified. The amount available was reduced to \$5,750,000, the interest rate was increased to LIBOR plus 2.5% and the maturity was extended to September 29, 2015. In 2015, the line of credit agreement was further modified. The amount available was reduced to \$3,950,000 and the maturity date was extended to September 29, 2016. As of September 30, 2015 and 2014, MMH had \$3,800,000 and \$5,600,000, respectively, outstanding under this line of credit.

The Network is subject to various financial covenants related to these debt agreements. The Network was in compliance with these covenants in 2015 and 2014.

**NOTE 11 - DERIVATIVES**

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

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(Continued)

**NOTE 11 - DERIVATIVES** (Continued)

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

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

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

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

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

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

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(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

**NOTE 11 - DERIVATIVES (Continued)**

The Network's portion of the swap agreement in force related to this strategy as of September 30, 2015 and 2014, and the liability and unrealized (gain) loss recognized by the Network are as follows:

	<u>2015</u>	<u>2014</u>
Notional amount of contract	\$ 3,634,222	\$ 4,154,222
Fair value of swap contract recognized in other liabilities	\$ 52,900	\$ 3,800
Unrealized (gain) loss recognized in unrestricted net assets	\$ 49,100	\$ (8,200)

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

**NOTE 12 - LEASE COMMITMENTS**

ECHN leases equipment under capital lease agreements, which begin to expire in 2015. The interest rates range from 4% to 8%. The net carrying value of equipment under the capital lease was \$8,594,610 and \$8,111,729 as of September 30, 2015 and 2014, respectively. ECHN leases various office space and certain equipment under operating leases that expire in various years through fiscal year 2024. Certain leases may be renewed at the end of their term.

Future minimum payments under capital leases and non-cancelable operating leases as of September 30, 2015, consisted of the following:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2016	\$ 3,273,452	\$ 5,614,395
2017	1,965,770	4,151,050
2018	906,877	2,814,112
2019	733,989	2,363,973
2020	378,844	2,261,254
Thereafter	-	10,319,656
	<u>7,258,932</u>	<u>\$ 27,524,440</u>
Less: interest on capital lease	<u>495,383</u>	
Principal amount of capital lease	<u>\$ 6,763,549</u>	

Rent expense under operating and month-to-month leases was \$6,421,813 and \$6,735,147 for the years ended September 30, 2015 and 2014, respectively.

(Continued)

**NOTE 13 - CONCENTRATIONS OF CREDIT RISK**

ECHN grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix in patient accounts receivable as of September 30, 2015 and 2014, before allowances for doubtful accounts, consists of the following:

	<u>2015</u>	<u>2014</u>
Medicare	29%	23%
Self-pay	24%	32%
Managed care	23%	24%
Medicaid	15%	13%
Commercial insurance	4%	3%
Other	5%	5%
	<u>100%</u>	<u>100%</u>

**NOTE 14 - NET PATIENT SERVICE REVENUE**

Net patient service revenue for the years ended September 30, 2015 and 2014, consists of the following:

	<u>2015</u>	<u>2014</u>
Patient service revenues:		
Inpatient services	\$ 318,875,465	\$ 333,197,293
Outpatient services	<u>600,758,074</u>	<u>592,717,508</u>
Gross patient service revenues	919,633,539	925,914,801
Deductions - contractual allowances and discounts	<u>(611,589,145)</u>	<u>(615,943,491)</u>
Patient service revenue, net of contractual allowances and discounts	<u>\$ 308,044,394</u>	<u>\$ 309,971,310</u>

Net patient service revenues by primary payor for the years ended September 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Managed care	\$ 123,129,276	\$ 122,972,772
Medicare	113,011,679	115,689,688
Medicaid	48,753,827	46,594,882
Commercial insurance	15,409,231	14,529,384
Self-pay	3,126,653	4,766,685
Other	<u>4,613,728</u>	<u>5,417,899</u>
Total	<u>\$ 308,044,394</u>	<u>\$ 309,971,310</u>

(Continued)



**NOTE 14 - NET PATIENT SERVICE REVENUE (Continued)**

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

For uninsured patients that do not qualify for financial assistance, the Network offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Network's allowance for doubtful accounts covers all accounts greater than 6 months for both self-pay accounts receivable and third party payors as of September 30, 2015 and 2014. The Network's self-pay and third-party payors write-offs totaled \$9,273,157 and \$11,700,441 for 2015 and 2014, respectively. The Network did not change its charity care or financial assistance policy during 2015 or 2014.

At September 30, 2015 and 2014, 36.3% and 30.4% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 63.7% and 69.6% 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.

**NOTE 15 - COMMUNITY BENEFIT**

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

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

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

MMH and RGH provide care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because MMH and RGH do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of traditional charity care provided, determined on the basis of cost, was \$1,650,100 and \$2,144,342 for the years ended September 30, 2015 and 2014, respectively.

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(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

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**NOTE 16 - FUNCTIONAL EXPENSES**

ECHN provides general health care services to residents within its geographical location. For the years ended September 30, 2015 and 2014, expenses relating to providing these services are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 255,729,581	\$ 266,901,859
Fund raising	508,490	1,210,885
General and administrative	<u>59,610,005</u>	<u>58,469,860</u>
 Total	 <u>\$ 315,848,076</u>	 <u>\$ 326,582,604</u>

**NOTE 17 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

The temporarily restricted net assets available, as of September 30, 2015 and 2014, are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Departmental and endowment purposes	\$ 1,402,125	\$ 1,910,003
Capital campaign and pledges	<u>84,411</u>	<u>186,310</u>
 Total	 <u>\$ 1,486,536</u>	 <u>\$ 2,096,313</u>

As of September 30, 2015 and 2014, permanently restricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Beneficial interest in trust assets	\$ 10,809,693	\$ 11,809,221
Endowments restricted for:		
Other departmental purposes	3,554,028	3,553,655
Charity care	532,024	532,024
Special needs	151,579	151,579
Cancer research	<u>6,124</u>	<u>6,124</u>
 Total	 <u>\$ 15,053,448</u>	 <u>\$ 16,052,603</u>

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(Continued)

**NOTE 17 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS** (Continued)

The composition of the Network's endowment by net asset class as of September 30, 2015 and 2014, was as follows:

<u>2015</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 4,243,755	\$ 4,243,755
Net assets, September 30, 2015	<u>\$ 4,243,755</u>	<u>\$ 4,243,755</u>
<u>2014</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 4,243,382	\$ 4,243,382
Net assets, September 30, 2014	<u>\$ 4,243,382</u>	<u>\$ 4,243,382</u>

The Network's endowments consist of multiple funds established for a variety of purposes. The endowments include donor-restricted endowment funds. As required by GAAP, endowments, are classified and reported based on the existence or absence of donor restrictions.

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

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

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

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

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

(Continued)

Eastern Connecticut Health Network, Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Years Ended September 30, 2015 and 2014

**NOTE 17 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)**

The Network has appropriated \$14,664 and \$107,171 for expenditure from its endowment funds for the years ending September 30, 2015 and 2014, respectively.

Changes in endowment net assets for the fiscal year ended September 30, 2015 were as follows:

<b>2015</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets, October 1, 2014	\$ -	\$ 4,243,382	\$ 4,243,382
Interest income	14,664	-	14,664
Released from restrictions	(14,664)	-	(14,664)
Contributions	-	373	373
Net assets, September 30, 2015	<u>\$ -</u>	<u>\$ 4,243,755</u>	<u>\$ 4,243,755</u>

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

<b>2014</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets, October 1, 2013	\$ -	\$ 4,413,548	\$ 4,413,548
Interest income	107,171	-	107,171
Released from restrictions	(107,171)	-	(107,171)
Reclassification of donations	-	(170,166)	(170,166)
Net assets, September 30, 2014	<u>\$ -</u>	<u>\$ 4,243,382</u>	<u>\$ 4,243,382</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Network to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2015 and 2014, there were no funds that were below the level required by donor or law.

**NOTE 18 - COMMITMENTS AND CONTINGENCIES**

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

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

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**NOTE 19 - STATUTORY CAPITAL AND SURPLUS**

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

Statutory capital and surplus as of September 30, 2015 was \$704,717 with a minimum amount required to be maintained by CHIC of \$100,000. Distribution of dividends is subject to approval by the Board of Directors. No dividends were declared or paid during the years ended September 30, 2015 and 2014.

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

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2015**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 5,266,042	\$ 2,130,527	\$ 1,540,254	\$ -	\$ 8,936,823	\$ 1,024,794	\$ -	\$ 9,961,617
Current portion of investments held under bond indentures	646,423	265,258	185,918	-	1,097,599	-	-	1,097,599
Accounts receivable, net	25,143,982	8,279,947	1,509,562	-	34,933,491	-	-	34,933,491
Inventory	4,086,699	1,266,636	33,849	-	5,387,184	-	-	5,387,184
Due from affiliated entities	393,192	14,916	8,037	(17,104)	399,041	26,267	-	425,308
Current portion of estimated settlements due from third-party payers	2,821,878	751,256	-	-	3,573,134	-	-	3,573,134
Prepaid expenses and other current assets	1,678,056	209,439	13,938	-	1,901,433	1,615,865	-	3,517,298
<b>Total current assets</b>	<b>40,036,272</b>	<b>12,917,979</b>	<b>3,291,558</b>	<b>(17,104)</b>	<b>56,228,705</b>	<b>2,666,926</b>	<b>-</b>	<b>58,895,631</b>
Assets whose use is limited, net of current portion:								
Donor restricted investments	1,719,190	1,575,472	-	-	3,294,662	2,169,541	-	5,464,203
Board designated investments	7,922,686	10,951,124	-	-	18,873,810	15,100,474	-	33,974,284
Investments held in trust for estimated self-insurance liabilities	1,429,733	-	-	-	1,429,733	-	-	1,429,733
Beneficial interest in trust assets	8,801,449	2,008,244	-	-	10,809,693	-	-	10,809,693
Investments held under bond indentures	3,498,702	859,367	813,992	-	5,172,061	-	-	5,172,061
<b>Total assets whose use is limited, net of current portion</b>	<b>23,371,760</b>	<b>15,394,207</b>	<b>813,992</b>	<b>-</b>	<b>39,579,959</b>	<b>17,270,015</b>	<b>-</b>	<b>56,849,974</b>
Interest in net assets of ECHN CHF, Inc.	8,751,305	3,664,214	177,536	-	12,593,055	-	(12,593,055)	-
Investments	1,333,656	2,056,858	3,727,919	-	7,118,433	-	-	7,118,433
Investments in joint ventures	4,186,957	3,622,325	-	-	7,809,282	-	-	7,809,282
Property and equipment, net	53,573,130	23,002,822	6,858,867	-	83,434,819	-	-	83,434,819
Other assets:								
Estimated settlements due from third-party payers, net of current portion	-	-	-	-	-	-	-	-
Due from affiliated entities, net of current portion	23,392,434	4,608,276	-	(3,280,506)	24,720,204	-	-	24,720,204
Goodwill and intangible assets, net	-	-	490,830	-	490,830	-	-	490,830
Other assets	1,656,971	936,314	382,232	-	2,975,517	-	-	2,975,517
<b>Total other assets</b>	<b>25,049,405</b>	<b>5,544,590</b>	<b>873,062</b>	<b>(3,280,506)</b>	<b>28,186,551</b>	<b>-</b>	<b>-</b>	<b>28,186,551</b>
<b>Total assets</b>	<b>\$ 156,302,485</b>	<b>\$ 66,202,995</b>	<b>\$ 15,742,934</b>	<b>\$ (3,297,610)</b>	<b>\$ 234,950,804</b>	<b>\$ 19,936,941</b>	<b>\$ (12,593,055)</b>	<b>\$ 242,294,690</b>

See accompanying independent auditor's report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2015**

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 806,142	\$ 38,866	\$ 43,862	\$ 4,188,799	\$ 93,135	\$ 1,154,408	\$ -	\$ 16,286,829
Current portion of investments held under bond indentures	-	-	-	-	-	-	-	1,097,599
Accounts receivable, net	1,951,462	709,837	36	3,926,991	79,222	6,460	-	41,607,499
Inventory	40,300	126,325	-	-	-	-	-	5,553,809
Due from affiliated entities	-	-	-	-	1,070,968	-	(1,496,276)	-
Current portion of estimated settlements due from third-party payers	-	-	-	-	-	-	-	3,573,134
Prepaid expenses and other current assets	410,611	137,477	4,132	142,228	1,768,409	672,936	-	6,653,091
<b>Total current assets</b>	<b>3,208,515</b>	<b>1,012,505</b>	<b>48,030</b>	<b>8,258,018</b>	<b>3,011,734</b>	<b>1,833,804</b>	<b>(1,496,276)</b>	<b>74,771,961</b>
Assets whose use is limited, net of current portion:								
Donor restricted investments	-	-	-	126,038	-	-	-	5,590,241
Board designated investments	-	-	-	2,850,393	-	-	-	36,824,677
Investments held in trust for estimated self-insurance liabilities	-	-	-	-	-	3,848,693	-	5,278,426
Beneficial interest in trust assets	-	-	-	-	-	-	-	10,809,693
Investments held under bond indentures	-	-	-	-	-	-	-	5,172,061
<b>Total assets whose use is limited, net of current portion</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,976,431</b>	<b>-</b>	<b>3,848,693</b>	<b>-</b>	<b>63,675,098</b>
Interest in net assets of ECHN CHF, Inc.	-	-	-	-	4,448,741	-	(4,448,741)	-
Investments	-	-	-	-	794,647	-	(794,647)	7,118,433
Investments in joint ventures	-	-	1,270,517	-	9,111,010	-	-	18,190,809
Property and equipment, net	2,034,427	290,352	1,051,928	1,463,893	-	-	-	88,275,419
Other assets:								
Estimated settlements due from third-party payers, net of current portion	-	-	-	-	-	-	-	-
Due from affiliated entities, net of current portion	-	-	-	-	879,852	-	(25,600,056)	-
Goodwill and intangible assets, net	414,857	132,000	-	-	2,989,140	-	-	4,026,827
Other assets	-	-	-	530,269	624,630	410,683	-	4,541,099
<b>Total other assets</b>	<b>414,857</b>	<b>132,000</b>	<b>-</b>	<b>530,269</b>	<b>4,493,622</b>	<b>410,683</b>	<b>(25,600,056)</b>	<b>8,567,926</b>
<b>Total assets</b>	<b>\$ 5,657,799</b>	<b>\$ 1,434,857</b>	<b>\$ 2,370,475</b>	<b>\$ 13,228,611</b>	<b>\$ 21,859,754</b>	<b>\$ 6,093,180</b>	<b>\$ (32,339,720)</b>	<b>\$ 260,599,646</b>

See accompanying independent auditor's report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2015**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 21,650,353	\$ 5,623,272	\$ 994,567	\$ -	\$ 28,268,192	\$ 34,295	\$ -	\$ 28,302,487
Line of credit	3,800,000	-	-	-	3,800,000	-	-	3,800,000
Current portion of long-term debt and capital lease obligations	4,792,543	917,356	661,399	-	6,371,298	-	-	6,371,298
Current portion of due to affiliates	-	984,268	17,104	(17,104)	984,268	155,014	-	1,139,282
Current portion of estimated settlements due to third-party payers	1,603,251	1,056,682	273,006	-	2,932,939	-	-	2,932,939
Current portion of accrued pension and other postretirement benefits	157,857	32,332	-	-	190,189	-	-	190,189
Other current liabilities	1,768,051	200,005	482,963	-	2,451,019	-	-	2,451,019
<b>Total current liabilities</b>	<b>33,772,055</b>	<b>8,813,915</b>	<b>2,429,039</b>	<b>(17,104)</b>	<b>44,997,905</b>	<b>189,309</b>	<b>-</b>	<b>45,187,214</b>
Long-term debt and capital lease								
obligations, net of current portion	49,494,875	22,469,388	7,182,727	-	79,146,990	-	-	79,146,990
Estimated self-insurance liabilities, net of current portion	5,978,271	1,939,861	207,196	-	8,125,328	-	-	8,125,328
Accrued pension and postretirement benefits	48,438,669	13,968,710	-	-	62,407,379	-	-	62,407,379
Estimated settlements due to third-party payers, net of current portion	-	-	-	-	-	-	-	-
Due to affiliates	3,280,506	-	-	(3,280,506)	-	-	-	-
Other liabilities	332,650	132,211	-	-	464,861	2,850	-	467,711
<b>Total liabilities</b>	<b>141,297,026</b>	<b>47,324,085</b>	<b>9,818,962</b>	<b>(3,297,610)</b>	<b>195,142,463</b>	<b>192,159</b>	<b>-</b>	<b>195,334,622</b>
Net assets:								
Unrestricted	2,829,380	14,969,087	5,919,060	-	23,717,527	2,702,985	-	26,420,512
Temporarily restricted	494,603	537,851	4,912	-	1,037,366	15,474,485	(11,025,743)	5,486,108
Permanently restricted	11,681,476	3,371,972	-	-	15,053,448	1,567,312	(1,567,312)	15,053,448
<b>Total net assets</b>	<b>15,005,459</b>	<b>18,878,910</b>	<b>5,923,972</b>	<b>-</b>	<b>39,808,341</b>	<b>19,744,782</b>	<b>(12,593,055)</b>	<b>46,960,068</b>
<b>Total liabilities and net assets</b>	<b>\$ 156,302,485</b>	<b>\$ 66,202,995</b>	<b>\$ 15,742,934</b>	<b>\$ (3,297,610)</b>	<b>\$ 234,950,804</b>	<b>\$ 19,936,941</b>	<b>\$ (12,593,055)</b>	<b>\$ 242,294,690</b>

See accompanying independent auditor's report.



**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Balance Sheet (continued)**  
**September 30, 2015**

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 1,907,476	\$ 255,012	\$ 11,412	\$ 1,443,365	\$ 1,432,414	\$ 77,385	\$ -	\$ 33,429,551
Line of credit	-	-	-	-	-	-	-	3,800,000
Current portion of long-term debt and capital lease obligations	27,691	43,029	26,211	-	550,479	-	-	7,018,708
Current portion of due to affiliates	-	-	-	-	-	-	(1,139,282)	-
Current portion of estimated settlements due to third-party payers	93,818	-	-	98,046	-	-	-	3,124,803
Current portion of accrued pension and other postretirement benefits	-	-	-	-	-	-	-	190,189
Other current liabilities	-	-	-	693,421	61,740	928,532	-	4,134,712
<b>Total current liabilities</b>	<b>2,028,985</b>	<b>298,041</b>	<b>37,623</b>	<b>2,234,832</b>	<b>2,044,633</b>	<b>1,005,917</b>	<b>(1,139,282)</b>	<b>51,697,963</b>
Long-term debt and capital lease obligations, net of current portion	169,493	4,430	223,127	-	578,207	-	-	80,122,247
Estimated self-insurance liabilities, net current portion	-	-	-	-	-	4,382,546	(5,311,077)	7,196,797
Accrued pension and postretirement benefits	-	-	-	-	-	-	-	62,407,379
Estimated settlements due to third-party payers, net of current portion	-	-	-	-	-	-	-	-
Due to affiliates	2,941,576	461,779	1,852,916	237,764	15,151,937	-	(20,645,972)	-
Other liabilities	-	-	-	-	-	-	-	467,711
<b>Total liabilities</b>	<b>5,140,054</b>	<b>764,250</b>	<b>2,113,666</b>	<b>2,472,596</b>	<b>17,774,777</b>	<b>5,388,463</b>	<b>(27,096,331)</b>	<b>201,892,097</b>
Net assets:								
Unrestricted	517,745	670,607	256,809	10,629,977	3,761,845	704,717	(794,647)	42,167,565
Temporarily restricted	-	-	-	126,038	323,132	-	(4,448,742)	1,486,536
Permanently restricted	-	-	-	-	-	-	-	15,053,448
<b>Total net assets</b>	<b>517,745</b>	<b>670,607</b>	<b>256,809</b>	<b>10,756,015</b>	<b>4,084,977</b>	<b>704,717</b>	<b>(5,243,389)</b>	<b>58,707,549</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,657,799</b>	<b>\$ 1,434,857</b>	<b>\$ 2,370,475</b>	<b>\$ 13,228,611</b>	<b>\$ 21,859,754</b>	<b>\$ 6,093,180</b>	<b>\$ (32,339,720)</b>	<b>\$ 260,599,646</b>

See accompanying independent auditor's report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**For the Year Ended September 30, 2015**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
Revenue:								
Patient service revenue, net of contractual allowances and discounts	\$ 183,098,763	\$ 66,613,109	\$ 15,214,035	\$ -	\$ 264,925,907	\$ -	\$ -	\$ 264,925,907
Provision for bad debts	(6,806,310)	(3,610,628)	(205,175)	-	(10,622,113)	-	-	(10,622,113)
Net patient service revenue less provision for bad debts	176,292,453	63,002,481	15,008,860	-	254,303,794	-	-	254,303,794
Contributions	1,889,272	123,590	3,256	-	2,016,118	-	-	2,016,118
Other revenues	9,478,566	1,650,001	41,326	(145,035)	11,024,858	251,766	(198,848)	11,077,776
EHR initiative payment revenue	428,586	401,800	-	-	830,386	-	-	830,386
Net assets released from restrictions used for operations	590,724	50,382	4,127	-	645,233	25,672	-	670,905
Total revenues	188,679,601	65,228,254	15,057,569	(145,035)	268,820,389	277,438	(198,848)	268,898,979
Expenses:								
Salaries and wages	81,709,452	30,678,558	7,603,846	-	119,991,856	148,988	(106,794)	120,034,050
Fringe benefits	25,569,480	9,699,209	1,995,605	-	37,264,294	16,007	(11,473)	37,268,828
Supplies and other expenses	62,970,889	24,653,758	4,181,597	(145,035)	91,661,209	112,443	(80,581)	91,693,071
Depreciation and amortization	7,116,439	3,138,917	533,693	-	10,789,049	-	-	10,789,049
Interest and financing costs	2,358,063	697,473	345,894	-	3,401,430	-	-	3,401,430
Total expenses	179,724,323	68,867,915	14,660,635	(145,035)	263,107,838	277,438	(198,848)	263,186,428
Income (loss) from operations	8,955,278	(3,639,661)	396,934	-	5,712,551	-	-	5,712,551
Non-operating (losses) gains	(1,638,670)	(546,692)	(24,848)	-	(2,210,210)	-	-	(2,210,210)
Excess of revenues over (under) expenses	\$ 7,316,608	\$ (4,186,353)	\$ 372,086	\$ -	\$ 3,502,341	\$ -	\$ -	\$ 3,502,341

See accompanying independent auditor's report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2015**

	<b>Eastern CT Medical Professionals Foundation, Inc.</b>	<b>ECHN Corporate Services</b>	<b>ECHN Enterprises, Inc. and Subsidiaries</b>	<b>Visiting Nurse &amp; Health Services of Connecticut Inc.</b>	<b>Eastern Connecticut Health Network, Inc.</b>	<b>Connecticut Healthcare Insurance Company</b>	<b>Eliminations</b>	<b>Total</b>
Revenue:								
Patient service revenue, net of contractual allowances and discounts	\$ 18,137,911	\$ -	\$ -	\$ 24,980,576	\$ -	\$ -	\$ -	\$ 308,044,394
Provision for bad debts	(217,527)	-	-	(59,649)	-	-	-	(10,899,289)
Net patient service revenue less provision for bad debts	17,920,384	-	-	24,920,927	-	-	-	297,145,105
Contributions	-	-	-	177,916	117,796	-	(117,796)	2,194,034
Other revenues	7,072,058	3,763,736	530,353	310,906	2,565,451	2,747,065	(13,501,852)	14,565,493
EHR initiative payment revenue	-	-	-	-	-	-	-	830,386
Net assets released from restrictions used for operations	1,450	-	-	124,992	35,261	-	-	832,608
<b>Total revenues</b>	<b>24,993,892</b>	<b>3,763,736</b>	<b>530,353</b>	<b>25,534,741</b>	<b>2,718,508</b>	<b>2,747,065</b>	<b>(13,619,648)</b>	<b>315,567,626</b>
Expenses:								
Salaries and wages	17,380,737	2,284,951	-	17,116,920	10,981,787	-	(11,023,981)	156,774,464
Fringe benefits	2,768,935	379,030	-	3,611,828	2,249,685	-	(2,254,222)	44,024,084
Supplies and other expenses	10,493,641	1,046,128	297,669	4,259,708	(12,537,632)	2,972,181	1,458,108	99,682,874
Depreciation and amortization	644,548	115,256	68,528	303,339	46,950	-	(46,950)	11,920,720
Interest and financing costs	12,686	21,994	9,825	-	66,358	-	(66,359)	3,445,934
<b>Total expenses</b>	<b>31,300,547</b>	<b>3,847,359</b>	<b>376,022</b>	<b>25,291,795</b>	<b>807,148</b>	<b>2,972,181</b>	<b>(11,933,404)</b>	<b>315,848,076</b>
Income (loss) from operations	(6,306,655)	(83,623)	154,331	242,946	1,911,360	(225,116)	(1,686,244)	(280,450)
Non-operating (losses) gains	-	-	(25,199)	-	(1,911,360)	-	1,911,359	(2,235,410)
<b>Excess of revenues (under) over expenses</b>	<b>\$ (6,306,655)</b>	<b>\$ (83,623)</b>	<b>\$ 129,132</b>	<b>\$ 242,946</b>	<b>\$ -</b>	<b>\$ (225,116)</b>	<b>\$ 225,115</b>	<b>\$ (2,515,860)</b>

See accompanying independent auditor's report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2015**

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
Unrestricted net assets:								
Excess (deficiency) of revenues over expenses	\$ 7,316,608	\$ (4,186,353)	\$ 372,086	\$ -	\$ 3,502,341	\$ -	\$ -	\$ 3,502,341
Unrealized loss on investments	(83,807)	193	17	-	(83,597)	-	-	(83,597)
Net change in interest rate swap agreement	(49,056)	-	-	-	(49,056)	-	-	(49,056)
Net assets released from restrictions for capital acquisitions	263,258	41,401	4,668	-	309,327	-	-	309,327
Equity transfer to ECHN	(4,405,594)	(1,888,111)	-	-	(6,293,705)	-	-	(6,293,705)
Equity transfer from ECHN	-	-	-	-	-	-	-	-
ECHN Corporate Services transfer	-	-	-	-	-	-	-	-
Transfers (to) from other affiliates, net	146,267	(1,686)	4,915	-	149,496	(162,446)	-	(12,950)
Pension and postretirement related adjustments	(11,702,769)	(3,208,195)	-	-	(14,910,964)	-	-	(14,910,964)
Other	-	-	-	-	-	-	-	-
Change in unrestricted net assets	(8,515,093)	(9,242,751)	381,686	-	(17,376,158)	(162,446)	-	(17,538,604)
Temporarily restricted net assets:								
Contributions	158,368	32,526	(10,979)	-	179,915	2,408,114	(2,115,244)	472,785
Investment income	424	288	-	-	712	1,280	(1,049)	943
Net assets released from restrictions used for operations	(590,724)	(50,382)	(4,127)	-	(645,233)	(657,013)	596,080	(706,166)
Net assets released from restrictions used for capital acquisitions	(263,258)	(41,401)	(4,668)	-	(309,327)	(309,327)	309,327	(309,327)
Transfers (to) from affiliates	215,031	47,777	-	-	262,808	-	(264,258)	(1,450)
Change in temporarily restricted net assets	(480,159)	(11,192)	(19,774)	-	(511,125)	1,443,054	(1,475,144)	(543,215)
Permanently restricted net assets:								
Contributions - beneficial interest trust assets	373	-	-	-	373	-	-	373
Change in beneficial interest in trust assets	(798,079)	(201,449)	-	-	(999,528)	-	-	(999,528)
Change in permanently restricted net assets	(797,706)	(201,449)	-	-	(999,155)	-	-	(999,155)
Change in net assets (deficit)	(9,792,958)	(9,455,392)	361,912	-	(18,886,438)	1,280,608	(1,475,144)	(19,080,974)
Net assets (deficit), beginning of year	24,798,417	28,334,302	5,562,060	-	58,694,779	18,464,174	(11,117,911)	66,041,042
Net assets (deficit), end of year	\$ 15,005,459	\$ 18,878,910	\$ 5,923,972	\$ -	\$ 39,808,341	\$ 19,744,782	\$ (12,593,055)	\$ 46,960,068

See accompanying independent auditor's report.

**Eastern Connecticut Health Network, Inc. and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**For the Year Ended September 30, 2015**

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
Unrestricted net assets:								
Excess (deficiency) of revenues over expenses	\$ (6,306,655)	\$ (83,623)	\$ 129,132	\$ 242,946	\$ -	\$ (225,116)	\$ 225,115	\$ (2,515,860)
Unrealized loss on investments	-	-	-	-	-	(127,158)	-	(210,755)
Net change in interest rate swap agreement	-	-	-	-	-	-	-	(49,056)
Net assets released from restrictions for capital acquisitions	-	-	-	-	-	-	-	309,327
Equity transfer to ECHN	-	-	-	-	6,293,705	-	-	-
Equity transfer from ECHN	6,293,705	-	-	-	(6,293,705)	-	-	-
ECHN Corporate Services transfer	-	-	-	-	-	-	-	-
Transfers (to) from other affiliates, net	12,950	-	-	-	-	555,823	(555,823)	-
Pension and postretirement related adjustments	-	-	-	-	-	-	-	(14,910,964)
Other	-	-	-	-	-	-	-	-
Change in unrestricted net assets	-	(83,623)	129,132	242,946	-	203,549	(330,708)	(17,377,308)
Temporarily restricted net assets:								
Contributions	-	-	-	176,225	149,633	-	(267,428)	531,215
Investment income	-	-	-	-	-	-	-	943
Net assets released from restrictions used for operations	(1,450)	-	-	(124,992)	(35,261)	-	35,261	(832,608)
Net assets released from restrictions used for capital acquisitions	-	-	-	-	-	-	-	(309,327)
Transfers (to) from affiliates	1,450	-	-	-	(264,257)	-	264,257	-
Change in temporarily restricted net assets	-	-	-	51,233	(149,885)	-	32,090	(609,777)
Permanently restricted net assets:								
Contributions - beneficial interest trust assets	-	-	-	-	-	-	-	373
Change in beneficial interest in trust assets	-	-	-	-	-	-	-	(999,528)
Change in permanently restricted net assets	-	-	-	-	-	-	-	(999,155)
Change in net assets (deficit)	-	(83,623)	129,132	294,179	(149,885)	203,549	(298,618)	(18,986,240)
Net assets (deficit), beginning of year	517,745	754,230	127,677	10,461,836	4,234,862	501,168	(4,944,771)	77,693,789
Net assets (deficit), end of year	\$ 517,745	\$ 670,607	\$ 256,809	\$ 10,756,015	\$ 4,084,977	\$ 704,717	\$ (5,243,389)	\$ 58,707,549

See accompanying independent auditor's report.

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

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

See accompanying independent auditor's report.

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

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 192,024	\$ 66,259	\$ 76,614	\$ 4,558,501	\$ 162,984	\$ 2,072,791	\$ -	\$ 20,733,601
Current portion of investments held under bond indentures	-	-	-	-	-	-	-	1,163,916
Accounts receivable, net	2,090,800	827,182	36	3,835,448	169,322	5,680	-	44,610,272
Inventory	15,926	183,985	-	-	-	-	-	5,437,285
Due from affiliated entities	-	-	-	-	4,049	-	(164,848)	-
Current portion of estimated settlements due from third-party payers	-	-	-	-	-	-	-	3,602,585
Prepaid expenses and other current assets	405,503	24,503	4,046	232,277	970,358	1,232,575	-	5,686,236
<b>Total current assets</b>	<b>2,704,253</b>	<b>1,101,929</b>	<b>80,696</b>	<b>8,626,226</b>	<b>1,306,713</b>	<b>3,311,046</b>	<b>(164,848)</b>	<b>81,233,895</b>
Assets whose use is limited, net of current portion:								
Donor restricted investments	-	-	-	74,805	-	-	-	6,097,747
Board designated investments	-	-	-	2,910,074	-	-	-	37,980,275
Investments held in trust for estimated self-insurance liabilities	-	-	-	-	-	3,516,968	-	5,005,755
Beneficial interest in trust assets	-	-	-	-	-	-	-	11,809,221
Investments held under bond indentures	-	-	-	-	-	-	-	5,171,545
<b>Total assets whose use is limited, net of current portion</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,984,879</b>	<b>-</b>	<b>3,516,968</b>	<b>-</b>	<b>66,064,543</b>
Interest in net assets of ECHN CHF, Inc.	-	-	-	-	4,480,831	-	(4,480,831)	-
Investments	-	-	-	-	463,940	-	(463,940)	7,138,341
Investments in joint ventures	-	-	1,247,474	-	8,688,445	-	-	17,274,825
Property, plant and equipment, net	2,469,251	366,651	1,120,456	1,426,059	-	-	-	94,065,559
Other assets:								
Estimated settlements due from third-party payers, net of current portion	-	-	-	-	-	-	-	685,669
Due from affiliated entities, net of current portion	-	-	-	-	867,580	-	(23,496,892)	-
Goodwill and intangible assets, net	592,420	153,550	-	-	2,989,140	-	-	4,255,266
Other assets	-	-	-	530,269	134,014	556,581	-	5,369,091
<b>Total other assets</b>	<b>592,420</b>	<b>153,550</b>	<b>-</b>	<b>530,269</b>	<b>3,990,734</b>	<b>556,581</b>	<b>(23,496,892)</b>	<b>10,310,026</b>
<b>Total assets</b>	<b>\$ 5,765,924</b>	<b>\$ 1,622,130</b>	<b>\$ 2,448,626</b>	<b>\$ 13,567,433</b>	<b>\$ 18,930,663</b>	<b>\$ 7,384,595</b>	<b>\$ (28,606,511)</b>	<b>\$ 276,087,189</b>

See accompanying independent auditor's report.

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

	The Manchester Memorial Hospital	The Rockville General Hospital, Inc.	ECHN ElderCare Services, Inc.	Eliminations	Subtotal Series A Obligated Group	ECHN Community Healthcare Foundation, Inc.	Eliminations	Subtotal Series C, Series D, and Series E Obligated Group
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 21,842,838	\$ 6,181,391	\$ 1,055,957	\$ -	\$ 29,080,186	\$ 31,007	\$ -	\$ 29,111,193
Line of credit	5,600,000	-	-	-	5,600,000	-	-	5,600,000
Current portion of long-term debt and capital lease obligations	4,092,102	945,159	624,756	-	5,662,017	-	-	5,662,017
Current portion of due to affiliates	23,158	-	60,602	(78,353)	5,407	150,797	-	156,204
Current portion of estimated settlements due to third-party payers	4,285,117	1,132,410	248,895	-	5,666,422	-	-	5,666,422
Current portion of accrued pension and other postretirement benefits	162,766	31,003	-	-	193,769	-	-	193,769
Other current liabilities	<u>2,653,756</u>	<u>732,322</u>	<u>391,627</u>	<u>-</u>	<u>3,777,705</u>	<u>-</u>	<u>-</u>	<u>3,777,705</u>
Total current liabilities	38,659,737	9,022,285	2,381,837	(78,353)	49,985,506	181,804	-	50,167,310
Long-term debt and capital lease								
obligations, net of current portion	50,421,026	23,392,308	7,841,125	-	81,654,459	-	-	81,654,459
Estimated self-insurance liabilities, net of current portion	6,835,215	3,566,892	493,923	-	10,896,030	-	-	10,896,030
Accrued pension and postretirement benefits	35,457,539	10,338,947	-	-	45,796,486	-	-	45,796,486
Estimated settlements due to third-party payers, net of current portion	-	-	-	-	-	-	-	-
Due to affiliates	5,298,863	-	-	(5,298,863)	-	-	-	-
Other liabilities	<u>283,594</u>	<u>132,211</u>	<u>-</u>	<u>-</u>	<u>415,805</u>	<u>3,197</u>	<u>-</u>	<u>419,002</u>
Total liabilities	136,955,974	46,452,643	10,716,885	(5,377,216)	188,748,286	185,001	-	188,933,287
Net assets:								
Unrestricted	11,344,473	24,211,838	5,537,374	-	41,093,685	2,865,431	-	43,959,116
Temporarily restricted	974,762	549,043	24,686	-	1,548,491	14,031,431	(9,550,599)	6,029,323
Permanently restricted	<u>12,479,182</u>	<u>3,573,421</u>	<u>-</u>	<u>-</u>	<u>16,052,603</u>	<u>1,567,312</u>	<u>(1,567,312)</u>	<u>16,052,603</u>
Total net assets	<u>24,798,417</u>	<u>28,334,302</u>	<u>5,562,060</u>	<u>-</u>	<u>58,694,779</u>	<u>18,464,174</u>	<u>(11,117,911)</u>	<u>66,041,042</u>
Total liabilities and net assets	<u>\$ 161,754,391</u>	<u>\$ 74,786,945</u>	<u>\$ 16,278,945</u>	<u>\$ (5,377,216)</u>	<u>\$ 247,443,065</u>	<u>\$ 18,649,175</u>	<u>\$ (11,117,911)</u>	<u>\$ 254,974,329</u>

See accompanying independent auditor's report.



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

	Eastern CT Medical Professionals Foundation, Inc.	ECHN Corporate Services	ECHN Enterprises, Inc. and Subsidiaries	Visiting Nurse & Health Services of Connecticut Inc.	Eastern Connecticut Health Network, Inc.	Connecticut Healthcare Insurance Company	Eliminations	Total
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 2,145,168	\$ 283,874	\$ 15,665	\$ 2,170,645	\$ 2,159,817	\$ 78,253	\$ -	\$ 35,964,615
Line of credit	-	-	-	-	-	-	-	5,600,000
Current portion of long-term debt and capital lease obligations	197,183	58,633	25,279	6,488	711,157	-	-	6,660,757
Current portion of due to affiliates	-	-	-	-	-	-	(156,204)	-
Current portion of estimated settlements due to third-party payers	-	-	-	76,738	-	-	-	5,743,160
Current portion of accrued pension and other postretirement benefits	-	-	-	-	-	-	-	193,769
Other current liabilities	-	-	-	851,726	-	1,212,361	-	5,841,792
<b>Total current liabilities</b>	<b>2,342,351</b>	<b>342,507</b>	<b>40,944</b>	<b>3,105,597</b>	<b>2,870,974</b>	<b>1,290,614</b>	<b>(156,204)</b>	<b>60,004,093</b>
Long-term debt and capital lease obligations, net of current portion								
Estimated self-insurance liabilities, net of current portion	26,082	50,687	249,337	-	443,748	-	-	82,424,313
Accrued pension and postretirement benefits	-	-	-	-	-	5,592,813	(6,805,175)	9,683,668
Estimated settlements due to third-party payers, net of current portion	65,838	-	-	-	-	-	-	65,838
Due to affiliates	2,813,908	474,706	2,030,668	-	11,381,079	-	(16,700,361)	-
Other liabilities	-	-	-	-	-	-	-	419,002
<b>Total liabilities</b>	<b>5,248,179</b>	<b>867,900</b>	<b>2,320,949</b>	<b>3,105,597</b>	<b>14,695,801</b>	<b>6,883,427</b>	<b>(23,661,740)</b>	<b>198,393,400</b>
Net assets:								
Unrestricted	517,745	754,230	127,677	10,387,031	3,761,845	501,168	(463,939)	59,544,873
Temporarily restricted	-	-	-	74,805	473,017	-	(4,480,832)	2,096,313
Permanently restricted	-	-	-	-	-	-	-	16,052,603
<b>Total net assets</b>	<b>517,745</b>	<b>754,230</b>	<b>127,677</b>	<b>10,461,836</b>	<b>4,234,862</b>	<b>501,168</b>	<b>(4,944,771)</b>	<b>77,693,789</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,765,924</b>	<b>\$ 1,622,130</b>	<b>\$ 2,448,626</b>	<b>\$ 13,567,433</b>	<b>\$ 18,930,663</b>	<b>\$ 7,384,595</b>	<b>\$ (28,606,511)</b>	<b>\$ 276,087,189</b>

See accompanying independent auditor's report.

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

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

See accompanying independent auditor's report.

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

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

See accompanying independent auditor's report.

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

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

See accompanying independent auditor's report.

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

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

See accompanying independent auditor's report.