MIDDLESEX HEALTH SYSTEM, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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, 2018 and 2017, 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.

(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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance 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 LLP

Crowe LLP

Simsbury, Connecticut
December 19, 2018

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2018 and 2017

	2018	2017
	(In thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 29,988	$ 24,035
Certificates of deposit	-	99
Short-term investments	32,477	31,640
Patient accounts receivable, less allowance for doubtful accounts of $10,261 (2018) and $9,871 (2017)	48,032	44,539
Other receivables	4,432	3,012
Prepaid and other current assets	5,741	6,101
Current portion of investments limited as to use	1,962	2,004
Total current assets	122,632	111,430
Investments limited as to use	149,169	142,589
Long-term investments	26,059	15,015
Other assets	12,215	12,893
Property and equipment, net	214,276	203,611
Total assets	$ 524,351	$ 485,538
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt and capital lease obligations	$ 4,734	$ 4,194
Accounts payable	31,149	19,515
Accrued payroll and related liabilities	34,516	30,637
Other accrued liabilities	2,631	2,506
Current portion of estimated self-insurance liabilities	3,628	3,436
Current portion of accrued retirement liabilities	30	43
Total current liabilities	76,688	60,331
Other liabilities		
Long-term debt and capital lease obligations, less current portion	43,183	47,443
Estimated self-insurance liabilities, less current portion	23,386	25,200
Accrued retirement liabilities, less current portion	3,397	14,987
Other liabilities including estimated third-party settlements	13,519	13,075
Total other liabilities	83,485	100,705
Total liabilities	160,173	161,036
Net assets		
Unrestricted	345,877	306,467
Temporarily restricted	10,364	10,604
Permanently restricted	7,937	7,431
Total net assets	364,178	324,502
Total liabilities and net assets	$ 524,351	$ 485,538

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, 2018 and 2017

	2018	2017
	(In thousands)	
Operating revenue:		
Patient service revenue, net of contractual allowances and other discounts	$ 472,947	$ 425,935
Provision for bad debts	(16,716)	(13,747)
Patient service revenue, less provision for bad debts	456,231	412,188
Other revenues	14,131	11,326
Total operating revenues	470,362	423,514
Operating expenses:		
Salaries, wages and fees	214,183	200,337
Fringe benefits	44,020	35,793
Purchased services	38,826	35,079
Supplies	42,637	47,412
Depreciation and amortization	25,214	26,433
State hospital tax	35,521	21,095
Interest	1,567	2,212
Other operating expenses	40,820	41,455
Total operating expenses	442,788	409,816
Income from operations	27,574	13,698
Non-operating income (expense)		
Net income from joint ventures and general partnerships	2,625	2,317
Unrestricted gifts and bequest	447	442
Net investment income	5,931	13,403
Other non-operating expenses	(2,086)	(1,114)
Total non-operating income	6,917	15,048
Settlement of pension obligation (Note 9)	(87,130)	-
(Deficiency) excess of revenue over expenses	$ (52,639)	$ 28,746

See accompanying notes to the consolidated financial statements.

	2018	2017
	(In thousands)	
Unrestricted net assets:		
(Deficiency) excess of revenues over expenses	$ (52,639)	$ 28,746
Change in net unrealized (losses) gains	(448)	710
Settlement of pension obligation (Note 9)	87,130	-
Change in accumulated pension charges to unrestricted net assets	4,217	16,716
Net assets released from restrictions for purchase of property and equipment	1,150	928
Change in unrestricted net assets	39,410	47,100
Temporarily restricted net assets:		
Contributions	1,521	1,339
Restricted investment income	238	900
Change in net unrealized gains	61	(75)
Net assets released from restrictions for purchase of property and equipment	(1,150)	(928)
Expenditures for intended purposes	(910)	(795)
Change in temporarily restricted net assets	(240)	441
Permanently restricted net assets:		
Contributions	505	451
Change in net unrealized gains	1	1
Change in permanently restricted net assets	506	452
Change in net assets	39,676	47,993
Net assets, beginning of year	324,502	276,509
Net assets, end of year	$ 364,178	$ 324,502

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2018 and 2017

	2018	2017
	(In thousands)	
Cash flows from operating activities		
Change in net assets	$ 39,676	$ 47,993
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	25,214	26,433
Provision for bad debts	16,716	13,747
Change in accumulated pension charges to unrestricted net assets	(4,217)	(16,716)
Restricted contributions	(2,026)	(1,790)
Change in net unrealized and realized losses on investments	(3,003)	(11,896)
Equity earnings in joint ventures	(2,625)	(2,317)
Change in assets and liabilities		
Patient accounts receivable	(20,209)	(15,815)
Other receivables	(1,420)	193
Prepaid and other assets	1,353	(861)
Accounts payable and other accrued liabilities	6,554	(148)
Accrued payroll and related liabilities	3,879	798
Estimated self-insurance liabilities	(1,622)	2,577
Accrued retirement liabilities	(7,386)	(16,952)
Other liabilities including estimated third-party settlements	569	(379)
Net cash provided by operating activities	51,453	24,867
Cash flows from investing activities		
Purchases of property and equipment	(30,799)	(23,029)
Short-term investments	(837)	(1,282)
Long-term investments	(11,044)	274
Proceeds from sales of investments limited as to use	14,933	25,391
Purchases of investments limited as to use	(18,468)	(26,425)
Changes in certificates of deposit	99	-
Distributions from joint ventures	2,310	1,630
Net cash used in investing activities	(43,806)	(23,441)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	11,599	-
Repayment of long-term debt and capital lease obligations	(15,319)	(4,232)
Restricted contributions	2,026	1,790
Net cash used in financing activities	(1,694)	(2,442)
Change in cash and cash equivalents	5,953	(1,016)
Cash and cash equivalents at beginning of year	24,035	25,051
Cash and cash equivalents at end of year	$ 29,988	$ 24,035
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 1,767	$ 2,209
Cash paid for taxes	$ 69	$ 168
Non-cash investing activity: amounts accrued but not paid for CIP	$ 5,080	$ -

See accompanying notes to the consolidated financial statements.

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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Joint ventures balance are included in other assets on the consolidated balance sheets.

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, 2018 and 2017, 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All of the System's investments, as of September 30, 2018 and 2017, 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.

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 2018 and 2017.

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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 has adopted the provisions of ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30*): *Simplifying the Presentation of Debt Issuance Costs*".

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. Subsequent changes have been made to this public act. In 2017, the Hospital incurred a tax of $21,095 and received supplemental payment revenue of $2,266. This transaction resulted in a negative impact on its income from operations of $18,829. During 2018, additional supplemental payments were made by the State of Connecticut and the Hospital received $33,587. In 2018, the Hospital continued to pay tax on its net patient service revenues, which amounted to $35,521. The total combined negative impact on its income from operations was $1,934 in fiscal year 2018. The Hospital records the supplemental payments as a net adjustment to contractual allowances within net patient service revenue on the statement of operations and changes in net assets.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 2018 and 2017, pledges receivable included in other receivables were approximately $597 and $743, respectively, net of an allowance for doubtful accounts of $156 and $190, 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 2018 and 2017. The Hospital, in consultation with its actuary, records as a liability an estimate of expected losses. Such liability at September 30, 2018 and 2017 totaled $11,610 and $12,905, 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 2018 and 2017. 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 $7,819 and $7,831 at September 30, 2018 and 2017, respectively.

Lastly, the Hospital has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately $7,586 and $7,900 at September 30, 2018 and 2017, respectively. Such amounts represent the actuarially determined present value of insurance claims, excess of the self-insured retentions, 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 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 certain changes 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.

During fiscal year 2018, as further disclosed in Note 9, a defined benefit pension plan was terminated and all future pension obligations were settled. This transaction resulted in a recognition of an $87,130 expense, which was previously recognized outside of the performance indicator. Upon the pension termination and settlement, the Company reclassified this amount as a separate line item within its performance indicator on the statement of operations and changes in net assets to indicate the final settlement amount of the pension plan.

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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2018, MMG filed for a change in tax status to a not-for-profit corporation as described under Section 501(c)(3) of the Internal Revenue Code. Therefore, as of September 30, 2018, there are no deferred tax assets or liabilities recorded. Prior to this, MMG had federal and state net operating loss carryforwards available to reduce Federal and State taxable income. Effective October 1, 2018, MMG received approval from the appropriate tax regulating authorities to convert to a not-for-profit corporation. All net operating loss carryforwards were therefore forfeited based on the change in structure. As of September 30, 2017, MMG had net operating loss carryforwards available to reduce its future Federal taxable income of approximately $51,815. This resulted in a deferred tax asset of $17,617. The carryforward periods expired at various dates through 2034. As of September 30, 2017, MMG had net operating loss carryforwards available to reduce its future state taxable income of approximately $41,450. This resulted in a state deferred tax asset of $3,109. The state carryforward periods expired 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. There was no other material deferred tax assets or liabilities associated with MMG.

Resources has no available Federal net operating losses at September 30, 2018 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, 2018 and 2017. 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, 2018 and 2017, 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.

Reclassifications: Certain reclassifications to the 2017 consolidated financial statements have been made in order to conform to the 2018 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 19, 2018, which is the date the consolidated financial statements were issued.

(Continued)

(Amounts in thousands)

NOTE 3 - NET PATIENT SERVICE REVENUES

The following reconciles gross patient service revenues to net patient service revenues for the years ended September 30, 2018 and 2017:

	2018			2017		
	Hospital	Other	Total	Hospital	Other	Total
Gross patient charges	$ 1,320,476	$ 54,012	$ 1,374,488	$ 1,305,639	$ 44,841	$ 1,350,480
Deductions:						
Contractual allowances and discounts	(869,573)	(25,486)	(895,059)	(898,137)	(20,034)	(918,171)
Charity care	(6,482)	-	(6,482)	(6,375)	-	(6,375)
	(876,055)	(25,486)	(901,541)	(904,512)	(20,034)	(924,546)
Patient service revenue	444,421	28,526	472,947	401,127	24,808	425,935
Provision for bad debts	(16,059)	(657)	(16,716)	(13,557)	(190)	(13,747)
Net patient service revenue, less provision for bad debts	$ 428,362	$ 27,869	$ 456,231	$ 387,570	$ 24,618	$ 412,188

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.

Patient service revenue for the years ended September 30, 2018 and 2017, 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:

	2018	2017
Medicare	$ 154,342	$ 153,386
Medicaid	41,857	36,638
Commercial / HMO	226,749	215,565
Other third-party payers	6,831	6,785
Self-pay	9,581	11,295
Other supplemental payments	33,587	2,266
Total patient service revenue, net of contractual allowances, discounts and charity care	$ 472,947	$ 425,935

(Continued)

NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

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 $10,261 and $9,871 at September 30, 2018 and 2017, respectively. The allowance for doubtful accounts allocated specifically for self-pay payers was approximately 95% and 90% of total self-pay accounts receivable as of September 30, 2018 and 2017. Overall, the total of self-pay discounts and write-offs has not changed significantly for the years ended September 30, 2018 and 2017.

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 $6,482 and $6,375 in 2018 and 2017, respectively. The estimated costs for these services was $1,901 and $1,781 in 2018 and 2017, respectively.

During 2018 and 2017, approximately 33% and 37%, respectively, of net patient service revenue was received under the Medicare program, 10% and 9%, respectively, under the state Medicaid and city welfare programs, 49% and 52%, respectively, was received from contracts with private health payers and 8% and 2%, respectively, from patients and others.

(Continued)

(Amounts in thousands)

NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

As of September 30, 2018 and 2017, approximately 41% and 38%, respectively, of patient accounts receivable was due from Medicare, 10% and 12%, respectively, was due from Medicaid and city welfare, 41% and 40%, respectively, was due from private health payers and 8% and 10%, respectively was due from patients and others.

During 2018 and 2017, 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, 2018 and 2017, changes in estimates related to settlements with third-party payers for prior years (decreased) increased net patient service revenue by approximately $(46) and $750, respectively.

NOTE 4 - OTHER REVENUE

Other revenue consists of the following for fiscal years ended September 30, 2018 and 2017:

	2018	2017
Grants	$ 1,793	$ 2,297
Cafeteria sales	1,485	1,414
Technical laboratory income	798	744
Investment income	1,652	1,374
EHR income	-	77
Rental income	1,106	941
Purchase discounts	1,003	837
Net assets released from restriction used for operations	302	177
Business interruption insurance proceeds	1,577	-
Miscellaneous	4,415	3,465
	$ 14,131	$ 11,326

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.

(Continued)

(Amounts in thousands)

NOTE 5 - INVESTMENTS (Continued)

The fair value of these investments as of September 30, 2018 and 2017, are summarized as follows:

	2018	2017
Cash	$ 983	$ 1,217
Money market funds	4,662	3,995
Mutual funds:		
Equity	83,452	79,267
Fixed income	51,340	49,466
Common stock:		
U.S. equity	7,574	7,439
Corporate debt securities	58,536	46,654
Exchange-traded products	3,120	3,210
Total	$ 209,667	$ 191,248

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, 2018 and 2017:

	2018	2017
Funds held in trust under revenue bond agreements	$ 1,187	$ 1,294
Self-insurance liability	10,056	9,961
Board-designated funds	121,421	115,512
Donor-restricted funds	18,467	17,826
Total	$ 151,131	$ 144,593

Total gross unrealized losses as of September 30, 2018 amounted to $1,857 and the fair value of those investments was $57,045. As of September 30, 2018, 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, 2018 and 2017.

Included in net investment income for the years ended September 30, 2018 and 2017, was interest and dividend income of $2,542 and $2,143, respectively, and realized gains on sales of investments of $3,389 and $11,260, respectively.

(Continued)

(Amounts in thousands)

NOTE 6 - FAIR VALUE MEASUREMENTS

The following tables present the financial instruments, carried at fair value, as of September 30, 2018 and 2017, by the valuation hierarchy. These tables include cash equivalents, certificates of deposit, assets limited as to use, debt service funds and long-term investments:

	Level 1	Level 2	Level 3	Total
2018				
Cash and cash equivalents	$ 983	$ -	$ -	$ 983
Money market funds	4,662	-	-	4,662
Equities				
Mutual funds				
Equity	83,452	-	-	83,452
Fixed income	51,340	-	-	51,340
Fixed income				
Exchange-traded products	3,120	-	-	3,120
Corporate debt securities	-	58,536	-	58,536
Total	$ 151,131	$ 58,536	$ -	$ 209,667

	Level 1	Level 2	Level 3	Total
2017				
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	-	46,654	-	46,654
Total	$ 144,693	$ 46,654	$ -	$ 191,347

(Continued)

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 $27,700 and $44,171 at September 30, 2018 and 2017, respectively. The fair value of Services' long-term debt obligations was approximately $1,054 and $3,350 at September 30, 2018 and 2017, 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, 2018 and 2017, 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.

(Continued)

(Amounts in thousands)

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Property and equipment and the related accumulated depreciation as of September 30, 2018 and 2017, consist of the following:

	2018	2017
Land and land improvements	$ 14,701	$ 14,651
Buildings and fixed equipment	321,824	308,715
Other equipment	209,613	198,472
Leasehold improvements	9,603	8,834
Total property and equipment	555,741	530,672
Less: accumulated depreciation	(361,616)	(337,157)
	194,125	193,515
Construction-in-progress (estimated cost to complete $10,775)	20,151	10,096
Property and equipment, net	$ 214,276	$ 203,611

Depreciation expense was $25,194 and $26,426 in fiscal years 2018 and 2017, respectively.

Included within buildings and fixed equipment above is a building with a net book value of $387 and $456 as of September 30, 2018 and 2017, 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:	
2019	$ 6,760
2020	5,650
2021	4,603
2022	3,950
2023	3,282
Thereafter	7,306
	$ 31,551

Total rental expense under operating leases for the years ended September 30, 2018 and 2017 was approximately $6,128 and $5,500, respectively.

(Continued)

(Amounts in thousands)

NOTE 8 - LONG-TERM DEBT

As of September 30, 2018 and 2017, 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.

	2018	2017
Fixed rate revenue bonds, series N, due July 1, 2027	$ 11,010	$ 23,715
Fixed rate revenue bonds, series O, due July 1, 2036	16,460	17,080
Fixed rate revenue bonds, series P, due July 1, 2027	7,644	8,518
Fixed rate revenue bonds, series Q, due July 1, 2027	11,361	-
Mortgage notes and capital leases, net of interest	570	643
	47,045	49,956
Add: bond premium	1,776	2,643
Less: unamortized finance costs	(904)	(962)
Less: current portion	(4,734)	(4,194)
	$ 43,183	$ 47,443

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 $1,005 and $3,480 as of September 30, 2018 and 2017, 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. The Series P Bonds are due on July 1, 2027 at an interest rate of 1.87%.

(Continued)

(Amounts in thousands)

NOTE 8 - LONG-TERM DEBT (Continued)

In November of 2017, the Hospital and Services entered into a debt agreement with TD Bank, N.A. as assignee of CHEFA for issuance of CHEFA Series Q Revenue Bonds (Series Q Bonds) for $11,599. The proceeds from the Series Q Bonds, net of amounts used to establish required reserve accounts, were used to redeem a portion of the Series N Bonds. The Series Q Bonds are due on various dates through July 1, 2027 at the interest rate of 2.15% per annum.

A portion of the Series Q 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 Q Bonds. The outstanding balance of these bonds was $2,790 as of September 30, 2018.

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 $1,187 and $1,294 in debt service funds as of September 30, 2018 and 2017, respectively. 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, 2018 and 2017 was $498 and $551, respectively.

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

	Long-term Debt	Mortgage Notes / Capital Leases
2019	$ 4,657	$ 110
2018	4,587	110
2020	4,953	110
2021	5,180	102
2022	3,521	90
Thereafter	23,577	171
	46,475	693
Add: bond premium	1,776	-
Less: unamortized finance costs	(904)	-
Less: interest	-	(123)
Total	$ 47,347	$ 570

(Continued)

NOTE 8 - LONG-TERM DEBT (Continued)

As of September 30, 2018 and 2017, the System is in compliance with all financial covenants related to the previously noted debt.

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.

On November 17, 2017, the Board of Directors of Middlesex Health System, Inc. authorized the System to terminate the Plan during fiscal year 2018. As of September 30, 2018, the Plan was fully settled and terminated and as such there is no accumulated or projected benefit obligation or liability remaining on the System's balance sheet. All plan assets have been paid out to participants through either a lump sum payment or a purchased annuity contract. There is no remaining future obligation or future liability to the System. The recognized final settlement amount of the pension obligation was $87,130, which was presented as a separate line item within excess of revenues over expenses in the statement of operations and changes in net assets. This amount represents the final settlement amount to be recognized in order to reduce the Plan liability to zero. The amounts had previously been recognized as a separate component of changes in net assets but, as discussed in Note 2, was reclassified to a separate line item within excess of revenues over expenses in order to present the final settlement amount as a component within the performance indicator. There was no effect on total net assets related to this amount.

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, 2018 and 2017, as well as a statement of the funded status of the Plan as of September 30, 2018 and 2017. In addition, the System has a previous supplemental executive defined benefit retirement plan with an immaterial remaining liability as determined by an independent actuary. Amounts related to that plan are included within the following tables as well.

(Continued)

(Amounts in thousands)

NOTE 9 - DEFINED BENEFIT RETIREMENT PLAN (Continued)

	2018	2017
Accumulated benefit obligation	$ 156	$ 287,185
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 287,187	$ 296,814
Interest cost	10,555	10,218
Actuarial gain	(8,787)	(9,696)
Settlements	(278,153)	750
Service cost	350	-
Benefits paid	(10,996)	(10,899)
Projected benefit obligation at end of year	156	287,187
Change in plan assets:		
Fair value of plan assets, beginning of year	275,352	251,109
Actual return on plan assets	3,330	19,528
Employer contributions	10,467	15,050
Settlements	(278,153)	564
Benefits paid	(10,996)	(10,899)
Plan assets at end of year	-	275,352
Funded status	$ (156)	$ (11,835)
Amounts recognized in balance sheets consist of:		
Current liability	$ (30)	$ (43)
Noncurrent liability	(126)	(11,792)
Net amount recognized	$ (156)	$ (11,835)
Amounts recognized as accumulated charges to unrestricted net assets consist of:		
Net actuarial loss	$ -	$ 91,294

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

	2018	2017
Unrealized actuarial gain	$ (73)	$ (13,996)
Amortization of net gain	(4,144)	(2,720)
Effect of settlement	87,130	-
Total plan	$ 82,913	$ (16,716)

(Continued)

(Amounts in thousands)

NOTE 9 - DEFINED BENEFIT RETIREMENT PLAN (Continued)

The following table provides the components of the net periodic benefit cost for the Plan for the years ended September 30, 2018 and 2017:

	2018	2017
Components of net periodic benefit cost (income):		
Interest cost	$ 10,555	$ 10,218
Service cost	350	-
Expected return on plan assets	(10,186)	(15,049)
Amortization of unrecognized net actuarial gain	2,301	2,739
Net periodic benefit cost (income)	$ 3,020	$ (2,092)

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the years ended September 30, 2018 and 2017, are as follows:

	2018	2017
Weighted average assumptions as of September 30:		
Discount rate (obligation - see below)	3.75%	3.75%
Discount rate (service cost - see below)	3.75%	3.50%
Expected long-term return on plan assets	3.70%	6.00%
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.

As previously discussed, the defined benefit pension plan was terminated as of September 30, 2018.

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

	Level 1	Level 2	Level 3	Total
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	3,072	-	-	3,072
Total	$ 90,078	$ 185,274	$ -	$ 275,352

(Continued)

(Amounts in thousands)

NOTE 9 - DEFINED BENEFIT RETIREMENT PLAN (Continued)

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. The fair values of participation united in pooled, common and collective funds are based on the net asset values per unit as reported by the fund managers. Fair value of money market funds is estimated to approximate the cost basis of the deposit account balance, based upon the liquidity of the account and the credit quality of the issuer.

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

	Target Allocation	Actual Asset Allocation 2017
Asset category:		
Equity securities	30%	29%
Debt securities	70%	71%
Total	100%	100%

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 the plans to terminate the Plan, which occurred during 2018.

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

2019	$ 30
2020	27
2021	23
2022	20
2023	17
2024-2028	48
Total	$ 165

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

(Continued)

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 $9,153 and $8,809 in 2018 and 2017, respectively. In addition, a core contribution of $4,730, which is scheduled to be paid in 2019, 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 $470 and $431 in 2018 and 2017, 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, 2018 and 2017, MMG made matching contributions in the amount of $483 and $461, 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, 2018 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 the 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.

(Continued)

(Amounts in thousands)

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, 2018 and 2017:

	2018	2017
Education	$ 2,509	$ 2,470
Healthcare services	3,119	3,053
Capital and other	4,736	5,081
Total	$ 10,364	$ 10,604

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, 2018 and 2017 are as follows:

	2018	2017
Free beds	$ 1,569	$ 1,568
Support of hospital operations	5,676	5,176
Other	692	687
Total	$ 7,937	$ 7,431

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.

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.

(Continued)

(Amounts in thousands)

NOTE 13 - ENDOWMENTS (Continued)

Endowment funds consist of the following as of September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 6,319	$ 5,342	$ 11,661
Board-designated endowment funds	113,078	-	-	113,078
Balance as of September 30, 2018	$ 113,078	$ 6,319	$ 5,342	$ 124,739

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

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

Changes in endowment funds for the year ended September 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of October 1, 2017	$ 107,481	$ 6,211	$ 4,836	$ 118,528
Investment return				
Investment income	5,931	113	-	6,044
Net (depreciation) appreciation	(334)	(8)	1	(341)
Total investment return	5,597	105	1	5,703
Contributions	-	-	505	505
Appropriation of endowment assets for expenditure	-	3	-	3
Balance as of September 30, 2018	$ 113,078	$ 6,319	$ 5,342	$ 124,739

(Continued)

(Amounts in thousands)

NOTE 13 - ENDOWMENTS (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	805	18	1	824
Total investment return	14,208	271	1	14,480
Contributions	-	-	451	451
Appropriation of endowment assets for expenditure	(88)	359	-	271
Balance as of September 30, 2017	$ 107,481	$ 6,211	$ 4,836	$ 118,528

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.

(Continued)

(Amounts in thousands)

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, 2018 and 2017, are as follows:

	2018	2017
Healthcare services	$ 394,036	$ 365,667
General and administrative	48,752	44,149
Total	$ 442,788	$ 409,816

NOTE 15 - RELATED PARTY TRANSACTIONS

During 2018 and 2017, the System's entities entered into various related party transactions. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 16 - 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.

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").*

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NOTE 16 - COMMUNITY BENEFIT (Unaudited) (Continued)

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.

- 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.

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NOTE 16 - COMMUNITY BENEFIT (Unaudited) (Continued)

- 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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NOTE 16 - 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 12 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.

(Continued)

NOTE 16 - 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): 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 6,000+ 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 16 - 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.

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NOTE 16 - COMMUNITY BENEFIT (Unaudited) (Continued)

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.

- 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.

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NOTE 16 - COMMUNITY BENEFIT (Unaudited) (Continued)

- 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).

- 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.

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NOTE 16 - COMMUNITY BENEFIT (Unaudited) (Continued)

- Middlesex Hospital Paramedics Service*:* 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.

- Middlesex Hospital's Homecare Hospice Program: The Hospital 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 Homecare 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 comfort care 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.

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NOTE 16 - COMMUNITY BENEFIT (Unaudited) (Continued)

- 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.

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:

(Continued)

NOTE 16 - COMMUNITY BENEFIT (Unaudited) (Continued)

- 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.

- 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. Yet 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.

(Continued)

NOTE 16 - COMMUNITY BENEFIT (Unaudited) (Continued)

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 FY2018 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.

SUPPLEMENTAL INFORMATION

MIDDLESEX HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET
September 30, 2018
(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
ASSETS									
Current assets									
Cash and cash equivalents	$ 27,632	$ 15	$ 876	$ -	$ 28,523	$ 779	$ 686	$ -	$ 29,988
Short-term investments	32,477	-	-	-	32,477	-	-	-	32,477
Patient accounts receivable, net	45,762	-	(3)	-	45,759	-	2,273	-	48,032
Other receivables	4,427	-	-	-	4,427	5	-	-	4,432
Prepaid and other current assets	5,498	-	-	-	5,498	32	211	-	5,741
Current portion of investments limited as to use	1,809	-	153	-	1,962	-	-	-	1,962
Total current assets	117,605	15	1,026	-	118,646	816	3,170	-	122,632
Investments limited as to use	149,134	-	35	-	149,169	-	-	-	149,169
Long-term investments	26,059	-	-	-	26,059	-	-	-	26,059
Other assets									
Due from related parties	2,880	-	-	(891)	1,989	-	-	(1,989)	-
Other assets	11,299	-	187	-	11,486	239	490	-	12,215
Total other assets	14,179	-	187	(891)	13,475	239	490	(1,989)	12,215
Property and equipment, net	201,849	-	4,181	-	206,030	2,295	5,951	-	214,276
Total assets	$ 508,826	$ 15	$ 5,429	$ (891)	$ 513,379	$ 3,350	$ 9,611	$ (1,989)	$ 524,351

(Continued)

MIDDLESEX HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET (Continued)
September 30, 2018
(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
LIABILITIES AND NET ASSETS									
Current liabilities									
Current portion of long-term debt and capital lease obligations	$ 4,290	$ -	$ 368	$ -	$ 4,658	$ -	$ 76	$ -	$ 4,734
Accounts payable	30,560	-	57	-	30,617	15	517	-	31,149
Due to related parties	-	-	891	(891)	-	4	1,985	(1,989)	-
Accrued payroll and related liabilities	31,420	-	162	-	31,582	-	2,934	-	34,516
Other accrued liabilities	2,558	-	13	-	2,571	-	60	-	2,631
Current portion of estimated self-insurance liability	3,472	-	156	-	3,628	-	-	-	3,628
Current portion of accrued retirement liabilities	30	-	-	-	30	-	-	-	30
Total current liabilities	72,330	-	1,647	(891)	73,086	19	5,572	(1,989)	76,688
Other liabilities									
Long-term debt and capital lease obligations, net of current portion	39,253	-	3,437	-	42,690	-	493	-	43,183
Estimated self-insurance liability, net of current portion	23,386	-	-	-	23,386	-	-	-	23,386
Accrued retirement liabilities, net of current portion	3,397	-	-	-	3,397	-	-	-	3,397
Other liabilities including estimated third-party settlements	13,079	-	196	-	13,275	95	149	-	13,519
Total other liabilities	79,115	-	3,633	-	82,748	95	642	-	83,485
Total liabilities	151,445	-	5,280	(891)	155,834	114	6,214	(1,989)	160,173
Net assets									
Unrestricted	339,115	15	114	-	339,244	3,236	3,397	-	345,877
Temporarily restricted	10,329	-	35	-	10,364	-	-	-	10,364
Permanently restricted	7,937	-	-	-	7,937	-	-	-	7,937
Total net assets	357,381	15	149	-	357,545	3,236	3,397	-	364,178
Total liabilities and net assets	$ 508,826	$ 15	$ 5,429	$ (891)	$ 513,379	$ 3,350	$ 9,611	$ (1,989)	$ 524,351

See accompanying independent auditor's report.

MIDDLESEX HEALTH SYSTEM, INC.
CONSOLIDATING STATEMENT OF OPERATIONS AND
CHANGES IN NET ASSETS
September 30, 2018
(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	$ 444,421	$ -	$ 2,718	$ -	$ 447,139	$ -	$ 25,808	$ -	$ 472,947
Provision for bad debts	(16,059)	-	(16)	-	(16,075)	-	(641)	-	(16,716)
Patient service revenues, less provision for bad debts	428,362	-	2,702	-	431,064	-	25,167	-	456,231
Other revenue	12,684	1,065	5	(1,065)	12,689	726	1,418	(702)	14,131
Total operating revenues	441,046	1,065	2,707	(1,065)	443,753	726	26,585	(702)	470,362
Operating expenses									
Salaries and wages	188,694	641	1,567	(38)	190,864	-	23,319	-	214,183
Fringe benefits	39,909	117	408	(117)	40,317	-	3,703	-	44,020
Purchased services	37,114	809	122	(809)	37,236	-	1,590	-	38,826
Supplies	41,505	-	-	-	41,505	-	1,132	-	42,637
Depreciation and amortization	24,057	-	233	-	24,290	223	701	-	25,214
State hospital tax	35,521	-	-	-	35,521	-	-	-	35,521
Interest	1,465	-	66	-	1,531	-	36	-	1,567
Other operating expenses	34,378	101	655	(101)	35,033	459	6,030	(702)	40,820
Total operating expenses	402,643	1,668	3,051	(1,065)	406,297	682	36,511	(702)	442,788
Income (loss) from operations	38,403	(603)	(344)	-	37,456	44	(9,926)	-	27,574
Non-operating income (expense)									
Net income from joint ventures and general partnerships	2,582	-	-	-	2,582	43	-	-	2,625
Unrestricted gifts and bequests	447	-	-	-	447	-	-	-	447
Net investment income	5,931	-	-	-	5,931	-	-	-	5,931
Other non-operating expenses	(1,581)	-	(301)	-	(1,882)	(204)	-	-	(2,086)
Total non-operating income (expense)	7,379	-	(301)	-	7,078	(161)	-	-	6,917
Settlement of pension obligation (Note 9)	(87,130)	-	-	-	(87,130)	-	-	-	(87,130)
(Deficiency) excess of revenues over expenses	(41,348)	(603)	(645)	-	(42,596)	(117)	(9,926)	-	(52,639)
Net assets, beginning of year	317,972	15	799	-	318,786	3,353	2,363	-	324,502
Change in unrealized gains and losses	(386)	-	-	-	(386)	-	-	-	(386)
Restricted investment income	238	-	-	-	238	-	-	-	238
Restricted contributions	2,026	-	-	-	2,026	-	-	-	2,026
Settlement of pension obligation (Note 9)	87,130	-	-	-	87,130	-	-	-	87,130
Change in accumulated pension charges to unrestricted net assets	4,217	-	-	-	4,217	-	-	-	4,217
Transfers	(11,563)	603	-	-	(10,960)	-	10,960	-	-
Expenditures for intended purposes	(905)	-	(5)	-	(910)	-	-	-	(910)
Net assets, end of year	$ 357,381	$ 15	$ 149	$ -	$ 357,545	$ 3,236	$ 3,397	$ -	$ 364,178

See accompanying independent auditor's report.