DEBORAH HEART AND LUNG CENTER
Consolidated Financial Statements
December 31, 2017 and 2016
With Independent Auditors' Report

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AUDIT TAX ADVISORY

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Deborah Heart and Lung Center

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Deborah Heart and Lung Center, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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 Consolidated 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.

Auditors' 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 audits 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 consolidated financial position of Deborah Heart and Lung Center as of December 31, 2017 and 2016, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheets as of December 31, 2017 and 2016 and consolidating statements of operations and changes in net assets for the years ended December 31, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such 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, including 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

WithumSmith+Brown, PC

May 29, 2018

Deborah Heart and Lung Center
Consolidated Balance Sheets
As of December 31, 2017 and 2016

ASSETS	2017	2016
Current assets		
Cash and cash equivalents	$ 19,086,688	$ 21,863,626
Assets limited as to use	1,028,883	198,144
Investments	6,611,104	--
Patient accounts receivable, net	19,890,976	18,154,808
Due from Deborah Hospital Foundation	4,663,394	4,040,115
Supplies	4,260,124	4,540,143
Prepaid expenses and other current assets	2,685,191	1,831,634
Total current assets	58,226,360	50,628,470
Assets limited as to use:		
By Board for designated purposes	9,383,763	7,590,435
Insurance - held by Deborah Medical Associates	2,661,625	2,710,987
	12,045,388	10,301,422
Property, plant, and equipment, net	36,149,482	31,000,479
Other assets	817,050	975,450
Prepaid retirement benefits	--	276,043
Beneficial interest in perpetual trust	2,003,395	1,865,037
Beneficial interest in restricted net assets of Deborah Hospital Foundation	5,896,049	5,900,327
Total assets	$ 115,137,724	$ 100,947,228
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 19,343,263	$ 12,630,621
Accrued compensation and employee benefits	11,266,075	11,192,717
Estimated settlements due to third-party payors, net	3,878,939	4,338,972
Accrued interest payable	378,333	195,104
Current maturities of long-term debt	5,205,416	2,897,462
Line of credit	1,000,000	1,000,000
Total current liabilities	41,072,026	32,254,876
Accrued retirement benefits	3,462,522	1,471,540
Estimated malpractice claims liability	3,040,864	2,168,487
Other liabilities	560,809	1,041,502
Long-term debt, less current maturities, net	21,054,255	23,089,659
Total liabilities	69,190,476	60,026,064
Net assets		
Unrestricted	37,486,079	32,579,282
Temporarily restricted	8,461,169	8,341,882
Total net assets	45,947,248	40,921,164
Total liabilities and net assets	$ 115,137,724	$ 100,947,228

The Notes to the Consolidated Financial Statements are an integral part of these statements.

Deborah Heart and Lung Center
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets		
Revenue		
Net patient service revenue	$ 174,882,211	$ 171,082,681
Other revenue, gains and losses	8,977,139	10,478,097
Net assets released from restriction	906,730	1,051,525
Total revenue	184,766,080	182,612,303
Expenses		
Salary and wages	79,728,975	77,494,208
Employee benefits	21,356,191	21,422,124
Supplies and other expenses	79,566,378	74,314,106
Interest	1,197,821	918,585
Depreciation and amortization	5,717,337	5,186,360
Total expenses	187,566,702	179,335,383
Income (loss) from operations	(2,800,622)	3,276,920
Nonoperating revenue		
Contributions from Deborah Hospital Foundation	5,850,000	5,676,996
Excess of revenue and gains over expenses	3,049,378	8,953,916
Other changes in unrestricted net assets		
Net assets released from restriction for property, plant and equipment	597,468	240,812
Other changes in retirement benefit obligation	1,259,951	2,030,183
Change in unrestricted net assets	4,906,797	11,224,911
Temporarily restricted net assets		
Contributions	1,489,483	1,271,034
Net assets released from restriction	(1,504,198)	(1,292,337)
Change in beneficial interest in restricted net assets of Deborah Hospital Foundation	(4,356)	90,467
Changes in fair value of beneficial interest in perpetual trust	138,358	17,169
Change in temporarily restricted net assets	119,287	86,333
Changes in net assets	5,026,084	11,311,244
Net assets, beginning of year	40,921,164	29,609,920
Net assets, end of year	$ 45,947,248	$ 40,921,164

The Notes to the Consolidated Financial Statements are an integral part of these statements.

Deborah Heart and Lung Center
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Changes in net assets	$ 5,026,084	$ 11,311,244
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization of property, plant and equipment	5,717,337	5,186,360
Interest expense attributable to amortization of deferred financing costs	60,243	35,829
Realized loss on disposal of property, plant and equipment	109,350	128,370
Net realized and unrealized gains on assets whose use is limited	(1,480,628)	(204,000)
Provision for bad debts for patient accounts receivables	--	36,161
Deferred lease incentive	(322,293)	(322,294)
Other changes in retirement benefit obligation	1,259,951	2,030,183
Contributions for property, plant and equipment	(597,468)	(240,812)
Change in beneficial interest in restricted net assets of Deborah Hospital Foundation	4,278	(90,467)
Change in fair value of beneficial interest in perpetual trust	(138,358)	(17,169)
Changes in certain assets and liabilities:		
Patient accounts receivable	(1,736,168)	(46,616)
Due from Deborah Hospital Foundation	(623,279)	(1,510,863)
Supplies	280,019	51,249
Prepaid expenses and other current assets	(853,557)	(221,269)
Prepaid retirement benefits	276,043	(276,043)
Accounts payable and accrued expenses	6,712,642	932,780
Accrued compensation and employee benefits	73,358	1,329,828
Accrued retirement benefits	731,031	(3,237,864)
Accrued interest payable	183,229	(104,132)
Estimated malpractice claims liability	872,377	56,326
Estimated settlements due to third-party payors	(460,033)	216,247
Net cash provided by operating activities	15,094,158	15,043,048
Cash flows from investing activities		
Additions to property, plant, and equipment, net	(7,301,594)	(6,149,174)
Proceeds from sale of property, plant and equipment	1,000	--
Purchases of unrestricted investments	(6,611,104)	--
Change in assets limited as to use	(1,094,077)	3,196,617
Net cash used in investing activities	(15,005,775)	(2,952,557)

The Notes to the Consolidated Financial Statements are an integral part of these statements.

	2017	2016
Cash flows from financing activities		
Proceeds from contributions for property, plant and equipment acquisitions	$ 597,468	$ 240,812
Deferred financing costs	--	(81,022)
Payments on long-term debt	(3,462,789)	(4,556,418)
Net cash used in financing activities	(2,865,321)	(4,396,628)
(Decrease) increase in cash and cash equivalents	(2,776,938)	7,693,863
Cash and cash equivalents, beginning of year	21,863,626	14,169,763
Cash and cash equivalents, end of year	$ 19,086,688	$ 21,863,626
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 954,349	$ 986,888

Supplemental disclosure of non-cash financing activities:

During the year ended December 31, 2017, the Center purchased equipment in the amount of $3,675,096 under a capital lease.

During the year ended December 31, 2016, the Center issued a taxable bond in the amount of $14,350,000. In connection with the bond issuance, $14,200,000 was sent by the bank directly to the Center's defined benefit pension plan and $150,000 was retained directly by the bank for financing costs. The Center did not receive any proceeds from this transaction.

1. ORGANIZATION

Deborah Heart and Lung Center is a tax-exempt teaching and tertiary care specialty hospital located in Browns Mills, New Jersey that primarily provides comprehensive inpatient and outpatient cardiac, vascular, and pulmonary services.

Deborah Heart and Lung Center, its wholly owned, for-profit subsidiaries, Advanced Medical Management Services, Inc. (Advanced), Deborah Medical Investments, LLC (DMI), and captive insurance company Deborah Medical Associates Insurance Company, LLC (DMAI), along with Deborah Cardiovascular Group, P.C. (DCG) are collectively referred to as the Center. The purpose of Advanced is to provide management and billing services to customers in various locations in New Jersey. Services are obtained either from the marketplace or from the Center and are billed at fair market value to the receiving organization with a markup factor to cover overhead cost. DMI was formed for the purpose of holding investments in for-profit entities that provide healthcare services. DMAI was formed to provide medical professional liability insurance and commercial general liability insurance to Deborah Heart and Lung Center, its employees and to provide medical malpractice coverage to physicians and allied professionals who are on the medical staff of the Center and who meet certain underwriting criteria.

Deborah Cardiovascular Group, P.C. (DCG) is a non-profit physician's corporation whose sole shareholder is Michael Neary, M.D. The Center holds certain reserved powers over DCG. The Center has contractually agreed to support DCG's operating loss; DCG has agreed to work with, and on behalf of, the Center to meet community needs and fulfill the Center's Community Health Improvement plan.

Deborah Hospital Foundation (the Foundation) is a not-for-profit, tax-exempt corporation established to raise funds to support its charitable program services and operations, including various programs of the Center. Additionally, certain members of the Center’s senior management hold the same position at the Foundation, and certain members of the Foundation's Board of Directors are also members of the Center's Board of Trustees.

The Center's unique charity mission and policy of not balance billing patients has periodically produced a deficiency of revenue and gains over expenses. These deficiencies have been historically supported by annual contributions from the Foundation and direct public support. The Center is dependent upon continuing financial support of the Foundation to meet its cash flow needs. These cash flow needs are budgeted and managed to fall within the amount reflected in the budget. The Foundation has pledged to provide its resources to the Center, as necessary, to allow the Center to fund its operations (see Note 9).

The Center's Board of Trustees currently consists of thirteen (13) voting members. They are the Chair of the Board of the Center, The President of the Center, the Chair of the Board of the Foundation and ten (10) additional "At Large" trustees elected by the Center's Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accounts of the Center, DCG, Advanced, DMI and DMAI have been consolidated in the financial statements, and all significant intercompany balances and transactions between the entities and have been eliminated in the consolidated financial statements.

Basis of Accounting

The Center prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The Center reports information regarding its financial position and activities according to three classes of net assets which are defined as follows:

- Unrestricted net assets – net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met by actions of the Center or by the passage of time.
- Permanently restricted net assets – net assets subject to donor-imposed stipulations that will not be met by actions of the Center or by the passage of time. The donors of these resources permit the Center to use all or part of the income earned, including capital appreciation, from the related investments for unrestricted or temporarily restricted purposes. There were no permanently restricted net assets at December 31, 2017 and 2016.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant management estimates and assumptions related to the determination of contractual allowances for patient accounts receivable; estimated settlements with third-party payors; useful lives of property, plant, and equipment; actuarial estimates for the postretirement benefit plan; self-insured reserves, including professional malpractice and general liabilities; and the reported fair values of certain assets and liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include various checking accounts, certificates of deposit, and repurchase agreements with initial maturity dates of three months or less. The Center maintains cash balances with financial institutions that at times may exceed Federal Depository Insurance Corporation limits. Management does not believe the credit risk related to these deposits to be significant.

Supplies

Effective in 2017, the Center adopted Accounting Standards Update (ASU) 2015-11, Inventory (Topic 330)-Simplifying the Measurement of Inventory to simplify the measurement of its inventory. In accordance with ASU 2015-11, the Center is required to measure its supplies at the lower of cost and net realizable value. The December 31, 2016 supplies were measured at the lower of cost or market and have not been remeasured to reflect the change made by ASU 2015-11. Cost is determined on the first-in, first-out method. Net realizable value is defined as the estimated selling prices of the inventory in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.

Assets Limited as to Use, Investments and Investment Income

Assets limited as to use by board designation arise from results of operations or contributions not restricted by donors that were designated by the Board of Trustees for specific purposes.

Assets limited as to use for insurance are held by DMAI for the potential payment of malpractice and comprehensive general liability costs.

Assets limited as to use under bond indenture agreements are held by a trustee for payment of principal and interest due on the bonds (Debt Service Funds).

Investments in debt and equity securities are measured at fair value based on quoted market prices, if available, or estimated market prices for similar securities. The Center's investments are both undesignated and designated as assets limited as to use and are considered other-than-trading securities. Amounts required to meet current liabilities of the Center have been classified as current assets in the consolidated balance sheets.

Investment income and realized gains and losses are included in other revenue; unrealized gains and losses are recorded as other changes in unrestricted net assets. Realized gains and losses for all investments are determined by the average cost method.

The Center's investments are managed by investment managers. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Impairment of Investments
Investments are reviewed for impairment whenever events or changes in circumstances indicate that the fair value of investments below cost will be considered other than temporary. There were no such losses reported for the years ended December 31, 2017 and 2016.

Property, Plant and Equipment
Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital leases are recorded at their present value at the inception of the lease and are amortized using the 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.

Those assets acquired by gift are carried at amounts established as fair value at the time of acquisition. Gifts of long-lived assets such as land, buildings, or equipment are reported as other changes in unrestricted net assets, unless explicit donor stipulations specify how the donated assets must be used. 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 those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Center continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets is appropriate, or whether the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Center uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based upon market prices where available, or discounted cash flows. Management believes that no revision to the remaining useful lives or write-down of long-lived assets is required at December 31, 2017.

Other Assets

Included in other assets is deferred lease incentive costs, which are being amortized over the life of the lease (see Note 11). The cost basis of the deferred lease incentive was $1,584,000 at December 31, 2017 and 2016. Accumulated amortization of the deferred lease incentive was $1,240,800 and $1,082,400 at December 31, 2017 and 2016, respectively. The amortization of the deferred lease incentive of $158,400 per year is included in rental income. Amortization expense for the deferred lease incentive for the next two years is expected to be $158,400 per year with $26,400 expected in 2020.

Also included in other assets is a minority investment in a partnership of $351,450 at December 31, 2017 and 2016 and a minority investment in a limited liability company of $280,800 at December 31, 2017 and 2016. These investments are being accounted for under the cost method of accounting.

Beneficial Interest in a Perpetual Trust

The Center is an income beneficiary of a perpetual trust and has recorded its portion of the fair value of the trust. The original corpus of the trust cannot be violated; however, a contingent beneficiary exists in the event that the Center ceases to exist. Therefore, the trust is reported as temporarily restricted net assets.

Beneficial Interest in Restricted Net Assets Held by the Foundation

The Center has recorded its portion of the fair value of restricted net assets held by the Foundation. The net assets consist of a trust that is perpetual in nature, and the original corpus that cannot be violated. The income earned from the trust is to be used for the Children of the World Program. A contingent beneficiary exists in the event that the Foundation or the Children of the World Program ceases to exist. Therefore, the trust is reported as temporarily restricted net assets.

Other Liabilities

Other liabilities consist of unrecognized lease income related to a Satellite Emergency Department on the Center's campus (see Note 11).

Advertising Costs

Advertising costs, which are included in supplies and other expenses in the consolidated statements of operations and changes in net assets, are expensed as incurred. Advertising costs for the years ended December 31, 2017 and 2016 were $1,700,282 and $1,538,774, respectively.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes undiscounted estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Net Patient Accounts Receivable and Net Patient Service Revenue

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

Electronic Health Records Incentives
The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. For Medicare and Medicaid EHR incentive payments, the Center utilizes the grant accounting model to recognize revenue. Under this model, EHR incentive payments are recognized as revenue when attestation that the EHR meaningful use criteria for the required period of time is demonstrated. Accordingly, the Center recognized approximately $463,000 and $770,000 of EHR revenue for the years ended December 31, 2017 and 2016, respectively. These amounts are included in other revenue in the consolidated statements of operations and changes in net assets.

The Center's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment.

Donor-Restricted Gifts
Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as a component of total revenue for operating purposes and as other changes in unrestricted net assets for acquisitions of property, plant, and equipment.

Excess of Revenue and Gains over Expenses
The consolidated statements of operations and changes in net assets include the excess of revenue and gains over expenses, which represents all unrestricted revenue, expenses, and gains and losses for the reporting period. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Other transactions are reported as nonoperating gains and losses. Other changes in unrestricted net assets that are excluded from the excess of revenue and gains over expenses include contributions for capital renovations and equipment acquisitions, other changes in retirement benefit obligations, and other items.

Income Taxes
Deborah Heart and Lung Center and DCG 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.

Advanced is a for-profit entity filing the required federal and state income tax returns. For the years ended December 31, 2017 and 2016, no income tax expense was recorded due to prior years' operating losses that have been carried forward. A deferred income tax asset for the net operating losses has not been recorded as the amounts are immaterial. There are no other deferred income tax assets or liabilities at December 31, 2017 and 2016.

DMI and DMAI are for-profit entities filing the required federal and state partnership returns and do not pay income taxes on their income. Instead, the income is reported by its Member, Deborah Heart and Lung Center, on its informational returns and is not subject to income taxes.

The Center follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Center does not believe its consolidated financial statements include any material uncertain tax positions. In addition, there have been no tax related interest or penalties for the period presented in these consolidated financial statements. Should any such penalties be incurred, the Center’s policy would be to recognize them as operating expenses.

New Accounting Pronouncements Not Yet Adopted

Revenue Recognition

Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers was issued by the Financial Accounting Standards Board (“FASB”) in May 2014 which is effective for fiscal year beginning after December 15, 2019 with early adoption permitted. The new revenue accounting standard requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Center expects to be entitled in exchange for those goods or services. The new standard supersedes all U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires significant additional disclosures. The new requirements have not been adopted in these financial statements. Management is currently assessing the impact of this pronouncement on prospective financial statements. However, upon adoption, management does not expect this pronouncement to have a material effect on the financial statements.

Lease Transactions

In February 2016 the FASB issued ASU 2016-02, Leases which is effective for fiscal years beginning after December 15, 2020 with early adoption permitted. In addition to expanded disclosure requirements regarding leasing activities, the new standard significantly changes current lessee accounting for operating leases. Under the new standard all lessees will be required to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases of property and equipment, except for certain leases classified as short-term leases. The Center has not adopted the new standard in these financial statements and is presently evaluating the effect adoption will have on prospective financial statements. However, based on the Center’s present leasing activities, management expects that adoption of the new standard will require the recognition of significant, long-term right-of-use assets and a lease liability which will increase both current and non-current debt.

In August 2016 the FASB issued ASU 2016-14 – Not-for-profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-profit Entities. ASU 2016-14, which is effective for fiscal years beginning after December 15, 2017 with early adoption permitted will require a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14 underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition, the ASU eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor’s restrictions at the time the asset is place in service. The ASU also changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns. The Center is currently evaluating the impact these changes will have on its future financial statements.

3. UNCOMPENSATED CARE AND STATE SUBSIDIES

The Center provides an allowance for uncompensated care resulting from its charity care policy for services. The allowance is determined by analyzing patient and historical data and trends. Patient accounts receivable are charged off against the allowance for uncompensated care when management determines that collection is unlikely and the Center ceases collection efforts. Allowances have been consistent with management's expectations.

The Center provides charity care to patients who meet certain financial criteria established by the State of New Jersey. The direct and indirect cost of services and supplies furnished to patients eligible for such charity care, using a ratio of cost to gross charges, approximated $7,306,000 and $7,072,000 for the years ended December 31, 2017 and 2016, respectively.

The Center maintains records to identify and monitor the level of charity care it provides. In 2017 and 2016, the amount of charges forgone for services provided to patients under its charity care policy, net of the Health Care Subsidy Fund (HCSF), was $35,437,913 and $33,792,236, respectively.

The Health Care Reform Act of 1992 (Chapter 160) established the HCSF to provide a mechanism and funding source to compensate certain hospitals for charity care. For the years ended December 31, 2017 and 2016, the Center received $341,628 and $1,574,467, respectively, for charity care (included in net patient service revenue). This amount is subject to change from year to year based on available state amounts and allocation methodologies. A proportionate amount is in place through June 30, 2018; however, there can be no assurance of a similar level in the future.

The Center's patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the Center accepts all patients regardless of their ability to pay. This policy results in the assumption of higher-than-normal patient accounts receivable credit risks. To the extent the Center realizes additional losses resulting from such higher credit risks for patients that are not identified or do not meet the previously described charity criteria, such additional losses are included as a reduction of net patient service revenue.

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

Gross charges forgone for free care in excess of third-party reimbursements (e.g., co-pays and deductibles) were $7,522,832 and $9,487,900 in 2017 and 2016, respectively.

4. NET PATIENT SERVICE REVENUE

Inpatient acute care services for Medicare and Medicaid program beneficiaries and outpatient services for Medicare beneficiaries are paid at prospectively determined rates per discharge or outpatient service. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Professional services for patient care are primarily paid based on a fee-for-services basis. Outpatient services for Medicaid beneficiaries and certain pass-through items related to Medicare beneficiaries are paid based on a cost reimbursement methodology or tentative rate, subject to certain limitations. The Center is reimbursed for these cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Center and audits thereof by the program's fiscal intermediaries. Fiscal intermediaries have not audited the cost reports for the years ended December 31, 2017 and 2016. In the opinion of management, adequate provision has been made for estimated settlements and potential adjustments resulting from audit and final settlements with third-party payors. Differences between the estimated and final settlements are recorded in the year of settlement. Included in the net patient service revenue for the years ended December 31, 2017 and 2016 is $1,454,610 and $28,395, respectively, of net favorable adjustments for third-party payor settlements relating to previous years' estimates or changes in estimates.

Net revenue from the Medicare and Medicaid programs for the years ended December 31, 2017 and 2016 constitutes 59% and 56%, respectively, of the Center's net patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending investigations. 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.

The Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Center 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. Changes in estimates resulting from such adjustments are recorded when known or can be estimated.

The components of net patient service revenue for the years ended December 31, are as follows:

	2017	2016
Gross charges	$ 918,602,071	$ 896,853,037
Contractual and other allowances	(745,516,098)	(727,337,057)
Bad debt expense	--	(36,161)
Change in estimate of prior year’s net patient service revenue	1,454,610	28,395
Charity care subsidy	341,628	1,574,467
	$ 174,882,211	$ 171,082,681

5. INVESTMENTS

	2017	2016
Unrestricted Investments:		
Cash and cash equivalents	$ 1,428,187	$ --
Corporate bonds	1,892,394	--
Equity securities (including mutual funds)	3,290,523	--
	$ 6,611,104	$ --
By Board for designated purposes:		
Cash and cash equivalents	$ 543,387	$ 664,828
Corporate bonds	5,644,076	1,784,864
Equity securities (including mutual funds)	3,196,300	5,140,743
	$ 9,383,763	$ 7,590,435
Insurance fund - held by Deborah Medical Associates:		
Cash and cash equivalents	$ 246,967	$ 78,330
Corporate bonds	150,412	196,383
Equity securities	1,768,196	2,000,033
Government securities	496,050	436,241
	$ 2,661,625	$ 2,710,987
Under bond indenture agreement - held by trustee:		
Cash and cash equivalents	$ 1,028,883	$ 198,144
Less amounts required for current liabilities	(1,028,883)	(198,144)
	$ --	$ --
Assets limited as to use under bond indenture agreement are maintained for the following purposes:		
Debt service principal fund	$ 889,866	$ 131,859
Debt service interest fund	139,017	66,285
	$ 1,028,883	$ 198,144

Investment income, and realized and unrealized gains and losses on assets limited as to use and cash and cash equivalents, included in other revenue, gains and losses, are comprised of the following:

	2017	2016
Other revenue, gains and (losses)		
Interest income	$ 412,109	$ 288,321
Net realized (losses) gains on investments	473,544	(95,093)
Unrealized gains (losses) on investments	1,197,215	299,093
Total investment returns	$ 2,082,868	$ 492,321

6. FAIR VALUE MEASUREMENTS

The Center measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Center uses the market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Center uses the fair value hierarchy to determine the fair value based on the following:

- Level 1 - Holdings use quoted (unadjusted) prices for identical assets or liabilities in active markets.
- Level 2 - Holdings use the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time), inputs other than quoted prices that are observable for the assets/liabilities (e.g., interest rates, yield curves volatility, default rates, etc.), and inputs that are derived principally from or corroborated by other observable market data.
- Level 3 - Holdings use quoted market prices of the Center's beneficial interest in the underlying investments of the perpetual trust.

There have been no changes in valuation techniques for these assets for the years ended December 31, 2017 and 2016.

The following tables present the fair value hierarchy for the Center's financial assets measured at fair value on a recurring basis as of December 31, 2017 and 2016:

2017	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 22,334,112	$ --	$ --	$ 22,334,112
Corporate bonds	--	7,686,882	--	7,686,882
Equity securities (including mutual funds)	8,255,019	--	--	8,255,019
Government securities	496,050	--	--	496,050
Beneficial interest in perpetual trust	--	--	2,003,395	2,003,395
Total	$ 31,085,181	$ 7,686,882	$ 2,003,395	$ 40,775,458

2016	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 22,804,928	$ --	$ --	$ 22,804,928
Corporate bonds	--	1,981,247	--	1,981,247
Equity securities (including mutual funds)	7,140,776	--	--	7,140,776
Government securities	436,241	--	--	436,241
Beneficial interest in perpetual trust	--	--	1,865,037	1,865,037
Total	$ 30,381,945	$ 1,981,247	$ 1,865,037	$ 34,228,229

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

At January 1, 2016	$ 1,847,868
Unrealized gains	17,169
At December 31, 2016	1,865,037
Unrealized gains	138,358
At December 31, 2017	$ 2,003,395

7. PROPERTY, PLANT, AND EQUIPMENT

	Depreciable Lives	2017	2016
Land		$ 100,365	$ 100,365
Buildings and improvements	5 – 40 years	41,985,847	42,487,780
Equipment	5 – 20 years	45,744,959	35,006,080
		87,831,171	77,594,225
Less: accumulated depreciation and amortization		(51,883,976)	(47,564,274)
		35,947,195	30,029,951
Construction in progress		202,287	970,528
		$ 36,149,482	$ 31,000,479

The following, classified as equipment, is held under capital leases:

	2017	2016
Equipment	$ 7,820,321	$ 4,145,225
Less: accumulated amortization	(2,821,651)	(1,916,295)
	$ 4,998,670	$ 2,228,930

Depreciation, including amortization on capital leases, on property, plant, and equipment was $5,717,337 and $5,186,360 for the years ended December 31, 2017 and 2016, respectively.

8. LONG-TERM DEBT

	2017	2016
Capital lease obligations, secured by related equipment with an interest rates ranging from 4.05% to 8.29%	$ 4,011,452	$ 1,774,826
Series 2014 Refunding Bonds	9,739,000	10,253,000
Taxable term loan – 2016	12,839,681	14,350,000
	26,590,133	26,377,826
Less: unamortized debt issuance costs – 2014 issue	(209,033)	(247,848)
unamortized debt issuance costs – 2016 taxable loan	(121,429)	(142,857)
Long-term debt, net of unamortized debt issuance costs	26,259,671	25,987,121
Less: current maturities	(5,205,416)	(2,897,462)
Long-term debt, less current maturities	$ 21,054,255	$ 23,089,659

Bonds

The Series 2014 bonds were issued on May 13, 2014 in the amount of $16,148,000 through a financing arrangement with the New Jersey Health Care Facilities Financing Authority (the Authority). The principal of the bonds mature and/or sinking fund installments become due on July 1 of each year until 2023. The 2014 series bonds were restructured in 2016 to reduce the rate of interest. Annual payments of the restructured bond principal and/or sinking fund requirements range from $514,000 to $1,963,000. The interest rate on the bonds is 2.81% and is due on January 1 and July 1 of each year. Although the Series 2014 bonds are a liability of the Authority and certain amounts of the proceeds are held by a trustee, for accounting purposes the obligation and trustee funds are treated as those of the Center.

In 2016, the Center also borrowed $14,350,000, using the proceeds to fund the Center's pension plan with the intent to terminate the plan. The principal of this loan becomes due on July 1 of each year until 2023. Annual payments of the principal requirements range from $1,510,319 to $2,340,742. The interest rate on this loan is 3.68% and is due on January 1 and July 1 of each year.

The aggregate cost basis of the debt issuance costs was $470,969 at December 31, 2017 and 2016, respectively. Accumulated amortization was $140,507 and $80,264 at December 31, 2017 and 2016, respectively. Amortization expense on the deferred financing cost was $60,243 and $35,829 for the years ended December 31, 2017 and 2016, respectively. Amortization expense for the next five years is expected to be $60,243 per year.

All property, plant, and equipment, gross receipts of the Center, and a parcel of land owned by the Foundation as to which the Center has entered into a rent-free ground lease with the Foundation are pledged to secure payment of interest and principal on the Series 2014 bonds. The Center has covenants to maintain a minimum annual debt service coverage ratio, a minimum cushion ratio and maintain a minimum number of days cash on hand. In addition, the Center and the Foundation have entered into a Subsidy Agreement whereby the Foundation has guaranteed the interest and principal payments of the Center for the Series 2014 bonds. The Subsidy Agreement requires that the Center and Foundation maintain a certain combined financial ratio of cash and investments to the previous 3 years' average subsidy paid by the Foundation to the Center. Failure to meet the annual debt service coverage ratio, the cushion ratio, number of days cash on hand or the combined financial ratio could require the Center and Foundation to engage and follow the recommendations of a consultant, post collateral with the trustee, or if unremediated for longer than *2* years could cause the holders of the bonds to demand immediate repayment. The Center and Foundation have complied with this and all other financial covenants related to the Series 2014 bonds at December 31, 2017.

Future Principal/Sinking Fund Payments

Maturities and principal/sinking fund payments on long-term debt for the next five years and thereafter are as follows:

	Series 2014 Refunding Bonds	2016 Taxable Loan	Capital Lease Obligations	Total
2018	$ 1,775,000	$ 1,949,015	$ 1,688,193	$ 5,412,208
2019	1,820,000	2,021,734	1,000,446	4,842,180
2020	1,867,000	2,096,261	841,716	4,804,977
2021	1,914,000	2,175,381	841,716	4,931,097
2022	1,963,000	2,256,547	99,366	4,318,913
Thereafter	400,000	2,340,743	--	2,740,743
	9,739,000	12,839,681	4,471,437	27,050,118
Less amount representing interest under capital lease obligations	---	---	459,985	459,985
	$ 9,739,000	$ 12,839,681	$ 4,011,452	$ 26,590,133

Lines of Credit

The Foundation has a line of credit in the amount of $6,425,000, at an interest rate of LIBOR plus 2.25%, at December 31, 2017 and 2016, which includes two letters of credit totaling $1,075,000, and $980,000 at December 31, 2017 and 2016, respectively, which expire on July 23, 2018, that are collateral for potential claims under the Center's workers' compensation insurance policy (see Note 11). The maximum amount that can be borrowed against the line of credit was $5,350,000 and $5,445,000 at December 31, 2017 and 2016, respectively. Although this line of credit is in the Foundation's name, and collateralized by Foundation assets, the liability, if any, and related interest expense are recorded on the Center's consolidated financial statements. At December 31, 2017 and 2016, no amounts were outstanding on this line of credit.

The Center has available another line of credit for $1,000,000 which expires on June 4, 2018, with an interest rate of 1.0% over the bank's Certificate of Deposit rate (0.55% at December 31, 2017), and requires the Center to maintain with the bank a Certificate of Deposit of $1,000,000, which is included in cash and cash equivalents. This line of credit had $1,000,000 outstanding at December 31, 2017 and 2016.

9. RELATED ORGANIZATION

Contributions by the Foundation to the Center for operations amounted to $5,850,000 and $5,676,996 in 2017 and 2016, respectively, which is included in nonoperating revenue. Additionally, the Foundation raised on the behalf of the Center $3,414,202 and $6,038,613 for the years ended December 31, 2017 and 2016, respectively. The Center has included these amounts in other revenue, gains and losses. Funding by the Foundation to the Center for the Children of the World and other specific purpose programs amounted to $195,972 and $200,424 in 2017 and 2016, respectively, and is included in other revenue, gains and losses in the consolidated statements of operations and changes in net assets. Any future contributions from the Foundation to the Center are at the discretion of the Foundation's Board of Directors. At December 31, 2017 and 2016, the Center has a receivable due from the Foundation in the amount of $4,663,394 and $4,040,115, respectively.

A summary of the Foundation's assets, liabilities and net assets, results of operations, and changes in net assets is as follows:

	2017	2016
Assets	$ 30,220,099	$ 32,111,149
Liabilities	7,574,632	6,961,191
Net assets:		
Unrestricted	15,753,604	18,234,592
Temporarily restricted	6,891,863	6,915,366
	22,645,467	25,149,958
Total liabilities and net assets	$ 30,220,099	$ 32,111,149
Total revenue	$ 5,824,876	$ 8,012,807
Less expenses:		
Program services	6,045,972	5,877,420
Management, administrative, and general	107,344	113,035
Fundraising	2,176,051	2,050,056
Total expenses	8,329,367	8,040,511
Change in net assets	(2,504,491)	(27,704)
Net assets, beginning of year	25,149,958	25,177,662
Net assets, end of year	$ 22,645,467	$ 25,149,958

10. RETIREMENT BENEFIT PLANS

Defined Benefit Pension Plan

The Center has a noncontributory defined benefit pension plan (the Plan) which covered all fulltime employees of the Center and the Foundation who met prescribed eligibility requirements. The Center froze the Plan as of December 31, 2005 for all employees and replaced it with a defined contribution plan as of January 1, 2006. The Plan uses a December 31 measurement date.

The Center charged pension expense related to the Plan to the Foundation in the amount of $60,000 for the year ended December 31, 2016. There were no amounts charged during 2017.

The following table sets forth the changes in benefit obligation, changes in Plan assets and components of net periodic benefit cost for the pension plan:

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 61,688,797	$ 63,691,574
Interest cost	2,560,649	2,704,668
Actuarial loss	5,421,275	886,150
Benefits and expenses paid	(5,753,843)	(5,593,595)
Benefit obligation at end of year	63,916,878	61,688,797
Change in plan assets		
Fair value of the Plan assets at beginning of year	61,964,840	48,317,434
Actual return on Plan assets	6,041,875	2,041,001
Benefits and expenses paid	(5,753,843)	(5,593,595)
Contributions by the Plan's sponsor	--	17,200,000
Fair value of the Plan assets at end of year	62,252,872	61,964,840
Funded status at end of year - recognized in consolidated balance sheets as accrued retirement benefits	$ (1,664,006)	$ 276,043
Accumulated benefit obligation	$ 63,916,878	$ 61,688,797
Amounts recognized in accumulated unrestricted net assets		
Net actuarial loss	$ 23,185,621	$ 24,445,577
Components of net periodic benefit cost		
Net periodic benefit cost		
Interest cost	$ 2,560,649	$ 2,704,668
Expected return on Plan assets	(3,771,066)	(4,353,395)
Amortization of net loss	2,289,755	2,251,795
Lump sum distribution settlements	2,120,667	2,976,932
	3,200,005	3,580,000
Other changes in benefit obligations recognized in other changes in unrestricted net assets		
Net actuarial loss	3,150,466	3,198,544
Amortization of net gain	(2,289,755)	(2,251,795)
	860,711	946,749
Total recognized in net benefit cost and unrestricted net assets	$ 4,060,716	$ 4,526,749

The estimated net actuarial loss that will be amortized from other changes in unrestricted net assets into net periodic benefit cost over the next fiscal year is $2,289,755.

	2017	2016
Assumptions		
Weighted average assumptions used to determine pension obligation		
Discount rate	4.29%	4.29%
Rate of compensation increase	N/A	N/A
Weighted average assumptions used to determine net periodic benefit cost for the year ended		
Discount rate	4.29%	4.42%
Rate of compensation increase	N/A	N/A
Expected return on the Plan assets	5.50%	8.00%

Plan Assets

The Plan's asset allocations by asset category are as follows:

	Target Asset Allocation 2017	Target Asset Allocation 2016	2017	2016
Asset category				
Cash	0%	0%	3%	24%
Equity securities	60	30	30	57
Fixed income	40	70	67	19
	100%	100%	100%	100%

The expected long-term rate of return for the Plan's total assets is based on the expected return of each of the above categories, weighted based on the target allocation for each class. Equity securities are expected to return 9% to 10% over the long-term, while fixed income is expected to return between 5% and 6%.

The investment policy, as established by the Investment Committee, is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The asset allocation and the investment policy are reviewed periodically to determine if the policy should be changed.

Fair Value of the Plan Assets

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

2017	Level 1	Level 2	Total
Cash and cash equivalents	$ 1,512,634	$ --	$ 1,512,634
Fixed income (a)	11,192,203	30,638,450	41,830,653
Equity securities (b)	18,909,585	--	18,909,585
	$ 31,614,422	$ 30,638,450	$ 62,252,872

2016	Level 1	Level 2	Total
Cash and cash equivalents	$ 15,049,649	$ --	$ 15,049,649
Fixed income (a)	6,630,624	4,748,698	11,379,322
Equity securities (b)	35,535,869	--	35,535,869
	$ 57,216,142	$ 4,748,698	$ 61,964,840

(a) Comprised of investment grade bonds of U.S. issuers from various industries and a commingled trust fund which is presented as Level 2.
(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.

Cash Flows

Contributions

There are no contributions expected to be paid into the Plan in 2018 for plan year 2017.

Estimated future benefit payments:

2018	$ 3,527,438
2019	3,618,489
2020	4,240,390
2021	3,992,212
2022	3,865,466
2023-2026	23,799,506

Defined Contribution Plans

The Center sponsors a 401(k) savings plan covering all employees. Employer contributions to the 401(k) savings plan are based on a formula as defined by the 401(k) plan document. Expense related to the 401(k) savings plan was $2,718,553 and $2,187,520 for the years ended December 31, 2017 and 2016, respectively.

For reasons relating primarily to proposed changes by the IRS to certain non-qualified plans, the Center Board resolved, effective January 1, 2017, to freeze the 457(e) Severance Savings Plan ("SSP"), as amended and restated. No Voluntary Deferrals were permitted under the terms of the SSP after December 31, 2017 and the SSP was frozen as of that date. The accounts of all Participants in the SSP are preserved and will be administered until such time as Participants or their Beneficiaries become entitled to distribution, all in accordance with the terms of the Plan.

A frozen Supplemental Retirement Plan ("SERP") is also being administered until such time as Participants or their Beneficiaries become entitled to distribution, in accordance with the terms of that Plan.

The total deposits in these plans at December 31, 2017 and 2016 were $1,798,516 and $1,471,540, respectively. The plans are recorded in accrued retirement benefits in the consolidated balance sheets. As of December 31, 2017 and 2016, the frozen SSP balance was $1,155,925 and $1,029,534, respectively. As of December 31, 2017 and 2016, $535,333 and $442,006, respectively, of the balances above were held in the frozen SERP plan. In 2017 the Center Board resolved to create a new non-qualified plan, a 457(f) Deborah-Funded Top Hat Plan. The Center may, at its sole discretion, deposit funds into this plan. This plan had a balance of $107,258 at December 31, 2017.

Effective January 1, 2018, the Center Board resolved to create another new non-qualified plan, a 457(b) Employee-Funded Savings Plan. A designated group of management and physicians are eligible to participate in this 457(b) plan.

The assets of these plans remain assets of the Center. The participants bear the risk of forfeiting their balances in these plans under certain, defined circumstances.

11. COMMITMENTS AND CONTINGENCIES

Professional and General Liability Insurance

The Center addresses its risk of professional and general liability loss by means of aggressive and consistent risk management initiatives, and funds its expected losses through Deborah Medical Associates Insurance Company (DMAIC), a wholly-owned captive insurance company domiciled in New Jersey. Since January 1, 2016, DMAIC issued occurrence professional liability insurance policies covering the Hospital, its employees and allieds who are on the medical staff of the Center and who meet specific underwriting criteria.

Prior to DMAIC's formation on January 1, 2016, the Center was self-insured for professional and general liability claims. Losses from asserted and unasserted claims identified under the Center's incident reporting system and losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system are accrued based on estimates that incorporate the Center's specific and industry-wide trend factors. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Center purchases excess liability coverage in excess of DMAIC for claims in excess of $2,000,000 on an individual claim basis and a maximum limit of $6,000,000 annual aggregate. The Center's excess coverage level is $20,000,000 for any claims breaching the initial limits. Since the inception of the self-insured program in 1988, the Center has maintained various levels of excess insurance coverage. At December 31, 2017 and 2016, no claims have reached excess insurance levels.

As part of the self-insurance program, the Center had an established fund held by a trustee for the purpose of setting aside assets to provide for liability claim payments. The Center transferred these funds to the Captive in 2016 by means of a loss portfolio transfer agreement between the Center and DMAIC.

As of October 1, 2016, DCG insured its general liability coverage through an insurance company with limits of $1,000,000 liability and medical expenses; $10,000 medical expenses-any one person/ $1,000,000 personal and advertising injury; $300,000 any one premises/damage to premises rented to DCG; $2,000,000 products-completed operations aggregate; $2,000,000 general aggregate. As of October 1, 2017, DCG insured its professional liability coverage through DMAIC with limits of $1,000,000 each medical incident for each insured physician, insured allied, or insured medical organization; $3,000,000 aggregate limit for healthcare professional liability for each insured physician, insured allied, or insured medical organization; total policy limits for healthcare professional liability for all insureds combined: $2,000,000 each claim for all insureds combined; $6,000,000 aggregate limit for all insureds combined. The total policy aggregate and total policy each claim limits are shared by this policy and all other policies written by DMAIC regardless of the number of insureds, claims or claimants involved.

Malpractice Litigation

The Center is a defendant in civil actions for alleged medical malpractice and general liability claims. These actions are being defended by the Center and its medical malpractice insurance carrier. In the opinion of management, the Center's liability in these actions will be within the limits of the self-insured medical malpractice claims and comprehensive general liability and excess insurance; however, there can be no assurance in this regard.

Workers' Compensation

The Center maintains statutory workers' compensation coverage with an insurance company, subject to a deductible of bodily injury by accident $275,000 each occurrence; bodily injury by disease $275,000 each employee; all covered bodily injury $1,185,000 aggregate. The Workers Compensation policy also includes Employers Liability Insurance with limits of: bodily injury by accident: $1,000,000 each accident; bodily injury by disease: $1,000,000 policy limit; and bodily injury by disease: $1,000,000 each employee; for 2017 and 2016. The aggregate deductible amount is a minimum deductible amount that is subject to adjustment based on a rate of 1.684 per each $100 that the audited workers compensation remuneration exceeds the estimated payroll at inception. Due to this level of retention, the Center is required to post collateral, which is in the form of letters of credit (see Note 8) for outstanding open years. Based upon historical loss experience, the Center recorded a liability for the estimated retention and costs of claims not reported of $306,161 and $773,651 at December 31, 2017 and 2016, respectively. The liability is recorded as a component of accrued compensation and employee benefits.

DCG maintains a separate Guaranteed Cost Workers Compensation policy with an insurance company with statutory limits for workers compensation coverage; and, with Employers Liability limits of $1,000,000 each accident Bodily Injury by Accident; $1,000,000 policy limit Bodily Injury by Disease; $1,000,000 each employee Bodily Injury by Disease.

Operating Leases

The Center leases various equipment and facilities under operating leases expiring at various dates through 2017. Total rent expense for the years ended December 31, 2017 and 2016 was $991,071 and $1,224,221, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2017 that have initial or remaining lease terms in excess of one year:

2018	$ 191,896
2019	74,296
2020	10,097
	$ 276,289

In addition to the leases included above, during 2017 the Center entered into a ten year lease agreement for space in a medical office building being constructed on its campus. Base rent will be $257,500 for the first year with annual rental increases of 2.50 percent. This lease will commence the date on which a certificate of occupancy is issued. As of May 29, 2018, this lease has not commenced.

Leased Property

On February 12, 2009, the Center and Our Lady of Lourdes Healthcare Services, Inc. (OLLHS) signed a lease agreement for the Satellite Emergency Department (SED), in which the Center has leased designated space on the first floor of the Center's campus for OLLHS to operate the SED, while the Center has agreed to provide certain ancillary services to patients of the SED including various clinical (laboratory, radiology, respiratory and pharmacy), non-clinical (housekeeping and security), and on-demand (facilities maintenance, IT and bio-medical engineering) services. For the years ended December 31, 2017 and 2016, OLLHS paid the Center $2,150,437 and $2,231,942, respectively, for ancillary services, which is included in other revenue, gains and losses.

The SED began operations on March 1, 2010, with minimum lease payments of $13,200 per month ($158,400 annually). The initial lease term is ten years, with three five-year renewal periods at the option of OLLHS. As part of the agreement, in exchange for OLLHS covering the initial costs of improvements, the Center has agreed to waive the minimum lease payments for the initial term of the lease (the Lease Incentive). The Center has recorded the Lease Incentive, included in other assets, and unrecognized lease income, included in other liabilities, for the initial term of the lease. The costs of the improvements, the Lease Incentive and the unrecognized lease income are being amortized on a straight-line basis over the initial ten-year lease term. Net income for the years ended December 31, 2017 and 2016 related to the SED lease was $322,293 for each year, and is included in other revenue, gains and losses.

On June 1, 2016 the Center (“Lessor”) signed a Ground Lease with Browns Mills Medical Office Building, LLC (“Lessee”), in which the Center has leased a portion of its land to the Lessee to develop and construct a medical office building containing approximately 60,000 gross square feet. The Lessee has agreed to pay the Center fair market annual rent of $32,500. The initial lease term is fifty years with two renewal terms of ten years each at the option of the Lessee. The obligation on the part of the Lessee to pay rent commenced on January 11, 2017.

On September 8, 2016 the Center, as Lessee, signed a lease with Browns Mills Medical Office Building, LLC, as Lessor, in which the Center will lease space from the Lessor. Lease payments for the medical office building are $25.75 per square foot with operating expenses of $12.80 per square foot. The total space to be leased by the Center is 14,328 square feet. However, the actual base rent and operating expenses to be paid by the Center are subject to final negotiation and the Center expects to pay less than the stated cost. The initial term of this lease is fifteen years. The commencement date will be the date on which a certificate of occupancy is issued by the local government.

Professional Services Agreements

The Center entered into a series of Professional Services Agreements with certain physician practices whereby payments are made by the Center to the practices for physician productivity using third-party fair market value data. In exchange, payments on amounts billed and collected from patients are remitted to the Center. The Center and the practices also entered into Staff Services Agreements and Practice Space and Expenses Agreements whereby the Center pays for the expenses associated with operating the practices. Total expenses related to these agreements were $1,904,374 and $1,977,833 for the years ended 2017 and 2016, respectively. The aggregate amounts budgeted for these practices in 2018 total approximately $3,548,526.

12. CONCENTRATIONS OF CREDIT RISK

The Center grants credit without collateral to its patients who are insured under third-party payor agreements. The mix of accounts receivable from third-party payers was as follows:

	2017	2016
Medicare	59%	54%
Managed care	23	30
Commercial insurance	5	7
Blue Cross	7	6
Medicaid	6	3
	100%	100%

The Center maintains cash equivalents in a financial institution which exceed Federal Depository Insurance Corporation limits. Management believes the credit risk related to these deposits is minimal.

The Center routinely invests its surplus cash in money market mutual funds. The money market funds are generally invested in U.S. Government and agency obligations. These investments are not insured or guaranteed by the U.S. Government; however, insurance is maintained by investment brokers, and management believes the credit risk related to these investments is minimal.

13. FUNCTIONAL EXPENSES

The Center provides comprehensive inpatient and outpatient cardiac, vascular, and pulmonary health care services. Expenses related to providing these services are as follows:

	2017	2016
Health care services	$ 148,069,724	$ 141,487,007
General and administrative services	39,496,978	37,848,376
	$ 187,566,702	$ 179,335,383

14. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Health care services	$ 18,135	$ 21,950
Purchase of property, plant, and equipment	543,590	554,568
Beneficial interest in perpetual trust	2,003,395	1,865,037
Beneficial interest in restricted net assets of Deborah Hospital Foundation	5,896,049	5,900,327
	$ 8,461,169	$ 8,341,882

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of health care services and purchase of property, plant, and equipment in the amount of $1,504,198 and $1,292,337, respectively.

15. UNRESTRICTED NET ASSETS

Included in unrestricted net assets are unrealized gains from DMAI's investments in the amount of $182,155 and $1,644 at December 31, 2017 and 2016, respectively.

16. SUBSEQUENT EVENTS

The Center evaluated its December 31, 2017 consolidated financial statements for subsequent events through May 29, 2018 the date the consolidated financial statements were available to be issued. Based on this evaluation, the Center has determined that the following subsequent events have occurred that require disclosure in the consolidated financial statements.

As disclosed in Note 10, the Center created a new non-qualified 457(b) Employee-Funded Savings plan effective January 1, 2018. Also, in March 2018, the Center was advised by Microsoft of its intention to verify compliance with Microsoft's product license terms through an audit. Microsoft has engaged an independent auditor for this purpose. At this time, the Center is unable to determine the negative effect, if any, of the outcome of this verification on the Center's financial position and cash flows.

SUPPLEMENTARY INFORMATION

Deborah Heart and Lung Center
Consolidating Balance Sheet
As of December 31, 2017

	Deborah Heart and Lung Center	Deborah Cardiovansular Group	Deborah Medical Associates Ins Co.	Advanced Medical Management Services	Deborah Medical Investments	Eliminations	Consolidated Deborah Heart and Lung Center
ASSETS							
Current assets							
Cash and cash equivalents	$ 17,768,381	$ 82,233	$ 1,155,437	$ 80,637	$ --	$ --	$ 19,086,688
Assets limited as to use	1,028,883	--	--	--	--	--	1,028,883
Investments	6,611,104	--	--	--	--	--	6,611,104
Patient accounts receivable, net	19,782,192	108,784	--	--	--	--	19,890,976
Due from Deborah Hospital Foundation	4,663,394	--	--	--	--	--	4,663,394
Supplies	4,260,124	--	--	--	--	--	4,260,124
Prepaid expenses and other current assets	3,318,824	1,231,167	793,229	81,445	--	(2,739,474)	2,685,191
Total current assets	57,432,902	1,422,184	1,948,666	162,082	--	(2,739,474)	58,226,360
Assets limited as to use:							
By Board for designated purposes	9,383,763	--	--	--	--	--	9,383,763
Insurance - held by Deborah Medical Associates	--	--	2,661,625	--	--	--	2,661,625
	9,383,763	--	2,661,625	--	--	--	12,045,388
Property, plant, and equipment, net	36,007,666	141,816	--	--	--	--	36,149,482
Other assets	4,007,195	200,719	--	--	280,800	(3,671,664)	817,050
Beneficial interest in perpetual trust	2,003,395	--	--	--	--	--	2,003,395
Beneficial interest in restricted net assets of Deborah Hospital Foundation	5,896,049	--	--	--	--	--	5,896,049
Total assets	$ 114,730,970	$ 1,764,719	$ 4,610,291	$ 162,082	$ 280,800	$ (6,411,138)	$ 115,137,724
LIABILITIES AND NET ASSETS							
Current liabilities							
Accounts payable and accrued expenses	$ 19,579,172	$ 80,297	$ 67,003	$ --	$ --	$ (383,209)	$ 19,343,263
Accrued compensation and employee benefits	11,157,065	109,010	--	--	--	--	11,266,075
Estimated settlements due to third-party payors, net	3,878,939	--	--	--	--	--	3,878,939
Accrued interest payable	378,333	--	--	--	--	--	378,333
Current maturities of long-term debt	5,169,416	36,000	--	--	--	--	5,205,416
Due to Center and Related Entities	--	2,886,675	14,931	295,841	--	(3,197,447)	--
Line of credit	1,000,000	--	--	--	--	--	1,000,000
Total current liabilities	41,162,925	3,111,982	81,934	295,841	-	(3,580,656)	41,072,026
Accrued retirement benefits	3,462,522	--	--	--	--	--	3,462,522
Estimated malpractice claims liability	2,840,145	200,719	3,040,864	--	--	(3,040,864)	3,040,864
Other liabilities	560,809	--	733,714	--	--	(733,714)	560,809
Long-term debt, less current maturities, net	21,048,255	6,000	--	--	--	--	21,054,255
Total liabilities	69,074,656	3,318,701	3,856,512	295,841	--	(7,355,234)	69,190,476
Net assets (deficiency)							
Unrestricted	37,195,145	(1,553,982)	753,779	(133,759)	280,800	944,096	37,486,079
Temporarily restricted	8,461,169	--	--	--	--	--	8,461,169
Total net assets (deficiency)	45,656,314	(1,553,982)	753,779	(133,759)	280,800	944,096	45,947,248
Total liabilities and net assets (deficiency)	$ 114,730,970	$ 1,764,719	$ 4,610,291	$ 162,082	$ 280,800	$ (6,411,138)	$ 115,137,724

See Independent Auditors' Report.

Deborah Heart and Lung Center
Consolidating Balance Sheet
As of December 31, 2016

	Deborah Heart and Lung Center	Deborah Cardiovascular Group	Deborah Medical Associates Ins Co.	Advanced Medical Management Services	Deborah Medical Investments	Eliminations	Consolidated Deborah Heart and Lung Center
ASSETS							
Current assets							
Cash and cash equivalents	$ 20,579,766	$ 220,276	$ 963,615	$ 99,969	$ --	$ --	$ 21,863,626
Assets limited as to use	198,144	--	--	--	--	--	198,144
Patient accounts receivable, net	18,064,075	90,733	--	--	--	--	18,154,808
Due from Deborah Hospital Foundation	4,040,115	--	--	--	--	--	4,040,115
Supplies	4,540,143	--	--	--	--	--	4,540,143
Prepaid expenses and other current assets	3,525,220	847,957	544,033	6,265	--	(3,091,841)	1,831,634
Total current assets	50,947,463	1,158,966	1,507,648	106,234	--	(3,091,841)	50,628,470
Assets limited as to use							
By Board for designated purposes	7,590,435	--	--	--	--	--	7,590,435
Insurance - held by Deborah Medical Associates	--	--	2,710,987	--	--	--	2,710,987
	7,590,435	--	2,710,987	--	--	--	10,301,422
Property, plant, and equipment, net	30,996,886	3,593	--	--	--	--	31,000,479
Other assets	3,493,937	--	--	--	280,800	(2,799,287)	975,450
Prepaid retirement benefits	276,043	--	--	--	--	--	276,043
Beneficial interest in perpetual trust	1,865,037	--	--	--	--	--	1,865,037
Beneficial interest in restricted net assets of Deborah Hospital Foundation	5,900,327	--	--	--	--	--	5,900,327
Total assets	$ 101,070,128	$ 1,162,559	$ 4,218,635	$ 106,234	$ 280,800	$ (5,891,128)	$ 100,947,228
LIABILITIES AND NET ASSETS							
Current liabilities							
Accounts payable and accrued expenses	$ 13,399,073	$ 21,672	$ 61,875	$ --	$ --	$ (851,999)	$ 12,630,621
Accrued compensation and employee benefits	11,156,651	36,066	--	--	--	--	11,192,717
Estimated settlements due to third-party payors, net	4,338,972	--	--	--	--	--	4,338,972
Accrued interest payable	195,104	--	--	--	--	--	195,104
Current maturities of long-term debt	2,897,462	--	--	--	--	--	2,897,462
Due to Center and related entities	--	2,428,286	623,876	227,501	--	(3,279,663)	--
Other current liabilities	--	--	535,075	--	--	(535,075)	--
Line of credit	1,000,000	--	--	--	--	--	1,000,000
Total current liabilities	32,987,262	2,486,024	1,220,826	227,501	--	(4,666,737)	32,254,876
Accrued retirement benefits	1,471,540	--	--	--	--	--	1,471,540
Estimated malpractice claims liability	2,168,487	--	2,168,487	--	--	(2,168,487)	2,168,487
Other liabilities	1,041,502	--	--	--	--	--	1,041,502
Long-term debt, less current maturities, net	23,089,659	--	--	--	--	--	23,089,659
Total liabilities	60,758,450	2,486,024	3,389,313	227,501	--	(6,835,224)	60,026,064
Net assets (deficiency)							
Unrestricted	31,969,796	(1,323,465)	829,322	(121,267)	280,800	944,096	32,579,282
Temporarily restricted	8,341,882	--	--	--	--	--	8,341,882
Total net assets (deficiency)	40,311,678	(1,323,465)	829,322	(121,267)	280,800	944,096	40,921,164
Total liabilities and net assets	$ 101,070,128	$ 1,162,559	$ 4,218,635	$ 106,234	$ 280,800	$ (5,891,128)	$ 100,947,228

See Independent Auditors' Report.

Deborah Heart and Lung Center
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2017

	Deborah Heart and Lung Center	Deborah Cardiovascular Group	Deborah Medical Associates Ins Co.	Advanced Medical Management Services	Deborah Medical Investments	Eliminations	Consolidated Deborah Heart and Lung Center
Unrestricted net asset							
Revenue							
Net patient service revenue	$ 172,730,272	$ 2,151,939	$ --	$ --	$ --	$ --	$ 174,882,211
Other revenue, gains and losses	8,584,483	1,335,308	1,275,950	75,180	13,014	(2,306,796)	8,977,139
Net assets released from restriction	906,730	--	--	--	--	--	906,730
Total revenue	182,221,485	3,487,247	1,275,950	75,180	13,014	(2,306,796)	184,766,080
Expenses							
Salary and wages	77,720,984	1,939,651	--	--	--	68,340	79,728,975
Employee benefits	21,105,671	250,520	--	--	--	--	21,356,191
Supplies and other expenses	78,981,923	1,507,412	1,351,493	87,672	--	(2,362,122)	79,566,378
Interest	1,197,821	--	--	--	--	--	1,197,821
Depreciation and amortization	5,697,156	20,181	--	--	--	--	5,717,337
Total expenses	184,703,555	3,717,764	1,351,493	87,672	--	(2,293,782)	187,566,702
Income (loss) from operations	(2,482,070)	(230,517)	(75,543)	(12,492)	13,014	(13,014)	(2,800,622)
Nonoperating revenue							
Contributions from Deborah Hospital Foundation	5,850,000	--	--	--	--	--	5,850,000
Excess (deficiency) of revenue and gains over expenses	3,367,930	(230,517)	(75,543)	(12,492)	13,014	(13,014)	3,049,378
Other changes in unrestricted net assets							
Net assets released from restriction for property, plant and equipment	597,468	--	--	--	--	--	597,468
Other changes in retirement benefit obligation	1,259,951	--	--	--	--	--	1,259,951
Change in unrestricted net assets	5,225,349	(230,517)	(75,543)	(12,492)	13,014	(13,014)	4,906,797
Temporarily restricted net assets							
Contributions	1,489,483	--	--	--	--	--	1,489,483
Net assets released from restriction	(1,504,198)	--	--	--	--	--	(1,504,198)
Change in beneficial interest in restricted net assets of Deborah Hospital Foundation	(4,356)	--	--	--	--	--	(4,356)
Changes in fair value of beneficial interest in perpetual trust	138,358	--	--	--	--	--	138,358
Change in temporarily restricted net assets	119,287	--	--	--	--	--	119,287
Changes in net assets	5,344,636	(230,517)	(75,543)	(12,492)	13,014	(13,014)	5,026,084
Net assets, beginning of year	40,311,678	(1,323,465)	829,322	(121,267)	280,800	1,294,096	41,271,164
Member Contributions	--	--	--	--	--	(350,000)	(350,000)
Member Distributions	--	--	--	--	(13,014)	13,014	--
Net assets, end of year	$ 45,656,314	$ (1,553,982)	$ 753,779	$ (133,759)	$ 280,800	$ 944,096	$ 45,947,248

See Independent Auditors' Report.

Deborah Heart and Lung Center
Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2016

	Deborah Heart and Lung Center	Deborah Cardiovascular Group	Deborah Medical Associates Ins Co.	Advanced Medical Management Services	Deborah Medical Investments	Eliminations	Consolidated Deborah Heart and Lung Center
Unrestricted net assets							
Revenue							
Net patient service revenue	$ 169,295,125	$ 1,787,556	$ --	$ --	$ --	$ --	$ 171,082,681
Other revenue, gains and losses	10,412,405	1,041,061	675,963	77,345	136,707	(1,865,384)	10,478,097
Net assets released from restrictions	1,051,525	--	--	--	--	--	1,051,525
Total revenue	180,759,055	2,828,617	675,963	77,345	136,707	(1,865,384)	182,612,303
Expenses							
Salary and wages	75,876,995	1,546,201	--	--	--	71,012	77,494,208
Employee benefits	21,268,103	154,021	--	--	--	--	21,422,124
Supplies and other expenses	74,842,931	991,051	196,641	83,172	--	(1,799,689)	74,314,106
Interest	918,585	--	--	--	--	--	918,585
Depreciation and amortization	5,184,260	2,100	--	--	--	--	5,186,360
Total expenses	178,090,874	2,693,373	196,641	83,172	--	(1,728,677)	179,335,383
Income (loss) from operations	2,668,181	135,244	479,322	(5,827)	136,707	(136,707)	3,276,920
Nonoperating revenue							
Contributions from Deborah Hospital Foundation	5,676,996	--	--	--	--	--	5,676,996
Excess (deficiency) of revenue over expenses	8,345,177	135,244	479,322	(5,827)	136,707	(136,707)	8,953,916
Other changes in unrestricted net assets							
Net assets released from restriction for property, plant and equipment	240,812	--	--	--	--	--	240,812
Other changes in retirement benefit obligations	2,030,183	--	--	--	--	--	2,030,183
Changes in unrestricted net assets	10,616,172	135,244	479,322	(5,827)	136,707	(136,707)	11,224,911
Temporarily restricted net assets							
Contributions	1,271,034	--	--	--	--	--	1,271,034
Net assets released from restrictions	(1,292,337)	--	--	--	--	--	(1,292,337)
Change in beneficial interest in restricted net assets of Deborah Hospital Foundation	90,467	--	--	--	--	--	90,467
Changes in fair value of beneficial interest in perpetual trust	17,169	--	--	--	--	--	17,169
Changes in temporarily restricted net assets	86,333	--	--	--	--	--	86,333
Changes in net assets	10,702,505	135,244	479,322	(5,827)	136,707	(136,707)	11,311,244
Net assets (deficiency), beginning of year	29,609,173	(1,458,709)	--	(115,440)	280,800	1,294,096	29,609,920
Member contributions	--	--	350,000	--	--	(350,000)	--
Member distributions	--	--	--	--	(136,707)	136,707	--
Net assets (deficiency), end of year	$ 40,311,678	$ (1,323,465)	$ 829,322	$ (121,267)	$ 280,800	$ 944,096	$ 40,921,164

See Independent Auditors' Report.