

Meridian Hospitals Corporation and Subsidiary

**Financial Statements
As of and for the Years Ended
December 31, 2016 and 2015
(UNAUDITED)**

Meridian Hospitals Corporation and Subsidiary
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December 31, 2016
(Unaudited)

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Meridian Hospitals Corporation and Subsidiary
Balance Sheets
December 31, 2016
(Unaudited)

(in thousands)

Assets	2016	2015
Current assets		
Cash and cash equivalents	\$ 264,305	\$ 300,344
Assets limited as to use and short-term investments	412,395	379,477
Patient accounts receivable, less allowance for uncollectible accounts of \$56,958 in 2016 and \$49,358 in 2015	175,447	140,160
Due from affiliates, net	8,974	4,162
Other current assets	61,387	43,045
Total current assets	<u>922,508</u>	<u>867,188</u>
Assets limited as to use and investments, noncurrent portion		
Under Board of Trustee designation and investments	597,081	501,020
Under bond indenture agreements		1,016
Total assets limited as to use and investments, noncurrent portion	<u>597,081</u>	<u>502,036</u>
Property, plant and equipment, net	974,961	773,658
Other assets	65,597	68,423
Interest in net assets of foundations	76,561	73,021
Due from affiliates, net	12,493	8,591
Total assets	<u>\$ 2,649,201</u>	<u>\$ 2,292,917</u>
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	\$ 21,002	\$ 20,458
Accounts payable and accrued expenses	210,100	169,002
Estimated amounts due to third party payors	47,729	33,142
Due to affiliates, net	4,805	3,936
Other current liabilities	72,927	55,022
Total current liabilities	<u>356,563</u>	<u>281,560</u>
Long-term debt and capital lease obligations, less current maturities	604,221	622,828
Accrued pension liability	94,445	65,599
Other liabilities	257,524	242,950
Total liabilities	<u>1,312,753</u>	<u>1,212,937</u>
Net assets		
Unrestricted	1,255,979	1,006,932
Temporarily restricted	56,720	51,311
Permanently restricted	23,749	21,737
Total net assets	<u>1,336,448</u>	<u>1,079,980</u>
Total liabilities and net assets	<u>\$ 2,649,201</u>	<u>\$ 2,292,917</u>

Meridian Hospitals Corporation and Subsidiary
Statements of Operations
December 31, 2016
(Unaudited)

(in thousands)

	2016	2015
Unrestricted revenues, gains and other support		
Patient service revenue, net of contractual allowances and discounts	\$ 1,918,772	\$ 1,789,466
Provision for bad debts	<u>66,746</u>	<u>77,637</u>
Net patient service revenue, less provision for bad debts	1,852,026	1,711,829
Other revenue	57,260	59,637
Net assets released from restriction used for operating activities	<u>2,655</u>	<u>1,682</u>
Total operating revenues	<u>1,911,941</u>	<u>1,773,148</u>
Expenses		
Salaries, wages and contracted labor	704,050	661,778
Physician salaries and fees	58,194	50,942
Employee benefits	163,928	159,929
Supplies and other expenses	700,687	650,499
Depreciation and amortization	70,577	71,684
Interest	<u>32,099</u>	<u>32,726</u>
Total operating expenses	<u>1,729,535</u>	<u>1,627,558</u>
Income from operations	182,406	145,590
Nonoperating revenues (losses)		
Investment income	23,377	14,359
Contribution income - Raritan Bay Medical Center acquisition	15,937	
Unrealized loss on derivative instruments	8,150	3,523
Loss on extinguishment of debt	(685)	-
Other losses, net	<u>(2,485)</u>	<u>-</u>
Excess of revenue over expenses	226,700	163,472
Change in net unrealized gain (loss) on other than trading securities	14,484	(5,709)
Net assets released from restriction for capital acquisition	<u>5,327</u>	<u>8,682</u>
Increase in unrestricted net assets before other adjustments	246,511	166,445
Equity transfers to affiliates	(8,176)	(36,492)
Other changes in pension related adjustments	11,143	(10,751)
Other changes in unrestricted net assets	<u>(431)</u>	<u>-</u>
Increase in unrestricted net assets	<u>\$ 249,047</u>	<u>\$ 119,202</u>

Meridian Hospitals Corporation and Subsidiary
Jersey Shore University Medical Center
Statements of Operations
December 31, 2016
(Unaudited)

(in thousands)

	2016	2015
Unrestricted revenues, gains and other support		
Patient service revenue, net of contractual allowances and discounts	\$ 732,845	\$ 668,953
Provision for bad debts	<u>16,640</u>	<u>21,332</u>
Net patient service revenue, less provision for bad debts	716,205	647,621
Other revenue	30,663	25,955
Net assets released from restriction used for operating activities	<u>1,525</u>	<u>941</u>
Total operating revenues	<u>748,393</u>	<u>674,517</u>
Expenses		
Salaries, wages and contracted labor	247,734	232,160
Physician salaries and fees	20,894	17,013
Employee benefits	58,654	55,508
Supplies and other expenses	290,265	269,995
Depreciation and amortization	26,357	26,084
Interest	<u>19,144</u>	<u>17,035</u>
Total operating expenses	<u>663,048</u>	<u>617,795</u>
Income from operations	<u>\$ 85,345</u>	<u>\$ 56,722</u>

Meridian Hospitals Corporation and Subsidiary
Ocean Medical Center
Statements of Operations
December 31, 2016
(Unaudited)

(in thousands)

	2016	2015
Unrestricted revenues, gains and other support		
Patient service revenue, net of contractual allowances and discounts	\$ 312,460	\$ 302,760
Provision for bad debts	<u>10,968</u>	<u>12,126</u>
Net patient service revenue, less provision for bad debts	301,492	290,634
Other revenue	7,672	11,417
Net assets released from restriction used for operating activities	<u>407</u>	<u>91</u>
Total operating revenues	<u>309,571</u>	<u>302,142</u>
Expenses		
Salaries, wages and contracted labor	119,096	112,088
Physician salaries and fees	4,528	4,217
Employee benefits	27,481	25,584
Supplies and other expenses	109,825	99,577
Depreciation and amortization	12,903	12,536
Interest	<u>4,752</u>	<u>5,155</u>
Total operating expenses	<u>278,585</u>	<u>259,157</u>
Income from operations	<u>\$ 30,986</u>	<u>\$ 42,985</u>

Meridian Hospitals Corporation and Subsidiary
Riverview Medical Center
Statements of Operations
December 31, 2016
(Unaudited)

(in thousands)

	2016	2015
Unrestricted revenues, gains and other support		
Patient service revenue, net of contractual allowances and discounts	\$ 276,158	\$ 275,488
Provision for bad debts	<u>7,142</u>	<u>10,269</u>
Net patient service revenue, less provision for bad debts	269,016	265,219
Other revenue	7,619	8,222
Net assets released from restriction used for operating activities	<u>446</u>	<u>293</u>
Total operating revenues	<u>277,081</u>	<u>273,734</u>
Expenses		
Salaries, wages and contracted labor	105,359	101,334
Physician salaries and fees	6,901	6,873
Employee benefits	25,184	24,408
Supplies and other expenses	98,224	91,743
Depreciation and amortization	11,975	11,218
Interest	<u>4,531</u>	<u>4,924</u>
Total operating expenses	<u>252,174</u>	<u>240,500</u>
Income from operations	<u>\$ 24,907</u>	<u>\$ 33,234</u>

Meridian Hospitals Corporation and Subsidiary
Southern Ocean Medical Center
Statements of Operations
December 31, 2016
(Unaudited)

(in thousands)

	2016	2015
Unrestricted revenues, gains and other support		
Patient service revenue, net of contractual allowances and discounts	\$ 179,958	\$ 161,395
Provision for bad debts	<u>5,217</u>	<u>6,744</u>
Net patient service revenue, less provision for bad debts	174,741	154,651
Other revenue	3,734	4,218
Net assets released from restriction used for operating activities	<u>150</u>	<u>76</u>
Total operating revenues	<u>178,625</u>	<u>158,945</u>
Expenses		
Salaries, wages and contracted labor	63,884	56,833
Physician salaries and fees	6,961	5,527
Employee benefits	15,515	14,293
Supplies and other expenses	65,637	59,255
Depreciation and amortization	6,590	6,506
Interest	<u>1,364</u>	<u>1,411</u>
Total operating expenses	<u>159,951</u>	<u>143,825</u>
Income from operations	<u>\$ 18,674</u>	<u>\$ 15,120</u>

Meridian Hospitals Corporation and Subsidiary
Bayshore Community Hospital
Statements of Operations
December 31, 2016
(Unaudited)

(in thousands)

	2016	2015
Unrestricted revenues, gains and other support		
Patient service revenue, net of contractual allowances and discounts	\$ 157,702	\$ 147,847
Provision for bad debts	<u>6,439</u>	<u>9,072</u>
Net patient service revenue, less provision for bad debts	151,263	138,775
Other revenue	2,275	2,950
Net assets released from restriction used for operating activities	<u>127</u>	<u>281</u>
Total operating revenues	<u>153,665</u>	<u>142,006</u>
Expenses		
Salaries, wages and contracted labor	61,823	57,071
Physician salaries and fees	3,950	3,435
Employee benefits	15,647	14,904
Supplies and other expenses	51,559	46,684
Depreciation and amortization	5,816	5,603
Interest	<u>1,172</u>	<u>1,225</u>
Total operating expenses	<u>139,967</u>	<u>128,922</u>
Income from operations	<u>\$ 13,698</u>	<u>\$ 13,084</u>

Meridian Hospitals Corporation and Subsidiary
Raritan Bay Medical Center
Statements of Operations
December 31, 2016
(Unaudited)

(in thousands)

	2016	2015
Unrestricted revenues, gains and other support		
Patient service revenue, net of contractual allowances and discounts	\$ 259,649	\$ 233,023
Provision for bad debts	<u>20,340</u>	<u>18,094</u>
Net patient service revenue, less provision for bad debts	239,309	214,929
Other revenue	5,297	6,875
Net assets released from restriction used for operating activities	<u>-</u>	<u>-</u>
Total operating revenues	<u>244,606</u>	<u>221,804</u>
Expenses		
Salaries, wages and contracted labor	106,154	102,292
Physician salaries and fees	14,960	13,877
Employee benefits	21,447	25,232
Supplies and other expenses	85,177	83,245
Depreciation and amortization	6,936	9,737
Interest	<u>1,625</u>	<u>2,976</u>
Total operating expenses	<u>236,299</u>	<u>237,359</u>
Income from operations	<u>\$ 8,307</u>	<u>\$ (15,555)</u>

**Meridian Hospitals Corporation and Subsidiary
Combined Statements of Changes in Net Assets
December 31, 2016
(Unaudited)**

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Balance at December 31, 2014	\$ 876,636	\$ 45,807	\$ 21,827	\$ 944,270
Excess of revenues over expenses	173,089	-	-	173,089
Change in net unrealized loss on other than trading securities	(4,232)	-	-	(4,232)
Increase (decrease) in interest in affiliated fundraising organizations	-	15,868	(90)	15,778
Net assets released from restriction for capital acquisition	8,682	(8,682)	-	-
Net assets released from restriction used for operating activities	-	(1,682)	-	(1,682)
Equity transfers to affiliates, net	(36,492)	-	-	(36,492)
Other changes in pension related adjustments	(10,751)	-	-	(10,751)
Increase (decrease) in net assets	<u>130,296</u>	<u>5,504</u>	<u>(90)</u>	<u>135,710</u>
Balance at December 31, 2015	<u>\$ 1,006,932</u>	<u>\$ 51,311</u>	<u>\$ 21,737</u>	<u>\$1,079,980</u>
Excess of revenue over expenses	226,700	-	-	226,700
Change in net unrealized gain on other than trading securities	14,484	-	-	14,484
Increase in temporarily restricted net assets: Contribution received in acquisition of Raritan Bay Medical Center	-	738	-	738
Increase in permanently restricted net assets: Contribution received in acquisition of Raritan Bay Medical Center	-	-	1,933	1,933
Increase in interest in affiliated fund raising organizations	-	12,653	79	12,732
Net assets released from restriction for capital acquisition	5,327	(5,327)	-	-
Net assets released from restriction used for operating activities	-	(2,655)	-	(2,655)
Equity transfers to affiliates, net	(8,176)	-	-	(8,176)
Other changes in pension related adjustments	11,143	-	-	11,143
Other changes in unrestricted net assets	(431)	-	-	(431)
Increase in net assets	<u>249,047</u>	<u>5,409</u>	<u>2,012</u>	<u>256,468</u>
Balance at September 30, 2016	<u>\$ 1,255,979</u>	<u>\$ 56,720</u>	<u>\$ 23,749</u>	<u>\$1,336,448</u>

Meridian Hospitals Corporation and Subsidiary
Statements of Cash Flows
December 31, 2016
(Unaudited)

(in thousands)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 256,469	\$ 135,710
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net assets acquired from Raritan Bay Medical Center	(18,608)	-
Loss (gain) on disposal of assets	39	(26)
Provision for bad debts	66,746	59,543
Depreciation and amortization	70,562	61,940
Loss on extinguishment of debt	685	-
Amortization of original issue premium	(1,600)	(1,725)
Change in net realized and unrealized gain on investments	(21,024)	(283)
Unrealized gain on derivative instruments	(8,150)	(3,523)
Unrealized (gain) loss on trading securities	(4,525)	4,145
Restricted contributions for capital acquisitions	(5,327)	(8,682)
Other changes in pension related adjustments	(11,143)	10,751
Equity transfers to affiliates, net	8,176	36,492
Changes in assets and liabilities		
Increase in net patient accounts receivable	(77,661)	(71,892)
Increase in other assets	(14,532)	(11,136)
Increase in accounts payable and accrued expenses	1,826	17,086
Increase in estimated amounts due to third party payors	5,445	305
(Decrease) increase in other liabilities	15,808	10,798
Net cash provided by operating activities	<u>263,186</u>	<u>239,503</u>
Cash flows from investing activities		
Cash acquired from Raritan Bay Medical Center	550	-
Purchases of property, plant and equipment	(187,141)	(83,148)
Proceeds from sale of property and equipment	2,028	36
Sale of investment securities	342,836	356,775
Purchase of investment securities	(398,424)	(538,111)
Net cash used in investing activities	<u>(240,151)</u>	<u>(264,448)</u>
Cash flows from financing activities		
Principal payments on long-term debt and capital lease obligations	(20,246)	(16,801)
Early extinguishment of debt	(160,493)	-
Proceeds from borrowings	124,678	130,000
Restricted contributions for capital acquisitions	5,327	8,682
Financing costs	(164)	(277)
Equity transfers to affiliates, net	(8,176)	(36,492)
Net cash (used) provided in financing activities	<u>(59,074)</u>	<u>85,112</u>
(Decrease) increase in cash and cash equivalents	(36,039)	60,167
Cash and cash equivalents		
Beginning of year	300,344	240,177
End of year	<u>\$ 264,305</u>	<u>\$ 300,344</u>
Supplemental information		
Cash paid for interest	\$ 34,228	\$ 30,039
Construction and retainage payable	2,780	3,886
	-	-