Englewood Hospital and Medical Center and Subsidiaries

Consolidated Financial Statements

December 31, 2017 and 2016

BAKER TILLY

Candor. Insight. Results.

Independent Auditors' Report

The Board of Trustees
Englewood Hospital and Medical Center

We have audited the accompanying consolidated financial statements of Englewood Hospital and Medical Center and Subsidiaries, (the "Medical Center") which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Englewood Hospital and Medical Center and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
April 25, 2018

Englewood Hospital and Medical Center and Subsidiaries

Consolidated Balance Sheet
December 31, 2017 and 2016

	2017	2016
	(In Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$ 54,315	$ 47,470
Short-term investments	37,461	28,308
Patient accounts receivable, net of estimated uncollectibles of $49,930 and $44,054 in 2017 and 2016, respectively	68,951	62,133
Other receivables	5,020	4,704
Inventories	13,424	11,857
Prepaid expenses and deposits	10,144	8,831
Due from affiliates	-	1,215
Total current assets	189,315	164,518
Assets limited as to use, net of current portion	28,819	40,091
Property, plant and equipment, net	310,104	289,906
Due from affiliates	1,758	684
Interest in net assets of Englewood Hospital and Medical Center Foundation, Inc.	61,970	53,097
Other assets	14,266	13,384
Total assets	$ 606,232	$ 561,680
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 50,505	$ 47,346
Accrued expenses and other current liabilities	39,901	32,613
Due to affiliates	1,331	-
Current portion of estimated amounts due to third-party payors	3,585	3,585
Current portion of long-term debt and capital lease obligations	30,181	26,226
Total current liabilities	125,503	109,770
Accrued pension and postretirement benefit liability	28,706	32,089
Estimated amounts due to third-party payors, net of current portion	30,779	26,318
Long-term debt and capital lease obligations, net of current portion	164,383	181,034
Other liabilities	11,976	11,212
Total liabilities	361,347	360,423
Net Assets		
Unrestricted	182,915	148,160
Temporarily restricted	58,846	49,973
Permanently restricted	3,124	3,124
Total net assets	244,885	201,257
Total liabilities and net assets	$ 606,232	$ 561,680

See notes to financial statements

Englewood Hospital and Medical Center and Subsidiaries

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

	2017	2016
	(In Thousands)	
Operating Revenue		
Net patient service revenue	$ 644,067	$ 579,295
Provision for doubtful collections	(28,181)	(26,506)
Net patient service revenue less provision for doubtful collections	615,886	552,789
Other Revenue	13,968	12,030
Total operating revenue	629,854	564,819
Operating Expenses		
Salaries and wages	199,895	172,363
Fringe benefits	42,260	41,653
Physician fees	2,543	3,455
Supplies and other	313,779	290,008
Interest	7,403	7,156
Depreciation and amortization	31,505	31,033
Total operating expenses	597,385	545,668
Revenue in excess of expenses	32,469	19,151

Continued on next page.

Englewood Hospital and Medical Center and Subsidiaries

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

	2017	2016
	(In Thousands)	
Revenue in excess of expenses (from previous page)	$ 32,469	$ 19,151
Net change in unrealized gains on investments	(14)	(24)
Contribution from Englewood Hospital and Medical Center Foundation, Inc. for capital purposes	171	2,793
Change in pension and postretirement benefit liabilities	2,129	10,260
Change in unrestricted net assets	34,755	32,180
Temporarily Restricted Net Assets		
Change in interest in net assets of Englewood Hospital and Medical Center Foundation, Inc.	8,873	11,218
Change in temporarily restricted net assets	8,873	11,218
Change in Net Assets	43,628	43,398
Net Assets at Beginning of the Year	201,257	157,859
Net Assets at End of Year	$ 244,885	$ 201,257

See notes to financial statements

Englewood Hospital and Medical Center and Subsidiaries

Consolidated Statement of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
	(In Thousands)	
Cash Flows from Operating Activities		
Change in net assets	$ 43,628	$ 43,398
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution from Englewood Hospital and Medical Center Foundation, Inc. for capital purposes	(171)	(2,793)
Depreciation and amortization	31,505	31,033
Net change in unrealized gains and losses on investments	14	24
Increase in interest in net assets of Englewood Hospital and Medical Center Foundation, Inc.	(8,873)	(11,218)
Gain on sale of property and equipment	9	-
Change in pension and postretirement benefit liabilities	(2,129)	(10,260)
Changes in operating assets and liabilities:		
Patient accounts receivable, including provision for doubtful collections of $ 28,181 and $26,506 as of December 31, 2017 and 2016, respectively	(6,818)	(7,061)
Inventories	(1,567)	(1,814)
Other receivables, prepaid expenses and deposits and other assets	(2,511)	4,115
Due from affiliates, net	1,472	(648)
Estimated amounts due to third-party payors	4,461	(2,246)
Accounts payable, accrued expenses and other liabilities	11,211	7,747
Accrued pension costs	(1,254)	3,644
Net cash provided by operating activities	68,977	53,921
Cash Flows from Investing Activities		
Net purchases of property and equipment	(36,953)	(4,692)
Change in in assets limited as to use	11,272	(23,248)
Change in short-term investments, net	(9,167)	(16,695)
Net cash used in investing activities	(34,848)	(44,635)
Cash Flows from Financing Activities		
Principal payments on long-term debt and capital lease obligations	(27,455)	(19,505)
Proceeds from issuance of long-term debt	-	10,270
Contribution from Englewood Hospital and Medical Center Foundation, Inc. for capital purposes	171	2,793
Net cash used in financing activities	(27,284)	(6,442)
Net Increase in Cash and Cash Equivalents	6,845	2,848
Cash and Cash Equivalents at Beginning of Year	47,470	44,622
Cash and Cash Equivalents at End of Year	$ 54,315	$ 47,470
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of amount capitalized	$ 7,142	$ 6,925
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Assets acquired under capital leases	$ 14,429	$ 38,479

See notes to financial statements

1. Organization and Summary of Significant Accounting Policies

Englewood Hospital and Medical Center (the "Medical Center") is a not-for-profit, teaching, tax-exempt, acute care hospital with 531 licensed beds located in Englewood, New Jersey established and operated for the delivery and promotion of healthcare. It is operated to serve the public rather than private interests. To further this purpose, the Medical Center provides various programs for medical training, research and education, in addition to programs established to improve the health of the community.

Englewood Healthcare System (the "System") is the parent corporation of the Medical Center. Its purpose is the performance of planning activities related to the promotion of health of people within the System's service area. The System's Board of Trustees consists of, among others, certain officers of the Medical Center.

The System is also the parent corporation of Englewood Healthcare Enterprises, Inc., Englewood Healthcare Properties, Inc. and Englewood Hospital and Medical Center Foundation, Inc. (the "Foundation"). The Foundation was organized to raise funds for the Medical Center.

The following items comprise the significant accounting policies which are followed by the Medical Center.

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Medical Center, Englewood Medical Associates, Inc. ("EMA"), a not-for-profit corporation and wholly-owned subsidiary of the Medical Center, which provides physician services to the Medical Center and Medical Associates of Englewood, P.C., doing business as MD Partners of Englewood Hospital and Medical Center ("MD Partners"), Physician Partners of Englewood, P.C. ("PPE"), Emergency Physicians of Englewood, P.C. ("EPE"), and Englewood Health Alliance ACO ("ACO"), all not-for-profit corporations which meet the criteria of consolidation with the Medical Center. MD Partners, PPE and EPE were incorporated for the purpose of establishing relationships with physician practices. All significant intercompany balances have been eliminated in consolidation.

Classification of Net Assets

The Medical Center separately accounts for and reports upon donor restricted and unrestricted net assets. Temporarily restricted net assets are those whose use is temporarily restricted by the donor. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity. Resources arising from the results of operations or net assets set aside by the Board of Trustees are not considered to be donor restricted.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

The Medical Center recognizes its interest in the net assets of the Foundation. Contributions to unrestricted net assets from the Foundation are recorded in the consolidated statement of operations and changes in net assets as a component of other revenue. Changes in the Medical Center's interest in the Foundation's temporarily and permanently restricted net assets are included in the accompanying consolidated statement of operations and changes in net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Medical Center classifies as cash equivalents all highly liquid financial instruments with maturities of three months or less when purchased, which are not deemed to be assets limited as to use or short-term investments.

Patient Accounts Receivable/Allowance for Doubtful Accounts

Patient accounts receivable result from health care services provided by the Medical Center, EMA, MD Partners, PPE and EPE. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. Additions to the allowance for doubtful accounts result from the provision for doubtful collections. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

Assets Limited as to Use and Short-Term Investments

Assets limited as to use and short-term investments consist of cash equivalents, money market funds, certificates of deposit, U.S. government obligations and other fixed income securities. Investment securities are carried at fair value based on quoted market prices. Amounts reported within assets limited as to use represent investments whose use is restricted under terms of the Medical Center's mortgage loan agreement (see Note 8).

Investment income and realized gains or losses on investment transactions are recorded as other revenue unless temporarily restricted. The Medical Center's investments (see Note 4) are classified as other than trading. As such, unrealized gains and losses that are considered temporary are excluded from revenue in excess of expenses.

Investment income and realized gains or losses on temporarily restricted funds are available for unrestricted purposes, these amounts are included in other revenue.

Inventories

Inventories are recorded at the lower of cost or market. The cost of inventories is determined on a first-in, first-out basis.

Investment in Joint Venture

The Medical Center holds two investments in joint ventures in which it maintains various percentages of ownership. Approximately $6.3 million and $6.0 million, respectively, were recorded within other assets on the consolidated balance sheet as of December 31, 2017 and 2016.

Deferred Costs

Deferred costs include costs incurred in connection with debt financing and refinancing and are amortized by the effective interest method over the period the applicable obligation is outstanding. Accumulated amortization totaled approximately $3.6 million and $3.2 million at December 31, 2017 and 2016, respectively. Amortization expense was approximately $330,000 and $344,000 during 2017 and 2016, respectively.

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at appraised or fair value established at the date of contribution. The carrying amount of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Equipment under capitalized lease obligations and leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the asset or lease term. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements.

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounts from charges and per diem payments. Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Revenue in Excess of Expenses

The consolidated statement of operations and changes in net assets include revenue in excess of expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include net change in unrealized gains and losses on investments, contributions for capital purposes and the change in pension and postretirement benefit liabilities.

Estimated Malpractice Costs

The Medical Center is insured for medical malpractice claims under a claims-made policy and excess loss policies. The Medical Center records an estimated liability for medical malpractice costs related to reported claims, and incurred claims that have not been reported. Anticipated insurance recoveries associated with reported claims are reported separately in the Medical Center’s balance sheet at net realizable value.

Income Taxes

The Medical Center is a not-for-profit organization described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code. The Medical Center also is exempt from state income taxes.

The Medical Center and consolidated entities qualify as a tax-exempt organization under the Code, and accordingly, no provision for income taxes with respect to these entities has been made in the accompanying financial statements.

The Medical Center accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2017 and 2016.

New Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 Medical Center will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2018; early application is not permitted. The Medical Center has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

Lease Accounting

In February 2016, 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 balance sheet 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 balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the entity’s leasing activities. The Medical Center will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. The Medical Center has not yet determined the impact of adoption of ASU No. 2016-02 on its financial statements.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. ASU No. 2016-01 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Early adoption of certain amendments is permitted for financial statements of fiscal years or interim periods that have not yet been issued. The Medical Center is currently assessing the effect that ASU No. 2016-01 will have on its results of operations, financial position and cash flows.

Not for Profit Reporting

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 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 Medical Center has not yet determined the impact of this standard on its financial statements.

Pension Reporting

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. ASU No. 2017-07 requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost will be required to be presented in the statement of operations separately from the service cost component and outside of operating income. The Medical Center will be required to adopt the guidance in ASU No. 2017-07 for fiscal years beginning after December 15, 2018. The Medical Center has not yet determined the impact of this standard on its financial statements.

2. Charity Care and Community Benefit

In accordance with its mission and philosophy, the Medical Center commits substantial resources to sponsor a broad range of services to both the indigent as well as the broader community. Community benefits provided to the indigent include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of: traditional charity care; unpaid costs of care provided to beneficiaries of Medicare and Medicaid and other indigent public programs.

Charity care is provided by the Medical Center to patients who meet certain criteria defined by the New Jersey Department of Health ("DOH") without charge or at amounts less than established rates. The Medical Center reduces net revenues in accordance with these criteria. The Medical Center's records identify and monitor the level of charity care it provides.

Community benefits provided to the broader community include the costs of providing services to other populations who may not qualify as indigent but may need special services and support. This type of community benefit includes the costs of: services such as health promotion and education and health screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

A summary of the estimated cost of community benefits provided to both the indigent and the broader community follows:

	December 31	
	2017	2016
	(In Thousands)	
Community benefits provided to the indigent:		
Financial assistance, which includes charity care and uninsured discounts provided	$ 20,016	$ 18,452
Unpaid cost of public programs, Medicaid and other indigent care programs	18,589	16,744
Community benefits to the broader community:		
Non-billed services for the community	1,673	1,528
Education and research provided for the community	12,818	11,708
Subsidized health services	47,301	41,889
Estimated cost of community benefits	$ 100,397	$ 90,321

The 2017 amounts are estimated while the 2016 amounts are based on the Medical Center’s Form 990 as filed with the Internal Revenue Service.

The costs of charity care and other community benefit activities are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Medical Center's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

The Medical Center receives payments from the New Jersey Health Care Subsidy Funds for charity care and such amounts totaled approximately $655,000 and $489,000 for the years ended December 31, 2017 and 2016, respectively. This amount is subject to change from year to year based on available State amounts and allocation methodologies. Charity care subsidies and distributions subsequent to June 30, 2017 are presently unknown.

3. Hospital Reimbursement System

The Medical Center has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of the Medical Center have been audited and settled for years through 2014 at December 31, 2017, with the exception of the 2010 report which remains open at December 31, 2017.

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The Medical Center is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. Medicaid cost reports of the Medical Center have been audited and settled for years through 2014 at December 31, 2017.

Other Third-Party Payors

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

The Medical Center 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 Medical Center recognizes revenues on the basis of its standard rates, discounted in accordance with the Medical Center’s policy. On the basis of historical experience, a significant portion of the Medical Center’s uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision of bad debts related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for doubtful collections), recognized in 2017 and 2016 from these major payor sources, are as follows (in thousands):

	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
December 31, 2017				
Patient service revenue (net of contractual allowances and discounts)	$ 266,420	$ 357,542	$ 20,105	$ 644,067
December 31, 2016				
Patient service revenue (net of contractual allowances and discounts)	$ 241,837	$ 318,256	$ 19,202	$ 579,295

For the years ended December 31, 2017 and 2016, net patient service revenue was increased by approximately $5,091,000 and $10,906,000, respectively, for favorable adjustments and settlements related to prior years.

Revenue from the Medicare and Medicaid programs accounted for approximately 41% and 42% of the Medical Center's net patient service revenue for the years ended December 31, 2017 and 2016, respectively.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Medical Center.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on its financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

4. Investments and Assets Limited as to Use

The composition and reported value of short-term investments and assets limited as to use consist of the following:

	December 31	
	2017	2016
	(In Thousands)	
Short-term investments:		
Cash and cash equivalents, money market funds, certificates of deposit and other	$ 22,051	$ 15,217
U.S. Government obligations and other fixed income securities	15,410	13,091
Short-term investments	$ 37,461	$ 28,308
Assets limited as to use,		
U.S. Government obligations and other fixed income securities	$ 13,461	$ 12,151
Proceeds available under lease agreements	15,358	27,940
Total assets limited as to use	$ 28,819	$ 40,091

Assets limited as to use are maintained for the following purposes:

	December 31	
	2017	2016
	(In Thousands)	
Mortgage reserve fund	$ 13,461	$ 12,151
Proceeds available under lease agreements	15,358	27,940
Total assets limited as to use	$ 28,819	$ 40,091

Assets limited as to use are held by a trustee in a mortgage reserve fund under terms of the Medical Center’s mortgage loan agreement (see Note 8).

For the years ended December 31, 2017 and 2016, investment income, which consists primarily of interest income on short-term investments and assets limited as to use, totaled approximately $451,000 and $187,000, respectively, and is included in other revenue in the accompanying consolidated statement of operations and changes in net assets.

5. Fair Value Measurements

The Medical Center follows the provisions of authoritative guidance relating to fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. 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 this 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 Medical Center 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 is 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.

Financial assets carried at fair value, excluding assets in the defined benefit pension plan, are classified in the table below in one of the three categories described above:

	December 31, 2017				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(In Thousands)		
Reported at fair value					
Cash and cash equivalents	$ 171	$ 171	$ 171	$ -	$ -
Money market funds and certificates of deposit	22,172	22,172	22,172	-	-
U.S. Government obligations	13,671	13,671	13,671	-	-
Mortgage-backed securities	14,908	14,908	-	14,908	-
Disclosed at fair value					
Cash and cash equivalents	$ 54,315	$ 54,315	$ 54,315	$ -	$ -
Long-term debt (excluding capital leases and capital loan)	131,954	133,682	-	133,682	-

	December 31, 2016				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)				
Reported at fair value					
Cash and cash equivalents	$ 999	$ 999	$ 999	$ -	$ -
Money market funds and certificates of deposit	14,669	14,669	14,669	-	-
U.S. Government obligations	13,143	13,143	13,143	-	-
Mortgage-backed securities	11,648	11,648	-	11,648	-
Disclosed at fair value					
Cash and cash equivalents	$ 47,470	$ 47,470	$ 47,470	$ -	$ -
Long-term debt (excluding capital leases and capital loan)	137,519	140,205	-	140,205	-

The following methods and assumptions were used by the Medical Center in estimating fair value disclosures for financial statements:

Cash and cash equivalents, money market funds and certificates of deposit - The carrying amount of cash and cash equivalents, money market funds, and certificates of deposit, including cash balances reported in assets whose use is limited, approximates fair value due to the short-term nature of these instruments.

Assets whose use is limited - The fair values for U.S. Government obligations and mortgage-backed securities included in assets whose use is limited are based on quoted market prices for identical (Level 1) or similar investments (Level 2).

Long-Term Debt Obligation - The fair value of long-term debt is based on quoted market prices or estimates using discounted cash flow analyses, based on the participating institution's incremental borrowing rates for similar types of borrowing arrangements.

It is not practical to estimate the fair value of amounts due from (to) affiliates and related parties since terms could not be duplicated in the market and related parties can revise terms making assumptions supporting fair values potentially unreliable.

6. Property, Plant and Equipment

A summary of property, plant and equipment follows:

	December 31 2017	December 31 2016
	(In Thousands)	
Depreciable assets:		
Land improvements	$ 1,643	$ 1,643
Buildings	193,567	193,486
Fixed equipment	200,828	190,239
Major movable equipment	269,491	254,985
	665,529	640,353
Less accumulated depreciation and amortization	397,045	365,916
	268,484	274,437
Non-depreciable assets:		
Land	181	181
Construction in progress	41,248	14,347
Deposits on equipment	191	941
	41,620	15,469
Property, plant and equipment, net	$ 310,104	$ 289,906

Included in major movable equipment and accumulated depreciation are the following:

	December 31 2017	December 31 2016
	(In Thousands)	
Assets acquired under capital leases	$ 66,531	$ 57,833
Accumulated depreciation on assets acquired under capital leases	27,770	18,714

Substantially all property, plant and equipment is collateralized under long-term debt agreements (see Note 8).

Depreciation expense related to property and equipment amounted to approximately $31.1 million and $30.7 million in 2017 and 2016, respectively.

The Medical Center capitalizes interest on construction in progress. During 2017 and 2016, approximately $258,000 and $227,000, respectively, of net interest income was capitalized.

7. Due from Affiliates

Amounts due from affiliates were as follows:

	December 31	
	2017	2016
	(In Thousands)	
Englewood Healthcare Properties	$ 1,758	$ 705
Englewood Healthcare System	285	284
Englewood Healthcare Enterprises, Inc.	(1,728)	97
Englewood Hospital and Medical Center Foundation	112	813
Due from affiliates	$ 427	$ 1,899

The Foundation released from restriction and contributed approximately $1.7 million and $1.9 million to the Medical Center in 2017 and 2016, respectively, for operating purposes. Those amounts are included in other revenue.

Amounts due from affiliates result from the Medical Center's payment of various expenses on behalf of these affiliates. These amounts are settled monthly or as funds become available.

8. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consist of the following:

	December 31	
	2017	2016
	(In Thousands)	
FHA Section 241 insured mortgage loan (a)	$ 75,051	$ 76,724
FHA Section 242 insured mortgage loan (b)	56,903	60,795
Capital lease obligations (c)	60,242	66,252
NJHCFFA capital loan (d)	5,237	6,688
	197,433	210,459
Less current portion	(30,181)	(26,226)
Less deferred financing costs, net	(2,869)	(3,199)
Total	$ 164,383	$ 181,034

a) In 2013 and 2015, a total of three mortgage loans were made available and are payable to Prudential Huntoon Paige Associates, LLC. The loans are insured under the provisions of the Federal Housing Authority ("FHA") Section 241 program. The mortgage loans are collateralized by a second lien on substantially all of the Medical Center's assets. A loan evidenced by notes in the amount of $7,926,100, $20,000,000 and $50,000,000 shall bear interest at the rates of 4.95%, 4.95% and 4.99% per annum, respectively, payable in monthly installments. The mortgage loans proceeds were used to provide funds for certain construction, renovations and improvements. Principal and interest payments are due through March 1, 2041.

b) As of December 31, 2011, the mortgage loan was made available through the proceeds of the New Jersey Health Care Facilities Financing Authority, Series 2002 revenue bonds, and was insured under the provisions of the Federal Housing Authority ("FHA") Section 242 program. In June of 2012, the mortgage loan was modified, the Series 2002 Revenue bonds were defeased and the mortgage loan was backed by the proceeds of GNMA securities. The mortgage loan is collateralized by a first lien on substantially all of the Medical Center's assets. Principal and interest payments are due through December 1, 2029 with interest at a fixed rate of 2.96% of the unpaid balance until the loan is fully paid.

c) Certain equipment leases are the equivalent of an installment purchase for purposes of financial statement reporting. The lenders hold a first security interest in the financed equipment. The Medical Center entered into several other capital leases in 2017 totaling approximately $14.4 million. Interest rates related to the Medical Center's outstanding capital lease obligations range from 1.7% to 5.3%. At December 31, 2017, approximately $15.4 million in lease proceeds remained for distribution for purchases in future years. These funds are reported as assets limited as to use.

d) In April 2011, the Medical Center entered into a seven year capital loan with NJHCFFA in the amount of $10.0 million for the purchase of certain capital assets. Principal and interest payments are due through April 1, 2018. In May 2012, the Medical Center entered into a seven year capital loan with NJHCFFA in the amount of $4.5 million for the purchase of certain capital assets. Principal and interest payments are due through May 1, 2019. Interest on both notes is calculated at a variable rate determined by NJHCFFA monthly (3.99% as of December 31, 2017). The loans are collateralized by a first lien on the capital assets acquired with the loan proceeds.

Principal payments on long-term debt and payments on capital lease obligations for the next five years and thereafter follow:

	Long-Term Debt	Capital Lease Obligations
	(In Thousands)	
2018	$ 9,468	$ 22,267
2019	7,516	17,209
2020	6,196	14,121
2021	6,422	8,122
2022	6,658	1,817
Thereafter	100,931	-
Total	$ 137,191	63,536
Less amounts representing interest on capital lease obligations		3,294
Capital lease obligations (excluding interest)		$ 60,242

The Medical Center has available lines of credit ($5.0 million, $5.2 million, $5.0 million and $2.5 million) with various banks. Under the terms of the line of credit agreements, interest is payable at various rates that are based on the going prime rate at the time the funds are drawn. The 1st $5.0 million line of credit is unsecured and expires on July 31, 2018. The $5.2 million line of credit is secured by assets of the Foundation and expires on July 31, 2018. Subsequent to year end the $5.0 million unsecured line was increased to $15.0 million. The $5.2 million line of credit that was secured by assets of the Foundation was terminated. The 2nd $5.0 million line of credit is unsecured and expires on June 15, 2018. The $2.5 million line of credit is unsecured and expires on January 17, 2019. No amounts were drawn on any of the lines as of December 31, 2017 and 2016.

9. Pension Plan and Postretirement Healthcare Benefits

The Medical Center has a noncontributory defined benefit pension plan (the "Plan"). On December 31, 1998, an amendment to the Plan was approved which ceased the accrual of further benefits under the Plan subsequent to December 31, 1998 for non-union employees. In June 2012, the Medical Center amended the Plan to freeze all future benefit accruals under the Plan while preserving all benefits accrued as of December 31, 2012 for its union and non-union employees. The Medical Center's funding policy provides that payments to the pension plan shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") plus additional amounts which may be approved by the Medical Center from time to time.

In 2016, the Medical Center offered a one-time lump sum payout for certain terminated vested participants. Approximately $12.1 million was paid out during the 2016 plan year under this program.

In addition to the defined benefit pension plan, the Medical Center maintains a defined contribution retirement plan covering substantially all non-union employees who have completed one year of service, have worked 1,000 hours or more during the year, and have attained 21 years of age. This plan also covers Bargaining Unit (Union) employees hired on or after January 1, 2007 who have completed one year of service, have worked 1,000 hours or more during the year, and have attained age 21. As of January 1, 2013, this plan also covers Bargaining Unit (Union) employees hired prior to January 1, 2007, who have completed one year of service, have worked 1,000 hours or more during the year, and have attained age 21. Employees may contribute a percentage of their annual salary, which will be matched by the Medical Center, at a rate of 50%. The required levels of service and contribution percentages are as follows:

	Contribution	
Years of Service	**Employee**	**Employer Match**
Less than 5 years	4.00 %	2.00 %
5 to 9 years	6.00	3.00
10 to 14 years	7.00	3.50
15 to 19 years	8.00	4.00
20 to 24 years	9.00	4.50
25 to 29 years	10.00	5.00
30 to 34 years	11.00	5.50
35 or more years	12.00	6.00

Individuals may contribute in excess of the above employee contributions, up to ERISA limitations, without Medical Center matching.

For the years ended December 31, 2017 and 2016, pension expense related to the defined contribution plan was approximately $2.8 million and $2.7 million, respectively.

The Medical Center also sponsors a defined benefit postretirement plan which provides medical, dental and life insurance benefits to eligible retirees and their eligible dependents. Eligibility for this plan is limited to a closed group of retirees who were covered by the collective bargaining agreement during employment and who met certain length of service requirements.

The Medical Center's medical and dental plan contribution for retirees both under and over age 65 is fixed based on years of service. The retiree's contribution is based on the difference between the Medical Center's fixed contribution and current premium, as determined annually by the carrier. The medical and dental insurance plans contain other cost-sharing features such as deductibles and co-insurance. The life insurance benefit is provided on a noncontributory basis. The Medical Center's funding policy is to pay the cost of medical and dental benefits as incurred.

The reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plans' assets for the years ended December 31, 2017 and 2016 is as follows:

	Pension Benefits		Postretirement Healthcare Benefits	
	2017	2016	2017	2016
	(In Thousands)			
Changes in benefit obligation:				
Benefit obligation, beginning of year	$ 124,445	$ 139,070	$ 1,854	$ 1,915
Service cost *	1,107	1,253	1	2
Interest cost	5,326	5,937	65	82
Actuarial (gain)	5,832	(3,588)	(374)	(106)
Settlements	-	(13,076)	-	-
Benefits and expenses paid	(7,491)	(5,151)	(28)	(39)
Benefit obligation, end of year	129,219	124,445	1,518	1,854
Changes in plan assets:				
Fair value of plan assets, beginning of year	93,948	102,037	-	-
Actual return on plan assets	11,767	6,258	-	-
Employer contributions	3,600	2,900	28	39
Settlements	-	(12,096)	-	-
Benefits and expenses paid	(7,491)	(5,151)	(28)	(39)
Fair value of plan assets, end of year	101,824	93,948	-	-
Unfunded status (accrued liabilities)	$ (27,395)	$ (30,497)	$ (1,518)	$ (1,854)

* Includes Pension Benefit Guarantee Corporation and other administrative fees

Included in other changes in unrestricted net assets at December 31, 2017 and 2016 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	Pension Benefits		Postretirement Healthcare Benefits	
	2017	2016	2017	2016
	(In Thousands)			
Unrecognized actuarial loss (gain)	$ 30,039	$ 32,056	$ (1,668)	$ (1,558)

The change in the pension and postretirement benefit liabilities to be recognized in future periods as reported in the accompanying consolidated statement of operations and changes in net assets totaled approximately $2.1 million and $10.2 million for 2017 and 2016, respectively, and represents the combined change in the amounts for pension and postretirement benefit plans in the table above.

The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized as an increase in net periodic pension cost during the year ending December 31, 2017 and 2016 is $2,279,000 and $2,486,000, respectively.

The current portion of postretirement health benefits approximating $207,000 and $262,000 are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets as of December 31, 2017 and 2016, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets at December 31, 2017 and 2016 are as follows:

	2017	2016
	(In Thousands)	
Projected benefit obligation	$ 129,219	$ 124,445
Accumulated benefit obligation	129,219	124,445
Fair value of plan assets	101,824	93,948

Net periodic benefit cost includes the following components:

	Pension Benefits		Postretirement Healthcare Benefits	
	2017	2016	2017	2016
	(In Thousands)			
Service cost *	$ 1,107	$ 1,253	$ 1	$ 2
Interest cost	5,326	5,937	65	82
Expected return on assets	(6,397)	(6,937)	-	-
Settlement loss	-	3,116	-	-
Amortization of unrecognized gains and losses	2,479	3,343	(263)	(194)
Net periodic benefit cost	$ 2,515	$ 6,712	$ (197)	$ (110)

	Pension Benefits		Postretirement Healthcare Benefits	
	2017	2016	2017	2016
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rates	3.95 %	4.42 %	4.00 %	4.48 %
Expected long-term rate of return on plan assets	7.00	7.00	-	-
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	4.42 %	4.41 %	4.48 %	4.50 %
Expected long-term rate of return on plan assets	7.00	7.00	-	-

* Includes Pension Benefit Guarantee Corporation and other administrative fees

The expected long-term rate of return on plan assets assumption of 7.00% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27, Selecting Economic Assumptions for Measuring Pension Obligations. Based on the Medical Center's investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3% was selected and added to the real rate of return range to arrive at a best estimate.

The Medical Center's investment policies and strategies for plan assets include allocations of a diversified portfolio of equity investments, fixed income securities and cash equivalents. Though these assets are long term in nature, a reasonable amount of liquidity should be maintained.

Although there is no minimum funding requirement for 2017, the Medical Center may choose to make voluntary contributions during 2017.

The Medical Center expects to pay future benefits under the pension and postretirement benefits as follows:

	Pension Benefits	Postretirement Health Benefits
	(In Thousands)	
2018	$ 7,554	$ 114
2019	8,150	113
2020	8,414	111
2021	8,906	111
2022	9,137	109
2023-2027	43,175	519
Total	$ 85,336	$ 1,077

For measurement purposes, the following annual rates of increase in the per capita cost of covered health care benefits were assumed for 2017:

Year	Medical Indemnity and Preferred Provider Organizations	Dental
2017	7.50%	5.00%

The rates are assumed to decrease gradually to 7.0% by 2023 and remain at that level thereafter. The Medical Center's contribution for postretirement medical and dental benefits is fixed except for employee discounts and union retirees who retired prior to September 1, 1991. Therefore, the accumulated postretirement benefit obligation and interest cost component of net periodic benefit cost have a relatively low sensitivity to increases in the healthcare cost trend rates. For example, increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation by $453 for 2017. Decreasing the assumed healthcare cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation by $391 for 2017.

Financial assets carried at fair value included in the defined benefit pension plan are classified in the table below:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Money market funds	$ 433	$ -	$ -	$ 433
Mutual funds	63,521	-	-	63,521
International bonds	-	100	-	100
Total assets in the fair value hierarchy	$ 63,954	$ 100	$ -	64,054
Common collective trust (a)				37,770
Investments at fair value				$ 101,824

	December 31, 2016			
Money market funds	$ 1,216	$ -	$ -	$ 1,216
Mutual funds	58,102	-	-	58,102
International bonds	-	102	-	102
Total assets in the fair value hierarchy	$ 59,318	$ 102	$ -	59,420
Common collective trust (a)				34,528
Investments at fair value				$ 93,948

(a) In accordance with Subtopic 820-10, the common collective trust is measured at net asset value per share and has not been classified in the fair value hierarchy.

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission.

Money market funds are valued at the quoted NAV of shares held by the Plan at year end.

International bond is valued at the cost for recently executed transactions for identical or similar securities.

The common collective trust is valued based upon the unit values of such collective trust fund held by the Plan at year end. Unit values are based on the fair value of the underlying assets of the funds derived from inputs principally from or corroborated by observable market data by correlation or other means.

10. Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under various third-party payor agreements. Accounts receivable from patients and third-party payors were as follows:

	December 31	
	2017	**2016**
Medicare and Medicaid	54 %	51 %
Blue Cross	9	9
Other third-party payors	31	34
Self-pay patients	6	6
Total	100 %	100 %

The Medical Center maintains cash on deposit with major banks and invests in money market securities with high credit quality financial institutions and limits the credit exposure to any one financial institution; however, such deposits exceed federally insured limits.

11. Restricted Net Assets

The Foundation follows the requirements of the Uniform Prudent Management of Institutional Funds Act as they relate to its permanently restricted contributions, effective upon the State of New Jersey's enactment of the legislation in March 2009. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The Medical Center records the permanently restricted contributed assets as part of its interest in the net assets of the Foundation. The Foundation releases the unrestricted income from the related assets on an annual basis in support of Medical Center health care services.

Temporarily restricted net assets are available for the following purposes:

	December 31 2017	December 31 2016
	(In Thousands)	
Health education and research	$ 3,470	$ 2,171
Purchase of property and equipment, operational activities and debt service	55,376	47,802
Total	$ 58,846	$ 49,973

Permanently restricted net assets are to be held in perpetuity, the income from which is expendable to support health care services.

Temporarily and permanently restricted net assets represent the Medical Center's interest in the net assets of the Foundation.

12. Operating Leases

Rent expense under operating leases amounted to approximately $797,000 and $1.0 million in 2017 and 2016, respectively. At December 31, 2017, future minimum lease payments due under operating leases are as follows (in thousands):

2018	$ 197
2019	124
2020	89
2021	57
Total	$ 467

13. Professional Liability Insurance

The Medical Center has malpractice insurance coverage on a claims-made basis through a commercial insurance carrier. It is management's intention to continue existing coverage. The amount of malpractice coverage is $1,000,000 per claim, with a $3,000,000 annual aggregate. The Medical Center maintains an umbrella policy with claims covered up to $5,000,000 with an annual aggregate of $5,000,000. In addition, the Medical Center has excess liability coverage in the amount of $15,000,000 per occurrence and $15,000,000 in annual aggregate. The estimated liability for claims and incidents not reported to the insurance carrier at December 31, 2017 and 2016 was approximately $4.0 and $3.8 million, respectively. These amounts are included in other long-term liabilities in the consolidated balance sheet. The Medical Center believes that it has adequate insurance coverages for all asserted claims and has no knowledge of unasserted claims which would exceed insurance coverages. Approximately $981,000 and $928,000 representing the current portion of the insurance receivable and the insurance claims liability as of December 31, 2017 and 2016, respectively, are recorded in other receivables and in accrued expenses and other liabilities. Approximately $8.0 million and $7.3 million, representing the non-current portion of the insurance receivable and the insurance claims liability as December 31, 2017 and 2016, respectively, are recorded in other assets and in other liabilities

14. Real Estate Taxes

As a not-for-profit corporation in New Jersey, the Medical Center is an organization which has historically qualified for an exemption from real property taxes; however, a number of cities and municipalities in New Jersey have challenged and continue to challenge such exemption. It is possible in the future that the Medical Center will be responsible to local authorities for real property taxes, payments in lieu of taxes, or other payments based on a certain assessment. The financial effects of this matter on the Medical Center are not presently determinable. The Medical Center and affiliates currently pay real estate taxes on various properties that it owns, rents or leases in many of the communities it serves.

15. Functional Expenses

The Medical Center's operating expenses grouped by functional classification are as follows:

	December 31	
	2017	2016
	(In Thousands)	
Professional care of patients	$ 427,383	$ 375,174
Administrative services	103,545	106,567
General services	66,457	63,927
Total	$ 597,385	$ 545,668

16. Events Subsequent to December 31, 2017

Subsequent events have been evaluated through April 25, 2018, which is the date the consolidated financial statements were available to be issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.