Middlesex Health System, Inc. and Subsidiaries

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2014 and 2013

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Middlesex Health System, Inc. and Subsidiaries (the Corporation), a not-for-profit, non-stock corporation, which comprise the consolidated balance sheet as of September 30, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the 2014 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Middlesex Health System, Inc. and Subsidiaries, as of September 30, 2014, and the consolidated results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Consolidated Financial Statements

The consolidated financial statements of Middlesex Health System, Inc. and Subsidiaries as of September 30, 2013, were audited by other auditors whose report dated December 23, 2013, expressed an unmodified opinion on those statements.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis in conjunction with the consolidated financial statements and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saslow Lufkin & Buggy, LLP

December 19, 2014

Middlesex Health System, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2014 and 2013

	2014	2013
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 38,539**	$ 41,821
Certificates of deposit	**1,216**	1,523
Short-term investments	**21,491**	20,741
Patient accounts receivable, less allowance for doubtful accounts of approximately $10,273 (2014) and $11,071 (2013)	**44,515**	44,833
Other receivables	**3,273**	3,760
Prepaid and other current assets	**3,794**	3,840
Estimated settlements with third-party payers	**808**	2,914
Current portion of investments limited as to use	**4,365**	4,174
Total current assets	**118,001**	123,606
Investments limited as to use	**146,288**	134,077
Long-term investments	**22,248**	13,772
Other assets	**9,024**	7,972
Property and equipment, net	**202,104**	195,128
Total assets	**$ 497,665**	$ 474,555
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	**$ 3,615**	$ 3,487
Accounts payable	**21,761**	16,913
Accrued payroll and related liabilities	**34,614**	33,026
Other accrued liabilities	**2,186**	2,237
Current portion of estimated self-insurance liabilities	**4,316**	4,180
Current portion of accrued retirement liabilities	**43**	44
Total current liabilities	**66,535**	59,887
Other liabilities:		
Long-term debt and capital lease obligations, less current portion	**62,014**	65,743
Estimated self-insurance liabilities, less current portion	**17,418**	13,940
Accrued retirement liabilities, less current portion	**45,992**	48,985
Estimated third-party payer settlements and other liabilities	**12,106**	15,681
Total other liabilities	**137,530**	144,349
Total liabilities	**204,065**	204,236
Net assets:		
Unrestricted	**276,492**	253,975
Temporarily restricted	**10,131**	9,368
Permanently restricted	**6,977**	6,976
Total net assets	**293,600**	270,319
Total liabilities and net assets	**$ 497,665**	$ 474,555

The accompanying notes are an integral part of these consolidated financial statements.

Middlesex Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2014 and 2013

	2014	2013
	(In thousands)	
Operating revenues:		
Net patient service revenues, net of contractual allowances and other discounts	**$ 384,458**	$ 372,969
Provision for bad debts	**(14,214)**	(11,209)
Net patient service revenues less provision for bad debts	**370,244**	361,760
Other revenues	**13,560**	12,946
Total operating revenues	**383,804**	374,706
Operating expenses:		
Salaries, wages and fees	**178,252**	175,890
Fringe benefits	**39,185**	39,223
Purchased services	**33,046**	29,801
Supplies	**37,176**	37,787
Depreciation and amortization	**23,047**	22,813
Interest	**3,167**	3,300
Other operating expenses	**53,025**	51,543
Total operating expenses	**366,898**	360,357
Income from operations	**16,906**	14,349
Non-operating income (expense):		
Net income from joint ventures and general partnerships	**2,185**	2,098
Unrestricted gifts and bequest	**564**	293
Net investment income	**13,454**	5,707
Other non-operating income	**-**	27
Other non-operating expenses	**(1,205)**	(970)
Total non-operating income	**14,998**	7,155
Excess of revenue over expenses	**$ 31,904**	$ 21,504

The accompanying notes are an integral part of these consolidated financial statements.

Middlesex Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2014 and 2013

	2014	2013
	(In thousands)	
Unrestricted net assets:		
Excess of revenues over expenses	**$ 31,904**	$ 21,504
Change in net unrealized (losses) gains on other than trading securities	**(2,066)**	5,423
Change in accumulated pension charges to unrestricted net assets	**(8,290)**	74,406
Net assets released from restrictions for purchase of property and equipment	**969**	1,991
Change in unrestricted net assets	**22,517**	103,324
Temporarily restricted net assets:		
Contributions	**1,886**	2,287
Restricted investment income	**352**	375
Change in net unrealized gains	**274**	346
Net assets released from restrictions for purchase of property and equipment	**(969)**	(1,991)
Expenditures for intended purposes	**(780)**	(844)
Change in temporarily restricted net assets	**763**	173
Permanently restricted net assets:		
Contributions	**-**	11
Change in net unrealized gains	**1**	1
Change in permanently restricted net assets	**1**	12
Change in net assets	**23,281**	103,509
Net assets, beginning of year	**270,319**	166,810
Net assets, end of year	**$ 293,600**	$ 270,319

The accompanying notes are an integral part of these consolidated financial statements.

Middlesex Health System, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Change in net assets	**$ 23,281**	$ 103,509
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**23,047**	22,813
Provision for bad debts, net of recoveries	**14,214**	11,209
Change in accumulated pension charges to unrestricted net assets	**8,290**	(74,406)
Restricted contributions, net of expenditures	**(1,105)**	(1,454)
Change in net unrealized and realized gains on investments	**(9,483)**	(7,955)
Equity earnings in joint ventures	**(2,185)**	(2,098)
Change in assets and liabilities:		
Patient accounts receivable	**(13,896)**	(10,091)
Other receivables	**487**	36
Prepaid and other assets	**(1,126)**	(390)
Accounts payable and other accrued liabilities	**4,797**	(2,473)
Accrued payroll and related liabilities	**1,588**	(1,183)
Estimated self-insurance liabilities	**3,614**	1,061
Accrued retirement liabilities	**(11,284)**	(6,332)
Estimated third-party payer settlements and other liabilities	**(1,469)**	(1,333)
Net cash provided by operating activities	**38,770**	30,913
Cash flows from investing activities:		
Purchases of property and equipment, net	**(30,001)**	(29,068)
Short-term investments, net	**(750)**	(10,554)
Long-term investments, net	**(8,476)**	1,709
Proceeds from sales of investments limited as to use	**59,566**	11,056
Purchases of investments limited as to use	**(62,485)**	(17,651)
Changes in certificates of deposit	**307**	(1,523)
Distributions from joint ventures	**2,175**	1,872
Net cash used in investing activities	**(39,664)**	(44,159)
Cash flows from financing activities:		
Repayment of long-term debt and lease obligations	**(3,493)**	(4,955)
Restricted contributions, net of expenditures	**1,105**	1,454
Net cash used in financing activities	**(2,388)**	(3,501)
Change in cash and cash equivalents	**(3,282)**	(16,747)
Cash and cash equivalents at beginning of year	**41,821**	58,568
Cash and cash equivalents at end of year	**$ 38,539**	$ 41,821
Supplemental disclosures of cash flow information:		
Cash paid for interest	**$ 2,944**	$ 3,320

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - General

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).

Note 2 - Summary of Significant Accounting Policies

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

Basis of Presentation - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

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

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

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its $1 per share value, it is possible that a money market fund's value can decrease below $1 per share.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable and Net Patient Service Revenue - Patient accounts receivable result from health care services provided by the System. The amount of the allowance for 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 uncollectible accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts. See Note 3 for additional information related to third-party payer programs.

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

Long-Lived Assets - The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value and may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell. As of September 30, 2014 and 2013, no impairment was recorded.

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

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

All of the System's investments as of September 30, 2014 and 2013, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value. Realized gains and losses, relating to available for sale securities, are determined on the specific identification basis.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Other Than Temporary Impairment of Investments - The System accounts for other than temporary impairments in accordance with FASB ASC 320. When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings, included in non-operating income, and the cost basis of that investment is reduced. The System's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and the System's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. No impairment losses were recognized in 2014 and 2013.

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.

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

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

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- 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.

Deferred Financing Costs - Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided over the term of the applicable indebtedness using a method which does not differ materially from the effective interest method. Such amortization expense is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. The unamortized amount of deferred bond issuance costs was $1,711 and $1,811 as of September 30, 2014 and 2013, respectively, and is included in other assets on the consolidated balance sheets.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Regulatory Environment - The health care industry is subject to numerous laws and regulations of Federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, Medicare and Medicaid fraud and abuse and security and privacy of health information. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital and 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 $7,904 and $5,720 for 2014 and 2013, respectively.

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

Donor Restricted Gifts, Contributions and Pledges - The System encourages contributions and donations for capital replacement and expansion or other specific purposes. Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Unconditional promises to give are recorded as pledges receivable and are included within other receivables on the consolidated balance sheets. As of September 30, 2014 and 2013, pledges receivable included in other receivables were approximately $1,545 and $1,561, respectively, net of an allowance for doubtful accounts.

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

Note 2 - Summary of 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 the aggregate annually during 2014 and 2013. The Hospital, in consultation with its actuary, records as a liability an estimate of expected losses. Such liability, discounted at 4%, totaled $11,417 and $8,960 at September 30, 2014 and 2013, respectively.

In addition, the Hospital and Services self-insure the workers' compensation program and have purchased excess insurance for those losses exceeding $600 per occurrence during 2014 and 2013. The System, in consultation with its actuary, records as a liability an estimate of expected losses relating to the workers' compensation program. Such liability, discounted at 2.5% totaled $6,390 and $5,108 at September 30, 2014 and 2013, respectively.

Lastly, the Hospital has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately $3,927 and $4,052 at September 30, 2014 and 2013, respectively. Such amounts represent the actuarially determined present value of insurance claims that are anticipated to be covered by insurance. The estimated insurance claims receivable and estimated insurance claims liabilities are included in other assets and estimated self-insurance liability, respectively, in the accompanying consolidated balance sheets.

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

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

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

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

Excess of Revenues Over Expenses - The consolidated statements of operations and 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 or losses on other than trading securities, equity transfers from affiliates, both temporarily and permanently restricted contributions and investment income, changes in perpetual trust arrangements and the change in accumulated pension charges.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

As of September 30, 2014, MHSPC had net operating loss carryforwards available to reduce its future Federal taxable income of approximately $33,234. The carryforward periods expire at various dates through 2034. MHSPC had net operating loss carryforwards available to reduce its future state taxable income of approximately $22,867. The state carryforward periods expire at various dates through 2034. 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.

Resources has no available Federal net operating losses at September 30, 2014 and no available state net operating losses to offset future state taxable income.

The System accounts for uncertain tax positions with provisions of FASB ASC 740, "*Income Taxes,*" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The System may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The System does not have any uncertain tax positions as September 30, 2014 and 2013. It is the System's policy to record penalties and interest associated with uncertain tax provisions as a component of operating expenses. As of September 30, 2014 and 2013, the System did not record any penalties or interest associated with uncertain tax positions. The System's prior three tax years are open and subject to examination by the Internal Revenue Service.

Accounting Pronouncements Adopted - In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "*Disclosures about Offsetting Assets and Liabilities,*" which was later clarified by ASU 2013-01, "*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.*" This guidance contained new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance became effective for the System beginning on October 1, 2013, and did not have an impact on its consolidated financial statements.

In October 2012, the FASB issued ASU 2012-05, "*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*". This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance became effective for the System beginning on October 1, 2013, and did not have a material impact on its consolidated statements of cash flows.

(Amounts in thousands)

Note 2 - Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Pending Adoption **-** In February 2013, the FASB issued ASU 2013-04, "*Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*". This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This guidance is effective for the System beginning October 1, 2014, with early adoption permitted. The System has not yet evaluated the impact this guidance may have on its consolidated financial statements.

Reclassifications **-** Certain reclassifications to the 2013 consolidated financial statements have been made in order to conform to the 2014 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Subsequent Events - Subsequent events have been evaluated through December 19, 2014, which is the date the consolidated financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Note 3 - Net Patient Service Revenues

The following reconciles gross patient service revenues to net patient service revenues:

	2014	2013
Gross patient service revenues	**$ 1,296,965**	$ 1,238,917
Deductions:		
Allowances	**(903,947)**	(857,418)
Charity care	**(8,560)**	(8,530)
	(912,507)	(865,948)
Net revenues from service to patients	**384,458**	372,969
Provision for bad debts	**(14,214)**	(11,209)
Net patient service revenues, less provision for bad debts	**$ 370,244**	$ 361,760

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

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

(Amounts in thousands)

Note 3 - Net Patient Service Revenues (continued)

Patient service revenue for the years ended September 30, 2014 and 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payer sources based on primary insurance designation, is as follows:

	2014	2013
Medicare	**$ 132,646**	$ 127,651
Medicaid	**38,187**	35,273
Commercial / HMO	**185,738**	182,155
Other third-party payers	**14,343**	11,798
Self-pay	**13,544**	16,092
Total patient service revenue, net of contractual allowances and other discounts	**$ 384,458**	$ 372,969

Deductibles and copayments under third-party payment programs within the third-party payer 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 collectability of accounts receivable, the Hospital and MHSPC analyze their past history and identify trends for each of their major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

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

For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital and 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's allowance for doubtful accounts totaled approximately $10,173 and $11,006 at September 30, 2014 and 2013, respectively. The allowance for doubtful accounts allocated specifically for self-pay payers was approximately 93% and 88% of total self-pay accounts receivable as of September 30, 2014 and 2013, respectively. Overall, the total of self-pay discounts and write-offs has not changed significantly for the years ended September 30, 2014 and 2013. The Hospital has not experienced significant changes in write-off trends and has not changed its charity care policy for the years ended September 30, 2014 and 2013.

(Amounts in thousands)

Note 3 - Net Patient Service Revenue (continued)

MHSPC's allowance for doubtful accounts totaled approximately $100 and $65 at September 30, 2014 and 2013, respectively. The total allowance for doubtful accounts covered approximately 43% and 38% of total self-pay accounts receivable as of September 30, 2014 and 2013, respectively. Overall, the total of self-pay discounts and write-offs has not changed significantly for the year ended September 30, 2014 and 2013.

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 $8,560 and $8,530 in 2014 and 2013, respectively. The estimated costs for these services were $2,150 and $2,212 in 2014 and 2013, respectively.

During 2014 and 2013, approximately 35% of net patient service revenue was received under the Medicare program, 10% under the state Medicaid and city welfare programs, 52% was received from contracts with private health payers and 3% from patients and others.

As of September 30, 2014 and 2013, approximately 37% and 41%, respectively, of patient accounts receivable was due from Medicare, 10% and 8%, respectively, was due from Medicaid and city welfare, 44% and 39%, respectively, was due from private health payers and 9% and 12%, respectively, was due from patients and others.

During 2014 and 2013, 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, 2014 and 2013, changes in estimates related to settlements with third-party payers for prior years increased net patient service revenue by approximately $2,500 and $500, respectively.

Note 4 - Other Revenue

Other revenue consists of the following for fiscal years ended September 30, 2014 and 2013:

	2014	**2013**
Grants	**$ 2,377**	$ 2,522
Medicare demonstration project	**982**	1,642
Cafeteria sales	**1,260**	1,246
Technical laboratory income	**1,216**	1,208
Investment income	**430**	780
EHR income	**2,399**	975
Rental income	**1,084**	886
Purchase discounts	**587**	415
Net assets released from restriction used for operations	**434**	396
Miscellaneous	**2,791**	2,876
	$ 13,560	$ 12,946

Note 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. Companies 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. 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 to qualify for additional Medicaid incentive payments.

The System uses a 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 System 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 $2,399 and $975 for the years ended September 30, 2014 and 2013, respectively, are included in other revenue in the accompanying consolidated statements of operations and changes in net assets. 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.

(Amounts in thousands)

Note 5 - Investments

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

Cost and fair values of investments as of September 30, 2014 and 2013, are summarized as follows:

	2014		2013	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash	**$ 2,912**	**$ 2,912**	$ 526	$ 526
Money market funds	**5,169**	**5,169**	7,180	7,180
Mutual funds:				
Equity	**75,997**	**92,741**	61,106	72,954
Fixed income	**30,941**	**31,993**	41,087	48,891
Common stock:				
U.S. equity	**5,286**	**7,050**	4,561	6,532
Non-U.S. equity	**556**	**1,064**	388	764
Corporate debt securities	**46,517**	**46,294**	27,722	27,452
U.S. government and agency obligations	**7,145**	**7,169**	8,460	8,465
Total	**$ 174,523**	**$ 194,392**	$ 151,030	$ 172,764

Investments limited as to use consisted of the following, as of September 30, 2014 and 2013:

	2014		2013	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Funds held in trust under revenue bond agreements	**$ 4,367**	**$ 4,365**	$ 4,379	$ 4,377
Self-insurance liability	**9,970**	**10,443**	8,610	9,009
Board-designated funds	**102,510**	**119,801**	86,880	109,616
Donor-restricted funds	**13,748**	**16,044**	12,111	15,249
Total	**$ 130,595**	**$ 150,653**	$ 111,980	$ 138,251

(Amounts in thousands)

Note 5 - Investments (continued)

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2014 and 2013:

	Less than 12 months		12 months and greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2014:				
Common stock	$ 982	$ (115)	$ -	$ -
Mutual funds	14,271	(57)	5,324	(556)
Total	$ 15,253	$ (172)	$ 5,324	$ (556)
As of September 30, 2013:				
U.S. government and agency obligations	$ 1,550	$ (2)	$ -	$ -
Common stock	309	(18)	-	-
Mutual funds	10,483	(479)	-	-
Total	$ 12,342	$ (499)	$ -	$ -

As of September 30, 2014, investments with unrealized losses for greater than one year relate to one individual holding in a mutual fund. There are ten investments with unrealized losses for less than one year, which are investments in common stocks and mutual funds. As of September 30, 2013 all securities in an unrealized loss position were in an unrealized loss position for less than 12 months. Based upon the evaluation of the criteria as identified in Note 2, the System does not consider these securities to be other than temporarily impaired as of September 30, 2014 and 2013.

Included in net investment income for the years ended September 30, 2014 and 2013, was investment income of $3,139 and $3,903, respectively, and realized gains on sales of investments of $11,275 and $2,179, respectively.

(Amounts in thousands)

Note 6 - Fair Value Measurements

The following tables present the financial instruments, carried at fair value, as of September 30, 2014 and 2013, by the valuation hierarchy. These tables include cash equivalents, assets limited as to use, debt service funds and long-term investments:

2014	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 35,619	$ -	$ -	$ 35,619
Money market funds	5,367	-	-	5,367
Equities:				
Mutual funds:				
Equity	92,741	-	-	92,741
Fixed income	-	31,993	-	31,993
Common stock:				
U.S. equity	7,050	-	-	7,050
Non-U.S. equity	1,064	-	-	1,064
Fixed income:				
U.S. government and agency obligations	-	7,169	-	7,169
Corporate debt securities	-	46,294	-	46,294
Total	$ 141,841	$ 85,456	$ -	$ 227,297

2013	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 43,870	$ -	$ -	$ 43,870
Money market funds	7,180	-	-	7,180
Equities:				
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
Fixed income:				
U.S. government and agency obligations	-	8,462	-	8,462
Corporate debt securities	-	27,455	-	27,455
Total	$ 131,300	$ 84,808	$ -	$ 216,108

Note 6 - Fair Value Measurements (continued)

The amounts reported in the tables above exclude assets invested in the System's defined benefit pension plan (see Note 9).

The Hospital's long-term debt obligations are reported at carrying value. The fair value of the Hospital's long-term debt obligations, excluding capitalized lease obligations, is approximately $62,183 and $63,755 at September 30, 2014 and 2013, respectively. The fair value of Services' long-term debt obligations was approximately $5,115 and $5,213 at September 30, 2014 and 2013, respectively. The fair value of the bonds payable is based on quoted market prices for the related bonds and other valuation considerations. The fair value of other debt is based upon discounted cash flow analyses. Fair value of debt is classified as Level 2 within the fair value hierarchy.

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

Mutual funds 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 preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As of September 30, 2014 and 2013, the System's other financial instruments include cash and cash equivalents, certificates of deposit, accounts payable, accrued expenses and estimated settlements due to third-party payers. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

(Amounts in thousands)

Note 7 - Property and Equipment, Net

Property and equipment and the related accumulated depreciation as of September 30, 2014 and 2013, consist of the following:

	2014	2013
Land and land improvements	**$ 18,164**	$ 13,748
Buildings and fixed equipment	**274,803**	248,734
Other equipment	**160,690**	147,254
Leasehold improvements	**2,062**	5,446
Total property and equipment	**455,719**	415,182
Less: accumulated depreciation	**(261,664)**	(238,640)
	194,055	176,542
Construction in progress (estimated cost to complete $2,334)	**8,049**	18,586
Property and equipment, net	**$ 202,104**	$ 195,128

Depreciation expense was $23,024 and $22,835 in fiscal years 2014 and 2013, respectively.

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

Fiscal year ending:	
2015	$ 4,117
2016	3,088
2017	2,810
2018	2,317
2019	1,340
Thereafter	6,430
	$ 20,102

Total rental expense under operating leases for the years ended September 30, 2014 and 2013 was approximately $6,424 and $6,194, respectively.

(Amounts in thousands)

Note 8 - Long-Term Debt

As of September 30, 2014 and 2013, the System's long-term debt consisted primarily of the following State of Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds and certain mortgage notes payable and capital leases, which are secured by certain real estate and other real property.

	2014	2013
Fixed rate revenue bonds, series N, due July 1, 2027	**$ 30,880**	$ 33,060
Fixed rate revenue bonds, series M, due July 1, 2027	**11,440**	12,155
Fixed rate revenue bonds, series L, due July 1, 2036	**20,005**	20,510
Mortgage notes and capital leases, net of interest	**869**	956
	63,194	66,681
Add: bond premium	**2,435**	2,549
Less: current portion	**(3,615)**	(3,487)
	$ 62,014	$ 65,743

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%.

A portion of the Series N bonds mentioned above were issued on behalf of Services to refinance the Series I bonds. As a member of the obligated group, the Hospital is a guarantor of this portion of the Series N bonds. The outstanding balance of these bonds was $4,640 and $4,905 as of September 30, 2014 and 2013, respectively.

The Hospital and Services are required to maintain certain deposits with a trustee relating to its outstanding CHEFA bonds. Such deposits are included in investments limited as to use in the accompanying consolidated balance sheets and consist of $4,365 and $4,407 in debt service funds as of September 30, 2014 and 2013. 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.

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, 2014 and 2013 was $691 and $732, respectively.

(Amounts in thousands)

Note 8 - Long-Term Debt (continued)

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

	Long-term Debt	Mortgage Notes / Capital Leases
2015	$ 3,530	$ 131
2016	3,695	115
2017	3,860	110
2018	4,035	110
2019	4,200	110
Thereafter	43,005	607
	62,325	1,183
Add: bond premium	2,435	-
Less: interest	-	(314)
Total	$ 64,760	$ 869

As of September 30, 2014 and 2013, the System is in compliance with all financial covenants related to the previously noted debt.

Note 9 - Defined Benefit Retirement Plan

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

On 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.

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.

In fiscal year 2015, the Hospital will further amend the Plan to offer a one-time lump sum payment to terminated vested participants in the Plan.

(Amounts in thousands)

Note 9 - Defined Benefit Retirement Plan (continued)

The following tables provide a reconciliation of the changes to the Plan's benefit obligations and fair value of Plan assets for the years ended September 30, 2014 and 2013, as well as a statement of the funded status of the Plan as of September 30, 2014 and 2013:

	2014	2013
Accumulated benefit obligation	**$ 254,670**	$ 230,402
Change in benefit obligation:		
Projected benefit obligation at beginning of year	**$ 241,259**	$ 301,543
Interest cost	**11,349**	11,579
Actuarial loss (gain)	**18,858**	(32,299)
Benefits paid	**(8,278)**	(7,217)
Plan amendments	**-**	(32,347)
Projected benefit obligation at end of year	**263,188**	241,259
Change in plan assets:		
Fair value of plan assets, beginning of year	**195,818**	174,418
Actual return on plan assets	**21,854**	17,767
Employer contributions	**10,950**	10,850
Benefits paid	**(8,278)**	(7,217)
Plan assets at end of year	**220,344**	195,818
Funded status	**$ (42,844)**	$ (45,441)
Amounts recognized in balance sheets consist of:		
Current liability	**$ (43)**	$ (44)
Noncurrent liability	**(42,801)**	(45,397)
Net amount recognized	**$ (42,844)**	$ (45,441)
Amounts recognized as accumulated charges to unrestricted net assets consist of:		
Net actuarial loss	**$ 60,261**	$ 51,971

(Amounts in thousands)

Note 9 - Defined Benefit Retirement Plan (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, 2015 is approximately $1,735.

The following table provides the components of the net periodic benefit cost for the Plan for the years ended September 30, 2014 and 2013:

	2014	2013
Components of net periodic benefit cost:		
Interest cost	**$ 11,349**	$ 11,579
Expected return on plan assets	**(12,602)**	(11,478)
Amortization of unrecognized net actuarial loss	**1,315**	3,471
Net periodic benefit cost	**$ 62**	$ 3,572

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the years ended September 30, 2014 and 2013, are as follows:

	2014	2013
Weighted average assumptions as of September 30:		
Discount rate (obligation - see below)	**4.25%**	4.80%
Discount rate (service cost - see below)	**4.80%**	3.90%
Expected long-term return on plan assets	**6.75%**	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.

(Amounts in thousands)

Note 9 - Defined Benefit Retirement Plan (continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2014 and 2013:

2014	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity	$ 126,285	$ -	$ -	$ 126,285
Fixed income	-	69,925	-	69,925
Common collective trust	-	10,041	-	10,041
Common stock:				
U.S. equity	12,563	-	-	12,563
Money market funds	1,530	-	-	1,530
Total	$ 140,378	$ 79,966	$ -	$ 220,344

2013	Level 1	Level 2	Level 3	Total
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
Total	$ 127,031	$ 68,787	$ -	$ 195,818

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.

(Amounts in thousands)

Note 9 - Defined Benefit Retirement Plan (continued)

The Plan's weighted average asset allocations at September 30, 2014 and 2013, by asset category, are as follows:

	Target Allocation	Actual Asset Allocation	
		2014	**2013**
Asset category:			
Equity securities	57%	**59%**	60%
Debt securities	38%	**36%**	35%
Balanced funds	5%	**5%**	5%
Total	100%	**100%**	100%

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

Contributions of $10,800 are expected to be paid to the Plan in 2015.

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

2015	$	9,109
2016		9,875
2017		10,682
2018		11,502
2019		12,433
2020-2024		72,686
Total	$	126,287

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

Note 10 - Defined Contribution Plans

Effective January 1, 2010, the Hospital implemented a new retirement program called the Middlesex Retirement Savings and Investment Plan which provides an automatic core contribution and a matching contribution when participants choose to make pre-tax contributions. The Hospital matches 50% of the first 4% that an employee contributes. In addition, employees become eligible for a core contribution upon completion of 12 months of service provided they earn at least 1,000 hours of service in a calendar year and are actively employed on December 31, unless they retire or become disabled. The core contribution, which ranges from 2-6% of eligible pay, is based on the employee's age and years of service on December 31. The Hospital's total contributions to the plan, including matching and core contributions, totaled $8,381 and $8,211 in 2014 and 2013, respectively. In addition, a core contribution of $4,394, which is scheduled to be paid in 2015, is included in accrued payroll and related liabilities in the accompanying consolidated balance sheets.

In addition, the Hospital sponsors other defined contribution plans for eligible employees. The Hospital's contributions to these plans totaled approximately $609 and $711 in 2014 and 2013, 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, 2014 and 2013, MHSPC made matching contributions in the amount of $320 and $276, respectively.

Note 11 - Estimated Self-Insurance Liabilities and Other Contingencies

There have been malpractice, general liability, and workers' compensation claims that fall within the Hospital's partially self-insured program (see Note 2) which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2014 that may result in the assertion of claims.

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

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

(Amounts in thousands)

Note 12 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by the donors for a specific purpose. Temporarily restricted net assets are available for the following purposes as of September 30, 2014 and 2013:

	2014	2013
Education	**$ 2,278**	$ 2,145
Healthcare services	**2,668**	2,403
Capital and other	**5,185**	4,820
Total	**$ 10,131**	$ 9,368

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, 2014 and 2013 are as follows:

	2014	2013
Free beds	**$ 1,564**	$ 1,564
Support of hospital operations	**4,725**	4,714
Other	**688**	698
Total	**$ 6,977**	$ 6,976

Note 13 - Endowments

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

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

(Amounts in thousands)

Note 13 - Endowments (continued)

Endowment funds consist of the following as of September 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,947	$ 6,977	$ 11,924
Board-designated endowment funds	114,463	-	-	114,463
Balance as of September 30, 2014	$ 114,463	$ 4,947	$ 6,977	$ 126,387

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,549	$ 6,976	$ 11,525
Board-designated endowment funds	103,262	-	-	103,262
Balance as of September 30, 2013	$ 103,262	$ 4,549	$ 6,976	$ 114,787

Changes in endowment funds for the year ended September 30, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of October 1, 2013	$ 103,262	$ 4,549	$ 6,976	$ 114,787
Investment return:				
Investment income	13,451	257	-	13,708
Net appreciation	(2,141)	(41)	1	(2,181)
Total investment return	11,310	216	1	11,527
Transfers	-	229	-	229
Appropriation of endowment assets for expenditure	(109)	(47)	-	(156)
Balance as of September 30, 2014	$ 114,463	$ 4,947	$ 6,977	$ 126,387

(Amounts in thousands)

Note 13 - Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of 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	11,431	243	1	11,675
Contributions, gifts and bequests	-	-	11	11
Transfers	-	858	-	858
Appropriation of endowment assets for expenditure	(77)	(34)	-	(111)
Balance as of September 30, 2013	$ 103,262	$ 4,549	$ 6,976	$ 114,787

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

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

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

(Amounts in thousands)

Note 14 - Functional Expenses

The System provides general healthcare services to residents primarily within their geographic location. Functional expenses related to their operating activities for the fiscal years ended September 30, 2014 and 2013, are as follows:

	2014	2013
Healthcare services	**$ 295,079**	$ 294,690
General and administrative	**71,819**	65,667
Total	**$ 366,898**	$ 360,357

Note 15 - Related Party Transactions

During 2014 and 2013, the System's entities entered into various related party transactions. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 16 - Community Benefit (Unaudited) (Statistical information in whole numbers)

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

Middlesex Hospital's Community Benefit program was formalized in 2006 as a natural outgrowth for housing our long-standing community services under one roof. Since then, strengthening our Community Benefit program with targeted programs to address community health and wellbeing needs and promoting community-wide health improvement services has been an annual priority initiative for our Hospital's leadership and remains a core institutional program. Our comprehensive Community Benefit model encompasses the following domains: executive involvement and commitment; a defined reporting structure; dedicated staffing resources; governance engagement; staff participation; annual goals; inclusion in annual organizational planning; internal and external communications; and inclusion of community members and agency partners. This footnote provides an overview of Middlesex Hospital's community benefit activities, organized by the categorical accounting standards as determined by the Catholic Health Association/VHA structure *(Catholic Health Association, "A Guide For Planning and Reporting Community Benefit").*

Note 16 - Community Benefit (Unaudited) (continued)

Community Health Improvement Services - The Hospital subsidizes a vast range of community health education and health improvement programs, none of which are developed for marketing purposes, all of which are supported as a means of fulfilling the Hospital's mission to serve its community. Almost 100% of the time these services are offered free of charge; in the rare instance where a nominal fee is assessed, the cost of providing the service is not covered. Community health education is provided to the community at large, including (but not limited to) local schools, colleges, assisted living and skilled nursing facilities, small businesses and chamber of commerce, local health care provider agencies, non-Hospital affiliated healthcare providers, and social services. Some of the programs represent one time events, however most are ongoing and over the years have become entrenched in the community as a source of support and continued education for a healthful future. Community health education is provided by the Hospital in many formats including lectures, written materials, interactive presentations and other group programs/activities. Examples of health educational programming include (but are not limited to):

- Community Education Presentations: Including cancer prevention, integrative medicine, caregiver resources, chronic pulmonary obstructive disease/respiratory care, diabetes, asthma (adult and pediatric), chronic heart failure, childhood obesity, smoking cessation, nutrition, stroke education and fall prevention.

- Health and Wellness Events/Health Fairs: It is common practice for the Hospital's staff members to answer the call of the community any time a request is made for educational support - one example is the annual request by Connecticut Valley Hospital, the state's department of mental health and addiction services, for the Hospital to participate in its employee and patient day-long health fair - the Hospital provides staffing to share information on multiple health topics to 400+ attendees, which includes a vulnerable general patient population as well as those held in the forensic division. The Hospital regularly participates in area health fairs/wellness events to share critical health information on topics and services including: diabetes; asthma; chronic obstructive pulmonary disease; slips and fall prevention and safety; blood pressure screenings; cancer awareness including breast, prostate and skin; smoking cessation data and information; bone density screening; maternal child health education; rehabilitation therapy; and youth behavioral health issues.

- Support Groups: The Hospital provides, at no charge, many support groups for patients and their families in response to the community's need for additional support in addressing the social, psychological or emotional issues that often occur in connection with disease, disability and grief. The support and skills of trained professionals offer self-help techniques and wellness/health-promotion. Support groups include: bereavement; diabetes; prostate cancer; lung 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 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.

Note 16 - Community Benefit (Unaudited) (continued)

- Maternal Child Support: To reach out to the community's vulnerable population, the Hospital's Pregnancy and Birth Center (PBC) waives class fees for participants from the Hospital's Family Advocacy Maternal Child Health Program - a comprehensive service within the Behavioral Health Department that outreaches to low-income families lacking necessary resources. Tuition waiver allows access for Family Advocacy members to PBC's Newborn & Infant classes, Breastfeeding classes, and Prepared Childbirth classes.

- Health Literature: Providing no-cost access to health care literature and resources to the public is possible through the Hospital's libraries and publications. The Hospital's main campus and Cancer Center libraries encourage community use of health and medicine resource information. The community, including students, patients, non-employed nurses and physicians routinely utilizes the library's extensive collection of books and periodicals and depends on librarian support as a part of information gathering. 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 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 offered to those who are unable to pay; and community-wide free screenings for blood pressure.

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

- Center for Chronic Care Management (CCCM) Disease Management: The CCCM has been in existence for over 10 years and has served 10,000+ patients. The impetus for the center was an identified sub-set of repeat users of emergency department and inpatient services for asthma. A multidisciplinary team was tasked with examining notable resource gaps for this ambulatory care sensitive condition (that is, one that should be treated in the outpatient setting). A deficit of available outpatient services and coordination of care for asthmatics resulting in barriers for achievement of self-management was identified and in response, using the Chronic Care Model, an evidence-based, patient-centered outpatient asthma service for adults (AIRMiddlesex) and children (LittleAIR) was designed and implemented, offering a comprehensive and systematic approach to the management of asthma as a chronic illness. The asthma care program became the prototype for identifying and meeting community need for chronic care interventions by adding accessible and oftentimes free-of-charge outpatient services.

Note 16 - Community Benefit (Unaudited) (continued)

Added services include diabetes disease management (provided since mid-1990, formalized in 2001) and its component medical nutrition therapy; smoking cessation (1999); and chronic heart failure (2005). The Center's disease management programs have evolved as a critical part of the health delivery system in Middlesex County by filling unmet chronic care needs. Within the CCCM model, special attention is paid to those unable to access services elsewhere: patients who experience multiple social issues, are often uninsured, are unable to achieve and sustain improved health, and frequently encounter barriers to care. Most programs are offered at no cost to the patient and the program is therefore heavily underwritten by the Hospital. Each of CCCM's initiatives cooperate with community agencies to provide chronic disease management education.

- Cancer Care Management: The Cancer Care Program is a free program offered to patients with a breast, colorectal, lung, prostate, testicular, bladder, gyn, kidney 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 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.

- Alternative to Hospitalization Program (ATH): ATH is a collaborative system offered in the Hospital's Emergency Department where staff works with state behavioral health services to identify eligible individuals for linkage to community-based substance abuse treatment programs.

- Women, Infants and Children (WIC) Program: WIC serves to safeguard the health of low-income women, infants, and children up to age five who are at nutritional risk by providing nutritious foods to supplement diets, information on healthy eating, and referrals to health care. Middlesex Hospital recently became the local subcontractor for WIC when the City of Middletown Health Department, after 25 years, was unable to renew the contract. In addition, due to significant city budget cut-backs, the Middletown program had merged with another county, which made accessibility challenging for local WIC clients. When community members suggested the Hospital assume the program, the Hospital agreed with the importance of keeping the program local, improving accessibility of services, and responding to community need. The service currently resides under the Hospital's comprehensive Family Advocacy Maternal Child Health program which provides support and outreach to a segment of the community's at-risk population.

Note 16 - Community Benefit (Unaudited) (continued)

- 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.

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

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

Note 16 - Community Benefit (Unaudited) (continued)

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

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

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

Note 16 - Community Benefit (Unaudited) (continued)

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

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

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

Note 16 - Community Benefit (Unaudited) (continued)

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

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

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

Note 16 - Community Benefit (Unaudited) (continued)

- Pulmonary Rehabilitation: The Hospital's Pulmonary Rehabilitation program was developed in direct response to the health assessment findings which identified half the adult population in Middlesex County to be at risk for COPD (18% are current smokers and 33% are former smokers). The study recommended development of a COPD pathway and program. In response, an inpatient COPD pathway was generated in conjunction with a supporting outpatient pulmonary rehabilitation program. The program is one of both education and exercise classes - it teaches patients about their lungs, how to exercise and do activities with less shortness of breath, and how to live better with a lung condition. Pulmonary Rehabilitation is offered to any patient with impaired pulmonary endurance. The Pulmonary Rehab program offers the Better Breather's Club, an adjunct service formed to help patients with respiratory diseases cope with their difficulties. The free support group is for community members with COPD, asthma and other chronic lung disease and is run by a respiratory therapist and invites pertinent guest speakers to enhance the education of the patient and their families about the respiratory illness from which they suffer. Pulmonary Rehab functions at a loss and requires Hospital subsidy in order to continue to be available to the community.

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

Financial and In-Kind Contributions - Middlesex Hospital supports the community in the form of financial and in-kind contributions. The Hospital's in-kind contributions include equipment, food, linens and medical supplies that are donated both locally and globally. 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 healthcare 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.

Note 16 - Community Benefit (Unaudited) (continued)

Community Building Activities - Middlesex Hospital's participation in Community Building activities has a vital role in continuing to promote health and well-being for residents in its service area and, in some cases, the international community. The Hospital offers its resources and expertise to support and strengthen community assets in a variety of programs that fall under the scope of community building. Staff members are highly participative in community partnerships and coalitions, the success of which are greatly enhanced by Hospital collaboration - many community initiatives would not be as effective without the Hospital's administrative and clinical staff in-kind involvement, support and expertise. The Hospital's participation in all community building activities are solely to benefit the community's health and well-being by improving access to health services and enhancing overall public health and in no case is the motivation for marketing purposes. 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; Community Flu Preparation Committee. The following four 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 family members. Middlesex Hospital provides OK's program planner, physician champion, grant-writing support and fiscal administration for the funding sources. In addition, staff members from multiple Hospital departments actively participate in the collaborative, including representatives from Family Advocacy Maternal Child Health, Diabetes Management, Asthma Management, Fit For Kids, Family Practice, the Family Medicine Residency program, and the Pregnancy & Birth Center.

- The Hospital partakes in many good neighbor community activities outside of the scope of the healthcare delivery system; such participation often incurs significant expense to the Hospital. For Disaster Readiness, the Hospital plays a pivotal role by working in collaboration with key community partners to ensure the safety of the community at large during a potential disaster. Hospital employees participate on multiple community boards and initiatives designed specifically to address disaster preparedness, control and address the ongoing overall safety of the community. Only the activities and associated cost which exceed licensure and standard practice requirements are included in the Hospital's community benefit inventory.

Note 16 - Community Benefit (Unaudited) (continued)

Disaster readiness requires a comprehensive, community-wide coordinated effort for coping with such emergencies as natural disasters, infectious disease outbreaks, bio terrorism, or acts of civil unrest. Hospital security staff, paramedics, infectious diseases specialists, nursing and medical staff are all involved in the continuing effort to be prepared for whatever community emergencies might arise. Examples include participation in community disaster preparation committees, community education and natural disaster drills; pandemic preparedness and stockpiling of supplies that exceeds regulatory standards; and hosting yearly radiation drills for the staff of a local nuclear power plant where Hospital staff train power plant workers (at no-cost) on protocols for internal contamination.

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

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

Middlesex Hospital 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 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, healthcare, 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, Middlesex Hospital has developed a prioritized implementation strategy to address identified need; its community health needs assessment implementation strategy outlines the process for prioritization and serves as the foundation for the Hospital's Community Benefit strategic plan. 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.

Note 16 - Community Benefit (Unaudited) (continued)

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

State Sponsored Health Care, Unpaid Costs **-** Community benefits related to government sponsored programs include the unpaid cost of specific public programs. In fiscal year 2014, 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 financial statements.

Middlesex Health System, Inc.
Supplemental Consolidating Balance Sheet
September 30, 2014
(*Amounts 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
Assets									
Current assets:									
Cash and cash equivalents	$ 36,581	$ 15	$ 564	$ -	$ 37,160	$ 1,171	$ 208	$ -	$ 38,539
Certificates of deposit	-	-	685	-	685	531	-	-	1,216
Short-term investments	21,491	-	-	-	21,491	-	-	-	21,491
Patient accounts receivable, net	43,502	-	25	-	43,527	-	988	-	44,515
Other receivables	3,213	-	-	-	3,213	60	-	-	3,273
Prepaid and other current assets	3,491	-	10	-	3,501	178	115	-	3,794
Estimated third-party payer settlements	808	-	-	-	808	-	-	-	808
Current portion of investments limited as to use	4,281	-	84	-	4,365	-	-	-	4,365
Total current assets	113,367	15	1,368	-	114,750	1,940	1,311	-	118,001
Investments limited as to use	146,191	-	97	-	146,288	-	-	-	146,288
Long-term investments	22,248	-	-	-	22,248	-	-	-	22,248
Other assets:									
Due from related parties	821	-	-	(213)	608	-	-	(608)	-
Other assets	8,772	-	80	-	8,852	172	-	-	9,024
Total other assets	9,593	-	80	(213)	9,460	172	-	(608)	9,024
Property and equipment, net	192,412	-	4,439	-	196,851	2,693	2,560	-	202,104
Total assets	$ 483,811	$ 15	$ 5,984	$ (213)	$ 489,597	$ 4,805	$ 3,871	$ (608)	$ 497,665

See accompanying independent auditors' report.

Middlesex Health System, Inc.
Supplemental Consolidating Balance Sheet (continued)
September 30, 2014
(*Amounts 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
Liabilities and Net Assets									
Current liabilities:									
Current portion of long-term debt and capital lease obligations	$ 3,276	$ -	$ 275	$ -	$ 3,551	$ -	$ 64	$ -	$ 3,615
Accounts payable	21,523	-	47	-	21,570	29	162	-	21,761
Due to related parties	-	-	213	(213)	-	484	124	(608)	-
Accrued payroll and related liabilities	32,945	-	141	-	33,086	-	1,528	-	34,614
Other accrued liabilities	2,024	-	126	-	2,150	-	36	-	2,186
Current portion of estimated self-insurance liability	4,293	-	23	-	4,316	-	-	-	4,316
Current portion of accrued retirement liabilities	43	-	-	-	43	-	-	-	43
Total current liabilities	64,104	-	825	(213)	64,716	513	1,914	(608)	66,535
Other liabilities:									
Long-term debt and capital lease obligations, net of current portion	56,689	-	4,546	-	61,235	-	779	-	62,014
Estimated self-insurance liability, net of current portion	17,418	-	-	-	17,418	-	-	-	17,418
Accrued retirement liabilities, net of current portion	45,992	-	-	-	45,992	-	-	-	45,992
Estimated third-party payer settlements and other liabilities	11,908	-	-	-	11,908	105	93	-	12,106
Total other liabilities	132,007	-	4,546	-	136,553	105	872	-	137,530
Total liabilities	196,111	-	5,371	(213)	201,269	618	2,786	(608)	204,065
Net assets:									
Unrestricted	270,689	15	516	-	271,220	4,187	1,085	-	276,492
Temporarily restricted	10,034	-	97	-	10,131	-	-	-	10,131
Permanently restricted	6,977	-	-	-	6,977	-	-	-	6,977
Total net assets	287,700	15	613	-	288,328	4,187	1,085	-	293,600
Total liabilities and net assets	$ 483,811	$ 15	$ 5,984	$ (213)	$ 489,597	$ 4,805	$ 3,871	$ (608)	$ 497,665

See accompanying independent auditors' report.

Middlesex Health System, Inc.
Supplemental Consolidating Statement of Operations and Changes in Net Assets
September 30, 2014
(*Amounts 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
Operating revenues:									
Net patient service revenues, net of contractual allowances and other discounts	$ 367,919	$ -	$ 3,040	$ -	$ 370,959	$ -	$ 13,499	$ -	$ 384,458
Provision for bad debts	(13,908)	-	-	-	(13,908)	-	(306)	-	(14,214)
Net patient service revenues, less provision for bad debts	354,011	-	3,040	-	357,051	-	13,193	-	370,244
Other revenue	12,557	1,108	5	(1,108)	12,562	821	793	(616)	13,560
Total operating revenues	366,568	1,108	3,045	(1,108)	369,613	821	13,986	(616)	383,804
Operating expenses:									
Salaries and wages	164,846	598	1,354	(598)	166,200	-	12,052	-	178,252
Fringe benefits	36,804	106	319	(106)	37,123	-	2,062	-	39,185
Purchased services	32,510	281	224	(281)	32,734	-	312	-	33,046
Supplies	36,254	123	207	(123)	36,461	-	715	-	37,176
Depreciation and amortization	22,309	-	218	-	22,527	217	303	-	23,047
Interest	2,897	-	223	-	3,120	-	47	-	3,167
Other operating expenses	50,241	-	417	-	50,658	617	2,366	(616)	53,025
Total operating expenses	345,861	1,108	2,962	(1,108)	348,823	834	17,857	(616)	366,898
Income (loss) from operations	20,707	-	83	-	20,790	(13)	(3,871)	-	16,906
Non-operating income (expense):									
Net income from joint ventures and general partnerships	2,125	-	-	-	2,125	60	-	-	2,185
Unrestricted gifts and bequests	564	-	-	-	564	-	-	-	564
Net investment income	13,451	-	-	-	13,451	3	-	-	13,454
Other non-operating expenses	(1,163)	-	-	-	(1,163)	(42)	-	-	(1,205)
Total non-operating income	14,977	-	-	-	14,977	21	-	-	14,998
Excess (deficiency) of revenues over expenses	35,684	-	83	-	35,767	8	(3,871)	-	31,904
Net assets, beginning of year	264,166	15	551	-	264,732	4,179	1,408	-	270,319
Change in unrealized gains and losses	(1,791)	-	-	-	(1,791)	-	-	-	(1,791)
Restricted investment income	352	-	-	-	352	-	-	-	352
Restricted contributions	1,885	-	1	-	1,886	-	-	-	1,886
Change in accumulated pension charges to unrestricted net assets	(8,290)	-	-	-	(8,290)	-	-	-	(8,290)
Transfers	(3,548)	-	-	-	(3,548)	-	3,548	-	-
Expenditures for intended purposes	(758)	-	(22)	-	(780)	-	-	-	(780)
Net assets, end of year	$ 287,700	$ 15	$ 613	$ -	$ 288,328	$ 4,187	$ 1,085	$ -	$ 293,600

See accompanying independent auditors' report.