

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Middlesex Health System, Inc. and Subsidiaries  
Years Ended September 30, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Middlesex Health System, Inc. and Subsidiaries

Consolidated Financial Statements and  
Supplementary Information

Years Ended September 30, 2013 and 2012

**Contents**

Report of Independent Auditors.....	1
Financial Statements	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations .....	4
Consolidated Statements of Changes in Net Assets .....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Report of Independent Auditors on Supplementary Information .....	56
Consolidating Balance Sheet .....	57
Consolidating Statement of Operations and Changes in Net Assets .....	59



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## Report of Independent Auditors

The Board of Directors  
Middlesex Health System, Inc.

We have audited the accompanying consolidated financial statements of Middlesex Health System, Inc., which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations, 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 Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Middlesex Health System, Inc. at September 30, 2013 and 2012, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Change in Presentation of the Provision for Bad Debts**

As discussed in Notes 2 and 3 to the consolidated financial statements, in 2013 Middlesex Health System, Inc. adopted the provisions of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which resulted in a change to the presentation of the provision for bad debts on the consolidated statements of operations effective October 1, 2012. Our opinion is not modified with respect to this matter.

*Ernst + Young LLP*

January 15, 2014

# Middlesex Health System, Inc. and Subsidiaries

## Consolidated Balance Sheets (In Thousands)

	September 30	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 43,344	\$ 58,568
Short-term investments (Note 5)	20,741	10,187
Patient accounts receivable, less reserve for uncollectible amounts of approximately \$11,000 and \$11,600 in 2013 and 2012, respectively	44,833	45,951
Other receivables	3,760	3,796
Prepaid and other current assets	3,840	3,772
Estimated third-party payor settlements	2,914	-
Current portion of investments limited as to use (Note 5)	4,174	4,613
Total current assets	123,606	126,887
Investments limited as to use (Note 5)	134,077	119,088
Long-term investments (Note 5)	13,772	15,481
Other assets:		
Investments in joint ventures and limited partnerships (Note 1)	102	47
Other	7,870	7,377
Total other assets	7,972	7,424
Property and equipment, net (Note 6)	195,128	188,986
Total assets	\$ 474,555	\$ 457,866
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt and capital lease obligations (Note 7)	\$ 3,487	\$ 4,915
Accounts payable	17,040	19,616
Accrued payroll and related liabilities	32,899	33,912
Estimated third-party payor settlements	-	2,944
Other accrued liabilities	2,237	2,304
Current portion of estimated self-insurance liability (Note 10)	4,180	4,419
Current portion of accrued retirement liabilities (Note 8)	44	48
Total current liabilities	59,887	68,158
Other liabilities:		
Long-term debt and capital lease obligations, net of current portion (Note 7)	65,743	69,383
Estimated self-insurance liability, net of current portion (Note 10)	13,940	12,640
Accrued retirement liabilities, net of current portion (Note 8)	48,985	129,719
Estimated third-party payor settlements and other	15,681	11,156
Total other liabilities	144,349	222,898
Total liabilities	204,236	291,056
Commitments and contingencies (Notes 2, 3, 6, 7, 8, 9 and 10)		
Net assets:		
Unrestricted	253,975	150,651
Temporarily restricted (Notes 11 and 12)	9,368	9,195
Permanently restricted (Notes 11 and 12)	6,976	6,964
Total net assets	270,319	166,810
Total liabilities and net assets	\$ 474,555	\$ 457,866

See accompanying notes.

Middlesex Health System, Inc. and Subsidiaries

Consolidated Statements of Operations  
(In Thousands)

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Unrestricted revenues:		
Net patient service revenue, net of contractual allowances and other discounts ( <i>Notes 2 and 3</i> )	\$ 372,969	\$ 361,466
Provision for bad debts ( <i>Notes 1 and 3</i> )	(11,209)	(12,256)
Net patient service revenue, less provision for bad debts	<b>361,760</b>	349,210
Other revenue ( <i>Note 4</i> )	<b>12,946</b>	12,534
Total unrestricted revenues	<b>374,706</b>	361,744
Operating expenses:		
Salaries and wages	<b>175,890</b>	171,970
Fringe benefits	<b>39,223</b>	39,621
Purchased services	<b>29,801</b>	26,479
Supplies	<b>37,787</b>	35,376
Depreciation and amortization	<b>22,813</b>	22,115
Interest	<b>3,300</b>	3,405
Other operating expenses	<b>51,543</b>	40,435
Total operating expenses	<b>360,357</b>	339,401
Income from operations	<b>14,349</b>	22,343
Other income (expense):		
Net income from joint ventures and general partnerships ( <i>Note 1</i> )	<b>2,098</b>	2,224
Unrestricted gifts and bequests	<b>293</b>	467
Net investment income	<b>5,707</b>	2,161
Other non-operating income	<b>27</b>	-
Other non-operating expenses	<b>(970)</b>	(946)
Total other income, net	<b>7,155</b>	3,906
Excess of revenues over expenses	<b>\$ 21,504</b>	\$ 26,249

See accompanying notes.

Middlesex Health System, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets  
(In Thousands)

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 21,504	\$ 26,249
Change in net unrealized gains on other than trading securities	5,423	12,923
Change in accumulated pension charges to unrestricted net assets (Note 8)	74,406	(19,085)
Additional paid-in capital	–	58
Net assets released from restrictions for purchase of property and equipment	1,991	144
Change in unrestricted net assets	<u>103,324</u>	<u>20,289</u>
Temporarily restricted net assets:		
Contributions	2,287	3,008
Net realized investment gains	375	222
Change in net unrealized gains	346	1,049
Net assets released from restrictions for purchase of property and equipment	(1,991)	(144)
Expenditures for intended purposes	(844)	(1,243)
Change in temporarily restricted net assets	<u>173</u>	<u>2,892</u>
Permanently restricted net assets:		
Contributions	11	83
Change in net unrealized gains	1	1
Change in permanently restricted net assets	<u>12</u>	<u>84</u>
Change in net assets	<u>103,509</u>	<u>23,265</u>
Net assets, beginning of year	<u>166,810</u>	<u>143,545</u>
Net assets, end of year	<u>\$ 270,319</u>	<u>\$ 166,810</u>

See accompanying notes.

Middlesex Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows  
(In Thousands)

	Year Ended September 30	
	2013	2012
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 103,509	\$ 23,265
Adjustments in reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	22,813	22,115
Provision for bad debts, net of recoveries	11,209	12,256
Change in accumulated pension charges to unrestricted net assets	(74,406)	19,085
Restricted contributions, net of expenditures	(1,454)	(1,848)
Change in net unrealized and realized gains on investments	(11,852)	(16,356)
Change in operating assets and liabilities:		
Patient accounts receivable	(10,091)	(14,369)
Other receivables	36	(804)
Prepaid and other assets	(2,488)	(955)
Accounts payable, accrued payroll and related liabilities, and other liabilities	(3,656)	486
Accrued retirement liabilities	(6,332)	(6,615)
Estimated self-insurance liability	1,061	761
Estimated third-party payor settlements	(1,333)	2,737
Net cash provided by operating activities	27,016	39,758
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(29,068)	(26,800)
Short-term investments, net	(10,554)	460
Long-term investments, net	1,709	(15,481)
Proceeds from sales of investments limited as to use	11,056	3,569
Purchases of investments limited as to use	(19,836)	(6,726)
Distributions from joint ventures	1,872	1,888
Investment income	6,082	2,448
Net cash used in investing activities	(38,739)	(40,642)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	-	3,177
Repayment of long-term debt and lease obligations	(4,955)	(5,116)
Restricted contributions, net of expenditures	1,454	1,848
Net cash used in financing activities	(3,501)	(91)
Net decrease in cash and cash equivalents	(15,224)	(975)
Cash and cash equivalents, beginning of year	58,568	59,543
Cash and cash equivalents, end of year	\$ 43,344	\$ 58,568
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 3,320	\$ 3,327
Cash paid for taxes	\$ -	\$ 100

See accompanying notes.

# Middlesex Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2013

*(Amounts in Thousands)*

### **1. Organization and Significant Accounting Policies**

#### **Organization**

Middlesex Health System, Inc. (the Corporation) is a not-for-profit, nonstock 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), and Integrated Resources for the Middlesex Area, L.L.C. (IRMA). Middlesex Hospital is a not-for-profit acute care hospital and also has a 50% ownership in the Middlesex Center for Advanced Orthopedic Surgery, LLC. Services operates an assisted living facility. Resources owns and manages certain real estate and also owns an interest in a collection agency. MHSPC 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.”

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Corporation and its subsidiaries (the System). All intercompany accounts and transactions have been eliminated.

#### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

#### **Cash Equivalents and Short-Term Investments**

Cash equivalents represent highly liquid investments with maturities of less than three months. Short-term investments are primarily corporate bonds and commercial paper, with maturities of three to twelve months. Both exclude amounts limited as to use by the Board of Directors (Board) designation or other restrictive arrangements.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Patient Accounts Receivable and Net Patient Service Revenue**

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

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

##### **Investments and Investment Income**

Investment income includes unrestricted realized gains and losses and unrestricted interest and dividends from board-designated funds and donor restricted funds included in investments limited as to use on the 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 restricted, the realized investment income and losses from donor restricted investments are added to the appropriate restricted net assets. Unrealized gains and losses on all investments are excluded from the excess of revenues over expenses and recorded as a component of net assets, except when certain declines represent an other-than-temporary impairment in accordance with the System's policy. Other-than-temporary impairments of \$64 were recorded in net investment income in the consolidated statement of operations for the year ended September 30, 2012 (none for the year ended September 30, 2013).

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **1. Organization and Significant Accounting Policies (continued)**

##### **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 by trustees under revenue bond agreements, and a self-insurance trust arrangement.

##### **Inventories**

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

##### **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.

##### **Investments in Joint Ventures**

The subsidiaries have investments in various joint ventures. These investments are accounted for using the equity method of accounting.

Resources is a partner in a joint venture to operate MedConn Collection Agency, Inc., a collection agency engaged in the collection of unpaid patient accounts due hospitals and other medical service providers.

Under the terms of the agreement, Resources' share is 25% of the net operating profits and losses of the joint venture.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### 1. Organization and Significant Accounting Policies (continued)

Summarized unaudited financial information for the joint venture as of and for the years ended September 30 is as follows:

	<u>2013</u>	<u>2012</u>
Current assets	\$ 629	\$ 538
Noncurrent assets	16	689
Total assets	<u>\$ 645</u>	<u>\$ 1,227</u>
Current liabilities	<u>\$ 124</u>	<u>\$ 129</u>
Total liabilities	<u>\$ 124</u>	<u>\$ 813</u>
Total revenues	<u>\$ 2,588</u>	<u>\$ 3,108</u>
Net income	<u>\$ 305</u>	<u>\$ 244</u>

#### Property and Equipment, Net

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 on 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.

#### 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. At September 30, 2013 and 2012, no impairment was recorded.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Estimated Self-Insurance Liability**

The Hospital has adopted a policy of self-insuring the deductible portion of its medical malpractice and general liability insurance coverage. The deductible limits were \$1,000 per claim and \$3,000 in aggregate annually during 2013 and 2012. The System, in consultation with its actuary, records as a liability an estimate of expected losses. Such liability, discounted at 3%, totaled \$8,996 and \$8,472 at September 30, 2013 and 2012, respectively. In addition, the Hospital and Services self-insure the workers' compensation program and have purchased excess insurance for those losses exceeding \$600 and \$400 per occurrence during 2013 and 2012, respectively (see Note 10).

In addition, the Hospital has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$3,100 and \$2,700 at September 30, 2013 and 2012, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 3.0%, of insurance claims that are anticipated to be covered by insurance. The estimated insurance claims receivable and estimated insurance claims liabilities are included in other assets and estimated self-insurance liability, respectively, in the accompanying consolidated balance sheets.

##### **Net Asset Categories**

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

###### *Unrestricted*

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

###### *Temporarily Restricted*

Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose and/or as to time of expenditure.

# Middlesex Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

### **1. Organization and Significant Accounting Policies (continued)**

#### *Permanently Restricted*

Permanently restricted net assets represent contributions received with the donor stipulation that the principal be invested in perpetuity and that only the income earned thereon be available for specific or general purposes.

#### **Contributions, Pledges and Restricted Gifts**

The System encourages contributions and donations for capital replacement and expansion and other specific purposes. Amounts received for capital replacement and expansion or specific operating or endowment purposes are added to the respective temporarily restricted or permanently restricted net asset balances.

Contributions, including unconditional promises to give cash and other assets, are reported at fair value on the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

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

#### **Excess of Revenues Over Expenses**

The consolidated statements of operations and consolidated statements of changes in net assets include excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include the change in net unrealized gains on other than trading securities, equity transfers to and from affiliates, both temporarily and permanently restricted contributions and investment income, changes in perpetual trust arrangements and the change in accumulated pension charges.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **1. Organization and Significant Accounting Policies (continued)**

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

#### **Income Taxes**

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

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

Resources has no available federal net operating losses at September 30, 2013 and no available state net operating losses to offset future state taxable income.

As of September 30, 2013, MHSPC had net operating loss carryforwards available to reduce its future Federal taxable income of approximately \$27,372. The carryforward periods expire at various dates through 2032. MHSPC had net operating loss carryforwards available to reduce its future state taxable income of approximately \$16,459. The state carryforward periods expire at various dates through 2032. The deferred tax asset associated with MHSPC's loss carryforwards was offset by a corresponding valuation allowance, as realization of such loss carryforwards is not assured.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. In the accompanying consolidated financial statements, estimates relate primarily, although not exclusively, to revenue recognition in the valuation of bad debt and contractual allowances and in the valuation of amounts due to and from third-party payors, the estimation of self-insured professional liabilities and other contingent liabilities and the measurement of actuarially determined retirement liabilities. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

##### **Reclassifications**

Certain reclassifications were made to the 2012 consolidated financial statements in order that they may be consistent with the current year presentation.

##### **Recently Issued Authoritative Pronouncement**

In July 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU No. 2011-07). Under ASU No. 2011-07, certain health care entities that recognize significant amounts of patient service revenue at the time the services are rendered without assessing the patient's ability to pay are required to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance is effective for fiscal years beginning after December 31, 2011 and is required to be applied retrospectively. The System adopted the provisions of ASU No. 2011-07 as of and for the year ended September 30, 2013 and retrospectively applied the presentation requirements to all periods presented.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **2. Health Care Regulatory Environment**

##### **Federal 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 MHSPC 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. The Hospital's combined negative impact on its income from operations was \$5,720 and \$1,414 for 2013 and 2012, respectively.

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**3. Net Patient Service Revenue**

The following table summarizes revenues from services to patients:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue	\$ 1,238,917	\$ 1,140,027
Deductions:		
Allowances	(857,418)	(771,052)
Charity care	(8,530)	(7,509)
	<u>(865,948)</u>	<u>(778,561)</u>
Patient service revenue, net of contractual allowances and other discounts	372,969	361,466
Provision for bad debts	(11,209)	(12,256)
Net patient service revenue, less provision for bad debts	<u>\$ 361,760</u>	<u>\$ 349,210</u>

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

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

Patient service revenue for the year ended September 30, 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

	<u>Third-Party Payors</u>	<u>Self Pay</u>	<u>Total All Payors</u>
Patient service revenue (net of contractual allowances and other discounts)	\$ 350,190	\$ 22,779	\$ 372,969

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **3. Net Patient Service Revenue (continued)**

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

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

For receivables associated with services provided to patients who have third-party coverage, the Hospital and MHSPC analyze contractually due amounts and provide an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital and MHSPC record a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital has a longstanding commitment to providing health care to all those in need, regardless of their ability to pay. The Hospital provides both free care and care at reduced rates. The costs for providing these services were calculated using an adjusted cost-to-charge ratio. The charges written off for patients that qualified for free care under the Hospital's Charity Care Program totaled approximately \$8,530 and \$7,509 in 2013 and 2012, respectively. The estimated costs for these services were \$2,212 and \$2,081 in 2013 and 2012, respectively.

During 2013 and 2012, approximately 34% of net patient service revenue was received under the Medicare program, 9% under the state Medicaid and city welfare programs, 48% was received from contracts with private health payors and 9% from patients and others.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### 3. Net Patient Service Revenue (continued)

As of September 30, 2013 and 2012, approximately 30% and 25%, respectively, of patient accounts receivable was due from Medicare, 5% and 6%, respectively, was due from Medicaid and city welfare, 40% and 42%, respectively, was due from private health payors and 25% and 27%, respectively, was due from patients and others.

During 2013 and 2012, 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, 2013 and 2012, changes in estimates related to settlements with third-party payors for prior years increased (decreased) net patient service revenue by approximately \$500 and (\$1,400), respectively.

#### 4. Other Revenue

Other revenue consists of the following for fiscal years ending 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Grants	\$ 2,522	\$ 2,011
Medicare demonstration project	1,642	–
Cafeteria sales	1,246	1,264
Technical laboratory income	1,208	1,164
Investment income	780	625
EHR income	975	2,838
Rental income	886	628
Purchase discounts	415	363
Net assets released from restriction used for operations	396	474
Miscellaneous	2,876	3,167
	<u>\$ 12,946</u>	<u>\$ 12,534</u>

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **4. Other Revenue (continued)**

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The System uses a gain contingency model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized as revenue after the Hospital has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the 12-month cost report period that will be used to determine the final incentive payment has ended. The System recognizes revenue from Medicaid incentive payments after it has demonstrated compliance with the meaningful use criteria. Incentive payments totaling approximately \$975 and \$2,838 for the years ended September 30, 2013 and 2012 are included in other revenue in the accompanying consolidated statements of operations. Income from incentive payments is subject to retrospective adjustment, as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the System's compliance with the meaningful use criteria is subject to audit by the federal government.

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**5. Investments**

Cost and fair values for investments as of September 30 are summarized as follows:

	2013		2012	
	Total		Total	
	Fair Value	Cost	Fair Value	Cost
Mutual funds:				
Equity	\$ 72,954	\$ 61,106	\$ 71,289	\$ 59,469
Fixed income	48,891	41,087	38,780	35,464
Common stock:				
U.S. equity	6,532	3,877	4,672	3,039
Non-U.S. equity	764	388	720	463
Corporate debt securities	27,455	27,408	13,728	13,740
U.S. Government and Agency obligations	8,462	8,460	12,868	12,863
Money market funds	7,180	7,180	5,346	5,345
Cash	526	526	1,966	1,966
<b>Total</b>	<b>\$ 172,764</b>	<b>\$ 150,032</b>	<b>\$ 149,369</b>	<b>\$ 132,349</b>

Investments limited as to use consisted of the following as of September 30:

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Funds held in trust under revenue bond agreements	\$ 4,377	\$ 4,379	\$ 4,407	\$ 4,405
Funds held in trust for estimated self-insurance liability	9,009	8,610	8,413	7,705
Board-designated funds	109,616	86,880	95,568	81,484
Donor-restricted funds	15,249	12,111	15,313	13,078
<b>Total</b>	<b>\$ 138,251</b>	<b>\$ 111,980</b>	<b>\$ 123,701</b>	<b>\$ 106,672</b>

At September 30, 2013, investments with a fair value below cost for less than 12 months included certain mutual funds, common stock and U.S. Government and Agency obligations with a fair value of \$10,483, \$309 and \$1,550, respectively, and an unrealized loss of \$479, \$18 and \$2, respectively.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **5. Investments (continued)**

At September 30, 2012, investments with a fair value below cost for more than 12 months included certain common stock with a fair value of \$55 and an unrealized loss of \$65.

Included in net investment income for the years ended September 30, 2013 and 2012 was investment income of \$3,903 and \$2,989, respectively, and realized gains (losses) on sales of investments of \$2,179 and \$(606), respectively.

FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a formal hierarchy and framework for measuring fair value, and expanded disclosure about fair value measurements and the reliability of valuation inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- **Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the System has the ability to access.
- **Level 2** – Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has 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.

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**5. Investments (continued)**

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investment securities, in general, are exposed to various risks. Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity of certain investments held by the System which could impact the value of investments after the date of these consolidated financial statements.

The following table sets forth by level, within the fair value hierarchy, the System's assets at fair value as of September 30, 2013:

	<b>Fair Value as Determined by Quoted Prices in Active Markets (Level 1)</b>	<b>Valuation Techniques Based on Observable Market Data (Level 2)</b>	<b>Valuation Techniques Incorporating Information Other Than Observable Market Data (Level 3)</b>	<b>Total</b>
Mutual funds:				
Equity	\$ 72,954	\$ -	\$ -	\$ 72,954
Fixed income	-	48,891	-	48,891
Common stock:				
U.S. equity	6,532	-	-	6,532
Non-U.S. equity	764	-	-	764
Corporate debt securities	-	27,455	-	27,455
U.S. Government and Agency obligations	-	8,462	-	8,462
Money market funds	7,180	-	-	7,180
Cash and cash equivalents	43,870	-	-	43,870
	<b>\$ 131,300</b>	<b>\$ 84,808</b>	<b>\$ -</b>	<b>\$ 216,108</b>

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**5. Investments (continued)**

The following table sets forth by level, within the fair value hierarchy, the System's assets at fair value as of September 30, 2012:

	<b>Fair Value as Determined by Quoted Prices in Active Markets (Level 1)</b>	<b>Valuation Techniques Based on Observable Market Data (Level 2)</b>	<b>Valuation Techniques Incorporating Information Other Than Observable Market Data (Level 3)</b>	<b>Total</b>
Mutual funds:				
Equity	\$ 71,289	\$ –	\$ –	\$ 71,289
Fixed income	–	38,780	–	38,780
Common stock:				
U.S. equity	4,672	–	–	4,672
Non-U.S. equity	720	–	–	720
Corporate debt securities	–	13,728	–	13,728
U.S. Government and Agency obligations	–	12,868	–	12,868
Money market funds	5,346	–	–	5,346
Cash and cash equivalents	60,534	–	–	60,534
	<u>\$ 142,561</u>	<u>\$ 65,376</u>	<u>\$ –</u>	<u>\$ 207,937</u>

The amounts reported in the tables above exclude assets invested in the Hospital's defined benefit pension plan (see Note 8).

The System'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, is approximately \$63,755 and \$69,258 at September 30, 2013 and 2012, respectively. The fair value of Services' long-term debt obligations was approximately \$5,213 and \$5,623 at September 30, 2013 and 2012, 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 of the fair value hierarchy.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### 5. Investments (continued)

Mutual funds and common stock are traded actively on exchanges and price quotes for these shares are readily available.

For corporate debt securities and U.S. government and agency obligations multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. A primary price source is identified based on asset type, class or issue for each security. The fair values of fixed-income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences.

#### 6. Property and Equipment, Net

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

	<b>2013</b>	<b>2012</b>
Land and land improvements	\$ <b>13,748</b>	\$ 13,103
Buildings and fixed equipment	<b>248,734</b>	233,152
Other equipment	<b>147,254</b>	138,415
Leasehold improvements	<b>5,446</b>	5,427
	<b>415,182</b>	390,097
Less accumulated depreciation	<b>(238,640)</b>	(215,805)
	<b>176,542</b>	174,292
Construction in progress (estimated cost to complete \$10,796)	<b>18,586</b>	14,694
Property and equipment, net	<b>\$ 195,128</b>	\$ 188,986

Total rental expense under operating leases for the years ended September 30, 2013 and 2012 was approximately \$6,194 and \$5,512, respectively.

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**6. Property and Equipment, Net (continued)**

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

Fiscal year ending:		
2014	\$	4,432
2015		3,234
2016		2,516
2017		2,301
2018		1,868
Thereafter		8,671
	\$	<u>23,022</u>

**7. Long-Term Debt**

As of September 30, 2013 and 2012, 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 which are secured by certain real estate and other real property:

	<u>2013</u>	<u>2012</u>
Fixed Rate Revenue Bonds, Series N, due July 1, 2027	\$ 33,060	\$ 35,180
Fixed Rate Revenue Bonds, Series M, due July 1, 2027	12,155	12,850
Fixed Rate Revenue Bonds, Series L, due July 1, 2036	20,510	20,995
Mortgage notes and capital leases, net of interest	956	2,610
	<u>66,681</u>	<u>71,635</u>
Add bond premium	2,549	2,663
Less current portion	(3,487)	(4,915)
	<u>\$ 65,743</u>	<u>\$ 69,383</u>

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **7. Long-Term Debt (continued)**

CHEFA Series L Revenue Bonds (Series L bonds) and CHEFA Series M Auction Rate Bonds (Series M bonds) were issued on December 7, 2006 for \$22,760 and \$16,620, respectively. The Series L proceeds were used to finance the construction of a new emergency department facility and the Series M proceeds were used to refinance the Series K bonds. The Series L bonds mature from July 1, 2009 through July 1, 2036 at interest rates between 4.0% and 5.0%. On April 17, 2008, the Series M bonds were converted from their initial auction rate mode to a fixed rate mode. The Series M bonds mature from July 1, 2008 through July 1, 2027 at interest rates between 3.0% and 4.9%. CHEFA Series N Revenue Bonds (Series N bonds) were issued on July 26, 2011 for \$31,930. The Series N proceeds were used to refinance the Series H bonds. The Series N bonds mature from July 1, 2012 through July 1, 2027 at interest rates between 3.0% and 5.0%.

The Hospital has entered into a formal unsecured revolving line of credit agreement with a local bank. The maximum borrowing limit on this line of credit totaled \$6,000 as of September 30, 2013 and 2012. Advances under this agreement have an annual interest rate based on the LIBOR rate plus 1.0% as determined for each interest period. The line of credit expires on April 30, 2012. As of September 30, 2013 and 2012 there were no advances.

In 2011, CHEFA Series N Revenue Bonds (Series N bonds) were issued on behalf of Services to refinance the Series I bonds. The Series N bonds mature from July 1, 2012 through July 1, 2027 at interest rates between 3.0% and 5.0%. As a member of the obligated group, the Hospital is a guarantor of the Series N bonds. The outstanding balance of these bonds was \$4,905 at September 30, 2013.

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 sheet and consist of \$4,407 in debt service funds. 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 unamortized amount of deferred bond issuance costs was \$1,811 and \$1,917 at September 30, 2013 and 2012, respectively. Bond issuance costs are amortized over the life of the bonds using a method which does not differ materially from the effective interest method in the amount sufficient to amortize the costs over the term of the bonds.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### 7. Long-Term Debt (continued)

In 2010, MHSPC 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, 2013 and 2012 was \$732 and \$770, respectively.

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

	<b>Long-Term Debt</b>	<b>Mortgage Notes/Capital Leases</b>
2014	\$ 3,400	\$ 137
2015	3,530	131
2016	3,695	115
2017	3,860	110
2018	4,035	110
Thereafter	47,205	716
	65,725	1,319
Add bond premium	2,549	–
Less interest	–	(363)
	\$ 68,274	\$ 956

#### 8. Defined Benefit Retirement Plans

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

On July 31, 2009, the Hospital adopted a soft freeze of the Plan, effective January 1, 2010. All pension accruals have ceased under the terms of the Plan, with the limited exception that participants who were actively employed on December 31, 2009 will continue to have eligible compensation earned after December 31, 2009 recognized in the calculation of their accrued benefit beyond December 31, 2009.

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**8. Defined Benefit Retirement Plans (continued)**

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

The following tables provide a reconciliation of the changes in each plan's benefit obligations and fair value of plan assets for the years ended September 30, 2013 and 2012, as well as a statement of the funded status of the plans as of September 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Accumulated benefit obligation	<u>\$ 230,402</u>	<u>\$ 252,066</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 301,543	\$ 260,453
Interest cost	11,579	11,994
Actuarial (gain) loss	(32,299)	35,601
Benefits paid	(7,217)	(6,505)
Plan amendment	(32,347)	—
Projected benefit obligation, end of year	<u>241,259</u>	<u>301,543</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	174,418	145,231
Actual return on plan assets	17,767	25,729
Employer contributions	10,850	9,963
Benefits paid	(7,217)	(6,505)
Fair value of plan assets, end of year	<u>195,818</u>	<u>174,418</u>
Funded status	<u>\$ (45,441)</u>	<u>\$ (127,125)</u>
Amounts recognized in balance sheets consist of:		
Current liability	\$ (44)	\$ (48)
Noncurrent liability	(45,397)	(127,077)
Net amount recognized	<u>\$ (45,441)</u>	<u>\$ (127,125)</u>
Amounts recognized as accumulated charges to unrestricted net assets consist of:		
Net actuarial loss	\$ 51,971	\$ 126,377
	<u>\$ 51,971</u>	<u>\$ 126,377</u>

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**8. Defined Benefit Retirement Plans (continued)**

The net actuarial loss included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ending September 30, 2014 is approximately \$1,356.

The following table provides the components of the net periodic benefit cost for the plans for the years ended September 30:

	<u>2013</u>	<u>2012</u>
Components of net periodic benefit cost:		
Interest cost	\$ 11,579	\$ 11,994
Expected return on plan assets	(11,478)	(11,408)
Net amortization and deferral	3,471	2,195
Net periodic benefit cost	<u>\$ 3,572</u>	<u>\$ 2,781</u>

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

	<u>2013</u>	<u>2012</u>
Weighted average assumptions as of September 30:		
Discount rate (obligation)	4.80%	3.90%
Discount rate (service cost)	3.90	4.65
Expected long-term return on plan assets	7.00	7.00
Rate of compensation increase	3.50	3.50

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

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**8. Defined Benefit Retirement Plans (continued)**

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2013:

	<b>Fair Value as Determined by Quoted Prices in Active Markets (Level 1)</b>	<b>Valuation Techniques Based on Observable Market Data (Level 2)</b>	<b>Valuation Techniques Incorporating Information Other Than Observable Market Data (Level 3)</b>	<b>Total</b>
Mutual funds:				
Equity	\$ 115,507	\$ —	\$ —	\$ 115,507
Fixed income	—	58,747	—	58,747
Common/collective trust	—	10,040	—	10,040
Common stock:				
U.S. equity	9,219	—	—	9,219
Non-U.S. equity	1,087	—	—	1,087
Money market funds	1,218	—	—	1,218
	<u>\$ 127,031</u>	<u>\$ 68,787</u>	<u>\$ —</u>	<u>\$ 195,818</u>

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2012:

	<b>Fair Value as Determined by Quoted Prices in Active Markets (Level 1)</b>	<b>Valuation Techniques Based on Observable Market Data (Level 2)</b>	<b>Valuation Techniques Incorporating Information Other Than Observable Market Data (Level 3)</b>	<b>Total</b>
Mutual funds:				
Equity	\$ 96,936	\$ —	\$ —	\$ 96,936
Fixed income	—	58,545	—	58,545
Common/collective trust	—	10,170	—	10,170
Common stock:				
U.S. equity	6,306	—	—	6,306
Non-U.S. equity	1,205	—	—	1,205
Money market funds	1,256	—	—	1,256
	<u>\$ 105,703</u>	<u>\$ 68,715</u>	<u>\$ —</u>	<u>\$ 174,418</u>

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### 8. Defined Benefit Retirement Plans (continued)

Mutual funds and common stock are traded actively on exchanges and price quotes for these shares are readily available.

For corporate debt securities and U.S. government and agency obligations multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. A primary price source is identified based on asset type, class or issue for each security. The fair values of fixed-income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences.

The common collective trusts invest in other public or private individual assets as determined and managed by the fund. The Plan's interest in the common/collective trust fund is based on the fair values of the underlying investments. Investments in collective trust funds are valued at their respective NAV per share/unit on the valuation date. The Plan can redeem these investments at NAV on a daily basis.

The Plan's weighted average asset allocations at September 30, 2013 and 2012, by asset category, are as follows:

	<b>Target</b>	<b>2013</b>	<b>2012</b>
Equity securities	57%	<b>60%</b>	56%
Debt securities	38	<b>35</b>	39
Balanced funds	5	<b>5</b>	5
Total	100%	<b>100%</b>	100%

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

Contributions of \$10,800 are expected to be paid to the Plan in 2014.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **8. Defined Benefit Retirement Plans (continued)**

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

2014	\$	8,425
2015		9,112
2016		9,909
2017		10,813
2018		11,707
2019 – 2023		69,696
	\$	<u>119,662</u>

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

#### **9. 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 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 contributions to the plan totaled \$2,892 and \$2,795 in 2013 and 2012, respectively. In addition, a core contribution of \$4,233, which is scheduled to be paid in 2014, is included in accrued payroll and related liabilities in the accompanying consolidated balance sheet.

In addition, the Hospital sponsors other defined contribution plans for eligible employees. The Hospital's contributions to these plans totaled approximately \$711 and \$706 in 2013 and 2012, respectively.

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

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **9. Defined Contribution Plans (continued)**

MHSPC 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, MHSPC may make discretionary contributions as determined by the board of directors of MHSPC. For the years ended September 30, 2013 and 2012, MHSPC made matching contributions in the amount of \$276 and \$273, respectively.

#### **10. Estimated Self-Insurance Liability and Other Contingencies**

There have been malpractice, general liability, and workers' compensation claims that fall within the Hospital's partially self-insured program (see Note 1) which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2012 that may result in the assertion of claims.

The Hospital has established an irrevocable trust, funded based upon actuarially determined funding levels, to provide for the payment of malpractice and general liability claims and related expenses.

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

#### **11. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the System has been limited by the donors for a specific purpose. Temporarily restricted net assets are available for the following purposes as of September 30 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Education	\$ 2,145	\$ 1,993
Health services	2,403	1,489
Capital and other	4,820	5,713
	<u>\$ 9,368</u>	<u>\$ 9,195</u>

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### 11. Temporarily and Permanently Restricted Net Assets (continued)

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

	<u>2013</u>	<u>2012</u>
Free beds	\$ 1,564	\$ 1,563
Support of hospital operations	4,714	4,705
Other	698	696
	<u>\$ 6,976</u>	<u>\$ 6,964</u>

#### 12. Endowments

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance on investment decisions and endowment expenditures for nonprofit organizations. The System has interpreted UPMIFA as requiring the preservation of the fair value of the original gift at the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the System classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

The System'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.

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**12. Endowments (continued)**

Endowment funds consist of the following at September 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 4,549	\$ 6,976	\$ 11,525
Board-designated endowment funds	103,262	-	-	103,262
Total endowed net assets	<u>\$ 103,262</u>	<u>\$ 4,549</u>	<u>\$ 6,976</u>	<u>\$ 114,787</u>

Endowment funds consist of the following at September 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,482	\$ 6,964	\$ 10,446
Board-designated endowment funds	91,908	-	-	91,908
Total endowed net assets	<u>\$ 91,908</u>	<u>\$ 3,482</u>	<u>\$ 6,964</u>	<u>\$ 102,354</u>

Changes in endowment funds for the year ended September 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, October 1, 2012	\$ 91,908	\$ 3,482	\$ 6,964	\$ 102,354
Investment return:				
Investment income	5,701	120	-	5,821
Net appreciation	5,730	123	1	5,854
Total investment return	<u>11,431</u>	<u>243</u>	<u>1</u>	<u>11,675</u>
Contributions, gifts and bequests	-	-	11	11
Transfers	-	858	-	858
Appropriation of endowment assets for expenditure	<u>(77)</u>	<u>(34)</u>	<u>-</u>	<u>(111)</u>
Endowment net assets, September 30, 2013	<u>\$ 103,262</u>	<u>\$ 4,549</u>	<u>\$ 6,976</u>	<u>\$ 114,787</u>

Middlesex Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

**12. Endowments (continued)**

Changes in endowment funds for the year ended September 30, 2012 are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, October 1, 2011	\$ 77,417	\$ 3,092	\$ 6,880	\$ 87,389
Investment return:				
Investment income	2,160	49	–	2,209
Net appreciation	12,423	296	1	12,720
Total investment return	14,583	345	1	14,929
Contributions, gifts and bequests	–	–	83	83
Transfers	–	71	–	71
Appropriation of endowment assets for expenditure	(92)	(26)	–	(118)
Endowment net assets, September 30, 2012	<u>\$ 91,908</u>	<u>\$ 3,482</u>	<u>\$ 6,964</u>	<u>\$ 102,354</u>

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specified period as well as board-designated funds. The System 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 System 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 System 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.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### 12. Endowments (continued)

The System follows a policy of spending an amount that approximates the investment income earned, in addition to specific purchases of capital equipment. Accordingly, the System 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.

#### 13. Functional Expenses

The Hospital provides health care services primarily to residents within its geographic location. Expenses to provide these services for the years ended September 30 are as follows:

	<u>2013</u>	<u>2012</u>
Health care services	\$ 279,906	\$ 271,982
Administrative and general	62,373	50,356
	<u>\$ 342,279</u>	<u>\$ 322,338</u>

#### 14. Subsequent Events

The System has evaluated events through January 15, 2014, which represents the date the consolidated financial statements were issued and noted no subsequent events that would have impacted the System's consolidated financial statements.

#### 15. Community Benefit (Unaudited)

(Statistical information in whole numbers)

##### Community Benefit Program

Continuous dedication to the communities the Hospital serves remains the hallmark of the Hospital's purpose. The Hospital's mission is to provide the safest, highest quality health care and the best experience possible for the community. The Hospital has a long-standing commitment to community benefit and providing programs/services that meet identified need, most specifically for underserved and vulnerable populations. The Hospital's community benefit

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited)**

program exemplifies its core purpose of bettering the health of the community it serves. The Hospital understands 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.

The Hospital's Community Benefit program was formalized in 2006 as a natural outgrowth for housing its long-standing community services under one roof. Since then, strengthening its 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 the Hospital's leadership and remains a core institutional program. The Hospital's 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 the 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 health care 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 healthy future. Community health education is provided by the Hospital in many formats including lectures,

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

#### 15. Community Benefit (Unaudited) (continued)

written materials, interactive presentations and other group programs/activities. Examples of health educational programming include (but are not limited to):

- *Community Education Presentations:* Such programs include cancer prevention, integrative medicine, caregiver resources, chronic pulmonary obstructive disease/respiratory care, arthritis, diabetes, asthma (adult and pediatric), chronic heart failure, childhood obesity, smoking cessation, nutrition, stroke education, fall prevention.
- *Health and Wellness Events/Health Fairs:* It is common practice for the Hospital's staff members to answer the call of the community any time a request is made for educational support – one example is the annual request by Connecticut Valley Hospital, the state's department of mental health and addiction services, for the Hospital to participate in its employee and patient day-long health fair – the Hospital provides staffing to share information on multiple health topics to 400+ attendees, which includes a vulnerable general patient population as well as those held in the forensic division. The Hospital regularly participates in area health fairs/wellness events to share critical health information on topics and services, including: diabetes; asthma; chronic obstructive pulmonary disease; slips and fall prevention and safety; blood pressure screenings; cancer awareness, including breast, prostate and skin; smoking cessation data and information; bone density screening; maternal child health education; rehabilitation therapy; and youth behavioral health issues.
- *Support Groups:* The Hospital provides, at no charge, many support groups for patients and their families in response to the community's need for additional support in addressing the social, psychological or emotional issues that often occur in connection with disease, disability and grief. The support and skills of trained professionals offer self-help techniques and wellness/health-promotion. Support groups include: bereavement; caregivers; diabetes; prostate cancer; leukemia, lymphoma, and multiple myeloma; cancer's survivors; breastfeeding; first foods; the Mama Connection; and the Better Breather's Club.
- *Cancer Center Health Awareness:* as facing cancer can be one of life's most challenging experiences for patients, the Hospital's Cancer Center provides extensive free-of-charge services in an educational and supportive environment. An emphasis is placed on

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

#### 15. Community Benefit (Unaudited) (continued)

including family members in all support services. In addition to the substantial number of cancer-related support groups, the Cancer Center offers – at no cost – an annual Breast Cancer Awareness event, annual Cancer Survivor’s Day, annual prostate event, annual Healthy Living Through Prevention wellness event, an art therapy program, movement through dance, nutrition and exercise class for breast cancer patients, wig room and a comprehensive educational series with a multi-dimensional approach to defining cancer – including dealing with side effects, the importance of nutrition and exercise, coping with emotions and spirituality, alternative and integrative medicine therapies, and methods for communication.

- *Maternal Child Support:* To reach out to the community’s vulnerable population, the Hospital’s Pregnancy and Birth Center (PBC) waives class fees for participants from the Hospital’s Family Advocacy Maternal Child Health Program – a comprehensive service within the Behavioral Health Department that outreaches to low-income families lacking necessary resources. Tuition waiver allows access for Family Advocacy members to PBC’s newborn and infant classes, breastfeeding classes and prepared childbirth classes.
- *Health Literature:* Providing no-cost access to health care literature and resources to the public is possible through the Hospital’s libraries and publications. The Hospital’s main campus and Cancer Center libraries encourage community use of health and medicine resource information. The community, including students, patients, non-employed nurses and physicians routinely utilizes the library’s extensive collection of books and periodicals and depends on librarian support as a part of information gathering. The Cancer Center library is an active participant of the CT Library On Request System, which is available in public libraries as a resource to locate and borrow books, videos and tapes – with the assistance of the Hospital’s librarian, patients and families are able to obtain desired cancer health information by use of this service. In addition, the Cancer Center issues a quarterly newsletter (2,500 household mailing) that reviews cancer-related and health living topics.

Throughout the year, the Hospital provides a number of community-based clinical services, including clinics and screenings offered on a reoccurring basis or as a special event. The Hospital views screenings and clinics as valuable secondary prevention measures that enable the detection of early illness/disease onset, bring awareness to the screened individual regarding the

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

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): diabetes care free A1C screenings; 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 and TB testing offered to those who are unable to pay; and community-wide free screenings for blood pressure.

Health care support services include all programs offered by the Hospital in order to increase access and quality of care to individuals, especially those living in poverty and/or other vulnerable populations. As these services represent targeted programs and interventions based on need, they are critical for assisting patients in achieving improved health and wellness.

Given the intensity and duration of the initiatives, life-long positive impacts are often realized. Examples include (but are not limited to):

- *Center for Chronic Care Management (CCCM) Disease Management:* Currently over 10 years of age, a combined 10,000+ patients have been served by CCCM's various programs. The impetus for the CCCM 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 childhood weight management (2008). The CCCM's disease management programs have evolved as a

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

#### 15. Community Benefit (Unaudited) (continued)

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, colon, lung, prostate, testicular, bladder, OB-gyn, kidney diagnosis. 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 Nurse Navigators work with the network of specialists and technicians to ensure that the succession of tests and treatments are expedited in the best sequence with full consideration of the patient's needs.
- *Transportation & Prescription Voucher Assistance:* The Hospital provides a no-cost transportation service for patients requiring radiation oncology treatment who struggle with transportation – with a special emphasis on providing the service for the elderly. Transportation vouchers are supplied to patients in urgent situations and prescription vouchers are given to help to defray costs for patients who are unable to pay for medication.
- *Financial Counseling:* The Hospital provides information about its financial assistance program to all patients and makes this assistance available to individuals who meet established guidelines. Financial counselors and social workers are available to answer questions and aid in the application process. In addition, the Hospital has an internal committee that monitors its financial assistance processes, reviews guidelines for appropriateness, and makes adjustments as needed to ensure optimal accessibility to the support.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

#### 15. Community Benefit (Unaudited) (continued)

- *Alternative to Hospitalization Program (ATH):* ATH is a collaborative system offered in the Hospital's Emergency Department, where staff works with state behavioral health services to identify eligible individuals for linkage to community-based substance abuse treatment programs.
- *Women, Infants and Children (WIC) Program:* WIC serves to safeguard the health of low-income women, infants, and children up to age five who are at nutritional risk by providing nutritious foods to supplement diets, information on healthy eating, and referrals to health care. The Hospital recently became the local subcontractor for WIC when the City of Middletown Health Department, after 25 years, was unable to renew the contract. In addition, due to significant city budget cut-backs, the Middletown program had merged with another county, which made accessibility challenging for local WIC clients. When community members suggested the Hospital assume the program, the Hospital agreed with the importance of keeping the program local, improving accessibility of services, and responding to community need. The service currently resides under the Hospital's comprehensive Family Advocacy Maternal Child Health program which provides support and outreach to a segment of the community's at-risk population.
- *Community Care Team (CCT):* The Community Care Team is a collaboration among nine community agencies that specialize in the delivery of care for people with serious mental illness and/or substance abuse in Middlesex County. The team's objective is to provide patient-centered care and improve health outcomes by developing and implementing wrap-around services through multi-agency intervention and care planning. CCT has found that the traditional model of episodic care delivery does not adequately meet the needs of its shared population – at its center is the belief that collaborations strengthen communities and can significantly impact outcomes if provided in both an evidence-based and innovative manner. The partners offer patients CCT intervention and team members meet on a weekly basis to review cases, uncover service gaps, and develop individualized care plans. Common traits of CCT patients include behavioral health problems, disjointed care/lack of care coordination, poor primary care connections, housing issues, lack of a social network, noncompliance, loneliness/hopelessness and over-use of Emergency Department services.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

##### **Health Professions Education**

Helping to prepare future health care professionals is a long-standing commitment of the Hospital and is a 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 health care professional education includes: the Hospital's Radiology School – a 50+ year old program that graduates radiologic technologists with an associate's 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 health care. The Hospital also welcomes non-clinical students for educational experience and has

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

supported an Administrative Fellowship for 20+ years. Other student on-site educational experiences include: public health, pastoral care, biomedical, food and nutrition, linen services, finance and health information systems.

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

#### **Subsidized Health Services**

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

- *Family Medicine Group:* The Family Medicine Group of the 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

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

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 the 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 and counseling, among many other outpatient service lines. In addition, all faculty physicians and resident physicians are on the staff of the Hospital. The Hospital's Family Medicine group is a critically important subsidized outpatient services, 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:* This 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 the Hospital is premised on guiding principles designed to empower each individual to attain optimal functioning in a compassionate, supportive, professional, collaborative environment.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

#### 15. Community Benefit (Unaudited) (continued)

Each care plan is individualized with careful consideration of the patient's physical and mental needs and preferences. The Hospital has a 20-bed psychiatric unit for patients requiring inpatient stays; Day Treatment Program that provides intensive outpatient and partial hospital services for adolescents, adults and geriatric patients with psychiatric and co-occurring substance abuse/psychiatric disorders; Outpatient Behavioral Health Clinic that offers treatment in individual, family, and group therapy to meet general adult and senior psychiatric needs; Family Advocacy Program (FAP) that offers comprehensive psychiatric services designed to improve the lives of children, adolescents and their families and improve access to critical resources; and FAP Maternal Child Health which provides primary prevention, case management and home-based parenting skill building wrap around and support services for at-risk first time families involved in Department of Children and Families (DCF).

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

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

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:* This 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. the 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.
- *Middlesex Hospital’s Hospice Program:* The 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

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Amounts in Thousands)

#### 15. Community Benefit (Unaudited) (continued)

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.

- *The Hospital Wound Care:* The Hospital performed a study and found that there was a gap in outpatient services for those experiencing complex and chronic wounds. In response, the Hospital created the Wound Care Center where a full range of services for effective wound treatment is provided. Clinical providers at both of the Hospital's Wound Care Center locations aid in determining what local or systemic factors are impeding the healing process, and assist in developing a specialized and individualized treatment care plan. Using a planned, systematic approach which includes consideration of all factors that affect wound healing, the Center treats four primary wound types: venous stasis ulcers, diabetic foot ulcers, ischemic ulcers and stage III and IV pressure ulcers. The Wound Care Center functions at a loss for the hospital and requires subsidy.
- *Pulmonary Rehabilitation:* The Hospital's Pulmonary Rehabilitation program was developed in direct response to the health assessment findings which identified half the adult population in Middlesex County to be at risk for COPD (18% are current smokers and 33% are former smokers). The study recommended development of a COPD pathway and program. In response, an inpatient COPD pathway was generated in conjunction with a supporting outpatient pulmonary rehabilitation program. The program is one of both education and exercise classes – it teaches patients about their lungs, how to exercise and do activities with less shortness of breath, and how to live better with a lung condition. Pulmonary Rehabilitation is offered to any patient with impaired pulmonary endurance. The Pulmonary Rehabilitation 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.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

##### **Research**

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

##### **Financial and In-Kind Contributions**

The 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. The Hospital regularly donates collected medical supplies to an international organization as well as to the Sayaxche Hospital in Guatemala, as part of the Middlesex-Sayaxche Project, an initiative linking Middlesex community with a sister health system in Guatemala intended to bolster the health care infrastructure in one of the poorest regions of the country. Other in-kind donations include absorption of costs of copies of health information records for patients who cannot afford to pay for them, cafeteria discounts for YMCA residents, and staff coordination of community support drives, including the United Way, Adopt-A-Family holiday gift program, American Cancer Society Daffodil Days, Families Feeding Families, Lions' Club eyeglasses and hearing aid collection, Cell Phones for Soldiers, Light One Little Candle and Reach Out and Read childhood readership. The Hospital's main campus and satellite locations make meeting space available, free-of-charge and on an on-going basis, for many community groups that would otherwise struggle to pay for space. Examples of community programs that utilize hospital space include (but are not limited to): CT Parkinson's meeting group, CT Unity, Asperger Spouse & Family Support Group, Face Forward Peer to Peer Support Group with Schizophrenia and Schizoaffective Disorder, National Alliance Mentally Ill, and local nursing school programs. In addition, each year the Hospital makes substantial cash donations to carefully selected mission-driven community organizations throughout its service area. Examples include (but are not limited to): transportation for the elderly and continuation of a large annual contribution to the Middlesex Chamber of Commerce AskMe3 health literacy initiative designed to promote awareness and working solutions for low literacy and its direct health impact by providing essential skills for patients and providers during any patient-provider interaction/conversation.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

##### **Community Building Activities**

The 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 is 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. Examples include (but are not limited to) staff involvement in: the Middlesex Chamber of Commerce's Prevention Committee, Safety Committee and Healthcare Council; United Way School Readiness Community Impact Team; United Way Community Impact Council; Middlesex Community Council; Safe Kids; Interfaith Council of Middletown; Middletown's 10 Year Plan to End Homelessness; Middlesex Elderly Service Providers; St. Luke's Gatekeeper Program; State of CT Stoke Committee; State of CT Childhood Obesity Group; Association for Ambulatory Behavioral Healthcare; Middlesex County Children's Coalition; Middlesex Community College Advisory Board For Human Services; CT Council for Child & Adolescent Psychology; Middletown School System Safety Committee and Community Flu Preparation Committee. The following programs highlight the importance of the Hospital's involvement in community building activities:

- Opportunity Knocks (OK) was formed in 2003 when three Middletown community leaders specializing in early childhood development – Middlesex Hospital's Medical Director of Nurseries & Pediatric Faculty for the Family Practice Residency Program, Middlesex Hospital's Family Advocacy Maternal Child Health Program supervisor and Middletown's School Readiness coordinator – recognized that the health and developmental needs of Middletown's high-need young children could best be met through a coalition that crossed a variety of sectors. The multidisciplinary community coalition comprised of local health and social service agencies, early care and education providers, not-for-profit organizations and parents established goals that focused on the health and well-being of at-risk children ages 0-5. Since the inception of the program, Opportunity Knocks has served approximately 5,500 children ages 0-5 and countless

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

family members. The 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.

- The Middlesex Hospital-Sayaxche Community Partnership extends the Hospital's involvement in community health to the global community. The goal of the project, started in 2008, is to establish a long-term, collaborative, mutually beneficial and ethically sound partnership between the Hospital and Middletown, CT community with the health care infrastructure of the Peten region in Guatemala, including Sayaxche Hospital, the Ministry of Health and the local health promoters. Based on a needs assessment conducted by the Hospital employees at the Sayaxche Hospital, the partnership has focused on addressing multiple areas of priority. Annual visits by delegations from Sayaxche to the Hospital, with the purpose of education and training in key areas, are underwritten by the Hospital. The Hospital contributes in-kind staff hours, donated supplies and hosts a local community collaborative committee comprised of interested agencies. The committee's objective is to set achievable goals that will improve access to health services by strengthening the health care infrastructure of the target population in the Peten region.
- The Hospital partakes in many good neighbor community activities outside of the scope of the health care 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.

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

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.

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

#### **Community Benefit Operations**

Community Benefit Operations include activities and costs associated with community benefit strategic planning, administration, and health assessment production and execution. The Hospital has a dedicated manager of community benefit, along with a community benefit steering committee (comprised of hospital leadership) that oversees community benefit planning and operations.

The Hospital was invited by the Chatham Health District to participate in a county-wide community health needs assessment which was completed in 2013. Middlesex County was selected to be part of the Centers for Disease Control and Prevention Community Transformation

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

Grant project in Connecticut. From this initiative, the Middlesex County Coalition on Community Wellness was formed, which includes community partners from the sectors of public health, health care, social services, community services and education. Coalition goals included (1) working together to conduct a Middlesex County community health needs assessment; (2) identifying key issues that impact health and wellbeing; and (3) developing collaborative programs to meet identified need.

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, the Hospital has developed a prioritized implementation strategy to address identified need; its community health needs assessment implementation strategy outlines the process for prioritization and serves as the foundation for the Hospital's Community Benefit strategic plan. Based on analysis of the community health needs assessment data, the Hospital has selected the following five priority areas: 1) Mental Health – increasing access to care; 2) Substance Abuse – increasing access to care; 3) Older Adults – increasing access to care; 4) Middlesex County Coalition on Community Wellness Tobacco Free Living – support and collaboration; and 5) Middlesex County Coalition on Community Wellness Clinical Preventive Services, Hypertension – support and collaboration.

#### **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

## Middlesex Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts in Thousands)*

#### **15. Community Benefit (Unaudited) (continued)**

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 financial assistance.

#### **State Sponsored Health Care, Unpaid Costs**

Community benefits related to government sponsored programs include the unpaid cost of specific public programs. In FY2013, 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 accompanying consolidated financial statements.

## Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Directors  
Middlesex Health System, Inc.

We have audited the consolidated financial statements of Middlesex Health System, Inc. as of and for the year ended September 30, 2013, and have issued our report thereon dated January 15, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position as of September 30, 2013 and consolidating statements of operations for the year then ended 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst + Young LLP*

January 15, 2014

# Middlesex Health System, Inc. and Subsidiaries

## Consolidating Balance Sheet

September 30, 2013

(In Thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Middlesex Health Services, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Resources, Inc.	MHS Primary Care, Inc.	Eliminations	Consolidated
<b>Assets</b>									
Current assets:									
Cash and cash equivalents	\$ 39,387	\$ 15	\$ 1,140	\$ –	\$ 40,542	\$ 1,564	\$ 1,238	\$ –	\$ 43,344
Short-term investments	20,741	–	–	–	20,741	–	–	–	20,741
Patient accounts receivable, net	44,032	–	27	–	44,059	–	774	–	44,833
Other receivables	3,686	–	–	–	3,686	74	–	–	3,760
Prepaid and other current assets	3,582	–	6	–	3,588	166	86	–	3,840
Estimated third-party payor settlements	2,914	–	–	–	2,914	–	–	–	2,914
Current portion of investments limited as to use	4,091	–	83	–	4,174	–	–	–	4,174
Total current assets	118,433	15	1,256	–	119,704	1,804	2,098	–	123,606
Investments limited as to use	133,959	–	118	–	134,077	–	–	–	134,077
Long-term investments	13,772	–	–	–	13,772	–	–	–	13,772
Other assets:									
Due from related parties	53	–	–	(18)	35	–	–	(35)	–
Investments in joint ventures and limited partnerships	–	–	–	–	–	102	–	–	102
Other	7,781	–	84	–	7,865	11	–	(6)	7,870
Total other assets	7,834	–	84	(18)	7,900	113	–	(41)	7,972
Property and equipment, net	186,313	–	4,596	–	190,909	2,421	1,798	–	195,128
Total assets	\$ 460,311	\$ 15	\$ 6,054	\$ (18)	\$ 466,362	\$ 4,338	\$ 3,896	\$ (41)	\$ 474,555

Middlesex Health System, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2013

(In Thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Middlesex Health Services, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Resources, Inc.	MHS Primary Care, Inc.	Eliminations	Consolidated
<b>Liabilities and net assets</b>									
Current liabilities:									
Current portion of long-term debt and capital lease obligations	\$ 3,156	\$ -	\$ 265	\$ -	\$ 3,421	\$ -	\$ 72	\$ (6)	\$ 3,487
Accounts payable	16,703	-	190	-	16,893	48	99	-	17,040
Due to related parties	-	-	18	(18)	-	7	28	(35)	-
Accrued payroll and related liabilities	31,544	-	-	-	31,544	-	1,355	-	32,899
Other accrued liabilities	2,045	-	160	-	2,205	-	32	-	2,237
Current portion of estimated self-insurance liability	4,139	-	41	-	4,180	-	-	-	4,180
Current portion of accrued retirement liabilities	44	-	-	-	44	-	-	-	44
<b>Total current liabilities</b>	<b>57,631</b>	<b>-</b>	<b>674</b>	<b>(18)</b>	<b>58,287</b>	<b>55</b>	<b>1,586</b>	<b>(41)</b>	<b>59,887</b>
Other liabilities:									
Long-term debt and capital lease obligations, net of current portion	60,071	-	4,829	-	64,900	-	843	-	65,743
Estimated self-insurance liability, net of current portion	13,940	-	-	-	13,940	-	-	-	13,940
Accrued retirement liabilities, net of current portion	48,985	-	-	-	48,985	-	-	-	48,985
Estimated third-party payor settlements and other	15,518	-	-	-	15,518	104	59	-	15,681
<b>Total other liabilities</b>	<b>138,514</b>	<b>-</b>	<b>4,829</b>	<b>-</b>	<b>143,343</b>	<b>104</b>	<b>902</b>	<b>-</b>	<b>144,349</b>
<b>Total liabilities</b>	<b>196,145</b>	<b>-</b>	<b>5,503</b>	<b>(18)</b>	<b>201,630</b>	<b>159</b>	<b>2,488</b>	<b>(41)</b>	<b>204,236</b>
Net assets:									
Unrestricted	247,940	15	433	-	248,388	4,179	1,408	-	253,975
Temporarily restricted	9,250	-	118	-	9,368	-	-	-	9,368
Permanently restricted	6,976	-	-	-	6,976	-	-	-	6,976
<b>Total net assets</b>	<b>264,166</b>	<b>15</b>	<b>551</b>	<b>-</b>	<b>264,732</b>	<b>4,179</b>	<b>1,408</b>	<b>-</b>	<b>270,319</b>
<b>Total liabilities and net assets</b>	<b>\$ 460,311</b>	<b>\$ 15</b>	<b>\$ 6,054</b>	<b>\$ (18)</b>	<b>\$ 466,362</b>	<b>\$ 4,338</b>	<b>\$ 3,896</b>	<b>\$ (41)</b>	<b>\$ 474,555</b>

## Middlesex Health System, Inc. and Subsidiaries

### Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2013

*(In Thousands)*

	Middlesex Hospital	Middlesex Health System, Inc.	Middlesex Health Services, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Resources, Inc.	MHS Primary Care, Inc.	Eliminations	Consolidated
Unrestricted revenues:									
Net patient service revenue, net of contractual allowances and other discounts	\$ 358,266	\$ –	\$ 3,065	\$ –	\$ 361,331	\$ –	\$ 11,638	\$ –	\$ 372,969
Provision for bad debts	(11,095)	–	–	–	(11,095)	–	(114)	–	(11,209)
Net patient service revenue, less provision for bad debts	347,171	–	3,065	–	350,236	–	11,524	–	361,760
Other revenue	12,173	976	3	(1,028)	12,124	825	697	(700)	12,946
Total unrestricted revenues	359,344	976	3,068	(1,028)	362,360	825	12,221	(700)	374,706
Operating expenses:									
Salaries and wages	164,393	602	1,343	(602)	165,736	–	10,154	–	175,890
Fringe benefits	37,112	112	322	(112)	37,434	–	1,789	–	39,223
Purchased services	29,281	184	223	(184)	29,504	–	297	–	29,801
Supplies	36,955	78	189	(78)	37,144	–	643	–	37,787
Depreciation and amortization	22,127	–	216	–	22,343	199	271	–	22,813
Interest	3,017	–	230	–	3,247	–	53	–	3,300
Other operating expenses	49,394	–	406	(52)	49,748	564	1,931	(700)	51,543
Total operating expenses	342,279	976	2,929	(1,028)	345,156	763	15,138	(700)	360,357
Income (loss) from operations	17,065	–	139	–	17,204	62	(2,917)	–	14,349
Other income (expense):									
Net income from joint ventures and general partnerships	2,022	–	–	–	2,022	76	–	–	2,098
Unrestricted gifts and bequests	293	–	–	–	293	–	–	–	293
Net investment income	5,701	–	–	–	5,701	6	–	–	5,707
Other non-operating income	23	–	–	–	23	4	–	–	27
Other non-operating expenses	(976)	–	–	–	(976)	6	–	–	(970)
Total other income, net	7,063	–	–	–	7,063	92	–	–	7,155
Excess (deficiency) of revenues over expenses	24,128	–	139	–	24,267	154	(2,917)	–	21,504
Net assets, beginning of year	161,005	15	439	–	161,459	4,025	1,326	–	166,810
Change in unrealized gains and losses	5,770	–	–	–	5,770	–	–	–	5,770
Restricted net realized gains and losses	375	–	–	–	375	–	–	–	375
Restricted contributions	2,295	–	3	–	2,298	–	–	–	2,298
Change in accumulated pension charges to unrestricted net assets	74,406	–	–	–	74,406	–	–	–	74,406
Transfers	(2,999)	–	–	–	(2,999)	–	2,999	–	–
Expenditures for intended purposes	(814)	–	(30)	–	(844)	–	–	–	(844)
Net assets, end of year	\$ 264,166	\$ 15	\$ 551	\$ –	\$ 264,732	\$ 4,179	\$ 1,408	\$ –	\$ 270,319

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