MIDDLESEX HEALTH SYSTEM, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Corporation has adopted ASU 2014-09 – *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-14 – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was 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, and are 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 information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 17, 2019

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2019 and 2018

	2019	2018
	(In thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 44,001	$ 29,988
Short-term investments	14,759	32,477
Net patient accounts receivable	37,664	35,201
Net patient customer contracts	10,903	12,831
Other receivables	3,866	4,432
Prepaid and other current assets	5,367	5,741
Current portion of investments limited as to use	1,209	1,962
Total current assets	117,769	122,632
Investments limited as to use	154,796	149,169
Long-term investments	21,951	26,059
Other assets	12,652	12,215
Property and equipment, net	232,802	214,276
Total assets	$ 539,970	$ 524,351
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt and capital lease obligations	$ 5,311	$ 4,734
Accounts payable	26,466	31,149
Accrued payroll and related liabilities	32,922	34,516
Other accrued liabilities	2,683	2,631
Current portion of estimated self-insurance liabilities	3,528	3,628
Current portion of accrued retirement liabilities	30	30
Total current liabilities	70,940	76,688
Other liabilities		
Long-term debt and capital lease obligations, less current portion	40,972	43,183
Estimated self-insurance liabilities, less current portion	21,577	23,386
Accrued retirement liabilities, less current portion	3,590	3,397
Other liabilities including estimated third-party settlements	13,127	13,519
Total other liabilities	79,266	83,485
Total liabilities	150,206	160,173
Net assets		
Assets without donor restrictions	371,839	345,877
Assets with donor restrictions	17,925	18,301
Total net assets	389,764	364,178
Total liabilities and net assets	$ 539,970	$ 524,351

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, 2019 and 2018

	2019	2018
	(In thousands)	
Operating revenues:		
Net patient service revenue	$ 458,996	$ 456,231
Other revenues	14,527	14,131
Total operating revenues	473,523	470,362
Operating expenses:		
Salaries, wages and fees	222,271	214,221
Fringe benefits	42,885	44,138
Purchased services	43,127	39,092
Supplies	43,993	43,047
Depreciation and amortization	24,732	25,214
State hospital tax	32,404	35,521
Interest	1,719	1,567
Other operating expenses	45,114	41,053
Total operating expenses	456,245	443,853
Income from operations	17,278	26,509
Non-operating income (expense)		
Net income from joint ventures and general partnerships	2,682	2,625
Gifts and bequests without donor restrictions	998	447
Net investment income	5,468	5,931
Other non-operating expenses	(40)	(1,021)
Total non-operating income	9,108	7,982
Settlement of pension obligation (Note 10)	-	(87,130)
Excess (deficiency) of revenues over expenses	$ 26,386	$ (52,639)

See accompanying notes to the consolidated financial statements.

	2019	2018
	(In thousands)	
Assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	$ 26,386	$ (52,639)
Change in net unrealized gains (losses)	(1,246)	(448)
Settlement of pension obligation (Note 10)	-	87,130
Change in accumulated pension charges to net assets without donor restrictions	-	4,217
Net assets released from restrictions for purchase of property and equipment	822	1,150
Change in assets without donor restrictions	25,962	39,410
Assets with donor restrictions:		
Contributions	1,140	2,026
Restricted investment income	1,289	238
Change in net unrealized gains (losses)	(768)	62
Change in assets held in trust	72	-
Net assets released from restrictions for purchase of property and equipment	(822)	(1,150)
Expenditures for intended purposes	(1,287)	(910)
Change in assets with donor restrictions	(376)	266
Change in net assets	25,586	39,676
Net assets, beginning of year	364,178	324,502
Net assets, end of year	$ 389,764	$ 364,178

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2019 and 2018

	2019	2018
	(In thousands)	
Cash flows from operating activities		
Change in net assets	$ 25,586	$ 39,676
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	24,732	25,214
Change in accumulated pension charges to net assets without donor restrictions	-	(4,217)
Restricted contributions	(1,140)	(2,026)
Change in assets held in trust	(72)	-
Change in net unrealized and realized losses on investments	(2,429)	(3,003)
Equity earnings in joint ventures	(2,673)	(2,625)
Change in assets and liabilities		
Net patient accounts receivable	(2,463)	(2,274)
Net patient customer contracts	1,928	(1,219)
Other receivables	566	(1,420)
Prepaid and other assets	320	1,353
Accounts payable and other accrued liabilities	(9,763)	6,554
Accrued payroll and related liabilities	(1,594)	3,879
Estimated self-insurance liabilities	(1,909)	(1,622)
Accrued retirement liabilities	193	(7,386)
Other liabilities including estimated third-party settlements	(340)	569
Net cash provided by operating activities	30,942	51,453
Cash flows from investing activities		
Purchases of property and equipment	(38,178)	(30,799)
Short-term investments	17,718	(837)
Long-term investments	4,108	(11,044)
Proceeds from sales of investments limited as to use	23,141	14,933
Purchases of investments limited as to use	(25,514)	(18,468)
Changes in certificates of deposit	-	99
Distributions from joint ventures	2,290	2,310
Net cash used in investing activities	(16,435)	(43,806)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	3,474	11,599
Repayment of long-term debt and capital lease obligations	(5,108)	(15,319)
Restricted contributions	1,140	2,026
Net cash used in financing activities	(494)	(1,694)
Change in cash and cash equivalents	14,013	5,953
Cash and cash equivalents at beginning of year	29,988	24,035
Cash and cash equivalents at end of year	$ 44,001	$ 29,988
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 1,756	$ 1,767
Cash paid for taxes	$ 378	$ 69
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) (which includes Middlesex Health Primary Care, Middlesex Health Urgent Care and Middlesex Health Surgical Alliance), 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 has an interest in a collection agency joint venture. Subsequent to year end, in November 2019, Resources sold its interest in the joint venture. 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 of amounts due to and from third-party payers, and the estimation of self-insured professional liabilities and other contingent 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)

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.

Net Patient Accounts Receivable: The accounts receivable balance represents the unpaid amounts billed to patients and third-party payors for services performed under contracts. Historical collections are utilized to report receivables for patient care services at net realizable value. The System does not accrue interest on any of its accounts receivable.

Net Patient Customer Contracts: The net patient customer contracts balance represents amounts due for services performed under contracts with patients which have not yet been billed to patients or third-party payors. Historical collections are utilized to report patient customer contracts at net realizable value.

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, 2019 and 2018, 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 realized gains and losses without donor restrictions and interest and dividends from Board-designated funds without donor restrictions 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 net assets with donor restrictions. Unrealized gains and losses on all investments are excluded from excess of revenues over expenses and recorded as a component of net assets, except when certain declines represent an other than temporary impairment, as further discussed below.

All of the System's investments, as of September 30, 2019 and 2018, 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Than Temporary Impairment of Investments: The System accounts for other than temporary impairments in accordance with FASB ASC 320. When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings, included in non-operating income, and the cost basis of that investment is reduced. The System's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and the System's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. No impairment losses were recognized in 2019 and 2018.

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

Fair Value Measurements: The System measures fair value in accordance with FASB ASC 820, "*Fair Value Measurements and Disclosures*," which defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided over the term of the applicable indebtedness using a method which does not differ materially from the effective interest method. Such amortization expense is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. These costs are a reduction of long-term debt as the System has adopted the provisions of Accounting Standards Update ("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 2018, the Hospital incurred a tax of $35,521 and received supplemental payment revenue of $33,587. This transaction resulted in a negative impact on its income from operations of $1,934. During 2019, additional supplemental payments were made by the State of Connecticut and the Hospital received $24,278. In 2019, the Hospital continued to pay tax on its net patient service revenues, which amounted to $32,404. The total combined negative impact on its income from operations was $8,126 in fiscal year 2019. 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.

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor Restricted Gifts, Contributions and Pledges: The System encourages contributions and donations for capital replacement and expansion or other specific purposes. Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as 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 2019 and 2018, pledges receivable included in other receivables were approximately $552 and $597, respectively.

When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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. During 2019, MHSPC also began 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 2019 and 2018. The System, in consultation with its actuary, records as a liability an estimate of expected losses. Such liability at September 30, 2019 and 2018 totaled $10,629 and $11,610, 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 2019 and 2018. During 2019, MHSPC also began self-insuring its workers' compensation program. 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 $6,847 and $7,819 at September 30, 2019 and 2018, respectively.

Lastly, the Hospital has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately $7,627 and $7,586 at September 30, 2019 and 2018, 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:

With donor restrictions - Net assets with donor restrictions are net assets that are subject to donor-imposed restrictions.

Without donor restrictions - Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the System. Net assets without donor restrictions include undesignated net assets and net assets that are Board designated for endowment.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess of Revenue Over Expenses: The consolidated statements of operations and changes in net assets include excess of revenue over expenses as the performance indicator. Changes in net assets which are excluded from the performance indicator include the change in net unrealized gains or losses, equity transfers to and from affiliates, 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 10, 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 System reclassified this amount as a separate line item within its performance indicator on the consolidated 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 accounts 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.

Prior to October 1, 2018, MMG accounted for income taxes in accordance with FASB ASC 740, "*Income Taxes.*" 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. 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of September 30, 2019 and 2018. 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, 2019 and 2018, 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.

Under the Tax Cuts and Jobs Act (the Act), tax-exempt organizations are required to categorize certain fringe benefit expenses (i.e parking) as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, and report income or loss from unrelated business activities on an activity-by-activity basis, among other provisions.

Recently Adopted Accounting Pronouncements: The System has adopted the FASB ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" ("ASU 2014-09") using a full retrospective method of application to all contracts effective October 1, 2018. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The adoption of ASU 2014-09 resulted in changes to the presentation for and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed by patients with insurance.

Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net operating revenues, with a corresponding material reduction in the amounts presented separately as provision for doubtful accounts. For the year ending September 30, 2018, approximately $19,998 was recorded of implicit price concessions as a direct reduction of net operating revenues that would have been recorded as provision for doubtful accounts prior to the adoption of ASU 2014-09. The provision for doubtful accounts was previously recorded as an expense within operating revenues. This amount was reclassed into net patient service revenue with the adoption of ASU 2014-09.

For the year ending September 30, 2018, $10,261 was recorded as a direct reduction of accounts receivable that would have been reflected as allowance for doubtful accounts prior to the adoption of ASU 2014-09.

At September 30, 2018, $12,831 of revenues related to patients who were still receiving inpatient care at that date was reclassified from accounts receivable, less allowance for doubtful accounts, to patient customer contracts, which are included in current assets in the accompanying consolidated balance sheets at September 30, 2018.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, The FASB issued ASU 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities"*. This ASU changes the way all not-for-profits classify net assets and prepare financial statements. As a result of the new standard, the three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) become two: Net assets without donor restrictions and net assets with donor restrictions.

As part of the change to classification of net assets, endowments that have a current fair value that is less than the original gift amount (or amount required to be retained by donor or by law), known as "underwater" endowments, are now classified in net assets with donor restrictions, instead of the current classification in net assets without donor restrictions. Enhanced disclosure requirements are required on the amounts and purposes of board-designated net assets.

Quantitative and qualitative information about liquidity is also required for the purpose of providing financial statement users with an understanding of an entity's exposure risks, as well as how an entity manages its liquidity risk, and information about the availability of assets to meet cash needs for general expenditures within one year of the balance sheet date. An analysis of expenses by both function and natural classification is required for all not-for-profits on a separate statement, on the face of the statement of activities, or in the footnotes. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The System implemented this ASU as of October 1, 2018 on a retrospective basis to all years presented.

Reclassifications: Certain reclassifications to the 2018 consolidated financial statements have been made in order to conform to the 2019 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 17, 2019, which is the date the consolidated financial statements were issued.

NOTE 3 - NET PATIENT SERVICE REVENUES

Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied. Patients have roughly 120 days to make acceptable payment arrangements in order to avoid going to a collection agency. Interest-free internal payment arrangements are available if balance can be paid off within two years. Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual services performed in relation to total expected (or actual) services or is recognized as services are performed depending on the payor and the type of service performed. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services.

(Continued)

NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when services are provided. Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and/or implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience from that category of payor. Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

- **Medicaid:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Outpatient services are paid using prospectively determined rates.

- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care.

(Continued)

(Amounts in thousands)

NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in transaction price were not significant for the years ending September 30, 2019 and 2018.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount. For patients that qualify through the financial assistance process, the System estimates the transaction price for patients with deductibles and coinsurance, and from those who are uninsured, based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. For the years ending September 30, 2019 and 2018, no significant adjustments to revenue were recognized due to changes in the estimates of implicit price concessions for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ending September 30, 2019 and 2018 was not significant.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The costs for providing these services were calculated using an adjusted cost-to-charge ratio. These charges written off for patients that qualified for free care under the Hospital's Charity Care Program totaled approximately $6,317 and $6,482 in 2019 and 2018, respectively. The estimated costs for these services was $1,850 and $1,901 in 2019 and 2018, respectively.

The composition of net patient service revenue by payor is as follows:

	2019	2018
Medicare	$ 167,644	$ 153,279
Medicaid	42,751	40,593
Commercial / HMO	214,274	218,738
Other third-party payers	6,289	6,673
Self-pay	3,760	3,361
Other supplemental payments	24,278	33,587
Total net patient service revenue	$ 458,996	$ 456,231

(Continued)

(Amounts in thousands)

NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

During 2019 and 2018, approximately 41% and 38%, respectively, of net patient service revenue was received under the Medicare program, 9% under the state Medicaid and city welfare programs and 50% and 53%, respectively, was received from contracts with private health payers.

As of September 30, 2019 and 2018, approximately 37% and 35%, respectively, of net patient accounts receivable was due from Medicare, 5% was due from Medicaid and city welfare, 55% and 58%, respectively, was due from private health payers and 2% was due from patients and others.

The System has elected the practical expedient and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The System has applied the practical expedient and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the System otherwise would have recognized is one year or less in duration.

During 2019 and 2018, 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, 2019 and 2018, changes in estimates related to settlements with third-party payers for prior years increased (decreased) net patient service revenue by approximately $29 and $(46), respectively.

NOTE 4 - OTHER REVENUE

Other revenue consists of the following for fiscal years ended September 30, 2019 and 2018:

	2019	2018
Grants	$ 1,742	$ 1,793
Cafeteria sales	1,526	1,485
Technical laboratory income	783	798
Investment income	2,804	1,652
Rental income	1,052	1,106
Purchase discounts	1,228	1,003
Net assets released from restriction used for operations	369	302
Business interruption insurance proceeds	343	1,577
Miscellaneous	4,680	4,415
	$ 14,527	$ 14,131

(Continued)

(Amounts in thousands)

NOTE 5 - INVESTMENTS

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

The fair value of these investments as of September 30, 2019 and 2018, are summarized as follows:

	2019	2018
Cash	$ 1,046	$ 983
Money market funds	5,723	4,662
Mutual funds:		
Equity	78,094	83,452
Fixed income	60,337	51,340
Common stock:		
U.S. equity	7,610	7,574
Corporate debt securities	36,711	58,536
Exchange-traded products	3,194	3,120
Total	$ 192,715	$ 209,667

The fair values of investments limited as to use consisted of the following, as of September 30, 2019 and 2018:

	2019	2018
Funds held in trust under revenue bond agreements	$ 1,209	$ 1,187
Self-insurance liability	10,658	10,056
Board-designated funds	125,797	121,421
Donor-restricted funds	18,341	18,467
Total	$ 156,005	$ 151,131

Total gross unrealized losses as of September 30, 2019 amounted to $1,842 and the fair value of those investments was $27,805. As of September 30, 2019, there were six investments 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, 2019 and 2018.

Included in net investment income for the years ended September 30, 2019 and 2018, was interest and dividend income of $2,458 and $2,542, respectively, and realized gains on sales of investments of $3,010 and $3,389, 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, 2019 and 2018, by the valuation hierarchy. These tables include cash equivalents, assets limited as to use, debt service funds and long-term investments:

	Level 1	Level 2	Level 3	Total
2019				
Cash and cash equivalents	$ 1,046	$ -	$ -	$ 1,046
Money market funds	5,723	-	-	5,723
Equities				
Mutual funds				
Equity	78,094	-	-	78,094
Fixed income	60,337	-	-	60,337
Common stock				
US equity	7,610	-	-	7,610
Fixed income				
Exchange-traded products	3,194	-	-	3,194
Corporate debt securities	-	36,711	-	36,711
Total	$ 156,004	$ 36,711	$ -	$ 192,715

	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
Common stock				
US equity	7,574	-	-	7,574
Fixed income				
Exchange-traded products	3,120	-	-	3,120
Corporate debt securities	-	58,536	-	58,536
Total	$ 151,131	$ 58,536	$ -	$ 209,667

(Continued)

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

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 $25,382 and $27,700 at September 30, 2019 and 2018, respectively. The fair value of Services' long-term debt obligations was approximately $743 and $1,054 at September 30, 2019 and 2018, 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 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, 2019 and 2018, 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, 2019 and 2018, consist of the following:

	2019	2018
Land and land improvements	$ 14,589	$ 14,701
Buildings and fixed equipment	342,893	321,824
Other equipment	222,307	209,613
Leasehold improvements	9,304	9,603
Total property and equipment	589,093	555,741
Less: accumulated depreciation	(385,468)	(361,616)
	203,625	194,125
Construction-in-progress (estimated cost to complete $18,102)	29,177	20,151
Property and equipment, net	$ 232,802	$ 214,276

Depreciation expense was $24,759 and $25,194 in fiscal years 2019 and 2018, respectively.

Included within buildings and fixed equipment above is a building with a net book value of $333 and $387 as of September 30, 2019 and 2018, 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:	
2020	$ 6,769
2021	5,067
2022	4,534
2023	3,719
2024	1,352
Thereafter	5,972
	$ 27,413

Total rental expense under operating leases for the years ended September 30, 2019 and 2018 was approximately $6,390 and $6,128, respectively.

(Continued)

(Amounts in thousands)

NOTE 8 - LIQUIDITY

The following reflects the System's financial assets as of the balance sheet date, reduced by amounts not available for general use because of restrictions within one year of the balance sheet date.

	2019	2018
Financial assets:		
Cash and cash equivalents	$ 44,001	$ 29,988
Short-term investments	14,759	32,477
Receivables:		
Patients	37,664	35,201
Other	1,885	3,657
Patient customer contracts	10,903	12,831
Investments limited as to use or restricted	156,005	151,131
Long-term investments	21,951	26,059
Total financial assets	287,168	291,344
Less those unavailable for general expenditure within one year due to:		
Donor restricted	17,925	18,301
Board designated	126,213	121,587
Debt service funds	1,209	1,187
Self insurance liability	10,658	10,056
Total unavailable	156,005	151,131
Financial assets available to meet cash needs for general expenditures within one year	$ 131,163	$ 140,213

As part of the System's liquidity management plan, management has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The System targets maintaining cash on hand to adequately cover near term future operating expenses. Should unanticipated liquidity needs arise, the System also maintains a $6,000 line of credit with Wells Fargo Bank, N.A. The Board designated amounts include an endowment in the amount of $117,015 and certain long-term investment funds in the amount of $8,308 allocated to meet unexpected liquidity needs.

(Continued)

(Amounts in thousands)

NOTE 9 - LONG-TERM DEBT

As of September 30, 2019 and 2018, 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.

	2019	2018
Fixed rate revenue bonds, series N, due July 1, 2027	$ 8,275	$ 11,010
Fixed rate revenue bonds, series O, due July 1, 2036	15,820	16,460
Fixed rate revenue bonds, series P, due July 1, 2027	6,844	7,644
Fixed rate revenue bonds, series Q, due July 1, 2027	11,186	11,361
Mortgage notes and capital leases, net of interest	493	570
Promissory notes	2,944	-
	45,562	47,045
Add: bond premium	1,504	1,776
Less: unamortized finance costs	(783)	(904)
Less: current portion	(5,311)	(4,734)
	$ 40,972	$ 43,183

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 $685 and $1,005 as of September 30, 2019 and 2018, 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)

NOTE 9 - 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 $2,746 and $2,790 as of September 30, 2019 and 2018, respectively.

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 $1,209 and $1,187 in debt service funds as of September 30, 2019 and 2018, 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 March 2019, the Hospital entered into a seven-year promissory note with Wells Fargo Equipment Finance, Inc. in the amount of $2,066 with an interest rate of 3.53%. Payments in the amount of $25 are due monthly. The outstanding balance on this promissory note as of September 30, 2019 was $1,732.

In May 2019, the Hospital entered into a seven-year promissory note with Wells Fargo Equipment Finance, Inc. in the amount of $1,408 with an interest rate of 3.39%. Payments in the amount of $17 are due monthly. The outstanding balance on this promissory note as of September 30, 2019 was $1,212.

Subsequent to year end, in October 2019, the Hospital entered into an additional seven-year promissory note with Wells Fargo Equipment Finance, Inc. in the amount of $8,535 with an interest rate of 2.92%. Payments in the amount of $102 are due monthly.

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, 2019 and 2018 was $442 and $498, respectively.

(Continued)

(Amounts in thousands)

NOTE 9 - LONG-TERM DEBT (Continued)

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

	Long-term Debt	Mortgage Notes / Capital Leases
2020	$ 5,232	$ 110
2021	5,547	110
2022	5,776	102
2023	4,022	90
2024	4,119	90
Thereafter	21,877	104
	46,573	606
Less: unamortized finance costs	(783)	-
Less: interest	-	(113)
Total	$ 45,790	$ 493

As of September 30, 2019 and 2018, the System is in compliance with all financial covenants related to the previously noted debt.

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN

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

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 2018 consolidated statements 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.

(Continued)

(Amounts in thousands)

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN (Continued)

The following tables provide a reconciliation of the changes to the Plan's benefit obligations and fair value of Plan assets for the year ended September 30, 2018, as well as a statement of the funded status of the Plan as of September 30, 2018. 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. The current liability relating to the supplemental executive defined benefit retirement plan as of September 30, 2019 was $30 and the noncurrent liability was $126.

	2018
Accumulated benefit obligation	$ 156
Change in benefit obligation:	
Projected benefit obligation at beginning of year	$ 287,187
Interest cost	10,555
Actuarial gain	(8,787)
Settlements	(278,153)
Service cost	350
Benefits paid	(10,996)
Projected benefit obligation at end of year	156
Change in plan assets:	
Fair value of plan assets, beginning of year	275,352
Actual return on plan assets	3,330
Employer contributions	10,467
Settlements	(278,153)
Benefits paid	(10,996)
Plan assets at end of year	-
Funded status	$ (156)
Amounts recognized in balance sheets consist of:	
Current liability	$ (30)
Noncurrent liability	(126)
Net amount recognized	$ (156)
Amounts recognized as accumulated charges to unrestricted net assets consist of:	
Net actuarial loss	$ -

Changes in plan assets and benefit obligation recognized in net assets without donor restrictions include:

	2018
Unrealized actuarial gain	$ (73)
Amortization of net gain	(4,144)
Effect of settlement	87,130
Total plan	$ 82,913

(Continued)

(Amounts in thousands)

NOTE 10 - DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

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

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

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

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

NOTE 11 - 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 $9,399 and $9,153 in 2019 and 2018, respectively. A core contribution of $4,641, which is scheduled to be paid in 2020, is included in accrued payroll and related liabilities in the accompanying consolidated balance sheets.

(Continued)

NOTE 11 - DEFINED CONTRIBUTION PLANS (Continued)

In addition, the Hospital sponsors other defined contribution plans for eligible employees. The Hospital's contributions to these plans totaled approximately $511 and $470 in 2019 and 2018, respectively. In June 2019, the Board of Directors of the Hospital unanimously approved the termination of the MHS-Primary Care Profit Sharing Plan effective December 31, 2019. Participants will be given the option of rolling over their funds into the Middlesex Retirement Savings and Investment Plan, rolling their funds into another qualified retirement plan, or they may take a distribution subject to applicable penalties.

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, 2019 and 2018, MMG made matching contributions in the amount of $839 and $483, respectively.

NOTE 12 - ESTIMATED SELF-INSURANCE LIABILITIES AND OTHER CONTINGENCIES

There have been malpractice, general liability, and workers' compensation claims that fall within the System's partially self-insured program (see Note 2) which have been asserted against the System. In addition, there are known incidents that have occurred through September 30, 2019 that may result in the assertion of claims.

The System 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 13 - NET ASSETS WITH DONOR RESTRICTIONS

The consolidated financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions. Net assets with donor restrictions at September 30, 2019 and 2018 are available for the following activities:

	2019	2018
Subject to expenditure for specified purpose:		
General	$ 3,556	$ 4,136
Perpetual trusts	3,118	3,185
Free Bed	2,708	2,648
Family Practice	1,804	1,803
Nursing Education	2,698	2,686
Hospice	1,845	1,671
Homecare	981	981
Community Mental Health	824	817
Cancer Fund	310	305
Auxiliary	69	69
Paramedic	12	-
Total net assets with donor restrictions	$ 17,925	$ 18,301

NOTE 14 - 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 donor-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 net assets with donor restrictions is classified as such 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 14 - ENDOWMENTS (Continued)

Endowment funds consist of the following as of September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 11,934	$ 11,934
Board-designated endowment funds	117,015	-	117,015
Balance as of September 30, 2019	$ 117,015	$ 11,934	$ 128,949

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 11,661	$ 11,661
Board-designated endowment funds	113,078	-	113,078
Balance as of September 30, 2018	$ 113,078	$ 11,661	$ 124,739

Changes in endowment funds for the year ended September 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance as of October 1, 2018	$ 113,078	$ 11,661	$ 124,739
Investment return			
Investment income	5,467	113	5,580
Net depreciation	(1,530)	(73)	(1,603)
Total investment return	3,937	40	3,977
Contributions	-	67	67
Appropriation of endowment assets for expenditure	-	166	166
Balance as of September 30, 2019	$ 117,015	$ 11,934	$ 128,949

(Continued)

(Amounts in thousands)

NOTE 14 - ENDOWMENTS (Continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Balance as of October 1, 2017	$ 107,481	$ 11,047	$ 118,528
Investment return			
Investment income	5,931	113	6,044
Net depreciation	(334)	(7)	(341)
Total investment return	5,597	106	5,703
Contributions	-	505	505
Appropriation of endowment assets for expenditure	-	3	3
Balance as of September 30, 2018	$ 113,078	$ 11,661	$ 124,739

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.

NOTE 15 - RELATED PARTY TRANSACTIONS

During 2019 and 2018, the System's entities entered into various related party transactions. All significant intercompany accounts and transactions have been eliminated in consolidation.

(Continued)

(Amounts in thousands)

NOTE 16 - FUNCTIONAL EXPENSES

The table below presents expenses by both their nature and their function as of September 30, 2019:

	Program Services			Supporting Actvities				
				Management and General				
	Middlesex Hospital	Other Entities	Program Subtotal	Middlesex Hospital	Other Entities	M&G Subtotal	Fundraising	Total Expenses
Salaries, wages and fees	$ 177,278	$ 25,020	$ 202,298	$ 16,656	$ 2,649	$ 19,305	$ 668	$ 222,271
Fringe benefits	34,840	4,244	39,084	3,030	684	3,714	87	42,885
Purchased services	28,746	1,292	30,038	12,237	678	12,915	174	43,127
Supplies	41,968	1,722	43,690	303	-	303	-	43,993
Depreciation and amortization	21,181	964	22,145	2,338	249	2,587	-	24,732
State hospital tax	32,404	-	32,404	-	-	-	-	32,404
Interest	1,586	133	1,719	-	-	-	-	1,719
Other operating expenses	27,088	6,265	33,353	10,135	1,500	11,635	126	45,114
	$ 365,091	$ 39,640	$ 404,731	$ 44,699	$ 5,760	$ 50,459	$ 1,055	$ 456,245

The table below presents expenses by both their nature and their function as of September 30, 2018:

	Program Services			Supporting Actvities				
				Management and General				
	Middlesex Hospital	Other Entities	Program Subtotal	Middlesex Hospital	Other Entities	M&G Subtotal	Fundraising	Total Expenses
Salaries, wages and fees	$ 171,947	$ 23,269	$ 195,216	$ 16,747	$ 1,617	$ 18,364	$ 641	$ 214,221
Fringe benefits	36,716	3,769	40,485	3,193	343	3,536	117	44,138
Purchased services	26,024	1,161	27,185	11,090	617	11,707	200	39,092
Supplies	41,202	1,542	42,744	303	-	303	-	43,047
Depreciation and amortization	21,778	923	22,701	2,279	234	2,513	-	25,214
State hospital tax	35,521	-	35,521	-	-	-	-	35,521
Interest	1,465	102	1,567	-	-	-	-	1,567
Other operating expenses	23,557	5,305	28,862	10,712	1,379	12,091	100	41,053
	$ 358,210	$ 36,071	$ 394,281	$ 44,324	$ 4,190	$ 48,514	$ 1,058	$ 443,853

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain direct costs (salaries, rent, etc.) have been allocated based on time or asset usage.

(Continued)

NOTE 17 - COMMUNITY BENEFIT (Unaudited)

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").*

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. 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.

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NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

- 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.

- 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. The Cancer Center offers many annual education and wellness events in addition to ongoing programs such as an art therapy program; movement through dance; wig room; and community education on screenings and prevention.

- 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 library encourages 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.

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.

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):

(Continued)

NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

- 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: Transportation vouchers are supplied to patients in urgent situations and prescription vouchers are given to help to defray costs for patients who are unable to pay for medication.

- Financial Counseling: The Hospital provides information about its financial assistance program to all patients and makes this assistance available to individuals who meet established guidelines. Financial Counselors and social workers are available to answer questions and aid in the application process. In addition, the Hospital has an internal committee that monitors its financial assistance processes, reviews guidelines for appropriateness, and makes adjustments as needed to ensure optimal accessibility to the support.

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NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

- 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 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 of many community agencies that specialize in the delivery of care for people with serious mental illness and/or substance use disorder 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 that include addressing many social determinants of health needs and connecting to community based 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 thousands of children ages 0-5 and countless family members. Middlesex Hospital provides OK's program planner, physician champion, grant-writing support and fiscal administration for the funding sources. In addition, staff members from multiple Hospital departments actively participate in the collaborative, including representatives from Family Advocacy Maternal Child Health, Diabetes Management, Asthma Management, Fit For Kids, Family Practice, the Family Medicine Residency program, and the Pregnancy & Birth Center.

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NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

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

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

Subsidized Health Services: The Hospital's subsidized health services represent a significant portion of Middlesex Hospital's annual community benefit aggregate financials and numbers served. Subsidized services are particular clinical programs provided to the community despite a financial loss, with negative margins remaining after specific dollars (financial assistance/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 Family Medicine Group, Behavioral Health (inpatient and outpatient), Homecare, Cardiac Rehabilitation, Paramedics, Hospice, Wound Care and Pulmonary Rehabilitation.

(Continued)

NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

- Family Medicine Group: The Family Medicine Group of Middlesex Hospital is made up of twelve faculty physicians and twenty-four resident physicians who are completing their four-year training in the specialty of Family Medicine (note: faculty and residency costs are captured under Health Professions Education). The group has been providing high-quality medical care to Middlesex County's community members since 1974. The practice serves patients of all ages with health care often coordinated for the entire family. Referrals to specialists are made when needed, with the Family Medicine physician following patient care jointly with the specialist. In addition to caring for patients in the office, the Family Medicine physicians follow the care of their patients when they are in Middlesex Hospital and some local nursing and convalescent homes. If the need arises and patients are confined to their homes, house calls can also be arranged. The Family Medicine Group is comprised of three locations: Middletown, East Hampton and Portland. Nurse health educators are available in the three family practice offices to provide counseling on health-related topics that promote a healthy lifestyle. The offices are equipped for comprehensive preventive health care procedures such as Pap smears, vision and hearing testing, pulmonary function testing, and electrocardiograms. Minor surgical procedures can also be performed in all three offices. As the Family Medicine group is within the Middlesex Hospital Health System, it relies on the broad services offered by the system. Services include access to multiple laboratory facilities for routine tests, counseling among many other outpatient service lines. In addition, all faculty physicians and resident physicians are on the staff of Middlesex Hospital. Middlesex Hospital's Family Medicine group is a critically important subsidized outpatient service as it fills a gap in primary care services and addresses access to care challenges. Middlesex County has been designated by the Health Resources and Services Administration (HRSA) to be a Medically Underserved Area experiencing a shortage of select health services which include too few primary care providers. In addition, HRSA reports that Middlesex County is a Health Professional Shortage Area (HPSA) for primary medical care.

- Middlesex Hospital's Behavioral Health Program: provides a large spectrum of behavioral health services, including inpatient and outpatient therapy and support, child and adolescent services and a maternal child health program – and is heavily subsidized by the Hospital. The Hospital recognizes that the life disruptions caused by mental illness, severe behavioral problems, and addiction especially coupled with medical complexities can be devastating for patients and their families and is committed to providing the highest standard of care for both the physical and behavioral health needs of its psychiatric patients. Treatment is provided regardless of the patient's background and/or ability to pay. The behavioral health system at Middlesex Hospital is premised on guiding principles designed to empower each individual to attain optimal functioning in a compassionate, supportive, professional, collaborative environment. Each care plan is individualized with careful consideration of the patient's physical and mental needs and preferences. The Hospital has a 20 bed psychiatric unit for patients requiring inpatient stays; Day Treatment Program that provides intensive outpatient and partial hospital services for adolescents, adults and geriatric patients with psychiatric and co-occurring substance abuse/ psychiatric disorders; Outpatient Behavioral Health Clinic that offers treatment in individual, family, and group therapy to meet general adult and senior psychiatric needs; Family Advocacy Program (FAP) that offers comprehensive psychiatric services designed to improve the lives of children, adolescents and their families and improve access to critical resources; and FAP Maternal Child Health which provides primary prevention, case management and home-based parenting skill building wrap around and support services for at-risk first time families involved in Department of Children and Families (DCF).

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NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

- Middlesex Hospital Homecare: Recognizing the need for medical services for patients who are homebound, the Hospital's Homecare department, founded in 1900, makes over 160,000 visits per year to community residents with services available 7 days/week, 24 hours/day. While the program requires subsidy from the Hospital, it meets a vital need in community health. Staffing includes specialty nurses, home health aides, physical therapists, occupational therapists, speech therapists, medical social workers and nutritionists. The broad array of comprehensive services offered to meet the needs of the homecare patient encompass: 1) behavioral; 2) diabetes care and education; 3) specialized cardiac care; 4) geriatric care which focuses on the special needs of senior patients and includes management of conditions, complex medications and/or long-term illness; 5) infusion therapy; 6) the emergency response Lifeline program; 7) maternal/child health services; 8) hospice and palliative care services; 9) psychiatric nursing for patients with primary psychiatric illness living in the community; 10) medical rehabilitation; 11) respiratory/pulmonary care; 12) wound/ostomy care; and 13) various community health services including flu shots and health fairs.

- Middlesex Hospital Cardiac Rehabilitation: Cardiac Rehabilitation is a service offered by Middlesex Hospital due to community request. In response, the Hospital makes this comprehensive program available to its community members despite a financial loss. The service includes progressive cardiac-monitored exercise plans customized per individual, risk-factor education, and is designed to assist patients who have had a recent heart attack, cardiac bypass, cardiac valve surgery, coronary angioplasty, or newly stabilized angina symptoms in achieving a speedy recovery and a healthy, productive lifestyle. Services for patients (and often their caregivers) include education on diagnosis, plan of care, and the requirements necessary to best manage their condition; discussion regarding appropriate lifestyle modifications given the new diagnosis; support to help diminish the fear of appropriate exercise and guidance on level of exertion and pulse rate monitoring; and symptom management education and recognition.

- Middlesex Hospital Paramedics Service*:* Provides 24 hours/day, 7 days/week skilled emergency care and critical treatment to patients prior to arrival at the hospital. Paramedics work alongside fire and EMS personnel and are an important adjunct to emergency transport services, often administering care and providing advanced life support to the patient in the ambulance en route to the hospital – having care begin at the earliest opportunity is vital for best outcomes, particularly in cases of stroke and cardiac emergencies. Middlesex Hospital's paramedic program is one of three such hospital-based services in the State – its mission is to provide high quality, cost-effective, community focused emergency medical services to those who require immediate response. Patients receive the best possible paramedic level of care, regardless of their ability to pay or condition. Since inception of the service, the Hospital has covered the program's annual financial shortfalls.

(Continued)

NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

- Middlesex Hospital's Homecare Hospice Program: Is committed to caring for the terminally ill and their families by enhancing quality of life for the patient. Services include comfort care with relief of physical symptoms, the provision of emotional and spiritual support, and the desire to support the patient's right to make choices and remain as autonomous as possible during this phase of life. As terminal illness brings a host of new and difficult challenges for both patient and family, the Hospital's Hospice program views patient and family as a single unit of care. Care is delivered through an interdisciplinary team that includes physicians, nurses, social workers, physical therapists, occupational therapists, nutritionists, home health aides, spiritual support, pharmacists, bereavement counselors, and specially-trained volunteers. The care setting includes home hospice as well as an inpatient unit designed to provide short-term care for patients requiring pain and symptom control as well as respite care during the last days of life. This vital community program functions at a loss for the Hospital. The Hospital also offers outpatient Palliative Care services which assist patients and families with critical decisions while providing maximum physical comfort and emotional support. Outpatient Palliative care services include pain and symptom control, psychosocial support, patient education about self-determination and advance directives, negotiating end-of-life decisions, and helping patients and loved ones understand and cope with the process of dying.

- Middlesex Hospital Wound Care: The Hospital performed a study and found that there was a gap in outpatient services for those experiencing complex and chronic wounds. In response, the Hospital created the Wound Care Center where a full range of services for effective wound treatment is provided. Clinical providers at both of the Hospital's Wound Care Center locations aid in determining what local or systemic factors are impeding the healing process, and assist in developing a specialized and individualized treatment care plan. Using a planned, systematic approach which includes consideration of all factors that affect wound healing, the Center treats four primary wound types: venous stasis ulcers, diabetic foot ulcers, ischemic ulcers and stage III and IV pressure ulcers. The Wound Care Center functions at a loss for the hospital and requires subsidy.

- Pulmonary Rehabilitation: The Hospital's Pulmonary Rehabilitation program was developed in direct response to a hospital 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.

(Continued)

NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

Financial and In-Kind Contributions: Middlesex Hospital supports the community in the form of financial and in-kind contributions. The Hospital's in-kind contributions include equipment, food, linens and medical supplies that are donated both locally and globally. Other in-kind donations include cafeteria discounts for YMCA residents, and staff coordination of community support drives including the United Way, Adopt-A-Family holiday gift program, Families Feeding Families, the Middletown Community Thanksgiving Drive, Lions' Club eyeglasses and hearing aid collection, Light One Little Candle and Reach Out and Read childhood readership. The Hospital's main campus and satellite locations make meeting space available, free-of-charge and on an on-going basis, for many community groups that would otherwise struggle to pay for space. In addition, each year the Hospital makes substantial cash donations to carefully selected mission-driven community organizations throughout its service area.

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

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

(Continued)

NOTE 17 - COMMUNITY BENEFIT (Unaudited) (Continued)

- Middlesex Hospital's Shoreline Medical Center (SMC) is committed to working with local schools to introduce the concept of a medical career in a full range of medical related professions and reinforce the importance of continuing one's education. Each year SMC hosts a multidisciplinary Career Day, World of Work, and oversees high school student mentorship. In response to a looming nursing shortage a dedicated nurse at SMC created Career Day, an annual event where students from the community can experience an emergency in real time and learn what it's like to be a health professional. An additional benefit of Career Day includes spurring many high school students to intern at SMC throughout the school year – the internship provides a unique opportunity for students to receive direct mentorship from health care professionals and exposure to a variety of health delivery disciplines. As a result, many have chosen to pursue careers in health post high school graduation. Another program designed specifically to encourage a career in health is SMC's World of Work where students from a local middle school spend half a day on-site learning about paramedics and emergency medical services, radiology, nursing and laboratory services. The idea is to foster an interest in health as a career at an early age.

Community Benefit Operations: Community Benefit Operations include activities and costs associated with community benefit strategic planning, administration, and health assessment production and execution. Middlesex Hospital has a dedicated director of community benefit who oversees community benefit planning and operations.

- Middlesex Hospital completed its most recent community health needs assessment (CHNA) in 2019 and will complete its CHNA Implementation Strategy prior to February 15, 2020. 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 develops a prioritized implementation strategy to address identified need. The Hospital's CHNA Implementation Strategy outlines the process for prioritization and serves as the foundation for the Hospital's Community Benefit strategic plan.

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

State Sponsored Health Care, Unpaid Costs: Community benefits related to government sponsored programs include the unpaid cost of specific public programs. In FY2019 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, 2019
(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	$ 40,884	$ 15	$ 369	$ -	$ 41,268	$ 787	$ 1,946	$ -	$ 44,001
Short-term investments	14,759	-	-	-	14,759	-	-	-	14,759
Patient accounts receivable	35,571	-	1	-	35,572	-	2,092	-	37,664
Patient customer contracts	10,903	-	-	-	10,903	-	-	-	10,903
Other receivables	3,863	-	-	-	3,863	3	-	-	3,866
Prepaid and other current assets	5,270	-	3	-	5,273	20	74	-	5,367
Current portion of investments limited as to use	1,052	-	157	-	1,209	-	-	-	1,209
Total current assets	112,302	15	530	-	112,847	810	4,112	-	117,769
Investments limited as to use	154,762	-	34	-	154,796	-	-	-	154,796
Long-term investments	21,951	-	-	-	21,951	-	-	-	21,951
Other assets									
Due from related parties	6,391	-	-	(1,136)	5,255	-	-	(5,255)	-
Other assets	11,664	-	179	-	11,843	374	435	-	12,652
Total other assets	18,055	-	179	(1,136)	17,098	374	435	(5,255)	12,652
Property and equipment, net	221,809	-	4,157	-	225,966	1,831	5,005	-	232,802
Total assets	$ 528,879	$ 15	$ 4,900	$ (1,136)	$ 532,658	$ 3,015	$ 9,552	$ (5,255)	$ 539,970

(Continued)

MIDDLESEX HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET (Continued)
September 30, 2019
(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	$ 4,848	$ -	$ 383	$ -	$ 5,231	$ -	$ 80	$ -	$ 5,311
Accounts payable	26,245	-	17	-	26,262	-	204	-	26,466
Due to related parties	-	-	1,136	(1,136)	-	-	5,255	(5,255)	-
Accrued payroll and related liabilities	29,863	-	138	-	30,001	-	2,921	-	32,922
Other accrued liabilities	2,648	-	6	-	2,654	-	29	-	2,683
Current portion of estimated self-insurance liabilities	3,497	-	27	-	3,524	-	4	-	3,528
Current portion of accrued retirement liabilities	30	-	-	-	30	-	-	-	30
Total current liabilities	67,131	-	1,707	(1,136)	67,702	-	8,493	(5,255)	70,940
Other liabilities									
Long-term debt and capital lease obligations, less current portion	37,513	-	3,046	-	40,559	-	413	-	40,972
Estimated self-insurance liabilities, less current portion	21,039	-	93	-	21,132	-	445	-	21,577
Accrued retirement liabilities, less current portion	3,590	-	-	-	3,590	-	-	-	3,590
Other liabilities including estimated third-party settlements	12,723	-	192	-	12,915	63	149	-	13,127
Total other liabilities	74,865	-	3,331	-	78,196	63	1,007	-	79,266
Total liabilities	141,996	-	5,038	(1,136)	145,898	63	9,500	(5,255)	150,206
Net assets									
Assets without donor restrictions	368,990	15	(170)	-	368,835	2,952	52	-	371,839
Assets with donor restrictions	17,893	-	32	-	17,925	-	-	-	17,925
Total net assets	386,883	15	(138)	-	386,760	2,952	52	-	389,764
Total liabilities and net assets	$ 528,879	$ 15	$ 4,900	$ (1,136)	$ 532,658	$ 3,015	$ 9,552	$ (5,255)	$ 539,970

See accompanying independent auditor's report.

MIDDLESEX HEALTH SYSTEM, INC.
CONSOLIDATING STATEMENT OF OPERATIONS AND
CHANGES IN NET ASSETS
September 30, 2019
(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:									
Net patient service revenue	$ 428,919	$ -	$ 2,678	$ -	$ 431,597	$ -	$ 27,399	$ -	$ 458,996
Other revenues	13,235	1,060	17	(1,080)	13,232	566	1,341	(612)	14,527
Total operating revenues	442,154	1,060	2,695	(1,080)	444,829	566	28,740	(612)	473,523
Operating expenses:									
Salaries, wages and fees	193,934	668	1,570	-	196,172	-	26,099	-	222,271
Fringe benefits	37,870	87	298	-	38,255	-	4,630	-	42,885
Purchased services	40,983	174	150	(14)	41,293	10	1,844	(20)	43,127
Supplies	42,271	-	-	-	42,271	-	1,722	-	43,993
Depreciation and amortization	23,519	-	254	-	23,773	243	716	-	24,732
State hospital tax	32,404	-	-	-	32,404	-	-	-	32,404
Interest	1,586	-	101	-	1,687	-	32	-	1,719
Other operating expenses	37,298	746	606	(6)	38,644	432	6,630	(592)	45,114
Total operating expenses	409,865	1,675	2,979	(20)	414,499	685	41,673	(612)	456,245
Income (loss) from operations	32,289	(615)	(284)	(1,060)	30,330	(119)	(12,933)	-	17,278
Non-operating income (expense)									
Net income from joint ventures and general partnerships	2,546	-	-	-	2,546	136	-	-	2,682
Unrestricted gifts and bequests	998	-	-	-	998	-	-	-	998
Net investment income	5,468	-	-	-	5,468	-	-	-	5,468
Other non-operating expenses	(1,060)	-	-	1,060	-	(40)	-	-	(40)
Total non-operating income	7,952	-	-	1,060	9,012	96	-	-	9,108
Excess (deficiency) of revenues over expenses	40,241	(615)	(284)	-	39,342	(23)	(12,933)	-	26,386
Net assets, beginning of year	357,381	15	149	-	357,545	3,236	3,397	-	364,178
Change in unrealized gains and losses	(2,014)	-	-	-	(2,014)	-	-	-	(2,014)
Restricted investment income	1,289	-	-	-	1,289	-	-	-	1,289
Restricted contributions	1,140	-	-	-	1,140	-	-	-	1,140
Transfers	(9,942)	615	-	-	(9,327)	(261)	9,588	-	-
Change in assets held in trust	72				72				72
Expenditures for intended purposes	(1,284)	-	(3)	-	(1,287)	-	-	-	(1,287)
Net assets, end of year	$ 386,883	$ 15	$ (138)	$ -	$ 386,760	$ 2,952	$ 52	$ -	$ 389,764

See accompanying independent auditor's report.