

Financial Statements

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

Financial Statements

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Independent Auditors' Report

The Board of Directors Middlesex Health Resources, Inc.:

We have audited the accompanying balance sheets of Middlesex Health Resources, Inc., a Connecticut corporation, (Resources) as of September 30, 2009 and 2008, and the related statements of operations, changes in stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of Resources' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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



December 23, 2009

Balance Sheets

September 30, 2009 and 2008

Assets	_	2009	2008
Current assets: Cash and cash equivalents Receivables Income tax receivable Prepaid expenses and inventory Net deferred tax asset (note 6)	\$	1,053,541 2,559 30,557 133,754	979,066 5,927 17,397 39,298 222,184
Total current assets		1,220,411	1,263,872
Property, plant, and equipment, net Investment in joint venture, MedConn Collection Agency,		2,167,344	2,179,069
Inc. (note 3) Investment in limited partnerships (note 4)		67,556 145,088	65,812 145,088
Total assets	\$	3,600,399	3,653,841
Liabilities and Stockholder's Equity	_		
Current liabilities: Accounts payable and accrued liabilities Due to related parties	\$_	39,584 3,635	65,882 17,812
Total current liabilities		43,219	83,694
Equity interest in net deficit of general partnership investment (note 5) Other liabilities Total liabilities	_	611,975 157,826 813,020	793,372 153,845 1,030,911
Commitments and contingencies (note 5)	_	013,020	1,030,711
Stockholder's equity Common stock, no par value. Authorized 15,000 shares;			
issued and outstanding 2,500 shares		350,000	350,000
Additional paid-in capital Accumulated deficit		4,727,793 (2,290,414)	4,727,793 (2,454,863)
	_		
Total stockholder's equity	Φ.	2,787,379	2,622,930
Total liabilities and stockholder's equity	\$ _	3,600,399	3,653,841

Statements of Operations

Years ended September 30, 2009 and 2008

		2009	2008
Revenues:			
Rental income	\$	594,517	588,866
Other revenue			6,177
	_	594,517	595,043
Expenses:			
Administrative and general		135,876	143,929
Depreciation and amortization		120,635	120,546
Property maintenance and utilities		228,813	242,698
Property taxes		98,423	104,712
Total expenses		583,747	611,885
Operating gain (loss) from rental activities		10,770	(16,842)
Investing activities:			
Equity income in joint venture, MedConn Collection			
Agency, Inc.		61,744	87,639
Equity income of general partnerships		181,397	31,892
Interest income		13,956	19,894
Income before income taxes		267,867	122,583
Income tax expense		103,418	2,046
Net income	\$	164,449	120,537

Statements of Changes in Stockholder's Equity Years ended September 30, 2009 and 2008

	Comi	non s	stock	Additional paid-in	Accumulated	
	Shares		Amount	capital	deficit	Total
September 30, 2007	2,500	\$	350,000	4,727,793	(2,575,400)	2,502,393
Net income	_	_			120,537	120,537
September 30, 2008	2,500		350,000	4,727,793	(2,454,863)	2,622,930
Net income		_			164,449	164,449
September 30, 2009	2,500	\$	350,000	4,727,793	(2,290,414)	2,787,379

Statements of Cash Flows

Years ended September 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Net income	\$	164,449	120,537
Adjustments to reconcile net income to net cash provided by			
operating activities			
Equity in earnings of joint venture, MedConn Collection			
Agency, Inc.		(61,744)	(87,639)
Equity in earnings of general partnerships		(181,397)	(31,892)
Depreciation and amortization		120,635	120,546
Net deferred tax expense (benefit)		88,430	(8,815)
Changes in operating assets and liabilities:		5.027	715
Receivables		5,927	715
Income tax receivable		14,838 8,741	(17,397)
Prepaid expenses and inventory Due to related parties		(14,177)	(3,772) 355
Accounts payable, accrued liabilities, and other liabilities		(22,317)	(27,082)
Accounts payable, accruce habilities, and other habilities	_		
Net cash provided by operating activities		123,385	65,556
Cash flows from investing activities			
Distributions from joint ventures and partnerships		60,000	40,000
Purchases of property, plant, and equipment		(108,910)	(20,159)
Net cash (used in) provided by investing activities		(48,910)	19,841
Net increase in cash and cash equivalents		74,475	85,397
Cash and cash equivalents, beginning of year		979,066	893,669
Cash and cash equivalents, end of year	\$_	1,053,541	979,066

Notes to Financial Statements September 30, 2009 and 2008

(1) Organization

Middlesex Health Resources, Inc. (Resources), is a for-profit, wholly owned subsidiary of Middlesex Health System, Inc. (System). Resources was formed for the purposes of owning and managing real estate as well as investing in certain ventures and partnerships. All such activities are primarily related to System and its affiliates. System is also the parent of Middlesex Hospital (the Hospital), Middlesex Health Services, Inc. (Services), and MHS Primary Care, Inc. (MHSPC).

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Betterments and major renewals are capitalized and maintenance and repairs are charged to expense as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and fixed equipment	5 to 32 years
Other equipment	5 to 10 years

Property, plant, and equipment consisted of the following as of September 30, 2009 and 2008:

	_	2009	2008
Land Buildings and fixed equipment Other equipment	\$	235,725 3,316,143 7,684	235,725 3,290,314 7,684
		3,559,552	3,533,723
Less accumulated depreciation		(1,475,289)	(1,354,654)
		2,084,263	2,179,069
Construction in progress		83,081	
Total property, plant, and equipment, net	\$	2,167,344	2,179,069

(c) Cash and Cash Equivalents

Resources consider all highly liquid investments to be cash equivalents.

(d) Investment in Joint Ventures

Resources' investment in MedConn Collection Agency, Inc. (see note 3) is being accounted for using the equity method of accounting.

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Notes to Financial Statements September 30, 2009 and 2008

(e) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates are recognized in income in the period that includes the enactment date.

(f) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(g) Recently Issued Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (now part of ASC 740, Income Taxes), which addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return and also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The provisions of ASC 740 addressed above will be effective for Resources on October 1, 2009, with any cumulative effect of the change in accounting principle recorded as an adjustment to opening accumulated deficit. Resources are in the process of assessing the impact of adopting these provisions and does not anticipate that the adoption will have a material impact on its results of operations and financial position.

In May 2009, the FASB issued guidance which established principles and requirements for recognition and disclosure of subsequent events. In particular, it sets forth the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. This guidance is to be applied to the accounting for and disclosure of subsequent events not addressed in other applicable GAAP and was effective for the year ended September 30, 2009. In accordance with the guidance, management has evaluated events subsequent to September 30, 2009 and through December 23, 2009.

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Notes to Financial Statements September 30, 2009 and 2008

(3) Joint Venture, MedConn Collection Agency, Inc.

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

Under the terms of the agreement, Resources' share is 20% of the net operating profits and losses of the joint venture.

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

	<u> </u>	2009	2008
Current assets Noncurrent assets	\$	692,134 471,684	867,864 434,572
Total assets	\$	1,163,818	1,302,436
Current liabilities Total liabilities Total revenues Net income	\$	274,292 733,489 3,738,283 322,772	449,867 884,439 3,946,807 492,374

(4) Investments in Limited Partnerships

Resources is a limited partner in Middletown Professional Park Limited Partnership I (MPPLP I) and Middletown Professional Park Limited Partnership II (MPPLP II) which constructed and owns two medical buildings. These investments are recorded on a cost basis and amounted to \$145,088 as of September 30, 2009 and 2008, respectively.

(5) Investments in General Partnerships

During fiscal year 1995, Resources was admitted as a 15% and 25% general partner in MPPLP I and MPPLP II, respectively, upon payment of capital contributions of \$230,000 and \$220,000, respectively. Resources has guaranteed loans of the partnerships up to but not exceeding \$3,150,000 as of September 30, 2009 and 2008, respectively.

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

	_	MPPLP I	MPPLP II
Total assets	\$	1,595,477	1,793,166
Total liabilities		2,238,763	3,855,096
Total revenue		660,761	622,426
Net gain		164,168	627,085

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Notes to Financial Statements September 30, 2009 and 2008

(6) Income Taxes

The income tax expense consisted of the following:

	 Current	Deferred	Total
Year ended September 30, 2009: Federal State	\$ 14,988	84,245 4,185	84,245 19,173
	\$ 14,988	88,430	103,418
Year ended September 30, 2008: Federal State	\$ 10,861	(2,195) (6,620)	(2,195) 4,241
	\$ 10,861	(8,815)	2,046

The income tax expense differed from the amounts computed by applying the U.S. federal statutory income tax rate of 34% to pretax income as a result of the following:

	 2009	2008
Computed "expected" tax expense	\$ 91,075	41,678
State tax expense, net of federal tax benefit	12,654	2,799
Other	 (311)	(42,431)
	\$ 103,418	2,046

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	2009	2008
Deferred tax assets:		
Net operating loss \$	139,149	205,849
Fixed assets	40,624	30,452
Minimum tax credit	5,503	5,503
Total deferred tax asset	185,276	241,804
Deferred tax liabilities:		
Partnership differences	(51,522)	(19,620)
Net deferred tax asset \$	133,754	222,184

Notes to Financial Statements September 30, 2009 and 2008

Resources has federal net operating loss carryforwards of approximately \$410,000 at September 30, 2009 which are available to offset future federal taxable income, if any, through 2018. Resources has no available state net operating losses to offset future state taxable income. Utilization of the net operating losses may be subject to annual limitation provided by Section 382 of the Internal Revenue Code of 1986 and similar state provisions.

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

(7) Related Party Transactions

Resources leases office space to the Hospital and to MHSPC. Revenues collected by Resources under the Hospital lease agreements were \$349,715 and \$263,136 in fiscal years 2009 and 2008, respectively. Resources collected \$43,613 and \$68,220 from MHSPC in rental payments in fiscal years 2009 and 2008, respectively.