

South Shore Health System, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended September 30, 2018 and 2017,
Supplemental Consolidating Schedules as of and
for the Year Ended September 30, 2018, and
Independent Auditors' Report

SOUTH SHORE HEALTH SYSTEM, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
South Shore Health System, Inc.
South Weymouth, Massachusetts

We have audited the accompanying consolidated financial statements of South Shore Health System, Inc. and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheets as of September 30, 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 consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Corporation'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 Corporation'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 the Corporation as of September 30, 2018 and 2017, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Consolidating Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules listed in the table of contents are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, and results of operations of the individual companies

, and are not a required part of the consolidated financial statements. These supplemental consolidating schedules are the responsibility of the Corporation's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such supplemental consolidating schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such supplemental consolidating schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental consolidating schedules are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte + Touche LLP

December 20, 2018

**SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2018 AND 2017**

	2018	2017		2018	2017
ASSETS			LIABILITIES		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 54,171,280	60,333,579	Current portion of long-term debt	\$ 9,452,500	\$ 9,504,167
Short-term investments	56,453,064	53,229,074	Current portion of capital lease obligations	1,074,383	872,861
Current portion of assets whose use is limited	8,384,859	2,574,666	Accounts payable and accrued liabilities	88,001,833	92,257,609
Patient accounts receivable—less allowance for uncollectible accounts of \$14,751,000 in 2018 and \$14,199,000 in 2017	75,364,384	78,311,070	Current portion of estimated settlements with third-party payors	<u>18,521,742</u>	<u>11,720,253</u>
Inventories	8,960,417	7,617,064			
Prepaid and other current assets	<u>21,244,435</u>	<u>18,467,395</u>	Total current liabilities	117,050,458	114,354,890
Total current assets	<u>224,578,439</u>	<u>220,532,848</u>	LONG-TERM DEBT—Net of current portion	236,685,848	246,646,737
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:			CAPITAL LEASE OBLIGATIONS—Net of current portion	11,111,818	11,451,663
Internally designated investments	209,220,561	198,996,458	PENSION LIABILITY		10,049,202
Donor-restricted investments	16,704,013	13,097,635	ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYORS—Net of current portion	36,220,278	33,534,903
Other investments	11,274,887	12,228,361	MALPRACTICE LIABILITY	7,615,765	7,234,840
Debt service funds and unexpended bond proceeds	<u>4,894,737</u>	<u>30,877,859</u>	OTHER LONG-TERM LIABILITIES	<u>27,621,423</u>	<u>28,474,688</u>
Total assets whose use is limited or restricted—net of current portion	<u>242,094,198</u>	<u>255,200,313</u>	Total liabilities	<u>436,305,590</u>	<u>451,746,923</u>
PROPERTY AND EQUIPMENT—Net	309,691,618	302,984,650	NET ASSETS:		
PENSION ASSET	8,386,051		Unrestricted	357,141,837	333,179,962
OTHER ASSETS	32,788,286	27,734,937	Temporarily restricted	20,524,596	18,260,904
			Permanently restricted	<u>3,566,569</u>	<u>3,264,959</u>
			Total net assets	<u>381,233,002</u>	<u>354,705,825</u>
TOTAL	<u>\$ 817,538,592</u>	<u>\$ 806,452,748</u>	TOTAL	<u>\$ 817,538,592</u>	<u>\$ 806,452,748</u>

See notes to consolidated financial statements.

**SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	2017
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:		
Patient service revenue—net of contractual allowances and discounts	\$ 651,887,727	\$ 641,028,696
Provision for bad debt	<u>(15,677,165)</u>	<u>(13,958,339)</u>
Net patient service revenue—less provision for bad debts	636,210,562	627,070,357
Premium revenue		7,820,305
Other revenue	46,729,889	36,269,903
Net assets released from restrictions used for operations	<u>3,372,871</u>	<u>1,943,590</u>
Total unrestricted revenue, gains, and other support	<u>686,313,322</u>	<u>673,104,155</u>
EXPENSES:		
Salaries, wages, and employee benefits	401,581,106	401,105,662
Physician services	67,813,227	64,590,348
Purchased provider services related to premium revenue		3,579,469
Supplies and other	175,822,536	170,155,758
Uncompensated care	5,614,915	5,790,511
Depreciation and amortization	30,150,489	23,782,383
Interest	<u>10,688,408</u>	<u>7,278,923</u>
Total expenses	<u>691,670,681</u>	<u>676,283,054</u>
OPERATING LOSS	<u>(5,357,359)</u>	<u>(3,178,899)</u>
NONOPERATING GAINS AND LOSSES:		
Investment income	1,504,259	1,183,602
Gain on sale of investments—net	1,187,539	6,829,000
Impairment of investments	(114,607)	
Gain on interest rate swap agreement	3,581,205	4,278,082
Unrestricted gifts and bequests	583,954	1,070,932
Fundraising costs	(2,721,635)	(3,227,395)
Pension cost	<u>(1,057,621)</u>	<u>(1,635,959)</u>
Nonoperating gains—net	<u>2,963,094</u>	<u>8,498,262</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	<u>(2,394,265)</u>	<u>5,319,363</u>

(Continued)

**SOUTH SHORE HEALTH SYSTEM, INC.
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**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	2017
UNRESTRICTED NET ASSETS:		
(Deficiency) excess of revenue over expenses	\$ (2,394,265)	\$ 5,319,363
Change in net unrealized gains and losses on investments	10,922,492	9,453,640
Pension-related adjustments	14,492,877	20,303,550
Gain on interest rate swap agreement	67,341	67,341
Net assets released from restrictions used for purchase of property and equipment	<u>873,430</u>	<u>316,845</u>
Increase in unrestricted net assets	<u>23,961,875</u>	<u>35,460,739</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	6,318,910	7,634,801
Investment income	108,457	67,350
Change in net unrealized gains and losses on investments	77,984	413,493
Net assets released from restrictions	<u>(4,241,659)</u>	<u>(2,260,435)</u>
Increase in temporarily restricted net assets	<u>2,263,692</u>	<u>5,855,209</u>
PERMANENTLY RESTRICTED NET ASSETS—Contributions	<u>301,610</u>	<u>20,000</u>
INCREASE IN NET ASSETS	26,527,177	41,335,948
NET ASSETS—Beginning of year	<u>354,705,825</u>	<u>313,369,877</u>
NET ASSETS—End of year	<u>\$ 381,233,002</u>	<u>\$ 354,705,825</u>

See notes to consolidated financial statements.

(Concluded)

**SOUTH SHORE HEALTH SYSTEM, INC.
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**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 26,527,177	\$ 41,335,948
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	30,150,488	23,782,383
Net unrealized and realized gains on investments, other than trading	(12,274,699)	(16,628,116)
Impairment of investments	114,606	
Gain on interest rate swap agreement	(3,581,205)	(4,278,082)
Provision for bad debts	15,701,557	13,987,186
Pension-related adjustments	(14,492,877)	(20,303,550)
Amortization of deferred financing costs, premium, and discount	(508,389)	(486,833)
Net assets of acquired entity		
Restricted contributions and restricted investment income received	(6,728,977)	(7,722,151)
(Decrease) increase in cash resulting from a change in:		
Patient accounts receivable	(12,945,668)	(14,070,905)
Inventories	(1,343,353)	74,282
Prepaid expenses and other current assets	(2,586,244)	(3,522,095)
Trading securities	102,025	(1,471,368)
Other assets	(5,060,333)	(3,677,975)
Accounts payable and accrued liabilities	(3,557,834)	8,050,873
Pension asset/liability	(3,942,376)	(2,003,723)
Estimated settlements with third-party payors—net	9,486,864	(8,280,876)
Other long-term liabilities	<u>3,115,849</u>	<u>(544,933)</u>
Net cash provided by operating activities	<u>18,176,611</u>	<u>4,240,065</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(36,787,686)	(87,375,266)
Purchases of investments	(39,118,011)	(36,085,574)
Proceeds from sale of investments	<u>55,248,011</u>	<u>102,482,193</u>
Net cash used in investing activities	<u>(20,657,686)</u>	<u>(20,978,647)</u>

(Continued)

**SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions and restricted investment income	\$ 6,728,977	\$ 7,722,151
Payments on long-term debt	(9,504,167)	(10,229,348)
Payments on capital lease obligations	(906,034)	(787,444)
Increase in deferred bond issue costs	<u> </u>	<u>(55,429)</u>
Net cash used in financing activities	<u>(3,681,224)</u>	<u>(3,350,070)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(6,162,299)	(20,088,652)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>60,333,579</u>	<u>80,422,231</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 54,171,280</u>	<u>\$ 60,333,579</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 11,382,574</u>	<u>\$ 11,566,871</u>
Equipment acquired through capital leases	<u>\$ 767,711</u>	<u>\$ 94,660</u>
See notes to consolidated financial statements.		(Concluded)

SOUTH SHORE HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General—The accompanying consolidated financial statements include the accounts of South Shore Health System, Inc. and subsidiaries (the “Corporation”). The assets of any one of the members of the consolidated group may not be available to meet the obligations of other entities in the group. Intercompany balances and transactions are eliminated in consolidation.

The Corporation’s operating subsidiaries include South Shore Hospital, Inc. (the “Hospital”), an acute-care hospital providing inpatient, outpatient, home care, and emergency care services; South Shore Property, Inc. (SSP); Health Provider Services Organization (HPSO); Coastal Medical Associates, Inc. (CMA); Connected Care of Southeastern Massachusetts, Inc. (CCSM); and South Shore Medical Center, Inc. (SSMC), MetroSouth Obstetrics & Gynecology, Inc. (MSOG), and Atlantic Women’s Health (AWH). SSMC, MSOG, and AWH are consolidated with CMA.

Basis of Presentation—The accompanying consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 954, *Health Care Entities*, and other pronouncements applicable to health care organizations.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The primary estimates relate to collectability of patient receivables, the valuation of investments in common collective trusts, valuation of interest rate swaps, estimated settlements with third-party payors, postretirement benefits, liabilities and estimated insurance recoveries for malpractice, workers’ compensation, and employee health claims.

Revenue Recognition—Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in the consolidated statements of operations and changes in net assets in the year in which the settlement or change in estimate occurs. During the years ended September 30, 2018 and 2017, the Corporation recognized adjustments to prior-year estimates of \$4,401,185 and \$6,312,748, respectively, which increased operating revenue. A portion of the estimated settlements with third-party payors has been classified as noncurrent because such amounts, by their nature or by virtue of regulation or legislation, will not be assessed within one year.

For patients that do not qualify for charity care, the Corporation recognizes revenue based on its standard rates for services. On the basis of historical experience, management estimates that a portion of the Corporation’s uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue—Net of contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended September 30, 2018 and 2017 from major payor sources, is as follows:

	Third-Party Payors	Self-Pay	Total All Payors
2018			
Patient service revenue—net of contractual allowances and discounts	<u>\$ 641,315,514</u>	<u>\$ 10,572,213</u>	<u>\$ 651,887,727</u>
2017			
Patient service revenue—net of contractual allowances and discounts	<u>\$ 635,433,696</u>	<u>\$ 5,595,000</u>	<u>\$ 641,028,696</u>

Premium Revenue—Prior to January 1, 2017, SSMC had agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, SSMC received monthly capitation payments based on the number of covered participants, regardless of services actually performed. Expenses incurred related to services provided by health care providers other than SSMC were accrued in the period in which the services were provided based, in part, on estimates, including an accrual for medical services incurred but not reported. Such expenses are reported as purchased provider services related to premium revenue in the accompanying consolidated statements of operations and changes in net assets.

Allowance for Uncollectible Accounts—Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Corporation's allowance for uncollectible accounts for self-pay balances decreased to 59% of self-pay accounts receivable as of September 30, 2018, from 65% as of September 30, 2017. In addition, its self-pay write-offs, consisting of uninsured patients (self-pay) and coinsurances and deductibles of those patients with insurance (third-party payors), decreased approximately \$109,000 from \$17,389,000 for fiscal year 2017 to \$17,280,000 for fiscal year 2018. The Corporation has not changed its charity care or uninsured discount policies during the years ended September 30, 2018 or 2017.

Third-Party Payment Agreements—The Corporation has entered into payment agreements with Medicare, BlueCross BlueShield of Massachusetts ("BlueCross"), Medicaid, various commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment under these agreements varies and includes prospectively determined rates per discharge and per visit, discounts from established charges, cost (subject to limits), fee screens, and prospectively determined daily rates.

The Corporation formed CCSM on December 4, 2017, to operate an accountable care organization (ACO). During the year ended September 30, 2018, CCSM's activity was in connection with its participation in the Medicare Next Generation ACO Participation Agreement (NGACO). The NGACO contract commenced on January 1, 2018, and ends on December 31, 2018, and CCSM intends to renew the contract for calendar 2019. The contract terms require a settlement at the end of each contract year. At September 30, 2018, the Corporation has included \$10,471,000 in estimated settlements due to third-party payors, in the accompanying 2018 consolidated balance sheet, in connection with the 2018 estimated settlement related to the NGACO contract. In addition, the Corporation has included \$5,235,500 in other assets as an amount due from a third-party service provider in connection with the NGACO administration. Such amounts are estimated by management based on the information available as of the date of these consolidated financial statements. Actual amounts could differ from these estimates.

Other Operating Revenue—The Corporation has other operating revenue that consists of nonpatient service revenue, including leased employees, dining room revenue, joint venture income, and certain legal settlements.

Uncompensated Care—Uncompensated care expense in the consolidated statements of operations and changes in net assets represents the Hospital's payments to the statewide Health Safety Net Fund (HSN), net of recoveries from HSN for reimbursable bad debts (see Note 3).

Costs of Borrowing—Deferred financing costs and original issue discounts are amortized over the period that the related obligations are outstanding. Amortization of such costs during the periods of construction of capital assets is capitalized as a component of the cost of acquiring such assets.

Statements of Operations and Changes in Net Assets—For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Excess of Revenue over Expenses—The consolidated statements of operations and changes in net assets include (deficiency) excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from (deficiency) excess of revenue over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments (other than those classified as trading securities and those on which other-

than-temporary losses are recognized), contributions of long-lived assets (including assets acquired using pledges which, by donor restriction, were to be used for the purposes of acquiring such assets), and certain pension-related adjustments.

Functional Expenses—Substantially, all expenses reported in the accompanying consolidated statements of operations and changes in net assets are related to the delivery of health care services.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use by the Corporation has been limited by donors for a specific time period or to a purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Gifts and Bequests—Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value at the date the gifts are received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using risk-free interest rates applicable to the years in which the promises to give are to be received. Amortization of the discount is included in unrestricted gifts and bequests in the accompanying consolidated statements of operations and changes in net assets. Conditional promises to give are not included as support until the conditions are substantially met.

Cash and Cash Equivalents—Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. The Corporation routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid US government and agency obligations. Temporary cash investments included in the Corporation's investment accounts are reported as assets whose use is limited.

Investments and Investment Income—Investments are stated at fair value. The Corporation reviews its investments to identify those for which market value is below cost. The Corporation then makes a determination as to whether the investments should be considered other-than-temporarily impaired. For the years ended September 30, 2018 and 2017, the Hospital recognized \$114,607 and \$0, respectively, in losses related to declines in value that were determined by management to be other than temporary in nature.

Investment income and gains on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and income and gains and losses from certain investments classified as trading securities are reported as other revenue. Such investment income totaled \$1,469,791 and \$1,446,288 in 2018 and 2017, respectively. Other investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating gains and losses, unless the income or loss is restricted by donor or law. Realized gains or losses on the sale of investments are determined by use of average costs.

Unrealized gains and losses on investments (other than those classified as trading securities) are excluded from the excess of revenue over expenses, and reported as an increase or decrease in net assets, except that declines in fair value that are determined by management to be other than temporary are reported as realized losses.

Investments, in general, are exposed to various risks, such as interest rate, credit risk, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets.

Derivative Instruments—The Corporation manages a portion of its interest rate risk by entering into an interest rate swap agreement. This financial instrument is recorded at estimated fair value. The Corporation has not designated this contract as a hedging instrument and, accordingly, changes in its fair value are reported within the excess of revenue over expenses.

Assets Whose Use is Limited—Assets whose use is limited include donor-restricted investments, assets set aside by the board of directors (the "Board"), assets held for deferred compensation arrangements, and assets held by trustees under debt agreements. Internally designated assets may subsequently be used for other purposes at the Board's discretion.

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

Other Assets—Other assets as of September 30, 2018 and 2017, consisted of the following:

	2018	2017
Life insurance policies	\$ 15,826,065	\$ 15,149,824
Pledges receivable—net of current portion	5,358,008	5,833,076
Insurance recoveries	4,734,044	5,403,830
ACO risk sharing	5,235,500	
Investment in joint ventures	726,061	658,504
Long-term portion of loans	125,267	125,267
Swap termination	96,035	103,020
Security deposits and other	<u>687,306</u>	<u>461,416</u>
Total other assets	<u>\$ 32,788,286</u>	<u>\$ 27,734,937</u>

The Corporation accounts for its interest in life insurance policies at the lower of the policies' cash surrender value or the discounted value of expected cash flows.

Property and Equipment—Property and equipment are stated at cost, less accumulated depreciation. Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about how long those

assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Liabilities for the purchase of property and equipment aggregating approximately \$2,731,000 and \$3,434,000 remained in accounts payable and accrued liabilities at September 30, 2018 and 2017, respectively.

Depreciation is computed using the straight-line method over the estimated useful lives of depreciable assets. Equipment under capitalized leases is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment as recommended by the American Hospital Association. Such amortization is included with depreciation expense.

Accounts Payable and Accrued Liabilities—Accounts payable and accrued liabilities as of September 30, 2018 and 2017, consisted of the following:

	2018	2017
Accrued salaries, wages and benefits	\$ 45,967,569	\$ 47,696,997
Accounts payable	33,356,327	34,243,379
Accrued workers compensation, current portion	2,360,000	2,780,000
Accrued interest	1,980,256	1,744,471
Accrued other	<u>4,337,681</u>	<u>5,792,762</u>
Total	<u>\$ 88,001,833</u>	<u>\$ 92,257,609</u>

Other Long-Term Liabilities—Other long-term liabilities as of September 30, 2018 and 2017, consisted of the following:

	2018	2017
Workers' compensation liability	\$ 4,455,993	\$ 5,825,490
Executive and physician benefits payable	10,622,007	10,488,948
Interest rate swap contract	5,356,027	9,011,557
Community health initiative payable	1,969,280	2,200,960
Other	<u>5,218,116</u>	<u>947,733</u>
Total other liabilities	<u>\$ 27,621,423</u>	<u>\$ 28,474,688</u>

The community health initiative payable is a result of an agreement between the Corporation and the Commonwealth of Massachusetts Department of Health and Human Services. The Corporation has agreed to pay certain amounts to support various community health initiatives. In addition to the amounts noted above, \$402,520 and \$418,340 at September 30, 2018 and 2017, respectively, is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

Capitalized Interest—Interest costs incurred on borrowed funds during the period of construction of capital assets, net of investment income earned on borrowed funds held by trustees, are capitalized as a component of the cost of acquiring capital assets. Interest on borrowed funds capitalized during the years ended September 30, 2018 and 2017 was \$421,563 and \$3,816,278, respectively.

Impairment of Long-Lived Assets—Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell.

Estimated Malpractice and Workers' Compensation Liabilities—The liabilities for estimated medical malpractice and workers' compensation claims include estimates of the ultimate cost for both reported claims and claims incurred but not reported.

Income Tax Status—The Internal Revenue Service has previously determined that the Corporation and its subsidiaries are organizations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

The Corporation follows the provisions of FASB ASC 740, *Income Taxes*, relating to accounting for uncertainty in income taxes. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. It prescribes an uncertainty threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return.

The Corporation and its subsidiaries are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Accounting for Postretirement Benefit Plans—The Corporation recognizes the overfunded or underfunded status of its defined benefit plan as an asset or liability in its consolidated balance sheets. Changes in the funded status of the defined benefit plan are reported as a change in unrestricted net assets presented below the excess of revenue over expenses in its consolidated statements of operations and changes in net assets in the year in which the changes occur.

Recently Adopted Accounting Pronouncements —In March 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-07 (ASU No. 2017-07), *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented separately from the service cost component and outside a subtotal of income from operations. The Corporation early adopted ASU No. 2017-07 on October 1, 2017 and applied the adoption retrospectively as required. The impact of the adoption resulted in the reclassification of the other components of net benefit cost from employee benefits expense to nonoperating revenue and expenses. The reclassification resulted in an increase of \$1,635,959 in the previously reported operating income for the year ended September 30, 2017, with no impact on the excess of revenue over expenses for the year then ended.

New Accounting Pronouncements— In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date*. ASU No. 2015-14 defers the effective date of ASU No. 2014-09 for all affected entities. As a result, ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting

periods within those reporting periods. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*. This guidance amends the principal versus agent implementation guidance and illustrations in FASB revenue standard ASU No. 2014-09. In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of FASB revenue standard ASU No. 2014-09. After the deferral of the effective date, ASU No. 2014-09 is effective for the Corporation beginning on October 1, 2018. The Corporation has completed its evaluation of the requirements of the new standard to ensure that it has processes, systems, and internal controls in place to collect the necessary information to implement the standard. The modified retrospective approach will be used to adopt ASU No. 2014-09. For health care operations, the Corporation will use a portfolio approach to apply the new model to classes of patients with similar characteristics and will analyze cash collection trends over an appropriate collection look-back period, depending on the payor. Adoption of ASU No. 2014-09 will result in changes to the presentation and disclosure of revenue related to uninsured or self-pay patients under ASU No. 2014-09, because the estimated uncollectible amounts due from these patients are generally considered a direct reduction to unrestricted revenue and, correspondingly, result in a material reduction in the amounts presented separately as bad debts. The adoption of ASU No. 2014-09 will have a material effect on the presentation of unrestricted revenue in the consolidated statements of operations and changes in net assets, and will impact certain disclosures. Management has also determined estimated settlements with third party payors will be reduced by approximately \$20 million at the date of implementation, which will be included as a cumulative effect adjustment in the September 30, 2019 consolidated statement of operations and changes in net assets, resulting in an increase in unrestricted net assets at October 1, 2018 of approximately \$20 million.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (a) the classification and measurement of investments in equity securities and (b) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the Corporation for the annual reporting period ending September 30, 2020. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance introduces a lessee model that brings substantially all leases into the balance sheet. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which clarifies some of the provisions of ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842)—Targeted Improvements*, which provides an additional transition method when adopting ASU No. 2016-02, and also provides additional guidance to lessors with a practical expedient for separating components of a contract. This guidance is effective for the Corporation beginning on October 1, 2019. Retrospective application is required. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. This guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. This guidance is effective for the Corporation for the annual reporting period ending September 30, 2019. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statement of cash flows. This guidance is effective for the Corporation for the annual reporting period ending September 30, 2020. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows—Restricted Cash*, which requires the statement of cash flows to explain changes during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This ASU is effective for the Corporation for the annual reporting period ending September 30, 2020. Upon adoption, the Corporation will include restricted cash and restricted cash equivalents within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts on the consolidated statement of cash flows and related disclosures. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805)—Clarifying the Definition of a Business*, which provides a framework to use in determining when a set of assets and activities is a business. This ASU is effective for the Corporation for the annual reporting period ending September 30, 2020. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies whether a transfer of assets is a contribution or an exchange transaction. This guidance is effective for the Corporation beginning October 1, 2019. The Corporation has concluded that this guidance will not have a material impact on its consolidated statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements. This guidance is effective for the Corporation beginning October 1, 2020. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits – Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for entities with defined benefit plans. This guidance is effective for the Corporation for the annual reporting period ending September 30, 2022. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which helps entities evaluate the fees paid by a customer in a cloud computing arrangement by providing guidance for determining when an arrangement includes a software license. This guidance is effective for the Corporation for the annual reporting period ending September 30, 2022. The Corporation has not determined the impact the adoption of this standard will have on its consolidated financial statements.

2. CHARITY CARE

The Corporation provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue, except to the extent reimbursed by the HSN. The Corporation also supports the delivery of health care services to the indigent through payments to the HSN, which is operated by the Commonwealth of Massachusetts. The estimated cost of unreimbursed charity care provided by the Corporation and net payments to the HSN for charity care, provided by other institutions, aggregated to \$6,155,922 and \$6,212,962 in 2018 and 2017, respectively. The estimated cost of unreimbursed charity care provided by the Corporation is based on the ratio of its total costs to total patient care charges applied to the amount of unreimbursed charity care charges.

3. PLEDGES RECEIVABLE

Pledges receivable as of September 30, 2018 and 2017, consisted of the following:

	2018	2017
Amounts due in:		
Less than one year	\$ 1,955,204	\$ 2,598,397
One to five years	<u>7,019,500</u>	<u>8,045,234</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible amounts	8,974,704	10,643,631
Less unamortized discount	<u>(805,153)</u>	<u>(1,277,218)</u>
Subtotal	8,169,551	9,366,413
Less allowance for uncollectible amounts	<u>(980,346)</u>	<u>(1,123,970)</u>
Net pledges receivable	<u>\$ 7,189,205</u>	<u>\$ 8,242,443</u>

Pledges receivable are reported in the consolidated balance sheets in other current assets and other assets and do not include conditional promises to give.

5. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2018 and 2017, consisted of the following:

	2018	2017
Land	\$ 5,728,236	\$ 5,728,236
Land improvements	4,124,903	3,174,840
Buildings	307,602,647	259,274,505
Fixed equipment	65,043,043	64,711,985
Major movable equipment	172,648,741	146,959,916
Internal use software	60,405,632	68,018,988
Construction in progress	6,441,346	38,722,053
Buildings and equipment under capital leases	18,021,436	17,253,725
Leasehold improvements	<u>19,729,099</u>	<u>19,336,185</u>
Total property and equipment	659,745,083	623,180,433
Less accumulated depreciation (including \$8,685,692 and \$10,489,000 of accumulated amortization of equipment under capital leases in 2018 and 2017, respectively)	<u>(350,053,465)</u>	<u>(320,195,783)</u>
Property and equipment—net	<u>\$ 309,691,618</u>	<u>\$ 302,984,650</u>

In November 2015, at a joint meeting of the health system boards (the "Health System Boards," consisting of the Corporation, the Hospital, CMA, and HPSO), \$236.5 million was authorized for the construction of a new critical care unit, refurbishment of the current unit into medical and surgical beds ("Critical Care Project"), and the acquisition and implementation of electronic medical records and enterprise resource planning systems ("IT Project"). The Health System Boards authorized \$203.4 million for the Critical Care Project, the IT Project, and other routine capital expenditures to be financed through long-term debt (see Note 7). The total amount of assets placed in service for the IT Project was \$85,544,914 as of September 30, 2018. The total amount of assets placed in service for the Critical Care Project was \$53,558,288 as of September 30, 2018.

6. LONG-TERM DEBT

Long-term debt as of September 30, 2018 and 2017, consisted of the following:

	2018	2017
South Shore Hospital, Series D	\$ 740,000	\$ 2,045,000
South Shore Hospital, Series 2012	60,291,667	63,464,167
South Shore Hospital, Series H	18,444,444	19,111,111
South Shore Hospital, Series I	112,520,000	114,935,000
South Shore Property, Series A	<u>40,985,000</u>	<u>42,930,000</u>
Total bonds	232,981,111	242,485,278
Unamortized premium	16,273,045	16,999,817
Unamortized issue costs	<u>(3,115,808)</u>	<u>(3,334,191)</u>
Total long-term debt	246,138,348	256,150,904
Less current portion	<u>9,452,500</u>	<u>9,504,167</u>
Long-term debt - net	<u>\$ 236,685,848</u>	<u>\$ 246,646,737</u>

The Corporation is obligated under various revenue bonds issued by the Massachusetts Development Finance Agency (MDFA) (formerly, the Massachusetts Health and Educational Facilities Authority). The terms of the related loan and trust agreements place limits on the incurrence of additional borrowings and contain various covenants and financial ratio requirements. Additionally, the Corporation has granted a lien on its revenue and gross receipts from all sources (other than gifts, grants, or bequests which, by their terms, may not be legally available for debt service) as collateral for the borrowings. The Corporation is also required to maintain certain funds, which are held by trustees. Such funds are included with assets whose use is limited. The revenue bonds require periodic interest payments and principal payments to these funds held in trust, which are proportionate to the annual interest and principal payments or sinking fund installments.

In May 1992, the Corporation issued through MDFA \$53,825,000 of general obligation fixed-rate bonds ("Series D"). The proceeds were used to refund \$31,540,000 of Series B bonds and to fund various capital expenditures.

In February 2008, the Corporation issued through MDFA \$94,585,000 of tax-exempt variable rate revenue bonds ("Series G"), the proceeds of which were used to refund its Series E bonds in the amount of \$10,905,000; refund \$34,170,000 of Series F bonds; fund new capital expenditures, including the construction of a new parking garage; and pay issuance costs. The Series G bonds were refinanced in September 2012 through the issuance of an MDFA \$78,330,000 private placement with Sovereign Bank ("Series 2012"). Principal repayment on the debt is based on a 30-year amortization beginning in November 2012 with a final payment due in 2024. Interest payments are based on 67% of 30-day London InterBank Offered Rate (LIBOR).

In May 2016, the Corporation issued through MDFA a \$20,000,000 private placement with Santander Bank for the construction of a new critical care unit and renovation of the existing critical care unit ("Series H"). Principal repayment on the debt is based on a 30-year amortization with payments beginning in June 2016. The bonds are subject to mandatory purchase on May 10, 2026, at 100% of the outstanding principal amount, plus accrued interest to the purchase date. Interest payments are based on 67% of 30-day LIBOR.

In May 2016, the Corporation issued through MDFA \$117,245,000 of tax-exempt general obligation fixed-rate bonds ("Series I"). The bonds were used to refund \$17,310,000 of Series F bonds and \$17,916,667 of the Series 2011 private placement with Santander Bank, as well as fund system-wide enhancements to the Corporation's information technology (IT) platform, the construction of a new critical care unit and renovation of the existing critical care unit, and other miscellaneous capital projects.

In July 2008, SSP issued through MDFA \$45,000,000 of variable rate demand revenue bonds ("Series A"), the proceeds of which were used to fund the construction of the Ambulatory Cancer Center (ACC) and pay issuance costs. In 2010, SSP refinanced the Series A bonds through the issuance of tax-exempt private placement debt with Wells Fargo Bank (the "replacement debt"). The replacement debt bears interest at a fixed rate of 2.99% and is payable in interest only through maturity in June 2016, at which time the outstanding principal is due. In May 2016, the debt was refinanced again with Wells Fargo Bank with a fixed rate of 2.47% and a maturity date of March 2033. The Corporation has also provided a guarantee to Wells Fargo Bank as part of the debt replacement. The debt has been classified in the accompanying consolidated financial statements based on the replacement terms of the replacement debt.

In July 2008, SSP received a fixed-rate loan of \$15,000,000 from Wachovia Bank (now Wells Fargo Bank) ("Bank Loan"). The proceeds were used to fund the construction of the ACC. The loan was repaid in full as of September 30, 2017.

The Corporation's long-term debt bears interest and matures as follows:

Issue	Interest Rate	Rate at September 30, 2018	Final Maturity
Series I	4%–5%		2041
Series H	Variable	2.92%	2046
Series 2012	Variable	2.92%	2024
Series D	6.50%		2022
Series A	2.47%		2033
Average variable rate		2.52 %	

Funds held by trustees under debt agreements were composed of debt service funds of \$2,263,365 and unexpended bond funds of \$4,894,737 at September 30, 2018, and debt service funds of \$2,574,666 and \$30,877,859, respectively, at September 30, 2017.

Interest Rate Swap Agreement—In October 2008, the Corporation entered into a fixed-pay LIBOR swap agreement with an original notional amount of \$94,065,000 with an investment bank to hedge against possible future interest rate increases on the variable rate debt outstanding. The Corporation's fixed interest rate on the fixed-pay LIBOR swap was 3.325%. The Corporation in return received 67% of LIBOR (2.256% and 1.235% at

September 30, 2018 and 2017, respectively) from the investment bank. The Corporation has elected not to apply hedge accounting to the swap. The gain on the swap of \$3,581,205 and \$4,278,082 for the years ended September 30, 2018 and 2017, respectively, is included in nonoperating gains and losses in the accompanying consolidated statements of operations and changes in net assets. The fair value of the interest rate swap agreement of \$5,356,027 and \$9,011,557 at September 30, 2018 and 2017, respectively, is included in other long-term liabilities in the accompanying consolidated balance sheets.

The Hospital and the counterparty in the interest rate swap agreement are exposed to credit risk in the event of nonperformance or early termination of the agreements. Depending upon the market price and the counterparty's credit risk at the calculation date, the counterparty is required to either collateralize or insure any aggregate exposure in excess of \$100,000.

Line of Credit—The Corporation has a committed revolving line-of-credit agreement with a bank under which the Corporation is permitted to borrow up to \$20,000,000 through July 31, 2020. Borrowings under the agreement bear interest at one of various rates, which are determined at the time of the borrowing, based upon the Corporation's election, and are unsecured. The Corporation did not borrow and had no outstanding amounts under the line of credit during 2018 or 2017.

Payments on Debt—Annual principal payments on long-term debt as of September 30, 2018, were as follows:

Years Ending September 30	
2019	\$ 9,452,500
2020	10,520,833
2021	10,012,500
2022	10,099,167
2023	10,548,333
Thereafter	<u>182,347,778</u>
Total	<u>\$ 232,981,111</u>

7. CAPITAL LEASE AND OPERATING LEASE OBLIGATIONS

The Corporation leases certain of its facilities and equipment under long-term capital leases expiring through 2029 and noncancelable operating leases expiring through 2033. The operating leases generally provide for renewal options and require that the Corporation pay its share of operating expenses. Future minimum annual lease payments under capital lease obligations and noncancelable operating leases as of September 30, 2018, were as follows:

Years Ending September 30	Capital Lease Obligations	Operating Leases
2019	\$ 2,400,343	\$ 5,469,755
2020	2,362,682	5,139,712
2021	2,331,253	4,944,118
2022	2,083,240	4,843,945
2023	1,469,541	5,003,160
Thereafter	<u>10,509,577</u>	<u>39,272,898</u>
Total	21,156,636	<u>\$ 64,673,588</u>
Less amounts representing interest	<u>8,970,435</u>	
	12,186,201	
Less current portion	<u>1,074,383</u>	
Total	<u>\$ 11,111,818</u>	

Rent expense under operating leases for the years ended September 30, 2018 and 2017 was approximately \$5,530,000 and \$6,300,000, respectively, and is recorded in supplies and other in the accompanying consolidated statements of operations and changes in net assets. Future minimum annual sublease receipts under noncancelable subleases are as follows:

Years Ending September 30	
2019	\$ 5,469,755
2020	5,139,712
2021	4,944,118
2022	4,843,945
2023	5,003,160
Thereafter	<u>39,272,898</u>
Total	<u>\$ 64,673,588</u>

SSP has entered into leases for rental of space within the ACC. The leases commenced in October 2009 and extend through September 2029. Payments are dependent on SSP's debt service and other costs related to the ACC and are reported as other revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated rental income under the agreements is as follows:

**Years Ending
September 30**

2019	\$ 2,571,413
2020	2,604,243
2021	2,627,564
2022	2,660,777
2023	2,727,035
Thereafter	<u>16,946,132</u>
Total	<u>\$ 30,137,164</u>

8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2018 and 2017, are available for the following purposes or periods:

	2018	2017
Health care services:		
Purchase of equipment	\$ 5,845,979	\$ 3,982,614
Indigent care	813,154	841,777
Other health care services	6,786,875	5,316,847
For periods after September 30 (generally for capital)	<u>7,078,588</u>	<u>8,119,666</u>
Total	<u>\$ 20,524,596</u>	<u>\$ 18,260,904</u>

Capital appreciation of permanently restricted net assets, included above, amounted to \$2,174,714 and \$2,096,730 as of September 30, 2018 and 2017, respectively.

Permanently restricted net assets as of September 30, 2018 and 2017, were restricted to the following:

	2018	2017
Investments to be held in perpetuity, the income from which is expendable for the following purposes:		
Purchase of equipment	\$ 100,000	\$ 100,000
Indigent care	655,934	655,933
Other health care services (restricted)	527,586	225,977
Other health care services (unrestricted)	<u>2,283,049</u>	<u>2,283,049</u>
 Total	 <u>\$ 3,566,569</u>	 <u>\$ 3,264,959</u>

Endowment Funds—The Corporation’s endowment consists of approximately 30 funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law—The Corporation has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. State law allows the Board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering the Corporation’s long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions, subject to certain limits. For the years ended September 30, 2018 and 2017, the Board did not appropriate any funds.

As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present and (b) the original value of the subsequent gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portions of the donor-restricted endowment funds are composed of accumulated gains not required to be maintained in perpetuity and are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the donors’ stipulations.

Endowment Net Asset Composition and Changes in Endowment Net Assets—A summary of the endowment net asset composition by type of fund as of September 30, 2018 and 2017, and the changes therein for the years then ended is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—October 1, 2016	\$ 1,683,237	\$ 3,244,959	\$ 4,928,196
Investment return—net appreciation	413,493		413,493
Gifts and interest	<u> </u>	<u>20,000</u>	<u>20,000</u>
Endowment net assets—September 30, 2017	2,096,730	3,264,959	5,361,689
Investment return—net appreciation	77,984		77,984
Gifts and interest	<u> </u>	<u>301,610</u>	<u>301,610</u>
Endowment net assets—September 30, 2018	<u>\$ 2,174,714</u>	<u>\$ 3,566,569</u>	<u>\$ 5,741,283</u>

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that donors require the Corporation to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2018 or 2017.

9. EMPLOYEE BENEFIT PLANS

The Hospital has a defined benefit pension plan (the “Plan”) covering substantially all employees. The Plan’s benefit formula is based on a participant’s service and highest five-year final-average level of compensation. The Hospital’s funding policy is to make contributions to the Plan at least equal to the minimum required under the law.

On December 21, 2005, the Corporation’s Board voted to freeze participation and future service credits under the Plan, effective January 1, 2007. Benefits under the Plan have been supplemented by a defined contribution plan consisting of the Corporation’s funded core and matching contribution features through a 403(b) plan. Pension expense related to the defined contribution plan was approximately \$16,015,000 and \$18,661,000 for the years ended September 30, 2018 and 2017, respectively, and is included in salaries, wages, and employee benefits expense in the statements of operations and changes in net assets.

The asset allocation for the Plan at the end of 2018 and 2017, and the target allocation for 2018, by asset category, is as follows:

	Target 2018	Percentage of Plan Assets at Year-End	
		2018	2017
Domestic equities	15 %	16 %	20 %
International equities	5	5	10
Investment-grade bonds	<u>80</u>	<u>79</u>	<u>70</u>
 Total	 <u>100 %</u>	 <u>100 %</u>	 <u>100 %</u>

The investment policy and strategy, as established by the Board, is to provide for growth of capital with a moderate level of volatility by investing assets based on the target allocations stated above. The Corporation rebalances its investments quarterly to meet the above target allocations. The Corporation reviews its investment policy periodically to determine if the policy or allocations should be changed.

To determine the expected long-term rate of return, the Corporation considers the historical returns of the major market indicators related to the target asset allocation, as well as the current economic and financial market conditions. As of September 30, 2018 and 2017, the funded status of the Plan was as follows:

	2018	2017
Fair value of Plan assets—end of year	\$ 171,107,694	\$ 172,023,786
Benefit obligation—end of year	<u>162,721,643</u>	<u>182,072,988</u>
 Net amount recognized—noncurrent pension asset (liability)	 <u>\$ 8,386,051</u>	 <u>\$ (10,049,202)</u>

Unrestricted net assets at September 30, 2018 and 2017, include unrecognized actuarial losses of \$36,484,000 and \$50,809,000, respectively, related to the Plan. Approximately, \$1,054,000 is expected to be recognized in net periodic pension costs in 2019. As of September 30, 2018 and 2017, the components of net pension cost were as follows:

	2018	2017
Service cost and assumed administrative expenses	\$ 600,000	\$ 800,000
Interest cost	6,765,345	7,394,575
Expected return on Plan assets	(7,696,170)	(8,628,862)
Recognized net actuarial loss	<u>1,388,446</u>	<u>2,070,246</u>
 Net pension cost	 <u>\$ 1,057,621</u>	 <u>\$ 1,635,959</u>

Weighted-average assumptions used to determine pension cost for the years ended September 30, 2018 and 2017, are as follows:

	2018	2017
Discount rate	4.32 %	3.82 %
Expected return on Plan assets	4.50	4.75

Expected Cash Flows—Expected benefit payments as of September 30, 2017, are as follows:

**Years Ending
September 30**

2019	\$ 10,451,917
2020	11,044,252
2021	11,094,954
2022	10,740,094
2023	10,698,496
2024–2027	51,221,405

No contribution is expected to be made to the Plan during the year ending September 30, 2019.

Changes in the benefit obligation due to Plan amendments are amortized on a straight-line basis over the average future service period of active participants expected to receive benefits.

10. MALPRACTICE AND WORKERS' COMPENSATION INSURANCE AND CONTINGENT LIABILITIES

Malpractice Insurance—Malpractice insurance coverage, including coverage for catastrophic claims, for the Corporation has been obtained on a claims-made basis and is subject to annual renewal. The Corporation intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage.

The Corporation maintains a program of self-insurance to provide for the cost of malpractice liabilities not covered under its claims-made policy. Malpractice expense is based upon estimates made by the Corporation's independent consulting actuary. At September 30, 2018 and 2017, the estimated malpractice liabilities, including unreported claims were approximately \$7,917,000 and \$7,536,000, respectively. Accrued malpractice claim costs as of September 30, 2018 and 2017, are reported without consideration of insurance recoveries.

Assets of the malpractice fund, which amounted to approximately \$4,612,000 and \$4,375,000 at September 30, 2018 and 2017, respectively, are reported as assets whose use is limited within internally designated investments.

Workers' Compensation Insurance—The Corporation is self-insured for workers' compensation claims. At September 30, 2018 and 2017, the net estimated amount of accrued claims, including a provision for unreported claims, was approximately \$6,816,000 and \$8,605,000, respectively. Such amounts are included in other long-term liabilities or accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

Other Contingencies—The Corporation has been named as a defendant in a number of legal proceedings, which have arisen in the normal course of business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future governmental review and interpretation, as well as regulatory actions unknown or unasserted at this time. Such compliance in the health care industry has recently come under increased governmental scrutiny, which could result in the imposition of significant fines and penalties, as well as significant repayments previously billed and collected revenue for patient services. Management does not believe that these matters will have a material adverse effect on the Corporation’s consolidated financial statements.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements—GAAP provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as follows: Level 1, which refers to securities valued using unadjusted quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

As of September 30, 2018 and 2017, information about the Corporation’s financial assets and liabilities that are measured at fair value on a recurring basis are as follows:

2018	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Assets:				
Cash and money market investments	\$ 19,410,124	\$ -	\$ -	\$ 19,410,124
Mutual funds	80,726,982			80,726,982
Other	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets at fair value	<u>100,137,106</u>	<u>-</u>	<u>-</u>	<u>100,137,106</u>
Investments measured at net asset value (NAV):				
Common collective trusts				201,900,278
Money market funds				<u>4,894,737</u>
Total investments measured at NAV				<u>206,795,015</u>
Total assets	<u>\$ 100,137,106</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 306,932,121</u>
Liabilities—interest rate swap	<u>\$ -</u>	<u>\$ (5,356,027)</u>	<u>\$ -</u>	<u>\$ (5,356,027)</u>

2017	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Assets:				
Cash and money market investments	\$ 10,109,155	\$ -	\$ -	\$ 10,109,155
Mutual funds	79,936,112			79,936,112
Other		<u>1,000,000</u>		<u>1,000,000</u>
Total assets at fair value	<u>90,045,267</u>	<u>1,000,000</u>	<u>-</u>	<u>91,045,267</u>
Investments measured at NAV:				
Common collective trusts				189,080,936
Money market funds				<u>30,877,850</u>
Total investments measured at NAV				<u>219,958,786</u>
Total assets	<u>\$ 90,045,267</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 311,004,053</u>
Liabilities—interest rate swap	<u>\$ -</u>	<u>\$ (9,011,557)</u>	<u>\$ -</u>	<u>\$ (9,011,557)</u>

As of September 30, 2018 and 2017, information about the Corporation's pension plan assets that are measured at fair value on a recurring basis are as follows:

2018	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Assets:				
Cash and money market investments	\$ 793,025	\$ -	\$ -	\$ 793,025
Mutual funds	<u>142,966,511</u>			<u>142,966,511</u>
Total assets at fair value	<u>\$ 143,759,536</u>	<u>\$ -</u>	<u>\$ -</u>	143,759,536
Investments measured at NAV—Common collective trusts				
				<u>27,348,159</u>
Total assets				<u>\$ 171,107,695</u>

2017	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Assets:				
Cash and money market investments	\$ 1,063,627	\$ -	\$ -	\$ 1,063,627
Mutual funds	<u>126,721,877</u>	<u> </u>	<u> </u>	<u>126,721,877</u>
Total assets at fair value	<u>\$ 127,785,504</u>	<u>\$ -</u>	<u>\$ -</u>	127,785,504
Investments measured at NAV—Common collective trusts				<u>44,238,282</u>
Total assets				<u>\$ 172,023,786</u>

Transfers between Levels—The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended September 30, 2018 and 2017, there were no transfers between levels.

Asset Valuation Techniques—Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation techniques used for assets measured at fair value. There have been no changes in the techniques used at September 30, 2018 and 2017.

Cash and Money Market Investments—The carrying value of cash investments approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and actively traded. The fair values of certain money market funds are based on net asset values as practical expedients. There are no unfunded commitments on these investments. These investments are included in unexpended bond proceeds and debt service funds in the accompanying consolidated balance sheets.

Mutual Fund Investments—Mutual fund investments are valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held are deemed to be actively traded.

Common Collective Trusts—The estimated fair values of common collective trusts are determined based upon information provided by the trustee. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund, less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investments for amounts different than the reported NAV. The Corporation's interest may be redeemed at NAV on a daily basis with no redemption restrictions. At September 30, 2018 and 2017, there were no unfunded commitments to the common collective trusts.

Pledges Receivable—The current yields for one to 10-year US Treasury notes are used to discount pledges receivable. The Corporation considers these yields to be a Level 2 input in the context of the fair value hierarchy. Pledges received during 2018 were discounted at rates ranging from 1.92% to 3.05% (1.26% to 1.93% in 2016). Pledges received in 2018 and 2017, which have been recorded at fair value, totaled approximately \$2,083,000 and \$8,021,000, respectively.

Interest Rate Swap—The Corporation uses inputs other than quoted prices that are observable to value the interest rate swap. The Corporation considers these inputs to be Level 2 inputs in the context of the fair value hierarchy. The fair value of the interest rate swap liability was approximately \$5,356,000 and \$9,012,000 at September 30, 2018 and 2017, respectively. This value represents the estimated amount the Corporation would receive or pay to terminate agreements, taking into consideration current interest rates and the current creditworthiness of the counterparty.

The following methods and assumptions were used by the Corporation in estimating the fair value of the Corporation's financial instruments that are not measured at fair value on a recurring basis for disclosures in the consolidated financial statements:

Accounts Receivable, Other Current and Noncurrent Assets, Accounts Payable and Accrued Liabilities, and the Accrual for Estimated Settlements with Third-Party Payors—The carrying amounts of these items are reasonable estimates of their fair value.

Long-Term Debt—The fair value of the Corporation's long-term debt is estimated based on quoted market prices for the same or similar issues. The fair value inputs for long-term debt are considered Level 2. The fair value of long-term debt was approximately \$265,193,000 and \$281,711,000 at September 30, 2018 and 2017, respectively.

12. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Corporation to concentrations of credit risk are patient accounts receivable, cash and cash equivalents, pledges receivable, and investments. The Corporation invests available cash in money market securities of various banks, commercial paper of domestic companies with high-credit ratings, common collective trusts, mutual funds, and securities backed by the US government.

The Corporation is located in southeastern Massachusetts and grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The Corporation's accounts receivable, net of contractual allowances, and net revenue from patients and third-party payors as of and for the years ended September 30, 2018 and 2017, were as follows:

	Accounts Receivable		Net Revenue	
	2018	2017	2018	2017
Medicare	29 %	26 %	37 %	36 %
Medicaid	10	6	9	5
BlueCross and HMOs	36	44	45	49
Self-pay patients	15	10	1	1
Commercial	4	4	5	6
Other third-party payors	<u>6</u>	<u>10</u>	<u>3</u>	<u>3</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

A significant portion of the accounts receivable from HMOs is derived from BlueCross and two other Massachusetts-managed care companies. Although management expects the amounts recorded as net accounts receivable to be collectible at September 30, 2018, this concentration of credit risk is expected to continue in the near term.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 20, 2018, the date of issuance of these consolidated financial statements.

On November 16, 2018, South Shore Health System, Inc. acquired for \$33 million, Health Express, Inc., a company that provides urgent care services in various locations throughout the South Shore of Massachusetts. The purchase resulted in a note payable to the seller of \$9.9 million at an interest rate of 4% per year, due November 1, 2025, and bank financing of \$23.1 million, at an interest rate based on LIBOR, plus 2.25% through November 16, 2028. The bank financing has various financial covenants, including debt service coverage ratios, liquidity requirements, and debt to revenue ratios. Management has not completed the initial accounting for the acquisition as of the date of these consolidated financial statements.

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SUPPLEMENTAL CONSOLIDATING SCHEDULES

**SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION
AS OF SEPTEMBER 30, 2018**

	South Shore Health System, Inc.	South Shore Hospital, Inc.	South Shore Property, Inc.	Coastal Medical Associates, Inc.	Health Provider Services Organization	Connected Care of Southeastern Massachusetts, Inc.	Eliminations	Total
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 11,729,310	\$ 33,331,372	\$ 1,755,817	\$ 5,864,121	\$ -	\$ 1,490,660	\$ -	\$ 54,171,280
Short-term investments	56,453,064							56,453,064
Current portion of assets whose use is limited		1,995,236	2,920,633			3,468,990		8,384,859
Patient accounts receivable—net		69,412,985		5,951,399				75,364,384
Inventories		8,506,410		454,007				8,960,417
Prepaid and other current assets		16,434,897	191,180	3,850,202		768,156		21,244,435
Due from affiliates		2,116,384		331,619			(2,448,003)	-
Total current assets	<u>68,182,374</u>	<u>131,797,284</u>	<u>4,867,630</u>	<u>16,451,348</u>	<u>-</u>	<u>5,727,806</u>	<u>(2,448,003)</u>	<u>224,578,439</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:								
Internally designated investments		209,220,561						209,220,561
Donor-restricted investments	2,827,127	13,876,886						16,704,013
Other investments	587,000	5,998,046		4,689,841				11,274,887
Debt service funds and unexpended bond proceeds		4,894,737						4,894,737
Total assets whose use is limited or restricted—net of current portion	<u>3,414,127</u>	<u>233,990,230</u>	<u>-</u>	<u>4,689,841</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>242,094,198</u>
PROPERTY AND EQUIPMENT—Net	244,673	265,264,479	40,695,330	3,487,136				309,691,618
PENSION ASSET		8,386,051						8,386,051
OTHER ASSETS	<u>66,000</u>	<u>27,393,946</u>		<u>92,840</u>		<u>5,235,500</u>		<u>32,788,286</u>
TOTAL	<u>\$ 71,907,174</u>	<u>\$ 666,831,990</u>	<u>\$ 45,562,960</u>	<u>\$ 24,721,165</u>	<u>\$ -</u>	<u>\$ 10,963,306</u>	<u>\$ (2,448,003)</u>	<u>\$ 817,538,592</u>

**SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION
AS OF SEPTEMBER 30, 2018**

	South Shore Health System, Inc.	South Shore Hospital, Inc.	South Shore Property, Inc.	Coastal Medical Associates, Inc.	Health Provider Services Organization	Connected Care of Southeastern Massachusetts, Inc.	Eliminations	Total
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Current portion of long-term debt	\$ -	\$ 7,422,500	\$ 2,030,000	\$ -	\$ -	\$ -	\$ -	\$ 9,452,500
Current portion of capital lease obligations		1,074,383						1,074,383
Accounts payable and accrued liabilities	22,566	75,914,402	3,053,119	7,940,587		1,071,159		88,001,833
Current portion of estimated settlements with third-party payors		4,126,052		3,924,690		10,471,000		18,521,742
Due to affiliates	<u>440,727</u>		<u>16,377</u>	<u>1,989,487</u>		<u>1,412</u>	<u>(2,448,003)</u>	<u>-</u>
Total current liabilities	463,293	88,537,337	5,099,496	13,854,764	-	11,543,571	(2,448,003)	117,050,458
LONG-TERM DEBT—Net of current portion		198,052,899	38,632,949					236,685,848
CAPITAL LEASE OBLIGATIONS—Net of current portion		11,111,818						11,111,818
ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYOR—Net of current portion		36,220,278						36,220,278
MALPRACTICE LIABILITY		7,615,765						7,615,765
OTHER LONG-TERM LIABILITIES	<u>84,790</u>	<u>20,731,976</u>		<u>6,804,657</u>				<u>27,621,423</u>
Total liabilities	<u>548,083</u>	<u>362,270,073</u>	<u>43,732,445</u>	<u>20,659,421</u>	<u>-</u>	<u>11,543,571</u>	<u>(2,448,003)</u>	<u>436,305,590</u>
NET ASSETS:								
Unrestricted	68,223,401	283,606,442	1,830,515	4,061,744		(580,265)		357,141,837
Temporarily restricted	1,273,889	19,250,707						20,524,596
Permanently restricted	<u>1,861,801</u>	<u>1,704,768</u>						<u>3,566,569</u>
Total net assets (deficit)	<u>71,359,091</u>	<u>304,561,917</u>	<u>1,830,515</u>	<u>4,061,744</u>	<u>-</u>	<u>(580,265)</u>	<u>-</u>	<u>381,233,002</u>
TOTAL	<u>\$ 71,907,174</u>	<u>\$ 666,831,990</u>	<u>\$ 45,562,960</u>	<u>\$ 24,721,165</u>	<u>\$ -</u>	<u>\$ 10,963,306</u>	<u>\$(2,448,003)</u>	<u>\$ 817,538,592</u>

(Concluded)

**SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	South Shore Health System, Inc.	South Shore Hospital, Inc.	South Shore Property, Inc.	Coastal Medical Associates, Inc.	Health Provider Services Organization	Connected Care of Southeastern Massachusetts, Inc.	Eliminations	Total
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:								
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 590,335,778	\$ -	\$ 71,752,755	\$ -	\$ (10,471,000)	\$ 270,194	\$ 651,887,727
Provision for bad debts		(14,849,392)		(827,773)				(15,677,165)
Net patient service revenue, less provision for bad debts	-	575,486,386	-	70,924,982	-	(10,471,000)	270,194	636,210,562
Premium revenue								
Other revenue	229,581	36,477,729	5,564,732	7,458,030	128,860	5,255,458	(8,384,501)	46,729,889
Net assets released from restrictions used for operations		3,372,871						3,372,871
Total unrestricted revenue, gains, and other support	229,581	615,336,986	5,564,732	78,383,012	128,860	(5,215,542)	(8,114,307)	686,313,322
EXPENSES:								
Salaries, wages, and employee benefits		362,749,174		38,788,087	43,845			401,581,106
Physician services		48,525,024		24,107,667	85,000	1,125,000	(6,029,464)	67,813,227
Supplies and other	7,504	152,210,017	1,741,747	17,458,373	15	6,489,723	(2,084,843)	175,822,536
Uncompensated care		5,614,915						5,614,915
Depreciation and amortization	187,003	27,586,605	1,501,543	875,338				30,150,489
Interest		9,423,246	1,265,162					10,688,408
Total expenses	194,507	606,108,981	4,508,452	81,229,465	128,860	7,614,723	(8,114,307)	691,670,681
OPERATING INCOME (LOSS)	35,074	9,228,005	1,056,280	(2,846,453)		(12,830,265)		(5,357,359)
NONOPERATING GAINS AND LOSSES:								
Investment income	567,903	936,356						1,504,259
Gain on sales of investments—net	935,783	251,756						1,187,539
Impairment of investments	(29,908)	(84,699)						(114,607)
Gain on interest rate swap agreements		3,581,205						3,581,205
Unrestricted gifts and bequests	8,482	575,472						583,954
Fund-raising costs		(2,721,635)						(2,721,635)
Pension cost		(1,057,621)						(1,057,621)
Nonoperating gains—net	1,482,260	1,480,834	-	-	-	-	-	2,963,094

(Continued)

**SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	South Shore Health System, Inc.	South Shore Hospital, Inc.	South Shore Property, Inc.	Coastal Medical Associates, Inc.	Health Provider Services Organization	Connected Care of Southeastern Massachusetts, Inc.	Eliminations	Total
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ 1,517,334	\$ 10,708,839	\$ 1,056,280	\$ (2,846,453)	\$ -	\$ (12,830,265)	\$ -	\$ (2,394,265)
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS	1,698,172	9,224,320						10,922,492
PENSION-RELATED ADJUSTMENTS		14,492,877						14,492,877
GAIN ON INTEREST RATE SWAP AGREEMENT		67,341						67,341
TRANSFERS TO (FROM) AFFILIATES	3,749,000	(21,999,000)		6,000,000		12,250,000		-
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR PURCHASE OF PROPERTY AND EQUIPMENT		873,430						873,430
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 6,964,506</u>	<u>\$ 13,367,807</u>	<u>\$ 1,056,280</u>	<u>\$ 3,153,547</u>	<u>\$ -</u>	<u>\$ (580,265)</u>	<u>\$ -</u>	<u>\$ 23,961,875</u>

(Concluded)