Hackensack Meridian Health, Inc.

Consolidated Financial Statements and Consolidating Supplemental Schedule
December 31, 2018 and 2017

Page(s)

Report of Independent Auditors

To the Board of Trustees
Hackensack Meridian Health, Inc.

We have audited the accompanying consolidated financial statements of Hackensack Meridian Health, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 the 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 our 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, we consider internal control relevant to the Company'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 Company'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 Hackensack Meridian Health, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers and the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The detail from the consolidating statement of operations for the year ended December 31, 2018 (the "consolidating information") is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

New York, New York
April 2, 2019, except with respect to the opinion on the supplemental information, as to which the date is June 27, 2019

Hackensack Meridian Health, Inc.
Consolidated Balance Sheets
December 31, 2018 and 2017

(in thousands)	**2018**	**2017**
Assets		
Current assets		
Cash and cash equivalents	$ 442,834	$ 713,235
Patient accounts receivable, net	537,541	431,819
Pledges receivable, net	47,628	37,723
Other current assets	237,719	167,665
Assets limited as to use and short-term investments, current portion	695,589	814,933
Total current assets	1,961,311	2,165,375
Assets limited as to use and investments, noncurrent portion	2,246,462	1,656,976
Investment in joint ventures	144,382	139,214
Property and equipment, net	2,603,084	2,029,877
Other assets	140,051	124,003
Total assets	$ 7,095,290	$ 6,115,445
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	$ 63,982	$ 61,363
Accounts payable and accrued expenses	824,723	597,329
Other current liabilities	123,223	157,018
Total current liabilities	1,011,928	815,710
Long-term debt and capital lease obligations, less current maturities	2,060,199	1,675,532
Accrued pension benefits	374,263	387,241
Other liabilities	485,340	434,373
Total liabilities	3,931,730	3,312,856
Net assets		
Without donor restrictions controlled by the Network	2,938,768	2,604,041
Without donor restrictions attributable to noncontrolling interests	27,672	31,474
Net assets without donor restrictions	2,966,440	2,635,515
Net assets with donor restrictions	197,120	167,074
Total net assets	3,163,560	2,802,589
Total liabilities and net assets	$ 7,095,290	$ 6,115,445

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

Hackensack Meridian Health, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2018 and 2017

(in thousands)	2018	2017
Unrestricted revenues and other support		
Net patient service revenue	$ 5,092,349	$ 4,168,371
Other revenue	257,248	199,253
Net gain on equity investments	26,613	21,230
Net assets released from restriction used for operating activities	16,790	10,405
Total unrestricted revenues and other support	5,393,000	4,399,259
Expenses		
Salaries and contracted labor	1,972,533	1,594,684
Physician salaries and fees	403,003	320,849
Employee benefits	470,736	405,174
Supplies and other	2,003,785	1,614,644
Depreciation and amortization	194,667	169,252
Interest	73,878	66,473
Total expenses	5,118,602	4,171,076
Excess of revenues over expenses before other operating adjustments	274,398	228,183
Other operating adjustments		
Investment (loss) income, net	(110,994)	169,378
Contribution revenue from acquisition of JFK Health	125,585	-
Unrealized gain on derivative investments	10,997	5,125
Loss on extinguishment of debt	(7,681)	(30,961)
Other gains, net	22,299	9,654
Excess of revenues over expenses	314,604	381,379
Other adjustments in net assets without donor restrictions		
Net assets released from restriction for capital acquisitions	12,346	11,260
Pension-related adjustments	(9,380)	(42,081)
Other changes	25,554	(150)
Distributions to noncontrolling interests	(12,199)	(7,523)
Increase in net assets without donor restrictions	$ 330,925	$ 342,885

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

Hackensack Meridian Health, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2018 and 2017

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Balances at December 31, 2016	$ 2,292,630	$ 136,418	$ 2,429,048
Excess of revenues over expenses	381,379	-	381,379
Investment income	-	3,181	3,181
Contributions	-	48,800	48,800
Net assets released from restriction for capital acquisition	11,260	(11,260)	-
Net assets released from restriction used for operating activities	-	(10,405)	(10,405)
Other changes	(150)	340	190
Pension-related adjustments	(42,081)	-	(42,081)
Distributions to noncontrolling interests	(7,523)	-	(7,523)
Increase in net assets	342,885	30,656	373,541
Balances at December 31, 2017	2,635,515	167,074	2,802,589
Excess of revenues over expenses	314,604	-	314,604
Investment income	-	117	117
Contributions	-	41,108	41,108
Contribution revenue from acquisition of JFK Health	-	19,880	19,880
Net assets released from restriction for capital acquisition	12,346	(12,346)	-
Net assets released from restriction used for operating activities	-	(16,790)	(16,790)
Pension-related adjustments	(9,380)	-	(9,380)
Other changes	25,554	(1,923)	23,631
Distributions to noncontrolling interests	(12,199)	-	(12,199)
Increase in net assets	330,925	30,046	360,971
Balances at December 31, 2018	$ 2,966,440	$ 197,120	$ 3,163,560

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

Hackensack Meridian Health, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

(in thousands)	2018	2017
Cash flows from operating activities		
Change in net assets	$ 360,971	$ 373,541
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	194,667	169,252
Contribution revenue from acquisition of JFK Health	(145,465)	-
Loss on extinguishment of debt	7,681	-
Amortization of deferred financing costs	603	655
Premium on issuance of new debt	-	58,984
Amortization of bond premium	(4,583)	(7,206)
Unrealized gain on derivative investments	(10,997)	(5,125)
Net gain on equity investments	(26,613)	(21,230)
Realized and unrealized losses (gains) on investments	148,702	(133,960)
Restricted contributions for capital acquisitions	(7,880)	(5,554)
Pension-related adjustments	9,380	42,081
Changes in assets and liabilities:		
Increase in patient accounts receivable and pledges receivable	(31,343)	(49,103)
(Increase) decrease in other assets	(26,849)	15,538
Increase in accounts payable and accrued expenses	98,332	109,796
Decrease in accrued pension benefits	(36,452)	(45,122)
(Decrease) increase in other liabilities	(35,596)	33,918
Net cash provided by operating activities	494,558	536,465
Cash flows from investing activities		
Purchases of property and equipment	(366,138)	(339,322)
Cash acquired from acquisition of JFK Health	54,821	-
Proceeds from joint ventures	21,445	2,151
Sale of investment securities	1,109,822	518,692
Purchases of investment securities	(1,665,346)	(899,538)
Net cash used in investing activities	(845,396)	(718,017)
Cash flows from financing activities		
Repayment on long-term debt and capital lease obligations	(208,688)	(619,356)
Proceeds from borrowings	300,000	888,790
Distributions to noncontrolling interests	(12,199)	(7,523)
Restricted contributions for capital acquisitions	3,970	5,554
Payment of deferred financing costs	(2,646)	(6,885)
Net cash provided by financing activities	80,437	260,580
Change in cash and cash equivalents	(270,401)	79,028
Cash and cash equivalents		
Beginning of period	713,235	634,207
End of period	$ 442,834	$ 713,235
Supplemental information		
Cash paid for interest expense	$ 71,715	$ 53,631
Change in non-cash acquisitions of property and equipment	28,073	(15,301)
Assets acquired under capital lease	146,158	-
Non-cash acquisition of JFK Health	90,644	-

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

(in thousands)

1. Organization and Summary of Significant Accounting Policies

Organization

Hackensack Meridian Health, Inc. and its subsidiaries and controlled entities ("HMH" or the "Network") comprise an integrated health care delivery system. The Network is incorporated as a New Jersey non-profit, non-stock corporation established to promote and carry out charitable, scientific, academic and research activities and was created as a result of the merger of Hackensack University Health Network, Inc. ("HUHN") and Meridian Health System, Inc. The surviving parent entity was renamed Hackensack Meridian Health on July 1, 2016. The Network is the sole corporate member of the following entities: HMH Hospitals Corporation, Inc. ("HMHHC"); HMH Residential Care, Inc.; Hackensack University Medical Center Foundation ("HUMCF"); Meridian Health Foundation, Inc. and its six foundation subsidiaries ("MHF"); Palisades Medical Center Foundation ("PMCF"); Hackensack Meridian Health Realty Corporation and five subsidiaries ("Realty"); Hackensack Meridian Health Physician Services, Inc. ("HMPS"); Hackensack Meridian Ambulatory Ventures, Inc. ("HMAV"); and Bergen Health Management System, Inc. ("BHMS").

On January 1, 2018, HMH became the sole corporate member of JFK Health System, Inc. ("JFK Health"). JFK Health is the parent company of the Community Hospital Group, Inc. d/b/a JFK Medical Center; Muhlenberg Regional Medical Center, Inc.; John F. Kennedy Medical Center Foundation, Inc. ("JFKF"); Muhlenberg Foundation, Inc.; Lifestyle Institute, Inc.; JFK Healthshare, Inc. ("Healthshare"); Hartwyck at JFK, Inc.; Hartwyck West Nursing Home, Inc. and affiliates ("Hartwyck West"); Hartwyck at Oak Tree, Inc., collectively, the "Hartwycks"; JFK Medical Group, P.C.; and Atlantic Insurance Exchange, Ltd. ("Atlantic"), a wholly-owned insurance company. Hartwyck West operates Hartwyck at Cedar Brook, JFK Assisted Living, Inc. d/b/a Whispering Knoll, and JFK Hartwyck Management and Consulting, Inc. The Network transferred no consideration and acquired all of the assets and liabilities of JFK Health.

On January 1, 2019, JFK Health merged into Hackensack Meridian Health, resulting in all of the existing subsidiaries of JFK Health noted above becoming subsidiaries of HMH.

The Network is also the sole shareholder of Hackensack Meridian Health Ventures, Inc. and its subsidiary ("HMHV") and Alert Ambulance, Inc., and is the sole member of Meridian Accountable Care Organization, LLC ("MACO"), Hackensack Physician-Hospital Alliance ACO, LLC ("ACO") and Hackensack Meridian Health Partners, LLC ("HMHP").

HMHHC is the sole corporate member of Hackensack University Medical Center Casualty Company ("HUMCCO") and 20 Prospect Holdings, LLC. HMHHC is the sole shareholder of Coastal Medical Insurance Limited ("Coastal"). HUMCCO, Atlantic and Coastal are wholly-owned insurance companies.

HMPS serves as the management organization for the physician division which encapsulates seventeen professional corporations (four taxable and thirteen tax-exempt) consolidated with the Network and provides other physician practice development strategies.

(in thousands)

The Network operates an extensive acute care hospital system which consists of three academic medical centers (which include two children's hospitals and a cancer center), and seven community hospitals as follows:

- HUMC, located in Hackensack, New Jersey, is an academic medical center and the largest stand-alone medical center in the state with 781 beds. HUMC includes the Joseph M. Sanzari Children's Hospital, the Donna A. Sanzari Women's Hospital, the John Theurer Cancer Center, and the Heart and Vascular Hospital;

- Jersey Shore University Medical Center ("JSUMC"), located in Neptune, New Jersey, is a major academic medical center and regional trauma center with 614 beds that includes the K. Hovnanian Children's Hospital;

- JFK Medical Center ("JFK"), is a 499-bed academic medical center located in Edison, New Jersey;

- Riverview Medical Center ("RMC"), is a 468-bed community hospital located in Red Bank, New Jersey;

- Raritan Bay Medical Center ("RBMC") at Perth Amboy, is a 395-bed community hospital located in Perth Amboy, New Jersey;

- Ocean Medical Center ("OMC"), is a 357-bed community hospital located in Brick, New Jersey;

- Bayshore Medical Center ("BMC"), is a 211-bed community hospital located in Holmdel, New Jersey;

- PMC, located in North Bergen, New Jersey, is a 206-bed community hospital, that includes a 247-bed nursing home known as the Harborage;

- Southern Ocean Medical Center ("SOMC"), is a 176-bed community hospital located in Manahawkin, New Jersey; and

- RBMC at Old Bridge, located in Old Bridge, New Jersey, is a 113-bed community hospital.

In June 2015, the former HUHN, now replaced by the Network, and Seton Hall University ("SHU") signed a definitive agreement to form a new four-year school of medicine. The partnership established the only private school of medicine in the State of New Jersey. In conjunction with the formation of the new school of medicine, the Network and SHU entered into a long-term lease for two buildings in the town of Nutley and the city of Clifton, New Jersey.

On March 19, 2018 the Network entered into a letter agreement with SHU which provides for the School of Medicine ("SOM") to seek its own independent accreditation from its various accrediting and licensing bodies. Should the SOM receive such accreditation, the Network would assume full governance over the SOM. The letter agreement stipulates that the Network has full responsibility for the finances of the SOM, inclusive of the long term lease for the two buildings on the campus. As part of the letter agreement, SHU agreed to assume responsibility for a larger sublease of those buildings related to their School of Nursing and School of Allied Health programs

(in thousands)

that they are relocating to the campus. Additionally, on March 19, 2018, the Network entered into an agreement with SHU where HMH would assume full control over Kingsland Street Urban Renewal, LLC, a real estate holding company consisting of the lease for the two buildings.

On January 1, 2019, HMH became the sole corporate member of Carrier Clinic ("Carrier"). Carrier is a non-profit, tax-exempt, behavioral healthcare system treating patients with psychiatric, emotional, and addictive illnesses. Carrier's service area encompasses the entire state of New Jersey. The Network transferred no consideration and acquired all of the assets and liabilities of Carrier. This business combination will be accounted for as an acquisition. As of the date of issuance of the consolidated financial statements, the acquisition accounting of Carrier has not been finalized.

During 2012, HUMC entered into two separate joint ventures with an unrelated entity. Under the first joint venture arrangement, entered into on March 23, 2012, HUMC contributed the existing property and equipment of the former Pascack Valley Hospital campus for a 35% interest in the joint venture which was valued at $51,100. The investment in the Pascack Valley joint venture recorded on the consolidated balance sheets was $38,731 and $36,242 as of December 31, 2018 and 2017, respectively.

Under the second joint venture, entered into on July 1, 2012, HUMC purchased a 20% ownership interest in Mountainside Hospital. For its ownership interest, HUMC contributed $10,644 in cash and entered into a nonrecourse loan agreement with its joint venture partner. In July 2016, HUMC entered into a bank loan and used the proceeds to payoff the remaining outstanding balance on the nonrecourse loan and its accrued interest (See Note 5). The investment in the Mountainside joint venture recorded on the consolidated balance sheets was $32,568 and $29,771 as of December 31, 2018 and 2017, respectively.

Joint ventures in which the Network exerts significant influence in the operations of the unconsolidated entities, primarily through shared representation on the governing bodies of the investee and equal voting rights, and has an equity interest of more than 20% but less than 50%, are accounted for under the equity method of accounting. Income from joint ventures is reflected in the net gain on equity investments in the consolidated statements of operations.

During 2012, HUMC and a separate unrelated entity formed a joint venture limited liability company which purchased a 51% interest in two ambulatory surgical centers (the "Centers") located in Bergen County, New Jersey, with HUMC receiving 50.1% voting rights in the joint venture entity. As a result, HUMC consolidated the Centers in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-810, *Not-for-Profit Entities – Consolidation*, and reflected a non-controlling interest for the equity related to the previous owners and the unrelated party in accordance with ASC 810. The net assets acquired of the Centers were $34,950 (including goodwill of $34,250).

(in thousands)

The following schedule of changes in consolidated net assets attributable to the parent and the non-controlling interest reconciles beginning and ending balances of the parent's controlling interest and non-controlling interest for the years ended December 31, 2018 and 2017:

	Total	The Network (Controlling Interest)	Noncontrolling Interests
Balances at December 31, 2016	$ 2,292,630	$ 2,263,515	$ 29,115
Excess of revenues over expenses	381,379	371,497	9,882
Distributions to non-controlling interests	(7,523)	-	(7,523)
Other changes	(30,971)	(30,971)	-
Change in net assets without donor restrictions	342,885	340,526	2,359
Balances at December 31, 2017	2,635,515	2,604,041	31,474
Excess of revenues over expenses	314,604	306,207	8,397
Distributions to non-controlling interests	(12,199)	-	(12,199)
Other changes	28,520	28,520	-
Change in net assets without donor restrictions	330,925	334,727	(3,802)
Balances at December 31, 2018	$ 2,966,440	$ 2,938,768	$ 27,672

Summary of Significant Accounting Policies

The following is a summary of the Network's significant accounting policies:

Basis of Presentation

The Network's policy is to consolidate all entities affiliated with the Network that meet the requirements for consolidation under ASC 810. All significant intercompany transactions and balances have been eliminated.

On January 1, 2018, HMH became the sole corporate member of JFK Health. The Network transferred no consideration and acquired all of the assets and liabilities of JFK Health. The change in control was accounted for as an acquisition under ASC 958-805, *Not-for-Profit Entities: Business Combinations*. As such, the Network recorded $125,585 of contribution income, which is included in the performance indicator in the 2018 consolidated statement of operations, and $19,880, which is presented as an increase in net assets with donor restrictions in the statement of changes in net assets. These amounts represent the excess of the fair value of assets acquired over the fair value of liabilities assumed. The consolidated statement of operations reflects activity of JFK Health from the date of acquisition (January 1, 2018) to year end.

(in thousands)

The fair value of assets acquired, liabilities assumed and net assets of JFK Health at January 1, 2018 were as follows:

Assets	
Cash and cash equivalents	$ 54,821
Patient accounts receivable, net	80,374
Assets limited as to use and investments	63,320
Other assets	53,171
Property and equipment, net	221,388
Total assets acquired	$ 473,074
Liabilities and Net Assets	
Accounts payable and accrued expenses	$ 100,989
Other liabilities	63,765
Accrued pension benefits	14,094
Long-term debt and capital lease obligations	148,761
Total liabilities assumed	327,609
Net assets	
Without donor restrictions	125,585
With donor restrictions	19,880
Total net assets	145,465
Total liabilities and net assets	$ 473,074

A summary of the unaudited proforma financial results of the Network and JFK Health for the year ending December 31, 2017 as if the acquisition had occurred on January 1, 2017 is as follows:

	2017		
	Network	**JFK Health**	**Total**
Excess of revenues over expenses before other operating adjustments	$ 228,183	$ (20,058)	$ 208,125
Excess of revenues over expenses	381,379	(21,607)	359,772
Net assets released from restriction for capital acquisition	11,260	1,048	12,308
Pension-related adjustments	(42,081)	14,499	(27,582)
Other changes	(150)	(817)	(967)
Distributions to noncontrolling interests	(7,523)	-	(7,523)
Increase in net assets without donor restrictions	$ 342,885	$ (6,877)	$ 336,008

(in thousands)

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the contractual discounts on accounts receivable, valuation of alternative investments, estimated amounts due to and from third-party payors, professional liability costs and accrued pension benefit liabilities. Actual results could differ from those estimates.

Income Taxes
All of the not-for-profit entities included in the consolidated financial statements are corporations as described in Section 501(c)(3) of the Internal Revenue Code ("Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. These entities, except for the physician practices, are also exempt from state income taxes. Per the requirement to assess for tax uncertainty, management has determined that it does not have any significant uncertain tax positions required to be accrued or reported.

The for-profit corporations are subject to federal and state income taxes.

Cash and Cash Equivalents
Cash and cash equivalents include investments in highly-liquid instruments with original maturity of three months or less, which are not included in its investments and assets limited as to use portfolio. Cash and cash equivalents are also held in its investments and assets limited as to use portfolio. At December 31, 2018 and 2017, the Network had cash balances in a financial institution that exceeded federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

Assets limited as to use and Investments
Investments and assets limited as to use are recorded at fair values, which are based on the assumptions and methods described in the "Fair Value Measurements" section of this note.

Assets limited as to use include cash and investments set aside by the Network Board of Trustees (the "Board") for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, assets held by trustees under indenture agreements, assets held in connection with the captive insurance program, assets held for deferred employee benefit plans, and donor-restricted assets.

A majority of the Network's investments in equity securities with readily determinable fair values and investments in debt securities are reported as trading securities based on the Network's investment strategy and investment philosophies. Trustee-held assets under bond indenture, which are primarily comprised of cash and short-term investments, as well as alternative investments, are classified as other than trading.

Investment income or losses (including realized gains and losses on investments, interest, dividends, holding gains and losses on trading securities, declines in fair value that are determined by management to be other-than-temporary, and changes in the value of investments accounted for on the equity basis of accounting) are included in the accompanying consolidated statements of operations as other operating adjustments, unless the income or loss is restricted by donor or law.

(in thousands)

Gains and losses on sales of investment assets are determined using the first-in, first-out method. Investments classified as current assets are available to support current operations.

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 financial statements.

Financial Instruments

The Network has entered into interest rate swap agreements to manage its exposure to fluctuations in interest rates (interest rate risk) and lower cost of capital. These swap agreements involve the exchange of fixed and variable rate interest payments between the Network and counterparties based on common notional principal amounts and maturity dates that correspond to the Network's outstanding long-term debt.

The Network recognizes all derivatives at fair value within other liabilities on the consolidated balance sheets. Changes in fair value of these instruments are reported in the consolidated statements of operations as discussed in Note 6.

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Network for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, or quoted prices in markets that are not active.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- Market Approach (M) – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

(in thousands)

- Cost Approach (C) – Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and

- Income Approach (I) – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions the market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors. The Network utilized the best available information in measuring fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments held by the Network:

- Cash and Cash Equivalents – Estimated fair values of cash equivalents are based on daily values (closing price on primary market) that are validated with a sufficient level of observable activity (i.e., purchases and sales).

- Mutual Funds – Estimated fair values of mutual funds are based on daily values (closing price on primary market) that are validated with a sufficient level of observable activity (i.e. purchases and sales).

- Corporate Equity Securities – Securities listed on national stock exchanges are valued at the last published sales price on the last business day of the year; over–the-counter securities for which no sale was reported on the last business day of the year are valued at the latest reported bid price from a published source.

- U.S. Government, Municipal, and Corporate Debt Securities – Valued on the basis of the quoted market prices at year-end. If quoted market prices are not available for the investments, these investments are valued based on yields currently available on comparable securities or issuers with similar credit ratings.

- Derivative Instruments – Consist of interest rate swap agreements. Value is determined using a market-based interest rate yield curve adjusted specifically to take into account the Network's and counterparty's risk of nonperformance.

- Alternative Investments and common/collective trusts - Fair value of alternative investments are measured based on unobservable inputs that cannot be corroborated by observable market data. The Network accounts for these investments within its assets limited as to use and investments portfolios using the equity method of accounting and as such, these investments are excluded from the fair value hierarchy.

- The Network's alternative investments include holdings in common/collective trusts, limited partnerships or hedge funds which engage in a variety of investment strategies and are managed by money managers. Certain pension plan asset investments in alternative investments are valued by management utilizing the net asset value ("NAV") provided by the respective fund manager of the underlying investment companies unless management

(in thousands)

determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties as the Network does not intend to sell such investments before the expiration of the early redemption periods. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

- Changes in the value of these alternative investments are included in investment (loss) income, in the consolidated statements of operations. Generally, alternative investments upon which redemptions may be made annually with written notice of 100 days are recorded as current assets. Limited partnerships which do not provide for voluntary withdrawal and are long term in nature are classified as noncurrent assets.

Inventories
Inventories are stated at lower of cost (determined on an average cost basis) or market and are included in other current assets on the consolidated balance sheets.

Property and Equipment
Property and equipment are recorded at cost. The Network determines depreciation using the straight-line method, over the estimated useful life of each class of depreciable asset. Estimated lives range from 3 to 20 years for equipment and up to 40 years for buildings.

Capitalized leases are recorded at their present value at the inception of the lease. Property and equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations. Gains and losses resulting from the retirement of property and equipment are included in the results of current operations.

Gifts of long-lived assets such as property and equipment are determined at their fair value at the date of the gift and reported as an increase to net assets without donor restrictions 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 long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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. If such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell. There were no impairments of long-lived assets at December 31, 2018 and 2017.

(in thousands)

Deferred Financing Costs

Deferred financing costs include legal, financing, and placement fees associated with the issuance of long-term debt, and are presented net of the related long-term debt issuances, in accordance with FASB Accounting Standards Update (ASU) 2015-03. These costs are amortized using the interest method over the period the related obligations are outstanding.

Professional, General and Workers Compensation Liabilities

The Network's policy is to accrue an estimate of the ultimate cost of malpractice and workers compensation claims covered through either its wholly owned captive insurance companies or insurance policies with third party insurers. These accrued liabilities are included in other liabilities in the accompanying consolidated balance sheets. The Network also records an estimate for insurance recoveries associated with these claims, which is recorded in other assets on the consolidated balance sheets.

Net Assets

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The Network adopted this standard in 2018 and applied retrospectively. Under the new guidance, the existing three categories of net assets were replaced with a simplified model that combined temporarily restricted and permanently restricted net assets into a single category called "net assets with donor restrictions" and renamed unrestricted net assets as "net assets without donor restrictions." The guidance also enhances disclosures about liquidity and expenses by both natural and functional classification.

Net assets without donor restrictions are derived from gifts that are not subject to explicit donor-imposed restrictions. Resources arising from the results of operations or assets set aside by the Board of Trustees are classified as without donor restrictions for external reporting purposes. Included in net assets without donor restrictions are board-designated endowment funds of $76,563 and $78,449 at December 31, 2018 and 2017, respectively.

Net assets with donor restrictions are those funds whose use has been limited by donors to a specified time period and/or purpose. Net assets are available for the funding of healthcare services and capital acquisitions. Certain donor restrictions are perpetual in nature and the income from those funds is expendable to support various health care services.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as the cost basis. The gifts are reported as net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Net assets released from restrictions for capital acquisitions are excluded from excess of revenues over expenses within the consolidated statements of operations. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as net assets without donor restrictions.

(in thousands)

The Boards of HUMCF, PMCF, JFKF, and MHF, collectively (the "Foundations"), consistent with regulatory requirements, require the preservation of the fair value of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Foundations classify net assets with donor restrictions as (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which the Network expects to be entitled in exchange for providing patient care. These amounts are net of appropriate discounts to give recognition to differences between the Network's charges and reimbursement rates from third party payers. The Network is reimbursed from third party payers under various methodologies based on the level of care provided. Certain net revenues received are subject to audit and retroactive adjustment for which amounts are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. The Network bills patients and third party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

The Network determines performance obligations based on the nature of the services provided. The Network recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The Network measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The Network recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) we do not believe the patient requires additional services.

Because the Network's patient service performance obligations relate to contracts with a duration of less than one year, the Network has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) *Revenue from Contracts with Customers* and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Network determines the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Network's policy, and implicit price concessions provided to uninsured patients. The Network determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Network determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement

(in thousands)

effects of using this practical expedient are not materially different from an individual contract approach.

A summary of the payment arrangements with major third party payers is as follows:

- Medicare - inpatient acute care services and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology, the Network is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Network. The Network's Medicare cost reports have been audited and finalized through December 31, 2015 except for 2010 and 2015 for HUMC, 2011 and 2015 for OMC, 2010 and 2011 for RMC, 2015 for JSUMC, 2010 for RBMC and 2015 for PMC.

- Medicaid - inpatient acute care services rendered to Medicaid program beneficiaries are reimbursed under a prospective methodology in accordance with N.J.A.C. 10:52 sub-chapter 14. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule. The Network's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary up through December 31, 2015 except for 2007 through 2009 for HUMC.

- The Network has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per patient day or procedure and discounts from established charges.

Generally, patients who are covered by third-party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. We also provide services to uninsured patients and offer uninsured patients a discount from standard charges. We estimate the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. Under our uninsured discount programs, the discount offered to certain uninsured patients is recognized as a contractual discount, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual discounts recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenues in the period of the change.

Effective January 1, 2018, we adopted the FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a full retrospective method of application. The adoption of ASU 2014-09 resulted in changes to our presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient service revenues. For the years ended December 31, 2018 and 2017, we recorded

(in thousands)

$237,114 and $174,779 of implicit price concessions as a direct reduction of net patient service revenues that would have been recorded as provision for bad debts prior to the adoption of ASU 2014-09.

The components of net patient service revenue for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Gross charges	$ 20,773,097	$ 16,885,949
Contractual discounts and implicit price concessions	(15,743,544)	(12,760,615)
Change in estimate of prior year's net patient service revenue	37,207	23,064
Charity care subsidy	12,125	13,209
Hospital relief subsidy	13,464	6,764
	$ 5,092,349	$ 4,168,371

The mix of patient service revenue, net of contractual discounts from patients and third party payors for the years ended December 31, 2018 and 2017 is as follows:

Net Patient Service Revenue %	2018	2017
Medicare, including Managed Medicare	34 %	35 %
Medicaid, including Managed Medicaid	10	10
NJ Blue Cross	20	22
Other Payors	35	32
Self Pay	1	1
	100 %	100 %

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare and Medicaid programs. The Network believes that they are currently in compliance with all applicable laws and regulations. The Network has established a Corporate Compliance Program to monitor compliance with various regulations.

Performance Indicator

The consolidated statements of operations includes excess of revenues over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include distributions to noncontrolling interests, pension-related adjustments, net assets released from restriction for capital acquisitions and other changes.

The Network differentiates its core operating activities through the use of excess of revenues over expenses before other operating adjustments as an intermediate measure of operations. For the purposes of display, investment income, contribution income (JFK Health), loss on extinguishment of debt and certain other transactions, which management does not consider being components of the Network’s core operating activities, are reported as other operating adjustments in the consolidated statements of operations.

(in thousands)

New Authoritative Pronouncements

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost*. The ASU requires that in instances where an operating measure is included in the consolidated statements of operations, the service cost component of the net periodic cost be included as a component of the operating measure and other components of net periodic costs be presented separately in the nonoperating section of the consolidated statements of operations. ASU 2017-07 allows a practical expedient that permits an employer to use the amounts disclosed in its pension benefit plan note for the prior comparative period as the estimation basis for applying the retrospective presentation requirements. In fiscal year 2018, the Network adopted the provisions of this standard retrospectively and applied the practical expedient. The non-service cost components of the net periodic costs for its pension plans, gains of $28,333 and $7,313 for the years ended December 31, 2018 and 2017, were recorded within other gains, net in the consolidated statements of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The Network is planning to use the transition method whereby the Network will initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. This guidance will be effective for the Network beginning in fiscal year 2019. The Network is currently assessing the impact the adoption of this standard will have on the consolidated financial statements.

In August 2016 and November 2016, respectively, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, and ASU 2016-18, *Restricted Cash*. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 includes guidance on eight specific cash flow issues in an effort to reduce diversity in practice in how certain transactions are classified within the statement of cash flows. ASU 2016-18 addresses the presentation, disclosure, and cash flow classification of restricted cash and requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities would also be required to reconcile these amounts on the balance sheets to the statement of cash flows and disclose the nature of the restrictions. The guidance is effective for financial statements issued for fiscal years beginning after December 31, 2018. Early adoption is permitted for ASU 2016-15 provided that all of the amendments are adopted in the same period. Both ASUs require application using a retrospective transition method. The Network is currently assessing the impact the adoption of these standards will have on the consolidated financial statements.

2. Charity and Uncompensated Care

The Network provides care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services without charge or at amounts less than its established rates. The Network maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished. The Network receives partial reimbursement for the uncompensated care provided. Of the Network's

(in thousands)

total consolidated operating expenses reported, estimated costs of $96,426 and $88,051 for the years ended December 31, 2018 and 2017, are attributable to providing services to charity patients, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Network's total operating expenses, divided by gross patient service revenue.

3. Assets Limited as to Use and Investments

The following tables provide a summary of the Network's assets limited as to use and investments that are measured at fair value on a recurring basis at December 31, 2018 and 2017:

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	December 31, 2018
Under Board of Trustees designation			
Cash and cash equivalents	$ 75,568	$ -	$ 75,568
Mutual funds	407,357	-	407,357
Corporate equity securities	249,430	-	249,430
Corporate debt securities	-	625,925	625,925
U.S. government obligations	3,016	103,022	106,038
	735,371	728,947	1,464,318
Accrued interest			5,015
Common/collective trusts			1,304,406
Alternative investments			83,771
Total under Board of Trustees designation			2,857,510
Under donor designation			
Cash and cash equivalents	1,639	-	1,639
Mutual funds	1,701	-	1,701
Corporate equity securities	2,207	-	2,207
Corporate debt securities	6,094	-	6,094
U.S. government obligations	25,198	-	25,198
	36,839	-	36,839
Accrued interest			151
Total under donor designation			36,990
Under bond indenture agreements held by trustee			
Cash and cash equivalents	42,364	-	42,364
Other	-	5,187	5,187
Total under bond indenture agreements held by trustee	$ 42,364	$ 5,187	47,551
Total assets whose use is limited and investments			$ 2,942,051

(in thousands)

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	December 31, 2017
Under Board of Trustees designation			
Cash and cash equivalents	$ 68,575	$ 2,087	$ 70,662
Mutual funds	565,192	95,353	660,545
Corporate equity securities	206,241	-	206,241
Corporate debt securities	-	621,571	621,571
U.S. government obligations	322,077	158,355	480,432
	1,162,085	877,366	2,039,451
Accrued interest			6,741
Common/collective trusts			208,248
Alternative investments			98,713
Total under Board of Trustees designation			2,353,153
Under donor designation			
Cash and cash equivalents	5,297	-	5,297
Mutual funds	30,159	12,705	42,864
Corporate equity securities	6,985	-	6,985
Corporate debt securities	-	7,761	7,761
U.S. government obligations	-	7,525	7,525
	42,441	27,991	70,432
Accrued interest			190
Guaranteed interest contract			2,862
Total under donor designation			73,484
Under bond indenture agreements held by trustee			
Cash and cash equivalents	45,248	-	45,248
Total under bond indenture agreements held by trustee	$ 45,248	$ -	45,248
Restricted cash			24
Total assets whose use is limited and investments			$ 2,471,909

Assets limited as to use and investments are reported on the consolidated balance sheets at December 31, 2018 and 2017 as follows:

	2018	2017
Assets limited as to use and investments, current portion	$ 695,589	$ 814,933
Assets limited as to use and investments, noncurrent portion	2,246,462	1,656,976
	$ 2,942,051	$ 2,471,909

There were no transfers between Levels 1 and 2 during the years ended December 31, 2018 and 2017. At December 31, 2018 and 2017, the Network's remaining outstanding funding commitments to alternative investments approximated $6,191 and $7,014, respectively.

(in thousands)

Assets under bond indenture agreements held by trustees are maintained in the following accounts at December 31, 2018 and 2017:

	2018	2017
Debt service fund, principal	$ 16,202	$ 16,569
Debt service fund, interest	25,902	23,038
Debt service reserve fund	5,336	5,237
Cost of issuance fund	111	374
Construction fund	-	30
Total assets under bond indenture agreements	$ 47,551	$ 45,248

Investment income consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Interest and dividend income	$ 42,010	$ 37,311
Realized gains (losses) and net change in unrealized gains (losses)	(148,702)	133,960
Investment management fees	(4,321)	(3,098)
Other gains and losses	19	1,205
	$ (110,994)	$ 169,378

4. Liquidity and Availability of Resources

The Network's financial assets and resources available to meet the cash needs for general expenditures within one year of the date of the consolidated statements of financial position were as follows:

	2018	2017
Financial assets:		
Cash	$ 442,834	$ 713,235
Accounts receivable	537,541	431,819
Pledges receivable	47,628	37,723
Assets limited as to use and investments	2,799,847	2,292,091
Total financial assets available within one year	3,827,850	3,474,868
Liquidity resources:		
Bank lines of credit (undrawn)	47,950	49,450
Total financial assets and resources available within one year	$ 3,875,800	$ 3,524,318

As part of the Network's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Assets limited as to use and investments in the table above includes assets under Board of Trustees designation. These assets could be used for general expenditures, but would require approval from the Board of Trustees. These assets exclude alternative investments with lock-up provisions greater than one year of $57,663 and $61,086 as of December 31, 2018 and 2017, respectively (see Note 3 for disclosures about investments).

(in thousands)

5. Property and Equipment

Property and equipment, including assets held under capital lease obligations, consist of the following at December 31, 2018 and 2017:

	2018	2017
Land	$ 128,027	$ 107,634
Land improvements	22,441	20,673
Buildings and fixed equipment	2,893,950	2,268,447
Major movable equipment	1,117,390	983,364
	4,161,808	3,380,118
Accumulated depreciation and amortization	(1,757,812)	(1,617,173)
Construction-in-progress	199,088	266,932
Property and equipment, net	$ 2,603,084	$ 2,029,877

Depreciation expense for the years ended December 31, 2018 and 2017 was $188,550 and $167,204, respectively.

6. Long-Term Debt and Capital Lease Obligations

The Network has various bond issues outstanding, primarily issued through the New Jersey Health Care Facilities Financing Authority (the "Authority"), as well as various bank loans, mortgages and capital lease obligations. During 2017, the Network established one legally obligated group for certain borrowings with the Authority and other lenders. This obligated group is represented by Hackensack Meridian Health, HMHHC and JFK ("Obligated Group"). JFK Health became a member of the Obligated Group in 2018. The Obligated Group is subject to the covenants of the Master Trust Indenture ("MTI") with the Authority.

Long-term debt and capital lease obligations consist of the following at December 31, 2018 and 2017:

	2018	2017
Revenue Bonds		
Series 2018, 4.211%, due July 1, 2048	$ 300,000	$ -
Series 2017, 4.5%, due July 1, 2057	300,000	300,000
Series 2016A, 2.55% and 1.51% at December 31, 2018 and 2017, respectively, due July 1, 2038	125,865	127,865
Series 2015A, 2.5%, due November 1, 2045	116,639	120,972
Series 2006, 1.70% and 1.75% at December 31, 2018 and 2017, respectively, due July 1, 2036*	14,625	15,010
Series 2006 A-3, 1.71% and 1.31% at December 31, 2018 and 2017, respectively, due July 1, 2031*	3,500	3,500
Series 2006 A-4, 1.70% and 1.75% at December 31, 2018 and 2017, respectively, due July 1, 2027*	12,460	13,570
Series 2006 A-5, 1.70% and 1.75% at December 31, 2018 and 2017, respectively, due July 1, 2036*	10,915	10,915
Series 2004 A-3, 1.69% and 1.27% at December 31, 2018 and 2017, respectively, due July 1, 2035*	9,860	10,305
Series 2003, 1.68% and 1.63% at December 31, 2018 and 2017, respectively, due July 1, 2033*	60,000	60,000
Series 1998A, 1.70% and 1.28% at December 31, 2018 and 2017, respectively, due July 1, 2028*	7,995	8,645

**Interest is payable monthly and determined weekly based upon market rates with a 12% per annum maximum*

(in thousands)

Refunding Bonds		
Series 2018A, 1.91%, due January 1, 2026	5,712	-
Series 2017A, 2.5% to 5.0%, which mature annually from July 1 ,2020 through July 1, 2040	489,870	489,870
Series 2017A, 4.0% to 5.25%, which mature annually from July 1, 2043 through July 1, 2057	98,920	98,920
Series 2013A, 2.0% and 5.0%, in varying maturities through July 1, 2032	22,865	23,585
Series 2011, 2.0% and 5.0%, in varying maturities through July 1, 2027	114,270	127,800
Bank Loans		
Series 2016, 2.59%, a term of 120 months with a 25 year amortization and a fixed monthly payment of $92; commencing July 28, 2016 and ending July 28, 2041	18,923	19,526
Series 2015A (tax exempt), 2.38%, a term of 120 months with a 25-year amortization, and a fixed monthly payment of $372; commencing August 12, 2015 and ending July 12, 2040	75,418	78,047
Series 2015B, 3.31%, a term of 120 months with a 25-year amortization, and a fixed monthly payment of $177; commencing August 12, 2015 and ending July 12, 2040	32,746	33,758
Series 2013A, 1.93%, and a term of 84 months with a fixed monthly payment of $957 commencing May 1, 2013 and ending April 1, 2020	15,099	26,166
Series 2013B, 1.80%, and a term of 84 months with a fixed monthly payment of $1,270, commencing May 1, 2013 and ending April 1, 2020	20,058	34,783
Other		
New Jersey Economic Development Authority Series 1997 Revenue Bonds , 4.1% to 5.7%, due annually from January 1, 1998 through January 1, 2022	10,102	13,003
Accreted bond interest payable on the capital appreciation portion of the Series 1997 bonds due between January 1, 2012 and January 1, 2022.	23,789	28,236
Various commercial mortgages with fixed interest rates ranging from 3.625% to 4.25% and variable interest rates equal to the LIBOR rate for each period plus 0.85% to 1.0%.	35,460	39,216
Total long-term debt	$ 1,925,091	$ 1,683,692
Capital lease obligations		
Capital lease obligations and other obligations with interest rates ranging from 1.74% to 12.3% collateralized by equipment financed through the leases.	$ 158,525	$ 5,853
Total capital lease obligations	158,525	5,853
Total long-term debt and capital lease obligations	2,083,616	1,689,545
Current portion of accreted interest, included in accrued interest payable	(6,458)	(6,299)
Original issue premium, net	58,925	63,508
Deferred financing costs, net of accumulated amortization	(11,902)	(9,859)
Current portion	(63,982)	(61,363)
Long-term debt and capital lease obligations, net of current portion	$ 2,060,199	$ 1,675,532

In April 2018, the Obligated Group issued new bonds in the amount of $300,000. These funds were used to defease the JFK Series 2009A bonds for $130,015, with the remaining balance to fund future renovation and expansion projects.

In April 2017, the Obligated Group issued new bonds in the amount of $888,790. These funds were used to defease MHC Series 2007, HUMC Series 2008, Series 2010, Series 2010B and PMC Series 2013 bond issues; reimburse MHC for construction costs related to certain expansion projects; reimburse HUMC for a 2016 bank loan; and for future renovation and expansion projects.

Management is not aware of any noncompliance with any of the required covenants related to its outstanding debt at December 31, 2018 and 2017. The Obligated Group's most restrictive covenants are meeting minimum requirements for debt service coverage ratio, debt-to-capitalization ratio and cushion ratio. At December 31, 2018 and 2017, the Obligated Group was in compliance with all financial ratio covenants.

(in thousands)

The future principal payments on long-term debt and payments on capital lease obligations are as follows:

	Long-Term Debt	Capital Lease Obligations	Total
2019	$ 51,864	$ 12,118	$ 63,982
2020	188,089	8,954	197,043
2021	50,939	7,360	58,299
2022	68,193	7,223	75,416
2023	42,776	7,175	49,951
Thereafter	1,523,230	164,639	1,687,869
	1,925,091	207,469	2,132,560
Amounts representing interest on capital lease obligations	-	(48,944)	(48,944)
Total long-term debt and capital lease obligations	$ 1,925,091	$ 158,525	$ 2,083,616

7. Interest Rate Swap Agreements

As of December 31, 2018, the Network had three forward starting pay fixed interest swap agreements which were entered into to mitigate variable rate exposure and take advantage of low interest rates. Under the terms of these agreements, the Network is paying fixed interest rates ranging from 3.33% to 3.65% in exchange for variable rate payments equal to either 67% or 68% of the one month LIBOR rate. The notional amounts on these swap agreements are also tied to the outstanding principal on the underlying bond series.

At December 31, 2018 and 2017, the fair value of the Network's derivative instruments was in a liability position of $45,046 and $56,849, respectively and included in other liabilities in the consolidated balance sheets, respectively. The fair values of the Network's derivative instruments are classified as Level 2 financial instruments and reflect a risk of nonperformance adjustment of approximately $3,051. The total gain recognized on these derivatives for the years ended December 31, 2018 and 2017 was $10,997 and $5,125, respectively which was included within other operating adjustments in the consolidated statements of operations.

8. Pension Plans, Postretirement Health Care and Postemployment

The Network has multiple noncontributory defined benefit retirement plans covering most employees. The Network's fund policy is to contribute annually an amount no less than the minimum amount required by the Employee Retirement Income Security Act of 1974, plus additional amounts, which may be approved by the Corporation from time to time. The following describes the various noncontributory defined benefit retirement plans:

(in thousands)

HUMC Defined Benefit Pension Plan
HUMC has a noncontributory defined benefit retirement plan (the "HUMC Plan") covering most employees. In 2010, HUMC announced to all employees a change in its qualified defined benefit pension plan. Beginning January 1, 2011, most of its employees automatically earned retirement benefits under two new retirement plans, a defined contribution plan and a retirement savings plan. Any employee whose age and years of vesting service total at least 65 remains in the defined benefit plan and earns benefits based on compensation and years of service.

MHC Defined Benefit Cash Balance Pension Plan
The defined benefit cash balance plan (the "MHC Plan") was created on January 1, 1998 through the conversion and merger of predecessor defined benefit plans. Benefits calculated based upon the predecessor plans were frozen as of December 31, 1997. Beginning January 1, 1998, benefits were based upon contributions to participants' accounts at a percentage of the employee's salary. On December 31, 2009, the MHC Plan was effectively frozen. Any employee eligible to participate in the MHC Plan on December 31, 2009 continued to accrue benefits under this plan until retirement. All new employees joining MHC after this date are eligible to participate in a new 403(b) savings plan. On December 31, 2018, the MHC Plan was frozen and no further annual account credits will be credited to participants' cash balance accounts thereafter. Annual interest credits will continue to be credited to participants' cash balance account until commencement of benefits. Each individual participating in the MHC Plan as of December 31, 2018 is fully vested as of that date.

Effective as of December 31, 2018, the assets and liabilities of four noncontributory defined benefit pension plans that were sponsored by BMC, RBMC, PMC and JFK were transferred to the MHC Plan. These four plans were frozen with the last plan frozen in May 2009. Participants under these plans earned benefits based on compensation and years of service. Effective as of January 1, 2019, the name of the MHC Plan is changed to the "Consolidated Pension Plan of Hackensack Meridian Health." The merger of these plans had no impact to expense or the funded status as of December 31, 2018.

During November 2017, the Network completed a small benefit retiree annuity program, whereby a select group of retirees from each of the plans above were transferred to an annuity plan held by a third party insurance company. In total, 2,200 retirees were transferred, accounting for a total of $94,109 of current obligation and corresponding assets from the plans being transferred to the insurance company.

(in thousands)

The following table sets forth the funded status of the combined defined benefit pension plans for the years ended December 31, 2018 and 2017:

	Pension Benefits 2018	Pension Benefits 2017
Change in benefit obligation		
Benefit obligation at beginning of year	$ 1,732,271	$ 1,637,279
Transfer of benefit obligation due to JFK Health acquisition	211,163	-
Service cost	33,491	32,945
Interest cost	70,897	69,460
Actuarial (gain) loss	(133,694)	142,206
Benefits paid	(64,271)	(55,510)
Curtailments	(34,425)	-
Settlements	(7,868)	(94,109)
Net benefit obligation at end of year	1,807,564	1,732,271
Change in plan assets		
Fair value of plan assets at beginning of year	1,339,333	1,241,241
Transfer of fair value of plan assets due to JFK Health acquisition	197,427	-
Actual return on plan assets	(78,269)	176,898
Employer contributions	40,408	70,813
Benefits paid	(64,271)	(55,510)
Settlements	(7,868)	(94,109)
Fair value of plan assets at end of year	1,426,760	1,339,333
Funded status at end of year	$ 380,804	$ 392,938
Accumulated benefit obligation, end of year	$ 1,773,711	$ 1,662,410
Amounts recognized in the consolidated balance sheet consist of		
Current liability (included in accounts payable and accrued expenses)	$ 6,541	$ 5,697
Accrued pension benefits	374,263	387,241
Total accrued pension liability	$ 380,804	$ 392,938
Amounts recognized in net assets without donor restrictions not yet captured within net periodic benefit costs consist of		
Net loss	$ 530,795	$ 526,161
Prior service credit	(23,714)	(27,867)
	$ 507,081	$ 498,294
Amounts in net assets without donor restrictions expected to be recognized in 2019 net periodic benefit cost		
Net loss	$ 12,211	$ 11,806
Prior service credit	(4,153)	(4,153)
	$ 8,058	$ 7,653

(in thousands)

At December 31, 2018 and 2017, the respective plans utilized discount rates within the ranges as described below for the determination of the benefit obligations at December 31, 2018 and 2017 and the net periodic pension cost for the periods ended December 31, 2018 and 2017:

	2018	2017
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.89 - 4.38%	3.14 - 3.77%
Rate of compensation increase	3.00 %	3.00 - 3.50%
Weighted average assumptions used to determine net periodic benefit cost		
Discount rate	3.14 - 3.77%	3.67 - 4.54%
Expected return on plan assets	7.00 %	7.00 - 7.63%
Rate of compensation increase	3.00 - 3.50%	3.00 - 3.50%

The net periodic pension cost and other changes in benefits and plan assets included the following components for the years ended December 31, 2018 and 2017:

	Pension Benefits	
	2018	2017
Net periodic benefit cost		
Service cost	$ 33,491	$ 32,945
Interest cost	70,897	69,460
Expected return on assets	(107,375)	(89,154)
Settlement loss	493	1,864
Prior service credit	(4,153)	(4,153)
Actuarial loss	11,805	14,670
Net periodic benefit cost	5,158	25,632
Other changes in benefits and plan assets (net assets without donor restrictions)		
Net actuarial loss	5,227	37,928
Net prior service credit	4,153	4,153
Total other changes in benefits and plan assets	9,380	42,081
Total net periodic benefit cost and other changes in benefits and plan assets	$ 14,538	$ 67,713

(in thousands)

Investment Policy
The Board of Trustees of the Network has an Investment Committee whose responsibilities include oversight and management of each of the pension plan investment portfolios. As such, the investment policy and strategy with respect to all defined benefit plan portfolios is to provide for growth of capital with a moderate level of volatility by investing in assets based on the respective plans' target allocations. The expected long-term rate of return assumptions are based on forward-looking return forecasts for the modeled asset classes provided by the Network's investment management consultants. The long-term forecasts are based on their analysis of long-cycle historical data as well as their longer-term global views. The target allocations have been set to achieve a long-term rate of return of 7.0% for all of the plans.

The target asset allocations of the pension plan assets are as follows:

Investment categories	2018	2017
Equities (domestic and foreign)	47 %	49 %
Fixed income	36	35
Alternative investments	16	16
Cash equivalents	1	0
	100 %	100 %

Fair Value Measurements
The following table sets forth by level, within the fair value hierarchy, the Plans' investments at fair value as of December 31, 2018 and 2017:

	December 31, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Cash and cash equivalents	$ (4,001)	$ -	$ (4,001)
Corporate equity securities	168,661	-	168,661
Corporate bonds	-	31,311	31,311
Government securities	-	75,813	75,813
Mortgage backed securities	-	10,851	10,851
Mutual funds-equity	385,393	-	385,393
Mutual funds-fixed income	325,221	-	325,221
Total assets at fair value	$ 875,274	$ 117,975	993,249
Common/collective trusts			275,752
Alternative investments			155,987
Accrued interest			1,772
			$ 1,426,760

(in thousands)

	December 31, 2017		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
Cash and cash equivalents	$ 14,705	$ 7,529	$ 22,234
Corporate equity securities	217,625	6,194	223,819
Corporate bonds	-	59,156	59,156
Government securities	-	23,304	23,304
Asset backed securities	-	3,431	3,431
Mortgage backed securities	-	10,641	10,641
Master limited partnership	19,463	-	19,463
Mutual funds-equity	352,128	16,509	368,637
Mutual funds-fixed income	30,651	513	31,164
Total assets at fair value	$ 634,572	$ 127,277	761,849
Common/collective trusts			412,828
Alternative investments			164,138
Accrued interest			518
			$ 1,339,333

Common/collective trusts and alternative investments are excluded from the fair value hierarchy table as they are valued using NAV as a practical expedient.

There were no transfers between Level 1 and Level 2 during 2018 and 2017.

At December 31, 2018 and 2017, the Network's remaining outstanding funding commitments to alternative investments were $1,976 and $4,907, respectively.

Contributions
The Network expects to contribute $40,000 to its pension plans in 2019.

(in thousands)

Estimated Future Benefit Payments
The following benefit payments which reflect future service as appropriate are expected to be paid:

	Pension Benefits
2019	$ 86,567
2020	85,881
2021	90,876
2022	97,956
2023	100,300
2024–2028	553,794

Defined Contribution Plans
The Network, as a result of its mergers and acquisitions, have several defined contribution plans for its team members. Total contributions to these plans for the years then ended December 31, 2018 and 2017 were $46,834 and $39,522, respectively.

Other Benefit Plans
Certain employees of the Network participate in various postretirement and postemployment benefit plans. In connection with these plans, the Network funds the expenses as incurred.

Certain employees of the Network participate in various deferred compensation plans established pursuant to Section 457 of the Code. In connection with these plans, the Network deposits amounts with trustees on behalf of the participating employees. Under the terms of the plans, the Network is not responsible for investment gains or losses incurred. The assets set aside under the plans are designated for payments under the plans, but may revert to the Network under certain specified circumstances. At December 31, 2018 and 2017, amounts on deposit with the trustees (at fair value) were equal to the liability under the plans.

The Network has recognized liabilities, in connection with a self-insured medical and dental plan for its employees of $15,273 and $24,082 at December 31, 2018 and 2017, respectively. This liability is included in accounts payable and accrued expenses in the consolidated balance sheets.

(in thousands)

9. Operating Leases

The Network utilizes various types of equipment and space under operating leases. Rent expense under these leases was approximately $64,090 and $36,070 for the years ended December 31, 2018 and 2017, respectively. The following is a schedule of the future minimum payments for the remaining years required under operating leases currently in effect:

2019	$ 47,894
2020	36,987
2021	31,824
2022	28,153
2023	20,032
Thereafter	105,267
	$ 270,157

10. Functional Expenses

The Network provides general health care services and programs. Expenses that can be identified with a specific program are charged directly. Other expenses that are common to program and management services are allocated by various statistical bases. Expenses related to providing these services consist of the following:

	2018			2017		
	Program Services	Management Services	Total	Program Services	Management Services	Total
Salaries and contracted labor	$ 1,502,823	$ 469,709	$ 1,972,532	$ 1,196,942	$ 397,742	$ 1,594,684
Physician salaries and fees	338,653	64,350	403,003	269,018	51,831	320,849
Employee benefits	356,163	114,573	470,736	305,664	99,510	405,174
Supplies and other	1,432,715	571,071	2,003,786	1,146,257	468,387	1,614,644
Depreciation and amortization	137,506	57,161	194,667	121,367	47,885	169,252
Interest	51,737	22,141	73,878	47,533	18,940	66,473
Total expenses	3,819,597	1,299,005	5,118,602	3,086,781	1,084,295	4,171,076
Other components of net periodic benefit cost	(28,333)	-	(28,333)	(7,313)	-	(7,313)
Total	$ 3,791,264	$ 1,299,005	$ 5,090,269	$ 3,079,468	$ 1,084,295	$ 4,163,763

11. Commitments and Contingencies

Lines of Credit

The Network had available lines of credit totaling $61,200 and $62,300 at December 31, 2018 and 2017, respectively. The Network had $13,250 and $12,850 at December 31, 2018 and 2017, respectively, outstanding against these lines as collateral for certain insurance policies at HMHHC, leaving $47,950 and $49,450 available for cash demands at December 31, 2018 and 2017, respectively.

Litigation

Various suits, investigations and claims arising in the normal course of operations are pending or are on appeal against the Network. Such suits and claims are either specifically covered by insurance or are not material. While the outcome of these suits cannot be determined with certainty at this time, management believes that any loss which may arise from those suits and

(in thousands)

claims will not have a material adverse effect on the financial position or results of operations of the Network.

12. Professional and General Liability Insurance

The Network maintains alternative risk finance programs for its facilities via wholly owned Bermuda domiciled captive insurance companies. Additionally, certain risks are covered through third party insurance policies.

The Network's consolidated balance sheets includes the following estimated liabilities for hospital professional liability ("HPL"), employed physician professional liability ("EPPL") general liability ("GL") and workers compensation ("WC") at December 31, 2018 and 2017:

Type of coverage	Nature of claims	2018	2017
HUMCCO insurance liabilities	HPL and GL	$ 11,837	$ 13,425
Coastal insurance liabilities	HPL, GL, EPPL and WC	88,613	64,404
Atlantic insurance liabilities	HPL and GL	20,233	-
Third party insured liabilities	WC	26,279	22,517
Incurred but not reported	HPL, GL and WC	19,863	39,093
		$ 166,825	$ 139,439

Additionally, the Network has recorded estimated insurance recoveries totaling $29,146 and $28,917 at December 31, 2018 and 2017, which is included in other assets on the consolidated balance sheets, respectively. The total represents estimated recoveries from both the captive companies' reinsurance policies as well as third party insurance policies.

Captive Insurance Companies
Coastal (established in 1998); HUMCCO (established in 2003); and Atlantic (established in in 1987) provide various coverages to legacy MHS, HUHN and JFK Health facilities, respectively. All captives provide indemnification for respective HPL and GL exposures. Additionally, Coastal provides funding for indemnification for exposures related to EPPL; Excess HPL; and WC. Atlantic also provides indemnification for certain property risks of the Hartwycks.

As of December 31, 2018 and 2017, Coastal provides indemnification for HPL exposures of $1,000 per medical incident subject to an annual aggregate of $3,000 each hospital and entity respectively and indemnification for GL exposures of $1,000 per occurrence subject to an annual aggregate of $1,000 each hospital and entity, respectively. Coastal provides funding for EPPL exposures of $1,000 per medical incident subject to an annual aggregate of $3,000 per physician and $6,000 program aggregate. Coastal also provides indemnification of $3,000 per medical incident excess of indemnification for primary HPL exposures and effective January 1, 2018 for EPPL. Coastal's HPL and EPPL components respond to claims and suits on a claims-made basis. Coastal's GL component responds to claims and suits on an occurrence basis.

As of December 31, 2018 and 2017, Coastal provides indemnification for the deductible portion of legacy MHS workers compensation claims per occurrence exposures of $750 per accident subject to an overall aggregate of $16,600 and $14,700 as of December 31, 2018 and 2017, respectively.

(in thousands)

As of December 31, 2018 and 2017, HUMCCO provides indemnification for HPL and GL exposures of $6,000 per claim subject to an annual aggregate of $13,000. The HPL and GL components of the HUMCCO program respond to claims and suits on a claims-made basis.

As of December 31, 2018, Atlantic provides indemnification for HPL and GL exposures of $2,000 per claim subject to an annual aggregate of $9,000. The HPL component of the Atlantic program respond to claims and suits on a claims-made basis. Atlantic's GL component responds to claims and suits on an occurrence basis.

All captives provide HPL coverage on a claims-made basis and HUMCCO provides GL coverage on a claims-made basis. HUHN recorded estimated liabilities for claims incurred but not yet reported as of December 31, 2018 and 2017 within other liabilities on the consolidated balance sheets.

Reinsurance and Excess Coverage
For the years ended December 31, 2018 and 2017, Coastal purchased annual reinsurance policies in the amount of $75,000 per claim subject to an annual aggregate of $75,000 in excess of Coastal's primary and first excess layer.

For the years ended December 31, 2018 and 2017, HUMCCO purchased reinsurance policies in the amount of $5,000 per claim subject to a $13,000 aggregate and $250 corridor deductible in excess of the HUMCCO primary retained layer of $1,000 respectively. In addition, HUMC purchased additional layers of insurance totaling $75,000 per claim subject to a $75,000 annual aggregate, respectively.

For the year ended December 31, 2018, Atlantic purchased excess insurance in the amount of $30,000 per claim subject to a $30,000 annual aggregate.

Third Party Insurance – Workers Compensation
HUMC had an occurrence based policy for workers compensation claims with a third party insurance company through June 30, 2016. Effective July 1, 2016, HUMC created its own self-insured workers compensation plan, and has recorded an estimated liability for claims incurred but not yet reported within the self-insurance period on the consolidated balance sheets as of December 31, 2018 and 2017.

13. Concentration of Credit Risk

The Network grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. Concentrations of net accounts receivable from patients and third party payors were as follows:

	2018	2017
Medicare and Medicaid	35 %	39 %
Managed Care/HMO	37	41
Other third party payors	26	19
Self-pay patients	2	1
	100 %	100 %

(in thousands)

14. Subsequent Events

The Network performed an evaluation of subsequent events through April 2, 2019 which is the date the consolidated financial statements were issued.

In connection with the reissuance of the financial statements, the Network has evaluated subsequent events through June 27, 2019, the date the financial statements were available to be reissued.

Consolidating Supplemental Schedule

Hackensack Meridian Health, Inc.
Detail from the Consolidating Statement of Operations
Year Ended December 31, 2018

(in thousands)

	Hackensack University Medical Center	Palisades Medical Center	JFK Medical Center	Bayshore Medical Center	Jersey Shore University Medical Center	Ocean Medical Center	Raritan Bay Medical Center Old Bridge	Raritan Bay Medical Center Perth Amboy	Riverview Medical Center	Southern Ocean Medical Center	Other Affiliates	Total Before Eliminations	Eliminations	Total
Unrestricted revenue and other support														
Net patient service revenue	$ 1,687,575	$ 160,329	$ 568,072	$ 155,535	$ 795,832	$ 341,779	$ 86,583	$ 137,612	$ 305,811	$ 183,793	$ 668,289	$ 5,091,210	$ 1,139	$ 5,092,349
Other revenue	73,203	3,675	20,707	2,148	20,016	9,354	1,415	3,992	5,488	1,359	156,880	298,237	(40,989)	257,248
Net gain on equity investments	12,394	-	2,960	-	-	-	-	-	-	-	11,955	27,309	(696)	26,613
Net assets released from restriction used for operating activities	3,996	-	29	57	3,835	169	3	97	3,692	66	9,425	21,369	(4,579)	16,790
Total unrestricted revenues and other support	1,777,168	164,004	591,768	157,740	819,683	351,302	88,001	141,701	314,991	185,218	846,549	5,438,125	(45,125)	5,393,000
Expenses														
Salaries and contracted labor	569,117	86,291	242,769	67,082	292,701	132,013	39,617	78,145	115,930	71,583	280,048	1,975,296	(2,763)	1,972,533
Physician salaries and fees	24,534	8,955	21,682	4,404	26,505	7,406	3,058	7,043	9,725	5,995	283,696	403,003	-	403,003
Employee Benefits	123,575	18,134	49,714	16,740	69,564	32,574	7,627	15,045	28,073	17,413	92,277	470,736	-	470,736
Supplies and other	807,676	54,877	214,613	56,926	355,036	141,027	36,952	50,925	115,352	83,719	128,348	2,045,451	(41,666)	2,003,785
Depreciation and amortization	69,849	6,930	16,302	6,072	32,400	14,688	1,858	4,636	12,372	7,923	21,637	194,667	-	194,667
Interest	25,968	1,844	6,481	1,690	14,408	5,973	816	1,297	5,143	2,395	8,018	74,033	(155)	73,878
Total expenses	1,620,719	177,031	551,561	152,914	790,614	333,681	89,928	157,091	286,595	189,028	814,024	5,163,186	(44,584)	5,118,602
Excess of revenues over expenses before other operating adjustments	$ 156,449	$ (13,027)	$ 40,207	$ 4,826	$ 29,069	$ 17,621	$ (1,927)	$ (15,390)	$ 28,396	$ (3,810)	$ 32,525	$ 274,939	$ (541)	$ 274,398

The accompanying note is an integral part of the consolidating supplemental schedule.

Hackensack Meridian Health, Inc.
Note to Consolidating Supplemental Schedule
Years Ended December 31, 2018 and 2017

1. Basis of Presentation and Accounting

The accompanying consolidating supplemental schedule ("consolidating schedule") has been prepared to satisfy reporting requirements for acute care hospitals operating in the State of New Jersey under regulation N.J.A.C. 8.96-1.1 et seq. The first ten columns of the consolidating schedule include the operations of each individual acute care hospital within the Network. The eleventh column includes the operations of all other affiliates, which represents the remaining subsidiaries described in Note 1 to the consolidated financial statements. The thirteenth column, "Eliminations," represents consolidating adjustments, including those related to the elimination of intercompany transactions and balances between the first eleven columns. The last column, "Total," represents the total of the preceding columns and agrees to the consolidated financial statements of the Network.

Other than as described above, the consolidating schedule is prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. This schedule is not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures and the consolidating schedule only has activity reported through Excess of Revenues over Expenses before Other Operating Adjustments. The consolidating schedule was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The consolidating schedule is presented for purposes of additional analysis of the consolidating financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies within the Network and is not a required part of the consolidated financial statements.