

Financial Statements and Report of
Independent Certified Public
Accountants

Cape Regional Medical Center, Inc.

December 31, 2021 and 2020



CAPE REGIONAL
HEALTH SYSTEM

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Cape Regional Medical Center, Inc.

Opinion

We have audited the financial statements of Cape Regional Medical Center, Inc., (the "Medical Center"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Medical Center as of December 31, 2021 and 2020, and the results of its operations, 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.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Medical Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Philadelphia, Pennsylvania
March 10, 2022

Cape Regional Medical Center, Inc.

BALANCE SHEETS

December 31,

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,980,817	\$ 7,679,099
Assets limited as to use	35,534,761	29,504,828
Patient accounts receivable	16,541,959	12,531,467
Supplies	3,578,818	3,348,044
Due from affiliates	346,422	116,243
Prepaid expenses and other current assets	3,855,520	4,001,791
Total current assets	63,838,297	57,181,472
Assets limited as to use		
Internally designated by Board of Trustees, net of current portion	83,817,209	84,979,944
Property and equipment, net	46,828,737	47,405,053
Due from affiliate	1,112,847	1,955,815
Other assets	2,946,865	3,108,733
Total assets	\$ 198,543,955	\$ 194,631,017
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 21,566,639	\$ 21,290,367
Accounts payable	8,299,409	5,957,957
Accrued expenses	8,586,914	7,896,812
Due to affiliates	-	530,502
Accrued employee personal days	2,555,009	2,970,629
Estimated settlements due to third-party payors	18,010,619	13,137,697
Total current liabilities	59,018,590	51,783,964
Accrued retirement benefits	26,923,337	29,503,834
Estimated settlements due to third-party payors, net of current portion	-	14,101,099
Other liabilities	5,024,493	6,381,119
Long-term debt, net of current portion	1,550,973	205,927
Total liabilities	92,517,393	101,975,943
Net assets		
Without donor restrictions	104,768,747	87,752,102
With donor restrictions	1,257,815	4,902,972
Total net assets	106,026,562	92,655,074
Total liabilities and net assets	\$ 198,543,955	\$ 194,631,017

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

Cape Regional Medical Center, Inc.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31,

	2021	2020
Net assets without donor restrictions		
Revenue:		
Patient service revenue	\$ 132,840,378	\$ 108,299,288
Other revenue	5,960,275	15,214,783
Net assets released from restrictions for operations	883,975	405,600
Total revenue	139,684,628	123,919,671
Expenses:		
Salaries and wages	54,595,358	51,474,888
Employee benefits	17,380,475	15,468,551
Supplies and other expenses	32,811,103	26,555,103
Contracted services	25,754,454	22,473,588
Depreciation and amortization	7,098,075	6,126,913
Interest	878,906	1,120,000
Total expenses	138,518,371	123,219,043
Operating income	1,166,257	700,628
Other items:		
Investment returns	10,537,669	11,022,143
Other pension benefit credit	688,171	397,301
Other	(19,392)	(261,830)
Total other items, net	11,206,448	11,157,614
Excess of revenue over expenses	12,372,705	11,858,242
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for purchase of property and equipment	4,924,738	7,409
Other changes in pension benefit obligation	519,202	(6,009,526)
Transfer to Cape Regional Health System, Inc.	(800,000)	(1,700,000)
Increase in net assets without donor restrictions	17,016,645	4,156,125
Net assets with donor restrictions		
Contributions	2,163,474	2,385,928
Investment returns	82	(1,673)
Net assets released from restrictions for operations	(883,975)	(405,600)
Net assets released from restrictions for purchase of property and equipment	(4,924,738)	(7,409)
(Decrease) increase in net assets with donor restrictions	(3,645,157)	1,971,246
INCREASE IN NET ASSETS	13,371,488	6,127,371
Net assets at beginning of year	92,655,074	86,527,703
Net assets at end of year	\$ 106,026,562	\$ 92,655,074

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

Cape Regional Medical Center, Inc.

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2021	2020
Operating activities		
Increase in net assets	\$ 13,371,488	\$ 6,127,371
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Other changes in pension benefit obligation	(519,202)	6,009,526
Depreciation and amortization	7,098,075	6,126,913
Equity gain in unconsolidated joint venture	(384,132)	(375,141)
Net realized and unrealized gains on investments	(7,625,304)	(9,222,715)
Transfer to Cape Regional Health System, Inc.	800,000	1,700,000
Restricted contributions	(2,163,474)	(2,385,928)
Changes in operating assets and liabilities:		
Patient accounts receivable	(4,010,492)	1,835,788
Supplies	(230,774)	(1,184,926)
Due from affiliates	(760,681)	1,641,594
Prepaid expenses and other assets	692,271	1,314,271
Accounts payable	2,341,452	(813,963)
Accrued expenses and other liabilities	(666,524)	2,494,540
Accrued employee personal days	(415,620)	716,260
Estimated settlements due to third-party payors	(1,157,011)	3,611,093
Accrued retirement benefits	(2,061,295)	(4,132,526)
Net cash provided by operating activities	4,308,777	13,462,157
Investing activities		
Change in assets limited as to use	2,758,106	(16,090,561)
Additions to property and equipment, net	(4,260,191)	(14,132,674)
Net cash used in investing activities	(1,502,085)	(30,223,235)
Financing activities		
Due from affiliates	842,968	108,923
Proceeds from restricted contributions	2,163,474	2,385,928
Transfer to Cape Regional Health System, Inc.	(800,000)	(1,700,000)
Estimated settlements due to third-party payors - Medicare advances	(8,071,166)	22,601,099
Payments of long-term debt	(640,250)	(1,071,673)
Net cash (used in) provided by financing activities	(6,504,974)	22,324,277
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,698,282)	5,563,199
Cash and cash equivalents at beginning of year	7,679,099	2,115,900
Cash and cash equivalents at end of year	\$ 3,980,817	\$ 7,679,099
Supplemental noncash investing activities		
Change in construction and retainage payable	\$ -	\$ (1,322,892)
Assets acquired under capital lease obligations	\$ 2,261,568	\$ -

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

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE A - ORGANIZATION

Cape Regional Medical Center, Inc. (the "Medical Center") is a 242-bed acute care medical center located in Cape May Court House, New Jersey. The Medical Center is a not-for-profit corporation exempt from federal and state income taxes.

Cape Regional Health System, Inc. (the "System") is a not-for-profit corporation and the sole corporate member of the Medical Center and Cape Regional Holdings, LLC ("CRH"), a not-for-profit corporation. CRH maintains and operates certain health care related real estate that it rents. Cape Regional Physicians Associates, P.A. ("CRPA"), is a for-profit multi-specialty medical group with an employed physician as the sole shareholder. CRPA owns an unconsolidated joint venture interest in Cape Regional Urgent Care, LLC, a for-profit entity providing non-emergency medical care.

The System is the sole shareholder of Cape Regional Health Enterprises, Inc. ("CRHE"), a for-profit entity. CRHE provides billing services to private physicians, manages health care rental real estate and as the owner of Cape Cardiology Associates, Inc. ("CCA") provides EKG interpretation services. CRHE owns interests unconsolidated joint ventures in: a) Cape Radiology, LLC, an outpatient radiology center; b) Cape Regional Physical Therapy Management Services, LLC ("CRPT"), which provides management services for the operation of physical therapy practices; Cape Regional Sleep Services, LLC ("CRSS"), which provides management and clinical services for the performance of sleep studies, through July 31, 2021, when it was dissolved; d) Cape Regional Miracles Fitness ("CRMF"), which provides health, wellness and fitness programs.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingencies at the date of and during the reporting period of the financial statements. The most significant management estimates and assumptions are used in recording patient accounts receivable and patient service revenue, settlements with third-party payors, useful lives of property and equipment, actuarial estimates for the postretirement benefit plan, self-insured reserves and the reported fair values of certain assets and liabilities. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Financial instruments consist of cash equivalents, patient accounts receivable, investments and assets limited as to use, accounts payable, accrued expenses and long-term debt, excluding capital leases. The carrying amounts reported in the balance sheets for these items approximate fair value.

Cash and Cash Equivalents

Cash and cash equivalents include various checking and savings accounts with maturities of three months or less and are reported in the financial statements at their fair value.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Patient Accounts Receivable

Patient accounts receivable are recorded when there is an unconditional right to payment, subject only to the passage of time. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are recorded as receivables since the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are recorded as a direct reduction to patient accounts receivable.

Supplies

Supplies are recorded at the lower of cost (determined by the first-in, first-out method) or market.

Assets Limited as to Use, Investments and Investment Income

Assets limited as to use by the Board of Trustees are resources arising from results of operations that are designated by the Board of Trustees for specific purposes. Certain investments are collateralizing a revolving line of credit (Note H). Amounts required to meet current liabilities have been classified as current assets in the balance sheets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Interest and dividend income, realized gains and losses, and the change in unrealized gains and losses are recorded as other items in the statements of operations and changes in net assets. Realized gains and losses for all investments are calculated by the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost. Donated assets are recorded at their fair value at the date of donation. Equipment under capitalized lease obligations are amortized using the straight-line method over the estimated useful life of the leased equipment. Such amortization is included in depreciation and amortization expense in the statements of operations and changes in net assets. Depreciation and amortization have been provided by the straight-line method based on the following estimated useful lives:

Land improvements	5 - 25 years
Building and building improvements	10 - 40 years
Fixed equipment	5 - 20 years
Major movable equipment	3 - 20 years

Gifts of long-lived assets such as land, buildings and equipment are reported as other changes in net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. When applicable, gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

Other Assets

Other assets include amounts due from insurance recoveries related to medical malpractice claims (Note K) and an investment in an unconsolidated joint venture in Cape Regional Home Healthcare, which is accounted for under the equity method based on the ownership portion and the lack of control. Net equity gains and losses in the unconsolidated joint venture is recorded as a component of other revenue in the statements of operations and changes in net assets.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Medical Malpractice Claims

The Medical Center maintains claims-made malpractice insurance coverage and has estimated a range of losses for liabilities relating to asserted and unasserted malpractice claims. This estimate for reported claims based on known facts of each case and unreported incidents and losses is based on the Medical Center's and industry experience data. Estimated losses are recorded as other liabilities and related insurance recoveries are recorded as other assets in the balance sheets.

Patient Service Revenue

Patient service revenue is reported at the amounts that reflect the consideration to which the Medical Center is expected to be entitled to in exchange for providing patient care for both the hospital and any employed physicians. These amounts are due from patients, third-party payors (including managed care organizations and government programs, i.e., Medicare and Medicaid), and others and they include variable consideration for retroactive adjustments due to settlement of future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to patients.

Performance obligations are determined based on the nature of the services provided. Revenue is recognized for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The Medical Center believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations are satisfied over time related to patients receiving inpatient acute care services. Performance obligations are measured from admission to the point when there are no further services required for the patient, which is generally the time of discharge. Revenue is recognized for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) when it is believed the patient does not require additional services for the episode of care.

Inpatient acute care services for Medicare and Medicaid program beneficiaries and outpatient services for Medicare beneficiaries are paid at prospectively determined rates per discharge or outpatient service. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Outpatient services for Medicaid beneficiaries are paid based on a cost reimbursement methodology, subject to certain limitations.

The Medical Center is reimbursed for costs reimbursable and other items at a tentative rate, with final settlements determined after submission of annual cost reports by the Medical Center and audits thereof by the programs' fiscal intermediaries. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. The Medical Center's cost reports have not been audited by the fiscal intermediaries for the years ended December 31, 2021, 2020, 2019 and 2018. In the opinion of management, adequate provision has been made for any adjustment that may result from the final settlement of cost reports or appeal items that have not reached final settlement. Differences between the estimated adjustments and the amounts settled are recorded in the year of settlement. Appeal issues are recorded when realization is reasonably assured.

The Medical Center has also entered into a payment agreement with Horizon Blue Cross. The basis for payment to the Medical Center under this agreement includes prospectively determined daily rates for inpatient services, and discounts from established charges for outpatient services.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Patient service revenue from the Medicare, Medicaid, and Horizon Blue Cross programs accounted for approximately 49%, 12% and 20%, respectively, for the year ended December 31, 2021 and 51%, 11% and 21%, respectively, for the year ended December 31, 2020 of the Medical Center's patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory actions including fines, penalties and exclusion from the Medicare and Medicaid programs.

Patient service revenue for both the years ended December 31, 2021 and 2020, recognized in the period, is 99% from third-party payors and 1% from self-pay based on primary insurance designation.

Deductibles and copayments under third-party payment programs within the third-party payors amount above are patients' responsibility, and the Medical Center considers these amounts in its determination of the implicit price concessions based on collection experience.

Advertising Costs

The Medical Center expenses advertising costs as incurred. For the years ended December 31, 2021 and 2020, the Medical Center incurred advertising costs of \$179,722 and \$162,286, respectively, which are included in supplies and other expenses in the accompanying statements of operations and changes in net assets.

Excess of Revenue over Expenses

The statements of operations and changes in net assets include the excess of revenue over expenses that represents all revenue, expenses, gains and losses without donor restrictions for the reporting period. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Other transactions are reported as other items. Changes in net assets without donor restrictions, which are excluded from the excess of revenue over expenses, include net assets released from restrictions for the purchase of property and equipment, other changes in pension benefit obligation, and transfers to the System.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the Medical Center have been limited by donors for a purpose, such as for future capital purchases or various department activities (\$1,199,815 and \$4,844,972 at December 31, 2021 and 2020, respectively) and in perpetuity, with the income used in accordance with donor intentions (\$58,000 at December 31, 2021 and 2020).

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations and changes in net assets as a component of total revenue for operating purposes and as other changes in net assets without donor restrictions for acquisitions of property and equipment.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Income Taxes

The Medical Center is a not-for-profit corporation and is exempt from federal and state income taxes under existing provisions of the Internal Revenue Code and the laws of the State of New Jersey.

The Medical Center follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The Medical Center does not believe its financial statements include any material uncertain tax positions.

Fair Value Measurements

The Medical Center measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures.

The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Valuations based on observable inputs and quoted prices in active markets for similar assets and liabilities.
- Level 3 - Valuations based on inputs that are unobservable and models that are significant to the overall fair value measurement.

The following fair value hierarchy tables present information about each major category of the Medical Center’s financial assets measured at fair value, using the market approach, on a recurring basis:

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 6,628,393	\$ -	\$ 6,628,393	\$ -
Mutual funds	38,959,386	34,842,042	4,117,344	-
Equity securities	37,526,629	37,526,629	-	-
Fixed income securities	24,744,584	-	24,744,584	-
	<u>\$ 107,858,992</u>	<u>\$ 72,368,671</u>	<u>\$ 35,490,321</u>	<u>\$ -</u>
	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 4,182,905	\$ -	\$ 4,182,905	\$ -
Mutual funds	31,815,630	27,557,323	4,258,307	-
Equity securities	35,656,118	35,656,118	-	-
Fixed income securities	25,533,395	-	25,533,395	-
	<u>\$ 97,188,048</u>	<u>\$ 63,213,441</u>	<u>\$ 33,941,607</u>	<u>\$ -</u>

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Pending Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 as amended is effective for fiscal years beginning after December 15, 2021. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practice expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize, on the balance sheet, leased assets and liabilities for operating leases at each reporting date. The Medical Center has not determined the impact of 2016-02 at this time.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

NOTE C - IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which started to and continues to spread throughout the United States of America. As a result of the COVID-19 pandemic, the Medical Center experienced a decline in patient visits, admissions, and medical procedures performed. Elective medical procedures were suspended by state and local governments at varying time periods beginning in mid-March through late May 2020, contributing to a significant decline in patient service revenue due to COVID-19 when compared to historic and forecasted results for that period. Additionally, in response to the pandemic, the Medical Center incurred additional costs for testing, personal protective equipment, third-party contract services and other operating costs associated with ensuring employee and patient safety while operating during a pandemic. Since late May 2020, the Medical Center has begun to see increases in its patient visits, admissions, and medical procedures, however, volumes have not returned to pre-pandemic levels. Management is actively monitoring operating revenues, and expenses and based on the continuing uncertainties of COVID-19, it is unable to determine if it will have a material impact on its operations for the year ending December 31, 2022.

The Medical Center received grant payments, which are considered nonexchange transactions, from the federal government distributed under the Coronavirus Aid, Recovery and Economic Security (“CARES”) Act. For the years ended December 31, 2021 and 2020, the Medical Center received total payments of \$1,913,816 and \$16,789,776, respectively, of which \$3,289,776 and \$13,500,000, respectively, was included in other revenue in the statements of operations and changes in net assets. The unrecognized amounts of \$1,913,816 and \$3,289,776 at December 31, 2021 and 2020, respectively, is included in estimated settlements due to third-party payors in the balance sheet. The CARES Act payments are subject to audit and compliance with federal regulations and future grant payments are uncertain at this time.

The CARES Act also provided for an expansion of the Medicare Accelerated and Advance Payment Program (“Medicare Advances”) for patient services. Under the program, the Medical Center received \$22,601,099 in April 2020, and recorded these payments in estimated settlements due to third-party payors in the balance sheet at December 31, 2020. The recoupment period began in April 2021 as amounts billed to Medicare for services provided are offset against the advance payments received until the advance is fully recouped by the Medicare program. During the year ended December 31, 2021, Medicare recouped \$8,071,166, which resulted in \$14,529,933 included in estimated settlements due to third-party payors in the balance sheet at December 31, 2021. The Medical Center will have until September 2022, to offset future claims against the advance. If the advance has not been entirely offset by claims at the end of this period, the Medical Center will be required to repay the remaining amount.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Additionally, the Internal Revenue Service ("IRS") allowed the Medical Center to defer remittance of payroll taxes. Fifty percent of the deferred payroll taxes was paid by December 31, 2021, with the remaining balance due by December 31, 2022. The total deferred tax liability is \$1,162,311 and \$2,092,276 at December 31, 2021 and 2020, respectively, which was included in accrued expenses and other liabilities in the balance sheets.

NOTE D - LIQUIDITY AND AVAILABILITY

At December 31, 2021 and 2020, the adjusted working capital was \$88,636,916 and \$76,218,353, respectively, and the adjusted average days of cash on hand was 238 days and 245 days, respectively, both of which include the internally designated assets limited as to use, excluding amounts held as collateral on the revolving line of credit and Medicare Advances.

Financial assets available for general expenditure within one year of the balance sheet date consist of the following:

	December 31,	
	2021	2020
Cash	\$ 3,980,817	\$ 7,679,099
Patient accounts receivable	16,541,959	12,531,467
Due from affiliates	346,422	116,243
Assets limited as to use, internally designated by Board of Trustees	83,817,209	70,820,845
	104,686,407	91,147,654
Available line of credit	19,995,172	19,995,172
	<u>\$ 124,681,579</u>	<u>\$ 111,142,826</u>

Assets limited as to use excludes those amounts held as collateral on the revolving line of credit (Note H) and Medicare Advances (Note C).

Excess cash is invested in accordance with the Board of Trustees' investment policy and there are no investments with purchase commitments at December 31, 2021.

NOTE E - UNCOMPENSATED CARE

The Medical Center provides charity care to patients who meet certain financial criteria established by the State of New Jersey. The direct and indirect cost of services and supplies furnished to patients eligible for such charity care, using a ratio of cost to gross charges, approximated \$765,000 and \$1,032,000 for the years ended December 31, 2021 and 2020, respectively. Gross charges forgone related to charity care services amounted to approximately \$4,980,000 and \$6,423,000 for the years ended December 31, 2021 and 2020, respectively.

The Medical Center's patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the Medical Center accepts all patients regardless of their ability to pay. This policy results in the assumption of higher-than-normal patient accounts receivable credit risks. To the extent the Medical Center realizes additional losses resulting from such higher credit risk for patients who are not identified or do not meet the previously described charity definition, such additional losses are considered implicit price concessions.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Additionally, the Medical Center sponsors certain other charitable programs, which provide substantial benefit to the broader community. Such programs include services to needy and elderly populations that require special support, as well as health promotion and education for the general community welfare.

The Health Care Reform Act of 1992, Chapter 160, established the Health Care Subsidy Fund to provide a mechanism and funding source to compensate hospitals for charity care. The Medical Center received approximately \$74,000 and \$95,000 for charity care, which is included in patient service revenue for the years ended December 31, 2021 and 2020, respectively. The Health Care Subsidy Fund amounts are subject to change from year to year based on available state budget amounts and allocation methodologies.

NOTE F - INVESTMENTS

	December 31,	
	<u>2021</u>	<u>2020</u>
Internally designated by Board of Trustees:		
Cash and cash equivalents	\$ 11,317,291	\$ 17,106,076
Government securities	6,628,393	4,182,905
Mutual funds	38,959,386	31,815,630
Equity securities	37,526,629	35,656,118
Fixed income securities	24,744,584	25,533,395
Accrued interest receivable	175,687	190,648
	<u>119,351,970</u>	<u>114,484,772</u>
Less amounts required for current liabilities:		
Medicare advances (Note C)	(14,529,933)	(8,500,000)
Revolving line of credit (Note H)	<u>(21,004,828)</u>	<u>(21,004,828)</u>
	<u>(35,534,761)</u>	<u>(29,504,828)</u>
	<u>\$ 83,817,209</u>	<u>\$ 84,979,944</u>

Investment returns, including net realized and unrealized gains and losses on investments and cash and cash equivalents, are comprised of the following:

	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
Other revenue:		
Interest income	<u>\$ 25,966</u>	<u>\$ 40,681</u>
Other items:		
Interest and dividend income	\$ 3,406,785	\$ 2,170,371
Net realized gains on sale of investments	5,598,626	728,856
Change in unrealized gains and losses	2,026,678	8,493,859
Investment management fees	<u>(494,420)</u>	<u>(370,943)</u>
	<u>\$ 10,537,669</u>	<u>\$ 11,022,143</u>

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

NOTE G - PROPERTY AND EQUIPMENT

	December 31,	
	2021	2020
Land	\$ 475,499	\$ 475,499
Land improvements	2,211,170	2,236,892
Buildings and building improvements	78,959,274	67,297,760
Fixed equipment	29,908,549	29,778,829
Major movable equipment	107,585,110	99,347,698
	219,139,602	199,136,678
Less accumulated depreciation and amortization	(172,694,076)	(166,054,853)
	46,445,526	33,081,825
Construction in progress	383,211	14,323,228
	\$ 46,828,737	\$ 47,405,053

Depreciation and amortization expense related to property and equipment amounted to \$7,098,075 and \$6,126,913 for the years ended December 31, 2021 and 2020, respectively.

Certain equipment is held under capital leases and are included in the major movable equipment category of property and equipment as follows:

	December 31,	
	2021	2020
Equipment	\$ 4,075,951	\$ 1,814,383
Less accumulated amortization	(1,611,585)	(1,374,563)
	\$ 2,464,366	\$ 439,820

NOTE H - LONG-TERM DEBT

	December 31,	
	2021	2020
Revolving line of credit	\$ 21,004,828	\$ 21,004,828
Obligations under capital leases, with interest rates ranging from 2.22% to 5.28% secured by leased equipment	2,112,784	491,466
	23,117,612	21,496,294
Less current portion	(21,566,639)	(21,290,367)
	\$ 1,550,973	\$ 205,927

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Revolving Line of Credit

The Medical Center has a \$41,000,000 revolving line of credit with a financial institution, which has no expiration. All amounts outstanding are due on demand and are collateralized by a portion of assets limited as to use, which are held by the same financial institution. The fair value of the collateralized amounts totaled \$21,004,828 at December 31, 2021 and 2020. The borrowings on the revolving line of credit are currently broken down into tranches, which management has the ability to restructure with the financial institution.

All the rate tranches are fixed interest rates and have an agreed-upon due date with a prepayment penalty as defined in the agreement. A summary of the tranches is as follows:

Amounts Outstanding December 31,		Interest Rate	Due Dates
2021	2020		
\$ 2,000,000	\$ 2,000,000	3.44%	June 27, 2023
2,000,000	2,000,000	3.56%	June 27, 2024
2,254,828	2,254,828	4.39%	April 16, 2025
2,250,000	2,250,000	4.45%	April 16, 2026
2,250,000	2,250,000	4.51%	April 16, 2027
2,250,000	2,250,000	4.57%	April 17, 2028
4,000,000	4,000,000	3.17%	February 26, 2029
4,000,000	4,000,000	3.03%	February 25, 2030
<u>\$ 21,004,828</u>	<u>\$ 21,004,828</u>		

Future payments on long-term debt are as follows:

	Revolving Line of Credit	Obligations Under Capital Leases
2022	\$ 21,004,828	\$ 661,033
2023	-	536,897
2024	-	529,912
2025	-	506,705
2026	-	124,742
	<u>\$ 21,004,828</u>	2,359,289
Less amounts representing interest on capital leases		<u>(246,505)</u>
		<u>\$ 2,112,784</u>

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

NOTE I - POSTRETIREMENT BENEFIT PLANS

The Medical Center has a noncontributory defined benefit pension plan (“DB Plan”) covering all employees who began working with the Medical Center prior to January 1, 2008 and who met prescribed eligibility requirements. The DB Plan uses a December 31st measurement date. The DB Plan was frozen effective March 31, 2014. The mortality table used for projecting the benefit obligation is the Pri-2012 private plans mortality tables projected with the mortality improvement scale MP-2021 for the years ended December 31, 2021 and 2020.

The following table summarizes information about the defined benefit plan:

	December 31,	
	2021	2020
Accumulated benefit obligation	\$ 98,107,606	\$ 96,717,721
Changes in benefit obligation		
Projected benefit obligation, beginning of year	\$ 96,717,721	\$ 88,867,182
Interest cost	2,673,644	2,962,842
Actuarial loss	2,584,111	8,542,856
Benefits paid	(3,867,870)	(3,655,159)
Projected benefit obligation, end of year	98,107,606	96,717,721
Changes in plan assets		
Fair value of plan assets, beginning of year	67,213,887	61,240,348
Actual return on plan assets	7,297,841	6,677,256
Contributions by the Medical Center	1,373,124	3,735,495
Benefits and expenses paid	(4,700,583)	(4,439,212)
Fair value of plan assets, end of year	71,184,269	67,213,887
Funded status of the plan - accrued retirement benefits	\$ (26,923,337)	\$ (29,503,834)
Amounts recognized in accumulated net assets without donor restrictions		
Net loss	\$ 43,436,648	\$ 43,955,850

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

	Years Ended December 31,	
	2021	2020
Components of net periodic benefit credit and other recognized in other items as other pension benefit credit:		
Interest cost	\$ 2,673,644	\$ 2,962,842
Expected return on plan assets	(4,953,523)	(4,526,355)
Amortization of net loss	1,591,708	1,166,482
Net pension benefit credit	(688,171)	(397,301)
Other changes in pension benefit obligation recognized in net assets without donor restrictions:		
Net loss	1,072,506	7,176,008
Recognized loss	(1,591,708)	(1,166,482)
Total recognized in net assets without donor restrictions	(519,202)	6,009,526
Total recognized in net pension benefit credit and net assets without donor restrictions	\$ (1,207,373)	\$ 5,612,495
Amounts expected to be recognized in net periodic benefit cost in the following year – 2022		
Net loss	\$ 1,439,464	
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	2.91%	2.68%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost for the period and years ended:		
Discount rate	2.68%	3.38%
Expected long-term return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

To develop the expected long-term rate of return on assets assumption, the Medical Center considered the historical returns and the future expectations for returns for each asset class, as well as the target allocation of the pension portfolio.

Investment Policy

The investment policy and strategy for the DB Plan assets has established guidelines for an asset mix that provides long-term capital appreciation, with a secondary objective of moderate-income generation. The guidelines attempt to reduce volatility by allocating assets in varying amounts among equities, fixed income, and other alternative fund products. Asset allocations that exceed targeted balances are reallocated throughout the year for market changes.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Plan Assets

The DB Plan's actual weighted-average asset allocations and target asset allocations, by asset category, are as follows:

Asset Category	Target Allocation	December 31,	
		2021	2020
Fixed income	40-60%	33%	34%
Equity securities	40-60%	47	48
Alternative investments: private equity funds	0-20%	20	18
		100%	100%

The following fair value hierarchy table presents information about each major category of the DB Plan's financial assets measured at fair value:

Assets	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Fixed income ^(a)	\$ 23,290,533	\$ -	\$ 23,290,533	\$ -
Equity securities ^(b)	33,647,643	33,647,643	-	-
	56,938,176	\$ 33,647,643	\$ 23,290,533	\$ -
Alternative investments: private equity funds (at NAV) ^(c)	14,246,093			
Total	\$ 71,184,269			

Assets	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Fixed income ^(a)	\$ 23,057,254	\$ -	\$ 23,057,254	\$ -
Equity securities ^(b)	32,394,757	32,394,757	-	-
	55,452,011	\$ 32,394,757	\$ 23,057,254	\$ -
Alternative investments: private equity funds (at NAV) ^(c)	11,761,876			
Total	\$ 67,213,887			

(a) Comprised of investment grade bonds of U.S. issuers from various industries.

(b) Comprised of mutual funds investing in at least 90% of assets in common stock of companies with large market capitalizations similar to companies in the Standard & Poor's ("S&P") 500 Index.

(c) Alternative investments: private equity funds are comprised of an opportunity investment, made up of various strategy funds, including relative value investments, discretionary global macro-funds, managed futures, structured products and direct lending, and a core property real estate investment fund.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

The fair value of investments is measured using the market value approach for all investments except for alternative investments. Fair value of the alternative investments is determined based upon the net asset value (NAV) of the fund per share provided by the fund manager. The fair value of the underlying securities and other financial information of the alternative investment may involve estimates that require a degree of judgment. For underlying securities which are not actively traded, a bid price is obtained from at least one independent dealer.

Cash Flows

Contributions

The expected contributions to the DB Plan in 2022 are \$2,200,000.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2022		\$	4,389,136
2023			4,538,418
2024			4,697,082
2025			4,831,308
2026			5,065,936
2027 – 2031			26,569,065

Defined Contribution Plan

The Medical Center has a defined contribution pension plan (the “DC Plan”). Employees hired January 1, 2008 and forward are eligible to participate in the DC Plan based upon established criteria outlined in the plan document. Expense related to the DC Plan was \$1,972,866 and \$1,531,825 for the years ended December 31, 2021 and 2020, respectively.

NOTE J - RELATED PARTY TRANSACTIONS

The following table summarizes the Medical Center’s notes receivable due from CRHE, all of which are collateralized by certain property owned by the related party:

	December 31,	
	2021	2020
\$1,400,000 note, principal and interest due monthly through 2027, interest at 4.00%, paid in full during 2021	\$ -	\$ 566,522
\$743,252 note, principal and interest due monthly through 2026, interest at 2.50%	443,252	743,252
\$1,019,000 note, principal and interest due monthly through 2037, interest at 3.50%	669,595	754,964
Less current portion	1,112,847 -	2,064,738 (108,923)
	\$ 1,112,847	\$ 1,955,815

The scheduled payments due to the Medical Center in 2022 were made by CRHE in 2021.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

NOTE K - COMMITMENTS AND CONTINGENCIES

Litigation and Medical Malpractice Claims

The Medical Center is a defendant in civil actions for alleged medical malpractice. The Medical Center's medical malpractice insurance carrier is defending these actions. In the opinion of the Medical Center, its potential liability in these actions is within the limits of the medical malpractice liability and comprehensive general liability insurance. The Medical Center has recorded an undiscounted liability for estimated losses from known medical malpractice claims as well as incurred but not reported claims. The liability is estimated to be \$2,817,000 and \$3,681,000 at December 31, 2021 and 2020, respectively, and is included in accrued expenses and other liabilities in the balance sheets. Insurance recoveries associated with the reported claims totaled approximately \$1,876,000 and \$2,747,000 for the years ended December 31, 2021 and 2020, respectively, and are included in other assets in the balance sheets.

Workers' Compensation Insurance

The Medical Center has a self-insured workers' compensation program subject to a self-insured retention of \$750,000 per claim for both years ended December 31, 2021 and 2020. Claims exceeding the self-insured retention are covered under an excess insurance policy. The liability for workers' compensation claims of \$1,535,000 and \$1,170,000 at December 31, 2021 and 2020, respectively, is included in accrued expenses and other liabilities in the balance sheets.

NOTE L - CONCENTRATIONS OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors was as follows:

	December 31,	
	2021	2020
Medicare and Medicaid	55%	55%
Commercial and other third-party payors	23%	20%
Patients	8%	10%
Blue Cross	14%	15%
	<u>100%</u>	<u>100%</u>

The Medical Center invests a portion of its operating and Board-designated cash and cash equivalents in various checking, savings and certificates of deposit accounts with several commercial banks. Certain deposits with these banks exceeded limits established by the Federal Deposit Insurance Corporation. The Medical Center also invests its cash and cash equivalents in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in mutual funds are not insured or guaranteed by the U.S. government; however, management believes that credit risk related to these deposits and investments is minimal.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

NOTE M - FUNCTIONAL EXPENSES

The Medical Center provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31 are as follows:

	Healthcare Services	General and Administrative	Total
<u>2021</u>			
Salaries and wages	\$ 40,721,769	\$ 13,873,589	\$ 54,595,358
Employee benefits	12,963,807	4,416,668	17,380,475
Supplies and other expenses	26,415,886	6,395,218	32,811,103
Contracted services	15,486,809	10,267,644	25,754,454
Depreciation and amortization	3,526,645	3,571,430	7,098,075
Interest	-	878,906	878,906
	<hr/>	<hr/>	<hr/>
Total	\$ 99,114,916	\$ 39,403,455	\$ 138,518,371
	<hr/>	<hr/>	<hr/>
<u>2020</u>			
Salaries and wages	\$ 37,781,365	\$ 13,693,523	\$ 51,474,888
Employee benefits	11,353,555	4,114,996	15,468,551
Supplies and other expenses	21,607,582	4,947,521	26,555,103
Contracted services	12,907,742	9,565,846	22,473,588
Depreciation and amortization	2,837,417	3,289,496	6,126,913
Interest	-	1,120,000	1,120,000
	<hr/>	<hr/>	<hr/>
Total	\$ 86,487,661	\$ 36,731,382	\$ 123,219,043
	<hr/>	<hr/>	<hr/>

The financial statements report certain expense categories that are attributable to both health care services or general and administrative. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on a square-footage basis.

NOTE N - SUBSEQUENT EVENTS

The Medical Center evaluated its December 31, 2021 financial statements for subsequent events through March 10, 2022, the date the financial statements were available to be issued. The Medical Center is not aware of any subsequent events which would require recognition or disclosure in the financial statements.