

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

CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Middlesex Health System, Inc. and Subsidiaries (the System), a not-for-profit, non-stock corporation, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System'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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middlesex Health System, Inc. and Subsidiaries as of September 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Balance Sheet and Consolidating Statement of Operations and Changes in Net Assets are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. Such information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.


Crowe LLP

West Hartford, Connecticut
December 21, 2021

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(In thousands)</i>	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 62,271	\$ 73,399
Short-term investments	37,437	53,441
Net patient accounts receivable	38,025	39,952
Net patient customer contracts	11,054	8,062
Other receivables	5,292	2,590
Prepaid and other current assets	7,128	5,447
Current portion of investments limited as to use	429	1,228
Total current assets	161,636	184,119
Investments limited as to use	191,869	161,665
Long-term investments	24,389	23,095
Right-of-use assets (see Note 8)	21,921	-
Other assets	10,628	10,772
Property and equipment, net	234,396	251,710
Total assets	\$ 644,839	\$ 631,361
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt and capital lease obligations	\$ 8,230	\$ 10,901
Line of credit	-	6,000
Current portion of operating lease liabilities (see Note 8)	5,471	-
Current portion of third party advance reimbursement	27,947	8,960
Accounts payable	20,561	28,738
Accrued payroll and related liabilities	43,183	36,872
Other accrued liabilities	2,736	3,032
Current portion of estimated self-insurance liabilities	3,308	2,864
Total current liabilities	111,436	97,367
Other liabilities		
Long-term debt and capital lease obligations, less current portion	48,065	60,600
Operating lease liabilities, less current portion (see Note 8)	16,641	-
Estimated self-insurance liabilities, less current portion	24,446	21,849
Long-term portion of third party advance reimbursement	-	27,943
Other liabilities including estimated third-party settlements	21,415	22,309
Total other liabilities	110,567	132,701
Total liabilities	222,003	230,068
Net assets		
Assets without donor restrictions	401,953	381,830
Assets with donor restrictions	20,883	19,463
Total net assets	422,836	401,293
Total liabilities and net assets	\$ 644,839	\$ 631,361

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(In thousands)</i>	
Operating revenues:		
Net patient service revenue	\$ 460,075	\$ 415,769
Other revenues (see Note 4)	<u>21,008</u>	<u>48,904</u>
 Total operating revenues	 481,083	 464,673
Operating expenses:		
Salaries, wages and fees	239,347	230,538
Fringe benefits	47,557	44,506
Purchased services	48,919	50,931
Supplies	49,189	44,444
Depreciation and amortization	29,910	26,630
State hospital tax (see Note 2)	31,075	22,781
Interest	2,254	1,904
Other operating expenses	<u>42,404</u>	<u>45,674</u>
 Total operating expenses	 <u>490,655</u>	 <u>467,408</u>
 Loss from operations	 (9,572)	 (2,735)
Non-operating income (expense)		
Net income from joint ventures and general partnerships	2,274	2,356
Gifts and bequests without donor restrictions	835	474
Net investment income	15,395	5,106
Unrealized gains on equity securities	10,891	3,997
Other non-operating expenses	<u>(34)</u>	<u>(2)</u>
 Total non-operating income	 <u>29,361</u>	 <u>11,931</u>
 Excess of revenues over expenses	 <u>\$ 19,789</u>	 <u>\$ 9,196</u>

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (Continued)
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(In thousands)</i>	
Assets without donor restrictions:		
Excess of revenues over expenses	\$ 19,789	\$ 9,196
Change in net unrealized gains	236	580
Net assets released from restrictions for purchase of property and equipment	<u>98</u>	<u>215</u>
Change in assets without donor restrictions	20,123	9,991
Assets with donor restrictions:		
Contributions	887	1,438
Restricted investment income	327	147
Change in net unrealized gains	955	1,259
Change in assets held in trust	543	115
Net assets released from restrictions for purchase of property and equipment	(98)	(215)
Net assets released from restriction for operations	<u>(1,194)</u>	<u>(1,206)</u>
Change in assets with donor restrictions	1,420	1,538
Change in net assets	21,543	11,529
Net assets, beginning of year	<u>401,293</u>	<u>389,764</u>
Net assets, end of year	<u>\$ 422,836</u>	<u>\$ 401,293</u>

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(In thousands)</i>	
Cash flows from operating activities		
Change in net assets	\$ 21,543	\$ 11,529
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization on property and equipment including leased assets	30,101	26,630
Restricted contributions	(887)	(1,438)
Change in assets held in trust	(543)	(115)
Change in net unrealized and realized gains on investments	(26,583)	(5,286)
Equity earnings in joint ventures	(2,274)	(2,359)
Change in assets and liabilities		
Net patient accounts receivable	1,927	(2,288)
Net patient customer contracts	(2,992)	2,841
Other receivables	(2,702)	1,276
Prepaid and other assets	(1,192)	2,594
Accounts payable and other accrued liabilities	(8,177)	2,272
Accrued payroll and related liabilities	6,311	3,950
Estimated self-insurance liabilities	3,041	(392)
Third party advance reimbursement	(8,956)	36,903
Other liabilities including estimated third-party settlements	(1,190)	5,911
Net cash provided by operating activities	7,427	82,028
Cash flows from investing activities		
Purchases of property and equipment	(12,596)	(45,538)
Short-term investments	16,004	(38,682)
Long-term investments	(1,294)	(1,144)
Proceeds from sales of investments limited as to use	65,779	35,317
Purchases of investments limited as to use	(68,058)	(36,804)
Distributions from joint ventures	1,929	1,565
Net cash provided by (used in) investing activities	1,764	(85,286)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	75	35,799
Proceeds from line of credit	-	6,000
Repayment of long-term debt and capital lease obligations	(15,281)	(10,581)
Repayment of line of credit	(6,000)	-
Restricted contributions	887	1,438
Net cash (used in) provided by financing activities	(20,319)	32,656
Change in cash and cash equivalents	(11,128)	29,398
Cash and cash equivalents at beginning of year	73,399	44,001
Cash and cash equivalents at end of year	\$ 62,271	\$ 73,399
Supplemental and non-cash disclosures of cash flow information		
Cash paid for interest	\$ 2,207	\$ 1,916
Cash paid for amounts included in the measurement of lease liabilities	\$ 5,511	\$ -
Leased obligations arising from right-of-use assets from leases	\$ 27,505	\$ -

See accompanying notes to the consolidated financial statements.

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
(Amounts in thousands)

NOTE 1 - GENERAL

Organization: Middlesex Health System, Inc. (the Corporation) is a not-for-profit, non-stock Connecticut holding company. The Corporation is the sole member/shareholder of its wholly owned subsidiaries as follows: Middlesex Hospital (the Hospital), Middlesex Health Services, Inc. (Services), Middlesex Health Resources, Inc. (Resources), MHS Primary Care, Inc. (MHSPC) dba Middlesex Medical Group (MMG), and Integrated Resources for the Middlesex Area, L.L.C. (IRMA). Middlesex Hospital is a not-for-profit acute care hospital and also has a 50% ownership in the Middlesex Center for Advanced Orthopedic Surgery, LLC. As of September 30, 2020, the Hospital also has equity ownership in Community Hospital Alternative for Risk Transfer, a Reciprocal Risk Retention Group. Services operates an assisted living facility. During May 2021, Services ceased operations. Resources owns and manages certain real estate and has an interest in a collection agency joint venture. In November 2019, Resources sold its interest in the joint venture. MMG owns and operates physician practices. IRMA is inactive. In addition to serving as the sole member/shareholder of the subsidiary organizations, the Corporation directs all the fund raising activities on their behalf. The Corporation and its subsidiaries are collectively referred to as (the System).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Adoption of New Accounting Pronouncement: During February 2016, the FASB issued a new standard, Accounting Standards Update (ASU) 2016-02 "Leases (Topic 842)" (ASC 842) related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use assets and lease liabilities on the consolidated balance sheets. The most prominent among the changes in the standard is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from such leases.

The System has adopted ASC 842 as of October 1, 2020 using the cumulative effect transition approach. The cumulative effect transition approach provides a method for recording existing leases at adoption and not restating comparative periods, rather the effect of the change is recorded at the beginning of the year of adoption. In addition, the System elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the System to carry forward the historical lease classification.

The standard had a material impact in the System's consolidated balance sheets but did not have an impact to the System's consolidated statements of operations and changes in net assets. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases which amounted to \$21,921 and \$22,112, respectively, as of September 30, 2021. The standard did not have a material impact on the accounting for finance leases as of September 30, 2021.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At the inception of an arrangement, management determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. Operating leases are included in right-of-use assets, current portion of operating lease liabilities and operating lease liabilities in the consolidated balance sheets.

Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the leases do not provide an implicit rate, the System has elected to use the practical expedient provided by ASC 842 and utilize a U.S. Treasury rate with a similar duration to the lease at commencement date in determining the present value of lease payments. The System uses the implicit rate when readily determinable. The operating lease right-of-use asset also includes any lease payments made and excludes lease incentives. The System's lease terms may include options to extend or terminate the lease when it is reasonably certain that the System will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Most leases with a term greater than one-year are recognized on the consolidated balance sheets as right-of-use assets with lease liabilities. The System has elected not to recognize on the consolidated balance sheets leases with terms of one-year or less.

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

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

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

Investments in Joint Ventures: The System has invested in joint ventures, which are accounted for under the equity method of accounting. The joint ventures balances are included in other assets on the consolidated balance sheets.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Long-Lived Assets: The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value and may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell. As of September 30, 2021 and 2020, 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 debt securities in accordance with FASB ASC 320, "*Investments - Debt Securities*." Management determines the appropriate classification of its investments in debt securities at the time of purchase and re-evaluates such determination at each balance sheet date. The System accounts for its unrestricted equity investments in accordance with FASB ASC 321, "*Investments - Equity Securities*". Under FASB ASC 321, unrestricted equity securities are carried at fair value, with changes in fair value reported in the profit indicator of excess of revenues over expenses within non-operating income. All of the System's investments in debt securities as of September 30, 2021 and 2020 were classified as available-for-sale. Available-for-sale securities are carried at fair value. Unrealized gains and losses relating to available-for-sale debt securities are excluded from excess of revenues over expenses and recorded as a component of net assets, except when certain declines represent an other than temporary impairment, as further discussed below.

Realized investment gains and losses on investments sold, determined on a specific identification basis, are included in excess of revenues over expenses, unless the income is restricted by donor or law. The amortized cost of debt securities are adjusted using the straight line method, which approximates the amortization of premiums and accretion of discounts. Such amortization and accretion are included in depreciation and amortization on the consolidated statements of operations and changes in net assets. Investment income is recorded on the accrual basis. Investment income (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses, unless the income is restricted by donor or law. Investment income includes realized gains and losses without donor restrictions and interest and dividends from Board-designated funds without donor restrictions and donor-restricted funds included in investments limited as to use on the accompanying consolidated balance sheets. Income on short-term investment funds held by a trustee and assets deposited in the Hospital's self-insurance trust fund are reported as other revenue. If donor or law restricts the investment income, the realized investment income and losses from the donor-restricted investments are added to net assets with donor restrictions.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Than Temporary Impairment of Investments: The System accounts for other than temporary impairments of debt securities 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 an 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 2021 and 2020.

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

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

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided over the term of the applicable indebtedness using a method which does not differ materially from the effective interest method. Such amortization expense is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. These costs are a reduction of long-term debt as the System has adopted FASB ASU 2015-03, "*Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*".

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

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

Regulatory Environment: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, Medicare and Medicaid fraud and abuse and security and privacy of health information. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital and MMG are in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The State of Connecticut Public Act No. 11-6, "*An Act Concerning the Budget for the Biennium Ending June 30, 2013 and Other Provisions Relating to Revenue*," includes a tax on the net patient revenues of hospitals and changes to the Disproportionate Share Hospital (DSH) payments to hospitals effective for the State's fiscal year beginning July 1, 2011. Subsequent changes have been made to this public act. In 2020, the Hospital incurred a tax of \$31,876 and received supplemental payment revenue of \$21,746. This transaction resulted in a negative impact on its income from operations of \$10,130. During 2021, additional supplemental payments were made by the State of Connecticut and the Hospital received \$22,591. In 2021, the Hospital continued to pay tax on its net patient service revenues, which amounted to \$31,075. The total combined negative impact on its income from operations was \$8,484 in fiscal year 2021. The Hospital records the supplemental payments as a net adjustment to contractual allowances within net patient service revenue on the consolidated statements of operations and changes in net assets.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During December 2019, Connecticut hospitals reached a settlement with the State of Connecticut regarding a pending lawsuit surrounding the net patient services revenue tax imposed on hospitals in the state in prior years. Under the settlement, Connecticut hospitals will receive \$1,800,000 in state and federal funds between 2019 and 2026 to resolve the lawsuit. The agreement includes a one-time payment of \$79,000 to the industry, along with steadily declining taxes on hospitals and increasing state payments to facilities. During 2020, the Hospital received \$9,095 as their allocation of the settlement, which is recorded within state hospital tax on the consolidated statements of operations and changes in net assets.

The Hospital is required to file annual operating information with the State of Connecticut Office of Health Strategy (OHS).

Donor Restricted Gifts, Contributions and Pledges: The System encourages contributions and donations for capital replacement and expansion or other specific purposes. Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. Unconditional promises to give are recorded as pledges receivable and are included within other receivables on the consolidated balance sheets. As of 2021 and 2020, pledges receivable included in other receivables were approximately \$437 and \$417, respectively.

When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets, as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statements of operations and changes in net assets.

Estimated Self-Insurance Liability: The Hospital has adopted a policy of self-insuring the deductible portion of its medical malpractice and general liability insurance coverage. During 2019, MHSPC also began self-insuring the deductible portion of its medical malpractice and general liability insurance coverage. The deductible limits were \$1,000 per claim and \$3,000 in the aggregate annually during 2021 and 2020. The System, in consultation with its actuary, records as a liability an estimate of expected losses. Such liability at September 30, 2021 and 2020 totaled \$14,286 and \$12,456, respectively.

In addition, the Hospital and Services self-insure the workers' compensation program and have purchased excess insurance for those losses exceeding \$700 per occurrence during 2021 and 2020. During 2019, MHSPC also began self-insuring its workers' compensation program. The System, in consultation with its actuary, records as a liability an estimate of expected losses relating to the workers' compensation program. Such liability, discounted at 2.5% totaled \$6,521 and \$6,098 at September 30, 2021 and 2020, respectively.

Lastly, the Hospital has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$6,947 and \$6,159 at September 30, 2021 and 2020, respectively. Such amounts represent the actuarially determined present value of insurance claims, excess of the self-insured retentions, that are anticipated to be covered by insurance. The estimated insurance claims receivable and estimated insurance claims liabilities are included in other assets and estimated self-insurance liability, respectively, in the accompanying consolidated balance sheets.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Excess of Revenue Over Expenses: The consolidated statements of operations and changes in net assets include excess of revenue over expenses as the performance indicator. Changes in net assets which are excluded from the performance indicator include the change in net unrealized gains or losses on debt securities, equity transfers to and from affiliates, restricted contributions and investment income, changes in perpetual trust arrangements and net assets released from restrictions for purchase of property and equipment.

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

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

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

Resources has no available Federal net operating losses at September 30, 2021 and no available state net operating losses to offset future state taxable income.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The System accounts for uncertain tax positions with provisions of FASB ASC 740, “*Income Taxes*,” which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The System may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The System does not have any uncertain tax positions as of September 30, 2021 and 2020. 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, 2021 and 2020, 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.

Subsequent Events: Subsequent events have been evaluated through December 21, 2021, which is the date the consolidated financial statements were issued.

NOTE 3 - NET PATIENT SERVICE REVENUES

The System accounts for net patient service revenues under FASB ASU 2014-09, “*Revenue from Contracts with Customers (Topic 606)*”. Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied. Patients have roughly 120 days to make acceptable payment arrangements in order to avoid going to a collection agency. Interest-free internal payment arrangements are available if the balance can be paid off within two years. Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual services performed in relation to total expected (or actual) services or is recognized as services are performed depending on the payor and the type of service performed. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services.

(Continued)

NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

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

- **Medicare:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medicaid:** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Outpatient services are paid using prospectively determined rates.
- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in transaction price were not significant for the years ending September 30, 2021 and 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount. For patients that qualify through the financial assistance process, the System estimates the transaction price for patients with deductibles and coinsurance, and from those who are uninsured, based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. For the years ending September 30, 2021 and 2020, no significant adjustments to revenue were recognized due to changes in the estimates of implicit price concessions for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ending September 30, 2021 and 2020 was not significant.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The costs for providing these services were calculated using an adjusted cost-to-charge ratio. These charges written off for patients that qualified for free care under the Hospital's Charity Care Program totaled approximately \$3,680 and \$4,313 in 2021 and 2020, respectively. The estimated costs for these services was \$1,088 and \$1,390 in 2021 and 2020, respectively.

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

	<u>2021</u>	<u>2020</u>
Medicare	\$ 159,461	\$ 149,342
Medicaid	54,565	34,392
Commercial / HMO	210,004	200,385
Other third-party payers	4,673	4,675
Self-pay	8,781	4,784
Other supplemental payments	<u>22,591</u>	<u>22,191</u>
Total net patient service revenue	<u>\$ 460,075</u>	<u>\$ 415,769</u>

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - NET PATIENT SERVICE REVENUES (Continued)

During 2021 and 2020, approximately 35% and 36%, respectively, of net patient service revenue was received under the Medicare program, 12% and 8%, respectively, under the state Medicaid and city welfare programs and 53% and 56%, respectively, was received from contracts with private health payers.

As of September 30, 2021 and 2020, approximately 38% and 43%, respectively, of net patient accounts receivable was due from Medicare, 5% and 6%, respectively, was due from Medicaid and city welfare, 52% and 47%, respectively, was due from private health payers and 5% and 4%, respectively, was due from patients and others.

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

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

During 2021 and 2020, the Hospital revised estimates, related to settlements with third-party payers, made in prior years to reflect the passage of time and the availability of more recent information. During the years ended September 30, 2021 and 2020, changes in estimates related to settlements with third-party payers for prior years decreased net patient service revenue by approximately \$337 and \$504, respectively.

NOTE 4 - OTHER REVENUE

Other revenue consists of the following for fiscal years ended September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Grants	\$ 1,683	\$ 2,192
Public health emergency funding	9,458	34,367
Cafeteria sales	1,096	1,262
Technical laboratory income	-	326
Investment income	805	1,921
Rental income	782	733
Purchase discounts	1,276	1,546
Net assets released from restriction used for operations	1,167	1,020
Business interruption insurance proceeds	125	-
Miscellaneous	4,616	5,537
	<u>\$ 21,008</u>	<u>\$ 48,904</u>

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 - OTHER REVENUE (Continued)

During the years ended September 30, 2021 and 2020, the System was awarded funds totaling \$9,458 and \$34,367, respectively, from various federal and state agencies to provide relief for the adverse impact to operations as a result of COVID-19. The System recognized the entire amount within other revenues on the consolidated statements of operations and changes in net assets during the years ended September 30, 2021 and 2020 to offset the related increase in costs and loss of revenue related to the pandemic. The System's assessment of whether the terms and conditions for amounts received have been met considers all frequently asked questions and other interpretive guidance issued by HHS.

NOTE 5 - INVESTMENTS

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

The fair value of these investments as of September 30, 2021 and 2020, are summarized as follows:

	<u>2021</u>	<u>2020</u>
Cash	\$ 2,484	\$ 858
Money market funds	9,889	13,354
Mutual funds:		
Equity	96,286	81,806
Fixed income	69,608	61,350
Common stock:		
U.S. equity	11,926	9,070
Limited partnership	5,178	966
Exchange-traded products	3,425	4,377
Corporate debt securities	<u>55,328</u>	<u>67,648</u>
 Total	 <u>\$ 254,124</u>	 <u>\$ 239,429</u>

The fair values of investments limited as to use consisted of the following, as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Funds held in trust under revenue		
bond agreements	\$ 429	\$ 1,844
Self-insurance liability	12,071	10,558
Board-designated funds	158,915	131,160
Donor-restricted funds	<u>20,883</u>	<u>19,331</u>
 Total	 <u>\$ 192,298</u>	 <u>\$ 162,893</u>

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - INVESTMENTS (Continued)

Total gross unrealized losses as of September 30, 2021 amounted to \$368 and the fair value of those investments was \$37,665. As of September 30, 2021, there were four investments in an unrealized loss position for greater than 12 months. Based upon the evaluation of the criteria as identified in Note 2, the System does not consider any of these securities to be other than temporarily impaired as of September 30, 2021 and 2020.

Included in net investment income for the years ended September 30, 2021 and 2020, was interest and dividend income of \$1,609 and \$2,125, respectively, and realized gains on sales of investments of \$13,786 and \$2,981, respectively.

NOTE 6 - FAIR VALUE MEASUREMENTS

The following table presents the financial instruments, carried at fair value, as of September 30, 2021, by the valuation hierarchy. The table includes cash equivalents, assets limited as to use, debt service funds and long-term investments:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2021</u>				
Cash and cash equivalents	\$ 2,484	\$ -	\$ -	\$ 2,484
Money market funds	9,889	-	-	9,889
Equities				
Mutual funds				
Equity	96,286	-	-	96,286
Fixed income	69,608	-	-	69,608
Common stock				
US equity	11,926	-	-	11,926
Limited partnership	-	-	5,178	5,178
Fixed income				
Exchange-traded products	3,425	-	-	3,425
Corporate debt securities	<u>-</u>	<u>55,328</u>	<u>-</u>	<u>55,328</u>
 Total	 <u>\$ 193,618</u>	 <u>\$ 55,328</u>	 <u>\$ 5,178</u>	 <u>\$ 254,124</u>

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, carried at fair value, as of September 30, 2020, by the valuation hierarchy. The table includes cash equivalents, assets limited as to use, debt service funds and long-term investments:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2020</u>				
Cash and cash equivalents	\$ 858	\$ -	\$ -	\$ 858
Money market funds	13,354	-	-	13,354
Equities				
Mutual funds				
Equity	81,806	-	-	81,806
Fixed income	61,350	-	-	61,350
Common stock				
US equity	9,070	-	-	9,070
Limited partnership	-	-	966	966
Fixed income				
Exchange-traded products	4,377	-	-	4,377
Corporate debt securities	<u>-</u>	<u>67,648</u>	<u>-</u>	<u>67,648</u>
 Total	 <u>\$ 170,815</u>	 <u>\$ 67,648</u>	 <u>\$ 966</u>	 <u>\$ 239,429</u>

The Hospital's long-term debt obligations are reported at carrying value. The fair value of the Hospital's long-term debt obligations, excluding capitalized lease obligations and privately placed bond obligations, is approximately \$16,116 and \$21,948 at September 30, 2021 and 2020, respectively. The fair value of Services' long-term debt obligations was approximately \$0 and \$360 at September 30, 2021 and 2020, respectively. The fair value of the bonds payable is based on quoted market prices for the related bonds and other valuation considerations. The fair value of other debt is based upon discounted cash flow analyses. Fair value of debt is classified as Level 2 within the fair value hierarchy.

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

Mutual funds, common stock and exchanged-traded products are traded actively on exchanges and price quotes for these shares are readily available. For corporate debt securities and U.S. government and agency obligations multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. A primary price source is identified based on asset type, class or issue for each security. The fair values of fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences. The limited partnership is reported at net asset value per share as of year end.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

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, 2021 and 2020, the System's other financial instruments include cash and cash equivalents, accounts payable, accrued expenses and estimated settlements due to third-party payers. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Property and equipment and the related accumulated depreciation as of September 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 15,845	\$ 15,845
Buildings and fixed equipment	361,312	359,012
Other equipment	286,492	275,089
Leasehold improvements	<u>10,445</u>	<u>9,928</u>
Total property and equipment	674,094	659,874
Less: accumulated depreciation	<u>(440,935)</u>	<u>(411,642)</u>
	233,159	248,232
Construction-in-progress (estimated cost to complete \$4,610)	<u>1,237</u>	<u>3,478</u>
Property and equipment, net	<u>\$ 234,396</u>	<u>\$ 251,710</u>

Depreciation expense was \$29,718 and \$26,669 in fiscal years 2021 and 2020, respectively.

Included within buildings and fixed equipment above is a building with a net book value of \$193 and \$247 as of September 30, 2021 and 2020, respectively, for which MMG has a capital lease obligation.

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 8 - LEASE COMMITMENTS

The System has various lease agreements for office buildings and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the System recognizes lease expense on these leases on a straight-line basis over the lease term. Some leases include one or more options to renew, with renewal terms that can extend the lease for an additional term. The exercise of lease renewal options is at the Company's sole discretion.

A summary of operating lease assets and liabilities at September 30, 2021 is as follows:

Assets	<u>\$ 15,484</u>
Liabilities	
Current	\$ 3,795
Non-current	<u>11,814</u>
Total lease liabilities	<u>\$ 15,609</u>

The minimum future lease commitments under these operating leases are as follows:

Fiscal year ending:	
2022	\$ 5,592
2023	4,743
2024	2,864
2025	2,027
2026	1,424
Thereafter	<u>6,525</u>
Total lease payments	23,175
Less: Amount representing interest	<u>(1,063)</u>
Present value of lease liabilities	<u>\$ 22,112</u>

Total rental expense under operating leases for the years ended September 30, 2021 and 2020 was approximately \$8,944 and \$8,638, respectively.

A summary of remaining lease terms and discount rates at September 30, 2021 is as follows:

Weighted-average remaining lease term (years)	8.15 years
Weighted-average discount rate	0.62 %

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 9 - LIQUIDITY

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

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 62,271	\$ 73,399
Short-term investments	37,437	53,441
Receivables:		
Patients	38,025	39,952
Other	5,292	2,590
Patient customer contracts	11,054	8,062
Investments limited as to use or restricted	192,298	162,893
Long-term investments	<u>24,389</u>	<u>23,095</u>
Total financial assets	370,766	363,432
Less those unavailable for general expenditure within one year due to:		
Donor restricted	20,883	19,331
Board designated	158,915	131,160
Debt service funds	429	1,844
Self insurance liability	<u>12,071</u>	<u>10,558</u>
Total unavailable	<u>192,298</u>	<u>162,893</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 178,468</u>	<u>\$ 200,539</u>

As part of the System's liquidity management plan, management has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The System targets maintaining cash on hand to adequately cover near term future operating expenses. Should unanticipated liquidity needs arise, the System also maintains a \$13,000 and \$6,000 line of credit with Wells Fargo Bank, N.A as of September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, outstanding borrowings on the line of credit were \$0 and \$6,000, respectively. The Board designated amounts include an endowment in the amount of \$153,569 and certain long-term investment funds in the amount of \$4,441 allocated to meet unexpected liquidity needs.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 10 - LONG-TERM DEBT

As of September 30, 2021 and 2020, the System's long-term debt consisted of the following.

	<u>2021</u>	<u>2020</u>
Fixed rate revenue bonds, series N, due July 1, 2027	\$ -	\$ 5,410
Fixed rate revenue bonds, series O, due July 1, 2036	14,485	15,165
Fixed rate revenue bonds, series P, due July 1, 2027	5,096	5,970
Fixed rate revenue bonds, series Q, due July 1, 2027	10,668	10,993
Mortgage notes and capital leases, net of interest	342	413
Promissory notes	21,946	28,037
Software license agreement	3,430	4,940
	55,967	70,928
Add: bond premium	834	1,234
Less: unamortized finance costs	(506)	(661)
Less: current portion	(8,230)	(10,901)
	\$ 48,065	\$ 60,600

In July of 2011, the Hospital entered into a debt agreement with the State of Connecticut Health and Educational Facilities Authority (CHEFA) for issuance of CHEFA Series N Revenue Bonds (Series N Bonds) for \$31,930. The proceeds from the Series N Bonds, net of amounts used to establish required reserve accounts, were used to redeem the Series H Bonds. The Series N Bonds were issued at a premium of \$1,873, which will be amortized as a component of interest expense over the term of the CHEFA Series N debt agreement. The Series N Bonds are due on various dates through July 1, 2027 at interest rates between 3.00% to 5.00%.

A portion of the Series N Bonds mentioned above were issued on behalf of Services. As a member of the obligated group, the Hospital is a guarantor of this portion of the Series N Bonds. The Series N bonds were redeemed during 2021. The outstanding balance of these bonds was \$350 as of September 30, 2020.

In May of 2015, the Hospital entered into a debt agreement with CHEFA for issuance of CHEFA Series O Bonds for \$18,275. The proceeds from the Series O Bonds, net of amounts used to establish required reserve accounts, were used to redeem the Series L Bonds. The Series O Bonds were issued at a premium of \$1,217, which will be amortized as a component of interest expense over the term of the CHEFA Series O debt agreement. The Series O Bonds are due on various dates through July 1, 2036 at interest rates between 3.2% to 3.8%.

In June of 2016, the Hospital entered into a new debt agreement with TD Bank, N.A. as assignee of CHEFA for issuance of CHEFA Series P Bonds for \$9,683. The proceeds from the Series P Bonds, net of amounts used to establish required reserve accounts, were used to redeem the CHEFA Series M Auction Rate Bonds. The Series P Bonds are due on July 1, 2027 at an interest rate of 1.87%.

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 10 - LONG-TERM DEBT (Continued)

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

A portion of the Series Q Bonds mentioned above were issued on behalf of Services. As a member of the obligated group, the Hospital is a guarantor of this portion of the Series Q Bonds. With the closing of Services in 2021, all Series Q Bonds were transferred to the Hospital. Effective September 2021, Services was released from the obligated group. The outstanding balance of these bonds was \$2,748 as of September 30, 2020.

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 \$429 and \$1,227 in debt service funds as of September 30, 2021 and 2020, respectively. All of the outstanding CHEFA bonds and mortgage notes place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance, as long as the bonds and mortgage notes are outstanding. All of the outstanding CHEFA bonds are secured by the gross receipts of the Hospital.

The CHEFA bonds are generally issued at an original premium or discount. This premium or discount is amortized as a component of interest expense over the term of the related CHEFA debt. Amortization is provided over the term of the applicable indebtedness using a method which does not differ materially from the effective interest method.

During 2019, the Hospital entered into the following seven-year promissory notes with Wells Fargo Equipment Finance, Inc. These loans were paid off during 2021. The outstanding balances on these promissory notes as of September 30, 2020 are as follows.

	<u>2020</u>
\$2,066 note bearing a 3.53% interest rate, \$25 payment due monthly, due February 2026	\$ 1,494
\$1,408 note bearing a 3.39% interest rate, \$17 payment due monthly, due April 2026	<u>1,050</u>
	<u>\$ 2,544</u>

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 10 - LONG-TERM DEBT (Continued)

During 2020, the Hospital entered into the following seven-year promissory notes with Wells Fargo Equipment Finance, Inc. The outstanding balances on these promissory notes as of September 30, 2021 and 2020 are as follows.

	<u>2021</u>	<u>2020</u>
\$8,535 note bearing a 2.92% interest rate, \$102 payment due monthly, due September 2026	\$ 5,841	\$ 6,872
\$6,792 note bearing a 2.79% interest rate, \$81 payment due monthly, due December 2026	4,873	5,695
\$4,565 note bearing a 2.52% interest rate, \$54 payment due monthly, due February 2027	3,394	3,953
\$1,453 note bearing a 2.90% interest rate, \$17 payment due monthly, due March 2027	1,083	1,256
\$3,190 note bearing a 3.10% interest rate, \$38 payment due monthly, due April 2027	2,397	2,772
\$5,638 note bearing a 3.16% interest rate, \$67 payment due monthly, due May 2027	<u>4,286</u>	<u>4,945</u>
	<u>\$ 21,874</u>	<u>\$ 25,493</u>

In April 2020, the Hospital entered into a forty-one month interest free software licensing agreement with Epic Systems in the amount of \$5,626. Payments in the amount of \$137 are due monthly. The outstanding balance on this agreement as of September 30, 2021 and 2020 was \$3,430 and \$4,940.

In July 2003, the Hospital entered into a line of credit loan agreement with Wells Fargo Bank N.A. (formerly Wachovia Bank) with subsequent amendments. The line of credit is in the amount of \$6,000 and bears an interest rate of LIBOR plus 1.00%. The note is due and payable in consecutive monthly payments of accrued interest only. On April 28, 2021, the agreement was amended to increase the maximum principal amount of the note to \$13,000 and bears an interest rate of LIBOR plus 0.80%. All principal and interest shall be due on April 28, 2022. The outstanding balance on this agreement as of September 30, 2021 and 2020 was \$0 and \$6,000, respectively.

In September 2021, the Hospital entered into a thirty-four month program loan agreement with CHEFA to be utilized for capital project expenses in the amount of \$75. The loan does not bear interest. The outstanding balance on this agreement as of September 30, 2021 was \$73.

In 2010, MMG entered into a 15-year capital lease in the amount of \$835 with an interest rate of 6.50% for a building. The outstanding balance on this capital lease at September 30, 2021 and 2020 was \$318 and \$382, respectively.

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 10 - LONG-TERM DEBT (Continued)

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

	Long-term <u>Debt</u>	Mortgage Notes / Capital <u>Leases</u>
2022	\$ 8,146	\$ 102
2023	9,231	90
2024	7,640	90
2025	7,816	90
2026	8,006	15
Thereafter	<u>15,620</u>	<u>-</u>
	56,459	387
Less: unamortized finance costs	(506)	-
Less: interest	<u>-</u>	<u>(45)</u>
Total	<u>\$ 55,953</u>	<u>\$ 342</u>

As of September 30, 2021 and 2020, the System is in compliance with all financial covenants related to the previously noted debt.

NOTE 11 - DEFINED CONTRIBUTION PLANS

Effective January 1, 2010, the Hospital implemented a new retirement program called the Middlesex Retirement Savings and Investment Plan, which provides an automatic core contribution and a matching contribution when participants choose to make pre-tax contributions. The Hospital matches 50% of the first 4% that an employee contributes. In addition, employees become eligible for a core contribution upon completion of 12 months of service provided they earn at least 1,000 hours of service in a calendar year and are actively employed on December 31, unless they retire or become disabled. The core contribution, which ranges from 2-6% of eligible pay, is based on the employee's age and years of service on December 31. The System's total contributions to the plan, including matching and core contributions, totaled \$11,295 and \$10,722 in 2021 and 2020, respectively. A core contribution of \$6,313, which is scheduled to be paid in 2022, 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 \$523 and \$479 in 2021 and 2020, respectively. In June 2019, the Board of Directors of the Hospital unanimously approved the termination of the MHS-Primary Care Profit Sharing Plan effective December 31, 2019. Participants had the option of rolling over their funds into the Middlesex Retirement Savings and Investment Plan, rolling their funds into another qualified retirement plan, or taking a distribution subject to applicable penalties.

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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September 30, 2021 and 2020
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NOTE 11 - DEFINED CONTRIBUTION PLANS (Continued)

MMG sponsored a defined contribution profit sharing plan (the Plan) for its eligible employees. Participants could elect to defer amounts as allowed under the Plan and Internal Revenue Code. The employer match equaled 100% of the first 3% of participant elective deferrals plus 50% of the next 2% of participant elective deferrals. In addition, MMG could make discretionary contributions as determined by the board of directors of MMG. The MMG plan was terminated effective December 31, 2019. Effective January 1, 2020, plan participants were eligible to participate in the Middlesex Retirement Savings and Investment Plan. For the years ended September 30, 2021 and 2020, MMG made matching contributions in the amount of \$499 and \$542, respectively.

NOTE 12 - ESTIMATED SELF-INSURANCE LIABILITIES AND OTHER CONTINGENCIES

There have been malpractice, general liability, and workers' compensation claims that fall within the System's partially self-insured program (see Note 2) which have been asserted against the System. In addition, there are known incidents that have occurred through September 30, 2021 that may result in the assertion of claims.

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

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

The consolidated financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions. Net assets with donor restrictions at September 30, 2021 and 2020 are available for the following activities:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
General	\$ 4,635	\$ 4,384
Perpetual trusts	3,776	3,232
Free Bed	3,356	2,920
Family Practice	1,879	1,827
Nursing Education	2,949	2,835
Hospice	1,794	1,925
Homecare	981	981
Community Mental Health	948	862
Cancer Fund	366	428
Auxiliary	69	69
Innovation	76	-
Ethics	54	-
 Total net assets with donor restrictions	 \$ 20,883	 \$ 19,463

NOTE 14 - ENDOWMENTS

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

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - ENDOWMENTS (Continued)

Endowment funds consist of the following as of September 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 13,056	\$ 13,056
Board-designated endowment funds	<u>153,969</u>	<u>-</u>	<u>153,969</u>
Balance as of September 30, 2021	<u>\$ 153,969</u>	<u>\$ 13,056</u>	<u>\$ 167,025</u>

Endowment funds consist of the following as of September 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 12,429	\$ 12,429
Board-designated endowment funds	<u>127,423</u>	<u>-</u>	<u>127,423</u>
Balance as of September 30, 2020	<u>\$ 127,423</u>	<u>\$ 12,429</u>	<u>\$ 139,852</u>

Changes in endowment funds for the year ended September 30, 2021, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance as of October 1, 2020	\$ 127,423	\$ 12,429	\$ 139,852
Investment return			
Investment income	15,295	718	16,013
Net appreciation	<u>11,191</u>	<u>240</u>	<u>11,431</u>
Total investment return	26,486	958	27,444
Contributions	60	80	140
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(411)</u>	<u>(411)</u>
Balance as of September 30, 2021	<u>\$ 153,969</u>	<u>\$ 13,056</u>	<u>\$ 167,025</u>

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - ENDOWMENTS (Continued)

Changes in endowment funds for the year ended September 30, 2020, are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Balance as of October 1, 2019	\$ 117,015	\$ 11,934	\$ 128,949
Investment return			
Investment income	5,104	169	5,273
Net appreciation	<u>5,428</u>	<u>313</u>	<u>5,741</u>
Total investment return	10,532	482	11,014
Appropriation of endowment assets for expenditure	<u>(124)</u>	<u>13</u>	<u>(111)</u>
Balance as of September 30, 2020	<u>\$ 127,423</u>	<u>\$ 12,429</u>	<u>\$ 139,852</u>

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

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

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

NOTE 15 - RELATED PARTY TRANSACTIONS

During 2021 and 2020, the System's entities entered into various related party transactions. All significant intercompany accounts and transactions have been eliminated in consolidation.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 16 - FUNCTIONAL EXPENSES

The table below presents expenses by both their nature and their function as of September 30, 2021:

	Program Services			Supporting Activities				Total Expenses
	Middlesex Hospital	Other Entities	Program Subtotal	Management and General			Fundraising	
				Middlesex Hospital	Other Entities	M&G Subtotal		
Salaries, wages and fees	\$ 190,269	\$ 26,464	\$ 216,733	\$ 19,230	\$ 2,643	\$ 21,873	\$ 741	\$ 239,347
Fringe benefits	38,360	5,109	43,469	3,336	629	3,965	123	47,557
Purchased services	34,609	1,534	36,143	12,456	125	12,581	195	48,919
Supplies	46,695	2,493	49,188	-	-	-	1	49,189
Depreciation and amortization	24,952	1,271	26,223	3,503	184	3,687	-	29,910
State hospital tax	31,075	-	31,075	-	-	-	-	31,075
Interest	2,154	99	2,253	-	1	1	-	2,254
Other operating expenses	24,023	7,556	31,579	9,441	1,307	10,748	77	42,404
	<u>\$ 392,137</u>	<u>\$ 44,526</u>	<u>\$ 436,663</u>	<u>\$ 47,966</u>	<u>\$ 4,889</u>	<u>\$ 52,855</u>	<u>\$ 1,137</u>	<u>\$ 490,655</u>

The table below presents expenses by both their nature and their function as of September 30, 2020:

	Program Services			Supporting Activities				Total Expenses
	Middlesex Hospital	Other Entities	Program Subtotal	Management and General			Fundraising	
				Middlesex Hospital	Other Entities	M&G Subtotal		
Salaries, wages and fees	\$ 183,036	\$ 25,702	\$ 208,738	\$ 17,932	\$ 3,141	\$ 21,073	\$ 727	\$ 230,538
Fringe benefits	35,868	4,607	40,475	3,122	815	3,937	94	44,506
Purchased services	36,094	1,229	37,323	12,904	534	13,438	170	50,931
Supplies	42,422	2,020	44,442	2	-	2	-	44,444
Depreciation and amortization	23,257	913	24,170	2,290	170	2,460	-	26,630
State hospital tax	22,781	-	22,781	-	-	-	-	22,781
Interest	1,806	27	1,833	-	71	71	-	1,904
Other operating expenses	28,492	6,373	34,865	9,032	1,716	10,748	61	45,674
	<u>\$ 373,756</u>	<u>\$ 40,871</u>	<u>\$ 414,627</u>	<u>\$ 45,282</u>	<u>\$ 6,447</u>	<u>\$ 51,729</u>	<u>\$ 1,052</u>	<u>\$ 467,408</u>

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

(Continued)

NOTE 17 - COMMITMENTS AND CONTINGENCIES

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the System could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

On March 28, 2020, Center of Medicare and Medicaid Services (CMS) expanded the existing Accelerated and Advance Payments Program to a broader group of Medicare Part A providers and Part B suppliers. The passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020, amended the existing Accelerated Payments Program to provide additional benefits and flexibilities, including extended repayment timeframes, to the subset of providers specifically referenced in the CARES Act, including inpatient hospitals, children's hospitals, certain cancer hospitals, and critical access hospitals. The Continuing Appropriations Act, 2021 and Other Extensions Act, enacted on October 1, 2020, amended the repayment terms for all providers and suppliers who requested and received accelerated and advance payments during the COVID-19 public health emergency. Repayment under the program does not begin for one year starting from the date the accelerated or advance payment was issued. During the year ended September 30, 2020, the System received funds totaling \$36,903 through the CMS Accelerated and Advance Payments Program with \$8,960 recorded in current portion of third party advance reimbursement and \$27,943 recorded in long-term portion of third party advance reimbursements on the consolidated balance sheets. During the year ended September 30, 2021, the System paid back \$8,955 of the funds received in 2020 and recorded \$27,947 in current portion of third party advance reimbursement on the consolidated balance sheets.

As part of the CARES Act, employers are allowed to defer the deposit and payment of the employer's share of social security taxes due during the payroll tax deferral period and payments of the tax imposed on wages paid during that period. The payroll tax deferral period began on March 27, 2020 and ended December 31, 2020. The deferred deposits of the employer's share of social security tax must be deposited beginning on December 31, 2021. In line with this deferral, the System recorded \$5,871 within other liabilities including estimated third-party settlements on the consolidated balance sheets as of September 30, 2020. As of September 30, 2021, the System has recorded \$4,077 within other liabilities including estimated third-party settlements and \$4,077 within accrued payroll and other liabilities on the consolidated balance sheets.

NOTE 18 - COMMUNITY BENEFIT (Unaudited)

Community Benefit Program: Continuous dedication to the communities we serve remains the hallmark of Middlesex Hospital's purpose. Middlesex Hospital's mission is to provide the safest, highest quality health care and the best experience possible for our community. We have a long-standing commitment to community benefit and providing programs/services that meet identified need, most specifically for underserved and vulnerable populations. Our community benefit program exemplifies our core purpose of bettering the health and well-being of the community we serve, with a specific focus on social determinants of health and advancing health equity. 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.

(Continued)

NOTE 18 - COMMUNITY BENEFIT (Unaudited) (Continued)

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 well-being needs; focus on social determinants of health and advancing health equity; and promoting community-wide health improvement services has been an annual priority initiative for our Hospital's leadership and remains a core institutional program. Our comprehensive Community Benefit model encompasses the following domains: executive involvement and commitment; a defined reporting structure; dedicated staffing resources; governance engagement; staff participation; annual goals; inclusion in annual organizational planning; internal and external communications; and inclusion of community members and agency partners. This footnote provides an overview of Middlesex Hospital's community benefit activities, organized by the categorical accounting standards as determined by the Catholic Health Association/VHA structure (*Catholic Health Association, "A Guide For Planning and Reporting Community Benefit"*).

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

- Community Education Presentations: including cancer prevention, integrative medicine, caregiver resources, disease management, stroke education, fall prevention.
- Health and Wellness Events/Health Fairs: it is common practice for the Hospital's staff members to answer the call of the community any time a request is made for educational support. The Hospital regularly participates in area health fairs/wellness events to share critical health information on topics and services.
- Support Groups: The Hospital provides, at no charge, many support groups for patients and their families in response to the community's need for additional support in addressing the social, psychological or emotional issues that often occur in connection with disease, disability and grief. The support and skills of trained professionals offer self-help techniques and wellness/health-promotion.
- Cancer Center Health Awareness: as facing cancer can be one of life's most challenging experiences for patients, the Hospital's Cancer Center provides extensive free-of-charge services in an educational and supportive environment. An emphasis is placed on including family members in all support services. The Cancer Center offers many annual education and wellness events in addition to ongoing programs such as an art therapy program; movement through dance; wig room; and community education on screenings and prevention.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 18 - 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.

Throughout the year the Hospital provides a number of community-based clinical services, including clinics and screenings offered on a recurring basis or as a special event. The Hospital views screenings and clinics as valuable secondary prevention measures that enable the detection of early illness/disease onset, bring awareness to the screened individual regarding the importance of detection and early treatment intervention, and provide referral when appropriate and necessary. These services are offered to meet identified community needs and/or improve community health. Examples of the Hospital's community based clinical services offered to the community at large throughout the year include (but are not limited to): annual flu shots and free blood pressure 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 15 years and has served 10,000+ patients. The impetus for the center was an identified sub-set of repeat users of emergency department and inpatient services for asthma. A multidisciplinary team was tasked with examining notable resource gaps for this ambulatory care sensitive condition (that is, one that should be treated in the outpatient setting). A deficit of available outpatient services and coordination of care for asthmatics resulting in barriers for achievement of self-management was identified and in response, using the Chronic Care Model, an evidence-based, patient-centered outpatient asthma service for adults (AIRMiddlesex) and children (LittleAIR) was designed and implemented, offering a comprehensive and systematic approach to the management of asthma as a chronic illness. The asthma care program became the prototype for identifying and meeting community need for chronic care interventions by adding accessible and oftentimes free-of-charge outpatient services. Added services include diabetes disease management (provided since mid-1990, formalized in 2001) and its component medical nutrition therapy; smoking cessation (1999); chronic heart failure (2005); and Chronic Pulmonary Obstructive Disorder (2015). The Center's disease management programs have evolved as a critical part of the health delivery system in Middlesex County by filling unmet chronic care needs. Within the CCCM model, special attention is paid to those unable to access services elsewhere: patients who experience multiple social issues, are often uninsured, are unable to achieve and sustain improved health, and frequently encounter barriers to care. Most programs are offered at no cost to the patient and the program is therefore heavily underwritten by the Hospital. Each of CCCM's initiatives cooperate with community agencies to provide chronic disease management education.

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
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NOTE 18 - COMMUNITY BENEFIT (Unaudited) (Continued)

- Cancer Care Management: The Cancer Care Program is a free program offered to patients with a breast, colorectal, lung, prostate, testicular, bladder, gyn, kidney among other cancer diagnoses. With compassion, reassurance and expert knowledge, the Nurse Navigators assist cancer patients in navigating the complex maze from diagnosis through the prescribed treatment and recovery phases of their illness. Additional support is given through education regarding medication and self-care requirements. The Navigators work with the network of specialists and technicians to ensure that the succession of tests and treatments are expedited in the best sequence with full consideration of the patient's needs.
- Transportation & Prescription Voucher Assistance: Transportation vouchers are supplied to patients in urgent situations and prescription vouchers are given to help to defray costs for patients who are unable to pay for medication.
- Women, Infants and Children (WIC) Program: WIC serves to safeguard the health of low-income women, infants, and children up to age five who are at nutritional risk by providing nutritious foods to supplement diets, information on healthy eating, and referrals to health care. Middlesex Hospital became the local subcontractor for WIC when the City of Middletown Health Department, after 25 years, was unable to renew the contract. In addition, due to significant city budget cut-backs, the Middletown program had merged with another county, which made accessibility challenging for local WIC clients. When community members suggested the Hospital assume the program, the Hospital agreed with the importance of keeping the program local, improving accessibility of services, and responding to community need. The service currently resides under the Hospital's comprehensive Family Advocacy Maternal Child Health program which provides support and outreach to a segment of the community's at-risk population.
- Community Care Team (CCT): The Community Care Team is a collaboration of many community agencies that specialize in the delivery of care for people with serious mental illness and/or substance use disorder in Middlesex County. The team's objective is to provide patient-centered care and improve health outcomes by developing and implementing wrap-around services through multi-agency intervention and care planning. CCT has found that the traditional model of episodic care delivery does not adequately meet the needs of its shared population - at its center is the belief that collaborations strengthen communities and can significantly impact outcomes if provided in both an evidence-based and innovative manner. The partners offer patients CCT intervention and team members meet on a weekly basis to review cases, uncover service gaps, and develop individualized care plans that include addressing many social determinants of health needs and connecting to community based services.

(Continued)

NOTE 18 - COMMUNITY BENEFIT (Unaudited) (Continued)

- Opportunity Knocks (OK): Formed in 2003 when three Middletown community leaders specializing in early childhood development - Middlesex Hospital's Medical Director of Nurseries & Pediatric Faculty for the Family Practice Residency Program, Middlesex Hospital's Family Advocacy Maternal Child Health Program supervisor and Middletown's School Readiness coordinator – recognized that the health and developmental needs of Middletown's high-need young children could best be met through a coalition that crossed a variety of sectors. The multidisciplinary community coalition comprised of local health and social service agencies, early care and education providers, not-for-profit organizations and parents established goals that focused on the health and well-being of at-risk children ages 0-5. Since the inception of the program, Opportunity Knocks has served thousands of children ages 0-5 and countless family members. Middlesex Hospital provides OK's program planner, physician champion, grant-writing support and fiscal administration for the funding sources. In addition, staff members from multiple Hospital departments actively participate in the collaborative, including representatives from Family Advocacy Maternal Child Health, Diabetes Management, Asthma Management, Fit For Kids, Family Practice, the Family Medicine Residency program, and the Pregnancy & Birth Center.

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

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
(Amounts in thousands)

NOTE 18 - 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. The Hospital's paramedics share their knowledge with health providers in the community on an on-going basis by providing regular EMS in-service training to volunteer emergency medical service organizations such as fire departments and ambulance associations.

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

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
(Amounts in thousands)

NOTE 18 - COMMUNITY BENEFIT (Unaudited) (Continued)

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

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

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
(Amounts in thousands)

NOTE 18 - 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 Homecare Hospice Program: is committed to caring for the terminally ill and their families by enhancing quality of life for the patient. Services include comfort care with relief of physical symptoms, the provision of emotional and spiritual support, and the desire to support the patient's right to make choices and remain as autonomous as possible during this phase of life. As terminal illness brings a host of new and difficult challenges for both patient and family, the Hospital's Hospice program views patient and family as a single unit of care. Care is delivered through an interdisciplinary team that includes physicians, nurses, social workers, physical therapists, occupational therapists, nutritionists, home health aides, spiritual support, pharmacists, bereavement counselors, and specially-trained volunteers. The care setting includes home hospice as well as an inpatient unit designed to provide short-term care for patients requiring pain and symptom control as well as respite care during the last days of life. This vital community program functions at a loss for the Hospital. The Hospital also offers outpatient Palliative Care services which assist patients and families with critical decisions while providing maximum physical comfort and emotional support. Outpatient Palliative care services include pain and symptom control, psychosocial support, patient education about self-determination and advance directives, negotiating end-of-life decisions, and helping patients and loved ones understand and cope with the process of dying.

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

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

(Continued)

MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
(Amounts in thousands)

NOTE 18 - COMMUNITY BENEFIT (Unaudited) (Continued)

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

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

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

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MIDDLESEX HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
(Amounts in thousands)

NOTE 18 - COMMUNITY BENEFIT (Unaudited) (Continued)

- Middlesex Hospital's Shoreline Medical Center (SMC) is committed to working with local schools to introduce the concept of a medical career in a full range of medical related professions and reinforce the importance of continuing one's education. Each year SMC hosts a multidisciplinary Career Day, World of Work, and oversees high school student mentorship. In response to a looming nursing shortage a dedicated nurse at SMC created Career Day, an annual event where students from the community can experience an emergency in real time and learn what it's like to be a health professional. An additional benefit of Career Day includes spurring many high school students to intern at SMC throughout the school year – the internship provides a unique opportunity for students to receive direct mentorship from health care professionals and exposure to a variety of health delivery disciplines. As a result, many have chosen to pursue careers in health post high school graduation. 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 director of community benefit who oversees community benefit planning and operations.

- Middlesex Hospital completed its most recent community health needs assessment (CHNA) in 2019 and completed its CHNA Implementation Strategy in February 2020. The process of formally measuring the health of the community through a community health needs assessment allows for a comprehensive understanding of a community's health status as well as the needs, gaps and barriers to health and health services. Using this data, Middlesex Hospital develops a prioritized implementation strategy to address identified need. The Hospital's CHNA Implementation Strategy outlines the process for prioritization and serves as the foundation for the Hospital's Community Benefit strategic plan.

State Sponsored Health Care, Unpaid Costs: Community benefits related to government sponsored programs include the unpaid cost of specific public programs. In fiscal year 2021, payments received for Medicaid services provided by the Hospital did not cover the actual cost of providing these services; these unpaid costs are reported in the financial statement.

SUPPLEMENTAL INFORMATION

MIDDLESEX HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET
September 30, 2021
(Amounts in thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Services, Inc.	Middlesex Health Resources, Inc.	Middlesex Medical Group	Eliminations	Consolidated
ASSETS									
Current assets									
Cash and cash equivalents	\$ 59,562	\$ 15	\$ -	\$ 59,577	\$ 395	\$ 1,347	\$ 952	\$ -	\$ 62,271
Short-term investments	37,437	-	-	37,437	-	-	-	-	37,437
Patient accounts receivable	34,962	-	-	34,962	-	-	3,063	-	38,025
Patient customer contracts	11,054	-	-	11,054	-	-	-	-	11,054
Other receivables	5,287	-	-	5,287	-	-	5	-	5,292
Prepaid and other current assets	7,061	-	-	7,061	-	-	67	-	7,128
Current portion of investments limited as to use	429	-	-	429	-	-	-	-	429
Total current assets	155,792	15	-	155,807	395	1,347	4,087	-	161,636
Investments limited as to use	191,869	-	-	191,869	-	-	-	-	191,869
Long-term investments	24,389	-	-	24,389	-	-	-	-	24,389
Right-of-use assets	15,484	-	-	15,484	-	92	6,345	-	21,921
Other assets	10,626	-	-	10,626	-	2	-	-	10,628
Property and equipment, net	227,958	-	-	227,958	16	1,501	4,921	-	234,396
Total assets	\$ 626,118	\$ 15	\$ -	\$ 626,133	\$ 411	\$ 2,942	\$ 15,353	\$ -	\$ 644,839

(Continued)

MIDDLESEX HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET (Continued)
September 30, 2021
(Amounts in thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Services, Inc.	Middlesex Health Resources, Inc.	Middlesex Medical Group	Eliminations	Consolidated
LIABILITIES AND NET ASSETS									
Current liabilities									
Current portion of long-term debt and capital lease obligations	\$ 8,146	\$ -	\$ -	\$ 8,146	\$ -	\$ -	\$ 84	\$ -	\$ 8,230
Current portion of operating lease liabilities	3,795	-	-	3,795	-	94	1,582	-	5,471
Current portion of third party advance reimbursement	27,700	-	-	27,700	-	-	247	-	27,947
Accounts payable	20,011	-	-	20,011	-	8	542	-	20,561
Accrued payroll and related liabilities	38,218	-	-	38,218	73	-	4,892	-	43,183
Other accrued liabilities	2,743	-	-	2,743	-	(7)	-	-	2,736
Current portion of estimated self-insurance liabilities	3,260	-	-	3,260	-	-	48	-	3,308
Total current liabilities	103,873	-	-	103,873	73	95	7,395	-	111,436
Other liabilities									
Long-term debt and capital lease obligations, less current portion	47,806	-	-	47,806	-	-	259	-	48,065
Operating lease liabilities, less current portion	11,815	-	-	11,815	-	-	4,826	-	16,641
Estimated self-insurance liabilities, less current portion	22,516	-	-	22,516	-	-	1,930	-	24,446
Other liabilities including estimated third-party settlements	20,710	-	-	20,710	-	63	642	-	21,415
Total other liabilities	102,847	-	-	102,847	-	63	7,657	-	110,567
Total liabilities	206,720	-	-	206,720	73	158	15,052	-	222,003
Net assets									
Assets without donor restrictions	398,515	15	-	398,530	338	2,784	301	-	401,953
Assets with donor restrictions	20,883	-	-	20,883	-	-	-	-	20,883
Total net assets	419,398	15	-	419,413	338	2,784	301	-	422,836
Total liabilities and net assets	\$ 626,118	\$ 15	\$ -	\$ 626,133	\$ 411	\$ 2,942	\$ 15,353	\$ -	\$ 644,839

See accompanying independent auditor's report.

MIDDLESEX HEALTH SYSTEM, INC.
CONSOLIDATING STATEMENT OF OPERATIONS AND
CHANGES IN NET ASSETS
Year Ended September 30, 2021
(Amounts in thousands)

	Middlesex Hospital	Middlesex Health System, Inc.	Eliminations	Sub-Total Obligated Group	Middlesex Health Services, Inc.	Middlesex Health Resources, Inc.	Middlesex Medical Group	Eliminations	Consolidated
Operating revenues:									
Net patient service revenue	\$ 429,421	\$ -	\$ -	\$ 429,421	\$ 1,126	\$ -	\$ 29,528	\$ -	\$ 460,075
Other revenues	17,757	1,137	(1,312)	17,582	143	517	4,357	(1,591)	21,008
Total operating revenues	447,178	1,137	(1,312)	447,003	1,269	517	33,885	(1,591)	481,083
Operating expenses:									
Salaries, wages and fees	209,499	741	-	210,240	955	-	28,152	-	239,347
Fringe benefits	41,695	123	-	41,818	197	-	5,542	-	47,557
Purchased services	47,064	195	(175)	47,084	65	24	2,446	(700)	48,919
Supplies	46,696	-	-	46,696	2	-	2,491	-	49,189
Depreciation and amortization	28,456	-	-	28,456	270	169	1,015	-	29,910
State hospital tax	31,075	-	-	31,075	-	-	-	-	31,075
Interest	2,154	-	-	2,154	75	-	25	-	2,254
Other operating expenses	33,464	703	-	34,167	353	357	8,418	(891)	42,404
Total operating expenses	440,103	1,762	(175)	441,690	1,917	550	48,089	(1,591)	490,655
Income (loss) from operations	7,075	(625)	(1,137)	5,313	(648)	(33)	(14,204)	-	(9,572)
Non-operating income (expense)									
Net income from joint ventures and general partnerships	2,274	-	-	2,274	-	-	-	-	2,274
Unrestricted gifts and bequests	835	-	-	835	-	-	-	-	835
Net investment income	15,394	-	-	15,394	-	1	-	-	15,395
Unrealized gains on equity securities	10,891	-	-	10,891	-	-	-	-	10,891
Other non-operating expenses	(1,137)	-	1,137	-	-	(34)	-	-	(34)
Total non-operating income	28,257	-	1,137	29,394	-	(33)	-	-	29,361
Excess (deficiency) of revenues over expenses	35,332	(625)	-	34,707	(648)	(66)	(14,204)	-	19,789
Net assets, beginning of year	398,485	15	-	398,500	(678)	2,850	621	-	401,293
Change in unrealized gains and losses	1,191	-	-	1,191	-	-	-	-	1,191
Restricted investment income	327	-	-	327	-	-	-	-	327
Restricted contributions	887	-	-	887	-	-	-	-	887
Change in assets held in trust	543	-	-	543	-	-	-	-	543
Transfers	(16,200)	625	-	(15,575)	1,691	-	13,884	-	-
Net assets released from restriction for operations	(1,167)	-	-	(1,167)	(27)	-	-	-	(1,194)
Net assets, end of year	\$ 419,398	\$ 15	\$ -	\$ 419,413	\$ 338	\$ 2,784	\$ 301	\$ -	\$ 422,836

See accompanying independent auditor's report.