Financial Statements and Report of
Independent Certified Public Accountants

Cape Regional Medical Center, Inc.

December 31, 2017 and 2016

Contents

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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., which comprise the balance sheets as of December 31, 2017 and 2016, 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 entity'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 entity'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, 2017 and 2016, 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 15, 2018

Cape Regional Medical Center, Inc.

BALANCE SHEETS

December 31,

	2017	**2016**
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,911,067**	$ 4,928,851
Assets limited as to use	**21,500,000**	17,000,000
Patient accounts receivable, net of allowance for doubtful accounts of $11,437,000 in 2017 and $12,364,000 in 2016	**15,257,233**	12,943,542
Supplies	**2,078,764**	1,922,890
Due from affiliates	**1,124,742**	1,580,040
Prepaid expenses and other current assets	**4,281,803**	3,670,086
Total current assets	**48,153,609**	42,045,409
Assets limited as to use:		
Internally designated by Board of Trustees	**73,350,973**	67,691,883
Property and equipment, net	**42,064,344**	43,984,377
Due from affiliates	**2,546,801**	2,715,082
Other assets	**2,462,242**	1,243,871
Total assets	**$ 168,577,969**	$ 157,680,622
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 21,927,916**	$ 17,060,271
Accounts payable	**6,178,214**	5,026,457
Accrued expenses	**7,179,125**	7,913,566
Accrued employee personal days	**2,267,548**	2,181,207
Estimated settlements due to third-party payors, net	**1,737,762**	3,151,967
Total current liabilities	**39,290,565**	35,333,468
Accrued retirement benefits	**24,904,074**	28,843,260
Other liabilities	**4,376,590**	2,459,352
Long-term debt, net of current portion	**707,596**	54,250
Total liabilities	**69,278,825**	66,690,330
Net assets:		
Unrestricted	**98,575,719**	90,469,786
Temporarily restricted	**665,425**	462,506
Permanently restricted	**58,000**	58,000
Total net assets	**99,299,144**	90,990,292
Total liabilities and net assets	**$ 168,577,969**	$ 157,680,622

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31,

	2017	2016
Unrestricted net assets		
Revenue:		
Net patient service revenue	**$ 129,001,137**	$ 127,038,698
Provision for bad debts	**(4,648,892)**	(5,051,555)
Net patient service revenue, net of provision for bad debts	**124,352,245**	121,987,143
Other revenue	**1,448,257**	1,753,982
Net assets released from restrictions for operations	**155,238**	118,422
	125,955,740	123,859,547
Expenses:		
Salaries and wages	**55,008,182**	51,926,808
Employee benefits	**17,079,865**	17,930,019
Supplies and other expenses	**25,956,781**	24,272,665
Contracted services	**19,658,146**	17,845,197
Depreciation and amortization	**7,760,901**	7,708,149
Interest	**702,527**	595,274
	126,166,402	120,278,112
Operating (loss) income before other items	**(210,662)**	3,581,435
Other items:		
Pension settlement costs	**-**	(3,298,883)
Unrestricted contribution	**-**	2,700,773
	-	(598,110)
Operating (loss) income	**(210,662)**	2,983,325
Nonoperating gains:		
Investment returns	**12,360,887**	4,639,708
Other	**43,368**	108,211
	12,404,255	4,747,919
Excess of revenue and gains over expenses	**12,193,593**	7,731,244

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STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED

Year ended December 31,

	2017	2016
Unrestricted net assets (continued)		
Excess of revenue and gains over expenses *(from previous page)*	**$ 12,193,593**	$ 7,731,244
Other changes in unrestricted net assets:		
Net assets released from restrictions for purchase of property and equipment	**560,110**	669,432
Other changes in pension benefit obligation	**1,338,230**	1,794,549
Transfer to Cape Regional Health System, Inc.	**(5,986,000)**	(9,661,376)
Increase in unrestricted net assets	**8,105,933**	533,849
Temporarily restricted net assets		
Contributions	**937,527**	744,269
Investment returns	**(19,260)**	(7,439)
Net assets released from restrictions for operations	**(155,238)**	(118,422)
Net assets released from restrictions for purchase of property and equipment	**(560,110)**	(669,432)
Increase (decrease) in temporarily restricted net assets	**202,919**	(51,024)
Increase in net assets	**8,308,852**	482,825
Net assets at beginning of year	**90,990,292**	90,507,467
Net assets at end of year	**$ 99,299,144**	$ 90,990,292

The accompanying notes are an integral part of these statements.

Cape Regional Medical Center, Inc.

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2017	2016
Operating activities		
Increase in net assets	**$ 8,308,852**	$ 482,825
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Other changes in pension benefit obligation	**(1,338,230)**	(1,794,549)
Depreciation and amortization	**7,760,901**	7,708,149
Provision for bad debts	**4,648,892**	5,051,555
Net realized and unrealized gains on investments	**(9,939,157)**	(2,702,514)
Transfer to Cape Regional Health System, Inc.	**5,986,000**	9,661,376
Restricted contributions	**(937,527)**	(744,269)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(6,962,583)**	(8,470,053)
Supplies	**(155,874)**	16,372
Due from affiliates	**455,298**	108,065
Prepaid expenses and other assets	**(1,830,088)**	155,662
Accounts payable	**1,151,757**	(1,052,814)
Accrued expenses and other liabilities	**1,182,797**	(344,512)
Accrued employee personal days	**86,341**	(71,629)
Estimated settlements due to third-party payors, net	**(1,414,205)**	(3,068,870)
Accrued retirement benefits	**(2,600,956)**	1,327,851
Net cash provided by operating activities before trading securities	**4,402,218**	6,262,645
Assets limited as to use - trading securities	**(219,933)**	(2,043,005)
Net cash provided by operating activities	**4,182,285**	4,219,640
Investing activities		
Investment in unconsolidated joint venture	**-**	(350,000)
Additions to property and equipment, net	**(4,481,270)**	(4,457,652)
Net cash used in investing activities	**(4,481,270)**	(4,807,652)
Financing activities		
Due from affiliates, net	**168,281**	2,604,583
Proceeds from restricted contributions	**937,527**	744,269
Transfer to Cape Regional Health System, Inc.	**(5,986,000)**	(9,661,376)
Net proceeds from (repayments of) long-term debt	**4,161,393**	(2,249,745)
Net cash used in financing activities	**(718,799)**	(8,562,269)
Decrease in cash and cash equivalents	**(1,017,784)**	(9,150,281)
Cash and cash equivalents at beginning of year	**4,928,851**	14,079,132
Cash and cash equivalents at end of year	**$ 3,911,067**	$ 4,928,851
Supplementary cash flow information		
Assets required under capital lease obligations	**$ 1,359,598**	$ -

The accompanying notes are an integral part of these 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"), a not-for-profit corporation, is 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. The System is the sole shareholder of Cape Regional Health Enterprises, Inc. ("CRHE"), a for-profit entity. An employed physician is the sole shareholder of Cape Regional Physicians Associates, P.A. ("CRPA"), a for-profit multi-specialty medical group. CRPA owns a 50% interest in Cape Regional Urgent Care, LLC, a for-profit entity providing non-emergency medical care.

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 ("CRPTMSO"), 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 also manages health care rental real estate.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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 related to the determination of allowance for doubtful accounts and contractual allowances for patient accounts receivable, 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.

2. 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.

3. 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.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Allowance for Doubtful Accounts

The Medical Center provides an allowance for estimated losses resulting from uncollectible accounts. The allowance is determined by analyzing historical data and trends. Accounts receivable are charged off against the reserve for doubtful accounts when management determines that recovery is unlikely and the Medical Center ceases collection efforts and releases the accounts to collection agencies.

In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid). For receivables associated with self-pay patients, the Medical Center records a significant provision for bad debts on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable internal collection efforts have been exhausted is charged off against the allowance for doubtful accounts. During 2017, management reduced the allowance for doubtful accounts by approximately $1,000,000. This reduction is due to management's review of certain previously allowanced accounts with certain payors, that based on current proceedings will be collected.

5. Supplies

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

6. 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). All investments have been designated as a trading portfolio. Amounts required to meet current liabilities of the Medical Center 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 on trading securities are recorded as nonoperating gains. Realized gains and losses for all investments are calculated by the first-in, first-out method. Investment returns is net of investment fees of $448,464 and $428,653 for the years ended December 31, 2017 and 2016, respectively.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. 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 unrestricted net assets 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.

8. 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. Net equity gains and losses in the unconsolidated joint venture is recorded in the statements of operations and changes in net assets as other in nonoperating gains.

9. 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.

10. Net Patient Service Revenue

The Medical Center has agreements with third-party payors, including commercial insurance carriers and health maintenance organizations, which provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem and case rate payments. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Advertising Costs

The Medical Center expenses advertising costs as incurred. For the years ended December 31, 2017 and 2016, the Medical Center incurred advertising costs of $521,494 and $382,322, respectively, which are included in supplies and other expenses in the accompanying statements of operations and changes in net assets.

12. Excess of Revenue and Gains over Expenses

The statements of operations and changes in net assets include the excess of revenue and gains over expenses that represents all unrestricted revenue, expenses, gains and losses 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. Changes in unrestricted net assets, which are excluded from the excess of revenue and gains over expenses, include net assets released from restrictions for the purchase of property and equipment, other changes in pension benefit obligation, and transfers to the System.

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose, such as for future capital purchases or various department activities. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center, in perpetuity, with the income used in accordance with donor intentions.

14. 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 either temporarily or permanently 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted net assets for acquisitions of property and equipment.

15. 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. As of December 31, 2017, the Medical Center’s tax years ended December 31, 2014 through December 31, 2016 for federal tax jurisdiction remain open to examination.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Fair Value Measurements

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

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

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Valuations based on observable inputs and quoted prices in active markets for similar assets and liabilities.

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

The following fair value hierarchy table presents 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, 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
Government securities	**$ 3,103,742**	**$ -**	**$ 3,103,742**	**$ -**
Mutual funds	**30,313,614**	**25,544,514**	**4,769,100**	**-**
Equity securities	**37,693,419**	**37,693,419**	**-**	**-**
Fixed income securities	**22,675,476**	**-**	**22,675,476**	**-**
Total	**$ 93,786,251**	**$ 63,237,933**	**$ 30,548,318**	**$ -**
December 31, 2016				
Government securities	$ 2,481,270	$ -	$ 2,481,270	$ -
Mutual funds	25,860,842	21,153,275	4,707,567	-
Equity securities	31,651,893	31,651,893	-	-
Fixed income securities	23,387,913	-	23,387,913	-
Total	$ 83,381,918	$ 52,805,168	$ 30,576,750	$ -

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

17. Pending Accounting Pronouncements

Not-For-Profit Financial Reporting

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017.

Presentation of Net Periodic Pension Cost

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard intends to make changes to employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line item(s) that include(s) the service cost and outside of any subtotal of operating income, if one is presented. The new standard is effective for annual financial statements after December 15, 2017.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance 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 these goods and services. ASU 2014-09 is effective for the Medical Center for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early application is not permitted. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of retained earnings at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. Currently, the American Institute of Certified Public Accountants Healthcare Revenue Recognition Task Force is interpreting ASU 2014-09 and its effects on the health care industry.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 31, 2019. Early application is permitted. 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 ASU 2016-14, 2017-07, 2014-09 or 2016-02, at this time.

NOTE C - 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 $1,623,000 and $1,561,000 for the years ended December 31, 2017 and 2016, respectively.

Gross charges forgone related to charity care services amounted to approximately $9,960,000 and $8,917,000 for the years ended December 31, 2017 and 2016, 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 that are not identified or do not meet the previously described charity definition, such additional losses are included in the provision for bad debts.

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 $206,000 and $518,000 for charity care, which is included in net patient service revenue for the years ended December 31, 2017 and 2016, 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 D - NET PATIENT SERVICE REVENUE

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, 2017, 2016 and 2015. 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. Net patient service revenue includes net favorable settlements and other changes in allowance of approximately $3,900,000 and $1,736,000 for the years ended December 31, 2017 and 2016, respectively.

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.

Net revenue from the Medicare, Medicaid, and Horizon Blue Cross programs accounted for approximately 49%, 13% and 20%, respectively, for the year ended December 31, 2017 and 48%, 14% and 19%, respectively, for the year ended December 31, 2016 of the Medical Center's net 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 the years ended December 31, 2017 and 2016, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

	Third-Party Payors	**Self-Pay**	**Total All Payors**
2017 and 2016			
Patient service revenue (net of contractual allowances and discounts)	99%	1%	100%

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 provision for bad debts based on collection experience.

NOTE E - INVESTMENTS

	December 31, 2017	December 31, 2016
Internally designated by Board of Trustees:		
Cash and cash equivalents	**$ 882,005**	$ 1,124,522
Government securities	**3,103,742**	2,481,270
Mutual funds	**30,313,614**	25,860,842
Equity securities	**37,693,419**	31,651,893
Fixed income securities	**22,675,476**	23,387,913
Accrued interest receivable	**182,717**	185,443
	94,850,973	84,691,883
Less amounts required for current liabilities	**(21,500,000)**	(17,000,000)
	$ 73,350,973	$ 67,691,883

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, 2017	Year ended December 31, 2016
Other revenue:		
Interest income	**$ 20,592**	$ 32,581
Nonoperating gains:		
Interest and dividend income	**$ 2,421,730**	$ 1,937,194
Net realized gains on sale of investments	**2,509,670**	2,216,743
Change in unrealized gains and losses on trading securities	**7,429,487**	485,771
	$ 12,360,887	$ 4,639,708

NOTE F - PROPERTY AND EQUIPMENT

	December 31, 2017	December 31, 2016
Land	**$ 475,499**	$ 475,499
Land improvements	**2,219,882**	2,216,312
Buildings and building improvements	**66,411,184**	65,947,650
Fixed equipment	**29,627,030**	29,235,071
Major movable equipment	**89,443,203**	84,572,238
	188,176,798	182,446,770
Less accumulated depreciation and amortization	**(146,596,271)**	(138,860,370)
	41,580,527	43,586,400
Construction in progress	**483,817**	397,977
	$ 42,064,344	$ 43,984,377

Depreciation and amortization expense related to property and equipment amounted to $7,760,901 and $7,708,149 for the years ended December 31, 2017 and 2016, respectively.

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

	December 31, 2017	December 31, 2016
Equipment	**$ 1,626,500**	$ 268,394
Less accumulated amortization	**(375,412)**	(153,873)
	$ 1,251,088	$ 114,521

NOTE G - LONG-TERM DEBT

	December 31, 2017	December 31, 2016
Revolving line of credit	**$ 21,500,000**	$ 17,000,000
Obligations under capital leases, with interest rates ranging from 2.09% to 5.49% secured by leased equipment	**1,135,512**	114,521
	22,635,512	17,114,521
Less current portion	**(21,927,916)**	(17,060,271)
	$ 707,596	$ 54,250

(Continued)

NOTE G - LONG-TERM DEBT - Continued

Revolving Line of Credit

The Medical Center has a $25,000,000 revolving line of credit with a financial institution, which has no expiration. All amounts outstanding are due on demand and collateralized by a portion of assets limited as to use: internally designated by the Board of Trustees. These investments are designated by specific account numbers, held by the same financial institution as collateral. The fair value of the collateralized accounts totaled $52,599,914 and $48,219,593 at December 31, 2017 and 2016, 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. The variable rate tranche's interest is based on LIBOR plus 1.000% (2.600% and 1.715% at December 31, 2017 and 2016, respectively). A summary of the tranches is as follows:

Amounts outstanding December 31, 2017	**2016**	**Interest rate type**	**Interest rate**	**Principal due date**
$ -	$ 2,000,000	Fixed	2.386%	June 25, 2017
2,000,000	2,000,000	Fixed	3.066%	June 25, 2018
2,500,000	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	-	Fixed	3.442%	June 27, 2023
2,000,000	-	Fixed	3.559%	June 27, 2024
17,500,000	15,500,000			
4,000,000	1,500,000	Variable	See above	N/A
$ 21,500,000	$ 17,000,000			

Future payments on long-term debt are as follows:

	Revolving Line of Credit	**Capital Leases**
2018	$ 21,500,000	$ 458,719
2019	-	406,561
2020	-	163,533
2021	-	115,208
2022	-	51,081
	$ 21,500,000	1,195,102
Less amounts representing interest on capital leases		59,590
		$ 1,135,512

NOTE H - POSTRETIREMENT BENEFIT PLANS

The Medical Center has a noncontributory defined benefit pension plan ("DB Plan") covering all employees who began work 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 Medical Center froze the DB Plan effective March 31, 2014. The Medical Center offered a lump-sum window for the DB Plan during 2016, and the total amount of lump-sum distributions was $8,355,570. As a result of the lump-sum window, the Medical Center recognized a settlement loss of $3,298,883. The mortality table used for projecting the benefit obligation is the RP-2014 Generational Mortality Table with annual updates for projected improvements.

The following table summarizes information about the pension plan:

	December 31, 2017	December 31, 2016
Accumulated benefit obligation	**$ 85,137,138**	$ 82,291,282
Changes in benefit obligation		
Projected benefit obligation, beginning of year	**$ 82,291,282**	$ 88,191,829
Interest cost	**3,426,734**	3,845,580
Actuarial loss	**2,403,557**	1,242,224
Settlements	**-**	(8,355,570)
Benefits paid	**(2,984,435)**	(2,632,781)
Projected benefit obligation, end of year	**85,137,138**	82,291,282
Changes in plan assets		
Fair value of plan assets, beginning of year	**53,448,022**	58,881,871
Actual return on plan assets	**7,665,799**	4,435,218
Contributions by the Medical Center	**2,853,844**	2,241,233
Settlements	**-**	(8,355,570)
Benefits and expenses paid	**(3,734,601)**	(3,754,730)
Fair value of plan assets, end of year	**60,233,064**	53,448,022
Funded status of the plan - accrued retirement benefits	**$ (24,904,074)**	$ (28,843,260)
Amounts recognized in accumulated unrestricted net assets		
Net loss	**$ 31,142,527**	$ 32,480,757

(Continued)

NOTE H - POSTRETIREMENT BENEFIT PLANS - Continued

	Year ended December 31, 2017	2016
Components of net periodic benefit cost and other amounts recognized in other changes in unrestricted net assets		
Interest cost	**$ 3,426,734**	$ 3,845,580
Expected return on plan assets	**(4,010,236)**	(4,406,811)
Amortization of net loss	**836,390**	831,432
	252,888	270,201
Recognized loss due to settlements	**-**	3,298,883
Net pension benefit cost	**252,888**	3,569,084
Other changes in pension benefit obligation recognized in unrestricted net assets		
Net (gain) loss	**(501,840)**	2,335,766
Recognized loss	**(836,390)**	(4,130,315)
Total recognized in unrestricted net assets	**(1,338,230)**	(1,794,549)
Total recognized in net benefit cost and unrestricted net assets	**$ (1,085,342)**	$ 1,774,535
Amounts expected to be recognized in net periodic benefit cost in the following year - 2018		
Net loss		**$ 849,111**

Assumptions

	December 31, 2017	2016
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	**3.73%**	4.23%
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	**4.23%**	4.44%
Expected long-term return on plan assets	**7.50%**	7.50%
Rate of compensation increase	**N/A**	N/A

(Continued)

NOTE H - POSTRETIREMENT BENEFIT PLANS - Continued

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 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	December 31, 2017	2016
Fixed income	**30-50%**	**35%**	33%
Equity securities	**40-60%**	**48**	50
Alternative investments: private equity funds	**10-20%**	**17**	17
		100%	100%

(Continued)

NOTE H - POSTRETIREMENT BENEFIT PLANS - Continued

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:

	Total	Level 1	Level 2	Level 3
December 31, 2017				
Assets				
Fixed income [a]	**$ 21,448,111**	**$ -**	**$ 21,448,111**	**$ -**
Equity securities [b]	**28,766,136**	**28,766,136**	**-**	**-**
Alternative investments:				
private equity funds [c]	**10,018,817**	**-**	**-**	**10,018,817**
Total	**$ 60,233,064**	**$ 28,766,136**	**$ 21,448,111**	**$ 10,018,817**
December 31, 2016				
Assets				
Fixed income [a]	$ 17,825,613	$ -	$ 17,825,613	$ -
Equity securities [b]	26,535,025	26,535,025	-	-
Alternative investments:				
private equity funds [c]	9,087,384	-	-	9,087,384
Total	$ 53,448,022	$ 26,535,025	$ 17,825,613	$ 9,087,384

[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 Medical Center measures fair value of investments using the market value approach for all investments except for alternative investments. Fair value of the Medical Center's alternative investments is determined based upon the net asset value 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. Because the net asset value reported by the fund is used as a practical expedient to estimate the fair value of the Medical Center's interest therein, its classification as Level 3 is based on the Medical Center's ability to redeem its interest at or near the date of the balance sheet.

(Continued)

NOTE H - POSTRETIREMENT BENEFIT PLANS - Continued

The table below sets forth a summary of changes in the fair value of the DB Plan's Level 3 assets:

	December 31,	
	2017	**2016**
Balance at beginning of year	**$ 9,087,384**	$ 8,294,623
Change in unrealized gains and losses	**931,433**	792,761
Balance at end of year	**$ 10,018,817**	$ 9,087,384

Cash Flows

Contributions

The Medical Center expects to contribute $3,100,000 to the DB Plan in 2018.

Estimated Future Benefit Payments

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

2018	$ 3,115,134
2019	3,277,933
2020	3,438,578
2021	3,617,886
2022	3,817,313
2023 - 2027	22,028,278

Defined Contribution Plan

The Medical Center has a defined contribution pension plan (the "DC Plan"). Employees hired in 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 $1,888,618 and $1,955,001 for the years ended December 31, 2017 and 2016, respectively.

NOTE I - RELATED PARTY TRANSACTIONS

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

	December 31, 2017	December 31, 2016
$1,400,000 note principal and interest due monthly over 25 years through 2027, interest at 4.00%	**$ 770,389**	$ 833,096
$1,270,500 note with no specific principal repayment terms, interest due monthly at 3.30%	**347,530**	416,406
$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%	**853,911**	884,656
	2,715,082	2,877,410
Less current portion	**(168,281)**	(162,328)
	$ 2,546,801	$ 2,715,082

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 $3,500,000 and $1,300,000 at December 31, 2017 and 2016, respectively, and is included in accrued expenses and other liabilities in the balance sheets. Insurance recoveries associated with the reported claims totaled approximately $2,660,000 and $900,000 for the years ended December 31, 2017 and 2016, 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 $500,000 per claim for both years ended December 31, 2017 and 2016. Claims exceeding the self-insured retention are covered under an excess insurance policy. The liability for workers' compensation claims of $1,200,000 and $1,491,000 at December 31, 2017 and 2016, 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,	
	2017	**2016**
Medicare and Medicaid	**31%**	32%
Commercial and other third-party payors	**26**	27
Patients	**36**	32
Blue Cross	**7**	9
	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 L - FUNCTIONAL EXPENSES

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

	Year ended December 31,	
	2017	**2016**
Nursing services	**$ 38,768,077**	$ 36,322,788
Other health care services	**31,386,397**	30,079,656
Other support services	**11,293,666**	11,050,060
Fiscal services	**4,719,069**	4,419,899
Information systems	**4,515,502**	4,375,956
Other administrative services	**6,572,961**	5,403,083
General expenses	**28,910,730**	31,925,553
	$ 126,166,402	$ 123,576,995

NOTE M - SUBSEQUENT EVENTS

The Medical Center evaluated its December 31, 2017 financial statements for subsequent events through March 15, 2018, 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.