

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

Cape Regional Health System, Inc.

December 31, 2022 and 2021



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Cape Regional Health System, Inc.

Opinion

We have audited the consolidated financial statements of Cape Regional Health System, Inc., (the "System"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2022 and 2021, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

As discussed in Note B to the consolidated financial statements, in 2022 the System adopted Accounting Standard Update 2016-02, *Leases*, as amended. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

The accompanying consolidating balance sheet as of December 31, 2022 and the related consolidating statement of operations and changes in net assets for the year then ended are presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania
March 16, 2023

Cape Regional Health System, Inc.

CONSOLIDATED BALANCE SHEETS

December 31,

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 805,620	\$ 5,135,066
Assets limited as to use	27,004,819	35,534,761
Patient accounts receivable	16,147,939	18,677,866
Supplies	3,292,631	3,640,211
Prepaid expenses and other current assets	<u>4,901,965</u>	<u>4,541,222</u>
Total current assets	52,152,974	67,529,126
Assets limited as to use		
Internally designated by Board of Trustees, net of current portion	60,122,581	85,884,264
Right-of-use assets-operating leases	888,600	-
Property and equipment, net	64,040,502	65,458,320
Other assets	<u>5,058,682</u>	<u>6,786,604</u>
Total assets	<u>\$ 182,263,339</u>	<u>\$ 225,658,314</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 27,212,701	\$ 21,767,139
Current portion of lease liability	794,998	-
Accounts payable	8,935,381	8,564,427
Accrued expenses	9,364,998	11,600,270
Accrued employee personal days	2,584,509	2,555,009
Estimated settlements due to third-party payors	<u>1,059,330</u>	<u>18,341,231</u>
Total current liabilities	49,951,917	62,828,076
Accrued retirement benefits	13,740,243	26,923,337
Other liabilities	5,022,313	5,601,166
Lease liability, net of current portion	1,754,253	-
Long-term debt, net of current portion	<u>3,231,074</u>	<u>4,991,743</u>
Total liabilities	73,699,800	100,344,322
Net assets		
Without donor restrictions	106,344,206	124,056,177
With donor restrictions	<u>2,219,333</u>	<u>1,257,815</u>
Total net assets	<u>108,563,539</u>	<u>125,313,992</u>
Total liabilities and net assets	<u>\$ 182,263,339</u>	<u>\$ 225,658,314</u>

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

Cape Regional Health System, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31,

	2022	2021
Net assets without donor restrictions		
Revenue:		
Patient service revenue	\$ 151,823,102	\$ 157,381,790
Other revenue	14,999,705	18,582,695
Net assets released from restrictions for operations	<u>557,632</u>	<u>883,975</u>
Total revenue	167,380,439	176,848,460
Expenses:		
Salaries and wages	81,564,623	77,200,355
Employee benefits	19,127,570	22,283,653
Supplies and other expenses	36,272,455	36,654,853
Contracted services	30,961,989	29,810,972
Depreciation and amortization	8,616,638	8,315,918
Interest	<u>1,006,312</u>	<u>987,216</u>
Total expenses	177,549,587	175,252,967
Operating (loss) income	(10,169,148)	1,595,493
Other items:		
Investment returns	(18,915,574)	10,650,840
Other pension benefit credit	990,227	688,171
Other	<u>(209,757)</u>	<u>(173,367)</u>
Total other items, net	(18,135,104)	11,165,644
(Deficiency in) excess of revenue over expenses	(28,304,252)	12,761,137
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for purchase of property and equipment	505,072	4,924,738
Other changes in pension benefit obligation	<u>10,087,209</u>	<u>519,202</u>
(Decrease) increase in net assets without donor restrictions	(17,711,971)	18,205,077
Net assets with donor restrictions		
Contributions	2,024,213	2,163,474
Investment returns	9	82
Net assets released from restrictions for operations	(557,632)	(883,975)
Net assets released from restrictions for purchase of property and equipment	<u>(505,072)</u>	<u>(4,924,738)</u>
Increase (decrease) in net assets with donor restrictions	961,518	(3,645,157)
(DECREASE) INCREASE IN NET ASSETS		
Net assets at beginning of year	<u>125,313,992</u>	<u>110,754,072</u>
Net assets at end of year	\$ 108,563,539	\$ 125,313,992

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

Cape Regional Health System, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	2022	2021
Operating activities		
(Decrease) increase in net assets	\$ (16,750,453)	\$ 14,559,920
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Other changes in pension benefit obligation	(10,087,209)	(519,202)
Depreciation and amortization	8,616,638	8,315,918
Equity earnings in unconsolidated joint ventures	(1,468,580)	(4,320,793)
Net realized and unrealized gains on investments	21,047,817	(7,593,636)
Restricted contributions	(2,024,213)	(2,163,474)
Loan forgiveness - Paycheck Protection Program	-	(2,337,710)
Changes in operating assets and liabilities:		
Patient accounts receivable	2,529,927	(3,391,656)
Supplies	347,580	(233,185)
Prepaid expenses and other assets	41,759	1,025,136
Distributions from unconsolidated joint ventures	2,794,000	3,575,506
Right of use asset, net	6,348	-
Accounts payable	370,954	2,685,785
Accrued expenses and other liabilities	(2,814,125)	(893,458)
Accrued employee personal days	29,500	(415,620)
Estimated settlements due to third-party payors	(2,751,968)	(1,127,189)
Accrued retirement benefits	(3,095,885)	(2,061,295)
Net cash (used in) provided by operating activities	(3,207,910)	5,105,047
Investing activities		
Change in assets limited as to use	13,243,808	2,450,541
Additions to property and equipment, net	(7,198,820)	(4,511,332)
Net cash provided by (used in) investing activities	6,044,988	(2,060,791)
Financing activities		
Proceeds from restricted contributions	2,024,213	2,163,474
Estimated settlements due to third-party payors - Medicare advances	(14,529,933)	(8,071,166)
Payments on finance leases	(458,481)	-
Net proceeds (payments) of long-term debt	5,797,677	(836,808)
Net cash used in financing activities	(7,166,524)	(6,744,500)
DECREASE IN CASH AND CASH EQUIVALENTS	(4,329,446)	(3,700,244)
Cash and cash equivalents at beginning of year	<u>5,135,066</u>	<u>8,835,310</u>
Cash and cash equivalents at end of year	<u>\$ 805,620</u>	<u>\$ 5,135,066</u>
Supplemental noncash investing activities		
Assets acquired under capital lease obligations	\$ 2,261,568	

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

Cape Regional Health System, Inc
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE A - ORGANIZATION

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

Cape Regional Medical Center, Inc. (the “Medical Center”) is a 242-bed acute care medical center located in Cape May Court House, New Jersey. The Medical Center is a not-for-profit corporation exempt from federal and state income taxes.

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

Cape Regional Health Enterprises, Inc. (“CRHE”) is a for-profit entity. CRHE provides billing services to private physicians, manages health care rental real estate and is the owner of Cape Cardiology Associates, Inc. (“CCA”), which provides EKG interpretation services.

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

In December 2022, the Board of Trustees of the System approved a non-binding letter of intent (“LOI”) with Cooper University Health System (“Cooper”) an academic medical center located in Camden County, New Jersey. Under the terms of the LOI Cooper would become the sole corporate member of the System and integrate their governance structures and coordinate their financial activities to the extent efficiencies can be achieved. The System and Cooper are working to finalize a Member Substitute Agreement (the “Agreement”), which is expected to be completed in early 2023. The Agreement would be subject to certain regulatory reviews and approvals, which could take approximately one year.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Recently Adopted Accounting Pronouncement

In February 2016, the FASB issued ASU No. 2016 02, *Leases*, as amended, which requires (1) most leases to be recognized on the balance sheet and (2) disclosure about leasing arrangements. The new standard was effective for fiscal years beginning after December 15, 2021. The new standard establishes a right of use (“ROU”) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of operations.

The System adopted the new standard on January 1, 2022, and elected the option to apply the transition requirements in the standard. Consequently, financial information will not be updated, and the disclosures required under the standard, will not be provided for dates and periods before January 1, 2022.

The new standard provides a number of optional practical expedients in transition. The System has elected the “package of practical expedients,” which permits entities to not reassess conclusions prior to the implementation of the new standard about lease identification, lease classification and initial direct costs.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

The most significant effects on the System's consolidated financial statements relate to: (1) the recognition of new ROU assets and lease liabilities on the consolidated balance sheet for existing real estate and equipment operating leases, and (2) providing significant new disclosures about leasing activities.

The impact on the January 1, 2022, consolidated balance sheet is the recognition of the ROU assets and corresponding lease liabilities of \$1,257,107, based on the present value of the remaining minimum rental payments for existing operating leases.

The new standard also provides practical expedients for an entity's ongoing accounting. The System has elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the System will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingencies at the date of and during the reporting period of the consolidated financial statements. The most significant management estimates and assumptions are used in recording patient accounts receivable and patient service revenue, settlements with third-party payors, useful lives of property and equipment, actuarial estimates for the postretirement benefit plan, self-insured reserves and the reported fair values of certain assets and liabilities. Actual results could differ from those estimates.

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 consolidated balance sheets for these items approximate fair value.

Cash and Cash Equivalents

Cash and cash equivalents include various checking and savings accounts with maturities of three months or less and are reported in the consolidated financial statements at their fair value.

Patient Accounts Receivable

Patient accounts receivable are recorded when there is an unconditional right to payment, subject only to the passage of time. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments, are recorded as receivables since the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are recorded as a direct reduction to patient accounts receivable.

Supplies

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

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

Assets Limited as to Use, Investments and Investment Income

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Interest and dividend income, realized gains and losses, and the change in net unrealized gains and losses are recorded as other items in the consolidated statements of operations and changes in net assets. Realized gains and losses for all investments are calculated by the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost. Donated assets are recorded at their fair value at the date of donation. 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 consolidated statements of operations and changes in net assets. Depreciation and amortization have been provided by the straight-line method based on the following estimated useful lives:

Land improvements	5 - 25 years
Building and building improvements	10 - 40 years
Fixed equipment	5 - 20 years
Major movable equipment	3 - 20 years

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

Leases

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

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

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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

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

Other Assets

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

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

CRHE owns an interest in:

- a) Cape Radiology, LLC, an outpatient radiology center;
- b) Cape Regional Physical Therapy Management Services, LLC, which provides management services for the operation of physical therapy practices;
- c) Cape Regional Sleep Services, LLC, which provided management and clinical services for the performance of sleep studies, through July 31, 2021, when it was dissolved; and
- d) Cape Regional Miracles Fitness, which provides health, wellness and fitness programs.

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

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

Medical Malpractice Claims

The System maintains claims-made malpractice insurance coverage and has estimated a range of losses for liabilities relating to asserted and unasserted malpractice claims. This estimate for reported claims based on known facts of each case and unreported incidents and losses is based on the System's and industry experience data. Estimated losses are recorded as other liabilities.

Patient Service Revenue

Patient service revenue is reported at the amounts that reflect the consideration to which the System is expected to be entitled to in exchange for providing patient care for both the hospital and any employed physicians. These amounts are due from patients, third-party payors (including managed care organizations and government programs, i.e., Medicare and Medicaid), and others and include variable consideration for retroactive adjustments due to settlement of future audits, reviews, and investigations.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to patients.

Performance obligations are determined based on the nature of the services provided. The System recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The System believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations are satisfied over time related to patients receiving inpatient acute care services. The System measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The System recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) when it is believed the patient does not require additional services.

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 System is reimbursed for costs reimbursable and other items at a tentative rate, with final settlements determined after submission of annual cost reports by the System and audits thereof by the programs' fiscal intermediaries. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. The System's cost reports have not been audited by the fiscal intermediaries for the years ended December 31, 2022, 2021, 2020 and 2019. In the opinion of management, adequate provision has been made for any adjustment that may result from the final settlement of cost reports or appeal items that have not reached final settlement. Differences between the estimated adjustments and the amounts settled are recorded in the year of settlement. Appeal issues are recorded when realization is reasonably assured.

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

Patient service revenue from the Medicare, Medicaid, and Horizon Blue Cross programs accounted for approximately 49%, 10% and 21%, respectively, for the year ended December 31, 2022 and 48%, 11% and 21%, respectively, for the year ended December 31, 2021, of the System's patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 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. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory actions including fines, penalties and exclusion from the Medicare and Medicaid programs.

Patient service revenue for both the years ended December 31, 2022 and 2021, recognized in the period, is 99% from third-party payors and 1% from self-pay based on primary insurance designation.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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

Advertising Costs

The System expenses advertising costs as incurred. For the years ended December 31, 2022 and 2021, the System incurred advertising costs of \$181,601 and \$179,803, respectively, which are included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

(Deficiency in) Excess of Revenue over Expenses

The consolidated statements of operations and changes in net assets include the (deficiency in) excess of revenue over expenses that represents all revenue, expenses, gains and losses without donor restrictions for the reporting period. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Other transactions are reported as other items. Changes in net assets without donor restrictions, which are excluded from the (deficiency in) excess of revenue over expenses, include net assets released from restrictions for the purchase of property and equipment and other changes in pension benefit obligation.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the System have been limited by donors for a purpose, such as for future capital purchases or various department activities (\$2,161,333 and \$1,199,815 at December 31, 2022 and 2021, respectively) and in perpetuity, with the income used in accordance with donor intentions (\$58,000 at December 31, 2022 and 2021).

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as a component of total revenue for operating purposes and as other changes in net assets without donor restrictions for acquisitions of property and equipment.

Income Taxes

The System and the Medical Center are not-for-profit corporations and are exempt from federal and state income taxes under existing provisions of the Internal Revenue Code and the laws of the State of New Jersey.

The System's for-profit entities record a provision for income taxes, when applicable, which is based on amounts estimated to be currently payable and those deferred because of temporary differences between the consolidated financial statement and tax bases of assets and liabilities. These differences principally consist of depreciation. Income taxes provided in 2022 and 2021 were not material.

The System follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The System does not believe its consolidated financial statements include any material uncertain tax positions.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

Fair Value Measurements

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

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

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Valuations based on observable inputs and quoted prices in active markets for similar assets and liabilities.
- Level 3 - Valuations based on inputs that are unobservable and models that are significant to the overall fair value measurement.

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

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

December 31, 2021				
	Total	Level 1	Level 2	Level 3
Government securities	\$ 6,628,393	\$ -	\$ 6,628,393	\$ -
Mutual funds	40,560,216	35,404,935	5,155,281	-
Equity securities	37,526,629	37,526,629	-	-
Fixed income securities	25,159,481	-	25,159,481	-
	<u>\$ 109,874,719</u>	<u>\$ 72,931,564</u>	<u>\$ 36,943,155</u>	<u>\$ -</u>

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE C - IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which started to and continues to spread throughout the United States of America. As a result of the COVID-19 pandemic, the System experienced a decline in patient visits, admissions, and medical procedures performed. Elective medical procedures were suspended by state and local governments at varying time periods beginning in mid-March through late May 2020, contributing to a significant decline in patient service revenue due to COVID-19 when compared to historic and forecasted results for that period. Additionally, in response to the pandemic, the System incurred additional costs for testing, personal protective equipment, third-party contract services and other operating costs associated with ensuring employee and patient safety while operating during a pandemic. Since late May 2020, the System has begun to see increases in its patient visits, admissions, and medical procedures, however, volumes have not returned to pre-pandemic levels. Management is actively monitoring operating revenues, and expenses and based on the continuing uncertainties of COVID-19, it is unable to determine if it will have a material impact on its operations for the year ending December 31, 2023.

The System received grant payments, which are considered nonexchange transactions, from the federal government distributed under the Coronavirus Aid, Recovery and Economic Security ("CARES") Act. The System received no grant payments in 2022 and received grant payments of \$2,065,819 in 2021, of which \$1,913,816 and \$3,423,162, respectively, were included in other revenue in the consolidated statements of operations and changes in net assets for the years ended December 31, 2022 and 2021. During 2020, the System received \$17,459,162 in grant payments. The unrecognized amounts of \$152,003 and \$2,065,819 at December 31, 2022 and 2021, respectively, are included in estimated settlements due to third-party payors in the consolidated balance sheets. The System also received and reorganized in other revenue in the consolidated statements of operations and changes in net assets \$1,883,359 for the year ended December 31, 2022, related to Federal Emergency Management Agency ("FEMA") amounts. The CARES Act and FEMA payments are subject to audit and compliance with federal regulations and future grant payments are uncertain at this time.

The CARES Act also provided for an expansion of the Medicare Accelerated and Advance Payment Program ("Medicare Advances") for patient services. Under the program, the System received \$22,601,099 in April 2020, and recorded these payments in estimated settlements due to third-party payors in the consolidated balance sheet. The recoupment period began in April 2021 as amounts billed to Medicare for services provided were offset against the advance payments which were fully recouped by the Medicare program during 2022. During the years ended December 31, 2022 and 2021, Medicare recouped \$14,529,933 and \$8,071,166, respectively.

Additionally, the Internal Revenue Service ("IRS") in 2020, allowed the System to defer remittance of payroll taxes of \$2,834,266, which was included in accrued expenses and other liabilities in the consolidated balance sheets. Fifty percent of the deferred payroll taxes was paid by December 31, 2022 and 2021.

In 2020, the System obtained a \$2,337,710 loan with an interest rate of 1%, through a bank for the Small Business Administration Paycheck Protection Program. This loan was designed to provide a direct incentive for small businesses to keep their workers on payroll and could be used to pay for mortgage interest, rent, utilities, worker protection costs related to the effect of the COVID-19 pandemic. During 2021, the System received notice that the loan was forgiven and recorded its forgiveness in other revenue in the consolidated statement of operations for the year ended December 31, 2021.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE D - LIQUIDITY AND AVAILABILITY

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

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Cash	\$ 805,620	\$ 5,135,066
Patient accounts receivable	16,147,939	18,677,866
Assets limited as to use, internally designated by Board of Trustees	<u>60,064,581</u>	<u>85,826,264</u>
	77,018,140	109,639,196
Available line of credit	<u>13,995,181</u>	<u>19,995,172</u>
	<u>\$ 91,013,321</u>	<u>\$ 129,634,368</u>

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

Excess cash is invested in accordance with the Board of Trustees' investment policy and there are no investments with purchase commitments at December 31, 2022.

NOTE E - UNCOMPENSATED CARE

The System provides charity care to patients who meet certain financial criteria established by the State of New Jersey. The direct and indirect cost of services and supplies furnished to patients eligible for such charity care, using a ratio of cost to gross charges, approximated \$481,000 and \$765,000 for the years ended December 31, 2022 and 2021, respectively. Gross charges forgone related to charity care services amounted to approximately \$2,982,000 and \$4,980,000 for the years ended December 31, 2022 and 2021, respectively.

The System's patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the System accepts all patients regardless of their ability to pay. This policy results in the assumption of higher-than-normal patient accounts receivable credit risks. To the extent the System realizes additional losses resulting from such higher credit risk for patients who are not identified or do not meet the previously described charity definition, such additional losses are considered implicit price concessions.

Additionally, the System sponsors certain other charitable programs, which provide substantial benefit to the broader community. Such programs include services to needy and elderly populations that require special support, as well as health promotion and education for the general community welfare.

The Health Care Reform Act of 1992, Chapter 160, established the Health Care Subsidy Fund to provide a mechanism and funding source to compensate hospitals for charity care. The System received approximately \$91,000 and \$74,000 for charity care, which is included in patient service revenue for the years ended December 31, 2022 and 2021, respectively. The Health Care Subsidy Fund amounts are subject to change from year to year based on available state budget amounts and allocation methodologies.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE F - INVESTMENTS

	December 31,	
	2022	2021
Internally designated by Board of Trustees:		
Cash and cash equivalents	\$ 782,479	\$ 11,368,619
Government securities	3,099,813	6,628,393
Mutual funds	29,100,067	40,560,216
Equity securities	28,204,031	37,526,629
Fixed income securities	25,723,163	25,159,481
Accrued interest receivable	<u>217,847</u>	<u>175,687</u>
	87,127,400	121,419,025
Less amounts required for current liabilities:		
Medicare Advances (Note C)	-	(14,529,933)
Revolving line of credit (Note H)	<u>(27,004,819)</u>	<u>(21,004,828)</u>
	<u>(27,004,819)</u>	<u>(35,534,761)</u>
	<u><u>\$ 60,122,581</u></u>	<u><u>\$ 85,884,264</u></u>

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,	
	2022	2021
Other revenue:		
Interest income	<u>\$ 65,117</u>	<u>\$ 27,786</u>
Other items:		
Interest and dividend income	\$ 2,545,756	\$ 3,551,624
Net realized gains on sale of investments	1,155,964	5,566,958
Change in unrealized gains and losses	<u>(22,203,781)</u>	<u>2,026,678</u>
Investment management fees	<u>(413,513)</u>	<u>(494,420)</u>
	<u><u>\$ (18,915,574)</u></u>	<u><u>\$ 10,650,840</u></u>

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE G - PROPERTY AND EQUIPMENT

	December 31,	
	2022	2021
Land	\$ 3,796,184	\$ 3,796,184
Land improvements	2,552,797	2,476,608
Buildings and building improvements	101,325,080	101,292,887
Fixed equipment	30,609,361	30,242,322
Major movable equipment	<u>116,295,835</u>	<u>111,708,971</u>
	254,579,257	249,516,972
Less accumulated depreciation and amortization	<u>(194,087,822)</u>	<u>(184,441,302)</u>
	60,491,435	65,075,671
Construction in progress	<u>3,549,067</u>	<u>382,649</u>
	<u>\$ 64,040,502</u>	<u>\$ 65,458,320</u>

Depreciation and amortization expense related to property and equipment amounted to \$8,616,638 and \$8,315,918 for the years ended December 31, 2022 and 2021, respectively.

The System has a remaining commitment for renovation to the emergency and radiology departments of \$10,559,000 at December 31, 2022. The renovations are to be funded primarily through internally designated funds. The renovations are expected to be completed by February 2024.

Capital leases are included in the major movable equipment category of property and equipment at December 31, 2021, for equipment, net of \$2,464,366.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE H - LONG-TERM DEBT

	December 31,	
	2022	2021
Revolving line of credit	\$ 27,004,819	\$ 21,004,828
Mortgage payable secured by the related CRH property, matures January 2036, with an option by the lender to call the mortgage including principal and accrued interest in July 2025 and at every 5-year anniversary period thereafter. Principal at various amounts and interest are paid monthly at 2.43% at December 31, 2022 and 2021, respectively.	3,438,956	3,641,270
Obligation under capital leases, with interest rates ranging from 2.22% to 5.28% secured by leased equipment.	-	2,112,784
	30,443,775	26,758,882
Less current portion	<u>(27,212,701)</u>	<u>(21,767,139)</u>
	<u><u>\$ 3,231,074</u></u>	<u><u>\$ 4,991,743</u></u>

Revolving Line of Credit

The Medical Center has a \$41,000,000 revolving line of credit with a financial institution, which has no expiration. All amounts outstanding are due on demand and are collateralized by a portion of assets limited as to use, which are held by the same financial institution. The fair value of the collateralized amounts totaled \$27,004,819 and \$21,004,828 at December 31, 2022 and 2021, respectively. The borrowings on the revolving line of credit are currently broken down into tranches, which management has the ability to restructure with the financial institution. There are fixed rate tranches that have an agreed-upon due date with a prepayment penalty as defined in the agreement. Interest on all the tranches is due monthly, with the variable rate tranche's interest based on UBS variable rate 4.172%, plus a spread of 0.850%, corresponding to an annual percentage of 5.091%. A summary of the tranches is as follows:

Amounts Outstanding		Interest Rate			Due Dates
December 31,		Interest Rate	Type	Due Dates	
2022	2021				
\$ 2,000,000	\$ 2,000,000	3.44%	Fixed	June 27, 2023	
2,000,000	2,000,000	3.56%	Fixed	June 27, 2024	
2,254,828	2,254,828	4.39%	Fixed	April 16, 2025	
2,250,000	2,250,000	4.45%	Fixed	April 16, 2026	
2,250,000	2,250,000	4.51%	Fixed	April 16, 2027	
2,250,000	2,250,000	4.57%	Fixed	April 17, 2028	
4,000,000	4,000,000	3.17%	Fixed	February 26, 2029	
4,000,000	4,000,000	3.03%	Fixed	February 25, 2030	
21,004,828	21,004,828				
5,999,991	-	Variable	See Above	N/A	
<u><u>\$ 27,004,819</u></u>	<u><u>\$ 21,004,828</u></u>				

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

Future payments on long-term debt are as follows:

	Revolving Line of Credit	Mortgage	Total
2023	\$ 27,004,819	\$ 207,882	\$ 27,212,701
2024	-	214,289	214,289
2025	-	220,568	220,568
2026	-	227,031	227,031
2027	-	233,684	233,684
Thereafter	-	2,335,502	2,335,502
	<u>\$ 27,004,819</u>	<u>\$ 3,438,956</u>	<u>\$ 30,443,775</u>

NOTE I - LEASES

The following table presents the components of the System's right of use assets and liabilities related to leases and their classification at December 31, 2022, as follows:

Component of Lease Balances	Classification in Consolidated Balance Sheet	
Assets		
Operating lease assets	Right of use assets-operating leases	\$ 888,600
Finance lease assets	Property and equipment, net	<u>1,642,870</u>
		<u>\$ 2,531,470</u>
Liabilities		
Operating lease liabilities		
Current	Current portion of lease liability	\$ 277,277
Long-term	Lease liability, less current portion	<u>617,671</u>
		<u>894,948</u>
Finance lease liabilities		
Current	Current portion of lease liability	517,721
Long-term	Lease liability, less current portion	<u>1,136,582</u>
		<u>1,654,303</u>
		<u>\$ 2,549,251</u>

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

The following table presents the components of lease expense and their classification in the consolidated statement of operations and changes in net assets for the year ended December 31, 2022, as follows:

Component of Lease Balances	Classification in Consolidated Statement of Operations and Changes in Net Assets	
Operating lease expense	Supplies and other	\$ 424,773
Finance lease expense:		
Amortization of leased assets	Depreciation and amortization	642,125
Interest on lease liabilities	Interest	27,323
		<hr/>
		\$ 1,094,221

The weighted-average lease terms and discount rates for operating and finance leases is at December 31, 2022, as follows:

Weighted-average remaining lease term (years)		
Operating leases	4.50 years	
Finance leases	3.07 years	
Weighted-average discount rate		
Operating leases	1.2%	
Finance leases	1.4%	

Cash flow related to leases is for the year ended December 31, 2022, as follows:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ 377,124	
Operating cash outflows from finance leases	489,925	
Financing cash outflows from finance leases	27,588	

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

Years Ending December 31,	Operating Leases	Finance Leases	Total
2023	\$ 287,988	\$ 536,897	\$ 824,885
2024	241,581	529,912	771,493
2025	101,018	498,969	599,987
2026	101,018	124,742	225,760
2027	101,018	-	101,018
Thereafter	<hr/> 92,600	<hr/> -	<hr/> 92,600
	925,223	1,690,520	2,615,743
Less: Imputed interest	<hr/> (30,275)	<hr/> (36,217)	<hr/> (66,492)
	<hr/> \$ 894,948	<hr/> \$ 1,654,303	<hr/> \$ 2,549,251

Prior to the adoption of ASU 2016-02, *Leases*, rent expense for operating lease agreements for the year ended December 31, 2021 totaled \$397,630.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE J - POSTRETIREMENT BENEFIT PLANS

The System, through the Medical Center has a noncontributory defined benefit pension plan ("DB Plan") covering all employees who began working with the Medical Center prior to January 1, 2008 and who met prescribed eligibility requirements. The DB Plan uses a December 31st measurement date. The DB Plan was frozen effective March 31, 2014. The mortality table used for projecting the benefit obligation is the Pri-2012 private plans mortality tables projected with the mortality improvement scale MP-2021 for the years ended December 31, 2022 and 2021.

The following table summarizes information about the defined benefit plan:

	December 31,	
	2022	2021
Accumulated benefit obligation	<u>\$ 72,572,795</u>	<u>\$ 98,107,606</u>
Changes in benefit obligation		
Projected benefit obligation, beginning of year	\$ 98,107,606	\$ 96,717,721
Interest cost	2,818,970	2,673,644
Actuarial (gain) loss	(22,910,268)	2,584,111
Benefits paid	(5,443,513)	(3,867,870)
Projected benefit obligation, end of year	72,572,795	98,107,606
Changes in plan assets		
Fair value of plan assets, beginning of year	71,184,269	67,213,887
Actual return on plan assets	(8,190,499)	7,297,841
Contributions by the Medical Center	2,105,658	1,373,124
Benefits and expenses paid	(6,266,876)	(4,700,583)
Fair value of plan assets, end of year	58,832,552	71,184,269
Funded status of the plan - accrued retirement benefits	<u>\$ (13,740,243)</u>	<u>\$ (26,923,337)</u>
Amounts recognized in accumulated net assets without donor restrictions		
Net loss	<u>\$ 33,349,439</u>	<u>\$ 43,436,648</u>

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

	Years Ended December 31,	
	2022	2021
Components of net periodic benefit credit and other recognized in other items as other pension benefit credit:		
Interest cost	\$ 2,818,970	\$ 2,673,644
Expected return on plan assets	(5,255,850)	(4,953,523)
Amortization of net loss	<u>1,446,653</u>	<u>1,591,708</u>
Net pension benefit credit	(990,227)	(688,171)
Other changes in pension benefit obligation recognized in net assets without donor restrictions:		
Net (gain) loss	(8,640,556)	1,072,506
Recognized loss	<u>(1,446,653)</u>	<u>(1,591,708)</u>
Total recognized in net assets without donor restrictions	<u>(10,087,209)</u>	<u>(519,202)</u>
Total recognized in net pension benefit credit and net assets without donor restrictions	<u>\$ (11,077,436)</u>	<u>\$ (1,207,373)</u>
Amounts expected to be recognized in net periodic benefit cost in the following year – 2023		
Net loss	<u>\$ 1,148,928</u>	
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	5.43%	2.91%
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	2.91%	2.68%
Expected long-term return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

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

Investment Policy

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

Cape Regional Health System, Inc
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2022 and 2021

Plan Assets

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

<u>Asset Category</u>	<u>Target Allocation</u>	<u>December 31,</u>	
		<u>2022</u>	<u>2021</u>
Fixed income	40-60%	30%	33%
Equity securities	40-60%	44	47
Alternative investments: private equity funds	0-20%	26	20
		<u>100%</u>	<u>100%</u>

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

<u>Assets</u>	<u>December 31, 2022</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income ^(a)	\$ 17,925,255	\$ -	\$ 17,925,255	\$ -
Equity securities ^(b)	\$ 25,670,843	\$ 25,670,843	\$ -	\$ -
	<u>43,596,098</u>	<u>\$ 25,670,843</u>	<u>\$ 17,925,255</u>	<u>\$ -</u>
Alternative investments: private equity funds (at NAV) ^(c)	<u>15,236,454</u>			
Total	<u>\$ 58,832,552</u>			

<u>Assets</u>	<u>December 31, 2021</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income (a)	\$ 23,290,533	\$ -	\$ 23,290,533	\$ -
Equity securities (b)	\$ 33,647,643	\$ 33,647,643	\$ -	\$ -
	<u>56,938,176</u>	<u>\$ 33,647,643</u>	<u>\$ 23,290,533</u>	<u>\$ -</u>
Alternative investments: private equity funds (at NAV) (c)	<u>14,246,093</u>			
Total	<u>\$ 71,184,269</u>			

^(a) Comprised of investment grade bonds of United States of America ("US") 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.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

The fair value of investments is measured using the market value approach for all investments except for alternative investments. Fair value of the alternative investments is determined based upon the net asset value ("NAV") of the fund per share provided by the fund manager. The fair value of the underlying securities and other financial information of the alternative investment may involve estimates that require a degree of judgment. For underlying securities which are not actively traded, a bid price is obtained from at least one independent dealer.

Cash Flows

Contributions

The expected contributions to the DB Plan in 2023 are \$2,000,000.

Estimated Future Benefit Payments

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

2023	\$ 4,713,047
2024	4,816,141
2025	4,922,458
2026	5,109,648
2027	5,207,796
2028 - 2032	26,844,180

Defined Contribution Plan

The System has a defined contribution pension plan (the "DC Plan"). Employees hired January 1, 2008 and forward are eligible to participate in the DC Plan based upon established criteria outlined in the plan document. Expense related to the DC Plan was \$1,868,425 and \$1,972,866 for the years ended December 31, 2022 and 2021, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

Litigation and Medical Malpractice Claims

The System is a defendant in civil actions for alleged medical malpractice. The System's medical malpractice insurance carrier is defending these actions. In the opinion of the System, its potential liability in these actions is within the limits of the medical malpractice liability and comprehensive general liability insurance. The System has recorded an undiscounted liability for estimated losses from known medical malpractice claims as well as incurred but not reported claims. The liability is estimated to be \$2,519,000 and \$2,817,000 at December 31, 2022 and 2021, respectively, and is included in accrued expenses and other liabilities in the consolidated balance sheets. Insurance recoveries associated with the reported claims totaled approximately \$1,521,000 and \$1,876,000 for the years ended December 31, 2022 and 2021, respectively, and are included in other assets in the consolidated balance sheets.

Workers' Compensation Insurance

The System has a self-insured workers' compensation program subject to a self-insured retention of \$750,000 per claim for both years ended December 31, 2022 and 2021. Claims exceeding the self-insured retention are covered under an excess insurance policy. The liability for workers' compensation claims of \$1,685,000 and \$1,535,000 at December 31, 2022 and 2021, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheets.

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE L - 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,	
	2022	2021
Medicare and Medicaid	55%	55%
Commercial and other third-party payors	23	23
Patients	10	8
Blue Cross	12	14
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	100%	100%

The System invests a portion of its operating and Board-designated cash and cash equivalents in various checking, savings and certificates of deposit accounts with several commercial banks. Certain deposits with these banks exceeded Federal Deposit Insurance Corporation limits. The System also invests its cash and cash equivalents in money market mutual funds. These funds generally invest in highly-liquid U.S. government and agency obligations. Investments in mutual funds are not insured or guaranteed by the U.S. government; however, management believes that credit risk related to these deposits and investments is minimal.

NOTE M - FUNCTIONAL EXPENSES

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

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

Cape Regional Health System, Inc

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

<u>Year Ended December 31, 2021</u>	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 61,011,059	\$ 16,189,296	\$ 77,200,355
Employee benefits	17,610,661	4,672,992	22,283,653
Supplies and other expenses	30,016,206	6,638,647	36,654,853
Contracted services	20,335,474	9,475,498	29,810,972
Depreciation and amortization	3,726,655	4,589,263	8,315,918
Interest	-	987,216	987,216
	<u>\$ 132,700,055</u>	<u>\$ 42,552,912</u>	<u>\$ 175,252,967</u>

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

NOTE N - SUBSEQUENT EVENTS

The System evaluated its December 31, 2022 consolidated financial statements for subsequent events through March 16, 2023, the date the consolidated financial statements were issued. The System is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

Cape Regional Health System, Inc.

CONSOLIDATING BALANCE SHEET

December 31, 2022

	Consolidated Cape Regional Health System, Inc.	Eliminating Entries	Total	Cape Regional Health System, Inc.	Cape Regional Medical Center, Inc.	Cape Physicians Associates, P.A.	Consolidated Cape Regional Health Enterprises, Inc.	Cape Regional Holdings, LLC
ASSETS								
Current assets								
Cash and cash equivalents	\$ 805,620	\$ -	\$ 805,620	\$ 36,588	\$ 289,227	\$ 114,128	\$ 17,187	\$ 348,490
Assets limited as to use	27,004,819	-	27,004,819	-	27,004,819	-	-	-
Patient accounts receivable	16,147,939	-	16,147,939	-	14,285,483	1,854,934	7,522	-
Supplies	3,292,631	-	3,292,631	-	3,250,666	41,965	-	-
Due from affiliates, net	-	(373,923)	373,923	-	168,668	-	204,016	1,239
Prepaid expenses and other current assets	4,901,965	70	4,901,895	4,354	3,905,540	746,010	209,219	36,772
Total current assets	52,152,974	(373,853)	52,526,827	40,942	48,904,403	2,757,037	437,944	386,501
Assets limited as to use								
Internally designated by Board of Trustees, net of current portion	60,122,581	-	60,122,581	1,712,625	58,409,956	-	-	-
Right-of-use assets-operating leases	888,600	-	888,600	-	174,489	694,992	-	19,119
Property and equipment, net	64,040,502	-	64,040,502	113,860	45,540,182	1,595,203	1,936,676	14,854,581
Due from affiliates	-	(43,241,079)	43,241,079	42,596,000	645,079	-	-	-
Other assets	5,058,682	-	5,058,682	-	2,223,865	1,907,803	878,346	48,668
Total assets	<u>\$ 182,263,339</u>	<u>\$ (43,614,932)</u>	<u>\$ 225,878,271</u>	<u>\$ 44,463,427</u>	<u>\$ 155,897,974</u>	<u>\$ 6,955,035</u>	<u>\$ 3,252,966</u>	<u>\$ 15,308,869</u>
LIABILITIES AND NET ASSETS								
Current liabilities								
Current maturities of long-term debt	27,212,701	-	27,212,701	-	27,004,819	-	-	207,882
Current maturities of lease liability	794,998	-	794,998	-	611,411	164,100	-	19,487
Accounts payable	8,935,381	-	8,935,381	-	8,697,378	82,115	153,100	2,788
Accrued expenses	9,364,998	-	9,364,998	77,000	7,106,998	2,242,825	(68,040)	6,215
Accrued employee personal days	2,584,509	-	2,584,509	-	2,584,509	-	-	-
Due to affiliates	-	(373,853)	373,853	-	-	230,100	137,425	6,328
Estimated settlements due to third-party payors	1,059,330	-	1,059,330	-	907,327	152,003	-	-
Total current liabilities	49,951,917	(373,853)	50,325,770	77,000	46,912,442	2,871,143	222,485	242,700
Accrued retirement benefits	13,740,243	-	13,740,243	-	13,740,243	-	-	-
Other liabilities	5,022,313	-	5,022,313	442,117	4,580,196	-	-	-
Lease liability, net of current maturities	1,754,253	-	1,754,253	-	1,217,381	536,872	-	-
Due to affiliates	-	(43,241,079)	43,241,079	-	-	42,596,000	645,079	-
Long-term debt, net of current maturities	3,231,074	-	3,231,074	-	-	-	-	3,231,074
Total liabilities	73,699,800	(43,614,932)	117,314,732	519,117	66,450,262	46,004,015	867,564	3,473,774
Net assets								
Without donor restrictions	106,344,206	-	106,344,206	43,944,310	87,228,379	(39,048,980)	2,385,402	11,835,095
With donor restrictions	2,219,333	-	2,219,333	-	2,219,333	-	-	-
Total net assets	<u>108,563,539</u>	<u>-</u>	<u>108,563,539</u>	<u>43,944,310</u>	<u>89,447,712</u>	<u>(39,048,980)</u>	<u>2,385,402</u>	<u>11,835,095</u>
Total liabilities and net assets	<u><u>\$ 182,263,339</u></u>	<u><u>\$ (43,614,932)</u></u>	<u><u>\$ 225,878,271</u></u>	<u><u>\$ 44,463,427</u></u>	<u><u>\$ 155,897,974</u></u>	<u><u>\$ 6,955,035</u></u>	<u><u>\$ 3,252,966</u></u>	<u><u>\$ 15,308,869</u></u>

Cape Regional Health System, Inc.
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
December 31, 2022

	Consolidated Cape Regional Health System, Inc.	Eliminating Entries	Total	Cape Regional Health System, Inc.	Cape Regional Medical Center, Inc.	Cape Physicians Associates, P.A.	Consolidated Cape Regional Health Enterprises, Inc.	Cape Regional Holdings, LLC
Net assets without donor restrictions								
Revenue:								
Patient service revenue	\$ 151,823,102	\$ -	\$ 151,823,102	\$ -	\$ 127,603,681	\$ 24,197,179	\$ 22,242	\$ -
Other revenue	14,999,705	(2,180,339)	17,180,044	32	6,146,401	7,332,732	2,272,508	1,428,371
Net assets released from restrictions for operations	557,632	-	557,632	-	557,632	-	-	-
Total revenue	167,380,439	(2,180,339)	169,560,778	32	134,307,714	31,529,911	2,294,750	1,428,371
Expenses:								
Salaries and wages	81,564,623	-	81,564,623	-	58,565,712	22,050,843	900,181	47,887
Employee benefits	19,127,570	-	19,127,570	-	15,269,903	3,569,230	284,954	3,483
Supplies and other expenses	36,272,455	(839,316)	37,111,771	-	32,144,595	4,044,895	408,578	513,703
Contracted services	30,961,989	(1,341,023)	32,303,012	(10,325)	26,754,944	5,141,488	250,371	166,534
Depreciation and amortization	8,616,638	-	8,616,638	11,953	7,384,554	376,525	200,285	643,321
Interest	1,006,312	(31,948)	1,038,260	-	912,196	5	23,505	102,554
Total expenses	177,549,587	(2,212,287)	179,761,874	1,628	141,031,904	35,182,986	2,067,874	1,477,482
Operating (loss) income	(10,169,148)	31,948	(10,201,096)	(1,596)	(6,724,190)	(3,653,075)	226,876	(49,111)
Other items:								
Investment returns	(18,915,574)	(31,948)	(18,883,626)	(219,699)	(18,663,927)	-	-	-
Other pension benefit credit	990,227	-	990,227	-	990,227	-	-	-
Other	(209,757)	-	(209,757)	-	(9,759)	-	(199,998)	-
(Deficiency in) excess of revenues over expenses	(18,135,104)	(31,948)	(18,103,156)	(219,699)	(17,683,459)	-	(199,998)	-
	(28,304,252)	-	(28,304,252)	(221,295)	(24,407,649)	(3,653,075)	26,878	(49,111)
Other changes in unrestricted net assets:								
Net assets released from restrictions for purchase of property and equipment	505,072	-	505,072	-	505,072	-	-	-
Other changes in pension benefit obligation	10,087,209	-	10,087,209	-	10,087,209	-	-	-
Transfers to affiliates	-	-	-	3,725,000	(3,725,000)	-	-	-
(Decrease) increase in net assets without restrictions	(17,711,971)	-	(17,711,971)	3,503,705	(17,540,368)	(3,653,075)	26,878	(49,111)
Net assets with donor restrictions								
Contributions	2,024,213	-	2,024,213	-	2,024,213	-	-	-
Investment returns	9	-	9	-	9	-	-	-
Net assets released from restrictions for operations	(557,632)	-	(557,632)	-	(557,632)	-	-	-
property and equipment	(505,072)	-	(505,072)	-	(505,072)	-	-	-
Increase in net assets donor restrictions	961,518	-	961,518	-	961,518	-	-	-
(DECREASE) INCREASE IN NET ASSETS	(16,750,453)	-	(16,750,453)	3,503,705	(16,578,850)	(3,653,075)	26,878	(49,111)
Net assets, beginning of year	125,313,992	-	125,313,992	40,440,605	106,026,562	(35,395,905)	2,358,524	11,884,206
Net assets, end of year	\$ 108,563,539	\$ -	\$ 108,563,539	\$ 43,944,310	\$ 89,447,712	\$ (39,048,980)	\$ 2,385,402	\$ 11,835,095