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

Shore Memorial Health System and Affiliates

December 31, 2018 and 2017

Contents

Grant Thornton

Grant Thornton LLP
Two Commerce Square
2001 Market St., Suite 700
Philadelphia, PA 19103

T 215.561.4200
F 215.561.1066
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Report of Independent Certified Public Accountants

Board of Trustees
Shore Memorial Health System

Report on the financial statements

We have audited the accompanying consolidated financial statements of Shore Memorial Health System and Affiliates (the System), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the consolidated 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 System'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shore Memorial Health System and Affiliates as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B.15 to the consolidated financial statements, in 2018 the System adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary information
Our audits were performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheet as of December 31, 2018 and the related consolidating statement of operations and changes in net assets for the year then ended are presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania

April 24, 2019

Shore Memorial Health System and Affiliates

CONSOLIDATED BALANCE SHEETS

December 31,

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,047,254	$ 3,936,123
Current portion of assets limited as to use	983,706	981,041
Patient accounts receivable, net of allowance for doubtful accounts of $9,547,000 in 2018 and $9,828,000 in 2017	21,911,504	19,301,120
Supplies	2,984,949	2,700,052
Prepaid expenses and other current assets	4,225,894	5,325,091
Total current assets	34,153,307	32,243,427
Assets limited as to use:		
Internally designated by Board of Trustees	100,755,597	93,075,754
Externally designated by donor	819,362	871,862
Externally designated under certain agreements, less current portion	2,432,260	2,432,260
Property and equipment, net	127,372,634	136,519,776
Other assets	5,054,428	3,587,006
Beneficial interest in perpetual trust	1,709,758	1,912,069
Total assets	$ 272,297,346	$ 270,642,154
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 9,119,109	$ 6,813,345
Accounts payable, accrued expenses, and other current liabilities	26,415,428	25,643,269
Accrued vacation, holiday, and sick pay	4,734,439	4,635,131
Accrued interest payable	166,649	199,549
Current portion of accrued retirement benefits	1,255,131	1,288,664
Estimated settlements due to third-party payors	6,153,687	5,488,644
Total current liabilities	47,844,443	44,068,602
Accrued retirement benefits, less current portion	70,833,856	78,077,619
Reserve for insurance claims, less current portion	4,660,368	4,695,233
Other long-term liabilities	7,933,899	9,007,474
Long-term debt, less current portion	57,013,273	64,697,797
Total liabilities	188,285,839	200,546,725
Net assets:		
Without donor restrictions	81,177,637	66,861,246
With donor restrictions	2,833,870	3,234,183
Total net assets	84,011,507	70,095,429
Total liabilities and net assets	$ 272,297,346	$ 270,642,154

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31,

	2018	2017
Net assets without donor restrictions		
Revenues:		
Net patient service revenue	$ 214,336,372	$ 204,417,034
Less: provision for bad debts	(7,534,909)	(5,534,127)
Net patient service revenue less provision for bad debts	206,801,463	198,882,907
Other revenue	8,807,994	10,969,316
Total revenues	215,609,457	209,852,223
Expenses:		
Salaries and wages	67,005,344	66,836,317
Physician salaries and fees	23,559,553	20,834,745
Employee benefits	15,488,470	16,208,620
Contracted services	43,510,008	44,651,414
Supplies and other expenses	38,040,255	35,710,954
Interest	2,783,278	2,771,060
Depreciation and amortization	12,062,075	12,063,224
Total expenses	202,448,983	199,076,334
Operating income	13,160,474	10,775,889
Nonoperating gains and losses:		
Investment return, net	(1,875,772)	4,139,041
Change in fair value of interest rate swap	508,834	599,419
Total nonoperating (losses) gains, net	(1,366,938)	4,738,460
Excess of revenues and gains over expenses and losses	11,793,536	15,514,349
Other changes in net assets without donor restrictions:		
Other changes in pension and other postretirement benefits	2,522,855	(2,837,035)
Increase in net assets without donor restrictions	14,316,391	12,677,314
Net assets with donor restrictions		
Investment return, net	(52,500)	85,599
Other	(145,502)	44,595
Change in beneficial interest in perpetual trust	(202,311)	135,562
(Decrease) increase in net assets with donor restrictions	(400,313)	265,756
Increase in net assets	13,916,078	12,943,070
Net assets, beginning of year	70,095,429	57,152,359
Net assets, end of year	$ 84,011,507	$ 70,095,429

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

Shore Memorial Health System and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	2018	2017
Cash flows from operating activities		
Increase in net assets	$ 13,916,078	$ 12,943,070
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Other changes in pension and other postretirement benefits	(2,522,855)	2,837,035
Change in fair value of interest rate swap	(508,834)	(599,419)
Depreciation and amortization	12,062,075	12,063,224
Loss (gain) on disposal of property and equipment	7,250	(107,117)
Change in beneficial interest in perpetual trust	202,311	(135,562)
Net realized and unrealized losses (gains) on investments	2,340,269	(3,646,838)
Provision for bad debts	7,534,909	5,534,127
Changes in assets and liabilities:		
Patient accounts receivable	(10,145,293)	(4,634,235)
Supplies	(284,897)	(312,067)
Prepaid and other assets	(368,225)	(549,499)
Accounts payable, accrued expenses, and other liabilities	207,418	1,425,125
Accrued vacation, holiday, and sick pay	99,308	68,921
Accrued interest payable	(32,900)	(31,357)
Estimated settlements due to third-party payors	665,043	1,784,407
Accrued retirement benefits	(4,754,441)	(5,196,615)
Reserve for insurance claims	(34,865)	124,319
Net cash provided by operating activities	18,382,351	21,567,519
Cash flows from investing activities		
Net purchases of assets limited as to use	(9,970,277)	(11,340,402)
Cash received on disposal of property and equipment	41,550	134,494
Additions to property and equipment	(1,522,371)	(1,760,249)
Net cash used in investing activities	(11,451,098)	(12,966,157)
Cash flows from financing activities		
Principal payments on long-term debt, net	(6,820,122)	(6,569,924)
Net cash used in financing activities	(6,820,122)	(6,569,924)
Increase in cash and cash equivalents	111,131	2,031,438
Cash and cash equivalents, beginning of year	3,936,123	1,904,685
Cash and cash equivalents, end of year	$ 4,047,254	$ 3,936,123
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 2,816,178	$ 2,802,417
Assets acquired under capital lease obligations	$ 1,319,774	$ 1,805,253

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

NOTE A - ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Shore Memorial Health System and its affiliates (the System): Shore Memorial Hospital d/b/a Shore Medical Center, Shore Health Services Corporation, Brighton Bay LLC, Shore Memorial Physicians Group, P.C., Shore Urgent Care, P.A., Shore Hospitalists Associates, P.A., Shore Specialty Consultants, P.A., Shore Pathology Associates, P.C., Shore Quality Partners LLC, and Shore Health Enterprises, Inc.

Shore Memorial Hospital d/b/a Shore Medical Center (the Medical Center) is a 203-bed not-for-profit, acute-care, tax-exempt hospital located in Somers Point, New Jersey. The Medical Center provides general health care services to residents within its geographic location for a wide range of inpatient and outpatient services, including medical, surgical, obstetrical, gynecological, pediatric, emergency, and ambulatory care.

Shore Health Services Corporation (Health Services), a not-for-profit, tax-exempt controlled affiliate of the Medical Center, maintains certain property for future development.

Brighton Bay LLC (Brighton Bay), a controlled affiliate of the Medical Center, was incorporated as a for-profit limited liability corporation to hold title and manage a medical office building.

Shore Memorial Physicians Group, P.C. (the Physicians Group), a controlled affiliate of the Medical Center, was incorporated as a for-profit professional corporation for the purpose of developing an employed physician network. The Physicians Group is designed to achieve a more integrated approach to the delivery of medical care for the community served by the Medical Center.

Shore Urgent Care, P.A. (Urgent Care), a controlled affiliate of the Physicians Group, was incorporated as a for-profit professional corporation for the purpose of operating urgent care centers in the community served by the Medical Center.

Shore Pathology Associates, P.C. (the Pathology Group), a controlled affiliate of the Medical Center, was incorporated as a for-profit professional corporation for the purpose of employing pathologists that work at the Medical Center.

Shore Specialty Consultants, P.A. (the Specialists Group), a controlled affiliate of the Medical Center, was incorporated as a for-profit professional association for the purpose of developing an employed specialty physician network to service the medical needs of the community.

Shore Hospitalists Associates, P.A. (the Hospitalists Group), a controlled affiliate of the Medical Center, was incorporated as a for-profit professional association for the purpose of developing an employed physician network to service inpatients at the Medical Center.

Shore Quality Partners LLC (Quality Partners), a controlled affiliate of the Medical Center, was incorporated as a for-profit limited liability corporation to develop an integrated physician network that does not employ physicians.

(Continued)

NOTE A - ORGANIZATION AND BASIS OF PRESENTATION - Continued

Shore Health Enterprises, Inc. (Enterprises) is a for-profit corporation and is a Management Services Organization (MSO) that provides services to the Physicians Group.

Shore Memorial Health System (the Parent), a not-for-profit, tax-exempt corporation, was incorporated to function as the parent corporation and provides leadership and coordination activities for its affiliates.

All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Use of Estimates

The preparation of consolidated 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 consolidated financial statements. Actual results could differ from those estimates. 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 plans, self-insured reserves, interest rate swap, and the reported fair values of certain assets and liabilities.

2. Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly-liquid debt instruments with original maturities of three months or less, other than amounts classified as assets limited as to use.

3. Patient Accounts Receivable/Allowance for Doubtful Accounts

Patient accounts receivable result from the health care services provided by the System. The System provides an allowance for doubtful accounts for estimated losses resulting from the unwillingness of patients to make payments for services. The allowance is determined by analyzing historical data and trends. Accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and the System ceases collection efforts.

4. Supplies

Supplies are stated at the lower of cost, determined by the average cost method, or market.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Assets Limited as to Use

Assets internally designated by the Board of Trustees are resources over which the Board of Trustees retains control and that have been designated for future acquisition of property and equipment, deferred compensation plans, and other purposes, determined at the discretion of the Board of Trustees.

Assets externally designated under certain agreements are held by trustees for the following purposes:

- Under bond indenture and loan agreements for the payment of current debt service, the maintenance of a debt service reserve fund, and the payment of issuance costs
- Under the interest rate swap agreement to maintain a collateral account on deposit with the counterparty
- Under the workers' compensation group trust agreement for the payment of workers' compensation claims

Assets externally designated by donor are permanent trusts to be held by the System, with the income to be used in accordance with the donor intentions.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair values are based on quoted market prices. Investment income and realized and unrealized gains and losses are recorded as nonoperating gains and losses.

6. Property and Equipment

Property and equipment are recorded at cost. Donated assets are recorded at their fair value at the date of donation. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. Depreciation is computed on the straight-line method based on the following estimated useful lives:

Buildings	15-40 years
Building improvements	10-15 years
Fixed equipment	10-20 years
Major movable equipment	3-10 years

Equipment under capital leases is amortized on a straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

7. Beneficial Interest in Perpetual Trust

Beneficial interest in perpetual trust (Craven Estate) is stated at fair value. The trust is perpetual in nature, and the original corpus cannot be expended. The trust and changes in the System's beneficial interest are reported within net assets with donor restrictions.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Reserve for Insurance Claims

The System currently maintains claims-made malpractice insurance coverage through a commercial insurance carrier and participates in a group trust for workers' compensation coverage. Estimated liabilities relating to asserted and unasserted claims are recorded by the System as reserve for insurance claims in the accompanying consolidated balance sheets. The estimate for unreported incidents and losses is actuarially determined based on System-specific and industry experience data. Receivables for expected insurance recoveries are included in other assets on the accompanying consolidated balance sheets.

9. Derivative Financial Instruments

The System maintains an interest rate swap agreement to mitigate the System's cash flow risk relating to changes in the variable interest rates of its Series 2009 Bonds. Under the swap agreement, the System pays interest at a fixed rate and receives interest at a variable rate. The swap agreement is reflected at fair value on the consolidated balance sheets. The interest rate swap agreement was not designated as a hedging instrument. The change in the fair value of the swap agreement is recorded in nonoperating gains and losses on the consolidated statements of operations and changes in net assets, and the net monthly cash exchanged under the contract is reflected within interest expense. The fair value liability position of the interest rate swap arrangement is included within other long-term liabilities on the consolidated balance sheets.

10. Advertising Costs

The System expenses advertising costs as incurred. For the years ended December 31, 2018 and 2017, the System incurred advertising costs of $589,045 and $875,183, respectively, which are included in contracted services on the accompanying consolidated statements of operations and changes in net assets.

11. Net Assets with Donor Restrictions

Certain net assets are temporarily restricted and whose use by the System has been limited by donors to a specific time period or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified into net assets without donor restrictions and reported as net assets released from restrictions.

Certain net assets have been permanently restricted by donors to be maintained by the System or outside trustees in perpetuity. As specified by donor, the income earned on these investments is expendable for nursing scholarships and capital acquisitions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions if for operating purposes and as other changes in net assets without donor restrictions if for capital purposes in the consolidated statements of operations and changes in net assets.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and other for services rendered, including estimated retroactive adjustments under payment agreements with third-party payors due to ongoing and future audits, reviews and investigations. Retroactive adjustments are recorded in revenue on an estimated basis in the period that the related services are rendered, and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

13. Excess of Revenues and Gains Over Expenses and Losses

The accompanying consolidated statements of operations and changes in net assets include the excess of revenues and gains over expenses and losses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess of revenues and gains over expenses and losses include changes in pension and other postretirement benefit liabilities.

14. Income Taxes

The Parent, the Medical Center and the Health Services are not-for-profit corporations and have been recognized as tax-exempt for federal income tax purposes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Parent, the Medical Center and the Health Services are also exempt from state income taxes. The Physicians Group, Brighton Bay, Urgent Care, the Hospitalists Group, the Specialists Group, the Pathology Group, Quality Partners, and Enterprises are taxable entities. The System follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The System does not believe its consolidated financial statements include any uncertain tax positions.

15. Recently Adopted Accounting Pronouncements

In 2018, the System adopted, as required by the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This standard makes certain improvements to the previous 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 previously required three classes, as well as the annual change in each of the two classes; (2) information about liquidity and the availability of resources; and (3) addresses the lack of consistency about expenses and investment return. The System's consolidated financial statements have been adjusted to reflect the new requirements. ASU 2016-14 has been applied retrospectively to all years presented, except for the disclosure around liquidity and availability of resources and, as such, this disclosure has been presented for 2018 only as allowed by ASU 2016-14.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Pending Accounting Pronouncements

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, 2018.

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 annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. 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 net assets 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.

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 practical 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 System has not determined the impact of ASU 2017-07, 2014-09, or 2016-02 at this time.

NOTE C - LIQUIDITY AND AVAILABILITY

As of December 31, 2018, the System has an adjusted working capital of $87,064,000 and adjusted average days cash on hand of 201 days, which includes the internally designated assets limited as to use.

Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following at December 31, 2018:

Cash	$ 4,047,254
Patient accounts receivable, net	21,911,504
Internally designated by Board of Trustees	100,755,597
Total	$ 126,714,355

Excess cash is invested in accordance with the Board of Trustees' investment policy and there are no investments with purchase commitments at December 31, 2018.

NOTE D - CHARITY CARE

The System provides charity care to patients who meet certain financial criteria established by the State of New Jersey. The cost of services provided and supplies furnished under its charity care policy is estimated using internal data and is calculated based on the System's cost to charge ratio. The total direct and indirect amount of charity care provided, determined on the basis of cost, was approximately $1,322,000 and $1,679,000 for the years ended December 31, 2018 and 2017, respectively.

The New Jersey Health Care Reform Act of 1992, Chapter 160, established the Health Care Subsidy Fund to provide a mechanism and funding source to compensate certain hospitals for charity care. For the years ended December 31, 2018 and 2017, the System recognized $140,358 and $90,010, respectively, as subsidies for charity care, which is included in net patient service revenue. The Health Care Subsidy Fund amounts are subject to change from year to year based on available state budget amounts and allocation methodologies.

NOTE E - NET PATIENT SERVICE REVENUE

The System has agreements with third-party payors that provide for payments to the System at amounts different from established charges. Inpatient acute care services for Medicare and Medicaid beneficiaries and outpatient services for Medicare beneficiaries are paid primarily at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors.

Certain outpatient services for Medicaid beneficiaries are paid based on a cost-reimbursement methodology, subject to certain limitations. The System is reimbursed for cost reimbursable and other items at a tentative rate, with final settlement determined after submission of annual cost reports by the System and audits thereof, by the programs' fiscal intermediary. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. Differences between the estimated adjustments and the amounts settled are recorded in the year of settlement. The System's cost reports have not been settled by the fiscal intermediaries for the years ended December 31, 2015 through December 31, 2018.

(Continued)

NOTE E - NET PATIENT SERVICE REVENUE - Continued

In the opinion of management, adequate provision has been made in the accompanying consolidated financial statements for any adjustments that may result from the final settlement of the System's cost reports. For the year ended December 31, 2017, net patient service revenue includes revenue of approximately $1,372,000 related to final settlements of prior year cost reports.

Revenues from the Medicare and Medicaid programs accounted for approximately 39% and 11% and 39% and 9% of the System's net patient service revenue for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing which would have a material adverse effect on the accompanying consolidated financial statements. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the System 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 System 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, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, the System 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 collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of the contractual rates for the services rendered. For uninsured patients that do not qualify for the State Charity Care Assistance program, the System recognizes revenue on the basis of discounted rates under the Uninsured Self Pay Patient Discount Policy. Under this policy, uninsured patients that are ineligible for any government assistance program are billed at reduced charges comparable to the cost of providing care based upon the System-specific Medicare cost to charge ratio. The impact of this Uninsured Self Pay Discount Policy on the consolidated financial statements is lower net patient service revenue, as the discount is considered a revenue allowance, and a lower required provision for bad debt.

(Continued)

NOTE E - NET PATIENT SERVICE REVENUE - Continued

Patient service revenue for both of the years ended December 31, 2018 and 2017, 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
2018 and 2017			
Patient service revenue (net of contractual allowances and discounts)	98%	2%	100%

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

NOTE F - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is set forth in the following table. Investments are stated at fair value.

	December 31, 2018	December 31, 2017
Internally designated by Board of Trustees:		
Cash and cash equivalents	$ 41,442,840	$ 44,197,055
Certificates of deposit	17,794,419	5,577,099
Equity mutual funds	39,931,138	41,686,773
Fixed income mutual funds	737,098	771,648
U.S. equity securities	691,312	689,013
Insurance contracts	158,790	154,166
	$ 100,755,597	$ 93,075,754
Externally designated by donor:		
Cash and cash equivalents	$ 181,666	$ 181,136
Certificates of deposit	57,165	57,165
Equity mutual funds	580,531	633,561
	$ 819,362	$ 871,862

(Continued)

NOTE F - ASSETS LIMITED AS TO USE - Continued

	December 31, 2018	December 31, 2017
Externally designated under certain agreements:		
Cash and cash equivalents	$ 3,415,966	$ 3,413,301
Less: current portion	(983,706)	(981,041)
	$ 2,432,260	$ 2,432,260
Assets limited as to use externally designated under certain agreements are maintained for the following purposes:		
Bond indenture debt service - principal	$ 922,922	$ 869,668
Bond indenture debt service - cost of issuance	14,734	5,468
Loan agreement debt service reserve	432,260	432,260
Interest rate swap agreement collateral	2,000,000	2,000,000
Workers' compensation group trust	46,050	105,905
	$ 3,415,966	$ 3,413,301

Unrestricted investment income, gains and losses for assets limited as to use are comprised of the following:

	Year ended December 31, 2018	Year ended December 31, 2017
Other revenue:		
Interest and dividend income	$ 15,144	$ 5,946
Change in unrealized gains and losses on investments	55,768	140,590
	$ 70,912	$ 146,536
Nonoperating investment returns, net:		
Interest and dividend income	$ 520,265	$ 632,793
Net realized gains on sales of investments	1,189,978	1,061,628
Change in unrealized gains and losses on trading securities	(3,586,015)	2,444,620
	$ (1,875,772)	$ 4,139,041

NOTE G - FAIR VALUE MEASUREMENTS

Fair value is defined 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. A valuation framework has been outlined that creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures.

The System uses the fair value hierarchy as its valuation methodology and it is broken down into three levels based on the source of inputs as follows:

Level 1 Valuations are based on unadjusted quoted market prices for identical assets.

Level 2 Valuations are based on observable inputs and quoted market prices for similarly structured assets and liabilities.

Level 3 Valuations are based on unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

A financial instrument categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

In determining fair value, the System uses quoted prices and observable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. The fair values of perpetual trusts were determined based on the System’s beneficial interest in the investments held in the trust which are measured at fair value. Fair value for pooled separate accounts and collective fund trusts within the pension plan assets (Note J) is based upon the net asset value (NAV) per share of the investment.

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

The following fair value hierarchy tables present information about each major category of the System's financial assets, excluding assets invested in the System's defined benefit plan (see Note J), measured at fair value on a recurring basis as of:

	Fair value measurements at reporting date using			
December 31, 2018	Total Fair value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 49,087,726	$ 49,087,726	$ -	$ -
Certificates of deposit	17,851,584	17,851,584	-	-
Equity mutual funds	40,511,669	40,511,669	-	-
Fixed income mutual funds	737,098	737,098	-	-
U.S. equity securities	691,312	691,312	-	-
Insurance contracts	158,790	-	158,790	-
Beneficial interest in perpetual trust	1,709,758	-	-	1,709,758
	$ 110,747,937	$ 108,879,389	$ 158,790	$ 1,709,758
Liabilities				
Interest rate swap agreement	$ 405,150	$ -	$ 405,150	$ -
	$ 405,150	$ -	$ 405,150	$ -

	Fair value measurements at reporting date using			
December 31, 2017	Total Fair value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 51,727,615	$ 51,727,615	$ -	$ -
Certificates of deposit	5,634,264	5,634,264	-	-
Equity mutual funds	42,320,334	42,320,334	-	-
Fixed income mutual funds	771,648	771,648	-	-
U.S. equity securities	689,013	689,013	-	-
Insurance contracts	154,166	-	154,166	-
Beneficial interest in perpetual trust	1,912,069	-	-	1,912,069
	$ 103,209,109	$ 101,142,874	$ 154,166	$ 1,912,069
Liabilities				
Interest rate swap agreement	$ 913,984	$ -	$ 913,984	$ -
	$ 913,984	$ -	$ 913,984	$ -

(Continued)

NOTE G - FAIR VALUE MEASUREMENTS - Continued

The following table sets forth the change in the fair value of the beneficial interest in perpetual trust measured using unobservable inputs (Level 3):

At December 31, 2016	$ 1,776,507
Net unrealized gain	135,562
At December 31, 2017	1,912,069
Net unrealized loss	(202,311)
At December 31, 2018	$ 1,709,758

NOTE H - PROPERTY AND EQUIPMENT

	December 31, 2018	December 31, 2017
Land	$ 7,940,231	$ 8,944,176
Land improvements	1,377,004	1,369,345
Buildings and improvements	214,244,841	213,187,891
Fixed equipment	28,711,005	28,614,168
Major movable equipment	129,419,146	126,458,924
	381,692,227	378,574,504
Less accumulated depreciation and amortization	(254,618,080)	(242,871,666)
	127,074,147	135,702,838
Construction in progress	298,487	816,938
	$ 127,372,634	$ 136,519,776

Included in property and equipment are assets under capital leases of $23,037,454 and $21,599,600 at December 31, 2018 and 2017, respectively, and accumulated amortization of $18,321,431 and $15,431,596, respectively.

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was $11,940,487 and $11,930,245, respectively. Included in depreciation and amortization expense are amounts related to assets under capital leases of $2,889,835 and $2,776,428 for the years ended December 31, 2018 and 2017, respectively.

Other assets in the consolidated balance sheets include $1,552,253 and $255,698 of commercial property held for sale on December 31, 2018 and 2017, respectively.

NOTE I - LONG-TERM DEBT

	December 31, 2018	December 31, 2017
New Jersey Health Care Facilities Financing Authority Revenue Bonds:		
Series 2009 bonds	$ 25,345,000	$ 25,960,000
Series 2010 bonds	12,670,000	12,980,000
Series 2011 bonds	5,285,057	6,638,967
Series 2013 bonds	10,425,000	12,155,000
Bank loans payable	7,380,139	7,731,465
Capital lease obligations	5,876,686	7,016,801
	66,981,882	72,482,233
Less current portion of long-term debt	(9,119,109)	(6,813,345)
Less deferred financing costs, net	(849,500)	(971,091)
Long-term debt, less current portion	$ 57,013,273	$ 64,697,797

Pursuant to the Master Trust Indenture (MTI), the Medical Center and the Health Services are the sole members of an Obligated Group, and as such are jointly and severally liable for the 2009 Bonds, 2010 Bonds, 2011 Bonds and the 2013 Bonds (collectively, the Bonds).

In September 2009, the Medical Center issued $30,000,000 of tax-exempt revenue bonds (2009 Bonds) through the New Jersey Health Care Facilities Financing Authority as a bank qualified private placement issue with a financial institution. The proceeds of the 2009 Bonds were used to (i) finance a portion of the cost of constructing and equipping a new Surgical Pavilion for the Medical Center and (ii) pay certain costs incidental to the issuance and sale of the 2009 Bonds. The 2009 Bonds, as modified, bear interest at the sum of the 30-day LIBOR Rate plus 205 basis points multiplied by 70%, limited to a maximum of 12% per annum due monthly. The interest rate was 3.08% and 2.39% at December 31, 2018 and 2017, respectively. The 2009 Bonds are subject to periodic rate changes, as modified. The next scheduled reset date is September 1, 2023. Remaining annual principal payments range from $675,000 to $2,020,000, maturing on July 1st of each year through 2039, and are paid in monthly installments.

In January 2010, the Medical Center issued $15,000,000 of tax-exempt revenue bonds (2010 Bonds) through the New Jersey Health Care Facilities Financing Authority as a bank qualified private placement issue with a financial institution. The proceeds of the 2010 Bonds were used to (i) finance a portion of the cost of constructing and equipping a new Surgical Pavilion for the Medical Center and (ii) pay certain costs incidental to the issuance and sale of the 2010 Bonds. The 2010 Bonds, as modified, bear interest at the sum of the 30-day LIBOR Rate plus 205 basis points multiplied by 70%, limited to a maximum of 12% per annum due monthly. The interest rate was 3.08% and 2.39%, at December 31, 2018 and 2017, respectively. The 2010 Bonds are subject to periodic rate changes, as modified. The next scheduled reset date is September 1, 2023. Remaining annual principal payments range from $330,000 to $995,000, maturing on July 1st of each year through 2039, and are paid in monthly installments.

(Continued)

NOTE I - LONG-TERM DEBT - Continued

In December 2011, the Medical Center issued $13,000,000 of tax-exempt revenue bonds (2011 Bonds) through the New Jersey Health Care Facilities Financing Authority as a private placement issue with a financial institution. The proceeds of the 2011 Bonds were used to (i) finance construction costs related to the parking garage and (ii) pay certain costs incidental to the issuance and sale of the 2011 Bonds. The interest rate on the bonds is fixed at 4.86%, due monthly, and the bonds mature on January 1, 2022. Principal payments are due January 1st and July 1st and range annually from $1,420,179 to $1,563,698 over the term.

In September 2013, the Medical Center issued $16,890,000 of tax-exempt revenue bonds (2013 Bonds) through the New Jersey Health Care Facilities Financing Authority as a bank qualified private placement issue with a financial institution. The proceeds of the 2013 Bonds were used to (i) repay the 2003 Bonds and (ii) pay certain costs incidental to the issuance and sale of the 2013 Bonds. The 2013 Bonds bear interest at the sum of the 30-day LIBOR Rate plus 245 basis points multiplied by 70%, limited to a maximum of 18% per annum due monthly. The interest rate was 2.43% and 2.15% at December 31, 2018 and 2017, respectively. The 2013 Bonds are subject to periodic rate changes. The next scheduled reset date is September 1, 2019. Annual principal payments range from $1,840,000 to $2,345,000, maturing on July 1st of each year through 2023, and are paid in monthly installments.

The Bonds are secured by the mortgaged properties and all revenues of the Obligated Group, as well as certain deposits with a trustee. The MTI also places limits on the occurrence of additional borrowings and requires the Obligated Group to satisfy certain measures of financial performance as long as the Bonds are outstanding. At December 31, 2018 and 2017, the Obligated Group has complied with the financial covenants related to the Bonds.

Deferred financing costs include costs incurred in connection with debt financing and are amortized using the effective interest method over the remaining term of the related debt. Accumulated amortization totaled $978,676 and $857,085 at December 31, 2018 and 2017, respectively.

The System entered into general bank loans: (a) to purchase a medical office building in 2017 for $360,000 at a rate of 4.62% over a 10-year period; (b) to finance the Tomlinson Building in 2014 for $2,450,000 at a fixed rate of 4.35% over a 5-year period; (c) to finance the purchase of a medical office building in 2013 for $5,600,000 at a rate of 4.63% over a 20-year period, which has been paid in full as of April 4, 2019; and (d) to purchase certain property in 2012 for $487,500 at a rate of 4.25% over a 10-year period.

The System has capital lease obligations relating to equipment, which bear interest at various rates ranging from 2.1% to 4.7%.

The System uses quoted market prices and other valuation considerations in estimating the fair value for the Bonds, and the bank loans carrying amounts approximate fair value. The fair value of the System's long-term debt, excluding capital leases, at December 31, 2018 and 2017 is approximately $61,347,000 and $66,035,000, respectively, and is classified in Level 2 of the fair value hierarchy.

(Continued)

NOTE I - LONG-TERM DEBT - Continued

At December 31, 2018, principal payments on long-term debt during the next five years and thereafter are as follows:

	Series 2009 Bonds	Series 2010 Bonds	Series 2011 Bonds	Series 2013 Bonds	Bank Loans	Capital Lease Obligations	Total
2019	$ 675,000	$ 330,000	$ 1,420,509	$ 1,840,000	$ 2,505,914	$ 2,535,199	$ 9,306,622
2020	730,000	375,000	1,490,385	1,955,000	315,309	1,863,811	6,729,505
2021	730,000	370,000	1,563,697	2,080,000	330,827	1,060,917	6,135,441
2022	795,000	390,000	810,466	2,205,000	300,723	623,806	5,124,995
2023	840,000	435,000	-	2,345,000	299,510	169,173	4,088,683
Thereafter	21,575,000	10,770,000	-	-	3,627,856	-	35,972,856
	25,345,000	12,670,000	5,285,057	10,425,000	7,380,139	6,252,906	67,358,102
Interest on capital lease obligations	-	-	-	-	-	(376,220)	(376,220)
	$ 25,345,000	$ 12,670,000	$ 5,285,057	$ 10,425,000	$ 7,380,139	$ 5,876,686	$ 66,981,882

Interest Rate Swap Agreement

In April 2010, the Medical Center entered into an interest rate swap agreement with the intent of mitigating cash flow risk relating to changes in the variable interest rates of the Series 2009 Bonds. Under the swap agreement, the Medical Center pays interest at a fixed rate of 3.2434% and receives interest at a variable rate of 70% of USD-LIBOR-BBA. The swap settles on a monthly basis. The notional value of the swap agreement is $25,345,000 and $25,960,000 as of December 31, 2018 and 2017, respectively. The swap agreement has a termination date of July 1, 2039. The fair value of the interest rate swap agreement as of December 31, 2018 and 2017 is $405,150 and $913,984, respectively, and is included in other long-term liabilities on the accompanying consolidated balance sheets. The change in the fair value of the swap agreement for the years ended December 31, 2018 and 2017 is $508,834 and $599,419, respectively, and is included in nonoperating gains and losses on the accompanying consolidated statements of operations and changes in net assets.

The System has established policies and procedures to limit the potential for counterparty credit risk, including establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. As a matter of practice, the System will enter into transactions only with counterparties whose obligations are rated “A-” or above as rated by Standard & Poor’s, or “A3” or above as rated by Moody’s.

The System’s exposure to credit risk, associated with its derivative financial instruments, is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. As of the date of this report, the System was not exposed to any risk of loss.

NOTE J - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Medical Center has a noncontributory defined benefit pension plan covering employees who meet prescribed eligibility requirements and also sponsors a supplemental executive retirement plan. In addition, the Medical Center sponsors a defined benefit health care plan (the Plan) that provides postretirement medical benefits to full-time employees who have worked 15 years and attain age 62 while employed with the Medical Center (collectively, the Plans). Employees hired after January 1, 1995 are not eligible for the postretirement medical benefits.

As of January 1, 2017, the normal defined benefit pension plan retirement benefit formula for all union active participants was changed from a final average pay formula to a career average pay formula. A partial annuitization of the Plan executed in September 2017 for small benefit participants was settled for $7,383,682 with an insurance company.

The Plan contains cost-sharing features such as deductibles, coinsurance, and retiree contributions. The accounting for the Plan anticipates future cost-sharing changes to the Plan that are consistent with the Medical Center's expressed intent to increase the retiree contribution rate annually for the expected general inflation rate for that year. The Medical Center's policy is to fund the cost of medical benefits on a pay-as-you-go basis.

The mortality table used for projecting the benefit obligations is the RP-2014 Generational Mortality Table with annual updates for projected improvements.

Included in accrued retirement benefits are amounts related to the defined benefit pension plan, the other postretirement benefit plan, the supplemental executive retirement plan, and a deferred compensation plan.

The following table presents a reconciliation of the beginning and ending balances of the projected obligations, the fair value of plan assets, and the funded status of the Plans:

	Pension benefits		Other benefits	
	December 31,			
	2018	2017	2018	2017
Accumulated benefit obligation	$ 201,042,039	$ 217,309,553	N/A	N/A
Change in benefit obligations				
Benefit obligation at beginning of year	$ 217,351,127	$ 212,103,307	$ 21,946,183	$ 21,868,385
Service cost	777,235	667,923	543,583	574,224
Interest cost	7,369,015	8,175,009	696,003	773,690
Actuarial (gain) loss	(14,736,571)	13,536,018	(1,896,389)	138,717
Settlements	-	(7,383,682)	-	-
Contributions by participants	-	-	613,212	638,179
Benefits paid	(9,642,547)	(9,747,448)	(2,140,821)	(2,047,012)
Benefit obligation at end of year	201,118,259	217,351,127	19,761,771	21,946,183

(Continued)

NOTE J - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS - Continued

	Pension benefits		Other benefits	
	December 31,			
	2018	2017	2018	2017
Changes in plan assets				
Fair value of plan assets at beginning of year	$ 160,955,980	$ 153,228,384	$ -	$ -
Actual return on plan assets	(6,061,828)	19,218,726	-	-
Settlements	-	(7,383,682)	-	-
Contributions by participants	-	-	1,527,609	638,179
Contributions by the Medical Center	4,411,000	5,640,000	613,212	1,408,833
Benefits paid	(9,642,547)	(9,747,448)	(2,140,821)	(2,047,012)
Fair value of plan assets at end of year	149,662,605	160,955,980	-	-
Funded status	$ (51,455,654)	$ (56,395,147)	$ (19,761,771)	$ (21,946,183)
Amount recognized in consolidated balance sheets consist of:				
Current liability	$ -	$ -	$ (1,255,131)	$ (1,232,268)
Noncurrent liability	(51,455,654)	(56,395,147)	(18,506,640)	(20,713,915)
Amount recognized end of year	$ (51,455,654)	$ (56,395,147)	$ (19,761,771)	$ (21,946,183)
Amounts recognized in other changes in net assets without donor restrictions consist of:				
Net actuarial loss	$ 69,501,611	$ 72,130,124	$ 1,562,621	$ 3,865,339
Prior service (credit) cost	(15,884,855)	(18,361,021)	142,258	210,048
	$ 53,616,756	$ 53,769,103	$ 1,704,879	$ 4,075,387

The prior service (credit) cost and actuarial loss included in other changes in net assets without donor restriction at December 31, 2018 and expected to be recognized in net periodic pension (credit) cost during the year ending December 31, 2019 are as follows:

	Pension benefits	Other benefits
Unrecognized prior service (credit) cost	$ (2,647,000)	$ 68,000
Unrecognized actuarial loss	5,118,000	18,000

(Continued)

NOTE J - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS - Continued

The following table sets forth the components of net periodic benefit (credit) cost for both the defined benefit plan and other postretirement benefit plan:

	Pension benefits		Other benefits	
	Year ended December 31,			
	2018	2017	2018	2017
Service cost	$ 777,235	$ 667,923	$ 543,583	$ 574,224
Interest cost	7,369,015	8,175,009	696,003	773,690
Expected return on assets	(11,258,762)	(11,375,964)	-	-
Amortization of:				
Unrecognized net loss	5,169,864	4,961,723	406,329	371,535
Unrecognized prior service (credit) cost	(2,433,320)	(2,405,931)	67,790	67,790
Net periodic benefit (credit) cost	(375,968)	22,760	1,713,705	1,787,239
Other changes in pension and postretirement liabilities recorded in net assets without donor restrictions consist of:				
Current-year actuarial (gain) loss	(2,585,667)	731,533	(2,302,718)	(232,639)
Amortization of prior service credit (cost)	2,433,320	2,405,931	(67,790)	(67,790)
Total recorded in net assets without donor restrictions	(152,347)	3,137,464	(2,370,508)	(300,429)
Total recognized as net benefit (credit) cost and recorded in net assets without donor restrictions	$ (528,315)	$ 3,160,224	$ (656,803)	$ 1,486,810

Weighted-average assumptions used to determine benefit obligations were:

	Pension benefits		Other benefits	
	Year ended December 31,			
	2018	2017	2018	2017
Discount rate	4.06%	3.43%	3.96%	3.31%
Rate of compensation increase	0.75%	0.75%	0.75%	0.75%

(Continued)

NOTE J - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS - Continued

Weighted-average assumptions used to determine net periodic benefit cost were:

	Pension benefits		Other benefits	
	Year ended December 31,			
	2018	2017	2018	2017
Discount rate	3.43%	3.91%	3.31%	3.72%
Expected long-term return on plan assets	7.10%	7.50%	-	-
Rate of compensation increase	0.75%	0.75%	0.75%	0.75%

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 asset allocation of the pension portfolio.

Health care rate trends are 7.25% for 2018 and reflect plan provisions limiting costs to the January 1, 2000 costs.

Plan Assets

The defined benefit plan's weighted-average asset allocations by asset category are as follows:

Asset category	Target asset allocation	December 31, 2018	December 31, 2017
Equity securities	30% - 70%	49%	53%
Fixed income	30% - 60%	40	37
Real estate	0% - 15%	11	10
		100%	100%

The investment policy and strategy for the defined benefit plan assets have established guidelines for an asset mix that provides diversification to absorb risk while not sacrificing investment returns. The guidelines are developed as ranges for each asset class.

Cash Flows

Contributions

Based on the funded status of the defined benefit plan as of December 31, 2018, the Medical Center expects to contribute $5,519,000 for the year ending December 31, 2019. This will be evaluated on a quarterly basis and is subject to change.

The Medical Center expects to contribute $1,232,268 to the other benefits for the year ending December 31, 2019.

(Continued)

NOTE J - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS - Continued

Estimated Future Benefit Payments

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

	Pension benefits	Other benefits
2019	$ 10,124,463	$ 1,255,131
2020	10,439,725	1,293,811
2021	10,620,320	1,292,208
2022	10,965,627	1,309,539
2023	11,526,293	1,352,379
2024-2028	61,807,147	8,431,332

The following tables set forth the plan assets in the defined benefit pension plan measured at fair value and those plan assets at NAV, which is used as a practical expedient to estimate fair value by input level as defined in Note G, excluding plan assets at NAV, at December 31, 2018 and 2017:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 3,178,798	$ 3,178,798	$ -	$ -
Certificates of deposit	5,231,139	5,231,139	-	-
Insurance contracts	8,265,818	-	8,265,818	-
	16,675,755	$ 8,409,937	$ 8,265,818	$ -
Pooled separate accounts and collective fund trusts (at NAV):				
U.S. equity securities	58,840,895			
International equity securities	14,771,969			
Corporate debt obligations	43,405,745			
Real estate	15,968,241			
	$ 149,662,605			

(Continued)

NOTE J - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS - Continued

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 4,285,104	$ 4,285,104	$ -	$ -
Certificates of deposit	4,785,888	4,785,888	-	-
Insurance contracts	8,007,190	-	8,007,190	-
	17,078,182	$ 9,070,992	$ 8,007,190	$ -
Pooled separate accounts and collective fund trusts (at NAV):				
U.S. equity securities	68,011,305			
International equity securities	17,153,929			
Corporate debt obligations	43,424,136			
Real estate	15,288,428			
	$ 160,955,980			

Defined Contribution

The System also offers a 401(k) defined contribution savings plan to all full-time and part-time employees of the System. The System matches participant contributions for active participants as of December 31 that have completed at least 1,000 hours of service during the calendar year. The match is 50% of the first 6% of compensation for union employees and 50% of the first 4% of compensation for nonunion employees. In addition to the match, the System makes a discretionary qualified non elective contribution of 2.5% of compensation to all eligible employees annually. The System's contribution expense for the years ended December 31, 2018 and 2017 was $1,282,501 and $1,252,678, respectively.

Also included in the balance of accrued retirement benefits is deferred compensation of $871,562 and $1,024,953 at December 31, 2018 and 2017, respectively.

NOTE K - CONTINGENCIES

Litigation

The System is a defendant in civil actions for alleged medical malpractice and general liability. These actions are being defended by the System's medical malpractice insurance carrier. In the opinion of management, the System's potential liability in these actions is within the limits of its medical malpractice liability and comprehensive general liability insurance.

Lease and Other Agreements

The System acts as lessor for certain office space under operating lease agreements with initial lease terms expiring at various dates through 2027. In addition, the leases generally contain renewal options that give the lessees the right to extend the leases for varying additional periods. The System has received $3,070,516 of lease prepayments, related to two leases that are recorded as deferred revenue and are included in other long-term liabilities in the consolidated balance sheets. Revenue will be recognized over the lease term. Rental revenue under operating leases where the System acts as lessor for the years ended December 31, 2018 and 2017 was $621,079 and $622,513, respectively, and is recorded as other revenue in the consolidated statements of operations and changes in net assets.

The five year future minimum rental income and amortization of the rental prepayment are as follows for the years ended December 31:

	Prepaid leases	Other leases	Total
2019	$ 456,232	$ 179,882	$ 636,114
2020	441,129	182,879	624,008
2021	437,342	185,877	623,218
2022	433,477	188,651	622,128
2023	429,540	103,664	533,204

During 2015, the System entered into an agreement with an area health system. The agreement provides the other health system with the right of first refusal for future affiliations or mergers of the System for the next seven years. In exchange, the System received $5,000,000. The payment is recorded as deferred revenue and is included in other long-term liabilities in the consolidated balance sheets.

NOTE L - FUNCTIONAL EXPENSES

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

For the year ended December 31, 2018	Healthcare Services	General and Administrative	Total
Salaries and wages	$ 53,738,286	$ 13,267,058	$ 67,005,344
Physician salaries and fees	18,894,762	4,664,791	23,559,553
Employee benefits	12,421,753	3,066,717	15,488,470
Contracted services	34,895,026	8,614,982	43,510,008
Supplies and other expenses	30,508,280	7,531,975	38,040,255
Interest	2,232,189	551,089	2,783,278
Depreciation and amortization	9,673,784	2,388,291	12,062,075
Total	$ 162,364,080	$ 40,084,903	$ 202,448,983

For the year ended December 31, 2017	Healthcare Services	General and Administrative	Total
Salaries and wages	$ 54,137,417	$ 12,698,900	$ 66,836,317
Physician salaries and fees	16,876,143	3,958,602	20,834,745
Employee benefits	13,128,982	3,079,638	16,208,620
Contracted services	36,167,645	8,483,769	44,651,414
Supplies and other expenses	28,925,873	6,785,081	35,710,954
Interest	2,244,559	526,501	2,771,060
Depreciation and amortization	9,771,213	2,292,011	12,063,224
Total	$ 161,251,832	$ 37,824,502	$ 199,076,334

NOTE M - CONCENTRATIONS OF CREDIT RISK

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

	December 31,	
	2018	2017
Medicare and Medicaid	44%	34%
Commercial and managed care	11	11
Blue Cross	31	34
Uninsured patients	6	9
Other third-party payors	8	12
	100%	100%

In addition, the System invests its cash and cash equivalents primarily with banks and financial institutions. These deposits may be in excess of federally insured limits. Management believes that the credit risk related to these deposits is minimal.

NOTE N - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of December 31:

	December 31,	
	2018	2017
Subject to expenditure for specific purpose:		
Purchase of property and equipment	$ 304,750	$ 450,252
Investment in perpetuity whose income is expendable to support:		
Scholarships and other	2,529,120	2,783,931
Total	$ 2,833,870	$ 3,234,183

The System follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted in New Jersey as they relate to its endowments. Prior to the enactment of UPMIFA, the System followed the requirements of the Uniform Management of Institutional Funds Act. The System's endowments consist of two individual funds established for the above-mentioned purposes and consist solely of donor-restricted endowment funds. As required by the U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The System has interpreted UPMIFA, which did not have a significant effect on the endowment policies prior to the enactment, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation,

(Continued)

NOTE N - NET ASSETS WITH DONOR RESTRICTIONS - Continued)

the System classifies as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the System and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the System
- The investment policies of the System

The System has adopted investment policies for its endowment assets that are consistent with the policies and objectives of their overall investments. The assets are invested in a manner that is intended to produce a positive rate of return while assuming a low level of risk. From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor requires the System to maintain in perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions in accordance with U.S. GAAP.

The following table sets forth the changes to assets as they relate to the System's endowments for the years ended December 31, 2018 and 2017:

Endowment net assets, December 31, 2016	$ 786,263
Investment loss	(5,828)
Net unrealized gains and losses	91,427
Endowment net assets, December 31, 2017	871,862
Investment loss	(6,382)
Net unrealized gains and losses	(46,118)
Endowment net assets, December 31, 2018	$ 819,362

NOTE O - SUBSEQUENT EVENTS

The System evaluated its December 31, 2018 consolidated financial statements for subsequent events through April 24, 2019, the date the consolidated financial statements were available to be issued. The System is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements, except as noted elsewhere in the footnotes to the consolidated financial statements.

SUPPLEMENTARY INFORMATION

Shore Memorial Health System and Affiliates

CONSOLIDATING BALANCE SHEET

December 31, 2018

ASSETS	Shore Medical Center	Shore Health Services Corporation	Total Obligated Group before Eliminations	Eliminating Entries	Total Obligated Group	Brighton Bay	Shore Memorial Physician Services	Shore Memorial Health System	Totals before Eliminations	Eliminating Entries	Totals
Current assets:											
Cash and cash equivalents	$ 2,984,870	$ -	$ 2,984,870	$ -	$ 2,984,870	$ 8,775	$ 1,049,612	$ 3,997	$ 4,047,254	$ -	$ 4,047,254
Current portion of assets limited as to use	983,706	-	983,706	-	983,706	-	-	-	983,706	-	983,706
Patient accounts receivable, net	20,789,209	-	20,789,209	-	20,789,209	-	1,122,295	-	21,911,504	-	21,911,504
Supplies	2,984,949	-	2,984,949	-	2,984,949	-	-	-	2,984,949	-	2,984,949
Prepaid expenses and other current assets	3,338,416	-	3,338,416	-	3,338,416	31,880	798,848	56,750	4,225,894	-	4,225,894
Total current assets	31,081,150	-	31,081,150	-	31,081,150	40,655	2,970,755	60,747	34,153,307	-	34,153,307
Assets limited as to use:											
Internally designated by Board of Trustees	100,755,597	-	$ 100,755,597	-	100,755,597	-	-	-	100,755,597	-	100,755,597
Externally designated by donor	819,362	-	819,362	-	819,362	-	-	-	819,362	-	819,362
Externally designated under certain agreements, less current portion	2,000,000	-	2,000,000	-	2,000,000	432,260	-	-	2,432,260	-	2,432,260
Investment in affiliates	(5,695,963)	-	(5,695,963)	5,695,963	-	-	-	(11,516)	(11,516)	11,516	-
Due from affiliates	9,057,983	-	9,057,983	(1,766,361)	7,291,622	2,730,402	(2,616,971)	-	7,405,053	(7,405,053)	-
Property and equipment, net	118,721,985	1,200,000	119,921,985	-	119,921,985	4,896,314	2,420,335	134,000	127,372,634	-	127,372,634
Other assets	3,361,902	-	3,361,902	-	3,361,902	165,873	1,526,653	-	5,054,428	-	5,054,428
Beneficial interest in perpetual trust	1,709,758	-	1,709,758	-	1,709,758	-	-	-	1,709,758	-	1,709,758
Total assets	$ 261,811,774	$ 1,200,000	$ 263,011,774	$ 3,929,602	$ 266,941,376	$ 8,265,504	$ 4,300,772	$ 183,231	$ 279,690,883	$ (7,393,537)	$ 272,297,346
LIABILITIES AND NET ASSETS											
Current liabilities:											
Current portion of long-term debt	$ 8,891,533	$ -	$ 8,891,533	$ -	$ 8,891,533	$ 217,950	$ 9,626	$ -	$ 9,119,109	$ -	$ 9,119,109
Accounts payable, accrued expenses, and other current liabilities	22,108,000	20,248	22,128,248	-	22,128,248	517,064	3,243,847	526,269	26,415,428	-	26,415,428
Accrued vacation, holiday, and sick pay	4,734,439	-	4,734,439	-	4,734,439	-	-	-	4,734,439	-	4,734,439
Accrued interest payable	166,649	-	166,649	-	166,649	-	-	-	166,649	-	166,649
Current portion of accrued retirement benefits	1,255,131	-	1,255,131	-	1,255,131	-	-	-	1,255,131	-	1,255,131
Estimated settlements due to third-party payors	6,153,687	-	6,153,687	-	6,153,687	-	-	-	6,153,687	-	6,153,687
Due to affiliates	-	1,766,361	1,766,361	(1,766,361)	-	-	6,757,057	647,995	7,405,052	(7,405,052)	-
Total current liabilities	43,309,439	1,786,609	45,096,048	(1,766,361)	43,329,687	735,014	10,010,530	1,174,264	55,249,495	(7,405,052)	47,844,443
Accrued retirement benefits, less current portion	70,833,856	-	$ 70,833,856	-	70,833,856	-	-	-	70,833,856	-	70,833,856
Reserve for insurance claims, less current portion	4,660,368	-	4,660,368	-	4,660,368	-	-	-	4,660,368	-	4,660,368
Other long-term liabilities	4,749,978	-	4,749,978	-	4,749,978	3,183,921	-		7,933,899	-	7,933,899
Long-term debt, less current portion	52,680,502	-	52,680,502	-	52,680,502	4,332,771	-	-	57,013,273	-	57,013,273
Total liabilities	176,234,143	1,786,609	178,020,752	(1,766,361)	176,254,391	8,251,706	10,010,530	1,174,264	195,690,891	(7,405,052)	188,285,839
Shareholder's equity (deficit):											
Common stock	-	-	-	-	-	-	500	-	500	(500)	-
Additional paid-in capital	-	-	-	-	-	624,479	75,171,734	-	75,796,213	(75,796,213)	-
Retained (deficit) earnings	-	-	-	-	-	(610,681)	(80,881,992)	-	(81,492,673)	81,492,673	-
Total shareholder's equity (deficit)	-	-	-	-	-	13,798	(5,709,758)	-	(5,695,960)	5,695,960	-
Net assets:											
Without donor restrictions	82,743,761	(586,609)	$ 82,157,152	5,695,963	87,853,115	-	-	(991,033)	86,862,082	(5,684,445)	81,177,637
With donor restrictions	2,833,870	-	2,833,870	-	2,833,870	-	-	-	2,833,870	-	2,833,870
Total net assets	85,577,631	(586,609)	84,991,022	5,695,963	90,686,985	-	-	(991,033)	89,695,952	(5,684,445)	84,011,507
Total liabilities and net assets	$ 261,811,774	$ 1,200,000	$ 263,011,774	$ 3,929,602	$ 266,941,376	$ 8,265,504	$ 4,300,772	$ 183,231	$ 279,690,883	$ (7,393,537)	$ 272,297,346

Shore Memorial Physician Services

CONSOLIDATING BALANCE SHEET

December 31, 2018

ASSETS	Shore Memorial Physicians Group	Shore Urgent Care	Shore Pathology Associates	Shore Specialty Consultants	Shore Hospitalists Associates	Shore Quality Partners	Shore Health Enterprises	Shore Memorial Physician Services
Current assets:								
Cash and cash equivalents	$ 374,184	$ 11,797	$ 2,832	$ 91,202	$ 33,027	$ 142,315	$ 394,255	$ 1,049,612
Current portion of assets limited as to use	-	-	-	-	-	-	-	-
Patient accounts receivable, net	147,249	110,131	63,580	495,867	305,468	-	-	1,122,295
Supplies	-	-	-	-	-	-	-	-
Prepaid expenses and other current assets	307,855	-	-	-	-	-	490,993	798,848
Total current assets	829,288	121,928	66,412	587,069	338,495	142,315	885,248	2,970,755
Assets limited as to use:								
Internally designated by Board of Trustees	-	-	-	-	-	-	-	-
Externally designated by donor	-	-	-	-	-	-	-	-
Externally designated under certain agreements, less current portion	-	-	-	-	-	-	-	-
Investment in affiliates	-	-	-	-	-	-	-	-
Due from affiliates	-	-	-	-	-	(2,616,971)		(2,616,971)
Property and equipment, net	-	-	-	-	-	7,861	2,412,474	2,420,335
Other assets	-	-	-	-	-	-	1,526,653	1,526,653
Beneficial interest in perpetual trust	-	-	-	-	-	-	-	-
Total assets	$ 829,288	$ 121,928	$ 66,412	$ 587,069	$ 338,495	$ (2,466,795)	$ 4,824,375	$ 4,300,772
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,626	$ 9,626
Accounts payable, accrued expenses, and other current liabilities	2,242,581	(1,184)	(1,184)	(1,184)	(1,184)	357,412	648,590	3,243,847
Accrued vacation, holiday, and sick pay	-	-	-	-	-	-	-	-
Accrued interest payable	-	-	-	-	-	-	-	-
Current portion of accrued retirement benefits	-	-	-	-	-	-	-	-
Estimated settlements due to third-party payors	-	-	-	-	-	-	-	-
Due to affiliates	(30,381,522)	6,252,883	2,406,186	15,300,904	9,000,932	-	4,177,674	6,757,057
Total current liabilities	(28,138,941)	6,251,699	2,405,002	15,299,720	8,999,748	357,412	4,835,890	10,010,530
Accrued retirement benefits, less current portion	-	-	-	-	-	-	-	-
Reserve for insurance claims, less current portion	-	-	-	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-	-	-	-
Long-term debt, less current portion	-	-	-	-	-	-	-	-
Total liabilities	(28,138,941)	6,251,699	2,405,002	15,299,720	8,999,748	357,412	4,835,890	10,010,530
Shareholder's equity (deficit):								
Common stock	-	-	-	-	-	-	500	500
Additional paid-in capital	67,438,163	484,071	-	-	-	-	7,249,500	75,171,734
Retained deficit	(38,469,934)	(6,613,842)	(2,338,590)	(14,712,651)	(8,661,253)	(2,824,207)	(7,261,515)	(80,881,992)
Total shareholder's equity (deficit)	28,968,229	(6,129,771)	(2,338,590)	(14,712,651)	(8,661,253)	(2,824,207)	(11,515)	(5,709,758)
Net assets:								
Without donor restrictions	-	-	-	-	-	-	-	-
With donor restrictions	-	-	-	-	-	-	-	-
Total net assets	-	-	-	-	-	-	-	-
Total liabilities and net assets	$ 829,288	$ 121,928	$ 66,412	$ 587,069	$ 338,495	$ (2,466,795)	$ 4,824,375	$ 4,300,772

Shore Memorial Health System and Affiliates

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31, 2018

	Shore Medical Center	Shore Health Services Corporation	Total Obligated Group before Eliminations	Eliminating Entries	Total Obligated Group	Brighton Bay	Shore Memorial Physician Services	Shore Memorial Health System	Totals before Eliminations	Eliminating Entries	Totals
Net assets without donor restrictions											
Revenues:											
Net patient service revenue	$ 196,801,935	$ -	$ 196,801,935	$ -	$ 196,801,935	$ -	$ 17,534,437	$ -	$ 214,336,372	$ -	$ 214,336,372
Less: provision for bad debts	(7,534,909)	-	(7,534,909)	-	(7,534,909)	-	-	-	(7,534,909)	-	(7,534,909)
Net patient service revenue less provision for bad debts	189,267,026	-	189,267,026	-	189,267,026	-	17,534,437	-	206,801,463	-	206,801,463
Other revenue	(5,870,153)	-	(5,870,153)	10,415,945	4,545,792	621,079	17,843,849	322,439	23,333,159	(14,525,165)	8,807,994
Total revenues	183,396,873	-	183,396,873	10,415,945	193,812,818	621,079	35,378,286	322,439	230,134,622	(14,525,165)	215,609,457
Expenses:											
Salaries and wages	65,215,121	2,400	65,217,521	-	65,217,521	-	6,928,251	54,734	72,200,506	(5,195,162)	67,005,344
Physician salaries and fees	9,188,855	-	9,188,855	(576,584)	8,612,271	-	17,674,852	-	26,287,123	(2,727,570)	23,559,553
Employee benefits	14,576,721	576	14,577,297	-	14,577,297	-	1,778,849	4,320	16,360,466	(871,996)	15,488,470
Contracted services	31,778,802	1,950	31,780,752	(90,339)	31,690,413	48,287	15,116,186	195,285	47,050,171	(3,540,163)	43,510,008
Supplies and other expenses	35,660,642	-	35,660,642	-	35,660,642	3,310	3,936,429	-	39,600,381	(1,560,126)	38,040,255
Interest	2,537,915	-	2,537,915	-	2,537,915	243,053	4,620	-	2,785,588	(2,310)	2,783,278
Depreciation and amortization	11,361,879	-	11,361,879	-	11,361,879	330,870	733,469	-	12,426,218	(364,143)	12,062,075
Total expenses	170,319,935	4,926	170,324,861	(666,923)	169,657,938	625,520	46,172,656	254,339	216,710,453	(14,261,470)	202,448,983
Operating income (loss)	13,076,938	(4,926)	13,072,012	11,082,868	24,154,880	(4,441)	(10,794,370)	68,100	13,424,169	(263,695)	13,160,474
Nonoperating gains and losses:											
Investment return, net	(1,112,834)	-	(1,112,834)	-	(1,112,834)	-	(772,893)	(742,573)	(2,628,300)	752,528	(1,875,772)
Change in fair value of interest rate swap	508,834	-	508,834	-	508,834	-	-	-	508,834	-	508,834
Total nonoperating (losses) gains, net	(604,000)	-	(604,000)	-	(604,000)	-	(772,893)	(742,573)	(2,119,466)	752,528	(1,366,938)
Excess of (deficiency in) revenues and gains over expenses and losses	12,472,938	(4,926)	12,468,012	11,082,868	23,550,880	(4,441)	(11,567,263)	(674,473)	11,304,703	488,833	11,793,536
Other changes in net assets without donor restrictions:											
Transfers (to) from affiliates	-	-	-	(11,720,000)	(11,720,000)	-	11,720,000	-	-	-	-
Other changes in pension and other postretirement benefits	2,522,855	-	2,522,855	-	2,522,855	-	-	-	2,522,855	-	2,522,855
Increase (decrease) in net assets without donor restrictions	14,995,793	(4,926)	14,990,867	(637,132)	14,353,735	(4,441)	152,737	(674,473)	13,827,558	488,833	14,316,391
Net assets with donor restrictions:											
Investment return, net	(52,500)	-	(52,500)	-	(52,500)	-	-	-	(52,500)	-	(52,500)
Other	(145,502)	-	(145,502)	-	(145,502)	-	-	-	(145,502)	-	(145,502)
Change in beneficial interest in perpetual trust	(202,311)	-	(202,311)	-	(202,311)	-	-	-	(202,311)	-	(202,311)
Decrease in net assets with donor restrictions	(400,313)	-	(400,313)	-	(400,313)	-	-	-	(400,313)	-	(400,313)
Increase (decrease) in net assets	14,595,480	(4,926)	14,590,554	(637,132)	13,953,422	(4,441)	152,737	(674,473)	13,427,245	488,833	13,916,078
Net assets, beginning of year	70,982,151	(581,683)	70,400,468	6,333,095	76,733,563	18,239	(5,862,495)	(316,560)	70,572,747	(477,318)	70,095,429
Net assets, end of year	$ 85,577,631	$ (586,609)	$ 84,991,022	$ 5,695,963	$ 90,686,985	$ 13,798	$ (5,709,758)	$ (991,033)	$ 83,999,992	$ 11,515	$ 84,011,507

Shore Memorial Physician Services

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31, 2018

	Shore Memorial Physicians Group	Shore Urgent Care	Shore Pathology Associates	Shore Specialty Consultants	Shore Hospitalists Associates	Shore Quality Partners	Shore Health Enterprises	Shore Memorial Physician Services
Net assets without donor restrictions								
Revenues:								
Net patient service revenue	$ 6,093,103	$ 1,397,628	$ 491,416	$ 6,723,417	$ 2,828,873	$ -	$ -	17,534,437
Less: provision for bad debts	-	-	-	-	-	-	-	-
Net patient service revenue less provision for bad debts	6,093,103	1,397,628	491,416	6,723,417	2,828,873	-	-	17,534,437
Other revenue	1,080,793	(5,134)	255,000	717,435	-	1,270,590	14,525,165	17,843,849
Total revenues	7,173,896	1,392,494	746,416	7,440,852	2,828,873	1,270,590	14,525,165	35,378,286
Expenses:								
Salaries and wages	1,710,107	22,982	-	-	-	-	5,195,162	6,928,251
Physician salaries and fees	14,462,389	524,893	-	-	(40,000)	-	2,727,570	17,674,852
Employee benefits	906,853	-	-	-	-	-	871,996	1,778,849
Contracted services	(8,915,374)	864,086	1,164,682	11,711,723	5,388,174	1,362,732	3,540,163	15,116,186
Supplies and other expenses	2,302,310	43,474	-	-	16,529	13,990	1,560,126	3,936,429
Interest	593	1,717	-	-	-	-	2,310	4,620
Depreciation and amortization	307,558	56,585	-	-	-	5,183	364,143	733,469
Total expenses	10,774,436	1,513,737	1,164,682	11,711,723	5,364,703	1,381,905	14,261,470	46,172,656
Operating (loss) income	(3,600,540)	(121,243)	(418,266)	(4,270,871)	(2,535,830)	(111,315)	263,695	(10,794,370)
Nonoperating gains and losses:								
Investment return, net	(18,365)	(2,000)					(752,528)	(772,893)
Change in fair value of interest rate swap	-	-	-	-	-	-	-	-
Total nonoperating losses, net	(18,365)	(2,000)	-	-	-	-	(752,528)	(772,893)
Deficiency in revenues and gains over expenses and losses	(3,618,905)	(123,243)	(418,266)	(4,270,871)	(2,535,830)	(111,315)	(488,833)	(11,567,263)
Other changes in net assets without donor restrictions:								
Transfers from affiliates	11,720,000	-	-	-	-	-	-	11,720,000
Other changes in pension and other postretirement benefits	-	-	-	-	-	-	-	-
Increase (decrease) in net assets without donor restrictions	8,101,095	(123,243)	(418,266)	(4,270,871)	(2,535,830)	(111,315)	(488,833)	152,737
Net assets with donor restrictions								
Investment return, net	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Change in beneficial interest in perpetual trust	-	-	-	-	-	-	-	-
Decrease in net assets with donor restrictions	-	-	-	-	-	-	-	-
Increase (decrease) in net assets	8,101,095	(123,243)	(418,266)	(4,270,871)	(2,535,830)	(111,315)	(488,833)	152,737
Net assets, beginning of year	20,867,129	(6,006,525)	(1,920,322)	(10,441,781)	(6,125,422)	(2,712,890)	477,316	(5,862,495)
Net assets, end of year	$ 28,968,224	$ (6,129,768)	$ (2,338,588)	$ (14,712,652)	$ (8,661,252)	$ (2,824,205)	$ (11,517)	$ (5,709,758)