Hackensack Meridian Health, Inc.

Consolidated Financial Statements and
Consolidating Supplemental Schedules
December 31, 2017

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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 sheet as of December 31, 2017, and the related consolidated statements of operations, of changes in net assets and of cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hackensack Meridian Health, Inc. and its subsidiaries as of December 31, 2017, and the results of their operations, changes in their net assets, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating balance sheet as of December 31, 2017 and the consolidating statement of operations for the year then ended (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 5, 2018

Hackensack Meridian Health, Inc.
Consolidated Balance Sheet
December 31, 2017

(in thousands)

Assets		
Current assets		
Cash and cash equivalents	$	713,235
Patient accounts receivable, less allowance for uncollectible accounts of $149,849		431,819
Pledges receivable, less allowance for uncollectible pledges of $2,267		37,723
Other current assets		167,665
Assets limited as to use and short-term investments, current portion		814,933
Total current assets		2,165,375
Assets limited as to use and investments, noncurrent portion		1,656,976
Investment in joint ventures		139,214
Property and equipment, net		2,029,877
Other assets		124,003
Total assets	$	6,115,445
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	$	61,363
Accounts payable and accrued expenses		597,329
Other current liabilities		157,018
Total current liabilities		815,710
Long-term debt and capital lease obligations, less current maturities		1,675,532
Accrued pension benefits		387,241
Other liabilities		434,373
Total liabilities		3,312,856
Net Assets		
Unrestricted		2,604,041
Noncontrolling interest in subsidiaries		31,474
Total unrestricted net assets		2,635,515
Temporarily restricted		121,777
Permanently restricted		45,297
Total net assets		2,802,589
Total liabilities and net assets	$	6,115,445

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

Hackensack Meridian Health, Inc.
Consolidated Statement of Operations
Year Ended December 31, 2017

(in thousands)

Unrestricted revenues and other support	
Patient service revenue, net of contractual allowances and discounts	$ 4,343,150
Provision for bad debts	(174,779)
Net patient service revenue, less provision for bad debts	4,168,371
Other revenue	199,253
Net gain on equity investments	21,230
Net assets released from restriction used for operating activities	10,405
Total unrestricted revenues and other support	4,399,259
Expenses	
Salaries and contracted labor	1,594,684
Physician salaries and fees	320,849
Employee benefits	397,267
Supplies and other expenses	1,607,485
Depreciation and amortization	169,252
Interest	66,473
Provision for bad debts	7,159
Total expenses	4,163,169
Excess of revenues over expenses before other adjustments	236,090
Other operating adjustments	
Investment income	169,378
Unrealized gain on derivative investments	5,125
Loss on extinguishment of debt	(30,961)
Other gains, net	5,026
Provision for income taxes	(3,279)
Excess of revenues over expenses	381,379
Other adjustments in unrestricted net assets	
Net assets released from restriction for capital acquisition	11,260
Pension-related adjustments	(42,081)
Other changes in unrestricted net assets	(150)
Distributions to noncontrolling interests	(7,523)
Increase in unrestricted net assets	$ 342,885

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

Hackensack Meridian Health, Inc.
Consolidated Statement of Changes in Net Assets
Year Ended December 31, 2017

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Balances at December 31, 2016	$ 2,292,630	$ 94,391	$ 42,027	$ 2,429,048
Excess of revenues over expenses	381,379	-	-	381,379
Investment income	-	3,181	-	3,181
Contributions	-	45,909	2,891	48,800
Net assets released from restriction for capital acquisition	11,260	(11,260)	-	-
Net assets released from restriction used for operating activities	-	(10,405)	-	(10,405)
Other changes	(150)	(39)	379	190
Pension-related adjustments	(42,081)	-	-	(42,081)
Distributions to noncontrolling interests	(7,523)	-	-	(7,523)
Increase in net assets	342,885	27,386	3,270	373,541
Balances at December 31, 2017	$ 2,635,515	$ 121,777	$ 45,297	$ 2,802,589

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

Hackensack Meridian Health, Inc.
Consolidated Statement of Cash Flows
Year Ended December 31, 2017

(in thousands)

Cash flows from operating activities		
Change in net assets	$	373,541
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		169,252
Provision for bad debts		181,938
Amortization of deferred financing costs		655
Premium on issuance of new debt		58,984
Amortization of bond premium		(7,206)
Unrealized gain on derivative investments		(5,125)
Net gain on equity investments		(21,230)
Realized and unrealized gains on investments		(133,960)
Restricted contributions for capital acquisitions		(5,554)
Pension-related adjustments		42,081
Changes in assets and liabilities:		
Increase in patient accounts receivable and pledges receivable		(231,041)
Decrease in other assets		15,538
Increase in accounts payable and accrued expenses		109,796
Decrease in accrued pension benefits		(45,122)
Increase in other liabilities		33,918
Net cash provided by operating activities		536,465
Cash flows from investing activities		
Purchases of property and equipment		(339,322)
Proceeds from joint ventures		2,151
Sale of investment securities		518,692
Purchases of investment securities		(899,538)
Net cash used in investing activities		(718,017)
Cash flows from financing activities		
Repayment on long-term debt and capital lease obligations		(619,356)
Proceeds from borrowings		888,790
Distributions to noncontrolling interests		(7,523)
Restricted contributions for capital acquisitions		5,554
Payment of deferred financing costs		(6,885)
Net cash provided by financing activities		260,580
Change in cash and cash equivalents		79,028
Cash and cash equivalents		
Beginning of period		634,207
End of period	$	713,235
Supplemental information		
Cash paid for interest expense	$	53,631
Change in non-cash acquisitions of property and equipment		(15,301)

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

(in thousands)

1. Organization and Summary of Significant Accounting Policies

Organization

Hackensack Meridian Health, Inc. and its subsidiaries and controlled entities (the "Network") comprise an integrated health care delivery system. The Network is incorporated as a New Jersey non-profit, non-stock corporation established to promote and carry out charitable, scientific, academic and research activities and was created as a result of the merger of Hackensack University Health Network, Inc. ("HUHN") and Meridian Health System, Inc. The surviving parent entity was renamed Hackensack Meridian Health on July 1, 2016. The Network is the sole corporate member of the following entities: Meridian Hospitals Corporation ("MHC") and its wholly owned subsidiary, Raritan Bay Medical Center ("RBMC"); Hackensack University Medical Center ("HUMC") and its wholly owned subsidiaries, Hackensack University Medical Center Casualty Company ("HUMCCO") and 20 Prospect Holdings, LLC; HackensackUMC Palisades ("PMC"); Hackensack University Medical Center Foundation ("HUMCF"); Meridian Health Foundation, Inc. and its six foundation subsidiaries ("MHF"); Palisades Medical Center Foundation ("PMCF"); Hackensack Meridian Nursing and Rehabilitation, Inc. ("HMNR"); Palisades General Care Inc. ("PGC"); Hackensack Meridian Health Realty Corporation and five subsidiaries ("Realty"); Hackensack Meridian Health Physician Services, Inc. ("HMPS"); Hackensack Meridian Ambulatory Ventures, Inc. ("HMAV"); Hackensack Meridian Home Care Services, Inc. and its subsidiary ("HMHCS"); and Bergen Health Management System, Inc. ("BHMS").

The Network is also the sole shareholder of Coastal Medical Insurance Limited ("Coastal"), Meridian Health Ventures, Inc. and its subsidiary ("HMHV"), Raritan Management Corporation and is the sole member of Meridian Accountable Care Organization, LLC ("MACO"), and Hackensack Physician-Hospital Alliance ACO, LLC ("ACO").

The accompanying consolidated financial statements also include the accounts of the following Network-controlled tax-exempt and taxable professional corporations: Hackensack University Medical Group, P.C. ("HUMG"), HUMC Cardiovascular Partners, P.C. ("HUMCCP"), HUMC Primary Care Associates, P.C. ("HUMCPCA"), New Amsterdam Medical Associates, P.C. ("NAMA"), Hackensack Specialty Care Associates, P.C. ("HCSA"), Hackensack Medical Observation, P.A. ("HMO"), Hackensack Occupational Medicine Associates, P.C. ("HOM"), Palisades Medical Associates, P.C. ("PMA") and The Auxiliary of Hackensack University Medical Center. HMPS serves as the management organization for the Physician division which encapsulates the fifteen professional corporations consolidated with the Network and provides other physician practice development strategies. Consolidated with HMPS are nine not-for-profit professional corporations that encapsulate Meridian Medical Group ("MMG"). MMG includes the faculty practice as well as the specialty and primary care group practices operating in Monmouth and Ocean Counties.

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

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

(in thousands)

- 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(1);
- Riverview Medical Center ("RMC"), is a 468-bed community hospital located in Red Bank, New Jersey(1);
- 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(1);
- Bayshore Medical Center ("BMC"), is a 211-bed community hospital located in Holmdel, New Jersey(1);
- 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"), New Jersey, is a 176-bed community hospital located in Manahawkin(1); and
- RBMC at Old Bridge, located in Old Bridge, New Jersey, is a 113-bed community hospital.

(1) These hospitals are divisions of MHC.

On January 1, 2018, HUMC, MHC, RBMC and PMC were merged into one entity, HMH Hospitals Corporation. On January 1, 2018, HMNR, PGC and HMHCS were merged into one entity, HMH Residential Care, Inc. On January 1, 2018, Raritan Management Corporation, HMHV, and its subsidiary were merged into one entity with HMHV surviving.

On January 1, 2018, the Network merged with 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.; 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.; JFK Medical Group, P.C.; and Atlantic Insurance Exchange, Ltd., 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. This business combination will be accounted for as an acquisition. As of the date of issuance of the consolidated financial statements, the acquisition accounting of JFK Health has not been finalized.

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

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. The interest rate on the loan is 8.875% per annum, with principal and interest payments to be made on a non-recourse

(in thousands)

basis from the distribution of profits of HUMC's share in the joint venture. In July 2016, HUMC entered into a bank loan and used the proceeds to payoff the remaining outstanding balance on the nonrecourse loan and its accrued interest (See Note 5). The investment in the Mountainside joint venture recorded on the consolidated balance sheet was $29,771 as of December 31, 2017.

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.

During 2012, HUMC and a separate unrelated entity formed a joint venture limited liability company which purchased a 51% interest in two ambulatory surgical centers (the "Centers") located in Bergen County, New Jersey, with HUMC receiving 50.1% voting rights in the joint venture entity. As a result, HUMC consolidated the Centers in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-810, *Not-for-Profit Entities – Consolidation*, and reflected a non-controlling interest for the equity related to the previous owners and the unrelated party in accordance with ASC 810. The net assets acquired of the Centers were $34,950 (including goodwill of $34,250). Effective December 31, 2016, HUMC has transferred its interest in the Centers to HMAV.

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

	Total	The Network (Controlling Interest)	Noncontrolling Interests
Balances at December 31, 2016	$ 2,292,630	$ 2,263,515	$ 29,115
Excess revenues over expenses	381,379	371,497	9,882
Distributions to non-controlling interests	(7,523)	-	(7,523)
Other changes	(30,971)	(30,971)	-
Change in unrestricted net assets	342,885	340,526	2,359
Balances at December 31, 2017	$ 2,635,515	$ 2,604,041	$ 31,474

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 will establish 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 city of Clifton, New Jersey. During 2016, the Network made an initial contribution of $15,000 to the school of medicine which has been included as an investment in joint ventures on the consolidated balance sheet as of December 31, 2017.

(in thousands)

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

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

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 reserves on accounts receivable such as allowance for doubtful accounts and contractual allowances, valuation of alternative investments, estimated amounts due to and from third-party payors, professional liability costs and accrued pension benefit liabilities. Actual results could differ from those estimates.

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

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

Cash and Cash Equivalents
Cash and cash equivalents include investments in highly-liquid instruments with original maturity of three months or less. Cash and cash equivalents are also held in its investments and assets limited as to use portfolio. At December 31, 2017, the Network had cash balances in a financial institution that exceeded federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

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

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

A majority of the Network's investments in equity securities with readily determinable fair values and investments in debt securities are reported as trading securities based on the Network's investment strategy and investment philosophies. Trustee-held assets under bond indenture,

(in thousands)

which are primarily comprised of cash and short-term investments, as well as alternative investments, are classified as other than trading.

Investment income or losses (including realized gains and losses on investments, interest, dividends, holding gains and losses on trading securities, declines in fair value that are determined by management to be other-than-temporary, and changes in the value of investments accounted for on the equity basis of accounting) are included in the accompanying consolidated statement 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 (interest rate swap agreements) at fair value within other liabilities on the consolidated balance sheet. Changes in fair value of these instruments are reported in the consolidated statement 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.

(in thousands)

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 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

(in thousands)

market data. The Network accounts for these investments within its assets limited as to use and investments portfolios using the equity method of accounting and as such, these investments are excluded from the fair value hierarchy.

The Network's alternative investments include holdings in common/collective trusts, limited partnerships or hedge funds which engage in a variety of investment strategies and are managed by money managers. Certain pension plan asset investments in alternative investments are valued by management utilizing the 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 income - net, in the consolidated statement 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 sheet.

Property and Equipment

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

Capitalized leases are recorded at their present value at the inception of the lease. 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 statement 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 unrestricted net assets 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.

(in thousands)

Impairment of Long-Lived Assets
Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell. There were no impairments of long-lived assets at December 31, 2017.

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

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

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those funds whose use has been limited by donors to a specified time period and/or purpose. Temporarily restricted net assets are available for the funding of healthcare services and capital acquisitions. Permanently restricted net assets have been restricted by donors to be held in perpetuity and the income from permanently restricted net assets is expendable to support various health care services. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted. Included in unrestricted net assets are board designated endowment funds of $73,579 at December 31, 2017.

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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement 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 statement of operations. Net assets released from restrictions for noncapital purposes are included within operating income. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted net assets.

The Boards of HUMCF, PMCF, 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 permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c)

(in thousands)

accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in accordance with donor intent and in a manner consistent with the standard of prudence prescribed by state laws.

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is accounted for on the accrual basis in the period in which the service is provided. These amounts are net of appropriate allowances to give recognition to differences between the Network's charges and reimbursement rates from third party payors. The Network is reimbursed from third party payors 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 process for estimating the ultimate collection of receivables involves significant assumptions and judgments. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. The use of historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. Revisions in reserve for doubtful accounts estimates are recorded as an adjustment to bad debt expense.

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 report audit status is as follows: HUMC, OMC, RMC, BMC, JSUMC and PMC have been audited and finalized by the Medicare intermediary through December 31, 2014, except for 2010 for HUMC, 2011 for OMC and 2010 and 2011 for RMC. SOMC has been audited and finalized through December 31, 2013. RBMC has been audited and finalized through December 31, 2015, except for 2010 and 2014. SOMC for 2014 has not been audited.

- 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 for HUMC, JSUMC, OMC, RMC, BMC, SOMC, PMC and RBMC through December 31, 2014, except for 2007 through 2009 for HUMC. JSUMC, OMC, RMC, BMC, SOMC and RBMC have been audited through December 31, 2015, but not finalized by the fiscal intermediary.

(in thousands)

- 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.

The Network records gross patient service revenue on an accrual basis at established rates, with contractual and other allowances added to or deducted from such amounts to determine net patient service revenue. The Network maintains policies and records to identify and monitor these contractual allowances and the level of charity care. These records include the amount of deductions from gross revenue due to qualified services provided under the State's charity care guidelines. The components of net patient service revenue for the year ended December 31, 2017 are as follows:

Gross charges	$ 16,885,949
Contractual and other allowances	(12,585,836)
Provision for bad debts	(174,779)
Change in estimate of prior year's net patient service revenue	23,064
Charity care subsidy	13,209
Hospital relief subsidy	6,764
	$ 4,168,371

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

Medicare, included managed Medicare	35%
Medicaid, including managed Medicaid	10%
NJ Blue Cross	22%
Other Payors	32%
Self Pay	1%
	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 statement of operations includes excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include distributions to noncontrolling interests, pension-related adjustments, net assets released from restriction - capital acquisitions and other changes in unrestricted net assets.

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, loss on extinguishment of debt and certain other

(in thousands)

transactions, which management does not consider being components of the Network's core operating activities, are reported as other operating adjustments in the consolidated statement of operations.

New Authoritative Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The Network is currently assessing the impact the adoption of this standard will have on their consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement and Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. This guidance requires entities to present investments that use NAV as a practical expedient for valuation purposes separately from other investments categorized in the fair value hierarchy. If the NAV per share of an investment is determined and published, the NAV is considered the basis for fair value for a transaction and the investment is presented within the fair value hierarchy. In other instances, where NAV is communicated to an investor but not made publicly available, such investments are considered to be valued using NAV as a practical expedient and are presented separately from the fair value hierarchy. The standard is effective for fiscal years beginning after December 15, 2016. The Network adopted the provisions of this standard in fiscal year 2017 and presents investments valued using NAV separately from the fair value hierarchy.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expire before the earliest comparative period presented. A full retrospective transition approach is not permitted. This guidance will be effective for the Network beginning in fiscal year 2019. Early application is permitted. The Network is currently assessing the impact the adoption of this standard will have on their consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. This standard marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new guidance, the existing three categories of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted net assets into a single category called "net assets with donor restrictions" and renames unrestricted net assets as "net assets without donor restrictions." There will be new reporting requirements for expenses and additional disclosures to describe an organization's liquidity. The standard is effective for fiscal years beginning after December 15, 2017. The

(in thousands)

Network is currently assessing the impact this standard will have on their 2018 consolidated financial statements.

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

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost*. The ASU requires that in instances where an operating measure is included in the consolidated statements of operations, the service cost component of the net periodic cost be included as a component of the operating measure and other components of net periodic costs be presented separately in the nonoperating section of the consolidated statements of operations. The ASU is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. Retrospective application of the standard for the presentation of the service cost component and the other components of net benefit cost in the consolidated statements of operations is required. The Network is currently assessing the impact the adoption of this standard will have on the consolidated financial statements.

2. Charity and Uncompensated Care

The Network provides care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services without charge or at amounts less than its established rates. The Network maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished. The Network receives partial reimbursement for the uncompensated care provided. Of the Network's total consolidated operating expenses reported, estimated costs of $88,051 for the year ended December 31, 2017 are attributable to providing services to charity patients. 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, excluding bad debt expense, divided by gross patient service revenue.

(in thousands)

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, 2017:

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

(in thousands)

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

Assets limited as to use and investments, current portion	$	814,933
Assets limited as to use and investments, noncurrent portion		1,656,976
	$	2,471,909

There were no transfers between Levels 1 and 2 during the year ended December 31, 2017.

At December 31, 2017, the Network's remaining outstanding funding commitments to alternative investments approximated $7,014.

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

Debt service fund, principal	$	16,569
Debt service fund, interest		23,038
Debt service reserve fund		5,237
Cost of issuance fund		374
Construction fund		30
Total assets under bond indenture agreements	$	45,248

Investment income consists of the following for the year ended December 31, 2017:

Interest and dividend income	$	37,311
Realized gains and losses and net change in unrealized gains and losses		133,960
Investment management fees		(3,098)
Other gains and losses		1,205
	$	169,378

(in thousands)

4. Property and Equipment

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

Land	$ 107,634
Land improvements	20,673
Buildings and fixed equipment	2,268,447
Major movable equipment	983,364
	3,380,118
Accumulated depreciation and amortization	(1,617,173)
Construction-in-progress	266,932
Property and equipment, net	$ 2,029,877

Depreciation expense for the year ended December 31, 2017 was $167,204.

5. Long-Term Debt and Capital Lease Obligations

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

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

Long-term debt	
Revenue bonds, Series 2017, which mature on July 1, 2057 and bear interest at 4.5% payable semiannually.	$300,000
Refunding bonds, Series 2017A, which mature annually from July 1, 2020 through July 1, 2040, and bear interest at rates ranging from 2.5% to 5.0% payable semiannually.	489,870
Refunding bonds, Series 2017A, which mature from July 1, 2043 through July 1, 2057 and bear interest at rates ranging from 4.0% to 5.25% payable semiannually.	98,920
Bank loan, Series 2016, which has an annual interest rate of 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.	19,526
Revenue bonds, Series 2016A, principal and interest payments made monthly, maturing on July 1, 2038 and has interest rate of 1.51% at December 31, 2017.	127,865

(in thousands)

Revenue bonds, Series 2015A, principal and interest payments payable monthly, maturing November 1, 2045 with annual rate of 2.5%.	120,972
Bank loan (tax -exempt), Series 2015A, which has an annual interest rate of 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.	78,047
Bank loan, Series 2015B, which has an annual interest rate of 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.	33,758
Refunding bonds, Series 2013A , in varying maturities through July 1, 2032 at annual interest rates varying between 2.0% and 5.0% payable semiannually.	23,585
Bank loan, Series 2013A, which has an annual interest rate of 1.93% and a term of 84 months with a fixed monthly payment of $957, commencing May 1, 2013 and ending April 1, 2020.	26,166
Bank loan, Series 2013B, which has an annual interest rate of 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.	34,783
Refunding bonds, Series 2011, in varying maturities through July 1, 2027 at annual interest rates varying between 2.0% and 5.0% payable semiannually.	127,800
Revenue bonds, Series 2006, maturing on July 1, 2036, principal paid annually, interest is payable monthly and determined weekly based upon market rates with a 12% per annum maximum, interest rate was 1.75% at December 31, 2017.	15,010
Variable rate composite revenue bonds, Series 2006 A-3 maturing on July 1, 2031,interest is payable monthly and the interest rate is determined weekly based on market rates with a 12% per annum maximum, interest rate was 1.31% at December 31, 2017.	3,500
Revenue bonds Series 2006 A-4 (issued through the Authority by Realty) maturing on July 1, 2027, interest is payable monthly and the interest rate is determined weekly based on market rates with a 12% per annum maximum interest rate was 1.75 % at December 31, 2017.	13,570
Revenue bonds Series 2006 A-5 (issued through the Authority by Realty) maturing on July 1, 2036, interest is payable monthly and the interest rate is determined weekly based on market rates with a 12% per annum maximum interest rate was 1.75% at December 31, 2017.	10,915
Variable rate composite revenue bonds, Series 2004 A-3 maturing on July 1, 2035, interest is payable monthly and the interest rate is determined weekly based on market rates with a 12% per annum maximum, interest rate was 1.27% at December 31, 2017.	10,305
Revenue bonds, Series 2003, maturing on July 1, 2033, interest is payable monthly and is determined weekly based on market rates with a 12% per annum maximum, interest rate was 1.63% at December 31, 2017.	60,000
Variable rate revenue bonds, Series 1998A, varying maturities through July 2028, interest payable monthly and is determined weekly based on market rates with a 12% per annum maximum, principal is payable semiannually, interest rate was 1.28% at December 31, 2017.	8,645
New Jersey Economic Development Authority Series 1997 Revenue Bonds which mature annually from January 1, 1998 through January 1, 2022, and bear interest at stated rates ranging from 4.1% to 5.7%.	13,003

(in thousands)

Accreted bond interest payable on the capital appreciation portion of the Series 1997 bonds due between January 1, 2012 and January 1, 2022.	28,236
Various commercial mortgages with fixed interest rates ranging from 3.625% to 4.25% and variable interest rates equal to the LIBOR rate for each period plus 0.85% to 1.0%. Each note is collateralized by a mortgage. Principal and interest are paid monthly.	39,216
Total long-term debt	1,683,692
Capital lease obligations	
Capital lease obligations and other obligations with interest rates ranging from 1.74% to 12.3% collateralized by equipment financed through the leases.	5,853
Total capital lease obligations	5,853
Total long-term debt and capital lease obligations	1,689,545
Current portion of accreted interest, included in accrued interest payable	(6,299)
Original issue premium (discount), net	63,508
Deferred financing costs, net of accumulated amortization	(9,859)
Current portion	(61,363)
Long-term debt and capital lease obligations, net of current portion	$ 1,675,532

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

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

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

	Long-Term Debt	Capital Lease Obligations	Total
2018	$ 59,068	$ 2,295	$ 61,363
2019	112,972	1,897	114,869
2020	124,961	1,024	125,985
2021	50,058	466	50,524
2022	69,993	397	70,390
Thereafter	1,266,640	-	1,266,640
	1,683,692	6,079	1,689,771
Amounts representing interest on capital lease obligations	-	(226)	(226)
Total long-term debt and capital lease obligations	$ 1,683,692	$ 5,853	$ 1,689,545

(in thousands)

6. Interest Rate Swap Agreements

The Network currently has five 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 3.88% 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, 2017, the fair value of the Network's derivative instruments was in a liability position of $56,849 and included in other liabilities in the consolidated balance sheet. The fair values of the Network's derivative instruments are classified as Level 2 financial instruments and reflect a risk of nonperformance adjustment of approximately $3,600. The total gain recognized on these derivatives for the year ended December 31, 2017 was $5,125, which was included within other operating adjustments in the consolidated statement of operations. In February 2018, the Network terminated one of these swap agreements due to more favorable market conditions for $1,100.

7. Pension Plans, Postretirement Health Care and Postemployment

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

HUMC Defined Benefit Pension Plan and Other Benefit Plan

HUMC has a noncontributory defined benefit retirement plan (the "HUMC Plan") covering most employees. In 2010, HUMC announced to all employees a change in its qualified defined benefit pension plan. Beginning January 1, 2011, most of its employees automatically earned retirement benefits under two new retirement plans, a defined contribution plan and a retirement savings plan. Any employee whose age and years of vesting service total at least 65 remains in the defined benefit plan and earns benefits under a new pension formula. The new pension formula continues to use an employee's compensation and years of service, but benefits grow more evenly and slower over the remaining course of an employee's career.

Additionally, HUMC had a defined benefit plan for Postretirement Life Insurance benefits for eligible employees who retired after age 55 with at least 10 years of service. Retirees were insured for a percentage of their final salary at retirement based on their age at retirement. These benefits were eliminated for anyone retiring after July 1, 2009.

MHC Defined Benefit Cash Balance Pension Plan

The defined benefit cash balance plan (the "MHC Plan") was created on January 1, 1998 through the conversion and merger of predecessor defined benefit plans. Benefits calculated based upon the predecessor plans were frozen as of December 31, 1997. Beginning January 1, 1998 benefits are based upon contributions to participants' accounts at a percentage of the employee's salary. On December 31, 2009, the MHC Plan was effectively frozen. Any employee eligible to participate in the MHC Plan on December 31, 2009 will continue to accrue benefits under this plan until

(in thousands)

retirement. All new employees joining MHC after this date will be eligible to participate in a new 403(b) savings plan.

BCH Defined Benefit Pension Plan

Bayshore Community Hospital (BCH) was the sponsor of a noncontributory defined benefit pension plan (the “BCH Plan”) covering substantially all of BCH’s employees. Benefits are based on salary and years of service. In 1999, BCH froze the BCH Plan to new participants and no benefits will accrue for future services.

RBMC Pension Plan

The Employees’ Retirement Plan of Raritan Bay Health Services Corporation (the “RB Plan”) is a noncontributory defined benefit retirement plan. The RB Plan was frozen on December 31, 2004. Prior to December 31, 2004, the RB Plan covered all employees who had completed one year of service.

PMC Pension Plan

PMC is the sponsor of a noncontributory defined benefit pension plan (the “PMC Plan”) covering certain of its employees. The benefits are based on years of service and the employees’ last ten years of average earnings. During 2006, Palisades amended the pension plan such that employees hired after June 1, 2006, do not participate in the plan. A defined contribution plan was established for such employees as described herein. Certain other changes were made which became effective January 1, 2007, and relate to employees subject to a collective bargaining agreement and the manner that future benefits will accrue for such employees. Certain amendments to the retirement benefits formula were adopted in 2009, effective January 1, 2010. The amendments include revisions to the percentage of compensation used for the determination of certain benefits and to the definition of compensation used in the computation.

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

(in thousands)

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

	Pension Benefits
Change in benefit obligation	
Benefit obligation at beginning of year	$ 1,637,279
Service cost	32,945
Interest cost	69,460
Actuarial loss	142,206
Benefits paid	(55,510)
Settlements	(94,109)
Net benefit obligation at end of year	1,732,271
Change in plan assets	
Fair value of plan assets at beginning of year	1,241,241
Actual return on plan assets	176,898
Employer contributions	70,813
Benefits paid	(55,510)
Settlements	(94,109)
Fair value of plan assets at end of year	1,339,333
Funded status at end of year	$ 392,938
Accumulated benefit obligation, end of year	$ 1,662,410
Amounts recognized in the consolidated balance sheet consist of	
Current liability (included in accounts payable and accrued expenses)	$ 5,697
Accrued pension benefits	387,241
Total accrued pension liability	$ 392,938
Amounts recognized in unrestricted net assets not yet captured within net periodic benefit costs consist of	
Net loss	$ 526,161
Prior service credit	(27,867)
	$ 498,294
Amounts in unrestricted net assets expected to be recognized in 2018 net periodic benefit cost	
Net loss	$ 11,806
Prior service credit	(4,153)
	$ 7,653

(in thousands)

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

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

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

	2017 Pension Benefits
Net periodic benefit cost	
Service cost	$ 32,945
Interest cost	69,460
Expected return on assets	(89,154)
Settlement loss	1,864
Amortization of prior service credit	(4,153)
Amortization of actuarial loss	14,670
Net periodic benefit cost	$ 25,632

	2017 Pension Benefits
Other changes in benefits and plan assets (unrestricted net assets)	
Current year actuarial loss	$ 52,598
Amortization of actuarial loss	(14,670)
Amortization of prior service credit	4,153
Total other changes in benefits and plan assets	$ 42,081
Total net periodic benefit cost and other changes in benefits and plan assets	$ 67,713

(in thousands)

Investment Policy

Upon completion of the merger on July 1, 2016, the Board of Trustees of the Network established an Investment Committee whose responsibilities include oversight and management of each of the pension plan investment portfolios. As such, the investment policy and strategy with respect to all defined benefit plan portfolios is to provide for growth of capital with a moderate level of volatility by investing in assets based on the respective plans' target allocations. The expected long-term rate of return assumptions are based on forward-looking return forecasts for the modeled asset classes provided by the Network's investment management consultants. The long-term forecasts are based on their analysis of long-cycle historical data as well as their longer-term global views. The target allocations have been set to achieve a long-term rate of return of 7.0% for all of the plans.

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

	Target Asset Allocation				
Investment categories	**HUMC Plan**	**MHC Plan**	**BCH Plan**	**RB Plan**	**PMC Plan**
Equities (domestic and foreign)	40%	53%	57%	60%	55%
Fixed Income	30%	40%	40%	38%	35%
Alternative Investment	30%	7%	3%	-	10%
Cash equivalents	-	-	-	2%	-
	100%	100%	100%	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, 2017:

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

(in thousands)

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

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

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

Contributions
The Network expects to contribute $40,000 to its pension plans in 2018.

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

	Pension Benefits
2018	$ 70,675
2019	69,704
2020	75,955
2021	80,459
2022	88,175
2023–2027	502,622

Defined Contribution Plans
HUMC's defined contribution plan and the retirement savings plan both provide for employer contributions. The retirement savings plan is a noncontributory plan whereby the employer contribution is specific to employees who do not accrue benefits under the old defined benefit plan and equals two percent of the participant's eligible compensation. The defined contribution plan provides for employee and employer matching contributions. The matching employer contribution is equal to 50 percent of the employee's elective contribution up to a maximum employer contribution ranging from 1.5% to 3% of eligible compensation, based on years of service beginning in 2011. For the year ended December 31, 2017, the contribution expense related to the plans was $19,537 and is included in employee benefits within the consolidated statement of operations.

HUMC also sponsors a nonqualified, unfunded supplementary employee retirement plan for certain other employees. Similar to the changes under the qualified pension plan, HUMC froze benefits under the nonqualified deferred compensation plan as of December 31, 2010. Beginning January 1, 2011, certain management employees earn benefits under a newly designed supplemental employee retirement plan. This plan is intended to remain as an unfunded nonqualified deferred compensation plan which provides for an annual contribution in the form of a percentage of base payroll.

MHC sponsors two 403(b) savings plans. The Meridian 403(b) Savings Plan for Cash Balance Participants was adopted January 1, 1998. An employee is eligible for participation in this plan if the employee was hired prior to January 1, 2010, after attaining the age of 21 and completion of one year of eligible service. Matching contributions are received after 15 months of eligible service.

(in thousands)

The second 403(b) plan is the Meridian 403(b) Savings Plan. An employee is eligible to participate in this plan if the employee was hired on or after January 1, 2010. All employees who are scheduled to work 20 hours or more per week are eligible to make elective deferrals beginning on the date of hire. Employer matching contributions will begin after attaining the age of 21 and completion of one year of service. Employees are eligible to receive employer non-elective contributions equal to 3% of compensation immediately. Total employer contributions for the year ended December 31, 2017 for both plans were $16,691.

HMNR sponsors several 401(k) plans ("401(k)") and a money purchase plan. Once an employee has worked 1,000 hours in a calendar year, HMNR matches 100 percent up to 3 percent and 50 percent up to 2 percent of a team member's contribution for Brick, Shrewsbury (nonunion); and Ocean Grove; and matches 100 percent up to 6 percent of pay at Wall. The Shrewsbury Union plan is 100 percent employee funded with no matching contribution. The Shrewsbury Union Money Purchase Plan is an employer funded plan and the employee receives $0.48 per hour worked. Total contributions to the plans for the year ended December 31, 2017 were $1,382.

Effective January 1, 2005, RBMC adopted a defined contribution pension plan (the RB Retirement Plan). The RB Retirement Plan provides for employer and employee contributions. All employees scheduled to work at least 20 hours per week are eligible for RBMC's 50% match on the first 4% of the employee contribution. Under the RB Retirement Plan, a base contribution was made on behalf of each eligible employee towards this program. The amount was based upon each employee's accumulated points (age and years of service). Effective May 2, 2009 the base contribution was suspended, and effective August 22, 2010, the matching contribution was suspended until further notice. Effective July 7, 2013, the RB Retirement Plan was amended to provide a 50% match by RBMC on the first 2% of the employee's contribution and employer matching contributions were reinstated. Total contributions to the plan for the year ended December 31, 2017 was $619.

Palisades sponsors several defined contribution plans covering certain employees as described in each respective plan document. Total contribution expense under these plans for the year ended December 31, 2017 was $1,293.

Other Benefit Plans
HUMC also sponsors a defined benefit postretirement health care plan that covers both salaried and non-salaried employees, and is contributory to the level of the annual major medical deductible.

HUMC has recognized liabilities, in connection with a self-insured medical and dental plan for its employees of $4,962 at December 31, 2017. This liability is included in accounts payable and accrued expenses in the consolidated balance sheet.

In addition, MHC provides certain postretirement and postemployment benefits. The postretirement and postemployment benefit plans provide health care benefits and life insurance coverage to a limited group of employees. Current employees are not eligible for participation in these plans. As of December 31, 2017, liabilities totaling $1,285 were included in other liabilities related to estimated benefits payable under the postretirement and postemployment plans. Benefits under the postretirement and postemployment benefit plans are paid as incurred.

(in thousands)

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

8. Operating Leases

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

2018	$	27,632
2019		19,859
2020		15,097
2021		12,276
2022		10,520
Thereafter		52,151
	$	137,535

9. Functional Expenses

The Network provides general health care services and programs. Expenses related to providing these services consist of the following:

Health care services	$	3,320,819
General and administrative		842,350
	$	4,163,169

(in thousands)

10. Commitments and Contingencies

Lines of Credit

The Network had available lines of credit totaling $62,300 at December 31, 2017. The Network had $12,850 outstanding against these lines as collateral for certain insurance policies at MHC, leaving $49,450 available for cash demands. Additionally, the Network has a separate letter of credit totaling $1,100 outstanding as collateral for certain high deductible insurance policies at BMC.

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 financial position or results of operations of the Network.

11. 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 sheet includes the following estimated liabilities for hospital professional liability ("HPL"), employed physician professional liability ("EPPL") general liability ("GL") and workers compensation ("WC") at December 31, 2017:

Type of coverage	Nature of claims	
HUMCCO insurance liabilities	HPL and GL	$ 13,425
Coastal insurance liabilities	HPL, GL, EPPL and WC	64,404
Third party insured liabilities	WC	22,517
Incurred but not reported	HPL, GL and WC	39,093
		$ 139,439

Additionally, the Network has recorded estimated insurance recoveries totaling $28,917 at December 31, 2017, which is included in other assets on the consolidated balance sheet. 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) and HUMCCO (established in 2003) provide various coverages to legacy MHS facilities and legacy HUHN facilities, respectively. Both captives provide funding for indemnification for respective HPL and GL exposures. Additionally, Coastal also provides funding for indemnification for exposures related to EPPL; Excess HPL; and WC. Funding for each of these programs is determined on an annual basis by consulting actuarial firms.

(in thousands)

As of December 31, 2017, Coastal provides funding for HPL exposures of $1,000 per medical incident subject to an annual aggregate of $3,000 and funding for GL exposures of $1,000 per occurrence subject to an annual aggregate of $1,000. Coastal provides funding for EPPL exposures of $1,000 per medical incident subject to an annual aggregate of $3,000 per physician. Coastal also provides funding of $3,000 per medical incident excess of funding for Primary HPL exposures. 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, 2017, Coastal provides funding for the deductible portion of legacy MHS workers compensation claims per occurrence exposures of $750 on an occurrence basis.

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

As both captives provide HPL coverage on a claims-made basis and HUMCCO provides GL coverage on a claims-made basis, MHC and HUMC have recorded estimated liabilities for claims incurred but not yet reported as of December 31, 2017 within other liabilities on the consolidated balance sheet.

Reinsurance Coverage

For the period ending December 31, 2017, Coastal purchased annual reinsurance policies in the amount of $75,000 per claim subject to an annual aggregate of $75,000 in excess of Coastal's primary and first excess layer.

For the period ending December 31, 2017, HUMCCO purchased reinsurance policies in the amount of $5,000 with a $250 corridor deductible in excess of the HUMCCO primary retained layer of $1,000. In addition, HUMC purchased additional layers of insurance totaling $75,000.

Third Party Insurance – Workers Compensation

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

12. 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 gross accounts receivable from patients and third party payors were as follows:

Medicare and Medicaid	32%
Managed Care/HMO	44%
Other third party payors	14%
Self-pay patients	10%
	100%

(in thousands)

13. Subsequent Events

The Network performed an evaluation of subsequent events through April 5, 2018 which is the date the consolidated financial statements were issued.

On March 19, 2018 the Network entered into a letter agreement with Seton Hall University 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, Seton Hall University 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. The financial impact of this letter agreement has been evaluated by management and has been deemed immaterial.

Consolidating Supplemental Schedules

Hackensack Meridian Health, Inc.
Consolidating Balance Sheet
December 31, 2017

(in thousands)

	Hackensack Meridian Health Inc.	Meridian Hospitals Corporation	Hackensack University Medical Center	Palisades Medical Center	HMH & Hospitals Division (Obligated Group)	Hackensack Meridian Health Foundations	Hackensack Meridian Health Realty Corporation & Subsidiaries	Hackensack Meridian Health Residential Care, Inc.	Hackensack Meridian Health Physician Services, Inc.	Hackensack Meridian Health Ventures, Inc. & Subsidiary	Hackensack Meridian Ambulatory Ventures Inc.	Other Affiliates	Total Before Eliminations	Eliminations	Total
Assets															
Current assets															
Cash and cash equivalents	$ 9,367	$ 237,024	$ 286,408	$ 24,199	$ 556,998	$ 26,295	$ 8,933	$ 57,419	$ 19,408	$ 30,158	$ 2,026	$ 11,998	$ 713,235	$ -	$ 713,235
Patient accounts receivable, less allowance for uncollectible accounts of $149,849	-	197,316	162,245	25,798	385,359	-	-	17,252	27,197	-	-	2,013	431,821	(2)	431,819
Pledges receivable, less allowance for uncollectible pledges of $2,267	-	-	-	-	-	37,746	-	-	-	-	-	-	37,746	(23)	37,723
Due from affiliates	-	36,720	228,654	-	265,374	43,512	-	3	-	-	4,149	49	313,087	(313,087)	-
Other current assets	7	61,182	61,077	6,290	128,556	125	4,621	4,574	24,493	5,943	-	681	168,993	(1,328)	167,665
Assets limited as to use and short-term investments, current portion	648,686	42,094	9,200	-	699,980	4,913	-	7,578	-	2,235	-	100,227	814,933	-	814,933
Total current assets	658,060	574,336	747,584	56,287	2,036,267	112,591	13,554	86,826	71,098	38,336	6,175	114,968	2,479,815	(314,440)	2,165,375
Assets limited as to use and investments, noncurrent portion	1,035,700	365,662	78,945	19,011	1,499,318	75,672	-	60,305	-	-	-	21,826	1,657,121	(145)	1,656,976
Investment in joint ventures	2,074	3,122	81,013	-	86,209	-	869	9,419	270	25,615	16,829	3	139,214	-	139,214
Property and equipment, net	136	1,107,454	554,496	57,075	1,719,161	1,395	80,154	68,196	13,251	24,593	-	123,127	2,029,877	-	2,029,877
Other assets	-	70,838	94,776	23,309	188,923	23,036	2,982	7,883	264	1,726	12,358	26,251	263,423	(139,420)	124,003
Due from affiliates	-	100,512	1,246	-	101,758	-	-	-	-	218	-	-	101,976	(101,976)	-
Total assets	$ 1,695,970	$ 2,221,924	$ 1,558,060	$ 155,682	$ 5,631,636	$ 212,694	$ 97,559	$ 232,629	$ 84,883	$ 90,488	$ 35,362	$ 286,175	$ 6,671,426	$ (555,981)	$ 6,115,445
Liabilities and Net Assets															
Current liabilities															
Current maturities of long-term debt and capital lease obligations	$ 53,824	$ 1,581	$ 2,901	$ 212	$ 58,518	$ -	$ 1,148	$ -	$ -	$ -	$ -	$ 1,781	61,447	$ (84)	$ 61,363
Accounts payable and accrued expenses	2,642	228,289	247,278	23,620	501,829	2,197	2,215	21,787	51,973	8,810	-	13,340	602,151	(4,822)	597,329
Due to affiliates	10,474	83,633	-	25,103	119,210	-	2,876	1,832	28,543	4,612	-	160,342	317,415	(317,415)	-
Other current liabilities	1,792	117,228	23,906	3,383	146,309	1	-	5,763	2,389	3,823	-	399	158,684	(1,666)	157,018
Total current liabilities	68,732	430,731	274,085	52,318	825,866	2,198	6,239	29,382	82,905	17,245	-	175,862	1,139,697	(323,987)	815,710
Long-term debt and capital lease obligations, less current maturities	1,604,692	1,449	31,704	384	1,638,229	-	23,348	-	-	7,959	-	8,471	1,678,007	(2,475)	1,675,532
Due to affiliates	-	-	-	-	-	-	-	-	-	218	-	1,246	1,464	(1,464)	-
Accrued pension benefits	-	10,064	326,201	50,976	387,241	-	-	-	-	-	-	-	387,241	-	387,241
Other liabilities	1,622	266,346	119,362	21,821	409,151	1,187	262	1,703	3,065	-	-	80,028	495,396	(61,023)	434,373
Total liabilities	1,675,046	708,590	751,352	125,499	3,260,487	3,385	29,849	31,085	85,970	25,422	-	265,607	3,701,805	(388,949)	3,312,856
Net assets															
Unrestricted	20,924	1,421,556	730,596	30,089	2,203,165	42,199	66,692	201,544	(1,087)	61,101	35,362	(2,939)	2,606,037	(1,996)	2,604,041
Noncontrolling interest in subsidiaries	-	-	-	-	-	-	1,018	-	-	3,965	-	26,499	31,482	(8)	31,474
Total unrestricted net assets	20,924	1,421,556	730,596	30,089	2,203,165	42,199	67,710	201,544	(1,087)	65,066	35,362	23,560	2,637,519	(2,004)	2,635,515
Temporarily restricted	-	67,620	55,155	-	122,775	123,986	-	-	-	-	-	(2,992)	243,769	(121,992)	121,777
Permanently restricted	-	24,158	20,957	94	45,209	43,124	-	-	-	-	-	-	88,333	(43,036)	45,297
Total net assets	20,924	1,513,334	806,708	30,183	2,371,149	209,309	67,710	201,544	(1,087)	65,066	35,362	20,568	2,969,621	(167,032)	2,802,589
Total liabilities and net assets	$ 1,695,970	$ 2,221,924	$ 1,558,060	$ 155,682	$ 5,631,636	$ 212,694	$ 97,559	$ 232,629	$ 84,883	$ 90,488	$ 35,362	$ 286,175	$ 6,671,426	$ (555,981)	$ 6,115,445

The accompanying note is an integral part of these consolidating financial statements.

Hackensack Meridian Health, Inc.
Consolidating Statement of Operations
Year Ended December 31, 2017

(in thousands)

	Hackensack Meridian Health Inc.	Meridian Hospitals Corporation	Hackensack University Medical Center	Palisades Medical Center	HMH & Hospitals Division (Obligated Group)	Hackensack Meridian Health Foundations	Hackensack Meridian Health Realty Corporation & Subsidiaries	Hackensack Meridian Health Residential Care, Inc.	Hackensack Meridian Health Physician Services, Inc.	Hackensack Meridian Health Ventures, Inc. & Subsidiaries	Hackensack Meridian Ambulatory Ventures Inc.	Other Affiliates	Total Before Eliminations	Eliminations	Total
Unrestricted revenues and other support															
Patient service revenue, net of contractual allowances and discounts	$ -	$ 2,038,854	$ 1,638,839	$ 178,802	$ 3,856,495	$ -	$ -	$ 200,808	$ 265,519	$ -	$ -	$ 22,531	$ 4,345,353	$ (2,203)	$ 4,343,150
Provision for bad debts	-	(85,161)	(59,143)	(20,332)	(164,636)	-	-	-	(10,143)	-	-	-	(174,779)	-	(174,779)
Net patient service revenue, less provision for bad debts	-	1,953,693	1,579,696	158,470	3,691,859	-	-	200,808	255,376	-	-	22,531	4,170,574	(2,203)	4,168,371
Other revenue	102	45,941	63,671	6,408	116,122	11,334	9,644	14,415	216,325	10,268	408	48,226	426,742	(227,489)	199,253
Net gain on equity investments	4,034	-	6,314	-	10,348	-	135	166	-	3,587	9,998	(3,004)	21,230	-	21,230
Net assets released from restriction used for operating activities	-	4,126	5,461	-	9,587	9,589	-	-	783	-	-	(1)	19,958	(9,553)	10,405
Total unrestricted revenues and other support	4,136	2,003,760	1,655,142	164,878	3,827,916	20,923	9,779	215,389	472,484	13,855	10,406	67,752	4,638,504	(239,245)	4,399,259
Expenses															
Salaries and contracted labor	-	750,967	553,244	89,474	1,393,685	7,147	594	107,813	77,008	5,444	-	7,324	1,599,015	(4,331)	1,594,684
Physician salaries and fees	-	60,469	26,065	8,495	95,029	-	-	-	225,779	-	-	41	320,849	-	320,849
Employee benefits	-	180,466	123,037	18,713	322,216	1,596	105	27,418	44,639	1,532	-	533	398,039	(772)	397,267
Supplies and other expenses	14,373	774,646	725,482	51,143	1,565,644	19,810	4,318	68,046	120,620	2,781	189	63,493	1,844,901	(237,416)	1,607,485
Depreciation and amortization	7	74,861	71,999	7,265	154,132	144	2,369	4,316	3,750	631	-	3,910	169,252	-	169,252
Interest	-	35,487	25,959	1,624	63,070	-	1,368	1,519	-	26	-	490	66,473	-	66,473
Provision for bad debts	-	-	-	-	-	132	-	6,982	-	45	-	-	7,159	-	7,159
Total expenses	14,380	1,876,896	1,525,786	176,714	3,593,776	28,829	8,754	216,094	471,796	10,459	189	75,791	4,405,688	(242,519)	4,163,169
Excess of revenues over expenses before other adjustments	(10,244)	126,864	129,356	(11,836)	234,140	(7,906)	1,025	(705)	688	3,396	10,217	(8,039)	232,816	3,274	236,090
Other operating adjustments															
Investment income	27,004	66,894	54,270	892	149,060	5,409	23	5,246	-	1,088	-	8,552	169,378	-	169,378
Unrealized gain on derivative investments	-	5,125	-	-	5,125	-	-	-	-	-	-	-	5,125	-	5,125
Loss on extinguishment of debt	-	(7,534)	(17,311)	(4,999)	(29,844)	-	-	(1,117)	-	-	-	-	(30,961)	-	(30,961)
Other gains, net	-	5,056	-	10	5,066	-	-	15	-	(55)	-	-	5,026	-	5,026
Provision for income taxes	-	-	-	-	-	-	-	-	(283)	(3,174)	-	178	(3,279)	-	(3,279)
Excess of revenues over expenses	16,760	196,405	166,315	(15,933)	363,547	(2,497)	1,048	3,439	405	1,255	10,217	691	378,105	3,274	381,379
Other adjustments in unrestricted net assets															
Net assets released from restriction for capital acquisition	-	5,554	5,706	-	11,260	9,425	-	-	-	-	-	-	20,685	(9,425)	11,260
Transfers (to)/from affiliates	(1,657)	(72,922)	(34,256)	22,000	(86,835)	(266)	27,749	38,000	3,457	3,413	1,708	3,399	(9,375)	9,375	-
Pension-related adjustments	-	36,540	(74,962)	(3,659)	(42,081)	-	-	-	-	-	-	-	(42,081)	-	(42,081)
Other changes in unrestricted net assets	-	-	3,328	-	3,328	-	(200)	-	-	-	-	-	3,128	(3,278)	(150)
Distributions to noncontrolling interests	-	-	-	-	-	(641)	(102)	-	-	1,989	-	(8,769)	(7,523)	-	(7,523)
Increase in unrestricted net assets	$ 15,103	$ 165,577	$ 66,131	$ 2,408	$ 249,219	$ 6,021	$ 28,495	$ 41,439	$ 3,862	$ 6,657	$ 11,925	$ (4,679)	$ 342,939	$ (54)	$ 342,885

The accompanying note is an integral part of these consolidating financial statements.

Hackensack Meridian Health, Inc.
Note to Consolidating Supplemental Schedules
Year Ended December 31, 2017

1. Basis of Presentation

The consolidating supplemental schedules ("consolidating schedules") presented on pages 35-36 was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The consolidating schedules are 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 are not a required part of the consolidated financial statements. The individual companies within the Network as presented within the consolidating schedules are disclosed within Note 1 to the consolidated financial statements.