



Englewood Hospital and Subsidiaries

Consolidated Financial Statements

December 31, 2018 and 2017

Englewood Hospital and Subsidiaries

Table of Contents

December 31, 2018 and 2017

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

Independent Auditors' Report

To the Board of Trustees of
Englewood Hospital

We have audited the accompanying consolidated financial statements of Englewood Hospital and Subsidiaries, (the "Hospital") which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the 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 Subsidiaries as of December 31, 2018 and 2017, 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 24, 2019

Englewood Hospital and Subsidiaries

Consolidated Balance Sheets

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,567	\$ 54,315
Short-term investments	52,329	37,461
Patient accounts receivable, net of estimated uncollectibles of \$51,904 and \$49,930 in 2018 and 2017, respectively	72,749	68,951
Other receivables	6,492	5,020
Inventories	15,619	13,424
Prepaid expenses and deposits	9,471	10,144
	<hr/>	<hr/>
Total current assets	177,227	189,315
Assets limited as to use, net of current portion	18,027	28,819
Property, plant and equipment, net	322,989	310,104
Due from affiliates	1,900	1,758
Interest in net assets of Englewood Health Foundation	66,196	61,970
Other assets	15,619	14,266
	<hr/>	<hr/>
Total assets	<u>\$ 601,958</u>	<u>\$ 606,232</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 46,372	\$ 50,505
Accrued expenses and other current liabilities	38,525	39,901
Due to affiliates	566	1,331
Current portion of estimated amounts due to third-party payors	3,003	3,585
Current portion of long-term debt and capital lease obligations	27,998	30,181
	<hr/>	<hr/>
Total current liabilities	116,464	125,503
Accrued pension and postretirement benefit liability	30,416	28,706
Estimated amounts due to third-party payors, net of current portion	28,772	30,779
Long-term debt and capital lease obligations, net of current portion	152,897	164,383
Other liabilities	13,463	11,976
	<hr/>	<hr/>
Total liabilities	342,012	361,347
Net Assets		
Net assets without donor restrictions	193,750	182,915
Net assets with donor restrictions	66,196	61,970
	<hr/>	<hr/>
Total net assets	259,946	244,885
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 601,958</u>	<u>\$ 606,232</u>

See notes to financial statements

Englewood Hospital and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Operating Revenue		
Net patient service revenue	\$ 681,531	\$ 644,067
Provision for doubtful collections	<u>(30,921)</u>	<u>(28,181)</u>
Net patient service revenue less provision for doubtful collections	650,610	615,886
Other Revenue	<u>15,265</u>	<u>13,968</u>
Total operating revenue	665,875	629,854
Operating Expenses		
Salaries and wages	228,362	199,895
Fringe benefits	47,803	42,260
Physician fees	2,229	2,543
Supplies and other	331,747	313,779
Interest	7,419	7,403
Depreciation and amortization	<u>33,783</u>	<u>31,505</u>
Total operating expenses	<u>651,343</u>	<u>597,385</u>
Revenue in excess of expenses	14,532	32,469

Continued on next page.

Englewood Hospital and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Revenue in excess of expenses (from previous page)	14,532	32,469
Net change in unrealized gains on investments	21	(14)
Contribution from Englewood Health Foundation for capital purposes	251	171
Change in pension and postretirement benefit liabilities	<u>(3,969)</u>	<u>2,129</u>
Change in net assets without donor restrictions	10,835	34,755
Net Assets with Donor Restrictions		
Change in interest in net assets of Englewood Health Foundation	<u>4,226</u>	<u>8,873</u>
Change in net assets with donor restrictions	<u>4,226</u>	<u>8,873</u>
Change in net assets	15,061	43,628
Net Assets at Beginning of the Year	<u>244,885</u>	<u>201,257</u>
Net Assets at End of Year	<u><u>\$ 259,946</u></u>	<u><u>\$ 244,885</u></u>

See notes to financial statements

Englewood Hospital and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Cash Flows from Operating Activities		
Change in net assets	\$ 15,061	\$ 43,628
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution from Englewood Health Foundation	(251)	(171)
Depreciation and amortization	33,783	31,505
Net change in unrealized gains and losses on investments	(21)	14
Increase in interest in net assets of Englewood Health Foundation	(4,226)	(8,873)
Gain on sale of property and equipment	(171)	9
Change in pension and postretirement benefit liabilities	3,969	(2,129)
Changes in operating assets and liabilities:		
Patient accounts receivable, including provision for doubtful collections of \$ 30,921 and \$28,181 as of December 31, 2018 and 2017, respectively	(3,798)	(6,818)
Inventories	(2,195)	(1,567)
Other receivables, prepaid expenses and deposits and other assets	(2,152)	(2,511)
Due from affiliates, net	(907)	1,472
Estimated amounts due to third-party payors	(2,589)	4,461
Accounts payable, accrued expenses and other liabilities	(4,022)	11,211
Accrued pension costs	(2,259)	(1,254)
Net cash provided by operating activities	30,222	68,977
Cash Flows from Investing Activities		
Net purchases of property and equipment	(27,821)	(36,953)
Change in in assets limited as to use	10,792	11,272
Change in short-term investments, net	(14,847)	(9,167)
Net cash used in investing activities	(31,876)	(34,848)
Cash Flows from Financing Activities		
Principal payments on long-term debt and capital lease obligations	(32,345)	(27,455)
Contribution from Englewood Health Foundation	251	171
Net cash used in financing activities	(32,094)	(27,284)
Net (decrease) Increase in Cash and Cash Equivalents	(33,748)	6,845
Cash and Cash Equivalents at Beginning of Year	54,315	47,470
Cash and Cash Equivalents at End of Year	<u>\$ 20,567</u>	<u>\$ 54,315</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of amount capitalized	<u>\$ 7,068</u>	<u>\$ 7,142</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Assets acquired under capital leases	<u>\$ 18,360</u>	<u>\$ 14,429</u>

See notes to financial statements

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies

Englewood Hospital (the "Hospital") 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 Hospital provides various programs for medical training, research and education, in addition to programs established to improve the health of the community.

Englewood Health (the "System") is the parent corporation of the Hospital. 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 Hospital.

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

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

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Hospital, Englewood Medical Associates, Inc. ("EMA"), a not-for-profit corporation and wholly-owned subsidiary of the Hospital, which provides physician services to the Hospital and Medical Associates of Englewood, P.C., doing business as Englewood Health Physician Network ("EHPN"), Physician Partners of Englewood, P.C. ("PPE"), Emergency Physicians of Englewood, P.C. ("EPE"), Englewood Health Alliance ACO ("ACO"), and Englewood Health ACO ("ACO2"), all not-for-profit corporations which meet the criteria of consolidation with the Hospital. EHPN, 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 Hospital separately accounts for and reports upon net assets that are donor restricted and net assets without donor restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained 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, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Hospital recognizes its interest in the net assets of the Foundation. Contributions to net assets without donor restrictions from the Foundation are recorded in the consolidated statements of operations and changes in net assets as a component of other revenue. Changes in the Hospital's interest in the Foundation's net assets with donor restrictions are included in the accompanying consolidated statements of operations and changes in net assets.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Use of Estimates

The preparation of the 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 consolidated 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 Hospital 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 Hospital, EMA, EHPN, 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 Hospital's mortgage loan agreement (see Note 8).

Investment income and realized gains or losses on investment transactions are recorded as other revenue unless with donor restrictions. The Hospital'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 funds with donor restrictions that are temporary in nature are available for without donor restriction purposes, these amounts are included in other revenue.

Inventories

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

Investment in Joint Venture

The Hospital holds two investments in joint ventures in which it maintains various percentages of ownership. Approximately \$6.1 million and \$6.3 million, respectively, were recorded within other assets on the consolidated balance sheets as of December 31, 2018 and 2017.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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 \$3.9 million and \$3.6 million at December 31, 2018 and 2017, respectively. Amortization expense was approximately \$315,000 and \$330,000 during 2018 and 2017, 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 Hospital has agreements with third-party payors that provide for payments to the Hospital 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 statements of operations and changes in net assets include revenue in excess of expenses as the performance indicator. Changes in net assets without donor restrictions 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 Hospital is insured for medical malpractice claims under a claims-made policy and excess loss policies. The Hospital 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 Hospital's consolidated balance sheets at net realizable value.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Income Taxes

The Hospital 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 Hospital also is exempt from state income taxes.

The Hospital 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 consolidated financial statements.

The Hospital 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 2018 and 2017.

New Accounting Pronouncements

Not for Profit Reporting

In 2018, the Hospital adopted FASB's ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Hospital adopted ASU No. 2016-14, and has applied the changes retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources. These disclosures have been presented for 2018 only, as allowed by ASU No. 2016-14. The new standard changes the following aspects of the financial statements:

- The unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called Net Assets with Donor Restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note 11).
- The functional expense disclosure for 2018 and 2017 includes expenses reported by both nature and function (Note 16).

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 Hospital 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 Hospital has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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 consolidated balance sheets 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 balance sheets. 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 Hospital will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2019. The Hospital has not yet determined the impact of adoption of ASU No. 2016-02 on its consolidated 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 Hospital is currently assessing the effect that ASU No. 2016-01 will have on its results of operations, financial position and cash flows.

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 consolidated statements of operations separately from the service cost component and outside of operating income. The Hospital will be required to adopt the guidance in ASU No. 2017-07 for fiscal years beginning after December 15, 2018. The Hospital has not yet determined the impact of this standard on its consolidated financial statements.

Contributions

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for the Hospital for the fiscal years beginning after December 15, 2018. Management is currently evaluating the impact that ASU 2018-08 on the Hospital's consolidated financial statements.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. Charity Care and Community Benefit

In accordance with its mission and philosophy, the Hospital 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 Hospital 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 Hospital reduces net revenues in accordance with these criteria. The Hospital'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	
	2018	2017
	(In Thousands)	
Community benefits provided to the indigent:		
Financial assistance, which includes charity care and uninsured discounts provided	\$ 22,780	\$ 22,187
Unpaid cost of public programs, Medicaid and other indigent care programs	23,198	21,265
Community benefits to the broader community:		
Non-billed services for the community	1,288	1,181
Education and research provided for the community	15,327	14,057
Subsidized health services	61,084	47,302
Estimated cost of community benefits	<u>\$ 123,677</u>	<u>\$ 105,992</u>

The 2018 amounts are estimated while the 2017 amounts are based on the Hospital'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 Hospital's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

The Hospital receives payments from the New Jersey Health Care Subsidy Funds for charity care and such amounts totaled approximately \$900,000 and \$655,000 for the years ended December 31, 2018 and 2017, 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, 2019 are presently unknown.

3. Hospital Reimbursement System

The Hospital 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 Hospital have been audited and settled for years through 2014 at December 31, 2018, with the exception of the 2010 report which remains open at December 31, 2018.

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 Hospital 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 Hospital have been audited and settled for years through 2015 at December 31, 2018.

Other Third-Party Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital 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.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

The Hospital 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 Hospital recognizes revenues on the basis of its standard rates, discounted in accordance with the Hospital's policy. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital 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 2018 and 2017 from these major payor sources, are as follows (in thousands):

	December 31, 2018			Total
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	
Patient service revenue (net of contractual allowances and discounts)	<u>\$ 280,814</u>	<u>\$ 377,348</u>	<u>\$ 23,369</u>	<u>\$ 681,531</u>
December 31, 2017				
Patient service revenue (net of contractual allowances and discounts)	<u>\$ 266,420</u>	<u>\$ 357,542</u>	<u>\$ 20,105</u>	<u>\$ 644,067</u>

For the years ended December 31, 2018 and 2017, net patient service revenue was increased by approximately \$9,820,000 and \$5,091,000, respectively, for favorable adjustments and settlements related to prior years.

Revenue from the Medicare and Medicaid programs accounted for approximately 41 percent and 41 percent of the Hospital's net patient service revenue for the years ended December 31, 2018 and 2017, 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 Hospital.

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 Hospital 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 consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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	
	2018	2017
	(In Thousands)	
Short-term investments:		
Cash and cash equivalents, money market funds, certificates of deposit and other	\$ 14,308	\$ 22,051
U.S. Government obligations and other fixed income securities	38,021	15,410
	<u>\$ 52,329</u>	<u>\$ 37,461</u>
Assets limited as to use,		
U.S. Government obligations and other fixed income securities	\$ 14,775	\$ 13,461
Proceeds available under lease agreements	3,252	15,358
	<u>\$ 18,027</u>	<u>\$ 28,819</u>

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

	December 31	
	2018	2017
	(In Thousands)	
Mortgage reserve fund	\$ 14,775	\$ 13,461
Proceeds available under lease agreements	3,252	15,358
	<u>\$ 18,027</u>	<u>\$ 28,819</u>

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

For the years ended December 31, 2018 and 2017, investment income, which consists primarily of interest income on short-term investments and assets limited as to use, totaled approximately \$947,000 and \$451,000, respectively, and is included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

5. Fair Value Measurements

The Hospital 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 Hospital 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, 2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)				
Reported at fair value					
Cash and cash equivalents	\$ 345	\$ 345	\$ 345	\$ -	\$ -
Money market funds and certificates of deposit	18,734	18,734	18,734	-	-
U.S. Government obligations	33,349	33,349	33,349	-	-
Mortgage-backed securities	12,683	12,683	-	12,683	-
Commercial Paper	1,993	1,993	-	1,993	-
Disclosed at fair value					
Cash and cash equivalents	\$ 20,567	\$ 20,567	\$ 20,567	\$ -	\$ -
Long-term debt (excluding capital leases and capital loan)	126,185	128,488	-	128,488	-

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

	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	-

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

Cash and cash equivalents, money market funds, certificates of deposit and commercial paper- 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.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

6. Property, Plant and Equipment

A summary of property, plant and equipment follows:

	December 31	
	2018	2017
	(In Thousands)	
Depreciable assets:		
Land improvements	\$ 1,643	\$ 1,643
Buildings	193,567	193,567
Fixed equipment	213,984	200,828
Major movable equipment	331,802	269,491
	<u>740,996</u>	<u>665,529</u>
Less accumulated depreciation and amortization	<u>428,833</u>	<u>397,045</u>
	<u>312,163</u>	<u>268,484</u>
Non-depreciable assets:		
Land	181	181
Construction in progress	10,534	41,248
Deposits on equipment	111	191
	<u>10,826</u>	<u>41,620</u>
Property, plant and equipment, net	<u>\$ 322,989</u>	<u>\$ 310,104</u>

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

	December 31	
	2018	2017
	(In Thousands)	
Assets acquired under capital leases	\$ 83,131	\$ 66,531
Accumulated depreciation on assets acquired under capital leases	30,245	27,770

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 \$33.4 million and \$31.1 million in 2018 and 2017, respectively.

The Hospital capitalizes interest on construction in progress. During 2018 and 2017, approximately \$203,000 and \$258,000, respectively, of net interest income was capitalized.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

7. Due from Affiliates

Amounts due from affiliates were as follows:

	December 31	
	2018	2017
	(In Thousands)	
Englewood Healthcare Properties	\$ 1,920	\$ 1,758
Englewood Health	285	285
Englewood Healthcare Enterprises, Inc.	(1,120)	(1,728)
Englewood Health Foundation	249	112
Due from affiliates	<u>\$ 1,334</u>	<u>\$ 427</u>

The Foundation released from restriction and contributed approximately \$1.8 million and \$1.7 million to the Hospital in 2018 and 2017, respectively, for operating purposes. Those amounts are included in other revenue.

Amounts due from affiliates result from the Hospital'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	
	2018	2017
	(In Thousands)	
FHA Section 241 insured mortgage loan (a)	\$ 73,292	\$ 75,051
FHA Section 242 insured mortgage loan (b)	52,893	56,903
Capital lease obligations (c)	55,726	60,242
NJHCFFA capital loan (d)	1,538	5,237
	183,449	197,433
Less current portion	(27,998)	(30,181)
Less deferred financing costs, net	<u>(2,554)</u>	<u>(2,869)</u>
Total	<u>\$ 152,897</u>	<u>\$ 164,383</u>

- 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 Hospital'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 percent, 4.95 percent and 4.99 percent 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.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

- b) As of December 31, 2011, the mortgage loan was made available through the proceeds of the New Jersey Health Care Facilities Financing Authority ("NJHCFFA"), 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 Hospital's assets. Principal and interest payments are due through December 1, 2029 with interest at a fixed rate of 2.96 percent 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 Hospital entered into several other capital leases in 2018 totaling approximately \$18.4 million. Interest rates related to the Hospital's outstanding capital lease obligations range from 1.8 percent to 5.6 percent. At December 31, 2018, approximately \$3.3 million in lease proceeds remained for distribution for purchases in future years. These funds are reported as assets limited as to use.
- d) In May 2012, the Hospital 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 is calculated at a variable rate determined by NJHCFFA monthly (4.16 percent as of December 31, 2018). The loan is 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)	
2019	\$ 7,516	\$ 22,043
2020	6,196	18,305
2021	6,422	11,959
2022	6,658	5,138
2023	6,902	1,483
Thereafter	<u>94,029</u>	
Total	<u>\$ 127,723</u>	58,928
Less amounts representing interest on capital lease obligations		<u>3,202</u>
Capital lease obligations (excluding interest)		<u>\$ 55,726</u>

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

The Hospital has available lines of credit (\$15.0 million, \$5.0 million, and \$5.0 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 \$15.0 million line of credit is unsecured and expires July 31, 2019. The 1st \$5.0 million line of credit is secured by assets of the Hospital and expires on June 15, 2019. The 2nd \$5.0 million line of credit is unsecured and expires on January 31, 2020. As of December 31, 2018 and as of December 31, 2017, no amounts had been drawn on any of the lines.

9. Pension Plan and Postretirement Healthcare Benefits

The Hospital 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 Hospital 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 Hospital'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 Hospital from time to time.

In addition to the defined benefit pension plan, the Hospital 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 Hospital, at a rate of 50 percent. The required levels of service and contribution percentages are as follows:

Years of Service	Contribution	
	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 Hospital matching.

For the years ended December 31, 2018 and 2017, pension expense related to the defined contribution plan was approximately \$3.2 million and \$2.8 million, respectively.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

The Hospital 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 Hospital'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 Hospital'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 Hospital'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, 2018 and 2017 is as follows:

	Pension Benefits		Postretirement Healthcare Benefits	
	2018	2017	2018	2017
	(In Thousands)			
Changes in benefit obligation:				
Benefit obligation, beginning of year	\$ 129,219	\$ 124,445	\$ 1,518	\$ 1,854
Service cost *	1,050	1,107	1	1
Interest cost	4,989	5,326	59	65
Actuarial (gain)	(6,329)	5,832	(123)	(374)
Benefits and expenses paid	(6,763)	(7,491)	(48)	(28)
Benefit obligation, end of year	122,166	129,219	1,407	1,518
Changes in plan assets:				
Fair value of plan assets, beginning of year	101,824	93,948	-	-
Actual return on plan assets	(5,729)	11,767	-	-
Employer contributions	3,600	3,600	48	28
Benefits and expenses paid	(6,763)	(7,491)	(48)	(28)
Fair value of plan assets, end of year	92,932	101,824	-	-
Unfunded status (accrued liabilities)	\$ (29,234)	\$ (27,395)	\$ (1,407)	\$ (1,518)

* Includes Pension Benefit Guarantee Corporation and other administrative fees

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Included in other changes in net assets without donor restrictions at December 31, 2018 and 2017 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	Pension Benefits		Postretirement Healthcare Benefits	
	2018	2017	2018	2017
	(In Thousands)			
Unrecognized actuarial loss (gain)	\$ 33,877	\$ 30,039	\$ (1,537)	\$ (1,668)

The change in the pension and postretirement benefit liabilities to be recognized in future periods as reported in the accompanying consolidated statements of operations and changes in net assets totaled approximately \$(3.9) million and \$2.1 million for 2018 and 2017, respectively, and represents the combined change in the amounts for pension and postretirement benefit plans in the table above.

The current portion of postretirement health benefits approximating \$224,000 and \$207,000 are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets as of December 31, 2018 and 2017, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets at December 31, 2018 and 2017 are as follows:

	2018	2017
	(In Thousands)	
Projected benefit obligation	\$ 122,166	\$ 129,219
Accumulated benefit obligation	122,166	129,219
Fair value of plan assets	92,932	101,824

Net periodic benefit cost includes the following components:

	Pension Benefits		Postretirement Healthcare Benefits	
	2018	2017	2018	2017
	(In Thousands)			
Service cost *	\$ 1,050	\$ 1,107	\$ 1	\$ 1
Interest cost	4,989	5,326	59	65
Expected return on assets	(6,887)	(6,397)	-	-
Amortization of unrecognized gains and losses	2,449	2,479	(255)	(263)
Net periodic benefit cost	\$ 1,601	\$ 2,515	\$ (195)	\$ (197)

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

	Pension Benefits		Postretirement Healthcare Benefits	
	2018	2017	2018	2017
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rates	4.40 %	3.95 %	4.44 %	4.00 %
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	3.95 %	4.42 %	4.00 %	4.48 %
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 percent 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 Hospital'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 percent was selected and added to the real rate of return range to arrive at a best estimate.

The Hospital'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 2018, the Hospital may choose to make voluntary contributions of \$3.6 million during 2019.

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

	Pension Benefits	Postretirement Health Benefits
	(In Thousands)	
2019	\$ 8,211	\$ 113
2020	8,359	112
2021	8,877	111
2022	9,061	109
2023	9,449	109
2024-2028	41,648	506
Total	\$ 85,605	\$ 1,060

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

For measurement purposes, the following annual rates of increase in the per capita cost of covered health care benefits were assumed for 2018:

Year	Medical Indemnity and Preferred Provider Organizations	Dental
2018	7.5%	5.0%

The rates are assumed to decrease gradually to 7.0 percent by 2024 and remain at that level thereafter. The Hospital'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 \$448 for 2018. Decreasing the assumed healthcare cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation by \$385 for 2018.

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

	December 31, 2018			Total
	Level 1	Level 2	Level 3	
	(In Thousands)			
Money market funds	\$ 1,110	\$ -	\$ -	\$ 1,110
Mutual funds	58,103	-	-	58,103
Total assets in the fair value hierarchy	<u>\$ 59,213</u>	<u>\$ -</u>	<u>\$ -</u>	59,213
Common collective trust (a)				<u>33,719</u>
Investments at fair value				<u>\$ 92,932</u>
	December 31, 2017			
Money market funds	\$ 433	\$ -	\$ -	\$ 433
Mutual funds	63,520	-	-	63,520
International bonds	-	101	-	101
Total assets in the fair value hierarchy	<u>\$ 63,953</u>	<u>\$ 101</u>	<u>\$ -</u>	64,054
Common collective trust (a)				<u>37,770</u>
Investments at fair value				<u>\$ 101,824</u>

(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.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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 Hospital 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,	
	2018	2017
Medicare and Medicaid	54 %	54 %
Blue Cross	13	9
Other third-party payors	28	31
Self-pay patients	5	6
Total	100 %	100 %

The Hospital 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. Liquidity and Availability

As of December 31, 2018, the Hospital has working capital of approximately \$61 million.

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

Cash and cash equivalents	\$	20,567
Short-term investments		45,674
Accounts receivable, net		72,749
Other receivables		4,014
Total	\$	143,004

The Hospital has long-term investments and other assets whose use is limited for the acquisition of property, plant and equipment and debt service. These assets are not available for general expenditure within the next year and are not reflected in the amounts above. However, certain long-term investments could be made available, if necessary.

As part of the Hospital's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Hospital invests excess cash in short-term investments.

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

12. Net Assets with Donor Restrictions

The Foundation follows the requirements of the Uniform Prudent Management of Institutional Funds Act as they relate to its contributions with donor restrictions, effective upon the State of New Jersey's enactment of the legislation in March 2009. Net assets with donor restrictions have been restricted by donors to be maintained in perpetuity. The Hospital records the contributed assets with donor restrictions as part of its interest in the net assets of the Foundation. The Foundation releases the income without donor restrictions from the related assets on an annual basis in support of Hospital health care services.

Net assets with donor restrictions are available for the following purposes:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Health education and research	\$ 7,466	\$ 6,035
Purchase of property and equipment, operational activities and debt service	<u>58,730</u>	<u>55,935</u>
Total	<u>\$ 66,196</u>	<u>\$ 61,970</u>

Net assets with donor restrictions that are perpetual in nature of \$3,123 as of December 31, 2018 and 2017 are to be held in perpetuity, the income from which is expendable to support health care services.

Net assets with donor restrictions represent the Hospital's interest in the net assets of the Foundation.

13. Operating Leases

Rent expense under operating leases amounted to approximately \$1,109,000 and \$797,000 in 2018 and 2017, respectively. At December 31, 2018, future minimum lease payments due under operating leases are as follows (in thousands):

2019	\$ 307
2020	189
2021	112
2022	<u>71</u>
Total	<u>\$ 679</u>

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

14. Professional Liability Insurance

The Hospital 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 Hospital maintains an umbrella policy with claims covered up to \$5,000,000 with an annual aggregate of \$5,000,000. In addition, the Hospital 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 unknown but related to the reporting periods ended December 31, 2018 and 2017 was approximately \$4.0 million and \$4.0 million, respectively. These amounts are included in other long-term liabilities in the consolidated balance sheets. The Hospital believes that it has adequate insurance coverages for all asserted claims and has no knowledge of unasserted claims which would exceed insurance coverages. Approximately \$1,244,000 and \$981,000 representing the current portion of the insurance receivable and the insurance claims liability as of December 31, 2018 and 2017, respectively, are recorded in other receivables and in accrued expenses and other liabilities. Approximately \$9.4 million and \$8.0 million, representing the non-current portion of the insurance receivable and the insurance claims liability as December 31, 2018 and 2017, respectively, are recorded in other assets and in other liabilities

15. Real Estate Taxes

As a not-for-profit corporation in New Jersey, the Hospital 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 Hospital 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 Hospital are not presently determinable. The Hospital and affiliates currently pay real estate taxes on various properties that it owns, rents or leases in many of the communities it serves.

16. Expenses by Both Nature and Function

For the years ended December 31, 2018 and 2017, the Hospital's consolidated operating expenses grouped by functional classification are as follows:

	Year Ended December 31, 2018		
	Health Care Services	Management and General	Total
Salaries and wages	\$ 194,075	\$ 34,287	\$ 228,362
Fringe benefits	40,626	7,177	47,803
Physician fees	2,229	-	2,229
Supplies and other	287,517	44,230	331,747
Interest	7,419	-	7,419
Depreciation and amortization	26,105	7,678	33,783
Total expenses	<u>\$ 557,971</u>	<u>\$ 93,372</u>	<u>\$ 651,343</u>

Englewood Hospital and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

	Year Ended December 31, 2017		
	Health Care Services	Management and General	Total
Salaries and wages	\$ 173,005	\$ 26,890	\$ 199,895
Fringe benefits	36,575	5,685	42,260
Physician fees	2,543	-	2,543
Supplies and other	266,609	47,170	313,779
Interest	7,403	-	7,403
Depreciation and amortization	22,793	8,712	31,505
Total expenses	<u>\$ 508,928</u>	<u>\$ 88,457</u>	<u>\$ 597,385</u>

17. Events Subsequent to December 31, 2018

Subsequent events have been evaluated through April 24, 2019, 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.