

**MIDDLESEX HEALTH SYSTEM, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2017 and 2016

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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To the Board of Directors of  
Middlesex Health System, Inc. and Subsidiaries

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Middlesex Health System, Inc. and Subsidiaries (the Corporation), a not-for-profit, non-stock corporation, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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(Continued)

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middlesex Health System, Inc. and Subsidiaries, as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Balance Sheet and Consolidating Statement of Operations and Changes in Net Assets are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Crowe Horwath LLP*

Crowe Horwath, LLP

Simsbury, Connecticut  
December 15, 2017

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<i>(In thousands)</i>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 24,035	\$ 25,051
Certificates of deposit	99	99
Short-term investments	31,640	30,358
Patient accounts receivable, less allowance for doubtful accounts of \$9,871 (2017) and \$8,591 (2016)	44,539	42,471
Other receivables	3,012	3,205
Prepaid and other current assets	6,101	4,772
Current portion of investments limited as to use	<u>2,004</u>	<u>1,980</u>
Total current assets	111,430	107,936
Investments limited as to use	142,589	129,683
Long-term investments	15,015	15,289
Other assets	12,893	12,674
Property and equipment, net	<u>203,611</u>	<u>207,015</u>
 Total assets	 <u>\$ 485,538</u>	 <u>\$ 472,597</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Current portion of long-term debt and capital lease obligations	\$ 4,194	\$ 4,154
Accounts payable	19,371	19,247
Accrued payroll and related liabilities	30,365	29,839
Other accrued liabilities	2,922	2,618
Current portion of estimated self-insurance liabilities	3,436	3,393
Current portion of accrued retirement liabilities	<u>43</u>	<u>43</u>
Total current liabilities	60,331	59,294
Other liabilities		
Long-term debt and capital lease obligations, less current portion	47,443	51,715
Estimated self-insurance liabilities, less current portion	25,200	22,666
Accrued retirement liabilities, less current portion	14,987	48,655
Other liabilities including estimated third-party settlements	<u>13,075</u>	<u>13,758</u>
Total other liabilities	100,705	136,794
Total liabilities	161,036	196,088
Net assets		
Unrestricted	306,467	259,367
Temporarily restricted	10,604	10,163
Permanently restricted	<u>7,431</u>	<u>6,979</u>
Total net assets	324,502	276,509
 Total liabilities and net assets	 <u>\$ 485,538</u>	 <u>\$ 472,597</u>

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
Years Ended September 30, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
	<i>(In thousands)</i>	
<b>Operating revenue:</b>		
Patient service revenue, net of contractual allowances and other discounts	\$ 425,935	\$ 414,753
Provision for bad debts	<u>(13,747)</u>	<u>(11,388)</u>
Patient service revenue, less provision for bad debts	412,188	403,365
Other revenues	<u>11,326</u>	<u>12,659</u>
Total operating revenues	423,514	416,024
<b>Operating expenses:</b>		
Salaries, wages and fees	200,337	192,924
Fringe benefits	35,793	39,012
Purchased services	35,079	33,055
Supplies	47,412	46,238
Depreciation and amortization	26,433	25,127
State hospital tax	21,095	21,095
Interest	2,212	2,568
Other operating expenses	<u>41,455</u>	<u>37,774</u>
Total operating expenses	<u>409,816</u>	<u>397,793</u>
Income from operations	13,698	18,231
Non-operating income (expense)		
Net income from joint ventures and general partnerships	2,317	1,791
Unrestricted gifts and bequest	442	394
Net investment income	13,403	12,213
Other non-operating expenses	<u>(1,114)</u>	<u>(2,016)</u>
Total non-operating income	<u>15,048</u>	<u>12,382</u>
<b>Excess of revenue over expenses</b>	<u>\$ 28,746</u>	<u>\$ 30,613</u>

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See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (Continued)  
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<i>(In thousands)</i>	
<b>Unrestricted net assets:</b>		
Excess of revenues over expenses	\$ 28,746	\$ 30,613
Change in net unrealized gains (losses)	710	(1,712)
Change in accumulated pension charges to unrestricted net assets	16,716	(22,826)
Net assets released from restrictions for purchase of property and equipment	<u>928</u>	<u>1,106</u>
Change in unrestricted net assets	47,100	7,181
<b>Temporarily restricted net assets:</b>		
Contributions	1,339	1,855
Restricted investment income	900	-
Change in net unrealized gains	(75)	359
Net assets released from restrictions for purchase of property and equipment	(928)	(1,106)
Expenditures for intended purposes	<u>(795)</u>	<u>(800)</u>
Change in temporarily restricted net assets	441	308
<b>Permanently restricted net assets:</b>		
Contributions	451	-
Change in net unrealized gains	<u>1</u>	<u>1</u>
Change in permanently restricted net assets	<u>452</u>	<u>1</u>
Change in net assets	47,993	7,490
Net assets, beginning of year	<u>276,509</u>	<u>269,019</u>
<b>Net assets, end of year</b>	<b><u>\$ 324,502</u></b>	<b><u>\$ 276,509</u></b>

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<i>(In thousands)</i>	
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 47,993	\$ 7,490
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	26,433	25,127
Provision for bad debts	13,747	11,388
Change in accumulated pension charges to unrestricted net assets	(16,716)	22,826
Restricted contributions	(1,790)	(1,608)
Change in net unrealized and realized losses on investments	(11,896)	(8,086)
Equity earnings in joint ventures	(2,317)	(1,791)
Change in assets and liabilities		
Patient accounts receivable	(15,815)	(9,684)
Other receivables	193	657
Prepaid and other assets	(861)	(1,256)
Accounts payable and other accrued liabilities	124	260
Accrued payroll and related liabilities	526	357
Estimated self-insurance liabilities	2,577	697
Accrued retirement liabilities	(16,952)	(38,435)
Other liabilities including estimated third-party settlements	(379)	(688)
Net cash provided by operating activities	<u>24,867</u>	<u>7,254</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(23,029)	(31,983)
Short-term investments	(1,282)	(20,198)
Long-term investments	274	(5,345)
Proceeds from sales of investments limited as to use	25,391	54,397
Purchases of investments limited as to use	(26,425)	(27,776)
Changes in certificates of deposit	-	1,115
Distributions from joint ventures	1,630	1,245
Net cash used in investing activities	<u>(23,441)</u>	<u>(28,545)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	-	9,683
Repayment of long-term debt and capital lease obligations	(4,232)	(14,105)
Restricted contributions	1,790	1,608
Net cash used in financing activities	<u>(2,442)</u>	<u>(2,814)</u>
<b>Change in cash and cash equivalents</b>	(1,016)	(24,105)
Cash and cash equivalents at beginning of year	<u>25,051</u>	<u>49,156</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 24,035</u>	<u>\$ 25,051</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	\$ 2,209	\$ 2,718
Cash paid for taxes	\$ 168	\$ 217

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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**NOTE 1 - GENERAL**

Organization: Middlesex Health System, Inc. (the Corporation) is a not-for-profit, non-stock Connecticut holding company. The Corporation is the sole member/shareholder of its wholly owned subsidiaries as follows: Middlesex Hospital (the Hospital), Middlesex Health Services, Inc. (Services), Middlesex Health Resources, Inc. (Resources), MHS Primary Care, Inc. (MHSPC) dba Middlesex Medical Group (MMG), and Integrated Resources for the Middlesex Area, L.L.C. (IRMA). Middlesex Hospital is a not-for-profit acute care hospital and also has a 50% ownership in the Middlesex Center for Advanced Orthopedic Surgery, LLC. Services operates an assisted living facility. Resources owns and manages certain real estate and also owns an interest in a collection agency. MMG owns and operates physician practices. IRMA is inactive. In addition to serving as the sole member/shareholder of the subsidiary organizations, the Corporation directs all the fund raising activities on their behalf. The Corporation and its subsidiaries are collectively referred to as (the System).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the System. All intercompany accounts and transactions have been eliminated.

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).

Use of Estimates: The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also impact the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The System's significant estimates relate to revenue recognition in the valuation of bad debt and contractual allowances and in the valuation of amounts due to and from third-party payers, the estimation of self-insured professional liabilities and other contingent liabilities and the measurement of actuarially determined retirement liabilities. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash and Cash Equivalents: The System considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash balances maintained at banks are insured by the Federal Deposit Insurance Corporation (FDIC). In general, the FDIC insures cash balances up to \$250,000 per depositor, per bank. Amounts in excess of the FDIC limits are uninsured. It is the System's policy to monitor the financial strength of its banks on an ongoing basis. Amounts limited as to use by the Board of Directors or under other restrictions are excluded from cash and cash equivalents.

Short-Term Investments: Short-term investments are primarily corporate bonds and commercial paper, with maturities of three to twelve months. Amounts limited as to use by the Board of Directors or under other restrictions are excluded from short-term investments.

Certificates of Deposit: The System holds certificates of deposit with various maturity dates, subject to automatic renewals. The certificates of deposit are carried at cost, which approximates fair value.

Investments in Joint Ventures: The System has invested in joint ventures, which are accounted for under the equity method of accounting.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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

Patient Accounts Receivable and Net Patient Service Revenue: Patient accounts receivable result from health care services provided by the System. The amount of the allowance for doubtful accounts is based on management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. See Note 3 for additional information related to third-party payer programs.

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.

Long-Lived Assets: The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value and may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell. As of September 30, 2017 and 2016, no impairment was recorded.

Inventories: Inventories, included in prepaid expenses and other current assets, are valued at average cost and are used in the provision of patient care.

Investments: The System accounts for its investments in accordance with FASB ASC 320, "*Investments - Debt and Equity Securities*." Short-term investments and investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses, unless the income is restricted by donor or law. Investment income includes unrestricted realized gains and losses and unrestricted interest and dividends from Board-designated funds and donor-restricted funds included in investments limited as to use on the accompanying consolidated balance sheets. Income on short-term investment funds held by a trustee and assets deposited in the Hospital's self-insurance trust fund are reported as other revenue. If donor or law restricts the investment income, the realized investment income and losses from the donor-restricted investments are added to the appropriate restricted net assets. Unrealized gains and losses on all investments are excluded from excess of revenues over expenses and recorded as a component of net assets, except when certain declines represent an other than temporary impairment, as further discussed below.

All of the System's investments, as of September 30, 2017 and 2016, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value. Realized gains and losses, relating to available for sale securities, are determined on the specific identification basis.

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

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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

Other Than Temporary Impairment of Investments: The System accounts for other than temporary impairments in accordance with FASB ASC 320. When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings, included in non-operating income, and the cost basis of that investment is reduced. The System's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and the System's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. No impairment losses were recognized in 2017 and 2016.

Investments Limited as to Use: Investments limited as to use include assets set aside by the Board for future unspecified uses and to support education and other programs. The Board retains control over these funds and may, at its discretion, subsequently authorize the use of these funds for any purpose. Investments limited as to use also include donor restricted assets, assets held in a perpetual trust, assets held by trustees under revenue bond agreements and a self-insurance trust arrangement. The System has been named as a participating beneficiary in a perpetual trust. Under the terms of that trust, the System has the irrevocable right to receive income earned on the trust assets in perpetuity. The estimated fair value of the future payments to the System are recorded at fair value of the perpetual trust based on the System's participation.

Fair Value Measurements: The System measures fair value in accordance with FASB ASC 820, "*Fair Value Measurements and Disclosures*," which defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. 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 and liabilities (Level 1 measurements) and 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 and liabilities in active markets the System has the ability to access.

Level 2 - Inputs to the valuation methodology include:

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

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

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

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided over the term of the applicable indebtedness using a method which does not differ materially from the effective interest method. Such amortization expense is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. These costs are a reduction of long-term debt as the System was required to adopt the provisions of ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* with the issuance of these consolidated financial statements.

Recent Accounting Guidance Adopted: In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015. The System has adopted this guidance with the issuance of these consolidated financial statements. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. As of September 30, 2017 and 2016, the adoption of this guidance resulted in a reduction of other assets and corresponding reduction in long-term debt in the amounts of \$962 and \$1,029, respectively.

Property and Equipment: Property and equipment acquisitions are recorded at cost. Property and equipment donated to the System are recorded at fair value at the date of receipt. Improvements and major renewals are capitalized, and maintenance and repairs are charged to expense as incurred.

Depreciation is provided over the estimated useful life of each class of asset and is computed using the straight-line method. Estimated useful lives range from 3 to 10 years for equipment and 20 to 40 years for buildings and land improvements. A leased building is amortized over the capital lease term of 25 years.

Regulatory Environment: 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 necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, Medicare and Medicaid fraud and abuse and security and privacy of health information. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital and MMG are 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 future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The State of Connecticut Public Act No. 11-6, “*An Act Concerning the Budget for the Biennium Ending June 30, 2013 and Other Provisions Relating to Revenue*,” includes a tax on the net patient revenues of hospitals and changes to the Disproportionate Share Hospital (DSH) payments to hospitals effective for the State’s fiscal year beginning July 1, 2011. In 2017 and 2016, the Hospital incurred a tax of \$21,095. In 2017 and 2016, the Hospital received DSH payment revenue of \$2,266 and \$3,838, respectively. These transactions resulted in a combined negative impact on its income from operations of \$18,829 and \$17,257 for 2017 and 2016, respectively.

The System is required to file annual operating information with the State of Connecticut Office of Health Care Access (OHCA).

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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

Donor Restricted Gifts, Contributions and Pledges: The System encourages contributions and donations for capital replacement and expansion or other specific purposes. Unconditional promises to give cash and other assets to the system are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Unconditional promises to give are recorded as pledges receivable and are included within other receivables on the consolidated balance sheets. As of September 30, 2017 and 2016, pledges receivable included in other receivables were approximately \$743 and \$972, respectively, net of an allowance for doubtful accounts of \$190 and \$243, respectively.

When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets, as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statements of operations and changes in net assets.

Estimated Self-Insurance Liability: The Hospital has adopted a policy of self-insuring the deductible portion of its medical malpractice and general liability insurance coverage. The deductible limits were \$1,000 per claim and \$3,000 in the aggregate annually during 2017 and 2016. The Hospital, in consultation with its actuary, records as a liability an estimate of expected losses. Such liability at September 30, 2017 and 2016 totaled \$12,905 and \$10,143, respectively.

In addition, the Hospital and Services self-insure the workers' compensation program and have purchased excess insurance for those losses exceeding \$600 per occurrence during 2017 and 2016. The System, in consultation with its actuary, records as a liability an estimate of expected losses relating to the workers' compensation program. Such liability, discounted at 2.5% totaled \$7,749 and \$7,967 at September 30, 2017 and 2016, respectively.

Lastly, the Hospital has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$7,900 and \$7,949 at September 30, 2017 and 2016, respectively. Such amounts represent the actuarially determined present value of insurance claims that are anticipated to be covered by insurance. The estimated insurance claims receivable and estimated insurance claims liabilities are included in other assets and estimated self-insurance liability, respectively, in the accompanying consolidated balance sheets.

Net Asset Categories: To ensure observance of limitations and restrictions placed on the use of resources available to the System, the accounts of the System are maintained in the following net asset categories:

*Unrestricted* - Unrestricted net assets represent available resources other than donor-restricted contributions. Included in unrestricted net assets are assets set aside by the Board for future unspecified uses and to support education and other programs over which the Board retains control and may, at its discretion, subsequently use for other purposes.

*Temporarily Restricted* - Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Temporarily restricted net assets consist primarily of contributions for capital improvements and health care services.

*Permanently Restricted* - Permanently restricted net assets, which are primarily endowment gifts, have been restricted by donors to be maintained in perpetuity and that only the income earned thereon be available for specific or general purposes.

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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

Excess of Revenue Over Expenses: The consolidated statements of operations and changes in net assets include excess of revenue over expenses as the performance indicator. Changes in net assets which are excluded from the performance indicator include the change in net unrealized gains or losses on other than trading securities, equity transfers to and from affiliates, both temporarily and permanently restricted contributions and investment income, changes in perpetual trust arrangements, net assets released from restrictions for purchase of property and equipment and the change in accumulated pension charges other than net periodic benefit costs.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses and are included in income from operations. Peripheral transactions or transactions of an infrequent nature are excluded from income from operations.

Income Taxes: The Corporation, Hospital and Services are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from Federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

The Hospital's unrelated trade or business activities are generally limited to income from the laboratory and linen services departments. The laboratory provides services to patients referred by private physician practices and tests patient specimens submitted by skilled nursing facilities. The linen services department provides linen services to local physician offices and healthcare organizations.

Resources and MMG account for income taxes in accordance with FASB ASC 740, "*Income Taxes*". FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting basis of certain assets and liabilities.

As of September 30, 2017 and 2016, MMG had net operating loss carryforwards available to reduce its future Federal taxable income of approximately \$51,815 and \$43,203, respectively. This resulted in a deferred tax asset of \$17,617 and \$14,689, respectively. The carryforward periods expire at various dates through 2034. As of September 30, 2017 and 2016, MMG had net operating loss carryforwards available to reduce its future state taxable income of approximately \$41,450 and \$32,838, respectively. This resulted in a state deferred tax asset of \$3,109 and \$2,463, respectively. The state carryforward periods expire at various dates through 2035. The entire deferred tax asset associated with MMG's loss carryforwards was offset by a corresponding valuation allowance, as realization of such loss carryforwards is not assured. The change in the valuation allowance for the year ended September 30, 2017 was \$3,574. There are no other material deferred tax assets or liabilities associated with MMG.

Resources has no available Federal net operating losses at September 30, 2017 and no available state net operating losses to offset future state taxable income.

The System accounts for uncertain tax positions 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 System 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 System does not have any uncertain tax positions as September 30, 2017 and 2016. It is the System's policy to record penalties and interest associated with uncertain tax provisions as a component of operating expenses. As of September 30, 2017 and 2016, the System did not record any penalties or interest associated with uncertain tax positions. The System's prior three tax years are open and subject to examination by the Internal Revenue Service.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Reclassifications:** Certain reclassifications to the 2016 consolidated financial statements have been made in order to conform to the 2017 presentation. Such reclassifications did not have a material effect on the consolidated financial statements. Such reclassifications did not have an effect on the change in net assets and total net assets.

**Subsequent Events:** Subsequent events have been evaluated through December 15, 2017, which is the date the consolidated financial statements were issued. Management believes there are no subsequent events having a material impact on the consolidated financial statements other than what is disclosed in Note 16.

**NOTE 3 - NET PATIENT SERVICE REVENUES**

The following reconciles gross patient service revenues to net patient service revenues for the years ended September 30, 2017 and 2016:

	<u>2017</u>			<u>2016</u>		
	<u>Hospital</u>	<u>Other</u>	<u>Total</u>	<u>Hospital</u>	<u>Other</u>	<u>Total</u>
Gross patient charges	\$ 1,305,639	\$ 44,841	\$ 1,350,480	\$ 1,287,540	\$ 40,057	\$ 1,327,597
Deductions:						
Contractual allowances and discounts	(898,137)	(20,034)	(918,171)	(890,714)	(16,405)	(907,119)
Charity care	(6,375)	-	(6,375)	(5,726)	-	(5,726)
	<u>(904,512)</u>	<u>(20,034)</u>	<u>(924,546)</u>	<u>(896,440)</u>	<u>(16,405)</u>	<u>(912,845)</u>
Patient service revenue	401,127	24,808	425,935	391,101	23,652	414,753
Provision for bad debts	<u>(13,557)</u>	<u>(190)</u>	<u>(13,747)</u>	<u>(10,994)</u>	<u>(394)</u>	<u>(11,388)</u>
Net patient service revenue, less provision for bad debts	<u>\$ 387,570</u>	<u>\$ 24,618</u>	<u>\$ 412,188</u>	<u>\$ 380,107</u>	<u>\$ 23,258</u>	<u>\$ 403,365</u>

The Hospital and MMG recognize accounts receivable and patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered.

The Hospital and MMG have agreements with third-party payers that provide reimbursement at amounts different from the established billing rates. These differences, including self-insured portion of health care benefits provided at their facilities for their employees and their dependents, are accounted for as allowances in determining net patient service revenue.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 3 - NET PATIENT SERVICE REVENUES** (Continued)

Patient service revenue for the years ended September 30, 2017 and 2016, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payer sources based on primary insurance designation, is as follows:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 153,386	\$ 143,900
Medicaid	38,904	40,272
Commercial / HMO	215,565	213,149
Other third-party payers	6,785	7,406
Self-pay	<u>11,295</u>	<u>10,026</u>
Total patient service revenue, net of contractual allowances, discounts and charity care	<u>\$ 425,935</u>	<u>\$ 414,753</u>

Deductibles and copayments under third-party payment programs within the third-party payer amount above are the patient's responsibility and the Hospital and MMG consider these amounts in their determination of the provision for bad debts based on collection experience.

Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital and MMG analyze their past history and identify trends for each of their major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital and MMG analyze contractually due amounts and provide an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for payers 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 copayment balances due for which third-party coverage exists for part of the bill, the Hospital and MMG record 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. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The System's allowance for doubtful accounts, the majority of which relates to the Hospital, totaled approximately \$9,871 and \$8,591 at September 30, 2017 and 2016, respectively. The allowance for doubtful accounts allocated specifically for self-pay payers was approximately 100% and 92% of total self-pay accounts receivable as of September 30, 2017 and 2016. Overall, the total of self-pay discounts and write-offs has not changed significantly for the years ended September 30, 2017 and 2016.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 3 - NET PATIENT SERVICE REVENUES** (Continued)

The Hospital has a longstanding commitment to providing health care to all those in need, regardless of their ability to pay. The Hospital provides both free care and care at reduced rates. The costs for providing these services were calculated using an adjusted cost-to-charge ratio. The charges written off for patients that qualified for free care under the Hospital's Charity Care Program totaled approximately \$6,375 and \$5,726 in 2017 and 2016, respectively. The estimated costs for these services was \$1,781 and \$1,523 in 2017 and 2016, respectively.

During 2017 and 2016, approximately 37% and 36%, respectively, of net patient service revenue was received under the Medicare program, 9% under the state Medicaid and city welfare programs, 52% and 53%, respectively, was received from contracts with private health payers and 2% from patients and others.

As of September 30, 2017 and 2016, approximately 38% and 42%, respectively, of patient accounts receivable was due from Medicare, 12% and 11%, respectively, was due from Medicaid and city welfare, 40% and 39%, respectively, was due from private health payers and 10% and 8%, respectively was due from patients and others.

During 2017 and 2016, the Hospital revised estimates made in prior years to reflect the passage of time and the availability of more recent information. During the years ended September 30, 2017 and 2016, changes in estimates related to settlements with third-party payers for prior years increased net patient service revenue by approximately \$750 and \$650, respectively.

**NOTE 4 - OTHER REVENUE**

Other revenue consists of the following for fiscal years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Grants	\$ 2,148	\$ 2,192
Cafeteria sales	1,414	1,336
Technical laboratory income	744	739
Investment income	1,374	948
EHR income	77	831
Rental income	941	774
Purchase discounts	837	1,090
Net assets released from restriction used for operations	177	424
Miscellaneous	<u>3,614</u>	<u>4,325</u>
	<u>\$ 11,326</u>	<u>\$ 12,659</u>

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5 - INVESTMENTS**

Investments and investments limited as to use are reported at fair value based on readily determinable fair market values or estimated fair value. Donated investments are reported at fair value at the date of receipt, which is then treated as cost.

The fair value of these investments as of September 30, 2017 and 2016, are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cash	\$ 1,217	\$ 2,936
Money market funds	3,995	3,846
Mutual funds:		
Equity	79,267	76,052
Fixed income	49,466	30,098
Common stock:		
U.S. equity	7,439	8,039
Non-U.S. equity	-	93
Corporate debt securities	46,654	56,246
Exchange-traded products	<u>3,210</u>	<u>-</u>
Total	<u>\$ 191,248</u>	<u>\$ 177,310</u>

Certificates of deposit are not classified as investments and therefore are not included in the table above.

The fair values of investments limited as to use consisted of the following, as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Funds held in trust under revenue		
bond agreements	\$ 1,275	\$ 1,300
Self-insurance liability	9,961	10,752
Board-designated funds	115,512	102,995
Donor-restricted funds	<u>17,845</u>	<u>16,616</u>
Total	<u>\$ 144,593</u>	<u>\$ 131,663</u>

Total gross unrealized losses as of September 30, 2017 amounted to \$930 and the fair value of those investments was \$17,098. As of September 30, 2017 no material investments were in an unrealized loss position for greater than 12 months. Based upon the evaluation of the criteria as identified in Note 2, the System does not consider any of these securities to be other than temporarily impaired as of September 30, 2017 and 2016.

Included in net investment income for the years ended September 30, 2017 and 2016, was interest and dividend income of \$2,143 and \$2,740, respectively, and realized gains on sales of investments of \$11,260 and \$9,473, respectively.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 6 - FAIR VALUE MEASUREMENTS**

The following tables present the financial instruments, carried at fair value, as of September 30, 2017 and 2016, by the valuation hierarchy. These tables include cash equivalents, certificates of deposit, assets limited as to use, debt service funds and long-term investments:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2017</u>				
Cash and cash equivalents	\$ 1,217	\$ -	\$ -	\$ 1,217
Certificate of deposit	99	-	-	99
Money market funds	3,995	-	-	3,995
Equities				
Mutual funds				
Equity	79,267	-	-	79,267
Fixed income	49,466	-	-	49,466
Common stock				
U.S. equity	7,439	-	-	7,439
Fixed income				
Exchange-traded products	3,210	-	-	3,210
Corporate debt securities	<u>-</u>	<u>46,654</u>	<u>-</u>	<u>46,654</u>
 Total	 <u>\$ 144,693</u>	 <u>\$ 46,654</u>	 <u>\$ -</u>	 <u>\$ 191,347</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2016</u>				
Cash and cash equivalents	\$ 2,936	\$ -	\$ -	\$ 2,936
Certificate of deposit	-	99	-	99
Money market funds	3,846	-	-	3,846
Equities				
Mutual funds				
Equity	76,052	-	-	76,052
Fixed income	30,098	-	-	30,098
Common stock				
U.S. equity	8,039	-	-	8,039
Non-U.S. equity	93	-	-	93
Fixed income				
Corporate debt securities	<u>-</u>	<u>56,246</u>	<u>-</u>	<u>56,246</u>
 Total	 <u>\$ 121,064</u>	 <u>\$ 56,345</u>	 <u>\$ -</u>	 <u>\$ 177,409</u>

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 6 - FAIR VALUE MEASUREMENTS** (Continued)

The amounts reported in the tables above exclude assets invested in the System's defined benefit pension plan.

The Hospital's long-term debt obligations are reported at carrying value. The fair value of the Hospital's long-term debt obligations, excluding capitalized lease obligations and privately placed bond obligations, is approximately \$44,171 and \$49,067 at September 30, 2017 and 2016, respectively. The fair value of Services' long-term debt obligations was approximately \$3,350 and \$4,080 at September 30, 2017 and 2016, respectively. The fair value of the bonds payable is based on quoted market prices for the related bonds and other valuation considerations. The fair value of other debt is based upon discounted cash flow analyses. Fair value of debt is classified as Level 2 within the fair value hierarchy.

The valuation methodologies used to determine the fair values of assets under the "exit price" notion reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes relevant observable market inputs over unobservable inputs. The System determines the fair values of certain financial assets based on quoted market prices where available and where prices represent a reasonable estimate of fair value. The following is a discussion of the methodologies used to determine fair values for the financial instruments listed in the above tables:

Mutual funds, common stock and exchanged-traded products are traded actively on exchanges and price quotes for these shares are readily available. For corporate debt securities and U.S. government and agency obligations multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. A primary price source is identified based on asset type, class or issue for each security. The fair values of fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences. The fair value of certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

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 System 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.

As of September 30, 2017 and 2016, the System's other financial instruments include cash and cash equivalents, accounts payable, accrued expenses and estimated settlements due to third-party payers. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 7 - PROPERTY AND EQUIPMENT, NET**

Property and equipment and the related accumulated depreciation as of September 30, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 14,651	\$ 14,651
Buildings and fixed equipment	308,715	294,715
Other equipment	198,472	186,531
Leasehold improvements	<u>8,834</u>	<u>8,374</u>
 Total property and equipment	 530,672	 504,271
 Less: accumulated depreciation	 <u>(337,157)</u>	 <u>(310,738)</u>
	193,515	193,533
Construction-in-progress (estimated cost to complete \$4,050)	<u>10,096</u>	<u>13,482</u>
 Property and equipment, net	 <u>\$ 203,611</u>	 <u>\$ 207,015</u>

Depreciation expense was \$26,426 and \$25,125 in fiscal years 2017 and 2016, respectively.

Included within buildings and fixed equipment above is a building with a net book value of \$456 and \$494 as of September 30, 2017 and 2016, respectively, for which MMG has a capital lease obligation.

The following is a schedule of future minimum rentals under operating lease agreements:

Fiscal year ending:	
2018	\$ 5,425
2019	4,115
2020	2,582
2021	2,189
2022	1,684
Thereafter	<u>6,578</u>
	<u>\$ 22,573</u>

Total rental expense under operating leases for the years ended September 30, 2017 and 2016 was approximately \$5,500 and \$6,060, respectively.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 8 - LONG-TERM DEBT**

As of September 30, 2017 and 2016, the System's long-term debt consisted primarily of the following State of Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds and certain mortgage notes payable and capital leases, which are secured by certain real estate and other real property.

	<u>2017</u>	<u>2016</u>
Fixed rate revenue bonds, series N, due July 1, 2027	\$ 23,715	\$ 26,220
Fixed rate revenue bonds, series O, due July 1, 2036	17,080	17,685
Fixed rate revenue bonds, series P, due July 1, 2027	8,518	9,392
Mortgage notes and capital leases, net of interest	<u>643</u>	<u>814</u>
	49,956	54,111
Add: bond premium	2,643	2,787
Less: unamortized finance costs	(962)	(1,029)
Less: current portion	<u>(4,194)</u>	<u>(4,154)</u>
	<u>\$ 47,443</u>	<u>\$ 51,715</u>

In July of 2011, the Hospital entered into a debt agreement with CHEFA for issuance of CHEFA Series N Revenue Bonds (Series N Bonds) for \$31,930. The proceeds from the Series N Bonds, net of amounts used to establish required reserve accounts, were used to redeem the Series H Bonds. The Series N Bonds were issued at a premium of \$1,873, which will be amortized as a component of interest expense over the term of the CHEFA Series N debt agreement. The Series N Bonds are due on various dates through July 1, 2027 at interest rates between 3.0% to 5.0%.

A portion of the Series N Bonds mentioned above were issued on behalf of Services. As a member of the obligated group, the Hospital is a guarantor of this portion of the Series N Bonds. The outstanding balance of these bonds was \$3,480 and \$3,785 as of September 30, 2017 and 2016, respectively.

In May of 2015, the Hospital entered into a debt agreement with CHEFA for issuance of CHEFA Series O Bonds for \$18,275. The proceeds from the Series O Bonds, net of amounts used to establish required reserve accounts, were used to redeem the Series L Bonds. The Series O Bonds were issued at a premium of \$1,217, which will be amortized as a component of interest expense over the term of the CHEFA Series O debt agreement. The Series O Bonds are due on various dates through July 1, 2036 at interest rates between 3.2% to 3.8%.

In June of 2016, the Hospital entered into a new debt agreement with TD Bank, N.A. as assignee of CHEFA for issuance of CHEFA Series P Bonds for \$9,683. The proceeds from the Series P Bonds, net of amounts used to establish required reserve accounts, were used to redeem the CHEFA Series M Auction Rate Bonds (Series M Bonds). The Series P Bonds are due on July 1, 2027 at an interest rate of 1.87%.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 8 - LONG-TERM DEBT** (Continued)

The Hospital and Services are required to maintain certain deposits with a trustee relating to its outstanding CHEFA bonds. Such deposits are included in investments limited as to use in the accompanying consolidated balance sheets and consist of \$1,294 and \$1,300 in debt service funds as of September 30, 2017 and 2016. All of the outstanding CHEFA bonds and mortgage notes place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance, as long as the bonds and mortgage notes are outstanding. All of the outstanding CHEFA bonds are secured by the gross receipts of the Hospital.

The CHEFA bonds are generally issued at an original premium or discount. This premium or discount is amortized as a component of interest expense over the term of the related CHEFA debt. Amortization is provided over the term of the applicable indebtedness using a method which does not differ materially from the effective interest method.

In 2010, MMG entered into a 15-year capital lease in the amount of \$835 with an interest rate of 6.5% for a building. The outstanding balance on this capital lease at September 30, 2017 and 2016 was \$551 and \$601, respectively.

Aggregate scheduled repayments on long-term debt and capital lease payments are as follows:

	Long-term <u>Debt</u>	Mortgage Notes / Capital <u>Leases</u>
2018	\$ 4,124	\$ 70
2019	4,249	110
2020	4,394	110
2021	4,564	110
2022	4,739	110
Thereafter	<u>27,243</u>	<u>250</u>
	49,313	760
Add: bond premium	2,643	-
Less: unamortized finance costs	(962)	-
Less: interest	<u>-</u>	<u>(117)</u>
Total	<u>\$ 50,994</u>	<u>\$ 643</u>

As of September 30, 2017 and 2016, the System is in compliance with all financial covenants related to the previously noted debt.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 9 - DEFINED BENEFIT RETIREMENT PLAN**

The Hospital sponsors several retirement plans, including a noncontributory, defined benefit pension plan (the Plan) covering substantially all of its employees. The Plan's benefits are based on years of credited service and average base pay during the employees' five highest-paid consecutive calendar years of credited service. The Plan is funded in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) minimum funding requirements.

On September 20, 2013, the Hospital amended the Plan to reflect a freeze in participants' eligible compensation recognized for purposes of determining average monthly compensation in the calculation of their accrued benefit, effective as of the participants' termination of employment or December 31, 2016, whichever occurs first.

The following tables provide a reconciliation of the changes to the Plan's benefit obligations and fair value of Plan assets for the years ended September 30, 2017 and 2016, as well as a statement of the funded status of the Plan as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accumulated benefit obligation	\$ <u>287,185</u>	\$ <u>295,129</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 296,814	\$ 262,514
Interest cost	10,218	11,170
Actuarial (gain) loss	(9,696)	33,049
Settlements	750	-
Benefits paid	<u>(10,899)</u>	<u>(9,919)</u>
Projected benefit obligation at end of year	287,187	296,814
Change in plan assets:		
Fair value of plan assets, beginning of year	251,109	200,984
Actual return on plan assets	19,528	22,294
Employer contributions	15,050	37,750
Settlements	564	-
Benefits paid	<u>(10,899)</u>	<u>(9,919)</u>
Plan assets at end of year	<u>275,352</u>	<u>251,109</u>
Funded status	\$ <u>(11,835)</u>	\$ <u>(45,705)</u>
Amounts recognized in balance sheets consist of:		
Current liability	\$ (43)	\$ (43)
Noncurrent liability	<u>(11,792)</u>	<u>(45,662)</u>
Net amount recognized	\$ <u>(11,835)</u>	\$ <u>(45,705)</u>
Amounts recognized as accumulated charges to unrestricted net assets consist of:		
Net actuarial loss	\$ <u>91,294</u>	\$ <u>108,010</u>

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 9 - DEFINED BENEFIT RETIREMENT PLAN** (Continued)

Changes in plan assets and benefit obligation recognized in unrestricted net assets include:

	<u>2017</u>	<u>2016</u>
Unrealized actuarial (gain) loss	\$ (13,996)	\$ 24,645
Amortization of net loss	<u>(2,720)</u>	<u>(1,819)</u>
Total plan	<u>\$ (16,716)</u>	<u>\$ 22,826</u>

The net actuarial loss included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ending September 30, 2018 is approximately \$2,286.

The following table provides the components of the net periodic benefit cost for the Plan for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Components of net periodic benefit cost (income):		
Interest cost	\$ 10,218	\$ 11,170
Expected return on plan assets	(15,049)	(13,891)
Amortization of unrecognized net actuarial loss	<u>2,739</u>	<u>1,819</u>
Net periodic benefit income	<u>\$ (2,092)</u>	<u>\$ (902)</u>

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the years ended September 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Weighted average assumptions as of September 30:		
Discount rate (obligation - see below)	3.75%	3.50%
Discount rate (service cost - see below)	3.50%	4.35%
Expected long-term return on plan assets	6.00%	6.75%
Rate of compensation increase	3.50%	3.50%

The discount rate is based on high-grade bond yield curve under which benefits were projected and discounted at spot rates along the curve. The discount rate was then determined as a single rate yielding the same present value.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 9 - DEFINED BENEFIT RETIREMENT PLAN** (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity	\$ 71,536	\$ -	\$ -	\$ 71,536
Common stock:				
U.S. equity	7,047	995	-	8,042
U.S. treasury and government agencies	8,423	121,055	-	129,478
Corporate bonds	-	31,150	-	31,150
Pooled, common and collective	-	32,074	-	32,074
Money market funds	<u>3,072</u>	<u>-</u>	<u>-</u>	<u>3,072</u>
 Total	 <u>\$ 90,078</u>	 <u>\$ 185,274</u>	 <u>\$ -</u>	 <u>\$ 275,352</u>

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity	\$ 138,231	\$ -	\$ -	\$ 138,231
Common stock:				
U.S. equity	15,051	-	-	15,051
U.S. treasury and government agencies	-	44,949	-	44,949
Corporate bonds	-	40,751	-	40,751
Asset-backed obligations	-	7,172	-	7,172
Mortgage-backed obligations	-	3,010	-	3,010
Money market funds	<u>1,945</u>	<u>-</u>	<u>-</u>	<u>1,945</u>
 Total	 <u>\$ 155,227</u>	 <u>\$ 95,882</u>	 <u>\$ -</u>	 <u>\$ 251,109</u>

Mutual funds and common stock are traded actively on exchanges and price quotes for these shares are readily available. For corporate debt securities and U.S. government and agency obligations multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. A primary price source is identified based on asset type, class or issue for each security. The fair values of fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences. Primary inputs of asset-backed and mortgage-backed obligations include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, credit default swap indices and estimated prepayment rates.

(Continued)

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**NOTE 9 - DEFINED BENEFIT RETIREMENT PLAN** (Continued)

The Plan's weighted average asset allocations at September 30, 2017 and 2016, by asset category, are as follows:

	<u>Target Allocation</u>	<u>Actual Asset Allocation</u>	
		<u>2017</u>	<u>2016</u>
Asset category:			
Equity securities	30%	29%	62%
Debt securities	<u>70%</u>	<u>71%</u>	<u>38%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The investment policy, as established by the Investment Committee, was to equal or exceed the rate of return of a benchmark comprising 60% of a set of stock indexes, 35% of a custom bond index and 5% of the Salomon Smith Barney World Government Bond Index. For performance evaluation purposes, all rates of return will be examined on a net-of-fee basis. Plan assets are to be broadly diversified so as to limit the impact of large losses in individual investments on the total portfolio. The asset allocation is reviewed on a quarterly basis. The allocation was modified in 2017 as a result of future plans for the Hospital to terminate the Plan. Refer to Note 16.

As disclosed in Note 16, with the Hospital's plans to terminate the Plan, the Hospital is currently funding the Plan in accordance with ERISA requirements and is working with its actuary to determine the final funding requirements up until the termination date.

The following benefit payments, which reflect expected future service for the retirement plans, are expected to be paid as follows:

2018	\$ 11,506
2019	12,153
2020	12,760
2021	13,312
2022	13,877
2023-2027	<u>75,853</u>
Total	<u>\$ 139,461</u>

The System does not provide post-retirement medical or health insurance benefits.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 10 - DEFINED CONTRIBUTION PLANS**

Effective January 1, 2010, the Hospital implemented a new retirement program called the Middlesex Retirement Savings and Investment Plan which provides an automatic core contribution and a matching contribution when participants choose to make pre-tax contributions. The Hospital matches 50% of the first 4% that an employee contributes. In addition, employees become eligible for a core contribution upon completion of 12 months of service provided they earn at least 1,000 hours of service in a calendar year and are actively employed on December 31, unless they retire or become disabled. The core contribution, which ranges from 2-6% of eligible pay, is based on the employee's age and years of service on December 31. The Hospital's total contributions to the plan, including matching and core contributions, totaled \$8,809 and \$8,857 in 2017 and 2016, respectively. In addition, a core contribution of \$4,697, which is scheduled to be paid in 2018, is included in accrued payroll and related liabilities in the accompanying consolidated balance sheets.

In addition, the Hospital sponsors other defined contribution plans for eligible employees. The Hospital's contributions to these plans totaled approximately \$431 and \$603 in 2017 and 2016, respectively.

Services sponsors a 403(b) retirement savings plan (the Savings Plan) for its employees. The Savings Plan allows participants to contribute up to 10% of their annual compensation, not to exceed certain limitations. There is no matching contribution from Services.

MMG sponsors a defined contribution profit sharing plan (the Plan) for its eligible employees. Participants may elect to defer amounts as allowed under the Plan and Internal Revenue Code. The employer match equals 100% of the first 3% of participant elective deferrals plus 50% of the next 2% of participant elective deferrals. In addition, MMG may make discretionary contributions as determined by the board of directors of MMG. For the years ended September 30, 2017 and 2016, MMG made matching contributions in the amount of \$461 and \$395, respectively.

**NOTE 11 - ESTIMATED SELF-INSURANCE LIABILITIES AND OTHER CONTINGENCIES**

There have been malpractice, general liability, and workers' compensation claims that fall within the Hospital's partially self-insured program (see Note 2) which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2017 that may result in the assertion of claims.

The Hospital has established an irrevocable trust, funded based upon actuarially determined funding levels, to provide for the payment of malpractice and general liability claims and related expenses. The assets of the trust are reported in the accompanying consolidated financial statements as investments limited as to use.

In addition, the System is involved in litigation arising in the ordinary course of business. In the opinion of System's management, the ultimate resolution of these claims will not have a material impact on the System's consolidated financial position or results of operations and changes in net assets or cash flows.

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 12 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets are those whose use by the System has been limited by the donors for a specific purpose. Temporarily restricted net assets are available for the following purposes as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Education	\$ 2,470	\$ 2,302
Healthcare services	3,053	2,551
Capital and other	<u>5,081</u>	<u>5,310</u>
Total	<u>\$ 10,604</u>	<u>\$ 10,163</u>

Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity. Permanently restricted net assets as of September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Free beds	\$ 1,568	\$ 1,565
Support of hospital operations	5,176	4,726
Other	<u>687</u>	<u>688</u>
Total	<u>\$ 7,431</u>	<u>\$ 6,979</u>

The Organization holds a permanently restricted net asset in the amount of \$2,595 included above within support of hospital operations in the form of a perpetual trust, which has been recorded as a component of investments limited as to use on the consolidated balance sheets.

**NOTE 13 - ENDOWMENTS**

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance on investment decisions and endowment expenditures for nonprofit organizations. The System has interpreted UPMIFA as requiring the preservation of the fair value of the original gift at the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the System classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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.

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 13 - ENDOWMENTS** (Continued)

The Hospital's endowments consist of 13 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment funds consist of the following as of September 30, 2017:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,211	\$ 4,836	\$ 11,047
Board-designated endowment funds	<u>107,481</u>	<u>-</u>	<u>-</u>	<u>107,481</u>
Balance as of September 30, 2017	<u>\$ 107,481</u>	<u>\$ 6,211</u>	<u>\$ 4,836</u>	<u>\$ 118,528</u>

Endowment funds consist of the following as of September 30, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 5,581	\$ 4,384	\$ 9,965
Board-designated endowment funds	<u>93,361</u>	<u>-</u>	<u>-</u>	<u>93,361</u>
Balance as of September 30, 2016	<u>\$ 93,361</u>	<u>\$ 5,581</u>	<u>\$ 4,384</u>	<u>\$ 103,326</u>

Changes in endowment funds for the year ended September 30, 2017, are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balance as of October 1, 2016	\$ 93,361	\$ 5,581	\$ 4,384	\$ 103,326
Investment return				
Investment income	13,403	253	-	13,656
Net appreciation	<u>805</u>	<u>18</u>	<u>1</u>	<u>824</u>
Total investment return	14,208	271	1	14,480
Contributions	-	-	451	451
Appropriation of endowment assets for expenditure	<u>(88)</u>	<u>359</u>	<u>-</u>	<u>271</u>
Balance as of September 30, 2017	<u>\$ 107,481</u>	<u>\$ 6,211</u>	<u>\$ 4,836</u>	<u>\$ 118,528</u>

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 13 - ENDOWMENTS** (Continued)

Changes in endowment funds for the year ended September 30, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of October 1, 2015	\$ 112,195	\$ 5,436	\$ 4,383	\$ 122,014
Investment return				
Investment income	12,212	135	-	12,347
Net (depreciation) appreciation	<u>(1,797)</u>	<u>175</u>	<u>1</u>	<u>(1,621)</u>
Total investment return	10,415	310	1	10,726
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	<u>(29,249)</u>	<u>(165)</u>	<u>-</u>	<u>(29,414)</u>
Balance as of September 30, 2016	<u>\$ 93,361</u>	<u>\$ 5,581</u>	<u>\$ 4,384</u>	<u>\$ 103,326</u>

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specified period as well as Board-designated funds. The Hospital's spending policy authorizes the use of up to 5% of the fiscal year's beginning fair market value of each donor-restricted and Board-designated fund each year. In addition, total expenditures from all funds shall not exceed 2% of the total fair market value of the total endowment fund as of the beginning of the fiscal year.

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

The Hospital follows a policy of spending an amount that approximates the investment income earned, in addition to specific purchases of capital equipment. Accordingly, the Hospital expects its spending policy will allow its endowment funds to be maintained in perpetuity by growing at a rate at least equal to the planned payouts. Additional real endowment growth will be provided through new gifts and any excess investment return.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 14 - FUNCTIONAL EXPENSES**

The System provides general healthcare services to residents primarily within their geographic location. Functional expenses related to their operating activities for the fiscal years ended September 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Healthcare services	\$ 365,667	\$ 356,946
General and administrative	<u>44,149</u>	<u>40,847</u>
Total	<u>\$ 409,816</u>	<u>\$ 397,793</u>

**NOTE 15 - RELATED PARTY TRANSACTIONS**

During 2017 and 2016, the System's entities entered into various related party transactions. All significant intercompany accounts and transactions have been eliminated in consolidation.

**NOTE 16 - SUBSEQUENT EVENT**

On November 17, 2017, the Board of Directors of Middlesex Health System, Inc. voted to terminate the defined benefit pension plan disclosed in Note 9 and authorized Middlesex Health System to take such steps and measures and engage advisors as may be necessary to terminate the Plan effective February 28, 2018.

Effective November 21, 2017, a portion of the Series N Bonds, as described in Note 8, were refinanced as part of a new Series Q Bond issuance.

**NOTE 17 - COMMUNITY BENEFIT** (Unaudited) (Statistical information in whole numbers)

Community Benefit Program: Continuous dedication to the communities we serve remains the hallmark of Middlesex Hospital's purpose. Middlesex Hospital's mission is to provide the safest, highest quality health care and the best experience possible for our community. We have a long-standing commitment to community benefit and providing programs/services that meet identified need, most specifically for underserved and vulnerable populations. Our community benefit program exemplifies our core purpose of bettering the health of the community we serve. We understand the importance of measuring community health and uncovering barriers to care, creating evidence-based programs that respond to identified need and collaborating with community partners to develop meaningful and sustained health improvement.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 17 - COMMUNITY BENEFIT** (Unaudited) (Continued)

Middlesex Hospital's Community Benefit program was formalized in 2006 as a natural outgrowth for housing our long-standing community services under one roof. Since then, strengthening our Community Benefit program with targeted programs to address community health and wellbeing needs and promoting community-wide health improvement services has been an annual priority initiative for our Hospital's leadership and remains a core institutional program. Our comprehensive Community Benefit model encompasses the following domains: executive involvement and commitment; a defined reporting structure; dedicated staffing resources; governance engagement; staff participation; annual goals; inclusion in annual organizational planning; internal and external communications; and inclusion of community members and agency partners. This footnote provides an overview of Middlesex Hospital's community benefit activities, organized by the categorical accounting standards as determined by the Catholic Health Association/VHA structure (*Catholic Health Association, "A Guide For Planning and Reporting Community Benefit"*). Community Health Improvement Services: The Hospital subsidizes a vast range of community health education and health improvement programs, none of which are developed for marketing purposes, all of which are supported as a means of fulfilling the Hospital's mission to serve its community. Almost 100% of the time these services are offered free of charge; in the rare instance where a nominal fee is assessed, the cost of providing the service is not covered. Community health education is provided to the community at large, including (but not limited to) local schools, colleges, assisted living and skilled nursing facilities, small businesses and chamber of commerce, local health care provider agencies, non-Hospital affiliated healthcare providers, and social services. Some of the programs represent one time events, however most are ongoing and over the years have become entrenched in the community as a source of support and continued education for a healthful future. Community health education is provided by the Hospital in many formats including lectures, written materials, interactive presentations and other group programs/activities. Examples of health educational programming include (but are not limited to):

- Community Education Presentations: Including cancer prevention, integrative medicine, caregiver resources, disease management, stroke education, fall prevention.
- Health and Wellness Events/Health Fairs: It is common practice for the Hospital's staff members to answer the call of the community any time a request is made for educational support – one example is the annual request by Connecticut Valley Hospital, the state's department of mental health and addiction services, for the Hospital to participate in its employee and patient day-long health fair - the Hospital provides staffing to share information on multiple health topics to 400+ attendees, which includes a vulnerable general patient population as well as those held in the forensic division. The Hospital regularly participates in area health fairs/wellness events to share critical health information on topics and services including: diabetes; asthma; chronic obstructive pulmonary disease; slips and fall prevention and safety; blood pressure screenings; cancer awareness including breast, prostate and skin; smoking cessation data and information; bone density screening; maternal child health education; rehabilitation therapy; and youth behavioral health issues.
- Support Groups: The Hospital provides, at no charge, many support groups for patients and their families in response to the community's need for additional support in addressing the social, psychological or emotional issues that often occur in connection with disease, disability and grief. The support and skills of trained professionals offer self-help techniques and wellness/health-promotion. Support groups include: bereavement; diabetes; stroke; prostate cancer; lung cancer; leukemia, lymphoma, and multiple myeloma; breastfeeding; and the Better Breather's Club.

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**NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)**

- Cancer Center Health Awareness: As facing cancer can be one of life's most challenging experiences for patients, the Hospital's Cancer Center provides extensive free-of-charge services in an educational and supportive environment. An emphasis is placed on including family members in all support services. In addition to the substantial number of cancer-related support groups, the Cancer Center offers – at no cost – an annual Breast Cancer Awareness event; annual Cancer Survivor's Day; annual prostate event; annual Healthy Living Through Prevention wellness event; an art therapy program; movement through dance; nutrition and exercise class for breast cancer patients; wig room; and a comprehensive educational series with a multi-dimensional approach to defining cancer – including dealing with side effects, the importance of nutrition and exercise, coping with emotions and spirituality, alternative and integrative medicine therapies, and methods for communication.
- Maternal Child Support: To reach out to the community's vulnerable population, the Hospital's Pregnancy and Birth Center (PBC) waives class fees for participants from the Hospital's Family Advocacy Maternal Child Health Program – a comprehensive service within the Behavioral Health Department that outreaches to low-income families lacking necessary resources. Tuition waiver allows access for Family Advocacy members to PBC's Newborn & Infant classes, Breastfeeding classes, and Prepared Childbirth classes.
- Health Literature: Providing no-cost access to health care literature and resources to the public is possible through the Hospital's libraries and publications. The Hospital's main campus and Cancer Center libraries encourage community use of health and medicine resource information. The community, including students, patients, non-employed nurses and physicians routinely utilizes the library's extensive collection of books and periodicals and depends on librarian support as a part of information gathering. In addition, the Cancer Center issues a quarterly newsletter (2,500 household mailing) that reviews cancer-related and health living topics.

Throughout the year the Hospital provides a number of community-based clinical services, including clinics and screenings offered on a reoccurring basis or as a special event. The Hospital views screenings and clinics as valuable secondary prevention measures that enable the detection of early illness/disease onset, bring awareness to the screened individual regarding the importance of detection and early treatment intervention, and provide referral when appropriate and necessary. These services are offered to meet identified community needs and/or improve community health. Examples of the Hospital's community based clinical services offered to the community at large throughout the year include (but are not limited to): annual flu shots and free blood pressure and cholesterol clinics provided by the Hospital's Homecare department, a subsidized service, to local seniors; free flu immunizations offered to those who are unable to pay; and community-wide free screenings for blood pressure.

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
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**NOTE 17 - COMMUNITY BENEFIT** (Unaudited) (Continued)

Healthcare support services include all programs offered by the Hospital in order to increase access and quality of care to individuals, especially those living in poverty and/or other vulnerable populations. As these services represent targeted programs and interventions based on need, they are critical for assisting patients in achieving improved health and wellness. Given the intensity and duration of the initiatives, life-long positive impacts are often realized. Examples include (but are not limited to):

- Center for Chronic Care Management (CCCM) Disease Management: The CCCM has been in existence for over 11 years and has served 10,000+ patients. The impetus for the center was an identified sub-set of repeat users of emergency department and inpatient services for asthma. A multidisciplinary team was tasked with examining notable resource gaps for this ambulatory care sensitive condition (that is, one that should be treated in the outpatient setting). A deficit of available outpatient services and coordination of care for asthmatics resulting in barriers for achievement of self-management was identified and in response, using the Chronic Care Model, an evidence-based, patient-centered outpatient asthma service for adults (AIRMiddlesex) and children (LittleAIR) was designed and implemented, offering a comprehensive and systematic approach to the management of asthma as a chronic illness. The asthma care program became the prototype for identifying and meeting community need for chronic care interventions by adding accessible and oftentimes free-of-charge outpatient services. Added services include diabetes disease management (provided since mid-1990, formalized in 2001) and its component medical nutrition therapy; smoking cessation (1999); chronic heart failure (2005); and Chronic Pulmonary Obstructive Disorder (2015). The Center's disease management programs have evolved as a critical part of the health delivery system in Middlesex County by filling unmet chronic care needs. Within the CCCM model, special attention is paid to those unable to access services elsewhere: patients who experience multiple social issues, are often uninsured, are unable to achieve and sustain improved health, and frequently encounter barriers to care. Most programs are offered at no cost to the patient and the program is therefore heavily underwritten by the Hospital. Each of CCCM's initiatives cooperate with community agencies to provide chronic disease management education.
- Cancer Care Management: The Cancer Care Program is a free program offered to patients with a breast, colorectal, lung, prostate, testicular, bladder, gyn, kidney among other cancer diagnoses. With compassion, reassurance and expert knowledge, the Nurse Navigators assist cancer patients in navigating the complex maze from diagnosis through the prescribed treatment and recovery phases of their illness. Additional support is given through education regarding medication and self-care requirements. The Navigators work with the network of specialists and technicians to ensure that the succession of tests and treatments are expedited in the best sequence with full consideration of the patient's needs.
- Transportation & Prescription Voucher Assistance: The Hospital provides a no-cost transportation service for patients requiring radiation oncology treatment who struggle with transportation - with a special emphasis on providing the service for the elderly. Transportation vouchers are supplied to patients in urgent situations and prescription vouchers are given to help to defray costs for patients who are unable to pay for medication.
- Financial Counseling: The Hospital provides information about its financial assistance program to all patients and makes this assistance available to individuals who meet established guidelines. Financial Counselors and social workers are available to answer questions and aid in the application process. In addition, the Hospital has an internal committee that monitors its financial assistance processes, reviews guidelines for appropriateness, and makes adjustments as needed to ensure optimal accessibility to the support.

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**NOTE 17 - COMMUNITY BENEFIT** (Unaudited) (Continued)

- Alternative to Hospitalization Program (ATH): ATH is a collaborative system offered in the Hospital's Emergency Department where staff works with state behavioral health services to identify eligible individuals for linkage to community-based substance abuse treatment programs.
- Women, Infants and Children (WIC) Program: WIC serves to safeguard the health of low-income women, infants, and children up to age five who are at nutritional risk by providing nutritious foods to supplement diets, information on healthy eating, and referrals to health care. Middlesex Hospital recently became the local subcontractor for WIC when the City of Middletown Health Department, after 25 years, was unable to renew the contract. In addition, due to significant city budget cut-backs, the Middletown program had merged with another county, which made accessibility challenging for local WIC clients. When community members suggested the Hospital assume the program, the Hospital agreed with the importance of keeping the program local, improving accessibility of services, and responding to community need. The service currently resides under the Hospital's comprehensive Family Advocacy Maternal Child Health program which provides support and outreach to a segment of the community's at-risk population.
- Community Care Team (CCT): The Community Care Team is a collaboration among nine community agencies that specialize in the delivery of care for people with serious mental illness and/or substance abuse in Middlesex County. The team's objective is to provide patient-centered care and improve health outcomes by developing and implementing wrap-around services through multi-agency intervention and care planning. CCT has found that the traditional model of episodic care delivery does not adequately meet the needs of its shared population - at its center is the belief that collaborations strengthen communities and can significantly impact outcomes if provided in both an evidence-based and innovative manner. The partners offer patients CCT intervention and team members meet on a weekly basis to review cases, uncover service gaps, and develop individualized care plans. Common traits of CCT patients include behavioral health problems, disjointed care/lack of care coordination, poor primary care connections, housing issues, lack of a social network, noncompliance, loneliness/hopelessness and over-use of Emergency Department services.
- Opportunity Knocks (OK) was formed in 2003 when three Middletown community leaders specializing in early childhood development - Middlesex Hospital's Medical Director of Nurseries & Pediatric Faculty for the Family Practice Residency Program, Middlesex Hospital's Family Advocacy Maternal Child Health Program supervisor and Middletown's School Readiness coordinator - recognized that the health and developmental needs of Middletown's high-need young children could best be met through a coalition that crossed a variety of sectors. The multidisciplinary community coalition comprised of local health and social service agencies, early care and education providers, not-for-profit organizations and parents established goals that focused on the health and well-being of at-risk children ages 0-5. Since the inception of the program, Opportunity Knocks has served approximately 6,200 children ages 0-5 and countless family members. Middlesex Hospital provides OK's program planner, physician champion, grant-writing support and fiscal administration for the funding sources. In addition, staff members from multiple Hospital departments actively participate in the collaborative, including representatives from Family Advocacy Maternal Child Health, Diabetes Management, Asthma Management, Fit For Kids, Family Practice, the Family Medicine Residency program, and the Pregnancy & Birth Center.

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**NOTE 17 - COMMUNITY BENEFIT** (Unaudited) (Continued)

Health Professions Education: Helping to prepare future health care professionals is a long-standing commitment of Middlesex Hospital and distinguishing characteristic that constitutes a significant community benefit. Year round, the Hospital supports health professions education for medical students, nursing students and technicians. The nationally respected *Middlesex Hospital Family Medicine Residency Program* graduates an impressive number of Family Practice physicians, many of whom continue to practice in the Middlesex County area after their training is complete. For more than 40 years the Hospital's Family Medicine Residency Program has trained physicians for a future in family practice. The educational curriculum encompasses a balanced approach in the domains of practical experiences and academics; independent and supervised study; office practice and hospital care; biomedical and psychosocial issues; personal medical care and community health perspectives; and core requirements and self-directed learning. Specialty tracks include: maternal/child; palliative medicine/geriatric; international health; integrative medicine; academic and leadership. To strengthen commitment to community health, each resident is required to participate in a community project as a means of understanding the community's available resources and health needs. Many of the residency projects have developed into on-going support programs for community members.

In addition to its Family Practice residents, the hospital welcomes medical and nursing student interns and provides on-site training during clinical rotations. Nursing students from local colleges and programs receive hands-on mentorship in the majority of clinical service lines year-round. For the nursing students, a good portion of the student-staff interaction is 1:1. The objective of the rotational format is to complement classroom learning with practical application; expose students to the integration of evidence-based practice; train students in the care for patients with complex needs; and aid students in developing the organizational, interpersonal, and critical thinking skills needed to enter the field of nursing. Other healthcare professional education includes: the Hospital's Radiology School - a 50+ year old program that graduates radiologic technologists with an associates degree, prepares them to pass the national certification test for radiographers and quality for state licensure, and operates at a loss for the Hospital; and clinical educational student training in the fields of pharmacy, social work, hospice, behavioral health, nuclear medicine, rehabilitation and physical therapy, infection prevention, phlebotomy, emergency responders, surgical services, among other areas of healthcare. The Hospital also welcomes non-clinical students for educational experience and has supported an Administrative Fellowship for 20+ years. Other student on-site educational experiences include: public health, pastoral care, biomedical, food and nutrition, linen services, finance and health information systems.

In addition to teaching within the walls of the hospital, staff members continuously work with non-Hospital employed health care providers and agencies in the community – topics have included (but are not limited to): stroke education, smoking cessation, chronic obstructive pulmonary disease, nutritional counseling, asthma, diabetes, chronic heart failure, childhood obesity, stress management, fall prevention, mammography, pain management, elder care, nurturing parenting training, and child and adolescent behavioral health. The Hospital's paramedics share their knowledge with health providers in the community on an on-going basis by providing regular EMS in-service training to volunteer emergency medical service organizations such as fire departments and ambulance associations.

Subsidized Health Services: The Hospital's subsidized health services represent a significant portion of Middlesex Hospital's annual community benefit aggregate financials and numbers served. Subsidized services are particular clinical programs provided to the community despite a financial loss, with negative margins remaining after specific dollars (charity care and bad debt) and shortfalls (Medicaid) are removed. In order to qualify as a subsidized service, the program must meet certain health delivery criteria; meet an identified need in the community; and would become unavailable or the responsibility of a governmental or another not-for-profit agency to provide if the Hospital discontinued the service. Middlesex Hospital's subsidized services for include Family Medicine Group, Behavioral Health (inpatient and outpatient), Homecare, Cardiac Rehabilitation, Paramedics, Hospice, Wound Care and Pulmonary Rehabilitation.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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**NOTE 17 - COMMUNITY BENEFIT** (Unaudited) (Continued)

- **Family Medicine Group:** The Family Medicine Group of Middlesex Hospital is made up of twelve faculty physicians and twenty-four resident physicians who are completing their four-year training in the specialty of Family Medicine (note: faculty and residency costs are captured under Health Professions Education). The group has been providing high-quality medical care to Middlesex County's community members since 1974. The practice serves patients of all ages with health care often coordinated for the entire family. Referrals to specialists are made when needed, with the Family Medicine physician following patient care jointly with the specialist. In addition to caring for patients in the office, the Family Medicine physicians follow the care of their patients when they in Middlesex Hospital and some local nursing and convalescent homes. If the need arises and patients are confined to their homes, house calls can also be arranged. The Family Medicine Group is comprised of three locations: Middletown, East Hampton and Portland. Nurse health educators are available in the three family practice offices to provide counseling on health-related topics that promote a healthy lifestyle. The offices are equipped for comprehensive preventive health care procedures such as Pap smears, vision and hearing testing, pulmonary function testing, and electrocardiograms. Minor surgical procedures can also be performed in all three offices. As the Family Medicine group is within the Middlesex Hospital Health System, it relies on the broad services offered by the system. Services include access to multiple laboratory facilities for routine tests, counseling among many other outpatient service lines. In addition, all faculty physicians and resident physicians are on the staff of Middlesex Hospital. Middlesex Hospital's Family Medicine group is a critically important subsidized outpatient service as it fills a gap in primary care services and addresses access to care challenges. Middlesex County has been designated by the Health Resources and Services Administration (HRSA) to be a Medically Underserved Area experiencing a shortage of select health services which include too few primary care providers. In addition, HRSA reports that Middlesex County is a Health Professional Shortage Area (HPSA) for primary medical care.
  
- **Middlesex Hospital's Behavioral Health Program:** Provides a large spectrum of behavioral health services, including inpatient and outpatient therapy and support, child and adolescent services and a maternal child health program – and is heavily subsidized by the Hospital. The Hospital recognizes that the life disruptions caused by mental illness, severe behavioral problems, and addiction especially coupled with medical complexities can be devastating for patients and their families and is committed to providing the highest standard of care for both the physical and behavioral health needs of its psychiatric patients. Treatment is provided regardless of the patient's background and/or ability to pay. The behavioral health system at Middlesex Hospital is premised on guiding principles designed to empower each individual to attain optimal functioning in a compassionate, supportive, professional, collaborative environment. Each care plan is individualized with careful consideration of the patient's physical and mental needs and preferences. The Hospital has a 20 bed psychiatric unit for patients requiring inpatient stays; Day Treatment Program that provides intensive outpatient and partial hospital services for adolescents, adults and geriatric patients with psychiatric and co-occurring substance abuse/psychiatric disorders; Outpatient Behavioral Health Clinic that offers treatment in individual, family, and group therapy to meet general adult and senior psychiatric needs; Family Advocacy Program (FAP) that offers comprehensive psychiatric services designed to improve the lives of children, adolescents and their families and improve access to critical resources; and FAP Maternal Child Health which provides primary prevention, case management and home-based parenting skill building wrap around and support services for at-risk first time families involved in Department of Children and Families (DCF).

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
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**NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)**

- Middlesex Hospital Homecare: Recognizing the need for medical services for patients who are homebound, the Hospital's Homecare department, founded in 1900, makes over 160,000 visits per year to community residents with services available 7 days/week, 24 hours/day. While the program requires subsidy from the Hospital, it meets a vital need in community health. Staffing includes specialty nurses, home health aides, physical therapists, occupational therapists, speech therapists, medical social workers and nutritionists. The broad array of comprehensive services offered to meet the needs of the homecare patient encompass: 1) behavioral; 2) diabetes care and education; 3) specialized cardiac care; 4) geriatric care which focuses on the special needs of senior patients and includes management of conditions, complex medications and/or long-term illness; 5) infusion therapy; 6) the emergency response Lifeline program; 7) maternal/child health services; 8) hospice and palliative care services; 9) psychiatric nursing for patients with primary psychiatric illness living in the community; 10) medical rehabilitation; 11) respiratory/pulmonary care; 12) wound/ostomy care; and 13) various community health services including flu shots and health fairs.
  
- Middlesex Hospital Cardiac Rehabilitation: Cardiac Rehabilitation is a service offered by Middlesex Hospital due to community request. In response, the Hospital makes this comprehensive program available to its community members despite a financial loss. The service includes progressive cardiac-monitored exercise plans customized per individual, risk-factor education, and is designed to assist patients who have had a recent heart attack, cardiac bypass, cardiac valve surgery, coronary angioplasty, or newly stabilized angina symptoms in achieving a speedy recovery and a healthy, productive lifestyle. Services for patients (and often their caregivers) include education on diagnosis, plan of care, and the requirements necessary to best manage their condition; discussion regarding appropriate lifestyle modifications given the new diagnosis; support to help diminish the fear of appropriate exercise and guidance on level of exertion and pulse rate monitoring; and symptom management education and recognition.
  
- Middlesex Hospital Paramedics Service: Provides 24 hours/day, 7 days/week skilled emergency care and critical treatment to patients prior to arrival at the hospital. Paramedics work alongside fire and EMS personnel and are an important adjunct to emergency transport services, often administering care and providing advanced life support to the patient in the ambulance en route to the hospital – having care begin at the earliest opportunity is vital for best outcomes, particularly in cases of stroke and cardiac emergencies. Middlesex Hospital's paramedic program is one of three such hospital-based services in the State – its mission is to provide high quality, cost-effective, community focused emergency medical services to those who require immediate response. Patients receive the best possible paramedic level of care, regardless of their ability to pay or condition. Since inception of the service, the Hospital has covered the program's annual financial shortfalls.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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**NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)**

- Middlesex Hospital's Hospice Program: Is committed to caring for the terminally ill and their families by enhancing quality of life for the patient. Services include comfort care with relief of physical symptoms, the provision of emotional and spiritual support, and the desire to support the patient's right to make choices and remain as autonomous as possible during this phase of life. As terminal illness brings a host of new and difficult challenges for both patient and family, the Hospital's Hospice program views patient and family as a single unit of care. Care is delivered through an interdisciplinary team that includes physicians, nurses, social workers, physical therapists, occupational therapists, nutritionists, home health aides, spiritual support, pharmacists, bereavement counselors, and specially-trained volunteers. The care setting includes home hospice as well as an inpatient unit designed to provide short-term care for patients requiring pain and symptom control as well as respite care during the last days of life. This vital community program functions at a loss for the Hospital. The Hospital also offers outpatient Palliative Care services which assist patients and families with critical decisions while providing maximum physical comfort and emotional support. Outpatient Palliative care services include pain and symptom control, psychosocial support, patient education about self-determination and advance directives, negotiating end-of-life decisions, and helping patients and loved ones understand and cope with the process of dying.
- Middlesex Hospital Wound Care: The Hospital performed a study and found that there was a gap in outpatient services for those experiencing complex and chronic wounds. In response, the Hospital created the Wound Care Center where a full range of services for effective wound treatment is provided. Clinical providers at both of the Hospital's Wound Care Center locations aid in determining what local or systemic factors are impeding the healing process, and assist in developing a specialized and individualized treatment care plan. Using a planned, systematic approach which includes consideration of all factors that affect wound healing, the Center treats four primary wound types: venous stasis ulcers, diabetic foot ulcers, ischemic ulcers and stage III and IV pressure ulcers. The Wound Care Center functions at a loss for the hospital and requires subsidy.
- Pulmonary Rehabilitation: The Hospital's Pulmonary Rehabilitation program was developed in direct response to the health assessment findings which identified half the adult population in Middlesex County to be at risk for COPD (18% are current smokers and 33% are former smokers). The study recommended development of a COPD pathway and program. In response, an inpatient COPD pathway was generated in conjunction with a supporting outpatient pulmonary rehabilitation program. The program is one of both education and exercise classes – it teaches patients about their lungs, how to exercise and do activities with less shortness of breath, and how to live better with a lung condition. Pulmonary Rehabilitation is offered to any patient with impaired pulmonary endurance. The Pulmonary Rehab program offers the Better Breather's Club, an adjunct service formed to help patients with respiratory diseases cope with their difficulties. The free support group is for community members with COPD, asthma and other chronic lung disease and is run by a respiratory therapist and invites pertinent guest speakers to enhance the education of the patient and their families about the respiratory illness from which they suffer. Pulmonary Rehab functions at a loss and requires Hospital subsidy in order to continue to be available to the community.

Research: Middlesex Hospital conducts research in the domains of clinical and community health. Clinical examples include national trials by the Hospital's Cancer Center for breast, lung, prostate, colorectal, among others.

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(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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**NOTE 17 - COMMUNITY BENEFIT** (Unaudited) (Continued)

Financial and In-Kind Contributions: Middlesex Hospital supports the community in the form of financial and in-kind contributions. The Hospital's in-kind contributions include equipment, food, linens and medical supplies that are donated both locally and globally. Other in-kind donations include cafeteria discounts for YMCA residents, and staff coordination of community support drives including the United Way, Adopt-A-Family holiday gift program, Families Feeding Families, the Middletown Community Thanksgiving Drive, Lions' Club eyeglasses and hearing aid collection, Light One Little Candle and Reach Out and Read childhood readership. The Hospital's main campus and satellite locations make meeting space available, free-of-charge and on an on-going basis, for many community groups that would otherwise struggle to pay for space. Examples of community programs that utilize hospital space include (but are not limited to): Compassionate Friends Meeting, Community Support for Families, Fatherhood Initiative - Education & Support Group, and local nursing school programs. In addition, each year the Hospital makes substantial cash donations to carefully selected mission-driven community organizations throughout its service area.

Community Building Activities: Middlesex Hospital's participation in Community Building activities has a vital role in continuing to promote health and well-being for residents in its service area and, in some cases, the international community. The Hospital offers its resources and expertise to support and strengthen community assets in a variety of programs that fall under the scope of community building. Staff members are highly participative in community partnerships and coalitions, the success of which are greatly enhanced by Hospital collaboration - many community initiatives would not be as effective without the Hospital's administrative and clinical staff in-kind involvement, support and expertise. The Hospital's participation in all community building activities are solely to benefit the community's health and well-being by improving access to health services and enhancing overall public health and in no case is the motivation for marketing purposes. The following programs highlight the importance of the Hospital's involvement in community building activities:

- The Hospital partakes in many good neighbor community activities outside of the scope of the healthcare delivery system; such participation often incurs significant expense to the Hospital. For Disaster Readiness, the Hospital plays a pivotal role by working in collaboration with key community partners to ensure the safety of the community at large during a potential disaster. Hospital employees participate on multiple community boards and initiatives designed specifically to address disaster preparedness, control and address the ongoing overall safety of the community. Only the activities and associated cost which exceed licensure and standard practice requirements are included in the Hospital's community benefit inventory. Disaster readiness requires a comprehensive, community-wide coordinated effort for coping with such emergencies as natural disasters, infectious disease outbreaks, bio terrorism, or acts of civil unrest. Hospital security staff, paramedics, infectious diseases specialists, nursing and medical staff are all involved in the continuing effort to be prepared for whatever community emergencies might arise. Examples include participation in community disaster preparation committees, community education and natural disaster drills; pandemic preparedness and stockpiling of supplies that exceeds regulatory standards; and hosting yearly radiation drills for the staff of a local nuclear power plant where Hospital staff train power plant workers (at no-cost) on protocols for internal contamination.

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2017 and 2016  
(Amounts in thousands)

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**NOTE 17 - COMMUNITY BENEFIT** (Unaudited) (Continued)

- Middlesex Hospital's Shoreline Medical Center (SMC) is committed to working with local schools to introduce the concept of a medical career in a full range of medical related professions and reinforce the importance of continuing one's education. Each year SMC hosts a multidisciplinary Career Day, World of Work, and oversees high school student mentorship. In response to a looming nursing shortage a dedicated nurse at SMC created Career Day, an annual event where students from the community can experience an emergency in real time and learn what it's like to be a health professional. An additional benefit of Career Day includes spurring many high school students to intern at SMC throughout the school year – the internship provides a unique opportunity for students to receive direct mentorship from health care professionals and exposure to a variety of health delivery disciplines. As a result, many have chosen to pursue careers in health post high school graduation. Another program designed specifically to encourage a career in health is SMC's World of Work where students from a local middle school spend half a day on-site learning about paramedics and emergency medical services, radiology, nursing and laboratory services. The idea is to foster an interest in health as a career at an early age.
- Community Benefit Operations: Community Benefit Operations include activities and costs associated with community benefit strategic planning, administration, and health assessment production and execution. Middlesex Hospital has a dedicated manager of community benefit, along with a community benefit steering committee (comprised of hospital leadership) that oversees community benefit planning and operations.
- Middlesex Hospital completed its most recent community health needs assessment (CHNA) in 2016 and followed the CHNA with prioritization and development of a CHNA implementation plan. The process of formally measuring the health of the community through a community health needs assessment allows for a comprehensive understanding of a community's health status as well as the needs, gaps and barriers to health and health services. Using this data, Middlesex Hospital has developed a prioritized implementation strategy to address identified need; its community health needs assessment implementation strategy outlines the process for prioritization and serves as the foundation for the Hospital's Community Benefit strategic plan.

Financial Assistance: Financial assistance includes free or discounted health services provided to persons who cannot afford to pay and who meet the Hospital's criteria for financial assistance. Great concern is taken to make sure that patients are informed of the availability of patient assistance funding programs. Signs (in English and Spanish) are posted in conspicuous places within the Hospital, including registration, administration, the emergency department, social services, billing, and waiting rooms. A Patient Guide is provided upon registration which outlines patient billing and financial services. The guide answers questions regarding available financial assistance qualifications and application processes. A financial assistance brochure is made widely available throughout the organization. Contact information is provided so that patients can easily reach a financial counselor to assist them. Applicants are screened for financial eligibility and assistance is provided to complete the paperwork. To ensure that the Hospital's generous financial assistance program is accessible, a Financial Assistance Workgroup was formed in 2008 to review all processes related to the financial assistance process, including user-friendliness of the application, expansion of financial assistance awards, and enhanced communication regarding the financial assistance availability. The Workgroup continues to meet to monitor and update, when needed, protocols related to charity care.

State Sponsored Health Care, Unpaid Costs: Community benefits related to government sponsored programs include the unpaid cost of specific public programs. In FY2017 payments received for Medicaid services provided by the Hospital did not cover the actual cost of providing these services; these unpaid costs are reported in the financial statement.

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**SUPPLEMENTAL INFORMATION**

MIDDLESEX HEALTH SYSTEM, INC.  
CONSOLIDATING BALANCE SHEET  
September 30, 2017  
(Amounts in thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Middlesex Health Services, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Resources, Inc.	Middlesex Medical Group	Eliminations	Consolidated
<b>ASSETS</b>									
<b>Current assets</b>									
Cash and cash equivalents	\$ 21,872	\$ 15	\$ 666	\$ -	\$ 22,553	\$ 981	\$ 501	\$ -	\$ 24,035
Certificates of deposit	-	-	99	-	99	-	-	-	99
Short-term investments	31,640	-	-	-	31,640	-	-	-	31,640
Patient accounts receivable, net	42,883	-	8	-	42,891	-	1,648	-	44,539
Other receivables	2,999	-	-	-	2,999	13	-	-	3,012
Prepaid and other current assets	5,762	-	3	-	5,765	164	172	-	6,101
Current portion of investments limited as to use	1,921	-	83	-	2,004	-	-	-	2,004
Total current assets	107,077	15	859	-	107,951	1,158	2,321	-	111,430
Investments limited as to use	142,548	-	41	-	142,589	-	-	-	142,589
Long-term investments	15,015	-	-	-	15,015	-	-	-	15,015
<b>Other assets</b>									
Due from related parties	2,117	-	-	(51)	2,066	-	-	(2,066)	-
Other assets	12,153	-	-	-	12,153	196	544	-	12,893
Total other assets	14,270	-	-	(51)	14,219	196	544	(2,066)	12,893
Property and equipment, net	192,561	-	4,184	-	196,745	2,519	4,347	-	203,611
Total assets	\$ 471,471	\$ 15	\$ 5,084	\$ (51)	\$ 476,519	\$ 3,873	\$ 7,212	\$ (2,066)	\$ 485,538

(Continued)

MIDDLESEX HEALTH SYSTEM, INC.  
CONSOLIDATING BALANCE SHEET  
September 30, 2017  
(Amounts in thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Middlesex Health Services, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Resources, Inc.	Middlesex Medical Group	Eliminations	Consolidated
<b>LIABILITIES AND NET ASSETS</b>									
<b>Current liabilities</b>									
Current portion of long-term debt and capital lease obligations	\$ 3,819	\$ -	\$ 305	\$ -	\$ 4,124	\$ -	\$ 70	\$ -	\$ 4,194
Accounts payable	19,166	-	68	-	19,234	27	110	-	19,371
Due to related parties	-	-	51	(51)	-	398	1,668	(2,066)	-
Accrued payroll and related liabilities	28,508	-	91	-	28,599	-	1,766	-	30,365
Other accrued liabilities	2,318	-	120	-	2,438	-	484	-	2,922
Current portion of estimated self-insurance liability	3,355	-	81	-	3,436	-	-	-	3,436
Current portion of accrued retirement liabilities	43	-	-	-	43	-	-	-	43
<b>Total current liabilities</b>	<b>57,209</b>	<b>-</b>	<b>716</b>	<b>(51)</b>	<b>57,874</b>	<b>425</b>	<b>4,098</b>	<b>(2,066)</b>	<b>60,331</b>
<b>Other liabilities</b>									
Long-term debt and capital lease obligations, net of current portion	43,301	-	3,569	-	46,870	-	573	-	47,443
Estimated self-insurance liability, net of current portion	25,200	-	-	-	25,200	-	-	-	25,200
Accrued retirement liabilities, net of current portion	14,987	-	-	-	14,987	-	-	-	14,987
Other liabilities including estimated third-party settlements	12,802	-	-	-	12,802	95	178	-	13,075
<b>Total other liabilities</b>	<b>96,290</b>	<b>-</b>	<b>3,569</b>	<b>-</b>	<b>99,859</b>	<b>95</b>	<b>751</b>	<b>-</b>	<b>100,705</b>
<b>Total liabilities</b>	<b>153,499</b>	<b>-</b>	<b>4,285</b>	<b>(51)</b>	<b>157,733</b>	<b>520</b>	<b>4,849</b>	<b>(2,066)</b>	<b>161,036</b>
<b>Net assets</b>									
Unrestricted	299,977	15	759	-	300,751	3,353	2,363	-	306,467
Temporarily restricted	10,564	-	40	-	10,604	-	-	-	10,604
Permanently restricted	7,431	-	-	-	7,431	-	-	-	7,431
<b>Total net assets</b>	<b>317,972</b>	<b>15</b>	<b>799</b>	<b>-</b>	<b>318,786</b>	<b>3,353</b>	<b>2,363</b>	<b>-</b>	<b>324,502</b>
<b>Total liabilities and net assets</b>	<b>\$ 471,471</b>	<b>\$ 15</b>	<b>\$ 5,084</b>	<b>\$ (51)</b>	<b>\$ 476,519</b>	<b>\$ 3,873</b>	<b>\$ 7,212</b>	<b>\$ (2,066)</b>	<b>\$ 485,538</b>

See accompanying independent auditor's report.

MIDDLESEX HEALTH SYSTEM, INC.  
CONSOLIDATING STATEMENT OF OPERATIONS AND  
CHANGES IN NET ASSETS  
September 30, 2017  
(Amounts in thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Middlesex Health Services, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Resources, Inc.	Middlesex Medical Group	Eliminations	Consolidated
Operating revenues									
Patient service revenue, net of contractual allowances and other discounts	\$ 401,127	\$ -	\$ 3,167	\$ -	\$ 404,294	\$ -	\$ 21,641	\$ -	\$ 425,935
Provision for bad debts	(13,557)	-	-	-	(13,557)	-	(190)	-	(13,747)
Patient service revenues, less provision for bad debts	387,570	-	3,167	-	390,737	-	21,451	-	412,188
Other revenue	10,547	1,034	6	(1,034)	10,553	711	679	(617)	11,326
Total operating revenues	398,117	1,034	3,173	(1,034)	401,290	711	22,130	(617)	423,514
Operating expenses									
Salaries and wages	178,691	623	1,394	(35)	180,673	-	19,664	-	200,337
Fringe benefits	32,184	121	347	(121)	32,531	-	3,262	-	35,793
Purchased services	33,446	760	269	(760)	33,715	-	1,364	-	35,079
Supplies	45,970	-	-	-	45,970	-	1,442	-	47,412
Depreciation and amortization	25,363	-	266	-	25,629	222	582	-	26,433
State hospital tax	21,095	-	-	-	21,095	-	-	-	21,095
Interest	1,979	-	194	-	2,173	-	39	-	2,212
Other operating expenses	36,589	118	623	(118)	37,212	471	4,389	(617)	41,455
Total operating expenses	375,317	1,622	3,093	(1,034)	378,998	693	30,742	(617)	409,816
Income (loss) from operations	22,800	(588)	80	-	22,292	18	(8,612)	-	13,698
Non-operating income (expense)									
Net income from joint ventures and general partnerships	2,304	-	-	-	2,304	13	-	-	2,317
Unrestricted gifts and bequests	442	-	-	-	442	-	-	-	442
Net investment income	13,403	-	-	-	13,403	-	-	-	13,403
Other non-operating expenses	(1,034)	-	-	-	(1,034)	(80)	-	-	(1,114)
Total non-operating income (expense)	15,115	-	-	-	15,115	(67)	-	-	15,048
Excess (deficiency) of revenues over expenses	37,915	(588)	80	-	37,407	(49)	(8,612)	-	28,746
Net assets, beginning of year	268,891	15	726	-	269,632	3,402	3,475	-	276,509
Change in unrealized gains and losses	636	-	-	-	636	-	-	-	636
Restricted investment income	900	-	-	-	900	-	-	-	900
Restricted contributions	1,790	-	-	-	1,790	-	-	-	1,790
Change in accumulated pension charges to unrestricted net assets	16,716	-	-	-	16,716	-	-	-	16,716
Transfers	(8,088)	588	-	-	(7,500)	-	7,500	-	-
Expenditures for intended purposes	(788)	-	(7)	-	(795)	-	-	-	(795)
Net assets, end of year	\$ 317,972	\$ 15	\$ 799	\$ -	\$ 318,786	\$ 3,353	\$ 2,363	\$ -	\$ 324,502

See accompanying independent auditor's report.