Hackensack Meridian Health, Inc.

Consolidated Financial Statements and Consolidating Supplemental Schedules December 31, 2019 and 2018

Hackensack Meridian Health, Inc.
Index
December 31, 2019 and 2018

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, 2019 and 2018, 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.

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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, 2019 and 2018, 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 of the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019. 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, 2019 (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 3, 2020, except with respect to the opinion on the supplemental information, as to which the date is June 26, 2020

Hackensack Meridian Health, Inc.
Consolidated Balance Sheets
December 31, 2019 and 2018

(in thousands)	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 194,305	$ 442,834
Patient accounts receivable, net	626,025	537,541
Pledges receivable, net	50,875	47,628
Other current assets	320,667	237,719
Assets limited as to use and short-term investments, current portion	861,012	695,589
Total current assets	2,052,884	1,961,311
Assets limited as to use and investments, noncurrent portion	2,470,016	2,246,462
Investment in joint ventures	149,326	144,382
Property and equipment, net	2,994,508	2,603,084
Operating lease right-of-use assets	206,078	-
Other assets	161,838	140,051
Total assets	$ 8,034,650	$ 7,095,290
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt and finance lease obligations	$ 60,417	$ 63,982
Current portion of operating lease obligations	28,333	-
Accounts payable and accrued expenses	872,803	824,723
Other current liabilities	93,764	123,223
Total current liabilities	1,055,317	1,011,928
Long-term debt and finance lease obligations, less current maturities	2,064,328	2,060,199
Long-term operating lease obligations	180,217	-
Accrued pension benefits	312,472	374,263
Other liabilities	496,071	485,340
Total liabilities	4,108,405	3,931,730
Net assets		
Without donor restrictions controlled by the Network	3,632,920	2,938,768
Without donor restrictions attributable to noncontrolling interests	80,671	27,672
Net assets without donor restrictions	3,713,591	2,966,440
Net assets with donor restrictions	212,654	197,120
Total net assets	3,926,245	3,163,560
Total liabilities and net assets	$ 8,034,650	$ 7,095,290

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

Hackensack Meridian Health, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018

(in thousands)	2019	2018
Unrestricted revenues and other support		
Net patient service revenue	$ 5,585,717	$ 5,092,349
Other revenue	287,959	257,248
Net gain on equity investments	27,937	26,613
Net assets released from restriction used for operating activities	20,624	16,790
Total unrestricted revenues and other support	5,922,237	5,393,000
Expenses		
Salaries and contracted labor	2,180,621	1,972,533
Physician salaries and fees	427,387	403,003
Employee benefits	561,033	470,736
Supplies and other	2,131,451	2,003,785
Depreciation and amortization	253,422	194,667
Interest	83,146	73,878
Total expenses	5,637,060	5,118,602
Excess of revenues over expenses before other operating adjustments	285,177	274,398
Other operating adjustments		
Investment income (loss), net	348,626	(110,994)
Contribution revenue from acquisitions	53,829	125,585
Unrealized (loss) gain on derivative investments	(14,550)	10,997
Loss on extinguishment of debt	-	(7,681)
Other gains, net	3,795	22,299
Excess of revenues over expenses	676,877	314,604
Other adjustments in net assets without donor restrictions		
Net assets released from restriction for capital acquisitions	6,104	12,346
Pension-related adjustments	24,567	(9,380)
Other changes	2,775	25,554
Noncontrolling interest attributable to acquisitions	45,231	-
Distributions to noncontrolling interests	(8,403)	(12,199)
Increase in net assets without donor restrictions	$ 747,151	$ 330,925

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, 2019 and 2018

(in thousands)

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
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 acquisitions	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
Excess of revenues over expenses	676,877	-	676,877
Investment income	-	2,560	2,560
Contributions	-	29,729	29,729
Contribution revenue from acquisition of Carrier	-	353	353
Net assets released from restriction for capital acquisitions	6,104	(6,104)	-
Net assets released from restriction used for operating activities	-	(20,624)	(20,624)
Pension-related adjustments	24,567	-	24,567
Other changes	2,775	9,620	12,395
Noncontrolling interest attributable to acquisitions	45,231	-	45,231
Distributions to noncontrolling interests	(8,403)	-	(8,403)
Increase in net assets	747,151	15,534	762,685
Balances at December 31, 2019	$ 3,713,591	$ 212,654	$ 3,926,245

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, 2019 and 2018

(in thousands)

	2019	2018
Cash flows from operating activities		
Increase in net assets	$ 762,685	$ 360,971
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	253,422	194,667
Loss on disposal of property and equipment	16,794	-
Contribution revenue from acquisitions	(54,182)	(145,465)
Noncontrolling interest attributable to acquisitions	(45,231)	-
Loss on extinguishment of debt	-	7,681
Amortization of deferred financing costs	571	603
Amortization of bond premium	(4,367)	(4,583)
Unrealized loss (gain) on derivative investments	14,550	(10,997)
Net gain on equity investments	(27,937)	(26,613)
Realized and unrealized (gains) losses on investments	(304,309)	148,702
Restricted contributions for capital acquisitions	(5,362)	(7,880)
Pension-related adjustments	(24,567)	9,380
Changes in assets and liabilities		
Patient accounts receivable and pledges receivable	(85,643)	(31,343)
Other assets	(64,429)	(5,404)
Accounts payable and accrued expenses	16,928	98,332
Accrued pension benefits	(40,117)	(36,452)
Other liabilities	(31,747)	(35,596)
Net cash provided by operating activities	377,059	516,003
Cash flows from investing activities		
Purchases of property and equipment	(466,379)	(366,138)
Cash paid for acquisitions, net of cash acquired	(45,981)	54,821
Sales of investment securities	642,650	1,109,822
Purchases of investment securities	(671,342)	(1,666,982)
Net cash used in investing activities	(541,052)	(868,477)
Cash flows from financing activities		
Repayment on long-term debt and finance lease obligations	(83,534)	(208,688)
Proceeds from borrowings	27,000	300,000
Distributions to noncontrolling interests	(8,403)	(12,199)
Restricted contributions for capital acquisitions	9,982	3,970
Payment of deferred financing costs	-	(2,646)
Net cash (used in) provided by financing activities	(54,955)	80,437
Change in cash and cash equivalents	(218,948)	(272,037)
Cash and cash equivalents, and restricted cash		
Beginning of period	562,405	834,442
End of period	$ 343,457	$ 562,405
Supplemental information		
Cash paid for interest expense	$ 83,590	$ 71,715
Change in non-cash acquisitions of property and equipment	15,107	28,073
Right-of-use assets obtained in exchange for capital lease obligations	-	146,158
Right-of-use assets obtained in exchange for operating lease obligations	27,326	-
Net carrying value of noncash assets and liabilities obtained from acquisitions	145,394	90,644

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

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, nonstock 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. ("MHS"). 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. ("HMHRC"); 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, 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 has been accounted for as an acquisition.

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. During 2018, Healthshare and JFK Hartwyck Management and Consulting, Inc. were dissolved. 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, off-shore insurance companies domiciled in Bermuda. On October 1, 2019, under the terms of a novation agreement, Coastal assumed responsibility for all coverages (Note 12) previously provided by Atlantic that were in effect on October 1, 2019. Effective December 31, 2019, Coastal and Atlantic formally merged, with Coastal remaining as the surviving entity.

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.

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), seven community hospitals, and a behavioral health hospital 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;

- Carrier, located in Belle Mead, New Jersey is a 337-bed behavioral health hospital that includes Blake Recovery Center;

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

- Palisades Medical Center ("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 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 September 23, 2019, HMH and Englewood Health signed a definitive agreement with the intent to merge. Englewood Health, which includes Englewood Hospital, is a 531-bed medical center located in Englewood, New Jersey.

Over the past several years, HMH has continued to expand its network through acquisitions and partnerships with various unrelated entities as a means to continue to fulfill its mission to the surrounding communities that HMH serves.

For the following transactions entered into during the year ended December 31, 2019, these were accounted for as business combinations and met the requirements for consolidation:

- On January 1, 2019, HMH became the sole corporate member of 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. 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 $42,495 of contribution income, which is included in the performance indicator in the 2019 consolidated statement of operations, and $353, which is presented as an increase in net assets with donor restrictions in the consolidated 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.
- On July 1, 2019, HMHRC entered into a purchase agreement whereby HMHRC paid $25,020 for all of the assets of Regent Care Center ("Regent"). Regent is a 180-bed skilled nursing facility located in Hackensack, New Jersey.
- On July 1, 2019, HMHRC entered into a purchase agreement whereby HMHRC paid $9,540 in consideration for a 51% interest in the assets and liabilities of Essex Residential Care ("ERC"). ERC operates a 180-bed skilled nursing facility located in West Caldwell, New Jersey, under the newly renamed HMH West Caldwell Care Center ("West Caldwell").
- On July 1, 2019, HMHRC entered into a purchase agreement whereby HMHRC paid $10,919 in consideration for a 51% interest in the assets and liabilities of Bergen Post-Acute Care ("BPAC"). BPAC operates a 196-bed skilled nursing facility located in Hackensack, New Jersey, under the newly renamed HMH Prospect Heights Care Center ("Prospect Heights").
- In 2019, HMAV and a separate unrelated entity formed a limited liability company to acquire a 51% interest in two ambulatory surgical centers and a 55% interest in a third ambulatory surgical center located in Bergen, Middlesex, and Ocean counties, New Jersey (collectively, the "ASCs"). HMAV obtained 51% voting rights in the limited liability company. HMAV paid cash of $9,467 as a part of the purchase price to acquire the controlling interest in the ASCs. As a result, the Network consolidated the ASCs and reflected a noncontrolling interest for the equity related to the previous owners and the unrelated party in accordance with ASC 810. The net assets acquired of the ASCs was $29,168 (including goodwill of $21,970).

Regent, West Caldwell, and Prospect Heights described in preceding paragraphs, are collectively referred to as the "SNFs". As a result of the acquisitions of the SNFs and ASCs, the Network recognized a noncontrolling interest attributable to acquisitions of $45,231, which is included in the consolidated statement of operations for the year ended December 31, 2019. As a result of the acquisitions of the SNFs, the Network recognized contribution revenue of $11,334, which is included in contribution revenue from acquisitions in the consolidated statement of operations.

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 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 $39,873 and $38,731 as of December 31, 2019 and 2018, 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 pay off the remaining outstanding balance on the nonrecourse loan and its accrued interest. The investment in the Mountainside joint venture recorded on the consolidated balance sheets was $35,592 and $32,568 as of December 31, 2019 and 2018, respectively.

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 and reflected a noncontrolling 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).

The following schedule of changes in consolidated net assets attributable to the parent and the noncontrolling interests reconciles beginning and ending balances of the parent's controlling interest and the noncontrolling interests for the years ended December 31, 2019 and 2018:

	Total	The Network (Controlling Interest)	Noncontrolling Interests
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 noncontrolling 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
Excess of revenues over expenses	676,877	660,706	16,171
Noncontrolling interest attributable to acquisitions	45,231	-	45,231
Distributions to noncontrolling interests	(8,403)	-	(8,403)
Other changes	33,446	33,446	-
Change in net assets without donor restrictions	747,151	694,152	52,999
Balances at December 31, 2019	$ 3,713,591	$ 3,632,920	$ 80,671

The fair value of the assets acquired, liabilities assumed and net assets of Carrier, the SNFs, and the ASCs that were acquired during the year ended December 31, 2019 were as follows:

	Carrier	SNFs	ASCs
Assets			
Cash and cash equivalents	$ 2,848	$ -	$ 243
Investments	26,395	-	-
Patient accounts receivable, net	7,439	-	3,269
Other assets	5,428	9,622	22,638
Property and equipment, net	34,995	110,200	3,708
Operating lease right-of-use assets, net	-	-	2,274
Total assets acquired	$ 77,105	$ 119,822	$ 32,132
Liabilities and Net Assets			
Accounts payable and accrued expenses	$ 13,823	$ -	$ 691
Long-term debt and capital lease obligations	17,541	43,353	-
Operating lease obligations	-	-	2,273
Accrued pension benefits	2,893	-	-
Total liabilities assumed	34,257	43,353	2,964
Net assets			
Without donor restrictions	42,495	76,469	29,168
With donor restrictions	353	-	-
Total net assets	42,848	76,469	29,168
Total liabilities and net assets	$ 77,105	$ 119,822	$ 32,132

A summary of the unaudited proforma financial results of the Network including these acquisitions for the year ended December 31, 2019 as if the acquisitions had occurred on January 1, 2019 is as follows:

	2019			
	Network	**SNFs**	**ASCs**	**Total**
Excess (deficiency) of revenues over expenses before other operating adjustments	$ 285,177	$ (3,065)	$ 1,264	$ 283,376
Excess (deficiency) of revenues over expenses	676,877	(3,065)	1,264	675,076
Net assets released from restriction for capital acquisitions	6,104	-	-	6,104
Pension-related adjustments	24,567	-	-	24,567
Other changes	2,775	-	-	2,775
Noncontrolling interest attributable to acquisitions	45,231	-	-	45,231
Distributions to noncontrolling interests	(8,403)	1,428	(941)	(7,916)
Increase (decrease) in net assets without donor restrictions	$ 747,151	$ (1,637)	$ 323	$ 745,837

A summary of the unaudited proforma financial results of the Network including these acquisitions for the year ended December 31, 2018 as if the acquisitions had occurred on January 1, 2018 is as follows:

	2018				
	Network	**Carrier**	**SNFs**	**ASCs**	**Total**
Excess (deficiency) of revenues over expenses before other operating adjustments	$ 274,398	$ (3,560)	$ (6,435)	$ 1,035	$ 265,438
Excess (deficiency) of revenues over expenses	314,604	(4,860)	(6,358)	1,038	304,424
Net assets released from restriction for capital acquisitions	12,346	199	-	-	12,545
Pension-related adjustments	(9,380)	(429)	-	-	(9,809)
Other changes	25,554	-	-	-	25,554
Distributions to noncontrolling interests	(12,199)	-	-	-	(12,199)
Increase (decrease) in net assets without donor restrictions	$ 330,925	$ (5,090)	$ (6,358)	$ 1,038	$ 320,515

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 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

Summary of Significant Accounting Policies
The following is a summary of the Network's significant accounting policies:

Principles of Consolidation
The consolidated financial statements include the accounts of Hackensack Meridian Health, Inc. and all of its subsidiaries in which a controlling interest is maintained. Intercompany balances and transactions are eliminated. Controlling interest is determined by majority ownership interest. For those consolidated subsidiaries where HMH's ownership is less than 100%, the outside parties' interests are shown as net assets without donor restrictions attributable to noncontrolling interests. Investments in joint ventures over which HMH has significant influence but not a controlling interest are recognized using the equity method of accounting.

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 maturities of three months or less. The Network elected to treat highly-liquid short-term investments held within assets limited as to use and investments as cash equivalents. Cash is also held in the assets limited as to use and investments portfolio. At December 31, 2019 and 2018, the Network had cash balances held at a financial institution that exceeded federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal. The following table provides a reconciliation of cash and cash equivalents reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	2019	2018
Cash and cash equivalents	$ 194,305	$ 442,834
Cash and cash equivalents included in assets limited as to use and investments	149,152	119,571
Total cash and cash equivalents shown in the consolidated statement of cash flows	$ 343,457	$ 562,405

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.

Investment income or losses (including realized gains and losses on investments, interest, dividends, holding gains and losses on trading securities, and changes in the value of investments that are valued using NAV as a practical expedient) are included in the accompanying consolidated statements of operations as other operating adjustments, unless the income or loss is restricted by donor or law. 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;

- 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 net asset value as a practical expedient 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 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.

Finance 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.

Long-Lived Assets and Goodwill
Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. 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.

In May 2019, the FASB issued ASU 2019-06, *Intangibles—Goodwill and Other, Business Combinations, and Not-for-Profit Entities.* The new guidance allowed a not-for-profit entity to elect to amortize goodwill on a straight-line basis and test for impairment when a triggering event occurs that indicates that the fair value of the reporting unit may be below its carrying amount. Effective January 1, 2019, the Network adopted this new policy for all existing goodwill and all new goodwill generated from acquisitions in 2019. For the year ended December 31, 2019, the Network recorded $10,262 in amortization of goodwill and intangibles within depreciation and amortization in the consolidated statement of operations.

Due to consistent year-over-year financial losses at PMC and its adjoining nursing home, the Harborage, HMH determined that the goodwill of $22,612 associated with these two entities was impaired, and as such, included impairment of goodwill within depreciation and amortization in the consolidated statement of operations for the year ended December 31, 2019.

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. These costs are amortized using the effective 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 in the consolidated balance sheets.

Net Assets

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 $83,724 and $76,563 at December 31, 2019 and 2018, 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.

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 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, 2016 except for 2010 and 2016 for HUMC, 2011 and 2016 for OMC, 2010 and 2011 for RMC, 2010 for RBMC. SOMC has been audited and finalized through December 31, 2017.

- 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, 2016 except for 2007 through 2009 for HUMC, 2016 for PMC. JFKMC has been audited and finalized through December 31, 2017.

- 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. For the years ended December 31, 2019 and 2018, the Network recorded $264,673 and $237,114 of implicit price concessions as a direct reduction of net patient service revenues.

The components of net patient service revenue for the years ended December 31, 2019 and 2018 are as follows:

	2019	**2018**
Gross charges	$ 22,187,295	$ 20,773,097
Contractual discounts and implicit price concessions	(16,672,471)	(15,743,544)
Change in estimate of prior year's net patient service revenue	42,579	37,207
Charity care subsidy	19,104	12,125
Hospital relief subsidy	9,210	13,464
	$ 5,585,717	$ 5,092,349

The mix of patient service revenue, net of contractual discounts and implicit price concessions from patients and third-party payors for the years ended December 31, 2019 and 2018 is as follows:

Net Patient Service Revenue %	**2019**	**2018**
Medicare, including Managed Medicare	35 %	34 %
Medicaid, including Managed Medicaid	10	10
NJ Blue Cross	21	20
Other Payors	33	35
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 noncontrolling interest attributable to acquisitions, 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 revenue without donor restrictions, 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.

New Authoritative Pronouncements

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, which 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 statements of cash flows and disclose the nature of the restrictions. The new standard was effective as of January 1, 2019 and was adopted using a retrospective application. The Network has implemented the new guidance as included in Note 1 to the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. 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. The new standard was effective as of January 1, 2019 and was adopted using a retrospective application. The Network has determined this new guidance is not material to the consolidated financial statements.

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. Leases are classified as either operating or finance. Operating leases result in straight-line expense in the statement of operations (similar to previous operating leases), while finance leases result in more expense being recognized in the earlier years of the lease term (similar to previous capital leases). The Network adopted the new standard on January 1, 2019 using a modified retrospective approach. The Network elected the transition method that allows for application of the standard at the adoption date rather than at the beginning of the earliest comparative period presented in the consolidated financial statements. The Network also elected available practical expedients. Upon adoption, the Network recognized $203,643 in operating lease right-of-use assets with corresponding operating lease obligations in the consolidated balance sheet.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Liabilities*. This guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Certain financial institutions and companies with large equity investment portfolios that are not currently being measured at fair value through the income statement are most affected by the new standard. The new standard also allows entities that are not public business entities and do not carry financial instruments at fair value in the statement of financial position to no longer be required to disclose the fair value and significant assumptions used to estimate the fair value of such financial instruments. The standard is effective for fiscal years beginning after December 15, 2018. The Network adopted this guidance in fiscal year 2019. The Network has determined this new guidance is not material to 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 total consolidated operating expenses reported, estimated costs of $80,164 and $73,885 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018:

	2019		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
Under Board of Trustees designation			
Cash and cash equivalents	$ 95,377	$ -	$ 95,377
Mutual funds	675,173	-	675,173
Corporate equity securities	441,558	-	441,558
Corporate debt securities	-	478,450	478,450
U.S. government obligations	10	88,761	88,771
	1,212,118	567,211	1,779,329
Accrued interest			3,397
Common/collective trusts			1,384,550
Alternative investments			84,341
Total under Board of Trustees designation	1,212,118	567,211	3,251,617
Under donor designation			
Cash and cash equivalents	251	-	251
Mutual funds	3,697	-	3,697
Corporate equity securities	21,939	-	21,939
	25,887	-	25,887
Accrued interest			-
Total under donor designation	25,887	-	25,887
Under bond indenture agreements held by trustee			
Cash and cash equivalents	53,524	-	53,524
Total under bond indenture agreements held by trustee	53,524	-	53,524
Total assets limited as to use and investments	$ 1,291,529	$ 567,211	$ 3,331,028

	2018		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
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	735,371	728,947	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	36,839	-	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 limited as to use and investments	$ 814,574	$ 734,134	$ 2,942,051

Assets limited as to use and investments are reported on the consolidated balance sheets at December 31, 2019 and 2018 as follows:

	2019	2018
Assets limited as to use and investments, current portion	$ 861,012	$ 695,589
Assets limited as to use and investments, noncurrent portion	2,470,016	2,246,462
	$ 3,331,028	$ 2,942,051

There were no transfers between Levels 1 and 2 during the years ended December 31, 2019 and 2018. At December 31, 2019 and 2018, the Network's remaining outstanding funding commitments to alternative investments approximated $4,239 and $6,191, respectively.

Assets under bond indenture agreements held by trustees are maintained in the following accounts at December 31, 2019 and 2018:

		2019		2018
Debt service fund, principal	$	15,421	$	16,202
Debt service fund, interest		30,899		25,902
Debt service reserve fund		7,204		5,336
Cost of issuance fund		-		111
Total assets under bond indenture agreements	$	53,524	$	47,551

Investment income consists of the following for the years ended December 31, 2019 and 2018:

		2019		2018
Interest and dividend income	$	48,827	$	42,010
Realized gains (losses) and net change in unrealized gains (losses)		304,309		(148,702)
Investment management fees		(4,510)		(4,321)
Other gains and losses		-		19
	$	348,626	$	(110,994)

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:

		2019		2018
Financial assets:				
Cash and cash equivalents	$	194,305	$	442,834
Patient accounts receivable, net		626,025		537,541
Pledges receivable, net		17,540		16,041
Assets limited as to use and investments under Board of Trustees designation		3,197,900		2,799,847
Total financial assets available within one year		4,035,770		3,796,263
Liquidity resources:				
Bank lines of credit (undrawn)		46,750		47,950
Total financial assets and resources available within one year	$	4,082,520	$	3,844,213

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 are all 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 $53,717 and $57,663 as of December 31, 2019 and 2018, respectively (Note 3 for disclosures about investments).

5. Property and Equipment

Property and equipment, including assets held under finance lease obligations, consist of the following at December 31, 2019 and 2018:

	2019	2018
Land	$ 162,253	$ 128,027
Land improvements	28,794	22,441
Buildings and fixed equipment	3,115,412	2,893,950
Major movable equipment	1,397,941	1,117,390
	4,704,400	4,161,808
Accumulated depreciation and amortization	(1,931,165)	(1,757,812)
Construction-in-progress	221,273	199,088
Property and equipment, net	$ 2,994,508	$ 2,603,084

Depreciation expense for the years ended December 31, 2019 and 2018 was $222,171 and $188,550, respectively.

6. Long-Term Debt and Finance 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 finance 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 finance lease obligations consist of the following at December 31, 2019 and 2018:

	2019	2018
Revenue Bonds		
Series 2018, 4.211%, due July 1, 2048	$ 300,000	$ 300,000
Series 2017, 4.5%, due July 1, 2057	300,000	300,000
Series 2016A, 2.04% and 2.55% at December 31, 2019 and 2018, respectively, due July 1, 2038	123,335	125,865
Series 2015A, 2.5%, due November 1, 2045	112,306	116,639
Series 2006, 1.35% and 1.70% at December 31, 2019 and 2018, respectively, due July 1, 2036*	14,220	14,625
Series 2006 A-3, 1.75% and 1.71% at December 31, 2019 and 2018, respectively, due July 1, 2031*	3,500	3,500
Series 2006 A-4, 1.20% and 1.70% at December 31, 2019 and 2018, respectively, due July 1, 2027*	11,300	12,460
Series 2006 A-5, 1.20% and 1.70% at December 31, 2019 and 2018, respectively, due July 1, 2036*	10,915	10,915
Series 2004 A-3, 1.62% and 1.69% at December 31, 2019 and 2018, respectively, due July 1, 2035*	9,405	9,860
Series 2003, 1.60% and 1.68% at December 31, 2019 and 2018, respectively, due July 1, 2033*	60,000	60,000
Series 1998A, 1.65% and 1.70% at December 31, 2019 and 2018, respectively, due July 1, 2028*	7,320	7,995
**Interest is payable monthly and determined weekly based upon market rates with a 12% per annum maximum*		
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	21,230	22,865
Series 2011, 2.0% and 5.0%, in varying maturities through July 1, 2027	101,755	114,270
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	18,301	18,923
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	72,732	75,418
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	31,702	32,746
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	4,705	15,099
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	5,090	20,058
Other		
Series 2019 Capital Asset Loan, 2.29% at December 31, 2019	25,071	-
New Jersey Economic Development Authority Series 1997 Revenue Bonds, 4.1% to 5.7%, due annually from January 1, 1998 through January 1, 2022	7,359	10,102
Accreted bond interest payable on the capital appreciation portion of the Series 1997 bonds due between January 1, 2012 and January 1, 2022	18,759	23,789
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%	69,801	35,460
Other long-term borrowings	20,889	-
Total long-term debt	$ 1,938,485	$ 1,925,091
Finance lease obligations		
Finance lease obligations with interest rates ranging from 1.74% to 12.3%	$ 149,641	$ 158,525
Total finance lease obligations	149,641	158,525
Total long-term debt and finance lease obligations	2,088,126	2,083,616
Current portion of accreted interest, included in accrued interest payable	(6,608)	(6,458)
Original issue premium, net	54,558	58,925
Deferred financing costs, net of accumulated amortization	(11,331)	(11,902)
Current portion	(60,417)	(63,982)
Long-term debt and finance lease obligations, net of current portion	$ 2,064,328	$ 2,060,199

On May 21, 2019, the Network entered into a seven-year loan to borrow $27,000 from a pool of funds that are made available by the Authority to healthcare institutions to finance or refinance the construction, acquisition and installation of capital assets. Interest is paid monthly at a variable rate of interest sufficient to pay interest on the bonds and the program expenses. The interest rate was 2.29% as of December 31, 2019.

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.

Management is not aware of any noncompliance with any of the required covenants related to its outstanding debt at December 31, 2019 and 2018. 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, 2019 and 2018, the Obligated Group was in compliance with all financial ratio covenants.

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

	Long-Term Debt	Finance Lease Obligations	Total
2020	$ 58,437	$ 7,980	$ 66,417
2021	51,827	9,900	61,727
2022	70,556	7,099	77,655
2023	51,457	7,217	58,674
2024	53,887	7,397	61,284
Thereafter	1,652,321	157,283	1,809,604
	1,938,485	196,876	2,135,361
Amounts representing interest on finance lease obligations	-	(47,235)	(47,235)
Total long-term debt and finance lease obligations	$ 1,938,485	$ 149,641	$ 2,088,126

7. Interest Rate Swap Agreements

As of December 31, 2019, 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, 2019 and 2018, the fair value of the Network's derivative instruments was in a liability position of $60,325 and $45,046, respectively, and is included in other liabilities in the consolidated balance sheets, respectively. At December 31 2019, the fair values of the Network's derivative instruments are classified as Level 2 financial instruments. The total loss recognized on these derivatives for the year ended December 31, 2019 was $14,550 and the total gain recognized on these derivatives for the year ended December 31, 2018 was $10,997. This loss and gain, respectively, are included within other operating adjustments in the consolidated statements of operations.

8. Pension Plans, Postretirement Health Care and Postemployment

The Network maintains multiple defined benefit pension plans and defined contribution plans covering most employees. The Network's funding policy for the defined benefit plans is to contribute annually an amount at least as much as the minimum amount required by the Employee Retirement Income Security Act of 1974 (ERISA), plus additional amounts, which may be approved by the Board or delegated committees and management from time to time.

The following describes the various noncontributory defined benefit retirement plans:

Consolidated Pension of Hackensack Meridian Health (Consolidated Plan)
The Meridian Cash Balance Retirement Plan (MHC Plan) was renamed as the Consolidated Plan after formally merging the assets and liabilities of four noncontributory defined benefit pension plans that were sponsored by BMC, RBMC, PMC and JFK on December 31, 2018. All component plans are frozen with the exception of the PMC's plan where active participants are still accruing benefits. Effective December 31, 2019, Carrier's frozen defined benefit plan was also merged into the Consolidated Plan.

Hackensack University Medical Center Retirement Income Plan (HUMC Plan)
The HUMC Plan is a defined benefit pension plan covering certain employees of HUMC. The plan accrual was partially frozen as of December 31, 2010, and all HUMC employees began earning retirement benefits under defined contribution plans (which were more recently replaced with the HMH 401(k) Plan effective January 1, 2019). Any active participant whose age and years of vesting service total at least 65 as of December 31, 2010 has remained in the defined benefit plan and continued accruing benefits in the HUMC plan under a career average accrual formula.

Certain participants of the HUMC Plan have also accrued benefits under a 457(f) deferred compensation plan (HUMC SERP) where benefit accruals were frozen as of December 31, 2010. The plan intended to restore benefits lost by certain employees due to the statutory limits based on salary and service through December 31, 2010.

The following table sets forth the funded status of the combined defined benefit pension plans for the years ended December 31, 2019 and 2018:

	Pension Benefits	
	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	$ 1,807,564	$ 1,732,271
Transfer of benefit obligation due to acquisitions	29,903	211,163
Service cost	14,158	33,491
Interest cost	78,947	70,897
Actuarial loss (gain)	167,006	(133,694)
Benefits paid	(83,202)	(64,271)
Expenses paid	(187)	-
Curtailments	-	(34,425)
Settlements	(5,133)	(7,868)
Net benefit obligation at end of year	2,009,056	1,807,564
Change in plan assets		
Fair value of plan assets at beginning of year	1,426,760	1,339,333
Transfer of fair value of plan assets due to acquisitions	27,010	197,427
Actual return on plan assets	280,798	(78,269)
Employer contributions	45,509	40,408
Expenses paid	(187)	-
Benefits paid	(83,202)	(64,271)
Settlements	(5,133)	(7,868)
Fair value of plan assets at end of year	1,691,555	1,426,760
Unfunded status at end of year	$ 317,501	$ 380,804
Accumulated benefit obligation, end of year	$ 1,991,928	$ 1,773,711
Amounts recognized in the consolidated balance sheets consist of		
Current liability (included in accounts payable and accrued expenses)	$ 5,029	6,541
Accrued pension benefits	312,472	374,263
Total accrued pension liability	$ 317,501	$ 380,804
Amounts recognized in net assets without donor restrictions not yet captured within net periodic benefit costs consist of		
Net loss	$ 502,075	$ 530,795
Prior service credit	(19,561)	(23,714)
	$ 482,514	$ 507,081
Amounts in net assets without donor restrictions expected to be recognized in 2020 net periodic benefit cost		
Net loss	$ 13,181	$ 12,211
Prior service credit	(4,153)	(4,153)
	$ 9,028	$ 8,058

At December 31, 2019 and 2018, the respective plans utilized discount rates within the ranges as described below for the determination of the benefit obligations at December 31, 2019 and 2018 and the net periodic benefit cost for the periods ended December 31, 2019 and 2018. The discount rate was derived using the bond matching method and determined with an analysis of bonds available with an "AA-" or better rating rated by S&P or Moody's. A hypothetical bond portfolio was constructed to match the expected monthly benefit payments under the plans.

	2019	2018
Weighted-average assumptions used to determine benefit obligations		
Discount rate	2.67% - 3.47%	3.89% - 4.38%
Rate of compensation increase	3.00%	3.00%
Weighted average assumptions used to determine net periodic benefit cost		
Discount rate	3.89% - 4.38%	3.14% - 3.77%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00% - 3.50%

The net periodic pension cost and pension-related adjustments included the following components for the years ended December 31, 2019 and 2018:

	Pension Benefits	
	2019	**2018**
Net periodic benefit cost		
Service cost	$ 14,158	$ 33,491
Interest cost	78,947	70,897
Expected return on assets	(99,643)	(107,375)
Settlement loss	2,360	493
Prior service credit	(4,153)	(4,153)
Actuarial loss	12,211	11,805
Net periodic benefit cost	3,880	5,158
Pension-related adjustments		
Net actuarial (gain) loss	(28,720)	5,227
Net prior service cost	4,153	4,153
Total pension-related adjustments	(24,567)	9,380
Total net periodic benefit cost and pension-related adjustments	$ (20,687)	$ 14,538

The other components of net periodic benefit cost with a gain of $10,278 and $28,333 for the years ended December 31, 2019 and 2018, respectively, are included in other gains, net in the consolidated statements of operations.

Investment Policy

The Board of Trustees of the Network has an Investment Committee whose responsibilities include oversight and management of the pension investment portfolio. 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 plan's 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 consultant. 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	**2019**	**2018**
Equities (domestic and foreign)	48 %	47 %
Fixed income	37	36
Alternative investments	14	16
Cash equivalents	1	1
	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, 2019 and 2018:

	2019		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
Cash and cash equivalents	$ 5,055	$ -	$ 5,055
Corporate equity securities	231,936	-	231,936
Corporate bonds	-	103,956	103,956
Government securities	-	19,582	19,582
Mortgage backed securities	-	-	-
Mutual funds-equity	447,412	-	447,412
Mutual funds-fixed income	395,157	-	395,157
Total assets at fair value	$ 1,079,560	$ 123,538	1,203,098
Common/collective trusts			344,048
Alternative investments			141,765
Accrued interest			2,644
			$ 1,691,555

	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

Common/collective trusts and alternative investments in the Plans' 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 2019 and 2018.

At December 31, 2019 and 2018, the Network's remaining outstanding funding commitments to alternative investments were $1,970 and $1,976, respectively.

Contributions
The Network expects to contribute $40,000 to its pension plans in 2020.

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

	Pension Benefits
2020	$ 98,135
2021	97,812
2022	101,968
2023	106,425
2024	106,759
2025–2029	571,862

Defined Contribution Plans
The Network, as a result of its mergers and acquisitions, had twenty-six defined contribution plans for its team members. Most of these plans became frozen as of December 31, 2018 and were replaced with the new HMH 401(k) Plan covering all eligible employees of HMH on January 1,

2019. The majority of the frozen plans were merged into two plans effective December 31, 2019 and renamed as the Consolidated 403(b) Plan of HMH and the Consolidated Defined Contribution Plan of HMH. Total contributions to the defined contribution plans for the years then ended December 31, 2019 and 2018 were $61,267 and $46,834, respectively.

Other Benefit Plans

Certain employees of the Network participate in various 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 Sections 457(b) and 457(f) of the Code. For 457(b) plans, the Network deposits amounts with trustees on behalf of the participating employees. Under the terms of these 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. The participating employees will receive the account balance at retirement. Therefore, at December 31, 2019 and 2018, amounts on deposit with the trustees (at fair value) were equal to the liability under the 457(b) plans. For 457(f) plans, the Network funds benefit payments and expenses as incurred.

The Network has recognized liabilities, in connection with a self-insured medical and dental plan for its employees of $16,831 and $15,273 at December 31, 2019 and 2018, respectively. This liability is included in accounts payable and accrued expenses in the consolidated balance sheets.

9. Leases

As discussed in Note 1, on January 1, 2019 the Network adopted new guidance for the accounting and reporting of leases. The Network has operating leases primarily for real estate, including medical office buildings, corporate and other administrative offices, as well as medical and office equipment. As permitted under the transition guidance in ASC 842, the Network elected a package of practical expedients which, among other provisions, allowed the Network to carry forward historical lease classifications. The Network determines if an arrangement is a lease at inception of the contract. When evaluating contracts for embedded leases, the Network exercises judgment to determine if there is an explicit or implicit identified asset in the contract and if the Network controls the use of that asset. Embedded leases are immaterial to the consolidated financial statements.

Under ASC 842 transition guidance, the Network elected the hindsight practical expedient to determine the lease term for existing leases, which permits companies to consider available information prior to the effective date of the new guidance as to the actual or likely exercise of options to extend or terminate the lease. Certain real estate leases have renewal options and the lease term includes options to extend or terminate the lease when it is reasonably certain that the Network will exercise that option. Real estate lease agreements typically have initial terms of five to 10 years, and equipment lease agreements typically have initial terms of three years.

Lease expense for operating lease payments is recognized on a straight-line basis over the term of the lease. Operating lease assets and liabilities are recognized based on the present value of lease payments over the lease term. Since the Network's leases do not have a readily determinable implicit discount rate, the Network uses its incremental borrowing rate to calculate the present value of lease payments. As a practical expedient, the Network has made an accounting policy election for all asset classes not to separate lease components from nonlease components in the event that the agreement contains both. The Network includes both the lease and nonlease components for purposes of calculating the right-of-use asset and related lease liability (if the nonlease components are fixed). For finance leases, interest expense on the lease liability is recognized using the effective interest method and amortization of the right-to-use asset is recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. The Network's policy for equipment leases with future minimum lease payments totaling less than $50 is to expense as paid as they are immaterial.

The table below presents certain information related to the lease costs for finance and operating leases:

		2019
Finance lease cost		
Amortization of leased assets	$	4,573
Interest on lease liabilities		4,268
Operating lease cost		37,858
Short-term and variable lease costs, net of sublease income		23,691
Total lease cost	$	70,390

Prior to the adoption of the new lease standard, operating lease rent expense was $64,090 for the year ended December 31, 2018.

Supplemental consolidated balance sheet information related to operating and finance leases at December 31, 2019 is as follows:

	Classification on the Consolidated Balance Sheet		2019
Assets			
Operating lease assets	Operating lease right-of-use assets	$	206,078
Finance lease assets	Property and equipment, net		122,311
Total lease assets		$	328,389
Liabilities			
Current			
Operating	Current portion of operating lease obligations	$	28,333
Finance	Current maturities of long-term debt and finance lease obligations		-
Noncurrent			
Operating	Long-term operating lease obligations		180,217
Finance	Long-term debt and finance lease obligations, less current maturities		149,641
Total lease liabilities		$	358,191
Weighted-average remaining lease term			
Operating leases			10 years
Finance leases			22 years
Weighted-average discount rate			
Operating leases			3.51%
Finance leases			2.83%

The table below presents supplemental cash flow information related to leases:

		2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$	35,298
Operating cash flows for finance leases		4,000

Future minimum lease payments under operating leases at December 31, 2019 is as follows:

2020	$	34,451
2021		29,717
2022		26,565
2023		23,100
2024		21,254
Thereafter		112,261
Total minimum lease payments		247,348
Less: Imputed interest		(38,798)
Total lease liabilities	$	208,550

As of December 31, 2018, prior to the adoption of ASC 842, the minimum aggregate lease commitments under noncancelable operating leases were as follows: 2019, $47,894; 2020, $36,987; 2021, $31,824; 2022, $28,153; 2023, $20,032 and thereafter, $105,267.

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:

	2019			2018		
	Program	Management	Total	Program	Management	Total
Salaries and contracted labor	$ 1,645,315	$ 535,306	$ 2,180,621	$ 1,502,824	$ 469,709	$ 1,972,533
Physician salaries and fees	367,424	59,963	427,387	338,653	64,350	403,003
Employee benefits	419,598	141,435	561,033	356,163	114,573	470,736
Supplies and other	1,493,108	638,343	2,131,451	1,432,714	571,071	2,003,785
Depreciation and amortization	175,845	77,577	253,422	137,506	57,161	194,667
Interest	55,656	27,490	83,146	51,737	22,141	73,878
Total expenses	4,156,946	1,480,114	5,637,060	3,819,597	1,299,005	5,118,602
Other components of net periodic benefit cost	(10,278)	-	(10,278)	(28,333)	-	(28,333)
Total	$ 4,146,668	$ 1,480,114	$ 5,626,782	$ 3,791,264	$ 1,299,005	$ 5,090,269

11. Commitments and Contingencies

Lines of Credit

The Network had available lines of credit totaling $60,000 and $61,200 at December 31, 2019 and 2018, respectively. The Network had $13,250 at December 31, 2019 and 2018, ear-marked against these lines as collateral for certain insurance policies at HMHHC, leaving $46,750 and $47,950 available for cash demands at December 31, 2019 and 2018, respectively (see Note 14).

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 claims will not have a material adverse effect on the consolidated financial position or consolidated 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) provider professional liability ("EPPL") general liability ("GL") and workers compensation ("WC") at December 31, 2019 and 2018:

Type of coverage	Nature of claims	2019	2018
HUMCCO insurance liabilities	HPL and GL	$ 10,289	$ 11,837
Coastal insurance liabilities	HPL, GL, EPPL and WC	101,827	88,613
Atlantic insurance liabilities	HPL and GL	-	20,233
Third party insured liabilities	WC	28,668	26,279
Incurred but not reported	HPL, GL and WC	47,466	19,863
		$ 188,250	$ 166,825

Additionally, the Network has recorded estimated insurance recoveries totaling $34,882 and $29,146 at December 31, 2019 and 2018, 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 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; Umbrella Liability; and WC. Atlantic also provided indemnification for certain property risks of the Hartwycks.

As of December 31, 2019 and 2018, Coastal provides the following indemnifications for JSUMC, RMC, RBMC, OMC, BMC, and SOMC. Coastal provides indemnification for HPL exposures of $1,000 per medical incident subject to an annual aggregate of $3,000 for each hospital and entity, respectively, and indemnification for GL exposures of $1,000 per occurrence subject to an annual aggregate of $1,000 for 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, 2019 and 2018, 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 $17,100 and $16,600 as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, HUMCCO provides indemnification for HPL and GL exposures of $6,000 per claim subject to an annual aggregate of $13,000 for HUMC. The HPL and GL components of the HUMCCO program respond to claims and suits on a claims-made basis.

As a result of the obligations assumed under the previously noted novation agreement and the subsequent merger, as of December 31, 2019, Coastal provides indemnification for the Atlantic program HPL and GL exposures of $2,000 per claim subject to an annual aggregate of $9,000. The HPL component of the Atlantic program responds to claims and suits on a claims-made basis. Atlantic's GL component responds to claims and suits on an occurrence basis.

Reinsurance and Excess Coverage

For the years ended December 31, 2019 and 2018, Coastal purchased annual reinsurance policies in the amount of $100,000 and $75,000, respectively, per claim subject to an annual aggregates of $100,000 and $75,000, respectively, in excess of Coastal's primary and first excess layer.

For the years ended December 31, 2019 and 2018, 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 $100,000 per claim subject to a $100,000 annual aggregate and $75,000 per claim subject to a $75,000 annual aggregate, respectively.

For the years ended December 31, 2019 and 2018, JFK purchased annual reinsurance policies in the amount of $50,000 and $30,000, respectively, per claim subject to an annual aggregates of $50,000 and $30,000, respectively, in excess of Atlantic's primary and first excess layer.

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 since added PMC on January 1, 2017, RBMC and JFKMC on January 1, 2019 and Carrier on June 30, 2019 to this plan. HMH 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, 2019 and 2018. Effective January 1, 2020, the team members of legacy MHS will also be added to this plan from the current plan under Coastal.

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:

	2019	2018
Medicare and Medicaid	38 %	39 %
Managed Care/HMO	48	44
Other third party payors	13	15
Self-pay patients	1	2
	100 %	100 %

14. Subsequent Events

The Network performed an evaluation of subsequent events through April 3, 2020 which is the date the consolidated financial statements were issued.

In connection with the outbreak of the COVID-19 respiratory disease, the Network is monitoring developments and the directives of federal, state and local officials to determine what precautions and procedures may need to be implemented by the Network in the event of the continued spread of COVID-19. The continued spread of COVID-19 or any other similar outbreaks in the future and the continued impact on social interaction, travel, economies and financial markets may materially impact the Network's finances and operations. The full impact of COVID-19 and the scope of any adverse impact on the Network's finances and operations cannot be fully determined at this time. Other adverse consequences of COVID-19 may include, but are not limited to, a decline in revenues, an increase in operating costs, declines in the fair value of our investments and/or potential future liquidity concerns. As of the date of issuance, the Network's assets limited as to use and investments experienced a significant decrease in fair value from the consolidated balance sheet date. However, the Network is expecting the value of these investments to recover and is currently not dependent on using these investments to fund its operations.

On March 12, 2020, the Network drew down $46,750 on its line of credit, which maintains an interest rate of LIBOR plus 0.75 basis points. The Network has also borrowed $200,000 under a 15-year bank placement loan with a fixed interest rate of 2.5%, which was executed on April 1, 2020.

Events Subsequent to Original Issuance of Consolidated Financial Statements (Unaudited)

In connection with the reissuance of the consolidated financial statements, the Network has evaluated subsequent events through June 26, 2020, the date the consolidated financial statements were available to be reissued.

On April 6, 2020, the Network increased its line of credit to $100,000 and drew down an additional $54,000. On May 26, 2020, the Network paid off the full line of credit to the bank. The Network has applied for and received certain grant funding related to the CARES Act of approximately $475,000 as well as approximately $615,000 of Medicare advances to address the short-term liquidity needs of the Network to provide patient care. In addition, on May 26, 2020, the State of New Jersey began to allow hospitals to begin performing elective procedures and surgeries, which the Network has begun.

Consolidating Supplemental Schedule

Hackensack Meridian Health, Inc.
Detail from the Consolidating Statement of Operations
Year Ended December 31, 2019

(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	Carrier Clinic	Other Affiliates	Total Before Eliminations	Eliminations	Total
Unrestricted revenues and other support															
Net patient service revenue	$ 1,870,987	$184,323	$601,626	$160,926	$ 903,032	$371,831	$ 91,945	$ 130,440	$303,959	$197,925	$74,640	$712,658	$ 5,604,292	$ (18,575)	$5,585,717
Other revenue	84,704	3,406	19,078	2,833	20,636	11,042	1,657	3,035	4,550	1,406	1,740	185,726	339,813	(51,854)	287,959
Net gain on equity investments	10,110	-	3,417	-	-	-	-	-	-	-	-	15,416	28,943	(1,006)	27,937
Net assets released from restriction													0		
used for operating activities	4,853	208	455	219	5,159	516	24	845	5,856	252	851	1,934	21,172	(548)	20,624
Total unrestricted revenues and other support	1,970,654	187,937	624,576	163,978	928,827	383,389	93,626	134,320	314,365	199,583	77,231	915,734	5,994,220	(71,983)	5,922,237
Expenses													-		
Salaries and contracted labor	599,402	85,731	257,631	73,097	323,198	148,930	39,872	75,897	119,313	76,274	43,585	342,996	2,185,926	(5,305)	2,180,621
Physician salaries and fees	23,879	9,811	20,530	4,641	18,167	8,127	2,243	6,217	8,944	3,693	6,183	314,952	427,387	-	427,387
Employee benefits	170,649	21,451	67,150	17,313	75,958	33,288	8,009	15,246	28,123	18,569	11,103	109,291	576,150	(15,117)	561,033
Supplies and other	847,337	56,452	224,260	60,335	393,128	155,426	39,447	48,840	118,880	87,594	13,037	136,722	2,181,458	(50,007)	2,131,451
Depreciation and amortization	69,024	29,051	23,043	7,317	42,680	16,330	2,764	5,367	13,563	8,784	3,278	32,221	253,422	-	253,422
Interest	21,610	2,117	6,152	1,635	19,055	5,724	1,187	1,684	4,060	2,756	932	16,372	83,284	(138)	83,146
Total expenses	1,731,901	204,613	598,766	164,338	872,186	367,825	93,522	153,251	292,883	197,670	78,118	952,554	5,707,627	(70,567)	5,637,060
Excess of revenues over expenses before other													-		
operating adjustments	$ 238,753	$ (16,676)	$ 25,810	$ (360)	$ 56,641	$ 15,564	$ 104	$ (18,931)	$ 21,482	$ 1,913	$ (887)	$ (36,820)	$ 286,593	$ (1,416)	$ 285,177

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

Hackensack Meridian Health, Inc.
Note to Consolidating Supplemental Schedules
Years Ended December 31, 2019 and 2018

1. Basis of Presentation

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 eleven columns of the consolidating schedule include the operations of each individual acute care hospital within the Network. The twelfth column includes the operations of all other affiliates, which represents the remaining subsidiaries described in Note 1 to the consolidated financial statements. The fourteenth 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.

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