

Consolidated Financial Statements,
Supplementary Information and Report
of Independent Certified Public
Accountants

Shore Memorial Health System and Affiliates

December 31, 2025 and 2024



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Shore Memorial Health System

Opinion

We have audited the consolidated financial statements of Shore Memorial Health System and Affiliates, (the System), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

The accompanying consolidating and combining balance sheets as of December 31, 2025, and the related consolidating and combining statements of operations and changes in net assets for the year then ended are presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania
March 24, 2026

Shore Memorial Health System and Affiliates

CONSOLIDATED BALANCE SHEETS

December 31,

	2025	2024
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,868,714	\$ 5,869,904
Patient accounts receivable	29,537,184	28,211,326
Supplies	8,182,880	7,486,719
Prepaid expenses and other current assets	7,304,084	13,367,648
Total current assets	50,892,862	54,935,597
Assets limited as to use		
Internally designated by Board of Trustees	210,026,517	180,682,875
Externally designated by donor	1,313,433	1,136,263
Right of use assets - operating leases	4,451,817	4,920,806
Property and equipment, net	110,200,731	112,250,373
Other assets	13,869,255	20,845,584
Beneficial interest in perpetual trust	2,236,661	2,049,971
Total assets	\$ 392,991,276	\$ 376,821,469
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of lease liability - operating	\$ 931,851	\$ 855,022
Accounts payable, accrued expenses, and other current liabilities	37,126,523	38,732,160
Accrued vacation, holiday, and sick pay	3,796,865	3,845,708
Current portion of accrued retirement benefits	1,118,077	1,128,725
Estimated settlements due to third-party payors	8,943,272	8,181,055
Total current liabilities	51,916,588	52,742,670
Accrued retirement benefits, less current portion	15,175,768	13,821,588
Reserve for insurance claims, less current portion	2,515,391	3,174,109
Other long-term liabilities	304,933	708,147
Lease liability - operating, less current portion	3,684,264	4,221,767
Total liabilities	73,596,944	74,668,281
Net assets		
Without donor restrictions	315,047,079	298,365,863
With donor restrictions	4,347,253	3,787,325
Total net assets	319,394,332	302,153,188
Total liabilities and net assets	\$ 392,991,276	\$ 376,821,469

The accompanying notes are an integral part of these consolidated financial statements.

Shore Memorial Health System and Affiliates

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years ended December 31,

	2025	2024
Net assets without donor restrictions		
Revenues		
Patient service revenue	\$ 272,749,322	\$ 273,369,983
Other revenue	15,670,947	13,449,847
Total revenues	288,420,269	286,819,830
Expenses		
Salaries and wages	89,388,025	87,685,904
Physician salaries and fees	42,632,689	39,330,102
Employee benefits	20,018,071	20,949,818
Contracted services	49,174,381	51,347,752
Supplies and other	62,730,373	60,138,694
Depreciation	8,836,923	8,864,502
Total expenses	272,780,462	268,316,772
Operating income	15,639,807	18,503,058
Nonoperating gains (losses)		
Investment return, net	12,807,620	10,832,262
Other accrued retirement (cost) credit	(1,038,829)	624,981
Total nonoperating gains, net	11,768,791	11,457,243
Excess of revenues and gains over expenses and losses	27,408,598	29,960,301
Other changes in net assets without donor restrictions		
Other changes in accrued retirement benefits	(10,727,382)	4,887,821
Increase in net assets without donor restrictions	16,681,216	34,848,122
Net assets with donor restrictions		
Investment return, net	177,170	122,329
Other	196,068	235,510
Change in beneficial interest in perpetual trust	186,690	77,720
Increase in net assets with donor restrictions	559,928	435,559
INCREASE IN NET ASSETS	17,241,144	35,283,681
Net assets, beginning of year	302,153,188	266,869,507
Net assets, end of year	\$ 319,394,332	\$ 302,153,188

The accompanying notes are an integral part of these consolidated financial statements.

Shore Memorial Health System and Affiliates

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2025	2024
Cash flows from operating activities:		
Increase in net assets	\$ 17,241,144	\$ 35,283,681
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Other changes in accrued retirement benefits	10,727,382	(4,887,821)
Depreciation	8,836,923	8,864,502
Change in beneficial interest in perpetual trust	(186,690)	(77,720)
Net realized and unrealized gains and losses on investments	(7,050,088)	(9,058,590)
Changes in assets and liabilities:		
Patient accounts receivable	(1,325,858)	(12,502)
Supplies	(696,161)	(1,039,796)
Prepaid and other assets	6,558,514	(444,587)
Right of use assets/liability - operating, net	8,315	37,138
Accounts payable, accrued expenses, and other liabilities	(2,053,854)	3,985,597
Accrued vacation, holiday, and sick pay	(48,843)	(494,184)
Estimated settlements due to third-party payors	762,217	1,007,749
Accrued retirement benefits	(773,861)	(6,989,829)
Reserve for insurance claims	(613,715)	786,329
Net cash provided by operating activities	31,385,425	26,959,967
Cash flows from investing activities:		
Net purchases and sales of assets limited as to use	(22,470,724)	(17,014,304)
Additions to property and equipment, net	(8,915,891)	(8,592,129)
Net cash used in investing activities	(31,386,615)	(25,606,433)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,190)	1,353,534
Cash and cash equivalents, beginning of year	5,869,904	4,516,370
Cash and cash equivalents, end of year	\$ 5,868,714	\$ 5,869,904

The accompanying notes are an integral part of these consolidated financial statements.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2025 and 2024

NOTE A - ORGANIZATION AND BASIS OF PRESENTATION

Shore Memorial Health System (the Parent), a not-for-profit, tax-exempt corporation, functions as the parent corporation and provides leadership and coordination activities for its affiliates. The consolidated financial statements include the accounts of Shore Memorial Health System and its affiliates (collectively the System) as follows:

Shore Memorial Hospital d/b/a Shore Medical Center (the Medical Center) is a 203-bed not-for-profit, acute-care, tax-exempt hospital located in Somers Point, New Jersey. The Medical Center provides general health care services to residents within its geographic location for a wide range of inpatient and outpatient services, including medical, surgical, obstetrical, gynecological, pediatric, emergency, and ambulatory care.

Shore Health Services Corporation (Health Services) is a not-for-profit, tax-exempt controlled affiliate of the Medical Center, and maintains certain property for future development.

Brighton Bay LLC (Brighton Bay), a controlled affiliate of the Medical Center, is a for-profit limited liability corporation established to hold title and manage a medical office building.

Shore Memorial Physicians Group, P.C. (the Physicians Group), a controlled affiliate of the Medical Center, is a for-profit professional corporation established for the purpose of developing an employed physician network. The Physicians Group is designed to achieve a more integrated approach to the delivery of medical care for the community served by the Medical Center.

Shore Urgent Care, P.A. (Urgent Care), a controlled affiliate of the Physicians Group, is a for-profit professional corporation established for the purpose of operating urgent care centers in the community served by the Medical Center.

Shore Pathology Associates, P.C. (the Pathology Group), a controlled affiliate of the Medical Center, is a for-profit professional corporation established for the purpose of employing pathologists that work at the Medical Center.

Shore Specialty Consultants, P.A. (the Specialists Group), a controlled affiliate of the Medical Center, is a for-profit professional association established for the purpose of developing an employed specialty physician network to service the medical needs of the community.

Shore Hospitalists Associates, P.A. (the Hospitalists Group), a controlled affiliate of the Medical Center, is a for-profit professional association established for the purpose of developing an employed physician network to service inpatients at the Medical Center.

Shore Quality Partners LLC (Quality Partners), a controlled affiliate of the Medical Center, is a for-profit limited liability corporation established for the purpose of developing an integrated physician network that does not employ physicians.

Shore Quality Partners ACO, LLC (SQP ACO), a controlled affiliate of the Medical Center, is a for-profit limited liability corporation established in order to participate in the Medicare Shared Savings program.

Shore Health Enterprises, Inc. (Enterprises), a for-profit corporation, and wholly owned by the Parent, is a Management Services Organization (MSO) that provides services to the Physicians Group.

Principles of Consolidation

The consolidated financial statements include the accounts of the System and its affiliates. All significant intercompany balances and transactions have been eliminated.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingencies at the date of and during the reporting period of the consolidated financial statements. Actual results could differ from those estimates. The most significant management estimates and assumptions are used in recording patient accounts receivable and patient service revenue, settlements with third-party payors, useful lives of property and equipment, imputed interest on leases, actuarial estimates for the postretirement benefit plans, self-insured reserves, and the reported fair values of certain assets and liabilities.

Fair Value of Financial Instruments

Financial instruments consist of cash equivalents, patient accounts receivable, investments and assets limited as to use, accounts payable, accrued expenses and estimated settlements due to third-party payors. The carrying amounts reported in the consolidated balance sheets for these items approximate fair value.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less, other than amounts classified as assets limited as to use.

Patient Accounts Receivable

The System recognizes a receivable when there is an unconditional right to payment, subject only to the passage of time. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments, are recorded as receivables since the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are recorded as a direct reduction to patient accounts receivable.

Supplies

Supplies are stated at the lower of cost, determined by the average cost method, or market.

Assets Limited as to Use

Assets internally designated by the Board of Trustees are resources over which the Board of Trustees retains control and that have been designated for future acquisition of property and equipment, deferred compensation plans, and other purposes, determined at the discretion of the Board of Trustees.

Assets externally designated by donor, include funds from donors for specific purposes and permanent trusts to be held by the System, with the income to be used in accordance with the donor intentions.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair values are based on quoted market prices. Investment income and realized and unrealized gains and losses are recorded as nonoperating gains (losses) on the consolidated statements of operations and changes in net assets.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

Property and Equipment

Property and equipment are recorded at cost. Donated assets are recorded at their fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is completed using the straight-line method based.

Leases

Arrangements are determined if they are a lease at inception of the contract. Right of use assets represent the right to use the underlying assets for the lease term and lease liabilities represent the System's obligation to make lease payments arising from the leases. Right of use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. An estimated incremental borrowing rate, which is derived from information available at the lease commencement date, is used in determining the present value of lease payments. The System determines this rate based on information obtained from its bankers and publicly available data for instruments with similar characteristics.

The operating leases are primarily for real estate, including off-campus outpatient facilities and medical office buildings. The real estate lease agreements typically have initial terms of five to ten years, and equipment lease agreements typically have initial terms of three to five years. Leases with an initial term of 12 months or less (short-term leases) are not recorded in the consolidated balance sheets.

Real estate leases may include one or more options to renew, with renewals that typically can extend the lease term from five to ten years. The exercise of lease renewal options is at the System's sole discretion. In general, these renewal options are not considered to be reasonably likely to be exercised, therefore, renewal options are generally not recognized as part of right of use assets and lease liabilities. The useful life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain lease agreements for real estate include payments based on actual common area maintenance expenses. These variable lease payments are recognized in other operating expenses, net, but are not included in the right-of-use asset or liability balances. The lease agreements do not contain any material residual value guarantees, restrictions or covenants.

Beneficial Interest in Perpetual Trust

Beneficial interest in perpetual trust (Craven Estate) is stated at fair value. The trust is perpetual in nature, and the original corpus cannot be expended. The trust and changes in the System's beneficial interest are reported within net assets with donor restrictions.

Reserve for Insurance Claims

The System maintains a claims-made malpractice insurance coverage through a commercial insurance carrier and participates in a group trust for workers' compensation coverage. Estimated liabilities relating to asserted and unasserted claims are recorded as reserve for insurance claims in the consolidated balance sheets. The estimate for unreported incidents and losses is actuarially determined based on System-specific and industry-experience data. Receivables for expected insurance recoveries are included in other assets on the consolidated balance sheets.

Advertising Costs

The System expenses advertising costs as incurred. For the years ended December 31, 2025 and 2024, advertising costs are \$725,965 and \$896,168, respectively, which are included in contracted services on the consolidated statements of operations and changes in net assets.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

Net Assets With Donor Restrictions

Certain net assets are restricted to use by the System which has been limited by donors to a specific time period or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified into net assets without donor restrictions and reported as net assets released from restrictions.

Certain net assets have been restricted by donors to be maintained by the System or outside trustees in perpetuity. As specified by donor, the income earned on these investments is expendable for nursing scholarships and capital acquisitions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions if for operating purposes and as other changes in net assets without donor restrictions if for capital purposes in the consolidated statements of operations and changes in net assets.

Patient Service Revenue

Patient service revenue is reported at the amounts that reflect the consideration to which the System is expected to be entitled to in exchange for providing patient care for both the Medical Center and any eligible physicians. These amounts are due from patients, third-party payors (including managed care organizations and government programs, i.e., Medicare and Medicaid), and others and include variable consideration for retroactive adjustments due to settlement of future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to patients.

Performance obligations are determined based on the nature of the services provided. The System recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The System believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations are satisfied over time relate to patients receiving inpatient acute care services. The System measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The System recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) when it is believed the patient does not require additional services.

Excess of Revenues and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include the excess of revenues and gains over expenses and losses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues and gains over expenses and losses, includes other changes in accrued retirement benefit liabilities.

Income Taxes

The Parent, the Medical Center and the Health Services are not-for-profit corporations and have been recognized as tax-exempt for federal income tax purposes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Parent, the Medical Center and the Health Services are also exempt from state income

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

taxes. Brighton Bay, the Physicians Group, Urgent Care, the Pathology Group, the Specialists Group, the Hospitalists Group, Quality Partners, SQP ACO, and Enterprises are taxable entities. The System follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The System does not believe its consolidated financial statements include any uncertain tax positions.

NOTE C - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following:

	December 31,	
	2025	2024
Cash and cash equivalents	\$ 5,868,714	\$ 5,869,904
Patient accounts receivable	29,537,184	28,211,326
Assets limited as to use, internally designated by Board of Trustees	210,026,517	180,682,875
	245,432,415	214,764,105
Available line of credit (Note I)	22,000,000	22,000,000
	\$ 267,432,415	\$ 236,764,105

Excess cash is invested in accordance with the Board of Trustees’ investment policy and there are no investments with purchase commitments at December 31, 2025.

NOTE D - UNCOMPENSATED CARE

The System provides charity care to patients who meet certain financial criteria established by the State of New Jersey. The cost of services provided and supplies furnished under its charity care policy is estimated using internal data and is calculated based on the System’s cost to charge ratio. The total direct and indirect amount of charity care provided, determined on the basis of cost, was approximately \$1,638,800 and \$1,656,050 for the years ended December 31, 2025 and 2024, respectively.

The System’s patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the System accepts all patients regardless of their ability to pay. This policy results in the assumption of higher-than-normal patient accounts receivable credit risks. To the extent the System realizes additional losses resulting from such higher credit risk or patients who are not identified or do not meet the previously described charity definition, such additional losses are considered implicit price concessions.

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

The New Jersey Health Care Reform Act of 1992, Chapter 160, established the Health Care Subsidy Funds (NJCCSF) to provide a mechanism and funding source to compensate certain hospitals for charity care. For the years ended December 31, 2025 and 2024, the System recognized from NJCCSF \$3,484 and \$147,756, respectively. Effective July 1, 2024, a portion of the NJCCSF was shifted into a new Medicaid

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

State Directed Payment Program (MSDPP). For the years ended December 31, 2025 and 2024, the System recognized from MSDPP \$3,931,966 and \$2,020,276, respectively. The NJCCSF and MSDPP funding is included in patient service revenue in the consolidated statements of operations and changes in net assets. These amounts are subject to change from year to year based on available state budget amounts and allocation methodologies.

NOTE E - PATIENT SERVICE REVENUE

The System disaggregates revenues from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenues and cash flows as affected by economic factors. Tables providing details of these factors are presented below.

The composition of patient care service revenues by primary payor is as follows:

	December 31,	
	2025	2024
Medicare and Medicaid	46%	46%
Blue Cross	34	28
Comprehensive and managed care	14	19
Other third-party payors	2	2
Self-pay	4	5
	<u>100%</u>	<u>100%</u>

Revenues from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor. The composition of patient care service revenues by type of service is as follows:

	December 31,	
	2025	2024
Inpatient	37%	37%
Outpatient	57	55
Physician services	6	8
	<u>100%</u>	<u>100%</u>

The System has agreements with third-party payors that provide for payments to the System at amounts different from established charges. Inpatient acute care services for Medicare and Medicaid beneficiaries and outpatient services for Medicare beneficiaries are paid primarily at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain outpatient services for Medicaid beneficiaries are paid based on a cost-reimbursement methodology, subject to certain limitations. The System is reimbursed for cost reimbursable and other items at a tentative rate, with final settlement determined after submission of annual cost reports by the System and audits thereof, by the programs' fiscal intermediary. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. Differences between the estimated adjustments and the amounts settled are recorded in the year of settlement. The System's cost reports have been audited and settled by the fiscal intermediaries for Medicare through December 31, 2022 and for Medicaid through December 31, 2023.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

In the opinion of management, adequate provision has been made in the consolidated financial statements for any adjustments that may result from the final settlement of the System's cost reports. For the years ended December 31, 2025 and 2024, patient service revenue includes revenue of approximately \$766,500 and \$685,000, respectively, related to favorable final settlements of prior year cost reports and other changes in estimates.

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 System 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 would have a material adverse effect on the consolidated financial statements. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of the contractual rates for the services rendered. For uninsured patients who do not qualify for the New Jersey Charity Care Assistance Program, the Hospital recognizes revenue based on discounted rates in accordance with New Jersey law governing hospital charges to uninsured patients. Consistent with these statutory requirements, uninsured patients who are ineligible for government assistance programs are billed amounts that generally do not exceed 115% of the applicable Medicare rate. These discounted amounts are intended to approximate the cost of providing care and are reflected in the Hospital's Uninsured Self-Pay Patient Discount Policy. The impact of this Uninsured Self Pay Discount Policy on the consolidated financial statements is lower patient service revenue, as the discount is considered a pricing constraint.

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the patients' responsibility, and the System considers these amounts in its determination of the implicit price concessions based on collection experience.

The System is also eligible to receive additional Medicaid funding under the New Jersey County Option Hospital Fee Program. This program is administered through the New Jersey Department of Human Services-Division of Medical Assistance and Health Services for Atlantic County, New Jersey. The program requires that participating hospitals pay quarterly assessed fees based on estimated Medicaid utilization data within the county, and such payments are then pooled with federal Medicaid matching funds and redistributed to the participating hospitals as State Directed Payments. The State Directed Payments are subject to an annual settlement based on actual Medicaid utilization data and other factors. As of July 1, 2025, the program has not been extended by the Centers of Medicare & Medicaid Services (CMS), as such no amounts have been recorded after that date. For the years ended December 31, 2025 and 2024, the System paid assessments of \$3,499,950 and \$5,778,277, respectively, which are included in supplies and other expenses in the consolidated statements of operations and changes in net assets and received Medicaid State Directed Payments of \$8,922,013 and \$13,492,544, respectively, which are included in patient service revenue in the consolidated statements of operations and changes in net assets.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

NOTE F - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is set forth in the following table. Investments are stated at fair value.

	December 31,	
	2025	2024
Internally designated by Board of Trustees		
Cash and cash equivalents	\$ 123,399,509	\$ 102,525,433
Certificates of deposit	19,560,971	18,644,632
Equity mutual funds	66,141,544	58,388,486
Fixed income mutual funds	149,202	127,345
U.S. equity securities	579,968	807,345
Insurance contracts	195,323	189,634
	\$ 210,026,517	\$ 180,682,875
Externally designated by donor		
Cash and cash equivalents	\$ 4,291	\$ 4,172
Certificates of deposit	57,165	57,165
Equity mutual funds	1,251,977	1,074,926
	\$ 1,313,433	\$ 1,136,263

Investment return net, for assets limited as to use, included in nonoperating gains (losses) are comprised of the following:

	December 31,	
	2025	2024
Investment return, net		
Interest and dividend income	\$ 5,757,532	\$ 1,773,672
Net realized gains on sales of investments	2,916,438	1,618,752
Change in unrealized gains and losses on investments	4,133,650	7,439,838
	\$ 12,807,620	\$ 10,832,262

NOTE G - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. A valuation framework has been outlined that creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures.

The System uses the fair value hierarchy as its valuation methodology and it is broken down into three levels based on the source of inputs as follows:

Level 1 - Valuations are based on unadjusted quoted market prices for identical assets.

Level 2 - Valuations are based on observable inputs and quoted market prices for similarly structured assets and liabilities.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

Level 3 - Valuations are based on unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

A financial instrument categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

In determining fair value, the System uses quoted prices and observable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. The fair values of perpetual trusts were determined based on the System's beneficial interest in the investments held in the trust which are measured at fair value. Fair value for pooled separate accounts and collective fund trusts within the defined benefit plan assets (Note K) is based upon the net asset value (NAV) per share of the investment.

The following fair value hierarchy tables present information about each major category of the System's financial assets, excluding assets invested in the System's defined benefit plan (see Note K), measured at fair value on a recurring basis as of:

December 31, 2025	Fair Value Measurements at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 129,272,514	\$ 129,272,514	\$ -	\$ -
Certificates of deposit	19,618,136	19,618,136	-	-
Equity mutual funds	67,393,521	67,393,521	-	-
Fixed income mutual funds	149,202	149,202	-	-
U.S. equity securities	579,968	579,968	-	-
Insurance contracts	195,323	-	195,323	-
Beneficial interest in perpetual trust	2,236,661	-	-	2,236,661
	<u>\$ 219,445,325</u>	<u>\$ 217,013,341</u>	<u>\$ 195,323</u>	<u>\$ 2,236,661</u>

December 31, 2024	Fair Value Measurements at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 108,399,509	\$ 108,399,509	\$ -	\$ -
Certificates of deposit	18,701,797	18,701,797	-	-
Equity mutual funds	59,463,412	59,463,412	-	-
Fixed income mutual funds	127,345	127,345	-	-
U.S. equity securities	807,345	807,345	-	-
Insurance contracts	189,634	-	189,634	-
Beneficial interest in perpetual trust	2,049,971	-	-	2,049,971
	<u>\$ 189,739,013</u>	<u>\$ 187,499,408</u>	<u>\$ 189,634</u>	<u>\$ 2,049,971</u>

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

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

At December 31, 2023	\$ 1,972,251
Net unrealized gain	<u>77,720</u>
At December 31, 2024	2,049,971
Net unrealized gain	<u>186,690</u>
At December 31, 2025	<u><u>\$ 2,236,661</u></u>

NOTE H - PROPERTY AND EQUIPMENT

	Estimated Useful Lives (in Years)	December 31,	
		2025	2024
Land	-	\$ 4,583,460	\$ 6,712,070
Land improvements	5 - 15	1,388,505	1,388,505
Buildings and improvements	10 - 40	224,674,960	220,652,701
Fixed equipment	10 - 20	34,468,746	33,471,302
Major movable equipment	3 - 10	<u>151,947,551</u>	<u>147,838,215</u>
		417,063,222	410,062,793
Less: accumulated depreciation		<u>(310,088,888)</u>	<u>(301,248,692)</u>
		106,974,334	108,814,101
Construction in progress		<u>3,226,397</u>	<u>3,436,272</u>
		<u><u>\$ 110,200,731</u></u>	<u><u>\$ 112,250,373</u></u>

Depreciation expense for the years ended December 31, 2025 and 2024 was \$8,836,923 and \$8,864,502, respectively.

Other assets in the consolidated balance sheets for the years ended December 31, 2025 and 2024 include commercial property held for sale at \$3,218,610 and \$1,090,000, respectively.

NOTE I - LINES OF CREDIT

The Medical Center has a revolving line of credit for \$20,000,000 at December 31, 2025 and 2024, with an interest rate of the Secured Overnight Financing Rate Data (SOFR) plus 1.00%, (6.75% and 4.49% at December 31, 2025 and 2024, respectively), which expires on November 1, 2026. At December 31, 2025 and 2024, no amounts were outstanding.

The Medical Center has an additional revolving line of credit for \$2,000,000 at December 31, 2025 and 2024, with an interest rate fixed by the bank at the time plus 1.75%, adjusted based upon the type of assets borrowed under sub-notes, as defined, that expires on November 1, 2026. At December 31, 2025 and 2024, no amounts were outstanding or sub-notes executed.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

NOTE J - LEASES

Lessee

Operating lease expense of \$1,095,942 and \$1,332,728, for the years ended December 31, 2025 and 2024, respectively, are included in supplies and other in the consolidated statements of operations and changes in net assets.

The weighted-average lease terms and discount rates for operating leases are as follows:

	December 31,	
	2025	2024
Weighted-average remaining lease term (years) Operating leases	5.01 years	5.5 years
Weighted-average discount rate Operating leases	4.0%	4.0%

Cash flow related to leases are as follows:

	December 31,	
	2025	2024
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash outflows related to operating leases	\$ 1,069,700	\$ 1,005,573
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	\$ 732,332	\$ -

The future minimum rental commitments for all noncancelable operating leases are as follows:

<u>Years Ending December 31,</u>	
2026	\$ 1,099,560
2027	1,121,813
2028	1,018,203
2029	1,029,098
2030	274,899
Thereafter	568,600
	5,112,173
Less: imputed interest	(496,058)
	\$ 4,616,115

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

Lessor

The System acts as lessor for certain office space under operating lease agreements with initial lease terms expiring at various dates through 2027. In addition, the leases generally contain renewal options that give the lessees the right to extend the leases for varying additional periods. The System has received lease prepayments related to two leases that are recorded as deferred revenue for \$551,235 and \$990,016 as of December 31, 2025 and 2024, respectively, and are included in accounts payable, accrued expenses, and other current liabilities and other long-term liabilities in the consolidated balance sheets. Revenue will be recognized over the lease term. Rental revenue for these leases where the System acts as lessor for the years ended December 31, 2025 and 2024 was \$ 525,739 and \$522,389, respectively, and is recorded as other revenue in the consolidated statements of operations and changes in net assets.

The future minimum amortization of income from the rental prepayment are \$330,004 and \$221,231 for the years ending December 31, 2026 and 2027, respectively.

NOTE K - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The System, through the Medical Center, has a noncontributory defined benefit pension plan (DB Plan) covering employees who meet prescribed eligibility requirements. The mortality table used for projecting the benefit obligations of the DB Plan for both years is the Pri-2012, modified with the annual updates for projected improvements to the MP-2022 Generational Mortality Tables for December 31, 2025 and 2024.

Additionally, the Medical Center sponsors a defined benefit health care plan that provides postretirement medical benefits (OPEB) to full-time employees who have worked 15 years and attain age 62 while employed with the Medical Center. Employees hired after January 1, 1995 are not eligible for the postretirement medical benefits. The OPEB contains cost-sharing features such as deductibles, coinsurance, and retiree contributions. The accounting for the OPEB anticipates future cost-sharing changes to the OPEB that are consistent with the Medical Center's expressed intent to increase the retiree contribution rate annually for the expected general inflation rate for that year. The Medical Center's policy is to fund the cost of medical benefits on a pay-as-you-go basis.

The Medical Center also has a supplemental executive retirement plan (SERP) for certain executives, as defined.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

The following tables (Pension Benefits includes the DB Plan, Other Benefits includes the OPEB and SERP) present a reconciliation of the beginning and ending balances of the projected obligations, the fair value of plan assets, and the funded status of the plans:

	Pension Benefits		Other Benefits	
	December 31,			
	2025	2024	2025	2024
Accumulated benefit obligation	\$ 162,918,030	\$ 151,107,893	N/A	N/A
Change in projected benefit obligation				
Benefit obligation at beginning of year	\$ 152,199,225	\$ 162,985,410	\$ 14,527,508	\$ 15,067,087
Service cost	613,885	658,457	188,214	208,029
Interest cost	7,982,307	7,497,063	744,662	648,988
Actuarial loss (gain)	14,309,326	(8,639,679)	1,925,264	(155,354)
Contributions by participants	-	-	568,894	671,934
Benefits paid	(10,976,333)	(10,302,026)	(1,900,134)	(1,913,176)
Benefit obligation at end of year	164,128,410	152,199,225	16,054,408	14,527,508
Change in plan assets				
Fair value of plan assets at beginning of year	168,466,188	167,904,394	-	-
Actual return on plan assets	13,195,349	4,863,820	-	-
Contributions by participants	-	-	568,894	671,934
Contributions by the Medical Center	1,100,000	6,000,000	1,331,240	1,241,242
Benefits paid	(10,976,333)	(10,302,026)	(1,900,134)	(1,913,176)
Fair value of plan assets at end of year	171,785,204	168,466,188	-	-
Funded status of the plan at end of year	\$ 7,656,794	\$ 16,266,963	\$ (16,054,408)	\$ (14,527,508)
Amount recognized in consolidated balance sheets consist of				
Other assets	\$ 7,656,974	\$ 16,266,963	\$ -	\$ -
Current liability	-	-	(1,118,077)	(1,128,725)
Noncurrent liability	-	-	(14,936,331)	(13,398,783)
Amount recognized end of year	\$ 7,656,974	\$ 16,266,963	\$ (16,054,408)	\$ (14,527,508)
Amounts recognized in other changes in net assets without donor restrictions consist of				
Net actuarial loss (gain)	\$ 32,819,946	\$ 24,730,769	\$ 231,047	\$ (2,301,667)
Prior service credit	(477,432)	(710,355)	220,457	347,889
	\$ 32,342,514	\$ 24,020,414	\$ 451,504	\$ (1,953,778)

The actuarial loss and prior service credit included in other changes in net assets without donor restriction at December 31, 2025 and expected to be recognized in net periodic pension cost during the year ending December 31, 2026 are as follows:

	Pension Benefits	Other Benefits
Unrecognized actuarial loss	\$ 2,749,000	\$ 120,000
Unrecognized prior service credit	(231,000)	127,000

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

The following table sets forth the components of net periodic benefit cost for both the defined benefit plan and other postretirement benefit plan:

	Pension Benefits		Other Benefits	
	Year Ended December 31,			
	2025	2024	2025	2024
Components of net periodic benefit cost recognized in employee benefits				
Service cost	\$ 613,885	\$ 658,457	\$ 188,214	\$ 208,029
Components of net periodic benefit cost (credit) recognized in nonoperating gains and (losses)				
Interest cost	7,982,307	7,497,063	744,662	648,988
Expected return on assets	(8,185,321)	(8,291,830)	-	-
Amortization of:				
Unrecognized net loss (gain)	1,210,121	2,050,866	(480,017)	(581,662)
Unrecognized prior service credit	(232,923)	(1,948,406)	-	-
	<u>774,184</u>	<u>(692,307)</u>	<u>264,645</u>	<u>67,326</u>
Net periodic benefit cost (credit)	1,388,069	(33,850)	452,859	275,355
Other changes in accrued retirement benefits recorded in net assets without donor restrictions consist of:				
Current-year actuarial loss (gain)	8,089,177	(7,262,535)	2,532,714	553,740
Amortization of prior-service credit (cost)	<u>232,923</u>	<u>1,948,406</u>	<u>(127,432)</u>	<u>(127,432)</u>
Total recorded in net assets without donor restrictions	<u>8,322,100</u>	<u>(5,314,129)</u>	<u>2,405,282</u>	<u>426,308</u>
Total recognized as net benefit cost (credit) and recorded in net assets without donor restrictions	<u>\$ 9,710,169</u>	<u>\$ (5,347,979)</u>	<u>\$ 2,858,141</u>	<u>\$ 701,663</u>

Weighted-average assumptions used to determine benefit obligations were:

	Pension Benefits		Other Benefits	
	December 31,			
	2025	2024	2025	2024
Discount rate	5.20%	5.39%	5.10%	5.35%
Rate of compensation increase	3.00%	2.00%	N/A	N/A
Measurement date	December 31	December 31	December 31	December 31

Weighted-average assumptions used to determine net periodic benefit cost were:

	Pension Benefits		Other Benefits	
	December 31,			
	2025	2024	2025	2024
Discount rate	5.39%	4.74%	5.35%	4.70%
Expected long-term return on plan assets	5.00%	5.00%	N/A	N/A
Rate of compensation increase	3.00%	2.00%	N/A	N/A

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

To develop the expected long-term rate of return on assets assumption, the Medical Center considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Health care rate trends are 7.00% and 7.90% for 2025 and 2024 and reflect plan provisions limiting costs to the January 1, 2025 costs.

Plan Assets

The defined benefit plan's weighted-average asset allocations by asset category are as follows:

Asset Category	Target Allocation	December 31,	
		2025	2024
Cash and cash equivalents	0% - 5%	2%	4%
Equity securities	30% - 70%	9	9
Fixed income	30% - 60%	88	86
Real estate	0% - 15%	1	1
		100%	100%

The investment policy and strategy for the defined benefit plan assets have established guidelines for an asset mix that provides diversification to absorb risk while not sacrificing investment returns. The guidelines are developed as ranges for each asset class.

The following tables set forth the plan assets in the defined benefit pension plan measured at fair value and those plan assets at NAV, which is used as a practical expedient to estimate fair value by input level as defined in Note G, excluding plan assets at NAV, at December 31, 2025 and 2024:

	December 31, 2025			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,200,462	\$ 2,200,462	\$ -	\$ -
Certificate of deposit	1,156,001	1,156,001	-	-
Equity securities	15,336,409	15,336,409	-	-
US Treasury securities	41,618,962	41,618,962	-	-
Corporate debt securities	105,632,989	105,632,989	-	-
Insurance contracts	4,351,083	-	4,351,083	-
	170,295,906	\$ 165,944,823	\$ 4,351,083	\$ -
Collective fund trust (at NAV):				
Real estate	1,489,298			
	\$ 171,785,204			

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

	December 31, 2024			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,871,149	\$ 2,871,149	\$ -	\$ -
Certificate of deposit	3,981,513	3,981,513	-	-
Equity securities	15,009,063	15,009,063	-	-
US Treasury securities	43,712,363	43,712,363	-	-
Corporate debt securities	94,978,269	94,978,269	-	-
Insurance contracts	5,962,503	-	5,962,503	-
	166,514,860	\$ 160,552,357	\$ 5,962,503	\$ -
Collective fund trust (at NAV):				
Real estate	1,951,328			
	\$ 168,466,188			

Cash Flows

Contributions

Based on the funded status of the DB Plan as of December 31, 2025, the Medical Center expects to contribute \$1,100,000 for the year ending December 31, 2026. This will be evaluated on a quarterly basis and is subject to change.

The Medical Center expects to contribute \$1,118,077 to the Other Benefits for the year ending December 31, 2026.

Estimated Future Benefit Payments

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

	Pension Benefits	Other Benefits
2026	\$ 11,678,862	\$ 1,118,077
2027	11,897,386	1,175,161
2028	12,067,183	1,221,353
2029	12,183,386	1,256,018
2030	12,282,073	1,275,877
2031-2035	60,739,867	7,446,517

Defined Contribution

The System also offers a 401(k) defined contribution savings plan to all full-time and part-time employees. The System matches participant contributions for active participants as of December 31 who have completed at least 1,000 hours of service during the calendar year. The match is 50% of the first 6% of compensation for non-union employees and union employees hired prior to October 2020. In addition to the match, the System makes a discretionary Non-Elective Contribution (NEC) of 2.5% of compensation to all eligible employees, as defined (non-union employees had to be hired prior to January 1, 2017 and union employees had to be hired prior to October 5, 2020) annually. Effective October 2020, for new union hires only, the match to 50% of the first 8% of compensation. Also, these union employees will no longer participate in the NEC. The System's expense for this plan for the years ended December 31, 2025 and

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

2024 was \$1,678,067 and \$1,494,394, respectively. Effective February 2026, all union employees will have a match of 50% of the first 8% of compensation.

Also included in the balance of accrued retirement benefits is deferred compensation of \$239,437 and \$422,805 at December 31, 2025 and 2024, respectively.

NOTE L - CONTINGENCIES

Litigation

The System is a defendant in civil actions for alleged medical malpractice and general liability. These actions are being defended by the System's medical malpractice insurance carrier. In the opinion of management, the System's potential liability in these actions is within the limits of its medical malpractice liability and comprehensive general liability insurance.

NOTE M - FUNCTIONAL EXPENSES

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

<u>Year Ended December 31, 2025</u>	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 74,156,306	\$ 15,231,719	\$ 89,388,025
Physician salaries and fees	35,368,077	7,264,612	42,632,689
Employee benefits	16,606,992	3,411,079	20,018,071
Contracted services	40,795,065	8,379,316	49,174,381
Supplies and other	52,041,125	10,689,248	62,730,373
Depreciation	7,331,111	1,505,812	8,836,923
	<u>\$ 226,298,676</u>	<u>\$ 46,481,786</u>	<u>\$ 272,780,462</u>
<u>Year Ended December 31, 2024</u>	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 72,858,218	\$ 14,827,686	\$ 87,685,904
Physician salaries and fees	32,679,380	6,650,722	39,330,102
Employee benefits	17,407,204	3,542,614	20,949,818
Contracted services	42,664,847	8,682,905	51,347,752
Supplies and other	49,969,241	10,169,453	60,138,694
Depreciation	7,365,515	1,498,987	8,864,502
	<u>\$ 222,944,405</u>	<u>\$ 45,372,367</u>	<u>\$ 268,316,772</u>

The consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on a square footage basis.

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

NOTE N - CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors was as follows:

	December 31,	
	2025	2024
Medicare and Medicaid	55%	58%
Commercial and managed care	10	13
Blue Cross	24	21
Other third-party payors	4	2
Self-pay	7	6
	100%	100%

In addition, the System invests its cash and cash equivalents primarily with banks and financial institutions. These deposits may be in excess of federally insured limits. Management believes that the credit risk related to these deposits is minimal.

NOTE O - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of December 31:

	December 31,	
	2025	2024
Subject to expenditure for specific purpose		
Purchase of property and equipment	\$ 797,159	\$ 601,091
Investment in perpetuity whose income is expendable to support		
Scholarships and other	3,550,094	3,186,234
	\$ 4,347,253	\$ 3,787,325

The System follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted in New Jersey as they relate to its endowments. Prior to the enactment of UPMIFA, the System followed the requirements of the Uniform Management of Institutional Funds Act. The System's endowments consist of two individual funds established for the above-mentioned purposes and consist solely of donor-restricted endowment funds. As required by the US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The System has interpreted UPMIFA, which did not have a significant effect on the endowment policies prior to the enactment, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is

Shore Memorial Health System and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the System and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the System
- The investment policies of the System

The System has adopted investment policies for its endowment assets that are consistent with the policies and objectives of their overall investments. The assets are invested in a manner that is intended to produce a positive rate of return while assuming a low level of risk.

The following table sets forth the changes to assets as they relate to the System's endowments for the years ended December 31, 2025 and 2024:

Endowment net assets, December 31, 2023	\$ 1,013,934
Investment return, net	(10,268)
Change in unrealized gains and losses	<u>132,597</u>
Endowment net assets, December 31, 2024	1,136,263
Investment return, net	(11,504)
Change in unrealized gains and losses	<u>188,510</u>
Endowment net assets, December 31, 2025	<u>\$ 1,313,433</u>

NOTE P - SUBSEQUENT EVENTS

The System evaluated its December 31, 2025 consolidated financial statements for subsequent events through March 24, 2026, the date the consolidated financial statements were available to be issued. The System is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements, except as noted in Note K.

SUPPLEMENTARY INFORMATION

Shore Memorial Health System and Affiliates

CONSOLIDATING BALANCE SHEET

December 31, 2025

	Shore Medical Center	Shore Health Services Corporation	Brighton Bay	Shore Memorial Physician Services Combined	Shore Memorial Health System	Total Before Eliminations	Eliminating Entries	Total
ASSETS								
Current assets								
Cash and cash equivalents	\$ 2,461,697	\$ -	\$ -	\$ 3,407,017	\$ -	\$ 5,868,714	\$ -	\$ 5,868,714
Patient accounts receivable	25,717,362	-	-	3,819,822	-	29,537,184	-	29,537,184
Supplies	8,182,880	-	-	-	-	8,182,880	-	8,182,880
Prepaid expenses and other current assets	6,125,416	-	48,917	1,123,736	6,015	7,304,084	-	7,304,084
Total current assets	42,487,355	-	48,917	8,350,575	6,015	50,892,862	-	50,892,862
Assets limited as to use								
Internally designated by Board of Trustees	210,026,517	-	-	-	-	210,026,517	-	210,026,517
Externally designated by donor	1,313,433	-	-	-	-	1,313,433	-	1,313,433
Investment in affiliates	-	-	-	-	(4,484,194)	(4,484,194)	4,484,194	-
Due from affiliates	-	-	-	7,621,036	-	7,621,036	(7,621,036)	-
Right of use assets - operating leases	-	-	-	4,451,817	-	4,451,817	-	4,451,817
Property and equipment, net	105,463,502	-	3,254,264	1,348,965	134,000	110,200,731	-	110,200,731
Other assets	11,504,543	1,200,000	74,712	1,090,000	-	13,869,255	-	13,869,255
Beneficial interest in perpetual trust	2,236,661	-	-	-	-	2,236,661	-	2,236,661
Total assets	<u>\$ 373,032,011</u>	<u>\$ 1,200,000</u>	<u>\$ 3,377,893</u>	<u>\$ 22,862,393</u>	<u>\$ (4,344,179)</u>	<u>\$ 396,128,118</u>	<u>\$ (3,136,842)</u>	<u>\$ 392,991,276</u>
LIABILITIES AND NET ASSETS								
Current liabilities								
Current portion of lease liability - operating	\$ -	\$ -	\$ -	\$ 931,851	\$ -	\$ 931,851	\$ -	\$ 931,851
Accounts payable, accrued expenses, and other current liabilities	31,733,235	10,300	388,843	4,376,604	617,541	37,126,523	-	37,126,523
Accrued vacation, holiday, and sick pay	3,796,865	-	-	-	-	3,796,865	-	3,796,865
Current portion of accrued retirement benefits	1,118,077	-	-	-	-	1,118,077	-	1,118,077
Estimated settlements due to third-party payors	8,943,272	-	-	-	-	8,943,272	-	8,943,272
Due to affiliates	2,773,000	1,793,935	830,598	-	2,223,503	7,621,036	(7,621,036)	-
Total current liabilities	48,364,449	1,804,235	1,219,441	5,308,455	2,841,044	59,537,624	(7,621,036)	51,916,588
Accrued retirement benefits, less current portion	15,175,768	-	-	-	-	15,175,768	-	15,175,768
Reserve for insurance claims, less current portion	2,515,391	-	-	-	-	2,515,391	-	2,515,391
Other long-term liabilities	83,705	-	221,228	-	-	304,933	-	304,933
Lease liability - operating, less current portion	-	-	-	3,684,264	-	3,684,264	-	3,684,264
Total liabilities	66,139,313	1,804,235	1,440,669	8,992,719	2,841,044	81,217,980	(7,621,036)	73,596,944
Shareholder's equity								
Common stock	-	-	-	500	-	500	(500)	-
Additional paid-in capital	-	-	624,479	184,431,734	-	185,056,213	(185,056,213)	-
Retained (deficit) earnings	-	-	1,312,745	(170,562,560)	-	(169,249,815)	169,249,815	-
Total shareholder's equity	-	-	1,937,224	13,869,674	-	15,806,898	(15,806,898)	-
Net assets (deficiency)								
Without donor restrictions	302,545,445	(604,235)	-	-	(7,185,223)	294,755,987	20,291,092	315,047,079
With donor restrictions	4,347,253	-	-	-	-	4,347,253	-	4,347,253
Total net assets (deficiency)	306,892,698	(604,235)	-	-	(7,185,223)	299,103,240	20,291,092	319,394,332
Total net assets (deficiency) and shareholder's equity	<u>306,892,698</u>	<u>(604,235)</u>	<u>1,937,224</u>	<u>13,869,674</u>	<u>(7,185,223)</u>	<u>314,910,138</u>	<u>4,484,194</u>	<u>319,394,332</u>
Total liabilities and net assets	<u>\$ 373,032,011</u>	<u>\$ 1,200,000</u>	<u>\$ 3,377,893</u>	<u>\$ 22,862,393</u>	<u>\$ (4,344,179)</u>	<u>\$ 396,128,118</u>	<u>\$ (3,136,842)</u>	<u>\$ 392,991,276</u>

Shore Memorial Health System and Affiliates

COMBINING BALANCE SHEET

Shore Memorial Physician Services

December 31, 2025

	Shore Memorial Physicians Group	Shore Urgent Care	Shore Pathology Associates	Shore Specialty Consultants	Shore Hospitalists Associates	Shore Quality Partners	Shore Quality Partners ACO	Shore Health Enterprises	Shore Memorial Physician Services Combined
ASSETS									
Current assets									
Cash and cash equivalents	\$ 1,935,699	\$ 8,382	\$ -	\$ 46,470	\$ 16,518	\$ 1,272,179	\$ -	\$ 127,769	\$ 3,407,017
Patient accounts receivable	189,401	286,846	85,041	2,364,008	894,526	-	-	-	3,819,822
Prepaid expenses and other current assets	928,797	-	-	-	-	136,499	-	58,440	1,123,736
Total current assets	3,053,897	295,228	85,041	2,410,478	911,044	1,408,678	-	186,209	8,350,575
Due from affiliates	-	-	-	-	-	7,621,036	-	-	7,621,036
Right of use assets - operating leases	2,914,303	439,290	-	-	-	-	-	1,098,224	4,451,817
Property and equipment, net	-	-	-	-	-	-	-	1,348,965	1,348,965
Other assets	-	-	-	-	-	-	-	1,090,000	1,090,000
Total assets	<u>\$ 5,968,200</u>	<u>\$ 734,518</u>	<u>\$ 85,041</u>	<u>\$ 2,410,478</u>	<u>\$ 911,044</u>	<u>\$ 9,029,714</u>	<u>\$ -</u>	<u>\$ 3,723,398</u>	<u>\$ 22,862,393</u>
LIABILITIES AND NET ASSETS									
Current liabilities									
Current portion of lease liability - operating	\$ 566,872	\$ 104,279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260,700	\$ 931,851
Accounts payable, accrued expenses, and other current liabilities	3,627,728	-	-	-	(100,000)	828,484	-	20,392	4,376,604
Estimated settlements due to third-party payors	-	-	-	-	-	-	-	-	-
Total current liabilities	4,194,600	104,279	-	-	(100,000)	828,484	-	281,092	5,308,455
Lease liability - operating, less current portion	2,429,102	358,618	-	-	-	-	-	896,544	3,684,264
Total liabilities	6,623,702	462,897	-	-	(100,000)	828,484	-	1,177,636	8,992,719
Shareholder's (deficit) equity									
Common stock	-	-	-	-	-	-	-	500	500
Additional paid-in capital	176,698,163	484,071	-	-	-	-	-	7,249,500	184,431,734
Retained (deficit) earnings	(177,353,665)	(212,450)	85,041	2,410,478	1,011,044	8,201,230	-	(4,704,238)	(170,562,560)
Total shareholder's (deficit) equity	(655,502)	271,621	85,041	2,410,478	1,011,044	8,201,230	-	2,545,762	13,869,674
and shareholder's equity (deficit)	<u>\$ 5,968,200</u>	<u>\$ 734,518</u>	<u>\$ 85,041</u>	<u>\$ 2,410,478</u>	<u>\$ 911,044</u>	<u>\$ 9,029,714</u>	<u>\$ -</u>	<u>\$ 3,723,398</u>	<u>\$ 22,862,393</u>

Shore Memorial Health System and Affiliates

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31, 2025

	Shore Medical Center	Shore Health Services Corporation	Brighton Bay	Shore Memorial Physician Services Combined	Shore Memorial Health System	Total Before Eliminations	Eliminating Entries	Total
Net assets without donor restrictions								
Revenues								
Patient service revenue	\$ 249,135,901	\$ -	\$ -	\$ 23,613,421	\$ -	\$ 272,749,322	\$ -	\$ 272,749,322
Other revenue	12,858,516	-	525,739	4,855,423	38,035	18,277,713	(2,606,766)	15,670,947
Total revenues	261,994,417	-	525,739	28,468,844	38,035	291,027,035	(2,606,766)	288,420,269
Expenses								
Salaries and wages	79,888,152	3,600	-	9,433,344	62,929	89,388,025	-	89,388,025
Physician salaries and fees	18,717,520	-	-	25,701,042	-	44,418,562	(1,785,873)	42,632,689
Employee benefits	16,731,019	792	-	3,279,249	7,536	20,018,596	(525)	20,018,071
Contracted services	42,195,783	1,950	151	7,356,489	152,788	49,707,161	(532,780)	49,174,381
Supplies and other	60,010,893	-	43,929	2,673,295	3,577	62,731,694	(1,321)	62,730,373
Depreciation	8,383,682	-	139,865	629,587	-	9,153,134	(316,211)	8,836,923
Total expenses	225,927,049	6,342	183,945	49,073,006	226,830	275,417,172	(2,636,710)	272,780,462
Operating income (loss)	36,067,368	(6,342)	341,794	(20,604,162)	(188,795)	15,609,863	29,944	15,639,807
Nonoperating gains (losses)								
Investment return, net	13,029,293	-	-	(221,673)	(203,673)	12,603,947	203,673	12,807,620
Other accrued retirement cost	(1,038,829)	-	-	-	-	(1,038,829)	-	(1,038,829)
Total nonoperating gains (losses), net	11,990,464	-	-	(221,673)	(203,673)	11,565,118	203,673	11,768,791
Excess of (deficiency in) revenues and gains over expenses and losses	48,057,832	(6,342)	341,794	(20,825,835)	(392,468)	27,174,981	233,617	27,408,598
Other changes in net assets without donor restrictions								
Transfers with affiliates:								
Cash transfers from affiliates	(18,850,000)	-	-	18,850,000	-	-	-	-
Equity transfers (to) from affiliates	(1,957,303)	4,392	81	1,967,551	(14,721)	-	-	-
Other changes in accrued retirement benefits	(10,727,382)	-	-	-	-	(10,727,382)	-	(10,727,382)
Increase (decrease) in net assets without donor restrictions	16,523,147	(1,950)	341,875	(8,284)	(407,189)	16,447,599	233,617	16,681,216
Net assets with donor restrictions								
Investment return, net	177,170	-	-	-	-	177,170	-	177,170
Other	196,068	-	-	-	-	196,068	-	196,068
Change in beneficial interest in perpetual trust	186,690	-	-	-	-	186,690	-	186,690
Increase in net assets with donor restrictions	559,928	-	-	-	-	559,928	-	559,928
INCREASE (DECREASE) IN NET ASSETS	17,083,075	(1,950)	341,875	(8,284)	(407,189)	17,007,527	233,617	17,241,144
Net assets, beginning of year	289,809,624	(602,285)	1,595,348	13,877,958	(6,778,034)	297,902,611	4,250,577	302,153,188
Net assets, end of year	\$ 306,892,699	\$ (604,235)	\$ 1,937,223	\$ 13,869,674	\$ (7,185,223)	\$ 314,910,138	\$ 4,484,194	\$ 319,394,332

Shore Memorial Health System and Affiliates

COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Shore Memorial Physician Services

Year ended December 31, 2025

	Shore Memorial Physicians Group	Shore Urgent Care	Shore Pathology Associates	Shore Specialty Consultants	Shore Hospitalists Associates	Shore Quality Partners	Shore Quality Partners ACO	Shore Health Enterprises	Shore Memorial Physician Services Combined
Net assets without donor restrictions									
Revenues									
Patient service revenue	\$ 6,825,217	\$ 2,095,522	\$ 523,233	\$ 10,812,232	\$ 3,357,217	\$ -	\$ -	\$ -	\$ 23,613,421
Other revenue	1,350,871	5,488	-	1,750,991	-	1,032,371	-	715,702	4,855,423
Total revenues	8,176,088	2,101,010	523,233	12,563,223	3,357,217	1,032,371	-	715,702	28,468,844
Expenses									
Salaries and wages	5,620,390	-	(20,440)	3,545,332	139,762	148,300	-	-	9,433,344
Physician salaries and fees	4,441,081	1,825,090	1,004,664	13,583,003	4,844,495	2,709	-	-	25,701,042
Employee benefits	2,348,904	-	42,642	646,276	230,105	10,797	-	525	3,279,249
Contracted services	(516,217)	484,547	211,894	5,023,940	1,030,157	694,578	-	427,590	7,356,489
Supplies and other	852,294	154,592	16,678	1,485,132	160,530	2,748	-	1,321	2,673,295
Depreciation	234,221	3,442	-	75,275	-	438	-	316,211	629,587
Total expenses	12,980,673	2,467,671	1,255,438	24,358,958	6,405,049	859,570	-	745,647	49,073,006
Operating (loss) income	(4,804,585)	(366,661)	(732,205)	(11,795,735)	(3,047,832)	172,801	-	(29,945)	(20,604,162)
Nonoperating gains (losses)									
Investment return, net	(10,000)	(2,000)	(2,000)	(2,000)	(2,000)	-	-	(203,673)	(221,673)
Total nonoperating losses, net	(10,000)	(2,000)	(2,000)	(2,000)	(2,000)	-	-	(203,673)	(221,673)
(Deficiency in) excess of revenues and gains over expenses and losses	(4,814,585)	(368,661)	(734,205)	(11,797,735)	(3,049,832)	172,801	-	(233,618)	(20,825,835)
Other changes in net assets without donor restrictions									
Transfers with affiliates:									
Cash transfers from affiliates	18,850,000	-	-	-	-	-	-	-	18,850,000
Equity transfers (to) from affiliates	(14,341,000)	304,598	742,209	12,302,595	3,309,718	(57,002)	(550,878)	257,311	1,967,551
(Decrease) increase in net assets without donor restrictions	(305,585)	(64,063)	8,004	504,860	259,886	115,799	(550,878)	23,693	(8,284)
(DECREASE) INCREASE IN NET ASSETS	(305,585)	(64,063)	8,004	504,860	259,886	115,799	(550,878)	23,693	(8,284)
Net assets, beginning of year	(349,917)	335,684	77,037	1,905,618	751,158	8,085,431	550,878	2,522,069	13,877,958
Net assets, end of year	\$ (655,502)	\$ 271,621	\$ 85,041	\$ 2,410,478	\$ 1,011,044	\$ 8,201,230	\$ -	\$ 2,545,762	\$ 13,869,674