

**Hunterdon Healthcare System, Inc.
and Affiliates**

Consolidated Financial Statements
and Supplementary Information

December 31, 2017 and 2016



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Hunterdon Healthcare System, Inc. and Affiliates

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Independent Auditors' Report

Board of Trustees
Hunterdon Healthcare System, Inc. and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hunterdon Healthcare System, Inc. and Affiliates (the "System"), which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial position of Hunterdon Healthcare System, Inc. and Affiliates as of December 31, 2017 and 2016, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information presented on pages 38 to 55 is presented for purposes of additional analysis and is 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.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
June 5, 2018

Hunterdon Healthcare System, Inc. and Affiliates

Consolidated Statement of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 36,197,361	\$ 48,671,442	Accounts payable and accrued expenses	\$ 21,209,461	\$ 19,505,689
Short-term investments	48,615,949	47,882,480	Accrued payroll and payroll taxes	12,641,686	11,332,462
Patient accounts receivable, net of allowance for doubtful accounts of \$16,012,000 and \$18,373,000 in 2017 and 2016, respectively	33,785,895	29,271,134	Current portion of long-term debt and capital leases	2,270,828	2,415,353
Assets whose use is limited	1,017,495	1,016,331	Accrued interest payable	1,048,308	1,054,358
Inventories	2,144,601	2,045,621	Estimated third-party payor settlements, net	1,709,859	1,915,486
Other receivables	2,841,649	3,191,121	Other liabilities	162,733	179,610
Prepaid expenses and other current assets	4,800,527	4,143,620			
			Total current liabilities	<u>39,042,875</u>	<u>36,402,958</u>
Total current assets	<u>129,403,477</u>	<u>136,221,749</u>	Long-Term Liabilities		
Assets Whose Use is Limited (Exclusive of Current Portion)			Long-term debt and capital leases, net	72,843,094	70,947,921
Board-designated funds	53,282,648	44,844,878	Other liabilities	10,236,577	8,783,907
Donor-restricted assets	26,728,151	24,313,279	Pension benefit liability	41,961,129	33,484,623
			Estimated third party payor settlements, net	6,975,497	7,125,130
Total assets whose use is limited, net	<u>80,010,799</u>	<u>69,158,157</u>	Total long-term liabilities	<u>132,016,297</u>	<u>120,341,581</u>
Other Noncurrent Assets			Total liabilities	171,059,172	156,744,539
Property and equipment, net	156,109,029	146,235,620	Net Assets		
Beneficial interest in trusts	3,450,256	3,134,672	Unrestricted	182,935,053	182,208,714
Real estate held for investment	213,099	213,099	Temporarily restricted	11,355,341	10,982,611
Investment in affiliate	33,053	68,551	Permanently restricted	23,469,636	21,821,632
Investment in subsidiary	1,243,928	909,940			
Goodwill	4,182,992	3,495,927	Total net assets	217,760,030	215,012,957
Other assets	15,815,228	14,348,761			
			Noncontrolling interests	1,642,659	2,028,980
Total other noncurrent assets	<u>181,047,585</u>	<u>168,406,570</u>			
Total assets	<u>\$ 390,461,861</u>	<u>\$ 373,786,476</u>	Total liabilities and net assets	<u>\$ 390,461,861</u>	<u>\$ 373,786,476</u>

See notes to consolidated financial statements

Hunterdon Healthcare System, Inc. and Affiliates

Consolidated Statement of Operations

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Patient service revenue (net of contractual allowances and discounts)	\$ 316,815,648	\$ 299,677,716
Provision for bad debts	<u>(3,253,939)</u>	<u>(8,013,767)</u>
Net patient service revenue less provision for bad debts	<u>313,561,709</u>	<u>291,663,949</u>
Other revenue	23,612,083	25,589,317
Net assets released from restrictions for operations	<u>910,758</u>	<u>1,179,422</u>
Total revenues	<u>338,084,550</u>	<u>318,432,688</u>
Expenses		
Salaries, wages, and benefits	195,155,698	180,561,904
Physician fees	8,352,510	6,687,342
Supplies and services	102,910,054	97,374,912
Interest	2,837,883	2,817,655
Depreciation and amortization	<u>19,117,550</u>	<u>17,581,057</u>
Total expenses	<u>328,373,695</u>	<u>305,022,870</u>
Operating income	<u>9,710,855</u>	<u>13,409,818</u>
Nonoperating revenues and gains, net	<u>868,013</u>	<u>694,159</u>
Excess of revenues and gains over expenses before provision for income taxes	<u>10,578,868</u>	<u>14,103,977</u>
Provision for Income Taxes		
Federal	307,664	(13,076)
State	<u>96,288</u>	<u>164,524</u>
Total provision for income taxes	<u>403,952</u>	<u>151,448</u>
Excess of revenues and gains over expenses and losses	<u>10,174,916</u>	<u>13,952,529</u>
Other Changes		
Change in net unrealized gains on investment securities, other than trading securities	5,461,556	1,919,536
Net assets released from restrictions for capital acquisitions	1,500,000	1,570,024
Pension-related changes other than net periodic pension cost	(14,450,445)	(3,057,966)
Net income attributable to noncontrolling interests	<u>(1,959,688)</u>	<u>(2,328,987)</u>
Increase in unrestricted net assets	<u>\$ 726,339</u>	<u>\$ 12,055,136</u>

See notes to consolidated financial statements

Hunterdon Healthcare System, Inc. and Affiliates

Consolidated Statement of Changes in Net Assets
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Excess of revenues and gains over expenses and losses	\$ 10,174,916	\$ 13,952,529
Change in net unrealized gains (losses) on investment securities, other than trading securities	5,461,556	1,919,536
Net assets released from restrictions for capital acquisitions	1,500,000	1,570,024
Pension-related changes other than net periodic pension cost	(14,450,445)	(3,057,966)
Net income attributable to noncontrolling interests	(1,959,688)	(2,328,987)
	<u>726,339</u>	<u>12,055,136</u>
Increase in unrestricted net assets		
Changes in Temporarily Restricted Net Assets		
Contributions	1,696,295	2,056,762
Investment income from donor-restricted assets	268,894	370,959
Net realized gains on investment securities	39,393	71,669
Change in net unrealized gains (losses) on investment securities	803,906	296,155
Net assets released from restrictions	(2,410,758)	(2,749,446)
Net asset transfer	(25,000)	-
	<u>372,730</u>	<u>46,099</u>
Increase in temporarily restricted net assets		
Changes in Permanently Restricted Net Assets		
Net realized gains on investment securities	5,052	453,955
Change in value of beneficial interest in trusts	276,332	193,754
Change in net unrealized gains (losses) on investment securities	1,341,620	539,260
Net asset transfer	25,000	-
	<u>1,648,004</u>	<u>1,186,969</u>
Increase in permanently restricted net assets		
Increase in net assets	2,747,073	13,288,204
Net Assets, Beginning	<u>215,012,957</u>	<u>201,724,753</u>
Net Assets, Ending	<u>\$ 217,760,030</u>	<u>\$ 215,012,957</u>

See notes to consolidated financial statements

Hunterdon Healthcare System, Inc. and AffiliatesConsolidated Statement of Cash Flows
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 2,747,073	\$ 13,288,204
Adjustments to reconcile increase in net assets provided by operating activities:		
Change in beneficial interest in trusts	(315,584)	(50,530)
(Gain) loss on sale of assets	(500)	11,033
Depreciation and amortization	19,117,550	17,581,057
Provision for bad debts, net	3,253,939	8,013,767
Net realized and unrealized losses (gains) on investment securities	(8,071,578)	(3,663,005)
Net income attributable to noncontrolling interests	1,959,688	2,328,987
Accretion of bond premium, net of amortization of bond discount	(78,137)	(78,137)
Pension-related changes other than net periodic pension cost	14,450,445	3,057,966
Change in value of derivatives	(126,222)	166,743
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(7,768,700)	(10,696,494)
(Decrease) increase in estimated third-party payor settlements, net	(355,260)	4,369,426
Net change in other operating assets and liabilities	(4,731,419)	(4,219,590)
Net cash provided by operating activities	20,081,295	30,109,427
Cash Flows from Investing Activities		
Acquisition of property and equipment	(27,248,209)	(23,334,705)
Proceeds from sale of assets	500	4,500
Purchases of assets whose use is limited and investments, net	(3,515,697)	(85,614)
Purchase of physician practices	(1,257,869)	(72,500)
Net cash used in investing activities	(32,021,275)	(23,488,319)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	4,366,612	2,843,685
Repayment of long-term debt and capital lease obligations	(2,537,827)	(2,374,662)
Payment of deferred financing costs	-	(111,733)
Payment of annuity obligations	(16,877)	(8,184)
Repayment of loan receivable, net	-	22,318
Distributions to noncontrolling interests	(2,346,009)	(1,851,012)
Net cash used in financing activities	(534,101)	(1,479,588)
Net (decrease) increase in cash and cash equivalents	(12,474,081)	5,141,520
Cash and Cash Equivalents, Beginning	48,671,442	43,529,922
Cash and Cash Equivalents, Ending	<u>\$ 36,197,361</u>	<u>\$ 48,671,442</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid, including capitalized interest	<u>\$ 2,843,933</u>	<u>\$ 2,845,508</u>
Taxes paid	<u>\$ 217,732</u>	<u>\$ 800,704</u>

See notes to consolidated financial statements

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

Organization

Hunterdon Healthcare System, Inc. and affiliates (the "System") is organized and operated exclusively for charitable, scientific, and educational purposes, and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). More specifically, the System has the charitable purpose of supporting Hunterdon Medical Center (the "Medical Center"), a New Jersey not-for-profit acute care medical center, and any other qualifying members, in the performance of the Medical Center's charitable, educational, scientific, and hospital purposes within Hunterdon County. It is anticipated that such support will improve the quality and diversity of healthcare delivered to the public in the region and contains consumer and governmental cost of such healthcare, through more efficient utilization and allocation of healthcare resources within the region.

The System was formed by the board of trustees of the Medical Center for the purpose of having direct control over its not-for-profit affiliates: the Medical Center and Affiliates, Hunterdon Healthcare Foundation (formerly the Hunterdon Medical Center Foundation, Inc.) (the "Foundation"), and Hunterdon Regional Community Health, Inc. and subsidiaries ("HRCH"). These affiliates are tax-exempt not-for-profit organizations under Section 501(c)(3) of the Code.

The System owns 100% of the outstanding stock of Midjersey Health Corporation ("Midjersey"), a for-profit entity. This subsidiary has been consolidated with the System. The System also owns 50% of the outstanding stock of Hunterdon Health Care, LLC, a for-profit entity. The System accounts for this subsidiary under the equity method.

In 2015, the Hunterdon Medical Center Board of Trustees authorized the creation of three professional corporations ("Captive PCs"); Hunterdon Primary Care, P.C., Hunterdon Specialty Care, P.C., and Hunterdon Urgent Care, P.C.

These Captive PCs, which are controlled by the Medical Center, employ certain physicians, nurse practitioners and physician assistants that were previously employed by the Medical Center directly. The Captive PCs became operational January 1, 2016 and provide services at primary care and specialty practices owned by the Medical Center.

In 2016, Hunterdon Ambulatory Services, LLC was created as a sole member LLC with the Medical Center being the sole member. It includes ambulatory non-provider based diagnostic and therapeutic services.

The consolidated financial statements include the accounts of the parent company and its subsidiaries and affiliates. Intercompany transactions and balances have been eliminated.

Basis of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include cash on hand and highly liquid investments with an original maturity of twelve months or less.

The System has balances with financial institutions that exceed federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectability of patient accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractual amounts due and provides a contractual allowance and a provision for bad debts, if necessary. For receivables associated with self-pay patients, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Medical Center's allowance for doubtful accounts for self-pay patients was 85% and 93% of self-pay accounts receivable at December 31, 2017 and December 31, 2016, respectively. In addition, the Medical Center's self-pay account write-offs (net of recoveries) decreased to \$4,491,326 in 2017 from \$6,292,936 in 2016.

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payment at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenues on the basis of its standard rates, discounted in accordance with the System's policy. On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Patient service revenues, net of contractual allowances and discounts, and net of contractual allowances and discounts and provision for bad debts, recognized in 2017 and 2016 from these major payor sources, are as follows:

	Patient Service Revenues (Net of Contractual Allowances and Discounts)			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
December 31, 2017	<u>\$ 87,216,894</u>	<u>\$ 224,827,652</u>	<u>\$ 4,771,102</u>	<u>\$ 316,815,648</u>
December 31, 2016	<u>\$ 97,419,776</u>	<u>\$ 197,439,869</u>	<u>\$ 4,818,071</u>	<u>\$ 299,677,716</u>

	Patient Service Revenues (Net of Contractual Allowances and Discounts and Provision for Bad Debts)			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
December 31, 2017	<u>\$ 86,605,181</u>	<u>\$ 222,747,029</u>	<u>\$ 4,209,499</u>	<u>\$ 313,561,709</u>
December 31, 2016	<u>\$ 96,582,219</u>	<u>\$ 192,403,360</u>	<u>\$ 2,678,370</u>	<u>\$ 291,663,949</u>

Contributions Receivable

Contributions receivable are recognized as revenue in the period received. Contributions receivable are recorded at present value using discount rates ranging from 4.78% to 6.04% and are included in other receivables in the consolidated statement of financial position. At December 31, 2017 and 2016, net contributions receivable of approximately \$1,537,000 and \$1,871,000, respectively, were recorded. Approximately \$346,000 of the gross contributions receivable is expected to be collected by December 31, 2018 and the remainder of the balance is expected to be collected during 2019 and beyond.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Investment in Affiliate

HRCH is a 50% owner of Hunterdon Infusion Care. This investment is accounted for under the equity method. Hunterdon Infusion Care closed effective December 31, 2016.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Investments and Assets Whose Use is Limited

Assets whose use is limited primarily includes assets held by trustees under indenture agreements; designated assets set aside by the board of trustees for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes; and donor-restricted assets. Amounts required to meet current liabilities of the System have been reclassified as current assets in the consolidated statement of financial position at December 31, 2017 and 2016.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investments in commingled funds are recognized at fair value as estimated by the external investment managers and is based on the net asset value of the funds. The System reviews and evaluates the net asset values provided by the external investment managers for reasonableness. Investment income or loss (including realized gains and losses on investments and interest and dividends) is included in excess of revenues and gains over expenses and losses unless the income or loss is restricted by donor or law. Gains and losses on the sale of investments are based on an identified cost basis. Unrealized gains and losses on investments are excluded from excess of revenues and gains over expenses and losses since investments are classified as investments held for sale. Donated investments are reported at fair value at the date of receipt.

A decline in the fair value below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to excess of revenues and gains over expenses and losses and a new cost basis for the security is established. There were no impairment losses at December 31, 2017 and 2016.

The System's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated statement of financial position are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Property and Equipment

Property and equipment are carried at cost, except donated assets which are recorded at fair market value at date of donation. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Depreciation expense is calculated on all depreciable assets, based on the straight-line method utilizing estimated useful lives ranging from 3 to 40 years.

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 donated or acquired long-lived assets are placed in service.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated statement of financial position.

Beneficial Interest in Trusts

Beneficial interest in trusts are arrangements whereby a donor establishes and funds a trust, and the assets are held in perpetuity or for a period of time, with the income earned distributed annually to the System for both restricted and unrestricted use. The System recognizes the contribution as either temporarily restricted net assets or permanently restricted net assets, based on donor restriction, in the period the trust is established at its present value. The fair value of these assets is based on the net asset value reported by the fund manager, which are reviewed by management for reasonableness. Adjustments to the trust to reflect changes in fair value are recognized as additional contributions to either temporarily restricted net assets or permanently restricted net assets.

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the terms of the related debt using the effective interest method. Deferred financing costs are reported as a direct reduction of long-term debt.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. The System tests goodwill annually for impairment or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired.

Self-Insured Health Benefits

The System is self-insured for employee health benefits. The provision for estimated employee health benefits includes estimates for the ultimate cost for both reported claims and claims incurred but not reported and is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
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Temporary and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

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 as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of unrestricted net assets. A number of unpaid volunteers contribute their time to the System and other affiliates of the System. The value of this contributed time is not reflected in the consolidated financial statements.

Charitable Gifts Annuities

Charitable gift annuities are arrangements between a donor and the Foundation in which a donor contributes assets to the Foundation, under the Foundation's gift annuity program, in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to the donor or to individuals designated by the donor. The time period can be for the life of the donor or his/her designee. The assets received are recognized at fair value when received, and an annuity payment liability is recorded at the present value of future cash flows expected to be paid to the donor or his/her designee (based upon mortality tables and interest assumptions approved by the State of New Jersey). Contributions revenue is recognized as the difference between these two amounts. Contributions, investments, and a liability to annuitants are recognized by the Foundation in the period in which the assets are donated. Adjustments to the annuity liability to reflect amortization of the discount and changes in the life expectancy of the donor or his/her beneficiary are recognized in the consolidated statement of operations.

Excess of Revenues and Gains Over Expenses and Losses

The System's operating income includes all unrestricted revenues and expenses. Nonoperating revenues and gains, net include unrestricted investment income and realized gains on investments, unrestricted contributions and change in value of derivatives. The consolidated statement of operations also include excess of revenues and gains over expenses and losses, which is the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues and gains over expenses and losses, consistent with industry practice, include unrealized gains and losses on investments other-than-trading securities, permanent transfers of assets to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets).

Hunterdon Healthcare System, Inc. and Affiliates

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Other Revenue

Other revenue consists primarily of grant revenue, health and wellness center fees, and service agreement fees. Midjersey has a service agreement for the operation of its MRI equipment and receives a monthly fee based on a performance calculation as detailed in the service agreement.

Estimated Malpractice Costs

The liability for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Anticipated insurance recoveries associated with reported claims are reported separately in the System's consolidated statement of financial position at net realizable value.

Derivative Instruments and Hedging Activities

Derivative financial instruments are employed to manage risks. The principal financial instruments used for cash flow hedging purposes are interest rate swaps. The System enters into interest rate swap agreements to manage its exposure to interest rate changes. The System recognizes all financial instruments in the consolidated statement of financial position at fair value. Changes in the fair value of derivatives are recognized either within the performance indicator or in other changes in unrestricted net assets, which is excluded from the performance indicator, depending on whether the derivative financial instrument qualifies for hedge accounting. Since the System's interest rate swaps do not qualify for hedge accounting, changes in the fair value of its interest rate swaps are reported within the performance indicator.

Income Taxes

The System, the Medical Center, the Foundation and HRCH, except for the two affiliates of HRCH mentioned below, are tax-exempt not-for-profit organizations under Section 501(c)(3) of the Code. Accordingly, these organizations are not subject to income taxes on income generating activities that are substantially related to their tax-exempt purposes or that are statutorily excluded from income tax for organizations exempt under Section 501(c)(3). Therefore, no provision for federal and state income taxes is required. The federal tax-exempt organization business income tax returns are no longer subject to examination by the Internal Revenue Service for years before 2014.

Midjersey and two affiliates of HRCH, Hunterdon Regional Pharmacy (the "Pharmacy") and Hunterdon Community Care ("HCC"), are taxable for-profit entities. These entities use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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Certain items of income and expenses are recognized for income tax purposes in different periods from those periods in which such items are recognized for financial reporting purposes. These timing difference items include provisions for uncollectible fees and tax and book depreciation differences. Deferred tax assets and liabilities, if any, are provided for the tax effect of these differences.

The System recognizes income tax positions when it is more-likely-than-not that the position will be sustainable based on the merits of the position. Management has concluded that there are no material tax liabilities that need to be recorded.

Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

The System evaluated subsequent events for recognition or disclosure through June 5, 2018, the date the financial statements were issued.

New Accounting Standards

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The System will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017. The System is currently assessing the impact that adoption of ASU No. 2014-09 will have on its consolidated financial statements.

Financial Statements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in consolidated financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The System is currently assessing the impact that adoption of ASU No. 2016-14 will have on its consolidated financial statements.

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Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statement of financial position and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the consolidated statement of financial position. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the System's leasing activities. The System will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. The System has not yet determined the impact of adoption of ASU No. 2016-02 on its consolidated financial statements.

2. Charity and Uncompensated Care

In furtherance of its charitable purpose, the Medical Center and HRCH provide a wide variety of benefits to the community, including offering various community-based social service programs, such as health screenings, training for emergency service personnel, social service and support counseling for patients and families, pastoral care, and crisis intervention. Additionally, a large number of health-related educational programs are provided for the benefit of the community, including health enhancements and wellness, classes on specific conditions, telephone information services, and costs related to programs designed to improve the general standards of the health of the community.

The Medical Center and HRCH also provide medical care without charge or at reduced costs to residents of its community who meet the criteria under the state regulation for charity care. The definition of charity care includes services provided at no charge or at a reduced charge to patients who are uninsured or underinsured. The Medical Center and HRCH maintain records to identify and monitor the level of charity care it provides. These records support the amount of charges foregone from services and supplies furnished under its charity care policy. Because the Medical Center and HRCH do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. An overall cost to charge ratio was applied to arrive at the cost of charity care. As a result, the cost of providing charity care was \$4,091,862 and \$3,627,925 in 2017 and 2016, respectively.

The State of New Jersey provides certain subsidy payments to qualified hospitals to partially fund uncompensated care and certain other costs. Subsidy payments recognized as revenue amounted to \$216,055 and \$896,358 for 2017 and 2016, respectively, and are included in other revenue in the accompanying consolidated statement of operations.

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3. Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. A significant portion of the System's net patient service revenue is derived from these third-party payor programs. A summary of the principal payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. In addition, the Medical Center is reimbursed for certain cost reimbursable items at tentative interim rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2015.
- **Medicaid:** Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a published fee schedule, with final settlement determined after submission of annual cost reports. The Medicaid cost reports have been settled through December 31, 2014.
- **Other Payors:** The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and various other prospectively determined rates.

Revenue received under third-party arrangements is subject to audit and retroactive adjustments. Net patient service revenue includes unfavorable and favorable adjustments of approximately \$1,328,000 in 2017 and \$(2,262,000) in 2016, related to tentative and/or final settlements of prior year cost reports and other third-party payor adjustments. In the opinion of management, adequate provision has been made for any adjustments which may result from the final settlement of open cost reports.

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4. Investments and Assets Whose Use is Limited

The composition of short-term investments and assets whose use is limited at December 31, 2017 and 2016 is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Short-term investments:		
Cash and cash equivalents	\$ 194,202	\$ 136,367
Certificates of deposit	3,989,816	3,930,268
Government bonds	4,361,220	2,717,549
Investment-grade corporate bonds	33,875,640	35,026,652
Mutual funds - fixed income	6,173,153	6,043,376
Accrued interest receivable	21,918	28,268
	<u>48,615,949</u>	<u>47,882,480</u>
Total short-term investments	<u>\$ 48,615,949</u>	<u>\$ 47,882,480</u>
Assets whose use is limited:		
Board-designated funds,		
Cash and cash equivalents	\$ 5,509,208	\$ 3,419,276
Certificates of deposit	3,266,683	2,947,687
Mutual funds - international equity	7,626,345	6,627,896
Mutual funds - fixed income	14,051,806	12,232,593
Mutual funds - domestic equity	22,812,027	19,598,059
Accrued interest receivable	16,579	19,367
	<u>53,282,648</u>	<u>44,844,878</u>
Total	<u>53,282,648</u>	<u>44,844,878</u>
Donor-restricted assets,		
Cash and cash equivalents	1,034,136	3,106,044
Marketable equity securities	-	79,555
Commingled funds - U.S. large cap equities	5,997,405	1,543,176
Commingled funds - U.S. bonds	3,832,834	6,312,313
Mutual funds - international equity	3,002,165	2,263,570
Mutual funds - fixed income	4,540,771	4,275,381
Mutual funds - domestic equity	8,320,840	6,723,926
Other investments	-	9,314
	<u>26,728,151</u>	<u>24,313,279</u>
Total	<u>26,728,151</u>	<u>24,313,279</u>
Funds held by trustee under bond indenture agreement,		
Cash and cash equivalents	<u>1,017,495</u>	<u>1,016,331</u>
Total assets whose use is limited	81,028,294	44,844,878
Less current portion	<u>1,017,495</u>	<u>1,016,331</u>
Noncurrent portion of assets whose use is limited	<u>\$ 80,010,799</u>	<u>\$ -</u>

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Investment return consists of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 2,089,784	\$ 1,961,851
Realized gains on the sale of investments	464,496	993,441
Change in net unrealized gains (losses) on investment securities	<u>7,607,082</u>	<u>2,669,564</u>
Total	<u>\$ 10,161,362</u>	<u>\$ 5,624,856</u>

5. Fair Value Measurements and Financial Instruments

The System measures its short-term investments and assets whose use is limited on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the System for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

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The following tables present financial instruments measured at fair value at December 31, 2017 and 2016:

	Fair Value as of December 31, 2017			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets:				
Short-term investments:				
Cash and cash equivalents	\$ 216,120	\$ 216,120	\$ -	\$ -
Certificates of deposit	3,989,816	3,989,816	-	-
Government bonds	4,361,220	-	4,361,220	-
Investment-grade corporate bonds	33,875,640	-	33,875,640	-
Mutual funds - fixed income	6,173,153	6,173,153	-	-
Assets whose use is limited:				
Cash and cash equivalents	7,577,418	7,577,418	-	-
Certificates of deposit	3,266,683	3,266,683	-	-
Mutual funds - international equity	10,628,510	10,628,510	-	-
Mutual funds - fixed income	18,592,577	18,592,577	-	-
Mutual funds - domestic equity	31,132,867	31,132,867	-	-
Beneficial interest in trusts	3,450,256	-	-	3,450,256
Total assets in the fair value hierarchy	<u>246,528,520</u>	<u>\$ 163,154,288</u>	<u>\$ 76,473,720</u>	<u>\$ 6,900,512</u>
Assets recorded at net asset value (a)	<u>9,830,239</u>			
Assets at fair value	<u>\$ -</u>			

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	Fair Value as of December 31, 2017			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Swap agreements	<u>\$ 265,487</u>	<u>\$ -</u>	<u>\$ 265,487</u>	<u>\$ -</u>
Disclosed at Fair Value				
Cash and cash equivalents	<u>\$ 36,197,361</u>	<u>\$ 36,197,361</u>	<u>\$ -</u>	<u>\$ -</u>
Long-term debt, excluding capital lease obligations (carrying value of \$75,198,574)	<u>\$ 79,853,489</u>	<u>\$ -</u>	<u>\$ 49,499,631</u>	<u>\$ 30,353,858</u>

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Notes to Consolidated Financial Statements

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	Fair Value as of December 31, 2016			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets:				
Short-term investments:				
Cash and cash equivalents	\$ 164,635	\$ 164,635	\$ -	\$ -
Certificates of deposit	3,930,268	3,930,268	-	-
Government bonds	2,717,549	-	2,717,549	-
Investment-grade corporate bonds	35,026,652	-	35,026,652	-
Mutual funds - fixed income	6,043,376	6,043,376	-	-
Assets whose use is limited:				
Cash and cash equivalents	7,561,018	7,561,018	-	-
Certificates of deposit	2,947,687	2,947,687	-	-
Marketable equity securities	88,869	88,869	-	-
Mutual funds - international equity	8,891,466	8,891,466	-	-
Mutual funds - fixed income	16,507,974	16,507,974	-	-
Mutual funds - domestic equity	26,321,985	26,321,985	-	-
Beneficial interest in trusts	3,134,672	-	-	3,134,672
Total assets in the fair value hierarchy	113,336,151	\$ 72,457,278	\$ 37,744,201	\$ 3,134,672
Assets recorded at net asset value (a)	7,855,489			
Assets at fair value	\$ 121,191,640			

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Notes to Consolidated Financial Statements
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	Fair Value as of December 31, 2016			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Swap agreements	\$ 389,834	\$ -	\$ 389,834	\$ -
Disclosed at Fair Value				
Cash and cash equivalents	\$ 48,671,442	\$ 48,671,442	\$ -	\$ -
Long-term debt, excluding capital lease obligations (carrying value of \$73,039,236)	\$ 75,392,911	\$ -	\$ 47,277,511	\$ 28,115,400

- (a) In accordance with ASU No. 2015-07, certain investments that are measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statement of financial position.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and certificates of deposit approximate fair value at December 31, 2017 and 2016 due to the short maturity of those financial instruments.

Marketable equity securities are valued at the closing price reported on the active market on which the individual security is traded.

Mutual funds are valued at the net asset value ("NAV") of shares held by the System at year end.

Government bonds and investment-grade corporate bonds are valued at fair value, which are the amounts reported in the consolidated statement of financial position, based on quoted market prices, if available, or estimated using quoted market process of similar securities.

Beneficial interest in trusts is valued using discounted cash flow methodologies.

Assets recorded at net asset value include commingled funds valued based on the net asset value of the fund held at the end of the year. The fair value is based on the funds' underlying investments using observable inputs in accordance with the accounting principles generally accepted in the United States of America.

The fair value of the interest rate swap derivative financial instruments are determined by an independent third party valuation specialist based on proprietary models of discounted cash flow. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments and the credit risk of the System. The value represents the estimated exit price the System would pay or receive upon termination of the agreements.

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The fair value of long-term debt is calculated based on quoted market prices, if available, or estimated using quoted market prices of similar securities using a discount rate that a market participant would demand.

Changes to the beneficial interest in trusts in 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 3,134,672	\$ 3,084,142
Investment income from beneficial interest in trusts	23,546	61,769
Distributions from beneficial interest in trusts	(92,369)	(61,769)
Change in value of beneficial interest in trusts	384,407	50,530
Ending balance	<u>\$ 3,450,256</u>	<u>\$ 3,134,672</u>

6. Property and Equipment

Property and equipment at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 6,876,849	\$ 6,876,849
Land improvements	7,905,788	7,557,955
Buildings	139,973,723	136,354,932
Leasehold improvements	17,021,412	18,232,543
Fixed equipment	49,234,384	47,348,058
Major moveable equipment	160,539,505	148,781,935
Minor equipment	51,244	51,244
Construction in progress	12,366,594	1,635,758
	393,969,499	366,839,274
Less accumulated depreciation and amortization	<u>237,860,470</u>	<u>220,603,654</u>
Total	<u>\$ 156,109,029</u>	<u>\$ 146,235,620</u>

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7. Long-term Debt

Long-term debt at December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
New Jersey Health Care Facilities Financing Authority ("Authority") Revenue and Refunding Bonds, Series 2014A, Serial Bonds payable annually through July 1, 2030, bearing interest at a rate of 5% (a)	\$ 1,845,000	\$ 1,845,000
Authority Revenue and Refunding Bonds, Series 2014A, Serial Bonds, maturing July 1, 2031, bearing interest at a rate of 5% (a)	1,940,000	1,940,000
Authority Revenue and Refunding Bonds, Series 2014A, Serial Bonds, maturing July 1, 2032, bearing interest at a rate of 5% (a)	2,035,000	2,035,000
Authority Revenue and Refunding Bonds, Series 2014A, Serial Bonds, maturing July 1, 2033, bearing interest at a rate of 5% (a)	2,140,000	2,140,000
Authority Revenue and Refunding Bonds, Series 2014A, Serial Bonds, maturing July 1, 2034, bearing interest at a rate of 5% (a)	2,245,000	2,245,000
Authority Revenue and Refunding Bonds, Series 2014A, Term Bonds, maturing July 1, 2036, bearing interest at a rate of 4% (a)	4,805,000	4,805,000
Authority Revenue and Refunding Bonds, Series 2014A, Term Bonds, maturing July 1, 2045, bearing interest at a rate of 5% (a)	18,225,000	18,225,000
Authority Revenue and Refunding Bonds, Series 2014A, Term Bonds, maturing July 1, 2045, bearing interest at a rate of 4% (a)	9,500,000	9,500,000
Authority Refunding Bonds, Series 2014B, payable monthly through - December 1, 2029, bearing interest at a fixed rate of 2.44% (a)	16,260,000	16,260,000
Authority Refunding Bonds, Series 2014C, payable monthly through December 1, 2019, bearing interest at a variable rate of 1.68% (a)	2,656,772	3,925,339
Authority Refunding Bonds, Series 2014D, payable monthly through December 1, 2034, bearing interest at a variable rate of 1.85% (a)	4,386,776	4,572,508
Term Loan with interest calculated at one-month LIBOR plus 1.05% guaranteed by Midjersey's personal property, payable in 120 installments consisting of principal and interest through June 2017 (b)	-	168,069
Term Loan with interest calculated at one-month LIBOR plus 1.05% guaranteed by Midjersey's personal property, payable in 120 installments consisting of principal and interest through June 2017 (b)	-	346,783
Term Loan with an interest rate equal to one-month LIBOR until principal commencement date of September 21, 2017 converting to a fixed interest rate of 3.5% thereafter, guaranteed by Hunterdon Medical Center, payable monthly through May 2036 (c)	6,866,817	2,843,685
Note payable with interest calculated at 4.00%, payable in 60 installments consisting of principal and interest through December 2022	183,494	-
	<u>73,088,859</u>	<u>70,851,384</u>
Less current portion due within one year	<u>1,897,219</u>	<u>1,969,123</u>
Long-term debt, excluding deferred financing costs, bond premium and original issue discount	71,191,640	0
Less deferred financing costs	562,858	599,782
Plus unamortized bond premium, net of discount	<u>2,109,715</u>	<u>2,187,852</u>
Long-term portion	<u>\$ 72,738,497</u>	<u>\$ 599,782</u>

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- a) On December 1, 2014, the Medical Center issued \$42,735,000 of Revenue and Refunding Bonds, Series 2014A ("Series 2014A bonds") pursuant to a loan agreement between the Medical Center and the Authority. The Series 2014A Bonds include \$10,205,000 of Serial Bonds maturing July 1, 2030 through 2034, bearing interest at 5% and \$32,530,000 of Term Bonds maturing July 1, 2036 through 2045, with interest ranging from 4% to 5%. Interest is payable semiannually on July 1 and January 1.

The Medical Center also entered into a Master Trust Indenture and First Supplemental Indenture, both dated as of December 1, 2014 ("Master Trust Indenture"), with U.S. Bank National Association, as Master Trustee in connection with the issuance of the Series 2014A Bonds. As security for the repayment of the bonds, the Medical Center has granted a security interest in and a first lien on its gross revenues. The Master Trust Indenture requires the Medical Center to comply with certain covenants and ratios.

Proceeds from the Series 2014A bonds were used to refund and redeem the Series 2006A bonds and approximately \$15,204,000 of 2014 Bonds issued by the Authority on January 1, 2014; to finance a portion of the costs of various capital improvements to the Medical Center's acute care facility; and to pay costs of issuance of the Series 2014A bonds.

The Medical Center also issued \$16,260,000, \$6,360,000 and \$4,935,000 of Refunding Bonds, Series 2014B, C and D, respectively, ("Series 2014B-D bonds") pursuant to a loan agreement between the Medical Center and the Authority on December 1, 2014. The Series 2014B-D bonds were special and limited obligations of the Authority, payable in monthly installments ranging from \$29,000 to \$153,000 from January 2016 to December 2034.

TD Bank N.A. (the "Bank") purchased the Series 2014B-D Bonds pursuant to a Direct Bond Purchase Agreement dated December 23, 2014. The Medical Center has entered into a Continuing Covenants Agreement with the Bank which requires the Medical Center to comply with certain covenants and ratios.

Proceeds from the Series 2014B and C bonds were used to refund and redeem the Series 2006B bonds and Series 2009 bonds, respectively and the proceeds from the Series 2014D bonds were used to refinance an existing bank loan issued by Midjersey.

Effective December 11, 2009, the Medical Center entered into an interest rate swap exchange agreement with TD Bank, N.A. On December 23, 2014, the Medical Center entered into a novation agreement with TD Bank, N.A. and the Toronto-Dominion Bank for the interest rate swap. The Toronto-Dominion Bank replaced TD Bank, N.A. as the counterparty, under this agreement. The novated swap agreement has a notional amount of \$2,764,098 and requires the Medical Center to pay a fixed rate of 2.21% to the bank in exchange for the bank agreeing to pay the Medical Center a variable rate equal to 69% of one-month LIBOR (1.57% at December 31, 2017).

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Effective December 23, 2014, the Medical Center entered into a novation agreement with TD Bank, N.A. and the Toronto-Dominion Bank. Under this agreement, an interest rate swap was transferred from Midjersey to the Medical Center and The Toronto-Dominion Bank replaced TD Bank, N.A. as the counterparty. The novated swap agreement has a notional amount of \$4,402,677 and requires the Medical Center to pay a fixed rate of 2.5% to the bank in exchange for the bank agreeing to pay the Medical Center a variable rate equal to 69% of one-month LIBOR (1.57% at December 31, 2017).

At December 31, 2017 and 2016, the fair value of the derivative financial instruments is \$(265,487) and \$(388,851), respectively, and is included in other liabilities in the accompanying consolidated statement of financial position. The change in fair value recognized during the years ended December 31, 2017 and 2016, in the amount of \$123,364 and \$144,342, respectively, is recorded in the consolidated statement of operations and is included in the performance indicator.

- b) Effective June 26, 2007, Midjersey entered into two swap agreements with a bank covering the two loans with a cumulative outstanding balance of \$0 and \$514,852 at December 31, 2017 and 2016, respectively. The swaps require Midjersey to pay a fixed rate of 6.39% to the bank in exchange for the bank agreeing to pay Midjersey a variable rate equal to one-month LIBOR plus 1.05%. Midjersey entered into these agreements with the intention of lowering its effective interest rate. At December 31, 2017 and 2016, respectively, the fair value of the derivatives were \$0 and \$(983), respectively, and are included in other liabilities in the consolidated statement of financial position. The change in fair value recognized during the years ended December 31, 2017 and 2016, respectively, was \$983 and \$22,401 and is recorded in the consolidated statement of operations and is included in the performance indicator. The swap agreements matured in June 2017.
- c) On May 13, 2016, Midjersey entered into a loan agreement with Fulton Bank of New Jersey to finance leasehold improvements in the System's secondary service area. These leasehold improvements include the fit-out of several physician practices which will be operated by the Medical Center. On behalf of Midjersey, the Medical Center is the guarantor of the loan. The guaranty is limited to \$10,200,000 in principal, together with any scheduled interest thereon and shall continue to be effective for the life of the loan, currently a term of twenty years. At December 31, 2017 and 2016, the outstanding loan balance was \$6,866,817 and \$2,843,685, respectively.
- d) The Medical Center has a \$6,000,000 unsecured line of credit with a bank. The interest rate at December 31, 2017 and 2016 was 4.0% and the term was extended to December 31, 2018. There are no amounts outstanding on the line of credit as of December 31, 2017 and 2016.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Future principal debt payments at December 31, 2017 are as follows:

Year ending December 31:	
2018	\$ 1,897,219
2019	1,992,085
2020	2,118,796
2021	2,180,032
2022	2,241,765
Thereafter	<u>62,658,962</u>
Total	<u>\$ 73,088,859</u>

Capital Lease Obligations

Capital lease obligations, included in current portion of long-term debt and long-term debt in the accompanying consolidated statement of financial position at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Siemens/Lumins Agile (a)	\$ -	\$ 60,864
Siemens/Symbia S-Series (b)	62,318	143,310
TD Equipment Finance/Davinci Robot (c)	<u>415,888</u>	<u>719,646</u>
Subtotal	478,206	923,820
Less portion due within one year	<u>373,609</u>	<u>446,230</u>
Long-term portion	<u>\$ 104,597</u>	<u>\$ 477,590</u>

- a) During 2012, the Medical Center entered into a capital lease with Siemens for a piece of radiology equipment. The term of the lease is five years with lease payments of \$8,753, including interest, required monthly beginning August 22, 2012. The lease includes interest at 2.03% and a purchase option of \$1 at the end of the term.
- b) During 2013, the Medical Center entered into two capital leases with Siemens for two pieces of radiology equipment. The terms of both leases is five years with a total monthly lease payment of \$6,883, including interest, required monthly beginning October 11, 2013. The leases include interest at 2.93% and purchase options of \$1 each at the end of the terms.
- c) During 2014, the Medical Center entered in a capital lease with TD Equipment Finance for a Davinci Surgical System. The term of the lease is five years with a total monthly lease payment of \$26,406, including interest, beginning May 1, 2014. The lease includes interest at 2.25% and a purchase option of \$10 at the end of the term.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

8. Pension Plans

Defined Benefit Pension Plan

The Medical Center sponsors a noncontributory defined benefit pension plan (the "Plan") that covers all eligible employees. The plan provides for benefits to be paid to eligible employees at retirement, based primarily upon years of service and compensation. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Medical Center's funding policy is to contribute annually an amount equal to or greater than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Medical Center uses a December 31 measurement date. In November 2013, the Board of Trustees approved an amendment to freeze the Plan effective January 15, 2014.

The Medical Center recognizes the funded status of the benefit plan, which is measured as the difference between plan assets at fair value and the benefit obligation, in the consolidated statement of financial position. Additionally, the Medical Center recognizes changes in the funded status of the Plan in the year in which the changes occur through a separate line within changes in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic benefit cost.

The following tables set forth the plan's funded status, amounts recognized in the consolidated statement of financial position and components of net periodic pension cost for 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 233,560,667	\$ 227,132,667
Interest cost	8,533,075	8,736,799
Benefits paid	(13,171,376)	(7,309,150)
Actuarial loss (gain)	30,661,644	5,000,351
	<u>259,584,010</u>	<u>233,560,667</u>
Benefit obligation at end of year		
Change in plan assets:		
Fair value of plan assets at beginning of year	200,076,044	191,617,468
Actual return on plan assets	30,718,213	15,767,726
Benefits paid	(13,171,376)	(7,309,150)
	<u>217,622,881</u>	<u>200,076,044</u>
Fair value of plan assets at end of year		
Funded status	<u>(41,961,129)</u>	<u>(33,484,623)</u>
Amounts recognized in accumulated unrestricted net assets consist of:		
Net actuarial (loss) gain	<u>\$ 72,675,102</u>	<u>\$ 58,224,657</u>

The actuarial loss of \$30,661,644 in 2017 is primarily attributed to a decrease in the discount rate and the use of updated mortality table assumptions.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Weighted average assumptions used to determine benefit obligations at December 31:		
Discount rate	3.56 %	4.31 %
Rate of compensation increases	N/A	N/A
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.31 %	4.39 %
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increases	N/A	N/A
Components of net periodic benefit cost:		
Interest cost	\$ 8,533,075	\$ 8,736,799
Expected return on plan assets	(15,654,653)	(15,003,165)
Amortization of unrecognized actuarial loss	<u>1,147,639</u>	<u>1,177,824</u>
Net periodic benefit (credit) cost	<u>\$ (5,973,939)</u>	<u>\$ (5,088,542)</u>
Amounts recognized as changes in unrestricted net assets consist of:		
Net actuarial loss	\$ 14,450,445	\$ 3,057,966

The Plan was amended effective October 1, 2017 to provide a one-time lump sum option during a limited time period of October 1, 2017 through November 30, 2017 for participants who had terminated employment on or before December 31, 2016 and had lump sum values not greater than \$40,000 as of December 1, 2017. The Plan was also amended effective the same date to provide for mandatory involuntary distribution of benefits for terminated vested participants with a lump sum value of \$5,000 or less if they fail to make a benefit election. The total lump sum benefits paid to terminated vested participants in 2017 was \$5,294,184.

The estimated net actuarial loss that is expected to be amortized from other changes in unrestricted net assets into net pension cost for the year ending December 31, 2018 is \$1,609,256.

The expected long-term rate of return on pension assets is selected by taking into account the expected duration of the projected benefit obligation ("PBO") for the plan and the asset mix of the plan. The rate of return is expected to be the rate earned over the period until the benefits represented by the current PBO are paid. The expected return on plan assets is based on the Medical Center's expectation of historical long-term average rates of return on the different asset classes held in the pension fund. This is reflective of the current and projected asset mix of the funds and considers the historical returns earned on the Medical Center's asset allocation and the duration of the plan liabilities. Thus, the Medical Center has taken a historical approach to the development of the expected return on asset assumption. The Medical Center believes the fundamental changes in the markets cannot be predicted over the long term. Rather, historical returns, realized across numerous economic cycles, should be representative of the market return expectations applicable to the funding of a long-term benefit obligation.

Hunterdon Healthcare System, Inc. and Affiliates

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December 31, 2017 and 2016

Actual year-by-year returns can deviate substantially from the long-term expected return assumption. However, over time it is expected that the amount of over-performance will equal the amount of under-performance.

The fair value hierarchy for the Medical Center's pension plan assets at December 31, 2017 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pension assets:				
Mutual funds - domestic fixed income	\$ 77,056,175	\$ 77,056,175	\$ -	\$ -
Mutual funds - domestic equity	95,438,851	95,438,851	-	-
Mutual funds - international equity	43,986,649	43,986,649	-	-
Cash and cash equivalents	1,141,206	1,141,206	-	-

The fair value hierarchy for the Medical Center's pension plan assets at December 31, 2016 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pension assets:				
Mutual funds - domestic fixed income	\$ 66,468,800	\$ 66,468,800	\$ -	\$ -
Mutual funds - domestic equity	114,446,417	114,446,417	-	-
Mutual funds - international equity	18,406,879	18,406,879	-	-
Cash and cash equivalents	753,948	753,948	-	-

The Medical Center's pension plan weighted average asset allocations at December 31, 2017 and 2016, by asset category, are as follows:

<u>Asset Category</u>	<u>2017 Target Allocations</u>	<u>2017</u>	<u>2016 Target Allocations</u>	<u>2016</u>
Mutual funds invested in equity securities	64 %	64 %	64 %	66 %
Mutual funds invested in debt securities	36	<u>36</u>	36	<u>34</u>
		<u>100 %</u>		<u>100 %</u>

In determining the asset allocation, the Medical Center's investment manager recognizes its desire for funding and expense stability, the long-term nature of the pension obligation, and current and projected cash needs for retiree benefit payments. An asset allocation analysis is performed to determine the long-term targets for the major asset classes of equity, debt and cash using an efficient frontier model. The asset allocation is reviewed quarterly and rebalanced if the variance to the targets exceeds 2.5%.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
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The Medical Center does not expect to contribute to the Plan during 2018.

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

Years ending December 31:	
2018	\$ 9,362,001
2019	10,287,837
2020	11,194,208
2021	12,093,143
2022	12,988,579
Thereafter	71,325,729

Deferred Compensation and Life Insurance Plans

In addition to the defined benefit plan, the Medical Center also provides a deferred compensation plan for certain employees and physicians. At December 31, 2017 and 2016, the assets related to this plan are included in other assets and the related liability is included in other liabilities in the amount of \$2,065,613 and \$1,909,497, respectively.

In addition, certain of the Medical Center's key employees participate in a split dollar life insurance plan. Under the insurance policy, all premium payments are divided between the participant's portion and the Medical Center's portion. Any withdrawal or death benefit must first be used to repay the Medical Center's portion of the policy. At December 31, 2017 and 2016, the assets related to this plan are included in other assets in the amount of \$4,717,422 and \$4,909,160, respectively.

Defined Contribution Pension Plan

On January 1, 2010, the System established the Hunterdon Healthcare 403(B) Retirement Savings Plan. Certain System employees are eligible for participation in the plan. The System will make a core annual contribution between 2% and 4% of each employee's annual compensation based on years of service and a 50% match of each employee's annual individual contribution to the plan to a maximum of 2%. Total expense recorded by the System for contributions into the plan in 2017 and 2016 was approximately \$5,097,000 and \$4,909,000, respectively.

9. Noncontrolling Interests in Joint Ventures

At December 31, 2017, Midjersey holds a 43% interest in Hunterdon Center for Surgery LLC ("HCS"); a 100% interest in Hunterdon Medical Management, LLC ("HMM"); a 100% interest in North Hunterdon Medical Associates; a 67% interest in Hunterdon Imaging Associates ("HIA"); and an 87% interest in Delaware Valley Office Associates, Inc. ("DVOA"). Noncontrolling interest in joint ventures, as stated in the consolidated statement of financial position, represents the noncontrolling partners' share in the equity of HCS, HIA, and DVOA.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

10. Professional and Patient Care Liability Insurance

The System has annually purchased a claims-made professional liability insurance policy, which provides coverage of \$1,000,000 per occurrence and \$3,000,000 annual aggregate. In addition, the System has purchased an additional layer of insurance above the base policy of \$15,000,000. Beginning July 1, 2015, the System's professional liability insurance policy includes a deductible of \$100,000 per occurrence and a \$300,000 annual aggregate. Each individual employed physician is provided individual coverage in the amount of \$3,000,000 per occurrence and \$5,000,000 annual aggregate through a group purchased policy. Employed physicians are not covered by the System's policy or additional layer of insurance. The System has estimated losses and recorded an undiscounted liability of approximately \$635,000 and \$720,000 at December 31, 2017 and 2016, respectively, relating to unasserted claims and incidents not yet reported to the insurance carrier, which are included in other liabilities in the accompanying consolidated statement of financial position. In addition, the System has recorded a receivable (included in other assets), and related claim liability (included in other liabilities), for anticipated insurance recoveries of approximately \$1,690,000 and \$1,774,000 at December, 2017 and 2016, respectively.

HCS has purchased annually a "claims-made" professional liability insurance policy. The policy currently provides coverage of \$1,000,000 per occurrence and \$3,000,000 annual aggregate. In addition, HCS has purchased an additional layer of insurance above the base policy of \$2,000,000. HCS has no knowledge of any material claims or reportable events under this insurance policy.

HIA is separately insured under the providers' professional liability policy.

11. Operating Leases

HRCH and Midjersey have entered into various noncancellable operating lease arrangements with terms in excess of one year for its office buildings and equipment and have sublease agreements, principally for office space with certain physicians. Additionally, the Medical Center is obligated under noncancellable operating leases with terms in excess of one year for certain equipment and office space. Rental expense for these operating leases was \$10,639,230 in 2017 and \$10,449,461 in 2016.

The required minimum lease payments at December 31, 2017 are as follows:

	Medical Center Lease Payments	HRCH Lease Payments	Midjersey Lease Payments	Subtotal	Subleases	Net Expense
2018	\$ 6,553,060	\$ 123,323	\$ 2,320,472	\$ 8,996,855	\$ 1,721,692	\$ 7,275,163
2019	4,305,924	123,323	1,733,873	6,163,120	1,322,757	4,840,363
2020	3,905,172	123,323	1,700,424	5,728,919	1,355,826	4,373,093
2021	3,603,913	123,323	1,726,178	5,453,414	1,389,722	4,063,692
2022	3,689,436	123,323	1,765,573	5,578,332	1,424,466	4,153,866
Thereafter	34,546,192	1,240,615	6,615,363	42,402,170	3,117,377	39,284,793
Total	<u>\$ 56,603,697</u>	<u>\$ 1,857,230</u>	<u>\$ 15,861,883</u>	<u>\$ 74,322,810</u>	<u>\$ 10,331,840</u>	<u>\$ 63,990,970</u>

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets in the amount of \$11,355,341 and \$10,982,611 at December 31, 2017 and 2016, respectively, are available for use by the System, as specified by the donor, for capital acquisitions, research, and education. Permanently restricted net assets of \$23,469,636 and \$21,821,632 at December 31, 2017 and 2016, respectively, are funds to be held in perpetuity by the System. The income earned on these funds is expendable either to support patient care or as specified by the donor. Realized gains and losses are retained in either unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets in accordance with donors' wishes.

The System's endowment consists of eight funds that have been established by the Medical Center and seven funds that have been established by the Foundation to support the Medical Center and HRCH, in providing health care services. These funds are invested by the Medical Center and Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets as of year-end. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees. There were no such deficiencies as of December 31, 2017 and 2016.

Interpretation of Relevant Law

The boards of trustees of the Medical Center and the Foundation have interpreted the New Jersey Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Medical Center and the Foundation classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The interest and dividends income earned on the accumulations to the permanently restricted endowment funds is classified as temporarily restricted net assets until appropriated by the boards.

Spending Policy

The Foundation distributes funds from its endowment account to the Medical Center when donor-imposed restrictions have been met. The Medical Center spends earnings on donor-restricted endowment funds when expenses have been incurred that satisfy the donor-imposed restrictions.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Return Objectives and Risk Parameters

The Foundation and Medical Center have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income and growth, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center and Foundation must hold in perpetuity. Under this policy, as approved by the Medical Center's and Foundation's boards of trustees, the endowment assets are invested in a manner that is intended to produce moderate to high rates of return while assuming a moderate to low level of investment risk.

The following represents the net asset classes of the System's donor-restricted and board-designated endowment funds at December 31, 2017 and 2016:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 2,310,237	\$ -	\$ -	\$ 2,310,237
Donor-restricted endowment funds	-	1,190,396	19,969,003	21,159,399
Total	<u>\$ 2,310,237</u>	<u>\$ 1,190,396</u>	<u>\$ 19,969,003</u>	<u>\$ 23,469,636</u>
2016				
Board-designated endowment funds	\$ 2,049,630	\$ -	\$ -	\$ 2,049,630
Donor-restricted endowment funds	-	1,007,940	18,622,331	19,630,271
Total	<u>\$ 2,049,630</u>	<u>\$ 1,007,940</u>	<u>\$ 18,622,331</u>	<u>\$ 21,679,901</u>

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

The following table presents changes in endowments for the years ended December 31, 2016 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at				
December 31, 2015	\$ 1,978,894	\$ 824,758	\$ 17,629,116	\$ 20,432,768
Investment income	45,169	172,814	-	217,983
Unrealized gain (loss) in fair value of investments	48,308	88,714	539,260	676,282
Net realized gains on investments	(11,387)	(33,161)	453,955	409,407
Appropriation of endowment assets for expenditure	(11,354)	(45,185)	-	(56,539)
Endowment net assets at				
December 31, 2016	2,049,630	1,007,940	18,622,331	21,679,901
Investment income	63,334	153,755	-	217,089
Unrealized gain (loss) in fair value of investments	192,434	269,885	1,341,620	1,803,939
Net realized gain (loss) on investments	4,839	18,493	5,052	28,384
Appropriation of endowment assets for expenditure	-	(259,677)	-	(259,677)
Endowment net assets at				
December 31, 2017	<u>\$ 2,310,237</u>	<u>\$ 1,190,396</u>	<u>\$ 19,969,003</u>	<u>\$ 23,469,636</u>

13. Functional Expenses

The System provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2017 and 2016 included in the consolidated statement of operations are as follows:

	<u>2017</u>	<u>2016</u>
Health services	\$ 277,781,346	\$ 259,941,458
Fundraising	405,611	239,446
General and administrative	50,186,738	44,841,966
Total	<u>\$ 328,373,695</u>	<u>\$ 305,022,870</u>

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

14. Concentration of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements. The significant concentrations of accounts receivable for services to patients include the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Other third-party payors	26.6 %	26.6 %
Medicare	24.1	29.3
Blue Cross	18.9	14.9
Self-pay patients	13.1	14.2
Aetna	12.9	10.8
Medicaid	4.4	4.2
	<u>100 %</u>	<u>100 %</u>

15. Income Taxes

The components of the provision for income taxes for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Current income tax provision:		
Federal	\$ 512,590	\$ 61,389
State	143,857	170,491
	656,447	231,880
Deferred income tax provision:		
Federal	(204,926)	(74,465)
State	(47,569)	(5,967)
	(252,495)	(80,432)
Total	<u>\$ 403,952</u>	<u>\$ 151,448</u>

For Midjersey, the provision for income taxes for the years ended December 31, 2017 and 2016 was \$400,452 and \$149,017. Midjersey had deferred tax assets of \$822,573 and \$570,078 at December 31, 2017 and 2016, respectively, which are included in other assets in the consolidated statement of financial position. These amounts represent the deferred tax consequences attributable to temporary differences that will result in additional taxable income and a reduction of deductible expenses in future years. The temporary differences comprise lease payments, depreciation, and other temporary differences.

HCC and the Pharmacy file federal and state income tax returns on a separate company basis. HCC and the Pharmacy recorded a current federal and state income tax provision of \$3,500 and \$2,431 for the years ended December 31, 2017 and 2016, respectively.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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Pharmacy has deferred tax assets, prior to valuation allowance, of \$147,000 and \$167,000 at December 31, 2017 and 2016, respectively, which consisted primarily of federal and state net operating loss carryforwards. At December 31, 2017, Pharmacy had a federal and state operating loss carryforward of approximately \$317,000, which is available to offset future taxable income and expires in 2024.

In assessing the realization of deferred tax assets, management is required to consider whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and must be supported by sufficient positive evidence. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. Pharmacy has had two consecutive years of net operating losses. As a result, management has recorded a full valuation allowance against the deferred tax asset.

16. Contingencies

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the System, if any, are not presently determinable.

Midjersey is a non-controlling interest member of Hunterdon Medical Office Associates, LLC ("HMOA, LLC") and has guaranteed an amount equal to 125% of their LLC membership percentage times the outstanding balance of two of HMOA, LLC's outstanding loans. At December 31, 2017, Midjersey's portion of the guarantees on the outstanding loans is \$2,638,152.

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2017

(See Independent Auditors' Report)

Assets	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Current Assets							
Cash and cash equivalents	\$ 216,980	\$ 6,024,372	\$ 25,760,758	\$ 2,477,316	\$ 1,717,935	\$ -	\$ 36,197,361
Short-term investments	-	-	48,121,596	-	494,353	-	48,615,949
Patient accounts receivable, net	-	714,169	32,113,609	-	958,117	-	33,785,895
Assets whose use is limited	-	-	1,017,495	-	-	-	1,017,495
Inventories	-	-	1,639,439	-	505,162	-	2,144,601
Other receivables	-	510,458	794,400	1,536,791	-	-	2,841,649
Due from affiliates	104,250	-	-	-	-	(104,250)	-
Prepaid expenses and other current assets	-	809,876	3,763,033	41,569	186,049	-	4,800,527
Total current assets	321,230	8,058,875	113,210,330	4,055,676	3,861,616	(104,250)	129,403,477
Assets whose use is limited (exclusive of current portion):							
Board-designated funds	-	-	53,282,648	-	-	-	53,282,648
Donor-restricted assets	-	-	18,511,409	8,216,742	-	-	26,728,151
Total assets whose use is limited, net	-	-	71,794,057	8,216,742	-	-	80,010,799
Other Noncurrent Assets							
Due from affiliates	-	-	1,295,673	2,314,614	-	(3,610,287)	-
Property and equipment, net	-	10,611,196	144,922,158	54,091	521,584	-	156,109,029
Beneficial interest in trusts	-	-	2,372,968	1,077,288	-	-	3,450,256
Beneficial interest in net assets of the Foundation	-	-	8,680,218	-	1,571,399	(10,251,617)	-
Real estate held for investment	-	-	213,099	-	-	-	213,099
Investment in affiliate	-	-	-	-	33,053	-	33,053
Investment in subsidiary	9,788,909	-	-	-	-	(8,544,981)	1,243,928
Investment in controlled affiliates	219,205,915	-	-	-	-	(219,205,915)	-
Goodwill	-	413,532	3,769,460	-	-	-	4,182,992
Other assets	-	920,873	14,894,355	-	-	-	15,815,228
Total other noncurrent assets	228,994,824	11,945,601	176,147,931	3,445,993	2,126,036	(241,612,800)	181,047,585
Total assets	\$ 229,316,054	\$ 20,004,476	\$ 361,152,318	\$ 15,718,411	\$ 5,987,652	\$ (241,717,050)	\$ 390,461,861

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2017

(See Independent Auditors' Report)

Liabilities and Net Assets	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Current Liabilities							
Accounts payable and accrued expenses	\$ 8,734	\$ 2,840,713	\$ 17,837,153	\$ 68,036	\$ 454,825	\$ -	\$ 21,209,461
Accrued payroll and payroll taxes	-	-	12,641,686	-	-	-	12,641,686
Current portion of long-term debt and capital leases	-	396,844	1,873,984	-	-	-	2,270,828
Accrued interest payable	-	-	1,048,308	-	-	-	1,048,308
Due to affiliates	-	31,365	2,509,905	17,776	(140,182)	(2,418,864)	-
Estimated third-party payor settlements, net	-	-	1,709,859	-	-	-	1,709,859
Other liabilities	-	-	-	162,733	-	-	162,733
Total current liabilities	8,734	3,268,922	37,620,895	248,545	314,643	(2,418,864)	39,042,875
Long-Term Liabilities							
Long-term debt and capital leases, net	-	6,547,914	66,295,180	-	-	-	72,843,094
Due to affiliates	1,295,673	-	-	-	-	(1,295,673)	-
Other liabilities	-	-	10,236,577	-	-	-	10,236,577
Pension benefit liability	-	-	41,961,129	-	-	-	41,961,129
Estimated third-party payor settlements, net	-	-	6,975,497	-	-	-	6,975,497
Total long-term liabilities	1,295,673	6,547,914	125,468,383	-	-	(1,295,673)	132,016,297
Total liabilities	1,304,407	9,816,836	163,089,278	248,545	314,643	(3,714,537)	171,059,172
Net Assets							
Unrestricted	182,935,053	-	168,498,445	1,529,266	4,101,610	(174,129,321)	182,935,053
Temporarily restricted	17,508,078	-	6,430,130	9,991,720	1,086,228	(23,660,815)	11,355,341
Permanently restricted	27,568,516	-	23,134,465	3,948,880	485,171	(31,667,396)	23,469,636
Shareholders' Equity							
Midjersey shareholders' equity:							
Common stock	-	742,344	-	-	-	(742,344)	-
Additional paid-in capital	-	1,447,914	-	-	-	(1,447,914)	-
Retained earnings	-	6,354,723	-	-	-	(6,354,723)	-
Total Midjersey shareholders' equity	-	8,544,981	-	-	-	(8,544,981)	-
Noncontrolling Interests	-	1,642,659	-	-	-	-	1,642,659
Total shareholders' equity and net assets	228,011,647	10,187,640	198,063,040	15,469,866	5,673,009	(238,002,513)	219,402,689
Total liabilities and net assets	\$ 229,316,054	\$ 20,004,476	\$ 361,152,318	\$ 15,718,411	\$ 5,987,652	\$ (241,717,050)	\$ 390,461,861

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

December 31, 2017

(See Independent Auditors' Report)

	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Revenues							
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 10,550,469	\$ 298,462,894	\$ -	\$ 7,802,285	\$ -	\$ 316,815,648
Provision for bad debts	-	(172,079)	(3,003,227)	-	(78,633)	-	(3,253,939)
Net patient service revenue less provision for bad debts	-	10,378,390	295,459,667	-	7,723,652	-	313,561,709
Other revenue	4,745,540	5,913,874	15,841,787	908,828	219,438	(4,017,384)	23,612,083
Net assets released from restrictions for operations	-	-	380,292	788,396	476,040	(733,970)	910,758
Total revenues	4,745,540	16,292,264	311,681,746	1,697,224	8,419,130	(4,751,354)	338,084,550
Expenses							
Salaries, wages, and benefits	3,803,299	3,575,739	181,802,357	1,018,977	4,955,326	-	195,155,698
Physician fees	-	-	8,352,510	-	-	-	8,352,510
Supplies and services	853,019	9,008,195	94,046,678	1,555,187	3,698,329	(6,251,354)	102,910,054
Interest	-	133,807	2,704,076	-	-	-	2,837,883
Depreciation and amortization	-	753,859	18,300,362	22,513	40,816	-	19,117,550
Total expenses	4,656,318	13,471,600	305,205,983	2,596,677	8,694,471	(6,251,354)	328,373,695
Operating income (loss)	89,222	2,820,664	6,475,763	(899,453)	(275,341)	1,500,000	9,710,855
Nonoperating revenues and gains (losses), net	250,350	2,858	2,350,442	(1,500,000)	14,363	(250,000)	868,013
Equity in earnings of controlled affiliates	173,385	-	-	-	-	(173,385)	-
Equity in earnings of subsidiary	213,382	-	-	-	-	(213,382)	-
Excess (deficiency) of revenues and gains over expenses and losses before provision for taxes	726,339	2,823,522	8,826,205	(2,399,453)	(260,978)	863,233	10,578,868
Provision for Income Taxes							
Federal	-	305,164	-	-	2,500	-	307,664
State	-	95,288	-	-	1,000	-	96,288
Total provision for income taxes	-	400,452	-	-	3,500	-	403,952
Excess (deficiency) of revenues and gains over expenses and losses	726,339	2,423,070	8,826,205	(2,399,453)	(264,478)	863,233	10,174,916
Change in net unrealized gains (losses) on investments	-	-	5,408,689	-	52,867	-	5,461,556
Net assets released from restrictions for capital acquisitions	-	-	1,500,000	1,500,000	-	(1,500,000)	1,500,000
Pension-related changes other than net periodic pension cost	-	-	(14,450,445)	-	-	-	(14,450,445)
Net income attributable to noncontrolling interests	-	(1,959,688)	-	-	-	-	(1,959,688)
Net Transfers from (to) Affiliates	-	-	(2,912,000)	2,425,000	487,000	-	-
Dividends paid	-	(250,000)	-	-	-	250,000	-
Increase (decrease) in unrestricted net assets	\$ 726,339	\$ 213,382	\$ (1,627,551)	\$ 1,525,547	\$ 275,389	\$ (386,767)	\$ 726,339

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Midjersey Health Corporation

December 31, 2017

(See Independent Auditors' Report)

Assets	Midjersey Health Corporation	Delaware Valley Office Associates	Hunterdon Imaging Associates	Hunterdon Center for Surgery, LLC	Hunterdon Medical Management, LLC	Bridgewater Surgery Center, LLC	Hunterdon Cardiovascular Health, LLC	Subtotal	Eliminations/ Reclassifications	Consolidated Total
Current Assets										
Cash and cash equivalents	\$ 4,839,440	\$ 141,206	\$ 106,128	\$ 853,323	\$ -	\$ 64,048	\$ 20,227	\$ 6,024,372	\$ -	\$ 6,024,372
Patient accounts receivable, net	-	-	-	714,169	-	-	-	714,169	-	714,169
Other receivables	133,306	-	377,152	-	-	-	-	510,458	-	510,458
Due from affiliates	2,147,339	-	-	-	-	-	-	2,147,339	(2,147,339)	-
Prepaid and other current assets	86,772	367	51,528	544,387	-	126,822	-	809,876	-	809,876
Total current assets	7,206,857	141,573	534,808	2,111,879	-	190,870	20,227	10,206,214	(2,147,339)	8,058,875
Investments	98,300	-	-	-	-	-	-	98,300	-	98,300
Property and equipment, net	7,921,994	56,905	184,626	501,899	-	1,945,772	-	10,611,196	-	10,611,196
Goodwill, net	-	-	-	413,532	-	-	-	413,532	-	413,532
Other assets	822,573	-	-	-	-	-	-	822,573	-	822,573
Total assets	<u>\$ 16,049,724</u>	<u>\$ 198,478</u>	<u>\$ 719,434</u>	<u>\$ 3,027,310</u>	<u>\$ -</u>	<u>\$ 2,136,642</u>	<u>\$ 20,227</u>	<u>\$ 22,151,815</u>	<u>\$ (2,147,339)</u>	<u>\$ 20,004,476</u>
Liabilities and Shareholders' Equity										
Current Liabilities										
Accounts payable and accrued expenses	\$ 2,043,899	\$ 5,054	\$ 85,786	\$ 553,626	\$ -	\$ 137,279	\$ 15,069	\$ 2,840,713	\$ -	\$ 2,840,713
Current portion of long-term debt	363,016	-	-	-	-	33,828	-	396,844	-	396,844
Due to affiliates	17,217	-	14,148	18,080	-	2,129,259	-	2,178,704	(2,147,339)	31,365
Total current liabilities	2,424,132	5,054	99,934	571,706	-	2,300,366	15,069	5,416,261	(2,147,339)	3,268,922
Long-term debt	6,398,248	-	-	-	-	149,666	-	6,547,914	-	6,547,914
Total liabilities	8,822,380	5,054	99,934	571,706	-	2,450,032	15,069	11,964,175	(2,147,339)	9,816,836
Shareholders' Equity										
Midjersey shareholders' equity:										
Common stock	985,000	15,400	300,000	1,020,000	-	-	20,145	2,340,545	(1,598,201)	742,344
Additional paid-in capital	1,447,914	-	-	-	-	-	-	1,447,914	-	1,447,914
Retained earnings	4,794,430	149,242	113,006	33,432	-	(313,390)	(20,198)	4,756,522	1,598,201	6,354,723
Total Midjersey shareholders' equity	7,227,344	164,642	413,006	1,053,432	-	(313,390)	(53)	8,544,981	-	8,544,981
Noncontrolling Interests	-	28,782	206,494	1,402,172	-	-	5,211	1,642,659	-	1,642,659
Total equity	7,227,344	193,424	619,500	2,455,604	-	(313,390)	5,158	10,187,640	-	10,187,640
Total liabilities and shareholders' equity	<u>\$ 16,049,724</u>	<u>\$ 198,478</u>	<u>\$ 719,434</u>	<u>\$ 3,027,310</u>	<u>\$ -</u>	<u>\$ 2,136,642</u>	<u>\$ 20,227</u>	<u>\$ 22,151,815</u>	<u>\$ (2,147,339)</u>	<u>\$ 20,004,476</u>

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Midjersey Health Corporation

December 31, 2017

(See Independent Auditors' Report)

	Midjersey Health Corporation	Delaware Valley Office Associates	Hunterdon Imaging Associates	Hunterdon Center for Surgery, LLC	Hunterdon Medical Management, LLC	Bridgewater Surgery Center, LLC	Hunterdon Cardiovascular Health, LLC	Subtotal	Eliminations/ Reclassifications	Consolidated Total
Revenues										
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ -	\$ -	\$ 10,550,469	\$ -	\$ -	\$ -	\$ 10,550,469	\$ -	\$ 10,550,469
Provision for bad debts	-	-	-	(172,079)	-	-	-	(172,079)	-	(172,079)
Net patient service revenue less provision for bad debts	-	-	-	10,378,390	-	-	-	10,378,390	-	10,378,390
Other revenue	1,658,064	145,892	4,185,872	15,139	-	57	-	6,005,024	(91,150)	5,913,874
Total revenues	1,658,064	145,892	4,185,872	10,393,529	-	57	-	16,383,414	(91,150)	16,292,264
Expenses										
Salaries and benefits	284,561	-	-	3,012,885	-	278,293	-	3,575,739	-	3,575,739
Supplies and services	2,420,062	69,932	1,273,138	5,301,059	-	35,154	-	9,099,345	(91,150)	9,008,195
Interest	126,718	-	-	7,089	-	-	-	133,807	-	133,807
Depreciation and amortization	372,581	8,853	41,076	331,349	-	-	-	753,859	-	753,859
Total expenses	3,203,922	78,785	1,314,214	8,652,382	-	313,447	-	13,562,750	(91,150)	13,471,600
Income (loss) from operations	(1,545,858)	67,107	2,871,658	1,741,147	-	(313,390)	-	2,820,664	-	2,820,664
Change in value of derivatives	-	-	-	2,858	-	-	-	2,858	-	2,858
Income (loss) before provision for income taxes	(1,545,858)	67,107	2,871,658	1,744,005	-	(313,390)	-	2,823,522	-	2,823,522
Provision for income taxes										
Federal	305,164	-	-	-	-	-	-	305,164	-	305,164
State	95,288	-	-	-	-	-	-	95,288	-	95,288
Total provision for income taxes	400,452	-	-	-	-	-	-	400,452	-	400,452
Net (loss) income	(1,946,310)	67,107	2,871,658	1,744,005	-	(313,390)	-	2,423,070	-	2,423,070
Less: Net income attributable to the noncontrolling interests	-	(8,482)	(957,123)	(994,083)	-	-	-	(1,959,688)	-	(1,959,688)
Net income (loss) attributable to Midjersey	(1,946,310)	58,625	1,914,535	749,922	-	(313,390)	-	463,382	-	463,382
Net asset transfer from (to) affiliate	201,151	-	-	-	(201,151)	-	-	-	-	-
Dividends received (paid)	3,016,991	(87,360)	(2,278,781)	(900,850)	-	-	-	(250,000)	-	(250,000)
Increase (decrease) in shareholders' equity	\$ 1,271,832	\$ (28,735)	\$ (364,246)	\$ (150,928)	\$ (201,151)	\$ (313,390)	\$ -	\$ 213,382	\$ -	\$ 213,382

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Hunterdon Regional Community Health, Inc.

December 31, 2017

(See Independent Auditors' Report)

Assets	Hunterdon Regional Community Health, Inc.	Hunterdon Hospice, Inc.	Visiting Health and Supportive Services, Inc.	Hunterdon Regional Pharmacy	Hunterdon Community Care	Briteside Adult Daycare	Subtotal	Eliminations	Consolidated Balance
Current Assets									
Cash and cash equivalents	\$ 845,384	\$ 607,159	\$ 149,905	\$ 54,662	\$ -	\$ 60,825	\$ 1,717,935	\$ -	\$ 1,717,935
Investments	-	-	-	-	-	494,353	494,353	-	494,353
Accounts receivable, net	321	652,716	110,789	170,277	-	24,014	958,117	-	958,117
Due from affiliates	1,028,067	-	30,252	7,485	-	1,305	1,067,109	(1,067,109)	-
Inventories	4,782	-	-	500,380	-	-	505,162	-	505,162
Prepaid assets	-	-	1,957	184,092	-	-	186,049	-	186,049
Total current assets	1,878,554	1,259,875	292,903	916,896	-	580,497	4,928,725	(1,067,109)	3,861,616
Investment in Affiliate									
Investment in affiliate	4,000	-	-	-	33,053	-	37,053	(4,000)	33,053
Beneficial interest in net assets of Hunterdon Medical Center Foundation, Inc.	877,051	370,910	196,431	-	-	127,007	1,571,399	-	1,571,399
Property and equipment, net	12,887	1,553	1,370	284	-	505,490	521,584	-	521,584
Total assets	\$ 2,772,492	\$ 1,632,338	\$ 490,704	\$ 917,180	\$ 33,053	\$ 1,212,994	\$ 7,058,761	\$ (1,071,109)	\$ 5,987,652
Liabilities and Net Assets									
Current Liabilities									
Accounts payable and accrued expenses	\$ 25,477	\$ 304,349	\$ 22,685	\$ 70,136	\$ -	\$ 32,178	\$ 454,825	\$ -	\$ 454,825
Due to affiliates	12,381	112,174	271,291	490,961	-	40,120	926,927	(1,067,109)	(140,182)
Total current liabilities	37,858	416,523	293,976	561,097	-	72,298	1,381,752	(1,067,109)	314,643
Due to Affiliates	-	-	-	-	-	-	-	-	-
Total liabilities	37,858	416,523	293,976	561,097	-	72,298	1,381,752	(1,067,109)	314,643
Net Assets									
Unrestricted/shareholders' equity	1,857,583	844,905	297	356,083	33,053	1,013,689	4,105,610	(4,000)	4,101,610
Temporarily restricted	677,051	189,768	92,402	-	-	127,007	1,086,228	-	1,086,228
Permanently restricted	200,000	181,142	104,029	-	-	-	485,171	-	485,171
Total net assets	2,734,634	1,215,815	196,728	356,083	33,053	1,140,696	5,677,009	(4,000)	5,673,009
Total liabilities and net assets	\$ 2,772,492	\$ 1,632,338	\$ 490,704	\$ 917,180	\$ 33,053	\$ 1,212,994	\$ 7,058,761	\$ (1,071,109)	\$ 5,987,652

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Hunterdon Regional Community Health, Inc.

December 31, 2017

(See Independent Auditors' Report)

	Hunterdon Regional Community Health, Inc.	Hunterdon Hospice, Inc.	Visiting Health and Supportive Services, Inc.	Hunterdon Regional Pharmacy	Hunterdon Community Care	Briteside Adult Daycare	Subtotal	Eliminations	Consolidated Balance
Change in Unrestricted Net Assets									
Revenue:									
Patient service revenue (net of contractual allowances and discounts)	\$ 252,162	\$ 3,210,874	\$ 1,510,311	\$ 2,974,922	\$ -	\$ 361,898	\$ 8,310,167	\$ (507,882)	\$ 7,802,285
Provision for bad debts	-	(76,538)	(1,395)	-	-	(700)	(78,633)	-	(78,633)
Net patient service revenue less provisions for bad debts	252,162	3,134,336	1,508,916	2,974,922	-	361,198	8,231,534	(507,882)	7,723,652
Other revenue	-	11,480	20,877	45,184	-	141,897	219,438	-	219,438
Net assets released from restrictions for operations	38,371	206,834	121,839	-	-	108,996	476,040	-	476,040
Total revenue	290,533	3,352,650	1,651,632	3,020,106	-	612,091	8,927,012	(507,882)	8,419,130
Expenses									
Salaries and benefits	299,526	2,338,072	1,579,509	346,757	-	391,462	4,955,326	-	4,955,326
Supplies and services	81,305	939,013	400,832	2,619,321	-	165,740	4,206,211	(507,882)	3,698,329
Depreciation	16,175	3,182	-	657	-	20,802	40,816	-	40,816
Total expenses	397,006	3,280,267	1,980,341	2,966,735	-	578,004	9,202,353	(507,882)	8,694,471
Operating (loss) income	(106,473)	72,383	(328,709)	53,371	-	34,087	(275,341)	-	(275,341)
Nonoperating Revenues and Gains									
Nonoperating revenues and gains, net	2,268	1,332	283	350	266	9,864	14,363	-	14,363
Provision for income taxes	-	-	-	(2,000)	(1,500)	-	(3,500)	-	(3,500)
(Deficiency) excess of revenues over expenses	(104,205)	73,715	(328,426)	51,721	(1,234)	43,951	(264,478)	-	(264,478)
Change in net unrealized gains (losses) on investments	-	-	-	-	-	52,867	52,867	-	52,867
Transfer from Affiliate	(410,600)	-	262,000	706,220	(130,620)	-	427,000	60,000	487,000
Increase (decrease) in unrestricted net assets	\$ (514,805)	\$ 73,715	\$ (66,426)	\$ 757,941	\$ (131,854)	\$ 96,818	\$ 215,389	\$ 60,000	\$ 275,389

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Hunterdon Medical Center and Affiliates

December 31, 2017

(See Independent Auditors' Report)

Assets	Hunterdon Medical Center	Hunterdon Primary Care, P.C.	Hunterdon Specialty Care, P.C.	Hunterdon Urgent Care, P.C.	Consolidated Balances
Current Assets					
Cash and cash equivalents	\$ 22,852,741	\$ 1,924,318	\$ 929,214	\$ 54,485	\$ 25,760,758
Short-term investments	48,121,596	-	-	-	48,121,596
Patient accounts receivable, net	23,330,852	4,429,428	4,075,280	278,049	32,113,609
Assets whose use is limited	1,017,495	-	-	-	1,017,495
Inventories	1,639,439	-	-	-	1,639,439
Other receivables	781,569	12,831	-	-	794,400
Prepaid expenses and other current assets	3,763,033	-	-	-	3,763,033
Total current assets	101,506,725	6,366,577	5,004,494	332,534	113,210,330
Assets whose use is limited (exclusive of current position):					
Board-designated funds	53,282,648	-	-	-	53,282,648
Donor-restricted assets	18,511,409	-	-	-	18,511,409
Total assets whose use is limited, net	71,794,057	-	-	-	71,794,057
Other Noncurrent Assets					
Due from affiliates	1,295,673	-	-	-	1,295,673
Property and equipment, net	144,922,158	-	-	-	144,922,158
Beneficial interest in trusts	2,372,968	-	-	-	2,372,968
Beneficial interest in net assets of the Foundation	8,680,218	-	-	-	8,680,218
Real estate held for investment	213,099	-	-	-	213,099
Goodwill	3,769,460	-	-	-	3,769,460
Other assets	14,894,355	-	-	-	14,894,355
Total other noncurrent assets	176,147,931	-	-	-	176,147,931
Total assets	\$ 349,448,713	\$ 6,366,577	\$ 5,004,494	\$ 332,534	\$ 361,152,318
Liabilities and Net Assets					
Current Liabilities					
Accounts payable and accrued expenses	\$ 17,820,170	\$ 16,983	\$ -	\$ -	\$ 17,837,153
Accrued payroll and payroll taxes	10,251,467	1,368,265	1,021,954	-	12,641,686
Current portion of long-term debt and capital leases	1,873,984	-	-	-	1,873,984
Estimated third-party payor settlements	1,709,859	-	-	-	1,709,859
Due to affiliates	(8,150,617)	4,164,160	3,982,540	2,513,822	2,509,905
Accrued interest payable	1,048,308	-	-	-	1,048,308
Total current liabilities	24,553,171	5,549,408	5,004,494	2,513,822	37,620,895
Estimated third-party payor settlements, net	6,975,497	-	-	-	6,975,497
Long-term debt and capital leases, net	66,295,180	-	-	-	66,295,180
Pension liability	41,961,129	-	-	-	41,961,129
Other liabilities	9,419,408	817,169	-	-	10,236,577
Total liabilities	149,204,385	6,366,577	5,004,494	2,513,822	163,089,278
Net Assets (Deficit)					
Unrestricted	170,679,733	-	-	(2,181,288)	168,498,445
Temporarily restricted	6,430,130	-	-	-	6,430,130
Permanently restricted	23,134,465	-	-	-	23,134,465
Total net assets (deficit)	200,244,328	-	-	(2,181,288)	198,063,040
Total liabilities and net assets	\$ 349,448,713	\$ 6,366,577	\$ 5,004,494	\$ 332,534	\$ 361,152,318

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Hunterdon Medical Center and Affiliates

December 31, 2017

(See Independent Auditors' Report)

	Hunterdon Medical Center	Hunterdon Primary Care, P.C.	Hunterdon Specialty Care, P.C.	Hunterdon Urgent Care, P.C.	Consolidated Balances
Revenues					
Patient service revenue (net of contractual allowances and discounts)	\$ 254,504,439	\$ 24,517,223	\$ 16,988,176	\$ 2,453,056	\$ 298,462,894
Less provision for bad debts	<u>(2,978,022)</u>	<u>(6,215)</u>	<u>(18,042)</u>	<u>(948)</u>	<u>(3,003,227)</u>
Net patient service revenue less provision for bad debts	<u>251,526,417</u>	<u>24,511,008</u>	<u>16,970,134</u>	<u>2,452,108</u>	<u>295,459,667</u>
Other revenue	14,459,001	1,295,670	87,116	-	15,841,787
Net assets released from restrictions	<u>380,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>380,292</u>
Total revenues	<u>266,365,710</u>	<u>25,806,678</u>	<u>17,057,250</u>	<u>2,452,108</u>	<u>311,681,746</u>
Expenses					
Salaries and benefits	157,445,163	10,223,440	14,133,754	-	181,802,357
Physicians' fees	8,352,510	-	-	-	8,352,510
Supplies and services	59,513,280	17,726,173	13,095,271	3,711,954	94,046,678
Depreciation and amortization	18,300,362	-	-	-	18,300,362
Interest	<u>2,704,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,704,076</u>
Total expenses	<u>246,315,391</u>	<u>27,949,613</u>	<u>27,229,025</u>	<u>3,711,954</u>	<u>305,205,983</u>
Operating income (loss)	<u>20,050,319</u>	<u>(2,142,935)</u>	<u>(10,171,775)</u>	<u>(1,259,846)</u>	<u>6,475,763</u>
Nonoperating Revenues and Gains					
Interest and dividend income	1,805,996	-	146	385	1,806,527
Net realized gains on investments	420,051	-	-	-	420,051
Change in value of derivative financial instruments	123,364	-	-	-	123,364
Loss (gain) on sale of assets	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>
Total nonoperating revenues and gains, net	<u>2,349,911</u>	<u>-</u>	<u>146</u>	<u>385</u>	<u>2,350,442</u>
Excess (deficiency) of revenues and gains over expenses and losses	22,400,230	(2,142,935)	(10,171,629)	(1,259,461)	8,826,205
Change in Net Unrealized Gains and Losses on Investments, Other Than Trading Securities					
	5,408,689	-	-	-	5,408,689
Net Transfers (to) from Affiliates					
	(23,035,917)	2,920,528	17,203,389	-	(2,912,000)
Pension-related Changes Other Than Net Periodic Pension Cost					
	(14,450,445)	-	-	-	(14,450,445)
Net Assets Released from Restrictions for Capital Acquisitions					
	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
(Decrease) Increase in unrestricted net assets	<u>\$ (8,177,443)</u>	<u>\$ 777,593</u>	<u>\$ 7,031,760</u>	<u>\$ (1,259,461)</u>	<u>\$ (1,627,551)</u>

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2016

(See Independent Auditors' Report)

Assets	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Current Assets							
Cash and cash equivalents	\$ 507,746	\$ 7,549,619	\$ 36,680,718	\$ 2,180,841	\$ 1,752,518	\$ -	\$ 48,671,442
Short-term investments	-	-	47,450,745	-	431,735	-	47,882,480
Patient accounts receivable, net	-	903,782	27,401,618	-	965,734	-	29,271,134
Assets whose use is limited	-	-	1,016,331	-	-	-	1,016,331
Inventories	-	-	1,533,740	-	511,881	-	2,045,621
Other receivables	-	387,257	1,182,688	1,871,176	-	(250,000)	3,191,121
Due from affiliates	40,776	153,366	-	-	-	(194,142)	-
Prepaid expenses and other current assets	-	615,965	3,452,098	25,747	49,810	-	4,143,620
Total current assets	548,522	9,609,989	118,717,938	4,077,764	3,711,678	(444,142)	136,221,749
Assets whose use is limited (exclusive of current position):							
Board-designated funds	-	-	44,844,878	-	-	-	44,844,878
Donor-restricted assets	-	-	17,171,397	7,141,882	-	-	24,313,279
Funds held by trustee under bond indenture agreement	-	-	-	-	-	-	-
Total assets whose use is limited, net	-	-	62,016,275	7,141,882	-	-	69,158,157
Other Noncurrent Assets							
Due from affiliates	-	-	2,265,270	1,414,623	-	(3,679,893)	-
Property and equipment, net	-	4,417,084	139,855,198	76,604	1,886,734	-	146,235,620
Beneficial interest in trusts	-	-	2,096,636	1,038,036	-	-	3,134,672
Beneficial interest in net assets of the Foundation	-	-	5,660,355	-	1,666,718	(7,327,073)	-
Real estate held for investment	-	-	213,099	-	-	-	213,099
Investment in affiliate	-	-	-	-	68,551	-	68,551
Investment in subsidiary	9,241,539	-	-	-	-	(8,331,599)	909,940
Investment in controlled affiliates	214,087,251	-	-	-	-	(214,087,251)	-
Goodwill	-	413,532	3,082,395	-	-	-	3,495,927
Other assets	-	669,464	13,679,297	-	-	-	14,348,761
Total other noncurrent assets	223,328,790	5,500,080	166,852,250	2,529,263	3,622,003	(233,425,816)	168,406,570
Total assets	\$ 223,877,312	\$ 15,110,069	\$ 347,586,463	\$ 13,748,909	\$ 7,333,681	\$ (233,869,958)	\$ 373,786,476

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2016

(See Independent Auditors' Report)

Liabilities and Net Assets	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Current Liabilities							
Accounts payable and accrued expenses	\$ 4,450	\$ 1,388,728	\$ 17,950,644	\$ 15,533	\$ 396,334	\$ (250,000)	\$ 19,505,689
Accrued payroll and payroll taxes	-	-	11,332,462	-	-	-	11,332,462
Current portion of long-term debt	-	514,851	1,900,502	-	-	-	2,415,353
Accrued interest payable	-	-	1,054,358	-	-	-	1,054,358
Due to affiliate	-	113,959	768,999	13,837	789,070	(1,685,865)	-
Estimated third-party payor settlements, net	-	-	1,915,486	-	-	-	1,915,486
Other liabilities	-	-	-	179,610	-	-	179,610
Total current liabilities	<u>4,450</u>	<u>2,017,538</u>	<u>34,922,451</u>	<u>208,980</u>	<u>1,185,404</u>	<u>(1,935,865)</u>	<u>36,402,958</u>
Long-Term Liabilities							
Long-term debt, net	-	2,731,952	68,215,969	-	-	-	70,947,921
Due to affiliates	1,532,833	-	-	-	655,338	(2,188,171)	-
Other liabilities	-	-	8,783,907	-	-	-	8,783,907
Pension benefit liability	-	-	33,484,623	-	-	-	33,484,623
Estimated third-party payor settlements, net	-	-	7,125,130	-	-	-	7,125,130
Total long-term liabilities	<u>1,532,833</u>	<u>2,731,952</u>	<u>117,609,629</u>	<u>-</u>	<u>655,338</u>	<u>(2,188,171)</u>	<u>120,341,581</u>
Total liabilities	<u>1,537,283</u>	<u>4,749,490</u>	<u>152,532,080</u>	<u>208,980</u>	<u>1,840,742</u>	<u>(4,124,036)</u>	<u>156,744,539</u>
Net Assets							
Unrestricted	182,208,714	-	170,125,996	3,719	3,826,221	(173,955,936)	182,208,714
Temporarily restricted	16,605,654	-	5,811,777	9,612,330	1,181,547	(22,228,697)	10,982,611
Permanently restricted	23,525,661	-	19,116,610	3,923,880	485,171	(25,229,690)	21,821,632
Shareholders' Equity							
Midjersey shareholders' equity:							
Common stock	-	985,000	-	-	-	(985,000)	-
Additional paid-in capital	-	1,447,914	-	-	-	(1,447,914)	-
Retained earnings	-	5,898,685	-	-	-	(5,898,685)	-
Total Midjersey shareholders' equity	-	8,331,599	-	-	-	(8,331,599)	-
Noncontrolling interests	-	2,028,980	-	-	-	-	2,028,980
Total shareholders' equity and net assets	<u>222,340,029</u>	<u>10,360,579</u>	<u>195,054,383</u>	<u>13,539,929</u>	<u>5,492,939</u>	<u>(229,745,922)</u>	<u>217,041,937</u>
Total liabilities and net assets	<u>\$ 223,877,312</u>	<u>\$ 15,110,069</u>	<u>\$ 347,586,463</u>	<u>\$ 13,748,909</u>	<u>\$ 7,333,681</u>	<u>\$ (233,869,958)</u>	<u>\$ 373,786,476</u>

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

December 31, 2016

(See Independent Auditors' Report)

	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Revenues							
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 11,185,001	\$ 280,672,074	\$ -	\$ 7,820,641	\$ -	\$ 299,677,716
Provision for bad debts	-	(478,455)	(7,395,666)	-	(139,646)	-	(8,013,767)
Net patient service revenue less provision for bad debts	-	10,706,546	273,276,408	-	7,680,995	-	291,663,949
Other revenue	4,024,060	8,914,028	15,049,022	1,104,752	200,405	(3,702,950)	25,589,317
Net assets released from restrictions for operations	-	-	250,923	785,574	479,424	(336,499)	1,179,422
Total revenues	4,024,060	19,620,574	288,576,353	1,890,326	8,360,824	(4,039,449)	318,432,688
Expenses							
Salaries, wages, and benefits	3,276,483	5,555,795	166,060,830	774,125	4,894,671	-	180,561,904
Physician fees	-	-	6,687,342	-	-	-	6,687,342
Supplies and services	533,531	9,601,627	87,424,258	1,764,633	3,590,312	(5,539,449)	97,374,912
Interest	-	54,791	2,762,864	-	-	-	2,817,655
Depreciation and amortization	-	485,293	16,883,891	31,794	180,079	-	17,581,057
Total expenses	3,810,014	15,697,506	279,819,185	2,570,552	8,665,062	(5,539,449)	305,022,870
Operating income (loss)	214,046	3,923,068	8,757,168	(680,226)	(304,238)	1,500,000	13,409,818
Nonoperating revenues and gains, net	250,340	22,401	2,240,838	(1,500,000)	39,074	(358,494)	694,159
Equity in earnings of controlled affiliates	10,481,779	-	-	-	-	(10,481,779)	-
Equity in earnings of subsidiary	1,108,971	-	-	-	-	(1,108,971)	-
Excess (deficiency) of revenues and gains over expenses and losses before provision for taxes	12,055,136	3,945,469	10,998,006	(2,180,226)	(265,164)	(10,449,244)	14,103,977
Provision for Income Taxes							
Federal	-	(15,336)	-	-	2,260	-	(13,076)
State	-	164,353	-	-	171	-	164,524
Total provision for income taxes	-	149,017	-	-	2,431	-	151,448
Excess (deficiency) of revenues and gains over expenses and losses	12,055,136	3,796,452	10,998,006	(2,180,226)	(267,595)	(10,449,244)	13,952,529
Change in net unrealized gains (losses) on investment securities	-	-	1,919,536	-	-	-	1,919,536
Net assets released from restrictions for capital acquisitions	-	-	1,570,024	1,500,000	-	(1,500,000)	1,570,024
Pension-related changes other than net periodic pension cost	-	-	(3,057,966)	-	-	-	(3,057,966)
Net income attributable to noncontrolling interests	-	(2,328,987)	-	-	-	-	(2,328,987)
Transfer from (to) affiliate	-	-	(2,630,954)	2,010,954	620,000	-	-
Dividends paid	-	(358,494)	-	-	-	358,494	-
Increase in unrestricted net assets	\$ 12,055,136	\$ 1,108,971	\$ 8,798,646	\$ 1,330,728	\$ 352,405	\$ (11,590,750)	\$ 12,055,136

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Midjersey Health Corporation

December 31, 2016

(See Independent Auditors' Report)

Assets	Midjersey Health Corporation	Delaware Valley Office Associates	Hunterdon Imaging Associates	Hunterdon Center for Surgery, LLC	Hunterdon Medical Management, LLC	Bridgewater Surgery Center, LLC	Hunterdon Cardiovascular Health, LLC	Subtotal	Eliminations/ Reclassifications	Consolidated Total
Current Assets										
Cash and cash equivalents	\$ 4,667,235	\$ 165,432	\$ 717,256	\$ 1,514,388	\$ 465,081	\$ -	\$ 20,227	\$ 7,549,619	\$ -	\$ 7,549,619
Patient accounts receivable, net	-	-	-	903,782	-	-	-	903,782	-	903,782
Other receivables	53,252	-	334,005	-	-	-	-	387,257	-	387,257
Due from affiliates	-	16,600	-	-	136,766	-	-	153,366	-	153,366
Prepaid and other current assets	82,116	234	61,781	471,834	-	-	-	615,965	-	615,965
Total current assets	4,802,603	182,266	1,113,042	2,890,004	601,847	-	20,227	9,609,989	-	9,609,989
Investments	99,386	-	-	-	-	-	-	99,386	-	99,386
Property and equipment, net	3,452,925	47,208	225,703	672,501	18,747	-	-	4,417,084	-	4,417,084
Goodwill, net	-	-	-	413,532	-	-	-	413,532	-	413,532
Other assets	570,078	-	-	-	-	-	-	570,078	-	570,078
Total assets	<u>\$ 8,924,992</u>	<u>\$ 229,474</u>	<u>\$ 1,338,745</u>	<u>\$ 3,976,037</u>	<u>\$ 620,594</u>	<u>\$ -</u>	<u>\$ 20,227</u>	<u>\$ 15,110,069</u>	<u>\$ -</u>	<u>\$ 15,110,069</u>
Liabilities and Shareholders' Equity										
Current Liabilities										
Accounts payable and accrued expenses	\$ 201,929	\$ 3,157	\$ 94,543	\$ 654,587	\$ 419,443	\$ -	\$ 15,069	\$ 1,388,728	\$ -	\$ 1,388,728
Current portion of long-term debt	-	-	-	514,851	-	-	-	514,851	-	514,851
Due to affiliates	35,599	-	78,360	-	-	-	-	113,959	-	113,959
Total current liabilities	237,528	3,157	172,903	1,169,438	419,443	-	15,069	2,017,538	-	2,017,538
Long-term debt	2,731,952	-	-	-	-	-	-	2,731,952	-	2,731,952
Total liabilities	2,969,480	3,157	172,903	1,169,438	419,443	-	15,069	4,749,490	-	4,749,490
Shareholders' Equity										
Midjersey shareholders' equity:										
Common stock	985,000	15,400	300,000	1,020,000	242,656	-	20,145	2,583,201	(1,598,201)	985,000
Additional paid-in capital	1,447,914	-	-	-	-	-	-	1,447,914	-	1,447,914
Retained earnings	3,522,598	177,977	477,252	184,360	(41,505)	-	(20,198)	4,300,484	1,598,201	5,898,685
Total Midjersey shareholders' equity	5,955,512	193,377	777,252	1,204,360	201,151	-	(53)	8,331,599	-	8,331,599
Noncontrolling Interests	-	32,940	388,590	1,602,239	-	-	5,211	2,028,980	-	2,028,980
Total equity	5,955,512	226,317	1,165,842	2,806,599	201,151	-	5,158	10,360,579	-	10,360,579
Total liabilities and shareholders' equity	<u>\$ 8,924,992</u>	<u>\$ 229,474</u>	<u>\$ 1,338,745</u>	<u>\$ 3,976,037</u>	<u>\$ 620,594</u>	<u>\$ -</u>	<u>\$ 20,227</u>	<u>\$ 15,110,069</u>	<u>\$ -</u>	<u>\$ 15,110,069</u>

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Midjersey Health Corporation

December 31, 2016

(See Independent Auditors' Report)

	Midjersey Health Corporation	Delaware Valley Office Associates	Hunterdon Imaging Associates	Hunterdon Center for Surgery, LLC	Hunterdon Medical Management, LLC	Bridgewater Surgery Center, LLC	Hunterdon Cardiovascular Health, LLC	Subtotal	Eliminations/ Reclassifications	Consolidated Total
Revenues										
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ -	\$ -	\$ 11,185,001	\$ -	\$ -	\$ -	\$ 11,185,001	\$ -	\$ 11,185,001
Provision for bad debts	-	-	-	(478,455)	-	-	-	(478,455)	-	(478,455)
Net patient service revenue less provision for bad debts	-	-	-	10,706,546	-	-	-	10,706,546	-	10,706,546
Other revenue	1,373,029	146,117	4,124,821	13,069	3,352,765	-	-	9,009,801	(95,773)	8,914,028
Total revenues	1,373,029	146,117	4,124,821	10,719,615	3,352,765	-	-	19,716,347	(95,773)	19,620,574
Expenses										
Salaries and benefits	281,049	-	-	2,810,112	2,464,634	-	-	5,555,795	-	5,555,795
Supplies and services	2,308,283	71,005	1,266,975	5,172,001	879,136	-	-	9,697,400	(95,773)	9,601,627
Interest	20,580	-	-	34,211	-	-	-	54,791	-	54,791
Depreciation and amortization	157,233	17,656	(69,174)	371,631	7,947	-	-	485,293	-	485,293
Total expenses	2,767,145	88,661	1,197,801	8,387,955	3,351,717	-	-	15,793,279	(95,773)	15,697,506
Income (loss) from operations	(1,394,116)	57,456	2,927,020	2,331,660	1,048	-	-	3,923,068	-	3,923,068
Change in value of derivatives	-	-	-	22,401	-	-	-	22,401	-	22,401
Income (loss) before provision for income taxes	(1,394,116)	57,456	2,927,020	2,354,061	1,048	-	-	3,945,469	-	3,945,469
Provision for income taxes										
Federal	(15,336)	-	-	-	-	-	-	(15,336)	-	(15,336)
State	164,353	-	-	-	-	-	-	164,353	-	164,353
Total provision for income taxes	149,017	-	-	-	-	-	-	149,017	-	149,017
Net income (loss)	(1,543,133)	57,456	2,927,020	2,354,061	1,048	-	-	3,796,452	-	3,796,452
Less: Net income attributable to the noncontrolling interests	-	(11,599)	(975,575)	(1,341,813)	-	-	-	(2,328,987)	-	(2,328,987)
Net income (loss) attributable to Midjersey	(1,543,133)	45,857	1,951,445	1,012,248	1,048	-	-	1,467,465	-	1,467,465
Transfer from affiliate	-	-	-	-	-	-	-	-	-	-
Dividends paid	(358,494)	-	-	-	-	-	-	(358,494)	-	(358,494)
Increase (decrease) in shareholders' equity	\$ (1,901,627)	\$ 45,857	\$ 1,951,445	\$ 1,012,248	\$ 1,048	\$ -	\$ -	\$ 1,108,971	\$ -	\$ 1,108,971

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Hunterdon Regional Community Health, Inc.

December 31, 2016

(See Independent Auditors' Report)

Assets	Hunterdon Regional Community Health, Inc.	Hunterdon Hospice, Inc.	Visiting Health and Supportive Services, Inc.	Hunterdon Regional Pharmacy	Hunterdon Community Care	Briteside Adult Daycare	Subtotal	Eliminations	Consolidated Balance
Current Assets									
Cash and cash equivalents	\$ 712,214	\$ 525,415	\$ 216,704	\$ 148,213	\$ 104,497	\$ 45,475	\$ 1,752,518	\$ -	\$ 1,752,518
Investments	-	-	-	-	-	431,735	431,735	-	431,735
Accounts receivable, net	1,487	669,984	130,491	148,011	2,240	13,521	965,734	-	965,734
Due from affiliates	438,715	-	48,049	7,057	-	855	494,676	(494,676)	-
Inventories	5,178	-	-	506,703	-	-	511,881	-	511,881
Prepaid assets	-	(1,136)	(17,887)	68,246	-	587	49,810	-	49,810
Total current assets	1,157,594	1,194,263	377,357	878,230	106,737	492,173	4,206,354	(494,676)	3,711,678
Investment in Affiliate									
Investment in affiliate	64,000	-	-	-	68,551	-	132,551	(64,000)	68,551
Beneficial interest in net assets of Hunterdon Medical Center Foundation, Inc.	956,153	394,072	190,306	-	-	126,187	1,666,718	-	1,666,718
Property and equipment, net	1,359,392	4,735	1,370	941	-	520,296	1,886,734	-	1,886,734
Total assets	\$ 3,537,139	\$ 1,593,070	\$ 569,033	\$ 879,171	\$ 175,288	\$ 1,138,656	\$ 7,892,357	\$ (558,676)	\$ 7,333,681
Liabilities and Net Assets									
Current Liabilities									
Accounts payable and accrued expenses	\$ 20,475	\$ 206,734	\$ 29,101	\$ 83,777	\$ 10,381	\$ 45,866	\$ 396,334	\$ -	\$ 396,334
Due to affiliates	188,123	221,074	282,903	541,914	-	49,732	1,283,746	(494,676)	789,070
Total current liabilities	208,598	427,808	312,004	625,691	10,381	95,598	1,680,080	(494,676)	1,185,404
Due to Affiliates									
Total liabilities	-	-	-	655,338	-	-	655,338	-	655,338
Total liabilities	208,598	427,808	312,004	1,281,029	10,381	95,598	2,335,418	(494,676)	1,840,742
Net Assets (Deficit)									
Unrestricted/shareholders' equity	2,372,388	771,190	66,723	(401,858)	164,907	916,871	3,890,221	(64,000)	3,826,221
Temporarily restricted	756,153	212,930	86,277	-	-	126,187	1,181,547	-	1,181,547
Permanently restricted	200,000	181,142	104,029	-	-	-	485,171	-	485,171
Total net assets (deficit)	3,328,541	1,165,262	257,029	(401,858)	164,907	1,043,058	5,556,939	(64,000)	5,492,939
Total liabilities and net assets	\$ 3,537,139	\$ 1,593,070	\$ 569,033	\$ 879,171	\$ 175,288	\$ 1,138,656	\$ 7,892,357	\$ (558,676)	\$ 7,333,681

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Hunterdon Regional Community Health, Inc.
 December 31, 2016
 (See Independent Auditors' Report)

	Hunterdon Regional Community Health, Inc.	Hunterdon Hospice, Inc.	Visiting Health and Supportive Services, Inc.	Hunterdon Regional Pharmacy	Hunterdon Community Care	Briteside Adult Daycare	Subtotal	Eliminations	Consolidated Balance
Change in Unrestricted Net Assets									
Revenue:									
Patient service revenue (net of contractual allowances and discounts)	\$ 190,935	\$ 3,183,731	\$ 1,658,654	\$ 2,965,178	\$ 6,580	\$ 302,581	\$ 8,307,659	\$ (487,018)	\$ 7,820,641
Provision for bad debts	-	(130,648)	(6,961)	-	-	(2,037)	(139,646)	-	(139,646)
Net patient service revenue less provisions for bad debts	190,935	3,053,083	1,651,693	2,965,178	6,580	300,544	8,168,013	(487,018)	7,680,995
Other revenue	2	-	34,180	57,187	6,047	102,989	200,405	-	200,405
Net assets released from restrictions for operations	79,472	219,314	90,672	-	-	89,966	479,424	-	479,424
Total revenue	270,409	3,272,397	1,776,545	3,022,365	12,627	493,499	8,847,842	(487,018)	8,360,824
Expenses									
Salaries and benefits	285,890	2,173,756	1,668,522	308,138	-	458,365	4,894,671	-	4,894,671
Supplies and services	91,979	751,534	421,766	2,661,895	8,399	141,757	4,077,330	(487,018)	3,590,312
Depreciation	145,427	5,680	-	1,876	-	27,096	180,079	-	180,079
Total expenses	523,296	2,930,970	2,090,288	2,971,909	8,399	627,218	9,152,080	(487,018)	8,665,062
Operating (loss) income	(252,887)	341,427	(313,743)	50,456	4,228	(133,719)	(304,238)	-	(304,238)
Nonoperating Revenues and Gains									
Nonoperating revenues and gains, net	711	-	312	-	-	38,051	39,074	-	39,074
Provision for income taxes	-	-	-	(2,000)	(431)	-	(2,431)	-	(2,431)
(Deficiency) excess of revenues over expenses	(252,176)	341,427	(313,431)	48,456	3,797	(95,668)	(267,595)	-	(267,595)
Transfer from Affiliate	-	-	620,000	-	-	-	620,000	-	620,000
Increase (decrease) in unrestricted net assets	\$ (252,176)	\$ 341,427	\$ 306,569	\$ 48,456	\$ 3,797	\$ (95,668)	\$ 352,405	\$ -	\$ 352,405

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Hunterdon Medical Center and Affiliates

December 31, 2016

(See Independent Auditors' Report)

Assets	Hunterdon Medical Center	Hunterdon Primary Care, P.C.	Hunterdon Specialty Care, P.C.	Hunterdon Urgent Care, P.C.	Subtotal	Eliminations	Consolidated Balances
Current Assets							
Cash and cash equivalents	\$ 34,778,074	\$ 1,298,160	\$ 575,285	\$ 29,199	\$ 36,680,718	\$ -	\$ 36,680,718
Short-term investments	47,450,745	-	-	-	47,450,745	-	47,450,745
Patient accounts receivable, net	20,572,907	3,382,083	3,109,785	336,843	27,401,618	-	27,401,618
Assets whose use is limited	1,016,331	-	-	-	1,016,331	-	1,016,331
Inventories	1,533,740	-	-	-	1,533,740	-	1,533,740
Other receivables	1,180,632	2,056	-	-	1,182,688	-	1,182,688
Prepaid expenses and other current assets	3,452,098	-	-	-	3,452,098	-	3,452,098
Total current assets	109,984,527	4,682,299	3,685,070	366,042	118,717,938	-	118,717,938
Assets whose use is limited (exclusive of current position):							
Board-designated funds	44,844,878	-	-	-	44,844,878	-	44,844,878
Donor-restricted assets	17,171,397	-	-	-	17,171,397	-	17,171,397
Total assets whose use is limited, net	62,016,275	-	-	-	62,016,275	-	62,016,275
Other Noncurrent Assets							
Due from affiliates	2,265,270	-	-	-	2,265,270	-	2,265,270
Property and equipment, net	139,855,198	-	-	-	139,855,198	-	139,855,198
Beneficial interest in trusts	2,096,636	-	-	-	2,096,636	-	2,096,636
Beneficial interest in net assets of the Foundation	5,660,355	-	-	-	5,660,355	-	5,660,355
Real estate held for investment	213,099	-	-	-	213,099	-	213,099
Goodwill	3,082,395	-	-	-	3,082,395	-	3,082,395
Other assets	13,679,297	-	-	-	13,679,297	-	13,679,297
Total other noncurrent assets	166,852,250	-	-	-	166,852,250	-	166,852,250
Total assets	\$ 338,853,052	\$ 4,682,299	\$ 3,685,070	\$ 366,042	\$ 347,586,463	\$ -	\$ 347,586,463
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 17,660,829	\$ 289,815	\$ -	\$ -	\$ 17,950,644	\$ -	\$ 17,950,644
Accrued payroll and payroll taxes	9,208,840	1,041,272	1,082,350	-	11,332,462	-	11,332,462
Current portion of long-term debt and capital leases	1,900,502	-	-	-	1,900,502	-	1,900,502
Estimated third-party payor settlements	1,915,486	-	-	-	1,915,486	-	1,915,486
Due to affiliates	(14,282,155)	4,128,805	9,634,480	1,287,869	768,999	-	768,999
Accrued interest payable	1,054,358	-	-	-	1,054,358	-	1,054,358
Total current liabilities	17,457,860	5,459,892	10,716,830	1,287,869	34,922,451	-	34,922,451
Estimated third-party payor settlements, net	7,125,130	-	-	-	7,125,130	-	7,125,130
Long-term debt and capital leases, net	68,215,969	-	-	-	68,215,969	-	68,215,969
Pension liability	33,484,623	-	-	-	33,484,623	-	33,484,623
Other liabilities	8,783,907	-	-	-	8,783,907	-	8,783,907
Total liabilities	135,067,489	5,459,892	10,716,830	1,287,869	152,532,080	-	152,532,080
Net Assets (Deficit)							
Unrestricted	178,857,176	(777,593)	(7,031,760)	(921,827)	170,125,996	-	170,125,996
Temporarily restricted	5,811,777	-	-	-	5,811,777	-	5,811,777
Permanently restricted	19,116,610	-	-	-	19,116,610	-	19,116,610
Total net assets (deficit)	203,785,563	(777,593)	(7,031,760)	(921,827)	195,054,383	-	195,054,383
Total liabilities and net assets	\$ 338,853,052	\$ 4,682,299	\$ 3,685,070	\$ 366,042	\$ 347,586,463	\$ -	\$ 347,586,463

Hunterdon Healthcare System, Inc. and Affiliates

 Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Hunterdon Medical Center and Affiliates
 December 31, 2016
 (See Independent Auditors' Report)

	Hunterdon Medical Center	Hunterdon Primary Care, P.C.	Hunterdon Specialty Care, P.C.	Hunterdon Urgent Care, P.C.	Subtotal	Consolidated Balances
Revenues						
Patient service revenue (net of contractual allowances and discounts)	\$ 243,833,708	\$ 20,525,442	\$ 15,744,703	\$ 568,221	\$ 280,672,074	\$ 280,672,074
Less provision for bad debts	(7,392,986)	(970)	(1,710)	-	(7,395,666)	(7,395,666)
Net patient service revenue less provision for bad debts	236,440,722	20,524,472	15,742,993	568,221	273,276,408	273,276,408
Other revenue	12,911,613	2,059,616	77,793	-	15,049,022	15,049,022
Net assets released from restrictions	250,923	-	-	-	250,923	250,923
Total revenues	249,603,258	22,584,088	15,820,786	568,221	288,576,353	288,576,353
Expenses						
Salaries and benefits	145,350,615	8,402,997	12,307,218	-	166,060,830	166,060,830
Physicians' fees	6,687,342	-	-	-	6,687,342	6,687,342
Supplies and services	60,422,672	14,965,940	10,545,590	1,490,056	87,424,258	87,424,258
Depreciation and amortization	16,883,891	-	-	-	16,883,891	16,883,891
Interest	2,762,864	-	-	-	2,762,864	2,762,864
Total expenses	232,107,384	23,368,937	22,852,808	1,490,056	279,819,185	279,819,185
Operating income (loss)	17,495,874	(784,849)	(7,032,022)	(921,835)	8,757,168	8,757,168
Nonoperating Revenues and Gains (Losses)						
Interest and dividend income	1,582,913	7,256	262	8	1,590,439	1,590,439
Net realized gains on investments	517,090	-	-	-	517,090	517,090
Change in value of derivative financial instruments	144,342	-	-	-	144,342	144,342
Loss (gain) on sale of assets	(11,033)	-	-	-	(11,033)	(11,033)
Total nonoperating revenues and gains (losses), net	2,233,312	7,256	262	8	2,240,838	2,240,838
Excess (deficiency) of revenues and gains over expenses and losses	19,729,186	(777,593)	(7,031,760)	(921,827)	10,998,006	10,998,006
Change in Net Unrealized Gains and Losses on Investments, Other Than Trading Securities						
	1,919,536	-	-	-	1,919,536	1,919,536
Net Transfers to Affiliates						
	(2,630,954)	-	-	-	(2,630,954)	(2,630,954)
Pension-related Changes Other Than Net Periodic Pension Cost						
	(3,057,966)	-	-	-	(3,057,966)	(3,057,966)
Net Assets Released from Restrictions for Capital Acquisitions						
	1,570,024	-	-	-	1,570,024	1,570,024
Increase (decrease) in unrestricted net assets	\$ 17,529,826	\$ (777,593)	\$ (7,031,760)	\$ (921,827)	8,798,646	\$ 8,798,646