



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

Consolidated Financial Statements

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

Consolidated Financial Statements
September 30, 2009 and 2008

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KPMG LLP
One Financial Plaza
Hartford, CT 06103-4103

Independent Auditors' Report

The Board of Directors
Middlesex Health System, Inc.:

We have audited the accompanying consolidated balance sheets of Middlesex Health System, Inc. (a not-for-profit, nonstock Connecticut corporation) and subsidiaries (collectively, the System) as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middlesex Health System, Inc. and subsidiaries as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

December 23, 2009

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

Consolidated Balance Sheets

September 30, 2009 and 2008

(In thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 50,111	30,927
Short-term investments (note 5)	19,181	15,145
Patient accounts receivable, less reserve for uncollectible amounts of \$10,700 and \$7,300 in 2009 and 2008, respectively	39,854	40,430
Other receivables	1,093	1,196
Prepaid and other	3,448	2,901
Current portion of investments limited as to use (note 5)	4,226	3,635
Total current assets	117,913	94,234
Investments limited as to use (note 5)	96,993	96,289
Other assets:		
Investments in joint ventures and limited partnerships (note 1)	213	211
Other	6,485	6,950
Total other assets	6,698	7,161
Property and equipment, net (note 6)	165,992	163,366
Total assets	\$ 387,596	361,050
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt and capital lease obligations (note 7)	\$ 3,178	3,070
Accounts payable	15,978	13,364
Accrued payroll and related liabilities	23,614	19,683
Estimated third-party payor settlements	66	301
Other accrued liabilities	2,827	2,794
Current portion of estimated self-insurance liability (note 9)	6,020	5,005
Current portion of accrued retirement liabilities (note 8)	2,994	707
Total current liabilities	54,677	44,924
Other liabilities:		
Long-term debt and capital lease obligations, net of current portion (note 7)	82,465	87,473
Estimated self-insurance liability, net of current portion (note 9)	5,356	4,168
Accrued retirement liabilities, net of current portion (note 8)	89,528	33,172
Other	12,977	11,104
Total other liabilities	190,326	135,917
Equity interest in net deficit of general partnership investments	612	793
Commitments and contingencies (notes 2, 3, 6, 7, and 9)		
Net assets:		
Unrestricted	128,787	165,235
Temporarily restricted (notes 10 and 11)	6,606	8,011
Permanently restricted (notes 10 and 11)	6,588	6,170
Total net assets	141,981	179,416
Total liabilities and net assets	\$ 387,596	361,050

See accompanying notes to consolidated financial statements.

**MIDDLESEX HEALTH SYSTEM, INC.
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Consolidated Statements of Operations

Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Unrestricted revenues:		
Net patient service revenue (notes 2 and 3)	\$ 332,650	307,476
Other revenue (note 4)	7,843	8,179
Total unrestricted revenues	340,493	315,655
Operating expenses:		
Salaries and wages	152,978	143,116
Fringe benefits	34,408	31,737
Purchased services	21,149	25,902
Supplies	31,774	28,535
Depreciation and amortization	21,019	20,305
Interest	4,320	4,153
Provision for bad debts, net of recoveries	17,108	19,574
Other operating expenses	38,408	35,052
Total operating expenses	321,164	308,374
Income from operations	19,329	7,281
Other income (expense):		
Equity in (losses) earnings of joint ventures and general partnerships (note 1)	(7)	121
Unrestricted gifts and bequests	387	1,420
Net investment (loss) income	(1,373)	1,710
Other non-operating expenses	(979)	(980)
Loss from conversion/extinguishment of debt	(267)	(213)
Total other (loss) income, net	(2,239)	2,058
Excess of revenues over expenses	\$ 17,090	9,339

See accompanying notes to consolidated financial statements.

**MIDDLESEX HEALTH SYSTEM, INC.
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Consolidated Statements of Changes in Net Assets

Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Unrestricted net assets:		
Excess of revenues over expenses	\$ 17,090	9,339
Change in net unrealized gains (losses) on other than trading securities	2,358	(19,263)
Change in accumulated pension charges to unrestricted net assets (note 8)	(58,367)	(8,526)
Net assets released from restrictions for purchase of property and equipment	2,471	531
Change in unrestricted net assets	(36,448)	(17,919)
Temporarily restricted net assets:		
Contributions	929	1,463
Net realized investment gains	106	236
Change in net unrealized gains (losses)	424	(1,399)
Net assets released from restrictions for purchase of property and equipment	(2,471)	(531)
Expenditures for intended purposes	(393)	(372)
Change in temporarily restricted net assets	(1,405)	(603)
Permanently restricted net assets:		
Contributions	416	301
Net realized investment gains	1	2
Change in net unrealized gains	1	—
Change in permanently restricted net assets	418	303
Change in net assets	(37,435)	(18,219)
Net assets, beginning of year	179,416	197,635
Net assets, end of year	\$ 141,981	179,416

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (37,435)	(18,219)
Adjustments in reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	21,019	20,305
Provision for bad debts, net of recoveries	17,108	19,574
Loss from conversion/extinguishment of debt	267	213
Change in accumulated pension charges to unrestricted net assets	58,367	8,526
Restricted contributions, net of expenditures	(952)	(1,392)
Change in net unrealized and net realized gains and losses on investments	(1,517)	18,714
Change in operating assets and liabilities:		
Patient accounts receivable	(16,532)	(17,064)
Other receivables	103	(119)
Prepaid and other assets	(351)	(125)
Accounts payable, accrued payroll and related liabilities, and other liabilities	8,270	2,774
Accrued retirement liabilities	276	1,690
Estimated self-insurance liability	2,203	1,070
Estimated third-party payor settlements	(235)	(188)
Net cash provided by operating activities	50,591	35,759
Cash flows from investing activities:		
Purchases of property and equipment	(23,588)	(35,786)
Short-term investments, net	(4,036)	(11,663)
Proceeds from sales of investments limited as to use	10,347	36,553
Purchases of investments limited as to use	(11,040)	(36,015)
Investment income	915	7,743
Net cash used in investing activities	(27,402)	(39,168)
Cash flows from financing activities:		
Proceeds from note payable	100	—
Repayment of long-term debt and lease obligations	(5,057)	(2,518)
Deferred financing costs	—	(369)
Restricted contributions, net of expenditures	952	1,392
Net cash used in activities	(4,005)	(1,495)
Net increase (decrease) in cash and cash equivalents	19,184	(4,904)
Cash and cash equivalents, beginning of year	30,927	35,831
Cash and cash equivalents, end of year	\$ 50,111	30,927
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 4,402	4,016

See accompanying notes to consolidated financial statements.

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Notes to Financial Statements

September 30, 2009 and 2008

(amounts in thousands)

(1) Organization and Significant Accounting Policies

(a) 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. 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 provided medical management, managed care contract evaluation and administration and information systems for the benefit of the community. IRMA's activities described above were undertaken by the Hospital and IRMA became an inactive subsidiary as of September 30, 2008. 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."

(b) 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.

(c) Basis of Presentation

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

(d) 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 board of directors (Board) designation or other restrictive arrangements.

(e) 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.

**MIDDLESEX HEALTH SYSTEM, INC.
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(amounts in thousands)

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 \$2,140 and \$5,723 were recorded in net investment income in the statements of operations for the fiscal years ended September 30, 2009 and 2008, respectively.

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

Effective October 1, 2008, the System adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (now part of FASB ASC 820, Fair Value Measurements and Disclosures), which established 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.

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.

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(amounts in thousands)

The adoption of ASC 820 had no impact on the System's financial statements. ASC 820 is effective for nonfinancial assets and liabilities, including goodwill and certain other intangible and long-lived assets, beginning in fiscal 2010.

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.

(f) 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.

(g) 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 20% of the net operating profits and losses of the joint venture.

Summarized unaudited financial information for the joint venture as of and for the years ended September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Current assets	\$ 692	868
Noncurrent assets	472	434
Total assets	<u>\$ 1,164</u>	<u>1,302</u>
Current liabilities	\$ 274	450
Total liabilities	733	884
Total revenues	3,738	3,947
Net income	323	492

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(h) Investments in Limited Partnerships

Resources is a limited partner in Middletown Professional Park Limited Partnership I (MPPLP I) and Middletown Professional Park Limited Partnership II (MPPLP II) which constructed and owns two medical buildings. These investments are recorded on a cost basis and amounted to \$145 as of September 30, 2009 and 2008, respectively.

(i) Investments in General Partnerships

During fiscal year 1995, Resources was admitted as a 15% and 25% general partner in MPPLP I and MPPLP II, respectively, upon payment of capital contributions of \$230 and \$220, respectively. Resources has guaranteed loans of the partnerships up to but not exceeding \$3,150 as of September 30, 2009 and 2008, respectively.

Summarized unaudited financial information for the partnerships as of and for the year ended September 30, 2009 is as follows:

	<u>MPPLP I</u>	<u>MPPLP II</u>
Total assets	\$ 1,595	1,793
Total liabilities	2,239	3,855
Total revenue	661	622
Net gain	164	627

(j) 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.

(k) 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. At September 30, 2009 and 2008, no impairment was recorded.

(l) 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 fiscal 2009 and 2008. In addition, the Hospital and Services self-insure the

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(amounts in thousands)

workers' compensation program and have purchased excess insurance for those losses exceeding \$400 per occurrence (see note 9).

(m) 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.

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.

(n) Net Patient Service Revenue

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.

(o) 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.

Resources has federal net operating loss carryforwards of approximately \$410 at September 30, 2009 which are available to offset future federal taxable income, if any, through 2018. Resources has no available state net operating losses to offset future state taxable income. Utilization of the net operating losses may be subject to annual limitation provided by Section 382 of the Internal Revenue Code of 1986 and similar state provisions.

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Resources, after considering all available objective evidence, both historical and prospective, with greater weight given to historical evidence, believes it is more likely than not that these assets will be realized.

As of September 30, 2009, MHSPC had net operating loss carryforwards available to reduce its future Federal taxable income of approximately \$19,300. The carryforward periods expire at various dates through 2028. MHSPC had net operating loss carryforwards available to reduce its future state taxable income of approximately \$8,400. The state carryforward periods expire at various dates through 2028. 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.

(p) Use of Estimates

The preparation of 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 and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Financial statement areas where management applies the use of assumptions and estimates consist primarily of investments, the allowance for uncollectible accounts, third-party reimbursement matters, accrued retirement liabilities, and estimated self-insurance liability.

(q) Recently Adopted Accounting Standards

Effective October 1, 2007, the Hospital and Services adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income* (FIN 48), now part of FASB ASC 740, Income Taxes. FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. The adoption of FIN 48 had no impact on the System's consolidated financial statements.

(r) Recently Issued Accounting Standards

In May 2009, the FASB issued guidance which established principles and requirements for recognition and disclosure of subsequent events. In particular, it sets forth the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. This guidance is to be applied to the accounting for and disclosure of subsequent events not addressed in other applicable GAAP and was effective for the System's year ended September 30, 2009. In accordance with the guidance,

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management has evaluated events subsequent to September 30, 2009 and through December 23, 2009.

(2) Healthcare Regulatory Environment

(a) Federal Regulatory Environment

The healthcare 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 healthcare 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 healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare 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. While no known regulatory inquiries are pending, 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.

(3) Net Patient Service Revenue

The following table summarizes revenues from services to patients:

	2009	2008
Patient service revenue	864,085	763,044
Deductions:		
Allowances	(523,900)	(450,886)
Charity care	(7,535)	(4,682)
	(531,435)	(455,568)
Net patient service revenue	\$ 332,650	307,476

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

The Hospital has a longstanding commitment to providing healthcare to all those in need, regardless of their ability to pay. The Hospital provides both free care and care at reduced rates. The charges written off for patients that qualified for free care under the Hospital's Charity Care Program totaled \$7,535 and \$4,682 in 2009 and 2008, respectively. The estimated costs for these services were \$2,503 and \$1,673 in 2009 and 2008, respectively.

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Net patient service revenue is reported at estimated realizable amounts from patients, third-party payors and others for services rendered. Revenue under certain third-party payor agreements is subject to audit and retroactive adjustments. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. During 2009 and 2008 approximately 35% and 36%, respectively, of net patient service revenue was received under the Medicare program, 7% and 6%, respectively, under the state Medicaid and city welfare programs, 47% and 46%, respectively, was received from contracts with other third-party payors and 11% and 12%, respectively, from patients and others. During the years ended September 30, 2009 and 2008, changes in estimates related to settlements with third-party payors for prior years increased (decreased) net patient service revenue by \$326 and \$(186), respectively.

(4) Other Revenue

Other revenue consists of revenue from grants, cafeteria sales, purchase discount rebates and rental income. In addition, included in other revenue is interest income on the following assets: funds held in trust under revenue bond agreements, funds held in the Hospital's self-insurance trust and notes receivable from related parties.

(5) Investments Limited as to Use

Cost and market values for investments included in investments limited as to use as of September 30, 2009 and 2008 are summarized as follows:

	2009		2008	
	Total		Total	
	Market	Cost	Market	Cost
Mutual funds	\$ 79,193	77,060	73,847	74,027
Common/collective trust	6,350	2,869	9,045	5,803
Common stock	3,897	4,048	4,004	4,058
Corporate debt securities	279	278	280	308
U.S. Government and Agency obligations	1,121	1,124	930	938
Cash and short-term investments	10,379	10,385	11,818	11,803
Total	\$ 101,219	95,764	99,924	96,937

At September 30, 2009, there were no investments with a market value below cost for less than 12 months. Investments with market value below cost for more than 12 months included certain mutual funds, common stock and U.S. Government and Agency obligations with a market value of \$13,872, \$3,596 and \$390, respectively, and an unrealized loss of \$429, and \$69, and \$2, respectively.

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September 30, 2009 and 2008

(amounts in thousands)

Investments limited as to use consisted of the following as of September 30, 2009 and 2008:

	2009		2008	
	Market	Cost	Market	Cost
Funds held in trust under revenue bond agreements	\$ 5,063	5,065	5,315	5,312
Funds held in trust for estimated self-insurance liability	7,481	7,244	6,393	6,628
Board-designated funds	75,890	71,422	74,520	71,801
Donor-restricted funds	12,785	12,033	13,696	13,196
Total	\$ 101,219	95,764	99,924	96,937

Included in net investment income for the years ended September 30, 2009 and 2008 were realized (losses) gains on sales of investments of \$(2,164) and \$3,191, respectively.

The following table sets forth by level, within the fair value hierarchy, the System's assets at fair value as of September 30, 2009:

	Fair Value as determined by Quoted Prices in active markets (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Mutual funds	\$ 79,193	—	—	79,193
Common/collective trust	—	6,350	—	6,350
Common stock	3,897	—	—	3,897
Corporate debt securities	279	—	—	279
U.S. Government and Agency obligations	—	20,302	—	20,302
Cash and short-term investments	10,379	—	—	10,379
	\$ 93,748	26,652	—	120,400

Common Collective Trusts invest in other public or private individual assets as determined and managed by the fund. The System'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 net asset value per share/unit on the valuation date.

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(amounts in thousands)

(6) Property and Equipment, Net

Property and equipment and the related accumulated depreciation as of September 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 5,528	5,483
Buildings and fixed equipment	221,367	207,476
Land and building under capital leases	5,457	5,457
Other equipment	142,644	132,667
Leasehold improvements	<u>6,177</u>	<u>5,203</u>
	381,173	356,286
Less accumulated depreciation	<u>(221,166)</u>	<u>(200,948)</u>
	160,007	155,338
Construction in progress (estimated cost to complete \$1,638)	<u>5,985</u>	<u>8,028</u>
Property and equipment, net	<u>\$ 165,992</u>	<u>163,366</u>

Total rental expense under operating leases for the years ended September 30, 2009 and 2008 was approximately \$5,387 and \$5,001, respectively. The Hospital and MHSPC expect to incur a comparable amount of rental expense in fiscal 2010 as that incurred in fiscal 2009. Property under capital leases had a net book value of \$4,053 and \$4,297 at September 30, 2009 and 2008, respectively.

(7) Long-Term Debt

As of September 30, 2009 and 2008, 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>2009</u>	<u>2008</u>
Fixed Rate Revenue Bonds, Series M, due July 1, 2027	\$ 14,825	15,445
Fixed Rate Revenue Bonds, Series L, due July 1, 2036	22,345	22,760
Variable Rate Demand Revenue Bonds, Series J, due July 1, 2026	—	2,195
5.0% to 5.125% Revenue Bonds, Series H, due July 1, 2027	36,430	37,955
5.0% to 5.125% Revenue Bonds, Series I, due July 1, 2027	6,620	6,840
Mortgage notes and capital leases, net of interest	<u>5,389</u>	<u>5,355</u>
	85,609	90,550
Add bond premium	770	800
Less bond discount	(736)	(807)
Less current portion	<u>(3,178)</u>	<u>(3,070)</u>
	<u>\$ 82,465</u>	<u>87,473</u>

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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 3.000% and 4.875%.

CHEFA Series J Demand Revenue Bonds (Series J bonds) were issued in fiscal 2001 for \$11,895 to finance the construction of a cancer center and cardiac catheterization laboratory and acquisition of related medical equipment. On November 3, 2008, the Hospital redeemed the entire balance of the Series J bonds.

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, 2009 and 2008. Advances under this agreement have an annual interest rate based on the LIBOR rate as determined for each interest period. As of September 30, 2009 and 2008 there were no advances.

In fiscal 1998, CHEFA Series I Revenue Bonds (Series I bonds) were issued on behalf of Services to finance the construction of an assisted living facility. Under the provisions of the agreement, the bonds are payable over 30 years at interest rates ranging from 5.0% to 5.125%. The Hospital is the guarantor of the Series I bonds.

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 financial statements and consist of \$4,331 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 fair value of the Hospital's CHEFA bonds, based on market prices, was approximately \$73,023 and \$76,298 at September 30, 2009 and 2008, respectively. The fair value of Services' CHEFA bonds, based on market prices, was approximately \$6,331 and \$6,723 at September 30, 2009 and 2008, respectively.

In 2004, the Hospital entered into a 25 year capital lease of \$4,464 with an interest rate of 8.3% for a building. The outstanding balance on this capital lease at September 30, 2009 and 2008 was \$4,091 and \$4,172, respectively. Under the terms of this capital lease, the Hospital has the option to purchase the building which management intends to exercise in 2010 for the amount of \$3,955.

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

	Long-term debt	Mortgage notes/capital leases
2010	\$ 2,905	608
2011	3,030	505
2012	3,165	696
2013	3,305	467
2014	3,450	430
Thereafter	64,365	6,860
	80,220	9,566
Add bond premium	770	—
Less bond discount	(736)	—
Less interest	—	(4,177)
	\$ 80,254	5,389

(8) 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 (ERISA) minimum funding requirements.

On July 31, 2009 the Hospital adopted a soft freeze of the Plan, effective January 1, 2010. All pension accruals will cease under the terms of the Plan, with the limited exception that participants who are 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.

Effective January 1, 2010 the Hospital will implement 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.

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The funded status at September 30, 2009 and 2008 for the plans are as follows:

	<u>2009</u>	<u>2008</u>
Accumulated benefit obligation	\$ 177,078	129,497
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	151,727	162,652
Service cost	6,605	6,734
Interest cost	11,543	10,641
Plan amendments	252	—
Actuarial loss (gain)	51,429	(23,673)
Benefits paid	(5,384)	(4,627)
Projected benefit obligation, end of year	<u>216,172</u>	<u>151,727</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	117,848	138,989
Actual return on plan assets	3,497	(22,396)
Employer contributions	7,689	5,882
Benefits paid	(5,384)	(4,627)
Fair value of plan assets, end of year	<u>123,650</u>	<u>117,848</u>
Funded status	\$ <u>(92,522)</u>	<u>(33,879)</u>
Amounts recognized in balance sheets consist of:		
Current liability	(2,994)	(707)
Noncurrent liability	(89,528)	(33,172)
Net amount recognized	<u>\$ (92,522)</u>	<u>(33,879)</u>
Amounts recognized as accumulated charges to unrestricted net assets consist of:		
Net actuarial loss (gain)	66,756	7,905
Prior service cost	1,269	1,752
	<u>\$ 68,025</u>	<u>9,657</u>
	<u>2009</u>	<u>2008</u>
Components of net periodic benefit cost:		
Service cost	\$ 6,605	6,734
Interest cost	11,543	10,641
Expected return on plan assets	(10,939)	(10,123)
Net amortization and deferral	351	320
Curtailment loss	405	—
Net periodic benefit cost	<u>\$ 7,965</u>	<u>7,572</u>

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The prior service cost that will be amortized from accumulated charges to unrestricted net assets into net periodic benefit cost over the next fiscal year is \$959.

	2009	2008
Weighted average assumptions as of September 30:		
Discount rate (obligation)	5.60%	7.25%
Discount rate (service cost see below)	7.25%/5.95%	6.30%
Expected long-term return on plan assets	7.00%	8.00%
Rate of compensation increase	4.00%	4.00%

The Plan's weighted average asset allocations at September 30, 2009 and 2008 by asset category are as follows:

	Target	2009	2008
Equity securities	60%	64%	65%
Debt securities	40%	36%	35%
Total	100%	100%	100%

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. The Plan was re-measured effective July 31, 2009 using a discount rate of 5.95%. Prior to the July 31, 2009 adoption of the soft plan freeze, a discount rate of 7.25% was used. The expected long-term rate of return for the Plan's total assets is based on the expected return of each of the above categories, weighted based on the target allocation of each class. Equity securities are expected to return 9% to 10% over the long-term, while debt securities are expected to return between 4% and 7%.

The investment policy, as established by the Investment Committee, is to earn a total return in any 5-year period that will have exceeded the interest assumption in the actuarial plan valuation for that five-year period. For performance evaluation purposes, all rates of return will be examined on a net-of-fee basis. The pension 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.

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Contributions of \$10,800 are expected to be paid to the Plan in 2010.

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

2010	\$	8,623
2011		6,590
2012		7,344
2013		8,887
2014		9,642
2015 – 2019		62,457
	\$	<u>103,543</u>

In addition, the Hospital sponsors several defined contribution and deferred compensation plans for eligible employees. The Hospital's contributions to these plans totaled approximately \$392 and \$391 in 2009 and 2008, 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.

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, 2009 and 2008, MHSPC made matching contributions in the amount of \$226 and \$238, respectively.

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

(9) 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, 2009 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 Hospital management, the ultimate resolution of these claims will not have a material impact on the Hospital's results of operations or financial position.

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(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by the donors for a specific purpose. Temporarily restricted net assets are available for the following purposes as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Education	\$ 1,688	1,640
Health services	1,385	1,377
Capital and other	<u>3,533</u>	<u>4,994</u>
	<u>\$ 6,606</u>	<u>8,011</u>

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. Permanently restricted net assets as of September 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Free beds	\$ 1,562	1,560
Support of hospital operations	3,998	3,697
Other	<u>1,028</u>	<u>913</u>
	<u>\$ 6,588</u>	<u>6,170</u>

(11) Endowments

Effective October 1, 2008, the System adopted FASB Staff Position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FSP 117-1), now part of FASB ASC 958-205, *Not-for-Profit Entities -- Presentation of Financial Statements*. On October 1, 2007 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the State of Connecticut (Act). The new law updated existing fundamental investment principles providing standards to guide investing in a prudent manner and eliminating the restriction that endowment funds could not be spent below its historical dollar value. The System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the System and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the System and (7) the investment policies of the System.

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

The System has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of 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 by the System in a manner consistent with the standard of prudence prescribed by the Act.

Endowment funds consist of the following at September 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	3,018	6,588	9,606
Board-designated endowment funds	<u>71,222</u>	<u>—</u>	<u>—</u>	<u>71,222</u>
Total endowed net assets	<u>\$ 71,222</u>	<u>3,018</u>	<u>6,588</u>	<u>80,828</u>

Endowment funds consist of the following at September 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	2,962	6,170	9,132
Board-designated endowment funds	<u>70,768</u>	<u>—</u>	<u>—</u>	<u>70,768</u>
Total endowed net assets	<u>\$ 70,768</u>	<u>2,962</u>	<u>6,170</u>	<u>79,900</u>

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Changes in endowment funds for the year ended September 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, October 1, 2008	\$ 70,768	2,962	6,170	79,900
Investment return:				
Investment (loss) income	(1,387)	(16)	1	(1,402)
Net appreciation	1,891	107	1	1,999
Total investment return	504	91	2	597
Contributions, gifts and bequests	—	—	416	416
Transfers	—	(16)	—	(16)
Appropriation of endowment assets for expenditure	(50)	(19)	—	(69)
Endowment net assets, September 30, 2009	\$ <u>71,222</u>	<u>3,018</u>	<u>6,588</u>	<u>80,828</u>

Changes in endowment funds for the year ended September 30, 2008 are as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, October 1, 2007	\$ 88,175	2,964	5,867	97,006
Investment return:				
Investment income	1,689	13	2	1,704
Net appreciation/ (depreciation)	(18,882)	(217)	—	(19,099)
Total investment return	(17,193)	(204)	2	(17,395)
Contributions, gifts and bequests	—	—	301	301
Transfers	—	223	—	223
Appropriation of endowment assets for expenditure	(214)	(21)	—	(235)
Endowment net assets, September 30, 2008	\$ <u>70,768</u>	<u>2,962</u>	<u>6,170</u>	<u>79,900</u>

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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.

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.

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.

(12) 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, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Health care services	\$ 259,119	252,753
Administrative and general	46,643	40,716
	<u>\$ 305,762</u>	<u>293,469</u>

(13) Community Benefit (Unaudited)

The mission of Middlesex Health System, Inc. is to “improve the health and well-being of our community by providing quality health care services with caring, compassion and skill”. The Hospital’s commitment to ensuring the availability of extensive Community Benefit programs and services is the cornerstone of our organization. The Hospital’s leadership historically has recognized the importance of its influence in the wellness of the community it serves. It continues to promote community-wide health improvement services, targeted by health needs confirmed by a community health assessment and the positive impact of prior Community Benefit programming. This footnote provides an overview of Middlesex Hospital’s community benefit activities, organized by the categorical accounting standards as determined by the Catholic Health Association/VHA structure (Catholic Health Association, “A Guide For Planning and Reporting Community Benefit”, 2006, revised 2008).

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Community Health Improvement Services

Community Health Education

Middlesex Hospital subsidizes a vast range of community health education and health improvement programs. In most cases these services are offered free of charge, although some generate a nominal fee. In no case does the fee actually cover the entire cost of providing the service.

Community health education is provided by the Hospital in many formats including lectures, written materials, interactive presentations and other group programs/activities. Support groups are typically established to address social, psychological or emotional issues such as those that occur in connection with disease and disability grief, and support for patients and their families. Self-help programs include wellness and health-promotion programs such as those for smoking cessation, disease prevention, exercise coaching and weight management. 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, education and hope for a healthful future.

In FY2009 the Hospital sponsored dozens of impressive health-education and support groups. A partial list includes:

- Bereavement Support Groups,
- Caregiver Support Group & Resources,
- Cancer Support Groups and extensive educational programming (Breast Cancer Awareness Programs, Cancer Center Newsletters, Cancer Center Patient Resource Library, Cancer Survivors Programming, “Arts in the Atrium” an art therapy program for cancer patients, Meditation Support Group, Breast Cancer Support Group, Leukemia, Lymphoma & Multiple Myeloma Support Group, Colon Health & Wellness Events, Prostate Cancer Support Group, Prostate Health And Wellness Events, Public Awareness Cancer Education, Integrative and Alternative Medicine Therapies including reflexology, message, yoga and meditation, Support Groups/Services for Female Cancer Patients),
- Center for Chronic Care Management Health Fairs,
- Center for Chronic Care Management Practitioner trainings,
- Center for Chronic Care Management Disease Management Partnerships with local agencies and employers,
- Community Education Campaigns including Hand washing, H1N1 virus containment and vaccination,
- Hospice and Palliative Care Memorial Service,
- Hospice Educational Presentations To The Community,

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- Paramedics - Stroke Education to Community Members,
- Paramedics – Emergency Medicine Education to Community Members,
- Paramedics – Emergency Medicine Train the Trainer Coaching,
- Pregnancy and Birth Education (Breast Feeding Support Group, Breastfeeding Classes & Presentations, Newborn & Infant Classes, Prepared Childbirth Classes, Newborn and Early Childhood Nutrition Education),
- Public Information Newsletters and Health Awareness Publications (VITA),
- Safe Sitter Course,
- Total Living Program (TLP) Support Group,
- Tremaine Library - Public Usage

Several of these programs are itemized within the following text.

Facing cancer can be one of life's most challenging experiences for patients, their family members and loved ones; it is a time when education and a supportive environment can make a significant difference. The Hospital offers a substantial number of cancer-related support groups, including breast cancer awareness programs, breast cancer support groups, a prostate cancer, colon cancer, lung cancer, leukemia, lymphoma, and multiple myeloma support groups for patients and their caregivers. A diagnosis of cancer impacts not only the patient but the entire family.

The Hospital's Pregnancy and Birth Center supports growing families. A wide range of programs including prenatal care, breastfeeding classes, birthing classes, nutrition, CPR, and newborn care is available promote the wellness of our youngest patients. Only the subsidized expenses and waived participant tuition at the Pregnancy and Birth Center are denoted as Community Benefits. Classes are offered at multiple locations to best serve patient families.

The support and skills of trained professionals may be a great asset during major illness and the loss of loved ones. The Hospital offers bereavement support groups led by professional counselors and/or clergy which provide grieving persons a place where they can share their feelings, find understanding and provide support to one another.

Middlesex Hospital is committed to the promotion of Health Education. One method is to ensure public access to the extensive resources of the hospital's staff, libraries and publications. The Hospital's Tremaine Library, which is located on the main campus, encourages community use of health and medicine resource information. The community, including students, patients, nurses and physicians routinely accesses the library's extensive collection of books and periodicals and depends on librarian services support as a part of information gathering.

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The Cancer Center library's vast collection of reference resources are used by thousands of patients their families and providers. 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. This is a great advantage to CT cancer patients by enabling the use of resource materials and cancer health information from their local libraries.

In addition, the Hospital's Website (www.middlesexhospital.org) offers public access to health information including a medical dictionary, a condition explorer that highlights conditions that affect each part of the body, healthy-living calculators designed to help improve exercise activities, health and well being, and sections on medical procedures and medications. The Web site offers convenient links to a number of webzines on subjects such as aging and health, alternative health, food and nutrition, men's health, women's health and many, many others.

Community-Based Clinical Services

Throughout the year the Hospital provides a number of community-based clinical services. These include health services, clinical care and medical screenings provided on a one-time basis or as a special event. These are offered to meet identified community needs or to improve community health.

A partial list of Community-Based Clinical Services and Health Care Support Services includes:

- Annual Medical Evaluations for the Haddam Volunteer Firefighters,
- Cancer Center Screenings (including Skin Cancer screenings),
- Diabetes Care Free A1C Screenings,
- Center for Chronic Care Management Health Fair Community Screenings,
- Family Practice Community Service Programming,
- Health Fair/Information Dissemination to Community,
- Screenings Performed at Health Fairs,
- Homecare Community Health Clinics,
- Homecare Community Influenza Vaccine Clinics,
- Homecare Community Health Screenings,
- WIC Nutrition Counseling and Screenings.

Several of these services are detailed in this Community Benefit Summary text.

Early diagnosis and health education assistance is provided to individuals to identify potential health through screenings and other are health tests sponsored by the Hospital in the community. Such early detection efforts include such screenings as: blood pressure measurements, cholesterol checks and physical examinations. They are designed to detect the early onset of illness and disease and aid the public to internalize the importance of detection and early treatment intervention. The Hospital provides many free screenings to residents of the Middlesex community throughout the course of the year. Screenings for blood pressure, lipid profile/cholesterol, cardiology risk factors, breast cancer, colon cancer, skin cancer, stroke, and osteoporosis are frequently offered to the community at large. In addition, the Hospital sponsors and participates in health fairs, such as those arranged by the department of radiology, nursing and others intended to reach patients as well as providers.

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Health Care Support Services

Health care support services include all those programs offered by the Hospital to increase access and quality of care to individuals, especially persons living in poverty and those in other vulnerable populations. Many of these services are the key to assisting patients to achieve improved health and wellness. Such services include:

- At the Center for Chronic Care Management (CCCM)
 - Adult Asthma - Disease Management Program,
 - Pediatric Asthma – Disease Management Program,
 - Chronic Heart Failure Care Management Program,
 - Diabetes Care/Education Disease Management Program,
 - Fit for Kids, Childhood Obesity Management Program,
 - Smoking Intervention Services,
- Family Advocacy - Services For Women & Children On OB Unit,
 - Family Advocacy - Support Services/Family Advocacy Outreach Activities,
- Cancer Care - Transportation Assistance,
- Cancer Care Nurse Navigator Management,
- Pulmonary Rehabilitation/Chronic Obstructive Pulmonary Disease COPD Care.

Several of these programs are provided with great intensity and duration, and result in life long positive impact, a few are described below.

The Hospital provides a number of services for those with a cancer diagnosis. The Cancer Care Program is a free program patients at the Middlesex Hospital Cancer Center fully appreciate. Nurse Navigators assist cancer patients to navigate the complex maze of diagnosis through the treatment and recovery phases of their illness. Nurse Navigators support patients from the earliest stages of diagnosis, through the prescribed treatments and therapies and with a kind heart, calm reassurance and expert knowledge as they 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. Each step of the way the Nurse Navigator supports the patient, through procedures, tests and helping them to understand their medications and self care requirements. This invaluable community benefit service is available for patients to gain understanding of their breast, colon, lung or other cancer diagnosis. In fiscal year 2009, 375 patients were supported by the Nurse Care Navigator programs.

For some patients undergoing radiation oncology treatment, the Hospital provides a no-cost transportation service that is available to take them to their treatments. This program is offered in cooperation with the American Red Cross who provides the transportation.

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The Hospital's Center for Chronic Care Management offers a number of disease management programs for patients including: Air Middlesex (adult asthma care), Little Air (pediatric asthma care), Diabetes Care and Education, the Chronic Heart Failure Program, Fit for Kids (childhood obesity program), and Smoking Intervention Services. Middlesex Hospital's award winning disease management programs are fully accredited by the National Committee on Quality Assurance and comply with the highest standards of care. One-to-one disease management care is provided by certified case managers, diabetes educators, asthma educators, registered dietitians and smoking interventionists who act as patient advocates guided by the program's evidenced-based standards and the medical direction of the patient's physician. Most programs are offered at no cost to the patient, regardless of a patient's payer and/or ability to pay. In most cases the programs are designed to serve a patient up to one year, although on a case by case basis, if appropriate, enrollment will be extended. Over 1,600 newly enrolled patients were served by the Center for Chronic Care Management in FY 2009.

Each of the Disease Management Programs cooperates with community agencies to provide chronic disease management education. Examples of agency collaboration include individual and group training and informational sessions with the Connecticut Department of Children and Families, Department of Public Health, skilled nursing facilities, Lion's Club, United Way, Churches, Visiting Nurse services, schools and other community employers and organizations.

In response to the findings of the community health assessment, the Hospital developed an inpatient pathway and an outpatient support program for the treatment of Chronic Obstructive Pulmonary Disease (COPD). This subsidized service and adjunct programming like the Hospital's Smoking Cessation Service is available to provide the specific respiratory diagnosis and care necessary to improve the wellness of COPD patients.

In cooperation with the Community Health Center (CHC), the Hospital provides prenatal physician services to low income and uninsured mothers. This service can have an unqualified positive impact on the mother's and child's well-being. The Hospital also cooperates with the CHC in the care and education of diabetic and asthmatic patients.

As part of the Hospital's Family Practice Residency Program, each resident must participate in community projects which include the "Reach Out and Read" literacy program, assistance for the homeless and educational sessions for patients, families and providers in the community. These programs reach hundreds of patients and their families/caregivers annually. Other FY2009 resident community programs included HIV/AIDS Community education, large scale Health Education venues including faith based health fairs and presentations. As of June 2008 The Middlesex Hospital Family Practice Residency Program is participating in the P4 Initiative - Preparing the Personal Physician for Practice, which extends the Family Practice Residency to a fourth year with a specific focus on chronic conditions and geriatric care. Community projects too are extended to accommodate the fourth year which provides mutual benefit to the community and the resident.

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The Family Advocacy Program at Middlesex Hospital has been a longstanding anchor is the development and sustainability of several community programs intended to provide support to families outside the clinical setting and help to avoid hospitalizations. Family Advocacy programs include: Child and Adolescent Clinic, the Intensive In-home Child Adolescent Psychiatric Services, Emergency Mobile Psychiatric Services, and the System of Care program that provides wrap around services for children at risk. Family Advocacy also coordinates with external agencies to provide Maternal/Child Health programs that include: the Parent/Aide Program, Perinatal Case Managers, and the Nurturing Families Network for first time mothers and are active in Opportunity Knocks and the Women, Infants and Children (WIC) initiatives.

Health Professions Education

Helping to prepare future health care professionals is a distinguishing characteristic of not-for-profit health care organizations and constitutes a significant community benefit. Year round, the Hospital supports education for medical students, nursing students, and technicians. The nationally respected Family Practice Residency Training 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.

In addition, the Hospital supports training for paramedics in the area of general emergency medical services as well as specialized areas such as stroke education. Middlesex Hospital paramedics share their knowledge with the community by providing EMS in-service training to volunteer emergency medical service organizations such as fire departments and ambulance associations. EMS Train the Trainer, Stroke recognition and care training and other programs directly improve the health and well being of the community by improving the quality of the patient care delivered to patients who access the 911 system.

To bolster health education, the hospital continues to promote the “AskMe3”, Health Literacy initiative with the Middlesex Healthcare Council of the Middlesex Chamber of Commerce as we share the community-wide objective to promote awareness and working solutions to low health literacy and its direct health impact by suggesting some essential skills for all patients and providers in every patient interaction/conversation with a doctor, nurse or pharmacist.

Subsidized Health Services

Subsidized health services are clinical services that the Hospital provides despite a financial loss after removing the effects of charity care and Medicaid shortfalls. These services continue to be provided despite that they cost significantly more to offer than is received in payments or reimbursements because they meet an identified community need. If the Hospital did not offer such services, they would either be unavailable in the area or fall to the responsibility of government or another not-for-profit organization. Specific subsidized areas of the Hospital include: Behavioral Health Services, Home Care, Cardiac Rehabilitation, and Paramedic Care programs.

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Research

Research includes clinical and community health research, as well as studies on health care delivery that are shared with others outside the Middlesex Health System. In the instances cited, at least some of the costs associated with the research are paid for by the Hospital.

The Hospital participates in a number of clinical trials throughout the year that help advance the knowledge and treatment of various conditions and medication therapies, particularly in the area of behavioral health and oncology, including breast, prostate, lung cancer prevention, colon and gastric studies.

Clustered with the Hospital's Medical Research is the Physician Group Demonstration Project, a national initiative with The Centers for Medicare and Medicaid Services. CMS is conducting the project to determine the feasibility of working with physician groups to improve the quality of care and at the same time save money. The Middlesex physician group is one of ten groups throughout the U.S. to participate, this fiscal year; the project is in the initial phase of the fourth performance year of the five year program.

Financial and In-Kind Contributions

The Hospital makes a number of cash donations throughout the year to carefully selected agencies. Each year in addition to direct financial contributions, the Hospital frequently offers in-kind donations in the form of supplies and other materials. An example includes medical supplies donated to "The Sayaxche Guatemala Project" (an initiative linking Middlesex Community with a sister health system in Guatemala intended to bolster the healthcare infrastructure in one of the poorest region of the country). The Hospital generously provided funding to enable a week long delegation of physicians and medical administrators from Guatemala to visit Middlesex Hospital.

The Hospital makes available meeting space, free of charge for many community groups throughout the year. These include groups such as The National Alliance for the Mentally Ill, The CT Breastfeeding Alliance, CT Parkinson's meeting group, CT Unity, Asperger Spouse & Family Support Group, and others. The Hospital frequently shares its safe and comfortable centrally located space to community groups free of charge.

Community Building and Economic Development

Many of the activities in which the Hospital partakes are as good neighbors in the community and are not directly spawned exclusively by health care interests but incur expenses to the Hospital. The Security and Paramedics Departments are often involved in preparing for the unthinkable. Disaster Planning is part of the Hospital's ongoing commitment to the health and well-being of the community. Many of the preparations for disaster readiness (including natural disasters, outbreaks of infectious diseases, and civil unrest) beyond those stipulated by licensure and commission requirements constitute community benefits.

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Like the AskMe3 health literacy initiative, the Hospital is involved with other community coalitions designed to improve the well being of the community members. Middlesex Hospital is a key participant in “Opportunity Knocks” a collaborative effort of community health and educational resources in cooperation with parents. “Opportunity Knocks” links pediatric health services and systems with early care and educational programs to promote nutrition and exercise, oral health, and social and emotional health. The program’s goal is to make sure that children who are entering kindergarten are emotionally and physically healthy and ready to succeed.

Several Hospital staff participate as critical members on the Middlesex Chamber of Commerce, both on the Health Care Council as well as other community coalitions and partnerships. Members of the Middlesex Hospital Community Council for example, work with the local public schools to promote such activities as “after school recess” to foster physical activity and educate students as well as coordinating such activities as the community-wide flu shot initiative which provided vaccines to community employees and citizens.

The Hospital also supports other efforts to increase awareness of careers in healthcare. The Shoreline Medical Center sponsors “Career day” and “World of Work” programs annually; each year these well attended programs increase student awareness of the full range of medical related professions and reinforce the importance of a complete school education.

Community Benefit Administrative Costs

Community benefit programs require the coordinated involvement of staff members throughout the Middlesex Health System. That commitment incorporates paid staff time as well as countless hours provided by dedicated volunteers. The costs are significant. An economic value can usually be extrapolated but the true benefit of many programs to the community is incalculable. The Middlesex Health System will remain committed to understanding the needs of the communities we serve and doing our best to provide the most effective ways to use the resources available to meet them.

The Middlesex County Community Health Assessment was completed in FY2008. The Assessment was fully funded by the Hospital with the objective of compiling important data regarding current health status in Middlesex County. The assessment data provides clear evidence and keys to understanding the health status of Middletown and Middlesex County, [also provides comparisons to peer counties, state and national averages]. The study’s findings include: demographic profiles, social and economic determinants of health, data regarding access to care, specific diagnosis, chronic diseases (including mental health and substance abuse), cancer rates and statistic regarding infectious diseases. The results were immediately translated into direct changes in Community Benefit Programming priorities. Resulting program impacts include: the development of a Chronic Obstructive Pulmonary Disease Pathway, and specific new agenda items that focus on the community wide care of the aging and behavioral health patients. The health assessment findings were published and posted on the Middlesex Hospital website and have been shared with agency partners, state organizations, area physicians, and community members and have been an essential component of prioritization of the Community Benefit Strategic Plan.

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Charity Care

Charity care 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. 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. In FY2009 the Hospital provided approximately \$2,503 worth of services (at cost) in charity care and free care.

State Sponsored Health Care, Unpaid Costs

Community benefits related to government sponsored programs include the unpaid cost of specific public programs. In FY2009 payments received for Medicaid services provided by the Hospital did not cover the actual cost of providing these services; these unpaid costs are reported in the financial statements.

Note: For the complete FY2009 Middlesex Hospital Community Benefit Report (to be reported in February 2010), please contact Community Benefits at Middlesex Hospital, (860) 358-3034.

MIDDLESEX HEALTH SYSTEM INC. AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2009

(In thousands)

	<u>Middlesex Hospital</u>	<u>Middlesex Health System, Inc.</u>	<u>Middlesex Health Services, Inc.</u>	<u>Middlesex Health Resources, Inc.</u>	<u>MHS Primary Care, Inc.</u>	<u>Eliminations</u>	<u>2009 Consolidated</u>
Current assets:							
Cash and cash equivalents	\$ 47,781	15	1,140	1,054	121	—	50,111
Short-term investments	19,181	—	—	—	—	—	19,181
Patient accounts receivable, net	39,081	—	54	—	719	—	39,854
Other receivables	1,056	—	—	2	35	—	1,093
Prepaid and other	3,164	—	3	164	117	—	3,448
Current portion of investments limited as to use	4,068	—	158	—	—	—	4,226
Total current assets	<u>114,331</u>	<u>15</u>	<u>1,355</u>	<u>1,220</u>	<u>992</u>	<u>—</u>	<u>117,913</u>
Investments limited as to use	<u>96,419</u>	<u>—</u>	<u>574</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>96,993</u>
Other assets:							
Due from related parties	1	—	—	—	—	(1)	—
Investments in joint ventures and limited partnerships	—	—	—	213	—	—	213
Other	6,451	—	118	—	—	(84)	6,485
Total other assets	<u>6,452</u>	<u>—</u>	<u>118</u>	<u>213</u>	<u>—</u>	<u>(85)</u>	<u>6,698</u>
Property and equipment, net	<u>157,170</u>	<u>—</u>	<u>5,160</u>	<u>2,167</u>	<u>1,495</u>	<u>—</u>	<u>165,992</u>
Total assets	<u>\$ 374,372</u>	<u>15</u>	<u>7,207</u>	<u>3,600</u>	<u>2,487</u>	<u>(85)</u>	<u>387,596</u>

See independent auditors' report and accompanying notes to consolidated financial statements.

MIDDLESEX HEALTH SYSTEM INC. AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2009

(In thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Middlesex Health Services, Inc.	Middlesex Health Resources, Inc.	MHS Primary Care, Inc.	Eliminations	2009 Consolidated
Current liabilities:							
Current portion of long-term debt and capital leases	\$ 2,904	—	235	—	56	(17)	3,178
Accounts payable	15,479	—	138	39	322	—	15,978
Due to related parties	—	—	5	4	(8)	(1)	—
Accrued payroll and related liabilities	22,755	—	—	—	859	—	23,614
Estimated third party payor settlements	66	—	—	—	—	—	66
Other accrued liabilities	2,609	—	218	—	—	—	2,827
Current portion of estimated self-insurance liability	5,901	—	119	—	—	—	6,020
Current portion of accrued retirement liabilities	2,994	—	—	—	—	—	2,994
Total current liabilities	<u>52,708</u>	<u>—</u>	<u>715</u>	<u>43</u>	<u>1,229</u>	<u>(18)</u>	<u>54,677</u>
Other liabilities:							
Long-term debt and capital leases, net of current portion	75,915	—	6,252	—	365	(67)	82,465
Estimated self-insurance liability, net of current portion	5,356	—	—	—	—	—	5,356
Accrued retirement liabilities, net of current portion	89,528	—	—	—	—	—	89,528
Other	12,755	—	—	158	64	—	12,977
Total other liabilities	<u>183,554</u>	<u>—</u>	<u>6,252</u>	<u>158</u>	<u>429</u>	<u>(67)</u>	<u>190,326</u>
Equity interest in net deficit of general partnership investments	—	—	—	612	—	—	612
Net assets:							
Unrestricted	124,916	15	240	2,787	829	—	128,787
Temporarily restricted	6,606	—	—	—	—	—	6,606
Permanently restricted	6,588	—	—	—	—	—	6,588
Total net assets	<u>138,110</u>	<u>15</u>	<u>240</u>	<u>2,787</u>	<u>829</u>	<u>—</u>	<u>141,981</u>
Total liabilities and net assets	<u>\$ 374,372</u>	<u>15</u>	<u>7,207</u>	<u>3,600</u>	<u>2,487</u>	<u>(85)</u>	<u>387,596</u>

See independent auditors' report and accompanying notes to consolidated financial statements.

MIDDLESEX HEALTH SYSTEM INC. AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets

Year ended September 30, 2009

(In thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Middlesex Health Services, Inc.	Middlesex Health Resources, Inc.	MHS Primary Care, Inc.	Eliminations	2009 Consolidated
Unrestricted revenues:							
Net patient service revenue	\$ 319,487	—	2,920	—	10,243	—	332,650
Other revenue	7,459	876	34	594	203	(1,323)	7,843
Total unrestricted revenues	326,946	876	2,954	594	10,446	(1,323)	340,493
Operating expenses:							
Salaries and wages	144,008	497	1,137	—	7,833	(497)	152,978
Fringe benefits	32,667	87	298	—	1,443	(87)	34,408
Purchased services	20,978	217	171	—	—	(217)	21,149
Supplies	30,920	75	162	—	692	(75)	31,774
Depreciation and amortization	20,406	—	238	121	254	—	21,019
Interest	3,974	—	346	—	—	—	4,320
Provision for bad debts	17,056	—	—	—	52	—	17,108
Other	35,753	—	455	463	2,184	(447)	38,408
Total operating expenses	305,762	876	2,807	584	12,458	(1,323)	321,164
Income (loss) from operations	21,184	—	147	10	(2,012)	—	19,329
Other income (expense):							
Equity in (losses) earnings	(250)	—	—	243	—	—	(7)
Unrestricted gifts and bequests	387	—	—	—	—	—	387
Net investment (loss) income	(1,387)	—	—	14	—	—	(1,373)
Other non-operating expenses	(876)	—	—	(103)	—	—	(979)
Loss from conversion/extinguishment	(267)	—	—	—	—	—	(267)
Total other (loss) income, net	(2,393)	—	—	154	—	—	(2,239)
Excess (deficit) of revenues over expenses	18,791	—	147	164	(2,012)	—	17,090
Net assets, beginning of year	175,804	15	93	2,623	881	—	179,416
Change in unrealized gains and losses	2,783	—	—	—	—	—	2,783
Restricted net realized gains and losses	107	—	—	—	—	—	107
Restricted contributions	1,345	—	—	—	—	—	1,345
Change in accumulated pension charges to unrestricted net assets	(58,367)	—	—	—	—	—	(58,367)
Transfers	(1,960)	—	—	—	1,960	—	—
Expenditures for intended purposes	(393)	—	—	—	—	—	(393)
Net assets, end of year	\$ 138,110	15	240	2,787	829	—	141,981

See independent auditors' report and accompanying notes to consolidated financial statements.