Financial Statements and Report of Independent Certified Public Accountants

Cape Regional Medical Center, Inc.

December 31, 2020 and 2019

CAPE REGIONAL
HEALTH SYSTEM

Contents

	Page
Report of Independent Certified Public Accountants	3
Financial Statements	
Balance sheets	5
Statements of operations and changes in net assets	6
Statements of cash flows	7
Notes to financial statements	8

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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, 2020 and 2019, 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.

GrantThornton

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, 2020 and 2019, 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.

Grant Thornton LLP

Philadelphia, Pennsylvania
March 12, 2021

Cape Regional Medical Center, Inc.

BALANCE SHEETS

December 31,

		2020		2019
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	7,679,099	$	2,115,900
Assets limited as to use		29,504,828		22,004,828
Patient accounts receivable		12,531,467		14,367,255
Supplies		3,348,044		2,163,118
Due from affiliates		116,243		1,227,335
Prepaid expenses and other current assets		4,001,791		5,256,216
Total current assets		57,181,472		47,134,652
ASSETS LIMITED AS TO USE				
Internally designated by Board of Trustees, net of current portion		84,979,944		67,166,668
Property and equipment, net		47,405,053		40,722,184
Due from affiliate		1,955,815		2,064,738
Other assets		3,108,733		2,793,438
Total assets	$	194,631,017	$	159,881,680
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of long-term debt	$	21,290,367	$	22,349,073
Accounts payable		5,957,957		6,771,920
Accrued expenses		7,896,812		6,856,683
Due to affiliates		530,502		-
Construction and retainage payable		-		1,322,892
Accrued employee personal days		2,970,629		2,254,369
Estimated settlements due to third-party payors		13,137,697		1,026,604
Total current liabilities		51,783,964		40,581,541
Accrued retirement benefits		29,503,834		27,626,834
Estimated settlements due to third-party payors, net of current portion		14,101,099		-
Other liabilities		6,381,119		4,926,708
Long-term debt, net of current portion		205,927		218,894
Total liabilities		101,975,943		73,353,977
NET ASSETS				
Without donor restrictions		87,752,102		83,595,977
With donor restrictions		4,902,972		2,931,726
Total net assets		92,655,074		86,527,703
Total liabilities and net assets	$	194,631,017	$	159,881,680

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

Cape Regional Medical Center, Inc.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31,

	2020	2019
Net assets without donor restrictions		
Revenue:		
Patient service revenue	$ 108,299,288	$ 121,772,665
Other revenue	14,839,642	1,824,453
Net assets released from restrictions for operations	405,600	471,666
Total revenue	123,544,530	124,068,784
Expenses:		
Salaries and wages	51,474,888	53,646,470
Employee benefits	15,468,551	16,446,894
Supplies and other expenses	26,555,103	26,485,262
Contracted services	22,473,588	19,411,180
Depreciation and amortization	6,126,913	6,605,294
Interest	1,120,000	970,876
Total expenses	123,219,043	123,565,976
Operating income	325,487	502,808
Nonoperating gains (losses):		
Investment returns	11,022,143	14,087,147
Other	510,612	(146,118)
Total nonoperating gains, net	11,532,755	13,941,029
Excess of revenue and gains over expenses and losses	11,858,242	14,443,837
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for purchase of property and equipment	7,409	150,850
Other changes in pension benefit obligation	(6,009,526)	(6,189,525)
Transfer to Cape Regional Health System, Inc.	(1,700,000)	(12,155,518)
Increase (decrease) in net assets without donor restrictions	4,156,125	(3,750,356)
Net assets with donor restrictions		
Contributions	2,385,928	2,423,610
Investment returns	(1,673)	(18,891)
Net assets released from restrictions for operations	(405,600)	(471,666)
Net assets released from restrictions for purchase of property and equipment	(7,409)	(150,850)
Increase in net assets with donor restrictions	1,971,246	1,782,203
Increase (decrease) in net assets	6,127,371	(1,968,153)
Net assets at beginning of year	86,527,703	88,495,856
Net assets at end of year	$ 92,655,074	$ 86,527,703

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

Cape Regional Medical Center, Inc.

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2020	2019
Operating activities		
Increase (decrease) in net assets	$ 6,127,371	$ (1,968,153)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Other changes in pension benefit obligation	6,009,526	6,189,525
Depreciation and amortization	6,126,913	6,605,294
Equity gain in unconsolidated joint venture	(375,141)	-
Net realized and unrealized gains on investments	(9,222,715)	(11,592,196)
Transfer to Cape Regional Health System, Inc.	1,700,000	12,155,518
Restricted contributions	(2,385,928)	(2,423,610)
Changes in operating assets and liabilities:		
Patient accounts receivable	1,835,788	(397,881)
Supplies	(1,184,926)	84,832
Due from affiliates	1,641,594	218,142
Prepaid expenses and other assets	1,314,271	(693,952)
Accounts payable	(813,963)	466,609
Accrued expenses and other liabilities	2,494,540	77,378
Accrued employee personal days	716,260	(121,330)
Estimated settlements due to third-party payors	26,212,192	(166,464)
Accrued retirement benefits	(4,132,526)	(1,307,953)
Net cash provided by operating activities	36,063,256	7,125,759
Investing activities		
Investment in unconsolidated joint venture	-	(250,000)
Change in assets limited as to use	(16,090,561)	9,237,047
Additions to property and equipment, net	(14,132,674)	(6,606,150)
Net cash (used in) provided by investing activities	(30,223,235)	2,380,897
Financing activities		
Due from affiliates	108,923	3,667,644
Proceeds from restricted contributions	2,385,928	2,423,610
Transfer to Cape Regional Health System, Inc.	(1,700,000)	(12,155,518)
Net payments of long-term debt	(1,071,673)	(2,639,483)
Net cash used in financing activities	(276,822)	(8,703,747)
Increase in cash and cash equivalents	5,563,199	802,909
Cash and cash equivalents at beginning of year	2,115,900	1,312,991
Cash and cash equivalents at end of year	$ 7,679,099	$ 2,115,900
Supplemental noncash investing activities		
Change in construction and retainage payable	$ (1,322,892)	$ 1,322,892

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

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

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Assets Limited as to Use, Investments and Investment Income

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Interest and dividend income, realized gains and losses, and the change in 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 $370,943 and $437,812 for the years ended December 31, 2020 and 2019, 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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Other Assets

Other assets include amounts due from insurance recoveries related to medical malpractice claims (Note K) and an investment in 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.

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2020, 2019, 2018 and 2017. In the opinion of management, adequate provision has been made for any adjustment that may result from the final settlement of cost reports or appeal items that have not reached final settlement. Differences between the estimated adjustments and the amounts settled are recorded in the year of settlement. Appeal issues are recorded when realization is reasonably assured.

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

Patient service revenue from the Medicare, Medicaid, and Horizon Blue Cross programs accounted for approximately 51%, 11% and 21%, respectively, for the year ended December 31, 2020 and 50%, 13% and 20%, respectively, for the year ended December 31, 2019 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, 2020 and 2019, 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, 2020 and 2019, the Medical Center incurred advertising costs of $162,286 and $394,466, respectively, which are included in supplies and other expenses in the accompanying statements of operations and changes in net assets.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Excess of Revenue and Gains over Expenses and Losses

The statements of operations and changes in net assets include the excess of 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 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 ($4,844,972 and $2,873,726 at December 31, 2020 and 2019, respectively) and in perpetuity, with the income used in accordance with donor intentions ($58,000 at December 31, 2020 and 2019).

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Level 3 - Valuations based on inputs that are unobservable and models that are significant to the overall fair value measurement.

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

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Government securities	$ 4,182,905	$ -	$ 4,182,905	$ -
Mutual funds	31,815,630	27,557,323	4,258,307	-
Equity securities	35,656,118	35,656,118	-	-
Fixed income securities	25,533,395	-	25,533,395	-
Total	$ 97,188,048	$ 63,213,441	$ 33,941,607	$ -

	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	-
Total	$ 85,772,688	$ 53,484,328	$ 32,288,360	$ -

Pending Accounting Pronouncement

Leases

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

NOTE C - IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which started to and continues to spread throughout the United States of America. As a result of the COVID-19 pandemic, the Medical Center experienced a decline in patient visits, admissions, and medical procedures performed. Elective medical procedures were suspended by state and local governments at varying time periods beginning in mid-March through late May 2020, contributing to a significant decline in patient service revenue due to COVID-19 when compared to historic and forecasted results for that period. Additionally, in response to the pandemic, the Medical Center incurred additional costs for testing, personal protective equipment, third-party contract services and other operating costs associated with ensuring employee and patient safety while operating during a pandemic. Since late May, the Medical Center has begun to see increases in its patient visits, admissions, and medical procedures, however, volumes have not returned to pre-pandemic levels. Management is actively monitoring operating revenues, and expenses and based on the continuing uncertainties of COVID-19, it is unable to determine if it will have a material impact on its operations for the year ending December 31, 2021.

The Medical Center received grant payments, which are considered nonexchange transactions, from the federal government distributed under the Coronavirus Aid, Recovery and Economic Security (“CARES”) Act. For the year ended December 31, 2020, the Medical Center received total payments of $16,789,776. While the federal regulations have not yet been finalized, the Medical Center believes it has met the conditions to retain a total of $13,500,000 of these payments, which are included in other revenue in the statement of operations and changes in net assets. The remaining amount of $3,289,776 is included in estimated settlements due to third-party payors at December 31, 2020, in the balance sheet. The CARES Act payments are subject to audit and compliance with federal regulations and future grant payments are uncertain at this time.

The CARES Act also provided for an expansion of the Medicare Accelerated and Advance Payment Program (Medicare Advances) for patient services. Under the program, the Medical Center received $22,601,099 in April 2020, and recorded these payments in estimated settlements due to third-party payors in the balance sheet. Prior to the beginning of the recoupment period (which begins 12 months (April 2021) from the date the first advance payment was issued), the Medical Center continued to bill for services provided to Medicare patients and was paid by Medicare, as usual. Once the recoupment period begins, amounts billed to Medicare for services provided will be offset against the advance payments received until the advance is fully recouped by the Medicare program. During the first 11 months when such payment offsets are made, a total of 25% of the amount will be due ($8,500,000 is estimated to be repaid during the year ending December 31, 2021); during the succeeding 6 months, 50% of the amount will be due; and the Medical Center will have 24 months before the outstanding balance will be required to be paid in full. If the advance has not been entirely offset by claims at the end of this period, the Medical Center will be required to repay the remaining amount.

Additionally, the Internal Revenue Service (“IRS”) allowed the Medical Center to defer remittance of payroll taxes of $2,424,952 through the year ended December 31, 2020, which is included in accrued expenses and other liabilities in the balance sheet. 50% of the deferred payroll taxes must be paid by December 31, 2021, with the remaining balance due by December 31, 2022.

NOTE D - LIQUIDITY AND AVAILABILITY

As of December 31, 2020 and 2019, the adjusted working capital was $76,218,353 and $73,661,779, respectively, and the adjusted average days of cash on hand was 245 days and 216 days, respectively, both of which include the internally designated assets limited as to use, excluding amounts held as collateral on the revolving line of credit and Medicare Advances.

NOTE D - LIQUIDITY AND AVAILABILITY - CONTINUED

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

	December 31,	
	2020	2019
Cash	$ 7,679,099	$ 2,115,900
Patient accounts receivable	12,531,467	14,367,255
Due from affiliates	116,243	1,227,335
Assets limited as to use, internally designated by Board of Trustees	70,820,845	67,108,668
	91,147,654	84,819,158
Available line of credit	19,995,172	8,995,172
	$ 111,142,826	$ 93,814,330

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

Excess cash is invested in accordance with the Board of Trustees' investment policy and there are no investments with purchase commitments at December 31, 2020.

NOTE E - UNCOMPENSATED CARE

The Medical Center provides charity care to patients who meet certain financial criteria established by the State of New Jersey. The direct and indirect cost of services and supplies furnished to patients eligible for such charity care, using a ratio of cost to gross charges, approximated $1,032,000 and $1,316,000 for the years ended December 31, 2020 and 2019, respectively. Gross charges forgone related to charity care services amounted to approximately $6,423,000 and $9,078,000 for the years ended December 31, 2020 and 2019, 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.

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 $95,000 and $121,000 for charity care, which is included in patient service revenue for the years ended December 31, 2020 and 2019, respectively. The Health Care Subsidy Fund amounts are subject to change from year to year based on available state budget amounts and allocation methodologies.

NOTE F - INVESTMENTS

	December 31, 2020	December 31, 2019
Internally designated by Board of Trustees:		
Cash and cash equivalents	$ 17,106,076	$ 3,210,251
Government securities	4,182,905	2,590,202
Mutual funds	31,815,630	27,674,388
Equity securities	35,656,118	29,875,729
Fixed income securities	25,533,395	25,632,369
Accrued interest receivable	190,648	188,557
	114,484,772	89,171,496
Less amounts required for current liabilities:		
Medicare advances (Note C)	(8,500,000)	-
Revolving line of credit (Note H)	(21,004,828)	(22,004,828)
	(29,504,828)	(22,004,828)
	$ 84,979,944	$ 67,166,668

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

	Years ended December 31, 2020	Years ended December 31, 2019
Other revenue:		
Interest income	$ 40,681	$ 20,327
Nonoperating gains:		
Interest and dividend income	$ 1,799,428	$ 2,494,951
Net realized gains on sale of investments	728,856	4,425,866
Change in unrealized gains and losses	8,493,859	7,166,330
	$ 11,022,143	$ 14,087,147

NOTE G - PROPERTY AND EQUIPMENT

	December 31, 2020	December 31, 2019
Land	$ 475,499	$ 475,499
Land improvements	2,236,892	2,236,892
Buildings and building improvements	67,297,760	67,083,655
Fixed equipment	29,778,829	29,659,579
Major movable equipment	99,347,698	95,758,834
	199,136,678	195,214,459
Less accumulated depreciation and amortization	(166,054,853)	(160,171,606)
	33,081,825	35,042,853
Construction in progress	14,323,228	5,679,331
	$ 47,405,053	$ 40,722,184

Depreciation and amortization expense related to property and equipment amounted to $6,126,913 and $6,605,294 for the years ended December 31, 2020 and 2019, respectively.

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

	December 31, 2020	December 31, 2019
Equipment	$ 1,814,383	$ 1,678,665
Less accumulated amortization	(1,374,563)	(1,115,575)
	$ 439,820	$ 563,090

NOTE H - LONG-TERM DEBT

	December 31, 2020	December 31, 2019
Revolving line of credit	$ 21,004,828	$ 22,004,828
Obligations under capital leases, with interest rates ranging from 2.22% to 5.28% secured by leased equipment	491,466	563,139
	21,496,294	22,567,967
Less current portion	(21,290,367)	(22,349,073)
	$ 205,927	$ 218,894

NOTE H - LONG-TERM DEBT - CONTINUED

Revolving Line of Credit

The Medical Center has a $41,000,000 revolving line of credit with a financial institution, which has no expiration. All amounts outstanding are due on demand and are collateralized by a portion of assets limited as to use, which are held by the same financial institution. The fair value of the collateralized amounts totaled $21,004,828 and $22,004,828 at December 31, 2020 and 2019, 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.

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

Amounts Outstanding December 31,			
2020	2019	Interest Rate	Due Dates
$ -	$ 2,500,000	3.99%	February 26, 2021
-	3,600,000	3.90%	March 28, 2022
2,000,000	2,900,000	3.44%	June 27, 2023
2,000,000	2,000,000	3.56%	June 27, 2024
2,254,828	2,000,000	4.39%	April 16, 2025
2,250,000	2,254,828	4.45%	April 16, 2026
2,250,000	2,250,000	4.51%	April 16, 2027
2,250,000	2,250,000	4.57%	April 17, 2028
4,000,000	2,250,000	3.17%	February 26, 2029
4,000,000	-	4.57%	February 25, 2030
$ 21,004,828	$ 22,004,828		

Future payments on long-term debt are as follows:

	Revolving Line of Credit	Capital Leases
2021	$ 21,004,828	$ 280,702
2022	-	162,736
2023	-	37,932
2024	-	30,943
	$ 21,004,828	512,313)
Less amounts representing interest on capital leases		(20,847)
		$ 491,466

NOTE I - POSTRETIREMENT BENEFIT PLANS

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

The following table summarizes information about the defined benefit plan:

	December 31,	
	2020	2019
Accumulated benefit obligation	$ 96,717,721	$ 88,867,182
Changes in benefit obligation		
Projected benefit obligation, beginning of year	$ 88,867,182	$ 78,265,182
Interest cost	2,962,842	3,375,044
Actuarial loss	8,542,856	10,655,743
Benefits paid	(3,655,159)	(3,428,787)
Projected benefit obligation, end of year	96,717,721	88,867,182
Changes in plan assets		
Fair value of plan assets, beginning of year	61,240,348	55,519,920
Actual return on plan assets	6,677,256	8,393,389
Contributions by the Medical Center	3,735,495	1,504,446
Benefits and expenses paid	(4,439,212)	(4,177,407)
Fair value of plan assets, end of year	67,213,887	61,240,348
Funded status of the plan - accrued retirement benefits	$ (29,503,834)	$ (27,626,834)
Amounts recognized in accumulated net assets without donor restrictions		
Net loss	$ 43,955,850	$ 37,946,324

NOTE I - POSTRETIREMENT BENEFIT PLANS - CONTINUED

	Years ended December 31, 2020	2019
Components of net periodic benefit (credit) cost and other recognized in nonoperating gains and losses as a component of other:		
Interest cost	$ 2,962,842	$ 3,375,044
Expected return on plan assets	(4,526,355)	(4,098,778)
Amortization of net loss	1,166,482	920,227
Net pension benefit (credit) cost	(397,301)	196,493
Other changes in pension benefit obligation recognized in net assets without donor restrictions:		
Net loss	7,176,008	7,109,752
Recognized loss	(1,166,482)	(920,227)
Total recognized in net assets without donor restrictions	6,009,526	6,189,525
Total recognized in net benefit (credit) cost and net assets without donor restrictions	$ 5,612,495	$ 6,386,018
Amounts expected to be recognized in net periodic benefit cost in the following year - 2021		
Net loss	$ 1,429,695	$ 1,167,991
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	2.68%	3.38%
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	3.38%	4.39%
Expected long-term return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

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

Investment Policy

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

NOTE I - POSTRETIREMENT BENEFIT PLANS - CONTINUED

Plan Assets

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

Asset Category	Target Allocation	December 31, 2020	December 31, 2019
Fixed income	30-50%	34%	34%
Equity securities	40-60%	48	48
Alternative investments: private equity funds	10-20%	18	18
		100%	100%

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

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

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

(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.

NOTE I - POSTRETIREMENT BENEFIT PLANS - CONTINUED

(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 2021 are $2,800,000.

Estimated Future Benefit Payments

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

2021	$ 3,857,325
2022	3,966,504
2023	4,136,063
2024	4,273,573
2025	4,438,939
2026 - 2030	24,453,465

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 $1,531,825 and $1,990,000 for the years ended December 31, 2020 and 2019, respectively.

NOTE J - 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,	
	2020	2019
$1,400,000 note, principal and interest due monthly over 25 years through 2027, interest at 4.00%	$ 566,522	$ 637,210
$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%	754,964	789,105
	2,064,738	2,169,567
Less current portion	(108,923)	(104,829)
	$ 1,955,815	$ 2,064,738

NOTE K - COMMITMENTS AND CONTINGENCIES

Litigation and Medical Malpractice Claims

The Medical Center is a defendant in civil actions for alleged medical malpractice. The Medical Center's medical malpractice insurance carrier is defending these actions. In the opinion of the Medical Center, its potential liability in these actions is within the limits of the medical malpractice liability and comprehensive general liability insurance. The Medical Center has recorded an undiscounted liability for estimated losses from known medical malpractice claims as well as incurred but not reported claims. The liability is estimated to be $3,681,000 and $3,750,000 at December 31, 2020 and 2019, respectively, and is included in accrued expenses and other liabilities in the balance sheets. Insurance recoveries associated with the reported claims totaled approximately $2,747,000 and $2,780,000 for the years ended December 31, 2020 and 2019, respectively, and are included in other assets in the balance sheets.

Workers' Compensation Insurance

The Medical Center has a self-insured workers' compensation program subject to a self-insured retention of $750,000 per claim for both years ended December 31, 2020 and 2019. Claims exceeding the self-insured retention are covered under an excess insurance policy. The liability for workers' compensation claims of $1,170,000 and $1,140,000 at December 31, 2020 and 2019, respectively, is included in accrued expenses and other liabilities in the balance sheets.

NOTE L - CONCENTRATIONS OF CREDIT RISK

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

	December 31,	
	2020	2019
Medicare and Medicaid	35%	30%
Commercial and other third-party payors	17	20
Patients	41	42
Blue Cross	7	8
	100%	100%

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.

NOTE M - FUNCTIONAL EXPENSES

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

2020	Healthcare Services	General and Administrative	Total
Salaries and wages	$ 37,781,365	$ 13,693,523	$ 51,474,888
Employee benefits	11,353,555	4,114,996	15,468,551
Supplies and other expenses	21,607,582	4,947,521	26,555,103
Contracted services	12,907,742	9,565,846	22,473,588
Depreciation and amortization	2,837,417	3,289,496	6,126,913
Interest	-	1,120,000	1,120,000
Total	$ 86,487,661	$ 36,731,382	$ 123,219,043

2019	Healthcare Services	General and Administrative	Total
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	$ 83,402,746	$ 40,163,230	$ 123,565,976

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

NOTE N - SUBSEQUENT EVENTS

The Medical Center evaluated its December 31, 2020 financial statements for subsequent events through March 12, 2021, 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.