South Shore Health System, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended September 30, 2017 and 2016,
Supplemental Consolidating Schedules as of and
for the Year Ended September 30, 2017, 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, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the 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, 2017 and 2016, 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

January 9, 2018

SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	$ 60,333,579	80,422,231
Short-term investments	53,229,074	52,158,406
Current portion of assets whose use is limited	2,574,666	2,801,599
Patient accounts receivable—less allowance for uncollectible accounts of $14,199,000 in 2017 and $15,175,000 in 2016	78,311,070	78,198,503
Inventories	7,617,064	7,691,346
Prepaid and other current assets	18,467,395	14,974,148
Total current assets	220,532,848	236,246,233
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Internally designated investments	198,996,458	183,838,034
Donor-restricted investments	13,097,635	11,006,528
Other investments	12,228,361	10,656,782
Debt service funds and unexpended bond proceeds	30,877,859	98,839,839
Total assets whose use is limited or restricted—net of current portion	255,200,313	304,341,183
PROPERTY AND EQUIPMENT—Net	302,984,650	242,163,641
OTHER ASSETS	27,734,937	24,063,947
TOTAL	$ 806,452,748	$ 806,815,004

LIABILITIES	2017	2016
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 9,504,167	$ 10,254,348
Current portion of capital lease obligations	872,861	778,308
Accounts payable and accrued liabilities	92,257,609	87,073,270
Current portion of estimated settlements with third-party payors	11,720,253	21,903,879
Total current liabilities	114,354,890	120,009,805
LONG-TERM DEBT—Net of current portion	246,646,737	256,668,167
CAPITAL LEASE OBLIGATIONS—Net of current portion	11,451,663	12,238,999
PENSION LIABILITY	10,049,202	32,356,475
ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYORS—Net of current portion	33,534,903	31,632,153
MALPRACTICE LIABILITY	7,234,840	7,252,015
OTHER LONG-TERM LIABILITIES	28,474,688	33,287,513
Total liabilities	451,746,923	493,445,127
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS:		
Unrestricted	333,179,962	297,719,223
Temporarily restricted	18,260,904	12,405,695
Permanently restricted	3,264,959	3,244,959
Total net assets	354,705,825	313,369,877
TOTAL	$ 806,452,748	$ 806,815,004

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, 2017 AND 2016

	2017	2016
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:		
Patient service revenue—net of contractual allowances and discounts	$641,028,696	$631,087,024
Provision for bad debt	(13,958,339)	(14,344,270)
Net patient service revenue—less provision for bad debts	627,070,357	616,742,754
Premium revenue	7,820,305	30,773,581
Other revenue	36,269,903	33,735,010
Net assets released from restrictions used for operations	1,943,590	2,612,505
Total unrestricted revenue, gains, and other support	673,104,155	683,863,850
EXPENSES:		
Salaries, wages, and employee benefits	402,741,621	381,388,069
Physician services	64,590,348	59,079,461
Purchased provider services related to premium revenue	3,579,469	30,863,135
Supplies and other	170,155,758	167,247,959
Uncompensated care	5,790,511	3,936,998
Depreciation and amortization	23,782,383	23,020,473
Interest	7,278,923	7,693,939
Total expenses	677,919,013	673,230,034
OPERATING (LOSS) INCOME	(4,814,858)	10,633,816
NONOPERATING GAINS AND LOSSES:		
Investment income	1,183,602	1,317,411
Gain on sales of investments—net	6,829,000	666,389
Impairment of investments		(159,663)
Gain (loss) on interest rate swap agreement	4,278,082	(1,479,520)
Loss from advanced refunding		(578,808)
Unrestricted gifts and bequests	1,070,932	539,394
Fundraising costs	(3,227,395)	(2,557,393)
Nonoperating gains (losses)—net	10,134,221	(2,252,190)
EXCESS OF REVENUE OVER EXPENSES	5,319,363	8,381,626

(Continued)

SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 5,319,363	$ 8,381,626
Change in net unrealized gains and losses on investments	9,453,640	14,092,232
Pension-related adjustments	20,303,550	2,657,735
Gain on interest rate swap agreement	67,341	67,341
Net assets released from restrictions used for purchase of property and equipment	316,845	146,103
Increase in unrestricted net assets	35,460,739	25,345,037
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	7,634,801	4,729,593
Investment income	67,350	89,430
Change in net unrealized gains and losses on investments	413,493	236,992
Net assets released from restrictions	(2,260,435)	(2,758,608)
Increase in temporarily restricted net assets	5,855,209	2,297,407
PERMANENTLY RESTRICTED NET ASSETS—Contributions	20,000	25,000
INCREASE IN NET ASSETS	41,335,948	27,667,444
NET ASSETS—Beginning of year	313,369,877	285,702,433
NET ASSETS—End of year	$ 354,705,825	$ 313,369,877

See notes to consolidated financial statements. (Concluded)

SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 41,335,948	$ 27,667,444
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,782,383	23,020,473
Net unrealized and realized gains on investments, other than trading	(16,628,116)	(15,014,392)
Impairment of investments		159,663
(Gain) loss on interest rate swap agreement	(4,278,082)	1,419,164
Provision for bad debts	13,987,186	14,348,290
Pension-related adjustments	(20,303,550)	(2,657,735)
Amortization of deferred financing costs, premium, and discount	(486,833)	(47,133)
Net assets of acquired entity		
Restricted contributions and restricted investment income received	(7,722,151)	(4,844,023)
(Decrease) increase in cash resulting from a change in:		
Patient accounts receivable	(14,070,905)	(23,505,145)
Inventories	74,282	(1,189,143)
Prepaid expenses and other current assets	(3,522,095)	5,083,349
Trading securities	(1,471,368)	(756,835)
Other assets	(3,677,975)	(1,941,823)
Accounts payable and accrued liabilities	8,050,873	3,240,006
Pension liability	(2,003,723)	(1,760,877)
Estimated settlements with third-party payors—net	(8,280,876)	12,686,150
Other long-term liabilities	(544,933)	3,754,614
Net cash provided by operating activities	4,240,065	39,662,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(87,375,266)	(46,661,988)
Purchases of investments	(36,085,574)	(147,032,417)
Proceeds from sale of investments	102,482,193	47,523,221
Net cash used in investing activities	(20,978,647)	(146,171,184)

(Continued)

SOUTH SHORE HEALTH SYSTEM, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions and restricted investment income	$ 7,722,151	$ 4,844,023
Payments on long-term debt	(10,229,348)	(8,306,423)
Payments on capital lease obligations	(787,444)	(703,453)
Proceeds from new debt obligations		155,229,109
Increase in deferred bond issue costs	(55,429)	(2,901,288)
Loss from advance refunding		578,808
Advance refunding of debt		(35,226,667)
Net cash (used in) provided by financing activities	(3,350,070)	113,514,109
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20,088,652)	7,004,972
CASH AND CASH EQUIVALENTS—Beginning of year	80,422,231	73,417,259
CASH AND CASH EQUIVALENTS—End of year	$ 60,333,579	$ 80,422,231
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 11,566,871	$ 8,724,994
Equipment acquired through capital leases	$ 94,660	$ 162,953

See notes to consolidated financial statements. (Concluded)

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"). Effective April 1, 2016, South Shore Health and Educational Corporation changed its name to South Shore Health System, Inc. 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); and South Shore Medical Center, Inc. (SSMC) (see Note 2), 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, and 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, 2017 and 2016, the Hospital recognized adjustments to prior-year estimates of approximately $6,313,000 and $2,800,000, 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 in 2017 and 2016 from major payor sources, is approximately as follows:

	Third-Party Payors	Self-Pay	Total All Payors
2017			
Patient service revenue—net of contractual allowances and discounts	$635,434,000	$5,595,000	$641,029,000
2016			
Patient service revenue—net of contractual allowances and discounts	$628,565,000	$2,522,000	$631,087,000

Premium Revenue—SSMC has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, SSMC receives 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 are accrued in the period in which the services are 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 collectability 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 deductible 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 increased to 65% of self-pay accounts receivable as of September 30, 2017, from 57% as of September 30, 2016. 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), increased approximately $3,516,000 from $13,873,000 for fiscal year 2016 to $17,389,000 for fiscal year 2017. The Corporation has not changed its charity care or uninsured discount policies during fiscal year 2017 or 2016.

Third-Party Payment Agreements—The Corporation has entered into payment agreements with Medicare, BlueCross BlueShield of Massachusetts ("BlueCross"), Medicaid, and 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.

Other Operating Revenue—The Corporation has other operating revenue that consists of non-patient service revenue including leased employees, dining room revenue, joint venture income, etc.

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 obligation is outstanding. Amortization of such costs during the period 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 excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from 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 gift is 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 investment should be considered other-than-temporarily impaired. Approximately, $0 and $160,000 in losses related to declines in value that were determined by management to be other than temporary in nature were recognized in 2017 and 2016, respectively.

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 approximately $1,446,000 and $877,000 in 2017 and 2016, 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, 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 market.

Other Assets—Other assets as of September 30, 2017 and 2016, consist of the following:

	2017	2016
Life insurance policies	$ 15,149,824	$ 14,191,145
Pledges receivable—net of current portion	5,833,076	2,471,756
Insurance recoveries	5,403,830	6,053,903
Investment in joint ventures	658,504	725,861
Loans—net of current portion	125,267	314,862
Swap termination	103,020	110,004
Other	461,416	196,416
Total other assets	$ 27,734,937	$ 24,063,947

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. Absent 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 $3,434,000 and $6,375,000 remained in accounts payable and accrued liabilities at September 30, 2017 and 2016, 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.

Other Long-Term Liabilities—Other long-term liabilities as of September 30, 2017 and 2016, consist of the following:

	2017	**2016**
Workers' compensation liability	$ 5,825,490	$ 6,717,581
Executive and physician benefits payable	10,488,948	9,575,004
Interest rate swap contract	9,011,557	13,363,964
Community health initiative payable	2,200,960	1,963,440
Other	947,733	1,667,524
Total other liabilities	$ 28,474,688	$ 33,287,513

The community health initiative payable is a result of an agreement between the Corporation and the Commonwealth of Massachusetts department of Health & Human Services. The Corporation has agreed to pay certain amounts to support various community health initiatives. In addition to the amounts noted above, approximately $418,000 and $1,040,000, at September 30, 2017 and 2016, 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 in 2017 and 2016 was approximately $3,816,000 and $1,723,000, 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 revenues over expenses in its consolidated statements of operations and changes in net assets in the year in which the changes occur.

The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Subsequent Events—Subsequent events have been evaluated through January 9, 2018, the date of issuance of these consolidated financial statements.

Recent Accounting Standards—In May 2014, the FASB issued Accounting Standards Update (ASU) 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. Earlier application is permitted, but only for annual reporting periods beginning after December 15, 2016, 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 Hospital beginning on October 1, 2018. The Hospital has not determined the impact the adoption of this standard will have on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *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 Hospital beginning on October 1, 2019. The Hospital has not determined the impact the adoption of this standard will have on its 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 consolidated balance sheet. This guidance is effective for the Hospital beginning on October 1, 2019. Retrospective application is required. The Hospital has not determined the impact the adoption of this standard will have on its financial statements.

In August 2016, the FASB issued ASU No 2016-14, *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 Hospital beginning on October 1, 2018. The Hospital has not determined the impact the adoption of this standard will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *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 Hospital beginning on October 1, 2019. The Hospital has not determined the impact the adoption of this standard will have on its 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 Hospital beginning on January 1, 2019. Upon adoption, the Hospital 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 Hospital has not determined the impact the adoption of this standard will have on its financial statements.

In March 2017, the FASB issued 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 Hospital has not determined the impact the adoption of this standard will have on its 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 approximately $6,213,000 and $7,245,000 in 2017 and 2016, 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, 2017 and 2016, consisted of the following:

	2017	2016
Amounts due in:		
Less than one year	$ 2,598,397	$ 2,117,961
One to five years	8,045,234	3,000,724
Unconditional promises to give before unamortized discount and allowance for uncollectibles	10,643,631	5,118,685
Less unamortized discount	(1,277,218)	(169,238)
Subtotal	9,366,413	4,949,447
Less allowance for uncollectible amounts	(1,123,970)	(610,885)
Net pledges receivable	$ 8,242,443	$ 4,338,562

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

4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Investments and assets whose use is limited as of September 30, 2017 and 2016, consisted of the following:

	2017	2016
Cash and money market investments	$ 40,987,005	$ 106,537,933
Mutual fund investments	79,936,112	77,759,951
Common collective trusts	189,080,936	174,003,391
Other	1,000,000	1,000,000
Total investments and assets whose use is limited	$ 311,004,053	$ 359,301,275

Investment income and gains (losses) from investments for the years ended September 30, 2017 and 2016, consisted of the following:

	2017	2016
Investment income:		
Other revenue	$ 1,446,288	$ 1,099,583
Nonoperating gains and losses	1,183,602	1,690,125
Temporarily restricted net assets	67,350	89,430
Gain on sales of investments—net	6,829,000	666,389
Impairment of investments		(159,663)
Change in net unrealized gains and losses on investments:		
Unrestricted net assets	9,453,640	14,092,232
Temporarily restricted net assets	413,493	236,992
	$ 19,393,373	$ 17,715,088

5. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2017 and 2016, consisted of the following:

	2017	2016
Land	$ 5,728,236	$ 5,859,350
Land improvements	3,174,840	3,174,839
Buildings	259,274,505	258,807,746
Fixed equipment	64,711,985	63,480,671
Major movable equipment	146,959,916	125,664,599
Internal use software	68,018,988	6,211,463
Construction in progress	38,722,053	40,364,317
Buildings and equipment under capital leases	17,253,725	17,159,065
Leasehold improvements	19,336,185	18,659,999
Total property and equipment	623,180,433	539,382,049
Less accumulated depreciation (including $10,489,000 and $9,311,000 of accumulated amortization of equipment under capital leases in 2017 and 2016, respectively)	(320,195,783)	(297,218,408)
Property and equipment—net	$ 302,984,650	$ 242,163,641

In May 2010, the Corporation entered into a 20-year lease for 66% of a building in Hingham, Massachusetts. The building opened for business in early October 2011. The Corporation’s obligation to make monthly lease payments of approximately $110,000 commenced in August 2011. The building is operating as an outpatient surgery unit, performing diagnostic imaging services, and subleasing a portion of the space to physicians. During 2012, the Corporation entered into a second lease, for 10 years to occupy an additional 16% of the space in the building in Hingham. The monthly lease payments began in April 2012 and approximate $21,000.

The Corporation entered into a lease commencing May 2012 for a building in Rockland, Massachusetts, monthly lease payments approximate $39,000.

On November 2015, at a joint meeting of 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/surgical beds ("Critical Care Project"), and the acquisition and implementation of Electronic Medical Record and Enterprise Resource Planning systems ("IT Project"). The Health System Boards authorized $203.4 million for the Critical Care Project, IT Project and other routine capital expenditures to be financed through long-term debt (see Note 7). The first phase of the IT project was placed into service by September 30, 2017 in the amount of approximately $79,087,000.

In August 2016, the Hospital executed a guaranteed maximum price contract with Turner Construction Company to construct a 24-bed critical care unit and renovate another 24-bed unit. As of September 30, 2017, the total amount recorded for the project approximated $37,639,000. The renovation phase is expected to approximate $19,900,000.

6. LONG-TERM DEBT

Long-term debt at September 30, 2017 and 2016, consisted of the following:

	2017	**2016**
South Shore Hospital Issue, Series D	$ 2,045,000	$ 5,120,000
South Shore Hospital Series 2012	63,464,167	65,969,167
South Shore Hospital Series H	19,111,111	19,777,778
South Shore Hospital Series I	114,935,000	117,245,000
South Shore Property Issue, Series A	42,930,000	43,715,000
South Shore Property Bank loan		887,681
Total	242,485,278	252,714,626
Unamortized premium	16,999,817	17,706,383
Unamortized issue costs	(3,334,191)	(3,498,494)
Total	256,150,904	266,922,515
Less current portion	9,504,167	10,254,348
Long-term debt	$ 246,646,737	$ 256,668,167

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 Series 2011 private placement with Santander Bank, and to fund system-wide enhancements to the Corporation's information technology 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 mature as follows:

Issue	Interest Rate	Rate at September 30, 2017	Final Maturity
Series I	3%–5%		2041
Series H	Variable	1.86 %	2046
Series 2012	Variable	1.83 %	2024
Series D	6.50		2022
Series A	2.47		2033
Average variable rate		1.61 %	

Funds held by trustees under debt agreements were composed of debt service funds of approximately $2,575,000 and unexpended bond funds of approximately $30,878,000 at September 30, 2017, and debt service funds of approximately $2,802,000 and $98,840,000, respectively at September 30, 2016.

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 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 (1.235% and 0.527% at September 30, 2017 and 2016, respectively) from the investment bank. The Corporation has elected not to apply hedge accounting to the swap. The gain (loss) on the swap of approximately $4,278,000 and ($1,480,000) for the years ended September 30, 2017 and 2016, 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 approximately $9,012,000 and $13,364,000 at September 30, 2017 and 2016, 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 September 13, 2018. 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 2017 or 2016.

Payments on Debt—Annual principal payments on long-term debt as of September 30, 2017, were as follows:

Years Ending September 30	
2018	$ 9,504,167
2019	9,452,500
2020	10,520,833
2021	10,012,500
2022	10,099,167
Thereafter	192,896,111
Total	$242,485,278

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, 2017, were as follows:

Years Ending September 30	Capital Lease Obligations	Operating Leases
2018	$ 2,246,090	$ 4,735,932
2019	2,219,259	4,511,454
2020	2,182,543	4,528,985
2021	2,152,107	4,473,647
2022	1,904,971	4,374,564
Thereafter	11,845,541	36,905,095
Total	22,550,511	$ 59,529,677
Less amounts representing interest	10,225,987	
	12,324,524	
Less current portion	872,861	
Total	$11,451,663	

Rent expense under operating leases was approximately $6,300,000 and $7,463,000 in 2017 and 2016, 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	
2018	$ 4,735,932
2019	4,511,454
2020	4,528,985
2021	4,473,647
2022	4,374,564
Thereafter	36,905,095
Total	$ 59,529,677

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	
2018	$ 2,544,633
2019	2,571,413
2020	2,604,243
2021	2,627,564
2022	2,660,777
Thereafter	22,333,944
Total	$ 35,342,574

8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2017 and 2016, are available for the following purposes or periods:

	2017	2016
Health care services:		
Purchase of equipment	$ 3,982,614	$ 2,337,172
Indigent care	841,777	909,755
Other health care services	5,316,847	4,823,206
For periods after September 30 (generally for capital)	8,119,666	4,335,562
Total	$ 18,260,904	$ 12,405,695

Capital appreciation of permanently restricted net assets, included above, amounted to approximately $2,097,000 and $1,683,000 as of September 30, 2017 and 2016, respectively.

Permanently restricted net assets as of September 30, 2017 and 2016, were restricted to the following:

	2017	2016
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	655,933	655,933
Other health care services (restricted)	225,977	205,977
Other health care services (unrestricted)	2,283,049	2,283,049
Total	$ 3,264,959	$ 3,244,959

Net assets were released from donor restrictions by incurring expenses and purchasing equipment, satisfying the restricted purposes for the years ended September 30, 2017 and 2016, as follows:

	2017	2016
Health care services:		
Purchase of equipment	$ 316,845	$ 146,103
Other health care services	1,943,590	2,612,505
Total	$ 2,260,435	$ 2,758,608

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, 2017 and 2016, 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 to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund composed of accumulated gains not required to be maintained in perpetuity is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the donor's 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, 2017 and 2016, and the changes therein for the years then ended is as follows:

Changes in Donor-Restricted Endowment Net Assets	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets—October 1, 2015	$1,446,245	$3,219,959	$4,666,204
Investment return—net appreciation	236,992		236,992
Gifts and interest		25,000	25,000
Endowment net assets—September 30, 2016	1,683,237	3,244,959	4,928,196
Investment return—net appreciation	413,493		413,493
Gifts and interest		20,000	20,000
Endowment net assets—September 30, 2017	$2,096,730	$3,264,959	$5,361,689

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 the donor requires the Corporation to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2017 or 2016.

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 $18,661,000 and $15,519,000 for the years ended September 30, 2017 and 2016, respectively.

The Corporation uses a September 30 measurement date for measuring the assets and obligations of the Plan.

Benefit Obligations	**2017**	**2016**
Change in benefit obligation:		
Benefit obligation—beginning of year	$ 209,808,661	$ 202,865,268
Service cost and assumed expenses	800,000	750,000
Interest cost	7,394,575	8,944,253
Actuarial (gain) loss	(8,794,249)	21,346,390
Benefits paid	(7,135,843)	(6,462,949)
Actual administrative expenses paid	(909,457)	(740,047)
Plan amendments		(3,121,311)
Settlements	(19,090,699)	(13,772,943)
Benefit obligation—end of year	$ 182,072,988	$ 209,808,661

The accumulated benefit obligation at September 30, 2017 and 2016, was approximately $174,673,000 and $200,746,000, respectively. A 3.82% and 3.62% discount rate was used to determine the benefit obligations at September 30, 2017 and 2016, respectively.

Plan Assets	**2017**	**2016**
Change in Plan assets:		
Fair value of Plan assets—beginning of year	$ 177,452,186	$ 166,090,181
Actual return on Plan assets	12,476,796	23,337,944
Employer contribution	9,230,803	9,000,000
Benefits and other expenses paid	(8,045,300)	(7,202,996)
Settlements	(19,090,699)	(13,772,943)
Fair value of Plan assets—end of year	$ 172,023,786	$ 177,452,186

The Plan had settlement charges in 2017 and 2016 of $5,591,000 and $4,873,000, respectively, measured as of September 30, 2017 and 2016. In 2017 the charge was due to annuity purchases for retirees receiving monthly benefits of less than $500, and lump sum payments for active vested participants who terminated after January 1, 2017. A lump sum was offered in 2016 with eligibility based upon a separation date prior to April 1, 2016 and not yet receiving monthly pension benefits.

The asset allocation for the Plan at the end of 2017 and 2016, and the target allocation for 2017, by asset category, is as follows:

Plan Assets	**Target 2017**	**Percentage of Plan Assets at Year-End 2017**	**2016**
Domestic equities	21 %	20 %	32 %
International equities	10	10	10
Investment-grade bonds	69	70	54
Treasury inflation-protected securities			4
Total	100 %	100 %	100 %

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 considered the historical returns of the major market indicators relating to the target asset allocation, as well as the current economic and financial market conditions.

Funded Status	**2017**	**2016**
Fair value of Plan assets—end of year	$ 172,023,786	$ 177,452,186
Benefit obligation—end of year	182,072,988	209,808,661
Net amount recognized—noncurrent pension liability	$ (10,049,202)	$ (32,356,475)

Unrestricted net assets at September 30, 2017 and 2016, include unrecognized actuarial losses of $50,809,000 and $71,112,000, respectively, related to the Plan. Approximately, $1,058,000 is expected to be recognized in net periodic pension costs in 2018.

Components of Net Pension Cost	**2017**	**2016**
Service cost and assumed administrative expenses	$ 800,000	$ 750,000
Interest cost	7,394,575	8,944,253
Expected return on Plan assets	(8,628,862)	(9,086,051)
Recognized net actuarial loss	2,070,246	1,757,954
Net pension cost	$ 1,635,959	$ 2,366,156

Weighted-average assumptions used to determine pension cost for the years ended September 30, 2017 and 2016, are as follows:

	2017	**2016**
Discount rate	3.82 %	3.62 %
Expected return on Plan assets	4.75	5.00

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

Years Ending September 30	
2018	$ 10,033,471
2019	10,581,675
2020	11,065,752
2021	11,293,632
2022	11,060,852
2023–2026	53,865,941

A $5,000,000 contribution to the Plan is expected to be made by the Corporation during the year ended September 30, 2018.

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, 2017 and 2016, the estimated malpractice liabilities, including unreported claims were approximately $7,536,000 and $7,554,000, respectively. Accrued malpractice claim costs as of September 30, 2017 and 2016, are reported without consideration of insurance recoveries.

Assets of the malpractice fund, which amounted to approximately $4,375,000 and $4,080,000 at September 30, 2017 and 2016, 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. The accrued liability for workers' compensation claims are reported without consideration of reinsurance recoveries.

At September 30, 2017 and 2016, the net estimated amount of accrued claims, including a provision for unreported claims, was approximately $8,605,000 and $9,058,000, 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 the 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 from 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.

The table presents information as of September 30, 2017 and 2016, about the Corporation's financial assets that are measured at fair value on a recurring basis as follows:

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		1,000,000		1,000,000
Total assets at fair value	90,045,267	1,000,000	-	91,045,267
Investments measured at net asset value (NAV):				
Common collective trusts				189,080,936
Money market funds				30,877,850
Total investments measured at NAV				219,958,786
Total assets	$ 90,045,267	$ 1,000,000	$ -	$ 311,004,053
Liabilities—interest rate swap	$ -	$ (9,011,557)	$ -	$ (9,011,557)

2016	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**
Assets:				
Cash and money market investments	$ 21,463,765	$ -	$ -	$ 21,463,765
Mutual funds	77,759,951			77,759,951
Other		1,000,000		1,000,000
Total assets at fair value	99,223,716	1,000,000	-	100,223,716
Investments measured at net asset value (NAV):				
Common collective trusts				174,003,391
Money market funds				85,074,168
Total investments measured at NAV				259,077,559
Total assets	$ 99,223,716	$ 1,000,000	$ -	$ 359,301,275
Liabilities—interest rate swap	$ -	$ (13,363,964)	$ -	$ (13,363,964)

The table presents information as of September 30, 2017 and 2016, about the Corporation's pension plan assets that are measured at fair value on a recurring basis as follows:

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	126,721,877			126,721,877
Total assets at fair value	$ 127,785,504	$ -	$ -	127,785,504
Investments measured at NAV—Common collective trusts				44,238,282
Total assets				$ 172,023,786

2016	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**
Assets:				
Cash and money market investments	$ 653,802	$ -	$ -	$ 653,802
Mutual funds	107,133,337			107,133,337
Total assets at fair value	$ 107,787,139	$ -	$ -	107,787,139
Investments measured at NAV—Common collective trusts				69,665,047
Total assets				$ 177,452,186

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, 2017 and 2016, there were no transfers between levels.

Asset Valuation Techniques—Valuation technologies maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2017 and 2016.

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. Certain money market funds fair value is based on NAV as a practical expedient. There are no unfunded commitments on these investments. These investments are included in unexpended bond proceeds and debt service funds in the accompanying 2017 consolidated balance sheet.

Mutual Fund Investments—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 investment for an amount 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, 2017 and 2016, there are 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 2017 were discounted at rates ranging from 1.26% to 1.93% (1.26% to 1.73% in 2016). Pledges received in 2017 and 2016, which have been recorded at fair value, totaled approximately $8,021,000 and $3,933,000, 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 $9,012,000 and $13,364,000 at September 30, 2017 and 2016, respectively. These values represent the estimated amounts 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 was approximately $281,711,000 and $302,106,000 at September 30, 2017 and 2016, 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, 2017 and 2016, were as follows:

	Accounts Receivable		Net Revenue	
	2017	**2016**	**2017**	**2016**
Medicare	26 %	24 %	36 %	38 %
Medicaid	6	8	5	6
BlueCross and HMOs	44	40	49	52
Self-pay patients	10	13	1	
Commercial	4	3	6	1
Other third-party payors	10	12	3	3
	100 %	100 %	100 %	100 %

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 at September 30, 2017, to be collectible, this concentration of credit risk is expected to continue in the near term.

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SUPPLEMENTAL CONSOLIDATING SCHEDULES

SOUTH SHORE HEALTH AND EDUCATIONAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION AS OF SEPTEMBER 30, 2017

	South Shore Health and Educational Corporation	South Shore Hospital, Inc.	South Shore Property, Inc.	Coastal Medical Associates, Inc.	Health Provider Services Organization	Eliminations	Total
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$ 7,616,871	$ 40,871,282	$ 4,139,215	$ 7,149,737	$ 556,474	$ -	$ 60,333,579
Short-term investments	53,229,074						53,229,074
Current portion of assets whose use is limited		2,326,101	248,565				2,574,666
Patient accounts receivable—net		71,065,583		7,245,487			78,311,070
Inventories		7,116,304		500,760			7,617,064
Prepaid and other current assets	56,315	15,154,691	153,869	3,102,520			18,467,395
Due from affiliates	15,362	5,348,651	101,800	165,872	10,015	(5,641,700)	
Total current assets	60,917,622	141,882,612	4,643,449	18,164,376	566,489	(5,641,700)	220,532,848
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:							
Internally designated investments		198,996,458					198,996,458
Donor-restricted investments	2,782,196	10,315,439					13,097,635
Other investments	575,351	7,100,071		4,552,939			12,228,361
Debt service funds and unexpended bond proceeds		30,877,859					30,877,859
Total assets whose use is limited or restricted—net of current portion	3,357,547	247,289,827		4,552,939	-	-	255,200,313
PROPERTY AND EQUIPMENT—Net	431,676	256,809,009	41,666,663	4,077,302			302,984,650
OTHER ASSETS	66,000	27,576,097		92,840			27,734,937
TOTAL	$ 64,772,845	$ 673,557,545	$ 46,310,112	$ 26,887,457	$ 566,489	$ (5,641,700)	$ 806,452,748

(Continued)

SOUTH SHORE HEALTH AND EDUCATIONAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION AS OF SEPTEMBER 30, 2017

LIABILITIES AND NET ASSETS	South Shore Health and Educational Corporation	South Shore Hospital, Inc.	South Shore Property, Inc.	Coastal Medical Associates, Inc.	Health Provider Services Organization	Eliminations	Total
CURRENT LIABILITIES:							
Current portion of long-term debt	$ -	$ 7,559,167	$ 1,945,000	$ -	$ -	$ -	$ 9,504,167
Current portion of capital lease obligations		872,861					872,861
Accounts payable and accrued liabilities	22,658	79,526,387	2,988,539	9,153,536	566,489		92,257,609
Current portion of estimated settlements with third-party payors		4,675,994		7,044,259			11,720,253
Due to affiliates	313,026	102,414	8,400	5,217,860		(5,641,700)	
Total current liabilities	335,684	92,736,823	4,941,939	21,415,655	566,489	(5,641,700)	114,354,890
LONG-TERM DEBT—Net of current portion		206,052,799	40,593,938				246,646,737
CAPITAL LEASE OBLIGATIONS—Net of current portion		11,451,663					11,451,663
PENSION LIABILITY		10,049,202					10,049,202
ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYOR—Net of current portion		33,534,903					33,534,903
MALPRACTICE LIABILITY		7,234,840					7,234,840
OTHER LONG-TERM LIABILITIES	87,508	23,823,575		4,563,605			28,474,688
Total liabilities	423,192	384,883,805	45,535,877	25,979,260	566,489	(5,641,700)	451,746,923
NET ASSETS:							
Unrestricted	61,258,895	270,238,635	774,235	908,197			333,179,962
Temporarily restricted	1,228,957	17,031,947					18,260,904
Permanently restricted	1,861,801	1,403,158					3,264,959
Total net assets	64,349,653	288,673,740	774,235	908,197	-	-	354,705,825
TOTAL	$ 64,772,845	$ 673,557,545	$ 46,310,112	$ 26,887,457	$ 566,489	$ (5,641,700)	$ 806,452,748

(Concluded)

SOUTH SHORE HEALTH AND EDUCATIONAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2017

	South Shore Health and Educational Corporation	South Shore Hospital, Inc.	South Shore Property, Inc.	Coastal Medical Associates, Inc.	Health Provider Services Organization	Eliminations	Total
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:							
Patient service revenue (net of contractual allowances and discounts)	$ -	$ 576,092,294	$ -	$ 64,129,264	$ -	$ 807,138	$ 641,028,696
Provision for bad debts		(12,994,346)		(963,993)			(13,958,339)
Net patient service revenue, less provision for bad debts		563,097,948		63,165,271		807,138	627,070,357
Premium revenue				7,820,305			7,820,305
Other revenue	220,684	29,236,582	5,222,832	8,256,623	608,277	(7,275,095)	36,269,903
Net assets released from restrictions used for operations		1,943,590					1,943,590
Total unrestricted revenue, gains, and other support	220,684	594,278,120	5,222,832	79,242,199	608,277	(6,467,957)	673,104,155
EXPENSES:							
Salaries, wages, and employee benefits		363,557,219		39,024,142	160,260		402,741,621
Physician services		44,924,721		23,508,357	364,792	(4,207,522)	64,590,348
Purchased provider services related to premium revenue				3,579,469			3,579,469
Supplies and other	7,515	150,958,920	1,605,786	19,760,747	83,225	(2,260,435)	170,155,758
Uncompensated care		5,790,511					5,790,511
Depreciation and amortization	219,336	21,095,476	1,502,378	965,193			23,782,383
Interest		6,105,830	1,173,093				7,278,923
Total expenses	226,851	592,432,677	4,281,257	86,837,908	608,277	(6,467,957)	677,919,013
OPERATING (LOSS) INCOME	(6,167)	1,845,443	941,575	(7,595,709)	-	-	(4,814,858)
NONOPERATING GAINS AND LOSSES:							
Investment income	483,996	699,606					1,183,602
Gain on sales of investments—net	1,833,486	4,995,514					6,829,000
Gain on interest rate swap agreements		4,278,082					4,278,082
Unrestricted gifts and bequests	34,039	1,036,893					1,070,932
Fund-raising costs		(3,227,395)					(3,227,395)
Nonoperating gains—net	2,351,521	7,782,700	-	-	-	-	10,134,221

(Continued)

SOUTH SHORE HEALTH AND EDUCATIONAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2017

	South Shore Health and Educational Corporation	South Shore Hospital, Inc.	South Shore Property, Inc.	Coastal Medical Associates, Inc.	Health Provider Services Organization	Eliminations	Total
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 2,345,354	$ 9,628,143	$ 941,575	$ (7,595,709)	$ -	$ -	$ 5,319,363
CHANGE IN NET UNREALIZED GAINS AND LOSSESON INVESTMENTS	1,208,529	8,245,111					9,453,640
PENSION-RELATED ADJUSTMENTS		20,303,550					20,303,550
GAIN ON INTEREST RATE SWAP AGREEMENT		67,341					67,341
TRANSFERS TO/(FROM) AFFILIATES	4,000,000	(15,000,000)	(1,000,000)	12,000,000			-
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR PURCHASE OF PROPERTY AND EQUIPMENT		316,845					316,845
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 7,553,883	$ 23,560,990	$ (58,425)	$ 4,404,291	$ -	$ -	$ 35,460,739

(Concluded)