

Consolidated Financial Statements,  
Supplementary Information and Report  
of Independent Certified Public  
Accountants

**Cape Regional Health System, Inc.**

December 31, 2023 and 2022



**CAPE REGIONAL**  

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**HEALTH SYSTEM**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Trustees  
Cape Regional Health System, Inc.

**Opinion**

We have audited the consolidated financial statements of Cape Regional Health System, Inc., (the "System"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2023 and 2022, 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 consolidated 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 System 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 System'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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.

### **Supplementary Information**

The accompanying consolidating balance sheet as of December 31, 2023 and the related consolidating statement of operations and changes in net assets for the year then ended are presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included 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 supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Grant Thornton LLP*

Philadelphia, Pennsylvania  
March 13, 2024

**Cape Regional Health System, Inc.**

**CONSOLIDATED BALANCE SHEETS**

**December 31,**

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 270,874	\$ 805,620
Assets limited as to use	19,004,819	27,004,819
Patient accounts receivable	17,902,320	16,147,939
Supplies	2,709,657	3,292,631
Prepaid expenses and other current assets	5,977,256	4,901,965
Total current assets	45,864,926	52,152,974
<b>Assets limited as to use</b>		
Internally designated by Board of Trustees, net of current portion	44,283,396	60,122,581
Right-of-use assets-operating leases	743,104	888,600
Property and equipment, net	73,670,926	64,040,502
Other assets	5,019,768	5,058,682
Total assets	\$ 169,582,120	\$ 182,263,339
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 22,235,539	\$ 27,212,701
Current portion of lease liability	940,035	794,998
Accounts payable	10,384,802	8,935,381
Accrued expenses	10,007,151	9,364,998
Accrued employee personal days	2,649,438	2,584,509
Estimated settlements due to third-party payors	1,263,278	1,059,330
Total current liabilities	47,480,243	49,951,917
Accrued retirement benefits	14,051,144	13,740,243
Other liabilities	5,143,338	5,022,313
Lease liability, net of current portion	1,188,291	1,754,253
Long-term debt, net of current portion	-	3,231,074
Total liabilities	67,863,016	73,699,800
<b>Net assets</b>		
Without donor restrictions	98,989,589	106,344,206
With donor restrictions	2,729,515	2,219,333
Total net assets	101,719,104	108,563,539
Total liabilities and net assets	\$ 169,582,120	\$ 182,263,339

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

**Cape Regional Health System, Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**

Year ended December 31,

	<b>2023</b>	<b>2022</b>
<b>Net assets without donor restrictions</b>		
Revenue:		
Patient service revenue	\$ 154,667,860	\$ 151,823,102
Other revenue	15,940,309	14,999,705
Net assets released from restrictions for operations	702,754	557,632
Total revenue	171,310,923	167,380,439
Expenses:		
Salaries and wages	85,723,102	81,564,623
Employee benefits	20,317,343	19,127,570
Supplies and other expenses	35,985,494	36,272,455
Contracted services	35,191,996	30,961,989
Depreciation and amortization	8,072,841	8,616,638
Interest	784,489	1,006,312
Total expenses	186,075,265	177,549,587
Operating loss	(14,764,342)	(10,169,148)
Other items:		
Investment returns	8,710,805	(18,915,574)
Other pension benefit (cost) credit	(729,635)	990,227
Other	(38,075)	(209,757)
Total other items, net	7,943,095	(18,135,104)
Deficiency in revenue over expenses	(6,821,247)	(28,304,252)
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for purchase of property and equipment	1,009,531	505,072
Other changes in pension benefit obligation	(1,542,901)	10,087,209
Decrease in net assets without donor restrictions	(7,354,617)	(17,711,971)
<b>Net assets with donor restrictions</b>		
Contributions	2,222,457	2,024,213
Investment returns	10	9
Net assets released from restrictions for operations	(702,754)	(557,632)
Net assets released from restrictions for purchase of property and equipment	(1,009,531)	(505,072)
Increase in net assets with donor restrictions	510,182	961,518
<b>DECREASE IN NET ASSETS</b>	(6,844,435)	(16,750,453)
<b>Net assets at beginning of year</b>	108,563,539	125,313,992
<b>Net assets at end of year</b>	\$ 101,719,104	\$ 108,563,539

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

**Cape Regional Health System, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Year ended December 31,**

	<b>2023</b>	<b>2022</b>
<b>Operating activities</b>		
Decrease in net assets	\$ (6,844,435)	\$ (16,750,453)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Other changes in pension benefit obligation	1,542,901	(10,087,209)
Depreciation and amortization	8,072,841	8,616,638
Equity earnings in unconsolidated joint ventures	(1,669,082)	(1,468,580)
Net realized and unrealized gains on investments	(6,738,947)	21,047,817
Restricted contributions	(2,222,457)	(2,024,213)
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,754,381)	2,529,927
Supplies	582,974	347,580
Prepaid expenses and other assets	(807,295)	41,759
Distributions from unconsolidated joint ventures	1,440,000	2,794,000
Right of use asset, net	4,988	6,348
Accounts payable	59,730	370,954
Accrued expenses and other liabilities	763,178	(2,814,125)
Accrued employee personal days	64,929	29,500
Estimated settlements due to third-party payors	203,948	(2,751,968)
Accrued retirement benefits	(1,232,000)	(3,095,885)
Net cash used in operating activities	(8,533,108)	(3,207,910)
<b>Investing activities</b>		
Change in assets limited as to use	30,578,132	13,243,808
Additions to property and equipment, net	(16,019,358)	(7,198,820)
Net cash provided by investing activities	14,558,774	6,044,988
<b>Financing activities</b>		
Proceeds from restricted contributions	2,222,457	2,024,213
Estimated settlements due to third-party payors - Medicare advances	-	(14,529,933)
Payments on finance leases	(574,633)	(458,481)
Net (payments) proceeds of long-term debt	(8,208,236)	5,797,677
Net cash used in financing activities	(6,560,412)	(7,166,524)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(534,746)	(4,329,446)
<b>Cash and cash equivalents at beginning of year</b>	805,620	5,135,066
<b>Cash and cash equivalents at end of year</b>	\$ 270,874	\$ 805,620
<b>Supplemental disclosures of cash flow information</b>		
Change in accrued capital expenditures in accounts payable	\$ 1,389,691	\$ -
Cash paid for interest, net of capitalized interest	\$ 784,489	\$ 1,006,312

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



**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2023 and 2022**

**NOTE A - ORGANIZATION**

Cape Regional Health System, Inc. (the "System") is a not-for-profit entity located in Cape May County, New Jersey, whose purpose is to carry out planning, fundraising and other activities related to the health of persons within the service area, including the making of contributions to other tax-exempt organizations. The System serves as the sole corporate member or owner of the following organizations:

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 Physicians Associates, P.A. ("CRPA") is a for-profit, multi-specialty medical group. An employed physician is the sole shareholder of CRPA.

Cape Regional Health Enterprises, Inc. ("CRHE") is a for-profit entity. CRHE provides billing services to private physicians and manages health care rental real estate.

Cape Regional Holdings, LLC ("CRH") is a not-for-profit corporation, with the System as the sole corporate member. CRH maintains and operates certain health care related rental real estate.

In December 2022, the Board of Trustees of the System approved a non-binding letter of intent ("LOI") with Cooper University Health System ("Cooper") an academic medical center located in Camden County, New Jersey. Under the terms of the LOI Cooper would become the sole corporate member of the System and would integrate their governance structures and coordinate their financial activities to the extent efficiencies can be achieved. The System and Cooper signed a Member Substitution Agreement (the "Agreement") on April 24, 2023. The Agreement continues to be under regulatory review. On February 5, 2024, the New Jersey Attorney General and Commissioner of Health held a public hearing concerning the proposed transaction. There was no opposition to the proposed transaction expressed during that meeting. By March 18, 2024, the New Jersey Attorney General and Commissioner of Health are expected to issue their decision on the proposed transaction, with the next step being a hearing with a Cape May County Superior Court judge. The transaction closing date is tentatively scheduled for May 1, 2024, pending regulatory approvals.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The consolidated financial statements include the accounts of the System and its affiliates and subsidiaries. All significant intercompany balances and transactions have been eliminated.

***Use of Estimates***

The preparation of consolidated 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 consolidated 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.

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

***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. The carrying amounts reported in the consolidated 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 consolidated financial statements at their fair value.

***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 and mortgage (Note 1). Amounts required to meet current liabilities have been classified as current assets in the consolidated balance sheets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Interest and dividend income, realized gains and losses, and the change in net unrealized gains and losses are recorded as other items in the consolidated 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. Depreciation and amortization is provided over the estimated useful life of each class of depreciable asset and is completed using the straight-line method based. Interest cost incurred during the period of construction, where internal cash reserves are used to fund construction, interest is capitalized based on average accumulated expenditures multiplied by the weighted-average interest rate on existing debt. Capitalized interest was \$287,000 for the year ended December 31, 2023.

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.

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

***Leases***

Arrangements are determined if they are a lease at inception of the contract. Right of use assets represent the right to use the underlying assets for the lease term and lease liabilities represent the System's obligation to make lease payments arising from the leases. Right of use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. An estimated incremental borrowing rate, which is derived from information available at the lease commencement date, is used in determining the present value of lease payments. The System determines this rate based on information obtained from its bankers and publicly available data for instruments with similar characteristics.

The operating leases are primarily for real estate, including off-campus outpatient facilities and medical office buildings. Finance leases are for medical equipment. The real estate lease agreements typically have initial terms of five to ten years, and equipment lease agreements typically have initial terms of three to five years. Leases with an initial term of 12 months or less ("short-term leases") are not recorded in the consolidated balance sheets.

Real estate leases may include one or more options to renew, with renewals that typically can extend the lease term from five to ten years. The exercise of lease renewal options is at the System's sole discretion. In general, these renewal options are not considered to be reasonably likely to be exercised, therefore, renewal options are generally not recognized as part of right of use assets and lease liabilities. The useful life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. The majority of the medical equipment leases have terms of three years with no renewal options or bargain purchase options, accordingly these assets are depreciated over their lease term.

Certain lease agreements for real estate include payments based on actual common area maintenance expenses. These variable lease payments are recognized in expenses, net, but are not included in the right-of-use asset or liability balances. The lease agreements do not contain any material residual value guarantees, restrictions or covenants.

***Other Assets***

Other assets include amounts due from insurance recoveries for medical malpractice claims (Note L) and investments in unconsolidated joint ventures, which are accounted for under the equity method based on the ownership portions and the lack of control.

The Medical Center owns an interest in Cape Regional Home Healthcare, which provides home care and hospice services.

CRHE owns an interest in:

- a) Cape Radiology, LLC, an outpatient radiology center;
- b) Cape Regional Physical Therapy Management Services, LLC, which provides management services for the operation of physical therapy practices; and
- c) Cape Regional Miracles Fitness, which provides health, wellness and fitness programs.

CRPA owns an interest in Cape Regional Urgent Care, LLC, which provides non-emergency medical care.

Net equity gains and losses in these unconsolidated joint ventures are recorded as a component of other revenue in the consolidated statements of operations and changes in net assets.

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

***Medical Malpractice Claims***

The System 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 System's and industry experience data. Estimated losses are recorded as other liabilities.

***Patient Service Revenue***

Patient service revenue is reported at the amounts that reflect the consideration to which the System is expected to be entitled 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 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. The System recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The System 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. The System measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The System recognizes revenues 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.

***Advertising Costs***

The System expenses advertising costs as incurred. For the years ended December 31, 2023 and 2022, the System incurred advertising costs of \$130,548 and \$181,601, respectively, which are included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

***Deficiency in Revenue over Expenses***

The consolidated statements of operations and changes in net assets include the deficiency in 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 deficiency in revenue over expenses, include net assets released from restrictions for the purchase of property and equipment and other changes in pension benefit obligation.

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

***Net Assets with Donor Restrictions***

Net assets with donor restrictions are those whose use by the System have been limited by donors for a purpose, such as for future capital purchases or various department activities (\$2,671,515 and \$2,161,333 at December 31, 2023 and 2022, respectively) and in perpetuity, with the income used in accordance with donor intentions (\$58,000 at December 31, 2023 and 2022).

***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 consolidated 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.

***Income Taxes***

The System and the Medical Center are not-for-profit corporations and are 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 System's for-profit entities record a provision for income taxes, when applicable, which is based on amounts estimated to be currently payable and those deferred because of temporary differences between the consolidated financial statement and tax bases of assets and liabilities. These differences principally consist of depreciation. Income taxes provided in 2023 and 2022 were not material.

The System 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 System does not believe its consolidated financial statements include any material uncertain tax positions.

***Fair Value Measurements***

The System 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.

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

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

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 772,536	\$ -	\$ 772,536	\$ -
Mutual funds	20,011,425	17,400,051	2,611,374	-
Equity securities	18,178,501	18,178,501	-	-
Fixed income securities	13,391,930	-	13,391,930	-
	<u>\$ 52,354,392</u>	<u>\$ 35,578,552</u>	<u>\$ 16,775,840</u>	<u>\$ -</u>

  

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 3,099,813	\$ -	\$ 3,099,813	\$ -
Mutual funds	29,100,067	24,764,885	4,335,182	-
Equity securities	28,204,031	28,204,031	-	-
Fixed income securities	25,723,163	-	25,723,163	-
	<u>\$ 86,127,074</u>	<u>\$ 52,968,916</u>	<u>\$ 33,158,158</u>	<u>\$ -</u>

**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. The Secretary of the Department of Health and Human Services ("HHS") of the United States in January 2020, declared a public health emergency ("PHE") that expired in May 2023. Over the course of the pandemic, the System had impacts on its operating revenues and incurred additional costs for testing, personal protective equipment, third-party contract services, including nursing and other operating costs associated with ensuring employee and patient safety. Management continues to actively monitor disease-related impacts on operating revenues and expenses. While not anticipated at this time, management is unable to determine if it will have a material impact on its operations for the year ending December 31, 2024.

The System received grant payments, which are considered nonexchange transactions, from the federal government distributed under the Coronavirus Aid, Recovery and Economic Security ("CARES") Act. The System received no CARES Act grant payments in 2023 and 2022, but did in prior years of which \$1,913,816, was recognized in other revenue in the consolidated statements of operations and changes in net assets for the year ended December 31, 2022. Of the CARES Act grant payments received in prior years the unrecognized amount of \$152,003 at December 31, 2023 and 2022, is included in estimated settlements due to third-party payors in the consolidated balance sheets. The System also received grant payments from the Federal Emergency Management Agency ("FEMA") of \$3,625,229 and \$1,883,359, which was recognized in other revenue in the consolidated statements of operations and changes in net assets for the years ended December 31, 2023 and 2022, respectively. The CARES Act and FEMA payments are subject to audit and compliance with federal regulations and future grant payments are uncertain at this time.

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

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 System received \$22,601,099 in April 2020, and recorded these payments in estimated settlements due to third-party payors in the consolidated balance sheet. The recoupment period began in April 2021 as amounts billed to Medicare for services provided were offset against the advance payments which were fully recouped by the Medicare program during 2022.

Additionally, the Internal Revenue Service (“IRS”) in 2020, allowed the System to defer remittance of payroll taxes of \$2,834,266, which was included in accrued expenses and other liabilities in the consolidated balance sheets. The remaining fifty percent of the deferred payroll taxes was paid by December 31, 2022.

**NOTE D - LIQUIDITY AND AVAILABILITY**

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

	December 31,	
	2023	2022
Cash	\$ 270,874	\$ 805,620
Patient accounts receivable	17,902,320	16,147,939
Assets limited as to use, internally designated by Board of Trustees	44,225,396	60,064,581
	62,398,590	77,018,140
Available line of credit (Note I)	21,995,181	13,995,181
	\$ 84,393,771	\$ 91,013,321

Assets limited as to use excludes those amounts held as collateral on the revolving line of credit (Note I).

Excess cash is invested in accordance with the Board of Trustees’ investment policy and there are no investments with purchase commitments at December 31, 2023.

**NOTE E - UNCOMPENSATED CARE**

The System 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 \$542,000 and \$481,000 for the years ended December 31, 2023 and 2022, respectively. Gross charges forgone related to charity care services amounted to approximately \$3,424,530 and \$2,982,000 for the years ended December 31, 2023 and 2022, respectively.

The System’s patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the System 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 System 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 Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

Additionally, the System 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 System received approximately \$82,000 and \$91,000 for charity care, which is included in patient service revenue for the years ended December 31, 2023 and 2022, 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 - PATIENT SERVICE REVENUE**

The System disaggregates revenues from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenues and cash flows as affected by economic factors. Tables providing details of these factors are presented below.

The composition of patient care service revenues by primary payor is as follows:

	Year Ended December 31,	
	2023	2022
Medicare	47%	46%
Medicaid	8	9
Blue Cross	20	20
Comprehensive and managed care	21	22
Self-pay	4	3
	100%	100%

Revenues from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor. The composition of patient care service revenues by type of service is as follows:

	Year Ended December 31,	
	2023	2022
Inpatient	19%	23%
Outpatient	65	61
Physician services	16	16
	100%	100%



**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

The System has agreements with third-party payors that provide for payments to the System at amounts different from established charges. Inpatient acute care services for Medicare and Medicaid beneficiaries and outpatient services for Medicare beneficiaries are paid primarily at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain outpatient services for Medicaid beneficiaries are paid based on a cost-reimbursement methodology, subject to certain limitations. The System is reimbursed for cost reimbursable and other items at a tentative rate, with final settlement determined after submission of annual cost reports by the System and audits thereof, by the programs' fiscal intermediary. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. 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 System's cost reports have been audited and settled by the fiscal intermediaries for Medicare and Medicaid through December 31, 2019. In the opinion of management, adequate provision has been made in the accompanying consolidated financial statements for any adjustments that may result from the final settlement of the System's cost reports. For the year ended December 31, 2023, patient service revenue includes revenue of approximately \$2,384,000 related to favorable final settlements of prior year cost reports and other changes in estimates.

Laws and regulations governing the Medicare and Medicaid programs are extremely 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 System 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 that would have a material adverse effect on the accompanying consolidated financial statements. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The System has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. These agreements have retrospective audit clauses allowing the payor to review and adjust claims subsequent to initial payment.

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

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

**NOTE G - INVESTMENTS**

	December 31,	
	2023	2022
Internally designated by Board of Trustees:		
Cash and cash equivalents	\$ 10,823,783	\$ 782,479
Government securities	772,536	3,099,813
Mutual funds	20,011,425	29,100,067
Equity securities	18,178,501	28,204,031
Fixed income securities	13,391,930	25,723,163
Accrued interest receivable	110,040	217,847
	63,288,215	87,127,400
Less amounts required for current liabilities:		
Revolving line of credit (Note I)	(19,004,819)	(27,004,819)
	<b>\$ 44,283,396</b>	<b>\$ 60,122,581</b>

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

	Year Ended December 31,	
	2023	2022
Other revenue:		
Interest income	\$ 26,319	\$ 65,117
Other items:		
Interest and dividend income	\$ 2,276,981	\$ 2,545,756
Net realized gains on sale of investments	4,715,145	1,155,964
Change in unrealized gains and losses	2,023,802	(22,203,781)
Investment management fees	(305,123)	(413,513)
	<b>\$ 8,710,805</b>	<b>\$ (18,915,574)</b>

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

**NOTE H - PROPERTY AND EQUIPMENT**

	Estimated Useful Lives (in Years)	December 31,	
		2023	2022
Land	-	\$ 3,796,184	\$ 3,796,184
Land improvements	5 - 25	2,616,550	2,552,797
Buildings and building improvements	10 - 40	110,277,387	101,325,080
Fixed equipment	5 - 20	31,656,191	30,609,361
Major movable equipment	3 - 20	122,722,661	116,295,835
		<u>271,068,973</u>	<u>254,579,257</u>
Less accumulated depreciation and amortization		<u>(201,650,281)</u>	<u>(194,087,822)</u>
		69,418,692	60,491,435
Construction in progress		<u>4,252,234</u>	<u>3,549,067</u>
		<u>\$ 73,670,926</u>	<u>\$ 64,040,502</u>

Depreciation and amortization expense related to property and equipment amounted to \$8,072,841 and \$8,616,638 for the years ended December 31, 2023 and 2022, respectively.

The System has remaining commitments for renovations to the emergency department of \$6,938,000 and for the installation of an electronic health records system (“EHR”) of \$19,428,000 at December 31, 2023. The renovations are to be funded primarily through internally designated funds and the EHR is being funded with Cooper. These projects are expected to be completed in the 4<sup>th</sup> quarter of 2024.

**NOTE I - LONG-TERM DEBT**

	December 31,	
	2023	2022
Revolving line of credit	\$ 19,004,819	\$ 27,004,819
Mortgage payable secured by the related CRH property, matures January 2036, with an option by the lender to call the mortgage including principal and accrued interest in July 2025 and at every 5-year anniversary period thereafter. Principal at various amounts and interest are paid monthly at 2.43% at December 31, 2023 and 2022.	<u>3,230,720</u>	<u>3,438,956</u>
	22,235,539	30,443,775
Less current portion	<u>(22,235,539)</u>	<u>(27,212,701)</u>
	<u>\$ -</u>	<u>\$ 3,231,074</u>

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

***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 \$19,004,819 and \$27,004,819 at December 31, 2023 and 2022, respectively. 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. There are fixed rate tranches that have an agreed-upon due date with a prepayment penalty as defined in the agreement. Interest on all the tranches is due monthly, with the variable rate tranche's interest based on the financial institution's variable rate 4.172%, plus a spread of 0.850%, corresponding to an annual percentage of 5.022%. A summary of the tranches is as follows:

Amounts Outstanding December 31,		Interest Rate	Interest Rate Type	Due Dates
2023	2022			
\$ -	\$ 2,000,000	3.44%	Fixed	June 27, 2023
2,000,000	2,000,000	3.56%	Fixed	June 27, 2024
2,254,819	2,254,819	4.39%	Fixed	April 16, 2025
2,250,000	2,250,000	4.45%	Fixed	April 16, 2026
2,250,000	2,250,000	4.51%	Fixed	April 16, 2027
2,250,000	2,250,000	4.57%	Fixed	April 17, 2028
4,000,000	4,000,000	3.17%	Fixed	February 26, 2029
4,000,000	4,000,000	3.03%	Fixed	February 25, 2030
19,004,819	21,004,819			
-	6,000,000	Variable	See Above	N/A
<u>\$ 19,004,819</u>	<u>\$ 27,004,819</u>			

***Mortgage Payable***

The System's mortgage requires the maintenance of a minimum debt service coverage ratio, calculated at the System consolidated level, as defined, under the terms of the mortgage. The System did not meet the financial covenant at December 31, 2023, accordingly the amount outstanding of \$3,230,720 is due on demand, at the lender's discretion, as defined, and has been classified as current portion of long-term debt in the consolidated balance sheet. The financial covenant was met at December 31, 2022.

Future scheduled payments on long-term debt are as follows:

	Revolving Line of Credit	Mortgage	Total
2024	\$ 19,004,819	\$ 214,289	\$ 19,219,108
2025	-	220,568	220,568
2026	-	227,032	227,032
2027	-	233,684	233,684
2028	-	240,531	240,531
Thereafter	-	2,094,616	2,094,616
	<u>\$ 19,004,819</u>	<u>\$ 3,230,720</u>	<u>\$ 22,235,539</u>

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

**NOTE J - LEASES**

The components of the right of use assets and liabilities related to leases and their classification are as follows:

Component of Lease Balances	Classification in Consolidated Balance Sheets	December 31,	
		2023	2022
<b>Assets:</b>			
Operating lease	Right-of-use assets – operating leases	\$ 743,104	\$ 888,600
Finance lease	Property and equipment, net	1,353,829	1,642,870
		<u>\$ 2,096,933</u>	<u>\$ 2,531,470</u>
<b>Liabilities:</b>			
<b>Operating lease:</b>			
Current	Current portion of lease liability	\$ 350,863	\$ 277,277
Long-term	Lease liability, less current portion	403,577	617,671
		<u>754,440</u>	<u>894,948</u>
<b>Finance lease:</b>			
Current	Current portion of lease liability	589,172	517,721
Long-term	Lease liability, less current portion	784,714	1,136,582
		<u>1,373,886</u>	<u>1,654,303</u>
		<u>\$ 2,128,326</u>	<u>\$ 2,549,251</u>

The components of lease expense and their classification in the consolidated statements of operations and changes in net assets are as follows:

Component of Lease Balances	Classification in Consolidated Statements of Operations and Changes in Net Assets	December 31,	
		2023	2022
Operating lease expense	Supplies and other	\$ 432,522	\$ 424,773
<b>Finance lease expense:</b>			
Amortization of leased assets	Depreciation and amortization	583,257	642,125
Interest on lease liabilities	Interest	29,244	27,323
		<u>612,501</u>	<u>669,448</u>
		<u>\$ 1,045,023</u>	<u>\$ 1,094,221</u>

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

The weighted-average lease terms and discount rates for operating and finance leases are as follows:

	December 31,	
	2023	2022
Weighted-average remaining lease term (years):		
Operating leases	4.69 Years	4.50 years
Finance leases	2.31 Years	3.07 years
Weighted-average discount rate:		
Operating leases	1.2%	1.2%
Finance leases	1.8%	1.4%

Cash flow related to leases are as follows:

	Year Ended December 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows related to operating leases	\$ 140,508	\$ 377,124
Operating cash outflows related to finance leases	29,244	27,323
Financing cash outflows related to finance leases	574,633	458,481
Right-of-use assets obtained in exchange for new lease obligations:		
Finance leases	\$ 294,216	\$ -

The future minimum rental commitments for all noncancelable operating and finance leases are as follows:

Years Ending December 31,	Operating Leases	Finance Leases	Total
2024	\$ 361,937	\$ 610,287	\$ 972,224
2025	121,077	579,345	700,422
2026	101,018	205,118	306,136
2027	101,018	13,396	114,414
2028	92,600	-	92,600
	777,650	1,408,146	2,185,796
Less: imputed interest	(23,210)	(34,260)	(57,470)
	\$ 754,440	\$ 1,373,866	\$ 2,128,326

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

**NOTE K - POSTRETIREMENT BENEFIT PLANS**

***Defined Benefit Plan***

The System, through 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, 2023 and 2022.

The following table summarizes information about the defined benefit plan:

	December 31,	
	2023	2022
Accumulated benefit obligation	\$ 76,495,312	\$ 72,572,795
Changes in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 72,572,795	\$ 98,107,606
Interest cost	3,874,260	2,818,970
Actuarial loss (gain)	4,557,540	(22,910,268)
Benefits paid	(4,509,283)	(5,443,513)
Projected benefit obligation, end of year	76,495,312	72,572,795
Changes in plan assets:		
Fair value of plan assets, beginning of year	58,832,552	71,184,269
Actual return on plan assets	7,064,037	(8,190,499)
Contributions by the Medical Center	1,961,635	2,105,658
Benefits and expenses paid	(5,414,056)	(6,266,876)
Fair value of plan assets, end of year	62,444,168	58,832,552
Funded status of the plan - accrued retirement benefits	\$ (14,051,144)	\$ (13,740,243)
Amounts recognized in accumulated net assets without donor restrictions:		
Net loss	\$ 34,892,340	\$ 33,349,439

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

	Years Ended December 31,	
	2023	2022
Components of net periodic benefit cost (credit) and other recognized in other items as other pension benefit cost (credit):		
Interest cost	\$ 3,874,260	\$ 2,818,970
Expected return on plan assets	(4,314,450)	(5,255,850)
Amortization of net loss	1,169,825	1,446,653
Net pension benefit cost (credit)	729,635	(990,227)
Other changes in pension benefit obligation recognized in net assets without donor restrictions:		
Net loss (gain)	2,712,726	(8,640,556)
Recognized loss	(1,169,825)	(1,446,653)
Total recognized in net assets without donor restrictions	1,542,901	(10,087,209)
Total recognized in net pension benefit cost (credit) and net assets without donor restrictions	\$ 2,272,536	\$ (11,077,436)
Amounts expected to be recognized in net periodic benefit cost in the following year – 2024:		
Net loss	\$ 1,238,309	
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	5.07%	5.43%
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	5.43%	2.91%
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 historical returns and the future expectations for returns for each asset class are considered, 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 Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

**Plan Assets**

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

<u>Asset Category</u>	<u>Target Allocation</u>	<u>December 31,</u>	
		<u>2023</u>	<u>2022</u>
Fixed income	40-60%	41%	30%
Equity securities	40-60%	35	44
Alternative investments: private equity funds	0-20%	24	26
		<u>100%</u>	<u>100%</u>

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

<u>Assets</u>	<u>December 31, 2023</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income <sup>(a)</sup>	\$ 21,749,877	\$ -	\$ 21,749,877	\$ -
Equity securities <sup>(b)</sup>	25,572,434	25,572,434	-	-
	47,322,311	<u>\$ 25,572,434</u>	<u>\$ 21,749,877</u>	<u>\$ -</u>
Alternative investments: private equity funds (at NAV) <sup>(c)</sup>	<u>15,121,857</u>			
Total	<u>\$ 62,444,168</u>			
<u>Assets</u>	<u>December 31, 2022</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income <sup>(a)</sup>	\$ 17,925,255	\$ -	\$ 17,925,255	\$ -
Equity securities <sup>(b)</sup>	25,670,843	25,670,843	-	-
	43,596,098	<u>\$ 25,670,843</u>	<u>\$ 17,925,255</u>	<u>\$ -</u>
Alternative investments: private equity funds (at NAV) <sup>(c)</sup>	<u>15,236,454</u>			
Total	<u>\$ 58,832,552</u>			

<sup>(a)</sup> Comprised of investment grade bonds of United States of America ("US") issuers from various industries.

<sup>(b)</sup> 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.

<sup>(c)</sup> 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 Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

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 2024 are \$2,800,000.

Estimated Future Benefit Payments

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

2024	\$ 5,024,327
2025	5,192,951
2026	5,304,329
2027	5,398,147
2028	5,464,037
2029 – 2033	27,574,034

**Defined Contribution Plan**

The System has a defined contribution pension plan (the “DC Plan”). Employees are eligible to participate in the DC Plan based upon established criteria outlined in the plan document. Expense related to the DC Plan was \$1,931,530 and \$1,868,425 for the years ended December 31, 2023 and 2022, respectively.

**NOTE L - COMMITMENTS AND CONTINGENCIES**

***Litigation and Medical Malpractice Claims***

The System is a defendant in civil actions for alleged medical malpractice. The System’s medical malpractice insurance carrier is defending these actions. In the opinion of the System, its potential liability in these actions is within the limits of the medical malpractice liability and comprehensive general liability insurance. The System 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 \$2,278,000 and \$2,519,000 at December 31, 2023 and 2022, respectively, and is included in accrued expenses and other liabilities in the consolidated balance sheets. Insurance recoveries associated with the reported claims totaled approximately \$1,327,000 and \$1,521,000 for the years ended December 31, 2023 and 2022, respectively, and are included in other assets in the consolidated balance sheets.

***Workers’ Compensation Insurance***

The System has a self-insured workers’ compensation program subject to a self-insured retention of \$750,000 per claim for both years ended December 31, 2023 and 2022. Claims exceeding the self-insured retention are covered under an excess insurance policy. The liability for workers’ compensation claims of \$1,320,000 and \$1,685,000 at December 31, 2023 and 2022, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheets.

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

**NOTE M - CONCENTRATIONS OF CREDIT RISK**

The System 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,	
	2023	2022
Medicare and Medicaid	56%	55%
Commercial and other third-party payors	26	23
Patients	9	10
Blue Cross	9	12
	100%	100%

The System 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 Federal Deposit Insurance Corporation limits. The System 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.

**NOTE N - FUNCTIONAL EXPENSES**

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Healthcare Services	General and Administrative	Total
<u>Year ended December 31, 2023</u>			
Salaries and wages	\$ 67,857,168	\$ 17,865,934	\$ 85,723,102
Employee benefits	16,082,915	4,234,428	20,317,343
Supplies and other expenses	29,429,137	6,556,357	35,985,494
Contracted services	21,189,162	14,002,834	35,191,996
Depreciation and amortization	3,610,090	4,462,751	8,072,841
Interest	-	784,489	784,489
	\$ 138,168,472	\$ 47,906,793	\$ 186,075,265

**Cape Regional Health System, Inc**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2023 and 2022**

	Healthcare Services	General and Administrative	Total
<u>Year ended December 31, 2022</u>			
Salaries and wages	\$ 63,968,363	\$ 17,596,260	\$ 81,564,623
Employee benefits	15,001,103	4,126,467	19,127,570
Supplies and other expenses	29,367,011	6,905,444	36,272,455
Contracted services	20,795,699	10,166,290	30,961,989
Depreciation and amortization	3,880,540	4,736,098	8,616,638
Interest	-	1,006,312	1,006,312
	<u>\$ 133,012,716</u>	<u>\$ 44,536,871</u>	<u>\$ 177,549,587</u>

The consolidated 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 O - SUBSEQUENT EVENTS**

The System evaluated its December 31, 2023 consolidated financial statements for subsequent events through March 13, 2024, the date the consolidated financial statements were issued. The System is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements, except as described in Note A.

SUPPLEMENTARY INFORMATION

Cape Regional Health System, Inc.

CONSOLIDATING BALANCE SHEET

December 31, 2023

	Consolidated Cape Regional Health System, Inc.	Eliminating Entries	Total	Cape Regional Health System, Inc.	Cape Regional Medical Center, Inc.	Cape Physicians Associates, P.A.	Consolidated Cape Regional Health Enterprises, Inc.	Cape Regional Holdings, LLC
<b>ASSETS</b>								
<b>Current assets</b>								
Cash and cash equivalents	\$ 270,874	\$ -	\$ 270,874	\$ 36,605	\$ 91,134	\$ 1,651	\$ 11,625	\$ 129,859
Assets limited as to use	19,004,819	-	19,004,819	-	19,004,819	-	-	-
Patient accounts receivable	17,902,320	-	17,902,320	-	15,808,040	2,087,959	6,321	-
Supplies	2,709,657	-	2,709,657	-	2,656,906	52,751	-	-
Due from affiliates, net	-	(1,433,339)	1,433,339	-	1,165,219	-	131,967	136,153
Prepaid expenses and other current assets	5,977,256	(3,872)	5,981,128	4,394	4,856,758	819,065	265,400	35,511
Total current assets	45,864,926	(1,437,211)	47,302,137	40,999	43,582,876	2,961,426	415,313	301,523
<b>Assets limited as to use</b>								
Internally designated by Board of Trustees, net of current portior	44,283,396	-	44,283,396	1,420,595	42,862,801	-	-	-
Right-of-use assets-operating leases	743,104	-	743,104	-	78,597	527,738	-	136,769
Property and equipment, net	73,670,926	-	73,670,926	101,907	55,258,555	1,515,908	1,751,968	15,042,588
Due from affiliates	-	(49,041,065)	49,041,065	48,746,000	-	327	-	294,738
Other assets	5,019,768	-	5,019,768	-	2,267,865	1,801,573	905,267	45,063
Total assets	\$ 169,582,120	\$ (50,478,276)	\$ 220,060,396	\$ 50,309,501	\$ 144,050,694	\$ 6,806,972	\$ 3,072,548	\$ 15,820,681
<b>LIABILITIES AND NET ASSETS</b>								
<b>Current liabilities</b>								
Current maturities of long-term debt	\$ 22,235,539	\$ -	\$ 22,235,539	\$ -	\$ 19,004,819	\$ -	\$ -	\$ 3,230,720
Current maturities of lease liability	940,035	-	940,035	-	669,970	153,314	-	116,751
Accounts payable	10,384,802	-	10,384,802	-	9,995,945	226,962	159,760	2,135
Accrued expenses	10,007,151	-	10,007,151	77,000	8,275,537	1,593,431	49,247	11,936
Accrued employee personal days	2,649,438	-	2,649,438	-	2,649,438	-	-	-
Due to affiliates	-	(1,732,276)	1,732,276	-	299,075	1,325,817	104,266	3,118
Estimated settlements due to third-party payors	1,263,278	-	1,263,278	-	1,111,275	152,003	-	-
Total current liabilities	47,480,243	(1,732,276)	49,212,519	77,000	42,006,059	3,451,527	313,273	3,364,660
Accrued retirement benefits	14,051,144	-	14,051,144	-	14,051,144	-	-	-
Other liabilities	5,143,338	-	5,143,338	514,078	4,629,260	-	-	-
Lease liability, net of current maturities	1,188,291	-	1,188,291	-	784,715	383,558	-	20,018
Due to affiliates	-	(48,746,000)	48,746,000	-	-	48,746,000	-	-
Long-term debt, net of current maturities	-	-	-	-	-	-	-	-
Total liabilities	67,863,016	(50,478,276)	118,341,292	591,078	61,471,178	52,581,085	313,273	3,384,678
<b>Net assets</b>								
Without donor restrictions	98,989,589	-	98,989,589	49,718,423	79,850,001	(45,774,113)	2,759,275	12,436,003
With donor restrictions	2,729,515	-	2,729,515	-	2,729,515	-	-	-
Total net assets	101,719,104	-	101,719,104	49,718,423	82,579,516	(45,774,113)	2,759,275	12,436,003
Total liabilities and net assets	\$ 169,582,120	\$ (50,478,276)	\$ 220,060,396	\$ 50,309,501	\$ 144,050,694	\$ 6,806,972	\$ 3,072,548	\$ 15,820,681

Cape Regional Health System, Inc.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31, 2023

	Consolidated Cape Regional Health System, Inc.	Eliminating Entries	Total	Cape Regional Health System, Inc.	Cape Regional Medical Center, Inc.	Cape Physicians Associates, P.A.	Consolidated Cape Regional Health Enterprises, Inc.	Cape Regional Holdings, LLC
<b>Net assets without donor restrictions</b>								
Revenue:								
Patient service revenue	\$ 154,667,860	\$ -	\$ 154,667,860	\$ -	\$ 130,402,745	\$ 24,265,115	\$ -	\$ -
Other revenue	15,940,309	(2,136,773)	18,077,082	31	7,405,924	6,668,667	2,450,735	1,551,725
Net assets released from restrictions for operations	702,754	-	702,754	-	702,754	-	-	-
Total revenue	171,310,923	(2,136,773)	173,447,696	31	138,511,423	30,933,782	2,450,735	1,551,725
Expenses:								
Salaries and wages	85,723,102	-	85,723,102	-	61,537,974	23,250,664	890,937	43,527
Employee benefits	20,317,343	-	20,317,343	-	15,559,697	4,472,691	282,077	2,878
Supplies and other expenses	35,985,494	(944,966)	36,930,460	-	31,766,928	4,234,120	431,804	497,608
Contracted services	35,191,996	(1,191,807)	36,383,803	15	30,647,041	5,355,316	214,003	167,428
Depreciation and amortization	8,072,841	-	8,072,841	11,953	6,874,055	346,124	197,965	642,744
Interest	784,489	(10,198)	794,687	-	687,857	-	10,198	96,632
Total expenses	186,075,265	(2,146,971)	188,222,236	11,968	147,073,552	37,658,915	2,026,984	1,450,817
Operating (loss) income	(14,764,342)	10,198	(14,774,540)	(11,937)	(8,562,129)	(6,725,133)	423,751	100,908
Other items:								
Investment returns	8,710,805	(10,198)	8,721,003	136,050	8,584,953	-	-	-
Other pension benefit cost	(729,635)	-	(729,635)	-	(729,635)	-	-	-
Other	(38,075)	-	(38,075)	-	11,803	-	(49,878)	-
Total other items, net	7,943,095	(10,198)	7,953,293	136,050	7,867,121	-	(49,878)	-
(Deficiency in) excess of revenues over expenses	(6,821,247)	-	(6,821,247)	124,113	(695,008)	(6,725,133)	373,873	100,908
Other changes in unrestricted net assets:								
Net assets released from restrictions for purchase of property and equipment	1,009,531	-	1,009,531	-	1,009,531	-	-	-
Other changes in pension benefit obligator	(1,542,901)	-	(1,542,901)	-	(1,542,901)	-	-	-
Transfers to affiliates	-	-	-	5,650,000	(6,150,000)	-	-	500,000
(Decrease) increase in net assets without restrictions	(7,354,617)	-	(7,354,617)	5,774,113	(7,378,378)	(6,725,133)	373,873	600,908
<b>Net assets with donor restrictions</b>								
Contributions	2,222,457	-	2,222,457	-	2,222,457	-	-	-
Investment returns	10	-	10	-	10	-	-	-
Net assets released from restrictions for operations	(702,754)	-	(702,754)	-	(702,754)	-	-	-
Net assets released from restrictions for property and equipment	(1,009,531)	-	(1,009,531)	-	(1,009,531)	-	-	-
Increase in net assets donor restrictions	510,182	-	510,182	-	510,182	-	-	-
<b>(DECREASE) INCREASE IN NET ASSETS</b>	(6,844,435)	-	(6,844,435)	5,774,113	(6,868,196)	(6,725,133)	373,873	600,908
<b>Net assets at beginning of year</b>	108,563,539	-	108,563,539	43,944,310	89,447,712	(39,048,980)	2,385,402	11,835,095
<b>Net assets at end of year</b>	\$ 101,719,104	\$ -	\$ 101,719,104	\$ 49,718,423	\$ 82,579,516	\$ (45,774,113)	\$ 2,759,275	\$ 12,436,003