



Financial Statements and Report of  
Independent Certified Public  
Accountants

**Cape Regional Medical Center, Inc.**

December 31, 2019 and 2018



**CAPE REGIONAL**  
HEALTH SYSTEM

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Trustees  
Cape Regional Medical Center, Inc.

**Report on the financial statements**

We have audited the accompanying financial statements of Cape Regional Medical Center, Inc. (the "Medical Center"), which comprise the balance sheets as of December 31, 2019 and 2018, 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.

**Management's responsibility for the financial statements**

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

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Regional Medical Center, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of matters**

As discussed in Note B to the financial statements, during the year ended December 31, 2019, the Medical Center adopted the following Accounting Standards Updates: 2014-09, *Revenue from Contracts with Customers*, and 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.



Philadelphia, Pennsylvania  
March 12, 2020

**Cape Regional Medical Center, Inc.**

**BALANCE SHEETS**

**December 31,**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,115,900	\$ 1,312,991
Assets limited as to use	22,004,828	24,504,828
Patient accounts receivable	14,367,255	13,969,374
Supplies	2,163,118	2,247,950
Due from affiliates	1,227,335	1,445,477
Prepaid expenses and other current assets	5,256,216	4,309,264
Total current assets	47,134,652	47,789,884
<b>Assets limited as to use:</b>		
Internally designated by Board of Trustees	67,166,668	62,311,519
Property and equipment, net	40,722,184	39,398,436
Due from affiliates	2,064,738	5,732,382
Other assets	2,793,438	2,796,438
Total assets	\$ 159,881,680	\$ 158,028,659
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 22,349,073	\$ 24,921,130
Accounts payable	6,771,920	6,305,321
Accrued expenses	6,856,683	6,688,651
Construction and retainage payable	1,322,892	-
Accrued employee personal days	2,254,369	2,375,699
Estimated settlements due to third-party payors	1,026,604	1,193,068
Total current liabilities	40,581,541	41,483,869
Accrued retirement benefits	27,626,834	22,745,262
Other liabilities	4,926,708	5,017,362
Long-term debt, net of current portion	218,894	286,310
Total liabilities	73,353,977	69,532,803
<b>Net assets:</b>		
Without donor restrictions	83,595,977	87,346,333
With donor restrictions	2,931,726	1,149,523
Total net assets	86,527,703	88,495,856
Total liabilities and net assets	\$ 159,881,680	\$ 158,028,659

The accompanying notes are an integral part of these statements.

**Cape Regional Medical Center, Inc.**

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

**Year ended December 31,**

	<b>2019</b>	<b>2018</b>
<b>Net assets without donor restrictions</b>		
Revenue:		
Patient service revenue	\$ 121,772,665	\$ 121,293,931
Other revenue	1,824,453	1,926,757
Net assets released from restrictions for operations	471,666	398,807
Total revenue	124,068,784	123,619,495
Expenses:		
Salaries and wages	53,646,470	54,841,645
Employee benefits	16,446,894	17,053,265
Supplies and other expenses	26,485,262	27,069,314
Contracted services	19,411,180	19,193,537
Depreciation and amortization	6,605,294	7,387,415
Interest	970,876	953,824
Total expenses	123,565,976	126,499,000
Operating income (loss)	502,808	(2,879,505)
Nonoperating gains (losses):		
Investment returns	14,087,147	(2,542,889)
Other	(146,118)	487,772
Total nonoperating gains (losses)	13,941,029	(2,055,117)
Excess of (deficiency in) revenue and gains over expenses and losses	14,443,837	(4,934,622)

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**Cape Regional Medical Center, Inc.**

**STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED**

Year ended December 31,

	2019	2018
<b>Net assets without donor restrictions - Continued</b>		
Excess of (deficiency in) revenue and gains over expenses and losses <i>(from previous page)</i>	\$ 14,443,837	\$ (4,934,622)
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for purchase of property and equipment	150,850	444,508
Other changes in pension benefit obligation	(6,189,525)	(614,272)
Transfer to Cape Regional Health System, Inc.	(12,155,518)	(6,125,000)
Decrease in net assets without donor restrictions	(3,750,356)	(11,229,386)
<b>Net assets with donor restrictions</b>		
Contributions	2,423,610	1,315,332
Investment returns	(18,891)	(45,919)
Net assets released from restrictions for operations	(471,666)	(398,807)
Net assets released from restrictions for purchase of property and equipment	(150,850)	(444,508)
Increase in net assets with donor restrictions	1,782,203	426,098
Decrease in net assets	(1,968,153)	(10,803,288)
Net assets at beginning of year	88,495,856	99,299,144
Net assets at end of year	\$ 86,527,703	\$ 88,495,856

The accompanying notes are an integral part of these statements.

**Cape Regional Medical Center, Inc.**

**STATEMENTS OF CASH FLOWS**

**Year ended December 31,**

	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Decrease in net assets	\$ (1,968,153)	\$ (10,803,288)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Other changes in pension benefit obligation	6,189,525	614,272
Depreciation and amortization	6,605,294	7,387,415
Equity loss in unconsolidated joint venture	-	84,513
Net realized and unrealized (gains) losses on investments	(11,592,196)	5,337,199
Transfer to Cape Regional Health System, Inc.	12,155,518	6,125,000
Restricted contributions	(2,423,610)	(1,315,332)
Changes in operating assets and liabilities:		
Patient accounts receivable	(397,881)	1,287,859
Supplies	84,832	(169,186)
Due from affiliates	218,142	(320,735)
Prepaid expenses and other assets	(693,952)	(446,170)
Accounts payable	466,609	127,107
Accrued expenses and other liabilities	77,378	150,298
Accrued employee personal days	(121,330)	108,151
Estimated settlements due to third-party payors	(166,464)	(544,694)
Accrued retirement benefits	(1,307,953)	(2,773,084)
	7,125,759	4,849,325
<b>Investing activities</b>		
Investment in unconsolidated joint venture	(250,000)	-
Change in assets limited as to use	9,237,047	2,697,427
Additions to property and equipment, net	(6,606,150)	(4,721,507)
	2,380,897	(2,024,080)
<b>Financing activities</b>		
Due from affiliates	3,667,644	(3,185,581)
Proceeds from restricted contributions	2,423,610	1,315,332
Transfer to Cape Regional Health System, Inc.	(12,155,518)	(6,125,000)
Net (payments) proceeds of long-term debt	(2,639,483)	2,571,928
	(8,703,747)	(5,423,321)
Increase (decrease) in cash and cash equivalents	802,909	(2,598,076)
Cash and cash equivalents at beginning of year	1,312,991	3,911,067
Cash and cash equivalents at end of year	\$ 2,115,900	\$ 1,312,991
<b>Supplemental noncash investing activities</b>		
Change in construction and retainage payable	\$ 1,322,892	\$ -

The accompanying notes are an integral part of these statements.



**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

**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. The Medical Center owns a 50% interest in Cape Regional Home Healthcare managed by Bayada, a not-for-profit entity that provides home care and hospice services.

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 a 50% 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, and as the owner of Cape Cardiology Associates, Inc. ("CCA") provides EKG interpretation services. CRHE owns a 50% interest in Cape Radiology, LLC, an outpatient radiology center. CRHE owns a 66% interest in Cape Regional Physical Therapy Management Services, LLC ("CRPT"), which provides management services for the operation of physical therapy practices in Cape May County. CRHE owns a 50% interest in Cape Regional Sleep Services, LLC ("CRSS"), which provides management and clinical services for the performance of sleep studies. CRHE owns 80% of Cape Regional Miracles Fitness ("CRMF"), which provides health, wellness and fitness programs to Cape May County residence. CRHE also manages health care rental real estate.

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

***Recently Adopted Accounting Pronouncements***

Effective July 1, 2018, the Medical Center adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU 2014-09"), using the retrospective method of application to all contracts existing on July 1, 2017. The core principle of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the standard had no impact on the Medical Center's current or historical financial position, results of operations or cash flows. Additionally, management does not anticipate that the standard will have an impact on the amount or timing of when the Medical Center recognizes revenue prospectively. However, in accordance with the standard, the Medical Center now recognizes its previously reported provision for bad debts of \$4,946,940 for 2018, primarily related to its self-pay patient population, as a direct reduction to revenues as an implicit pricing concession, instead of separately as a discrete deduction to arrive at patient service revenue. The Medical Center's revenue recognition and accounts receivable policies are more fully described below.

Effective July 1, 2018, the Medical Center adopted retrospectively and applied the practical expedient for FASB ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard makes changes to the presentation of net periodic pension cost in the income statement for employers that sponsor defined benefit pension and/or other postretirement benefit plans. Employers are required to present the service cost component of net periodic benefit cost in the same statement of operations line item as other employee compensation costs

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

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

arising from services rendered during the period. Employers are also required to present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income. This change resulted in a reclassification of the other components of the net periodic benefit cost for its pension plan for the year ended December 31, 2018. The other components of the net periodic benefit cost for the postretirement benefit plan, the net benefit (cost) credit of \$(196,493) and \$507,275 for the years ended December 31, 2019 and 2018, respectively, are recorded within nonoperating gains (losses) as a component of other in the statements of operations and changes in net assets.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. 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.

***Patient Accounts Receivable***

Patient accounts receivable for which the Medical Center receives payment under cost reimbursement, prospective payment formulas, or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payers, which are generally less than the established billing rates of the Medical Center.

The Medical Center recognizes a receivable 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.

Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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

***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 G). 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 net unrealized gains and losses are recorded as nonoperating gains (losses). Realized gains and losses for all investments are calculated by the first-in, first-out method. Investment returns are net of investment fees of \$437,812 and \$423,824 for the years ended December 31, 2019 and 2018, respectively.

***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 J) and an investment in a joint venture, 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 in the statements of operations and changes in net assets as a component of other in nonoperating gains (losses).

***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.

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

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

***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. The Medical Center recognizes revenues 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. The Medical Center 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 Medical Center 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.

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, 2019, 2018, 2017 and 2016. In the opinion of management, adequate provision has been made for any adjustment which 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, 2019 and 2018**

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

Patient service revenue from the Medicare, Medicaid, and Horizon Blue Cross programs accounted for approximately 50%, 13% and 20%, respectively, for the year ended December 31, 2019 and 50%, 13% and 19%, respectively, for the year ended December 31, 2018 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, 2019 and 2018, 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, 2019 and 2018, the Medical Center incurred advertising costs of \$394,466 and \$353,247, respectively, which are included in supplies and other expenses in the accompanying statements of operations and changes in net assets.

***Excess of (Deficiency in) Revenue and Gains over Expenses and Losses***

The statements of operations and changes in net assets include the excess of (deficiency in) revenue and gains over expenses and losses 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 nonoperating gains (losses). Changes in net assets without donor restrictions, which are excluded from the excess of (deficiency in) revenue and gains over expenses and losses, 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 (\$2,873,726 and \$1,091,523 at December 31, 2019 and 2018, respectively) and in perpetuity, with the income used in accordance with donor intentions (\$58,000 at December 31, 2019 and 2018).

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

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

***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.

***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.

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

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

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, 2019			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 2,590,202	\$ -	\$ 2,590,202	\$ -
Mutual funds	27,674,388	23,608,599	4,065,789	-
Equity securities	29,875,729	29,875,729	-	-
Fixed income securities	25,632,369	-	25,632,369	-
<b>Total</b>	<b>\$ 85,772,688</b>	<b>\$ 53,484,328</b>	<b>\$ 32,288,360</b>	<b>\$ -</b>

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Government securities	\$ 3,364,960	\$ -	\$ 3,364,960	\$ -
Mutual funds	25,578,368	21,031,799	4,546,569	-
Equity securities	30,759,888	30,759,888	-	-
Fixed income securities	23,341,488	-	23,341,488	-
<b>Total</b>	<b>\$ 83,044,704</b>	<b>\$ 51,791,687</b>	<b>\$ 31,253,017</b>	<b>\$ -</b>

***Pending Accounting Pronouncement***

***Leases***

In February 2016, the FASB issued 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 is effective for fiscal years beginning after December 15, 2020. 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 amounts in the 2018 financial statements have been reclassified to be consistent with the 2019 presentation, primarily due to the recently adopted accounting pronouncements

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE C - LIQUIDITY AND AVAILABILITY**

As of December 31, 2019 and 2018, the adjusted working capital was \$73,719,779 and \$68,617,534, respectively, and the adjusted average days of cash on hand was 285 days and 271 days, respectively, both of which include the internally designated assets limited as to use.

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

	December 31,	
	2019	2018
Cash	\$ 2,115,900	\$ 1,312,991
Patient accounts receivable	14,367,255	13,969,374
Due from affiliates	1,227,335	1,445,477
Assets limited as to use, internally designated by Board of Trustees	64,234,942	61,161,996
	<u>81,945,432</u>	<u>77,889,838</u>
Available line of credit	8,995,172	6,495,172
	<u>\$ 90,940,604</u>	<u>\$ 84,385,010</u>

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

Excess cash is invested in accordance with the Board of Trustees' investment policy and there are no investments with purchase commitments at December 31, 2019.

**NOTE D - 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 \$1,316,000 and \$1,328,000 for the years ended December 31, 2019 and 2018, respectively.

Gross charges forgone related to charity care services amounted to approximately \$9,078,000 and \$8,509,000 for the years ended December 31, 2019 and 2018, 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.

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.



**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE D - UNCOMPENSATED CARE - Continued**

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 \$121,000 and \$106,000 for charity care, which is included in patient service revenue for the years ended December 31, 2019 and 2018, 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 E - INVESTMENTS**

	December 31,	
	2019	2018
Internally designated by Board of Trustees:		
Cash and cash equivalents	\$ 3,210,251	\$ 3,590,318
Government securities	2,590,202	3,364,960
Mutual funds	27,674,388	25,578,368
Equity securities	29,875,729	30,759,888
Fixed income securities	25,632,369	23,341,488
Accrued interest receivable	188,557	181,325
	89,171,496	86,816,347
Less amounts required for current liabilities	(22,004,828)	(24,504,828)
	\$ 67,166,668	\$ 62,311,519

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,	
	2019	2018
Other revenue:		
Interest income	\$ 20,327	\$ 17,586
Nonoperating gains (losses):		
Interest and dividend income	\$ 2,494,951	\$ 2,794,310
Net realized gains on sale of investments	4,425,866	4,332,517
Change in unrealized gains and losses	7,166,330	(9,669,716)
	\$ 14,087,147	\$ (2,542,889)

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE F - PROPERTY AND EQUIPMENT**

	December 31,	
	2019	2018
Land	\$ 475,499	\$ 475,499
Land improvements	2,236,892	2,219,882
Buildings and building improvements	67,083,655	66,680,502
Fixed equipment	29,659,579	29,626,096
Major movable equipment	95,758,834	93,212,827
	195,214,459	192,214,806
Less accumulated depreciation and amortization	(160,171,606)	(153,933,699)
	35,042,853	38,281,107
Construction in progress	5,679,331	1,117,329
	\$ 40,722,184	\$ 39,398,436

Depreciation and amortization expense related to property and equipment amounted to \$6,605,294 and \$7,387,415 for the years ended December 31, 2019 and 2018, respectively.

The Medical Center has a remaining commitment for the construction for the ambulatory surgery center of \$5,814,517 at December 31, 2019. The ambulatory surgery center is currently under construction and is funded primarily through internally designated funds. The project is expected to be completed in July 2020.

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

	December 31,	
	2019	2018
Equipment	\$ 1,678,665	\$ 1,358,106
Less accumulated amortization	(1,115,575)	(658,930)
	\$ 563,090	\$ 699,176

**NOTE G - LONG-TERM DEBT**

	December 31,	
	2019	2018
Revolving line of credit	\$ 22,004,828	\$ 24,504,828
Obligations under capital leases, with interest rates ranging from 2.22% to 3.61% secured by leased equipment	563,139	702,612
	22,567,967	25,207,440
Less current portion	(22,349,073)	(24,921,130)
	\$ 218,894	\$ 286,310

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE G - LONG-TERM DEBT - Continued**

***Revolving Line of Credit***

The Medical Center has a \$31,000,000 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 \$22,004,828 and \$24,504,828 at December 31, 2019 and 2018, 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. A summary of the tranches is as follows:

Amounts outstanding December 31,		Interest rate type	Interest rate	Due dates
2019	2018			
\$ -	\$ 2,500,000	Fixed	3.312%	March 27, 2019
2,500,000	2,500,000	Fixed	3.545%	March 27, 2020
3,600,000	3,600,000	Fixed	3.987%	February 26, 2021
2,900,000	2,900,000	Fixed	3.898%	March 28, 2022
2,000,000	2,000,000	Fixed	3.442%	June 27, 2023
2,000,000	2,000,000	Fixed	3.559%	June 27, 2024
2,254,828	2,254,828	Fixed	4.389%	April 16, 2025
2,250,000	2,250,000	Fixed	4.450%	April 16, 2026
2,250,000	2,250,000	Fixed	4.512%	April 16, 2027
2,250,000	2,250,000	Fixed	4.574%	April 17, 2028
<u>\$ 22,004,828</u>	<u>\$ 24,504,828</u>			

In February 2020, the Medical Center borrowed additional tranches under the revolving line of credit agreement for a total of \$8,000,000, of which half has a due date and interest rate of February 26, 2029 and 3.165%, respectively, and half has a due date and interest rate of February 25, 2030 and 3.029%, respectively.

Future payments on long-term debt are as follows:

	Revolving Line of Credit	Capital Leases
2020	\$ 22,004,828	\$ 247,354
2021	-	199,028
2022	-	134,901
2023	-	6,985
	<u>\$ 22,004,828</u>	588,268
Less amounts representing interest on capital leases		<u>(25,129)</u>
		<u>\$ 563,139</u>

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE H - 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 31<sup>st</sup> 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-2019.

The following table summarizes information about the defined benefit plan:

	December 31,	
	2019	2018
Accumulated benefit obligation	\$ 88,867,182	\$ 78,265,182
Changes in benefit obligation		
Projected benefit obligation, beginning of year	\$ 78,265,182	\$ 85,137,138
Interest cost	3,375,044	3,138,864
Actuarial loss (gain)	10,655,743	(6,864,238)
Benefits paid	(3,428,787)	(3,146,582)
Projected benefit obligation, end of year	88,867,182	78,265,182
Changes in plan assets		
Fair value of plan assets, beginning of year	55,519,920	60,233,064
Actual return on plan assets	8,393,389	(3,088,793)
Contributions by the Medical Center	1,504,446	2,265,809
Benefits and expenses paid	(4,177,407)	(3,890,160)
Fair value of plan assets, end of year	61,240,348	55,519,920
Funded status of the plan - accrued retirement benefits	\$ (27,626,834)	\$ (22,745,262)
Amounts recognized in accumulated net assets without donor restrictions		
Net loss	\$ 37,946,324	\$ 31,756,799

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE H - POSTRETIREMENT BENEFIT PLANS - Continued**

	Year ended December 31,	
	2019	2018
Components of net periodic benefit cost (credit) and other recognized in nonoperating gains and losses as a component of other		
Interest cost	\$ 3,375,044	\$ 3,138,864
Expected return on plan assets	(4,098,778)	(4,501,879)
Amortization of net loss	920,227	855,740
Net pension benefit cost (credit)	196,493	(507,275)
Other changes in pension benefit obligation recognized in net assets without donor restrictions		
Net loss	7,109,752	1,470,012
Recognized loss	(920,227)	(855,740)
Total recognized in net assets without donor restrictions	6,189,525	614,272
Total recognized in net benefit cost (credit) and net assets without donor restrictions	\$ 6,386,018	\$ 106,997
Amounts expected to be recognized in net periodic benefit cost in the following year - 2020		
Net loss	\$ 1,167,991	

	Year ended December 31,	
	2019	2018
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	3.38%	4.39%
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	4.39%	3.73%
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.

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE H - POSTRETIREMENT BENEFIT PLANS - Continued**

***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 re-allocated throughout the year for market changes.

***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	Year ended December 31,	
		2019	2018
Fixed income	30-50%	34%	36%
Equity securities	40-60%	48	45
Alternative investments: private equity funds	10-20%	18	19
		<u>100%</u>	<u>100%</u>

***Fair Value of the Plan Assets***

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

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Fixed income <sup>(a)</sup>	\$ 20,960,439	\$ -	\$ 20,960,439	\$ -
Equity securities <sup>(b)</sup>	<u>29,059,134</u>	<u>29,059,134</u>	<u>-</u>	<u>-</u>
	50,019,573	<u>\$ 29,059,134</u>	<u>\$ 20,960,439</u>	<u>\$ -</u>
Alternative investments: private equity funds (at NAV) <sup>(c)</sup>	<u>11,220,775</u>			
Total	<u>\$ 61,240,348</u>			

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE H - POSTRETIREMENT BENEFIT PLANS - Continued**

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
<u>Assets</u>				
Fixed income <sup>(a)</sup>	\$ 19,950,743	\$ -	\$ 19,950,743	\$ -
Equity securities <sup>(b)</sup>	24,790,806	24,790,806	-	-
	44,741,549	\$ 24,790,806	\$ 19,950,743	\$ -
Alternative investments: private equity funds (at NAV) <sup>(c)</sup>	10,778,371			
Total	\$ 55,519,920			

(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.

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 2020 are \$4,100,000.

*Estimated Future Benefit Payments*

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

2020	\$ 3,558,556
2021	3,712,874
2022	3,870,091
2023	4,065,177
2024	4,226,329
2025 - 2029	23,778,934

**Cape Regional Medical Center, Inc.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE H - POSTRETIREMENT BENEFIT PLANS - Continued**

***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 \$1,990,000 and \$2,024,448 for the years ended December 31, 2019 and 2018, respectively.

**NOTE I - RELATED PARTY TRANSACTIONS**

The following table summarizes the Medical Center's notes receivable and advances to CRHE, all of which are collateralized by certain property owned by the related party:

	December 31,	
	2019	2018
\$1,400,000 note, principal and interest due monthly over 25 years through 2027, interest at 4.00%	\$ 637,210	\$ 705,129
\$1,270,500 note, with no specific principal repayment terms, interest due monthly at 3.30%	-	276,346
\$743,252 note, principal and interest due monthly over 10 years through 2026, interest at 2.50%	743,252	743,252
\$1,019,000 note, principal and interest due monthly over 25 years through 2037, interest at 3.50%	789,105	822,074
Unstructured advances	-	3,360,038
	2,169,567	5,906,839
Less current portion	(104,829)	(174,457)
	\$ 2,064,738	\$ 5,732,382

**NOTE J - 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 \$3,750,000 and \$4,330,000 at December 31, 2019 and 2018, respectively, and is included in accrued expenses and other liabilities in the balance sheets. Insurance recoveries associated with the reported claims totaled approximately \$2,780,000 and \$3,200,000 for the years ended December 31, 2019 and 2018, respectively, and are included in other assets in the balance sheets.



Cape Regional Medical Center, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

**NOTE J - COMMITMENTS AND CONTINGENCIES - Continued**

***Workers' Compensation Insurance***

The Medical Center has a self-insured workers' compensation program subject to a self-insured retention of \$500,000 per claim for both years ended December 31, 2019 and 2018. Claims exceeding the self-insured retention are covered under an excess insurance policy. The liability for workers' compensation claims of \$1,140,000 and \$1,160,000 at December 31, 2019 and 2018, respectively, is included in accrued expenses and other liabilities in the balance sheets.

**NOTE K - 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,	
	2019	2018
Medicare and Medicaid	30%	34%
Commercial and other third-party payors	20	23
Patients	42	34
Blue Cross	8	9
	<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, 2019 and 2018**

**NOTE L - 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>2019</u>			
Salaries and wages	\$ 39,212,451	\$ 14,434,019	\$ 53,646,470
Employee benefits	12,021,723	4,425,171	16,446,894
Supplies and other expenses	20,262,215	6,223,047	26,485,262
Contracted services	8,788,002	10,623,178	19,411,180
Depreciation and amortization	3,118,355	3,486,939	6,605,294
Interest	-	970,876	970,876
Total	<u>\$ 83,402,746</u>	<u>\$ 40,163,230</u>	<u>\$ 123,565,976</u>
<u>2018</u>			
Salaries and wages	\$ 40,505,407	\$ 14,336,238	\$ 54,841,645
Employee benefits	12,727,953	4,325,312	17,053,265
Supplies and other expenses	20,377,443	6,691,871	27,069,314
Contracted services	8,596,002	10,597,535	19,193,537
Depreciation and amortization	3,799,470	3,587,945	7,387,415
Interest	-	953,824	953,824
Total	<u>\$ 85,006,275</u>	<u>\$ 40,492,725</u>	<u>\$ 126,499,000</u>

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 M - SUBSEQUENT EVENTS**

The Medical Center evaluated its December 31, 2019 financial statements for subsequent events through March 12, 2020, 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, except as noted elsewhere in the notes to the financial statements.



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