Inspira Health Network, Inc.

Consolidated Financial Statements and
Supplementary Information

December 31, 2017 and 2016

BAKER TILLY

Candor. Insight. Results.

Independent Auditors' Report

Board of Directors
Inspira Health Network, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Inspira Health Network, Inc. (the "Network"), which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 Inspira Health Network, Inc. as of December 31, 2017 and 2016, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 35 through 38 is presented for the purposes of additional analysis rather than to present the financial position, results of operations and changes in net assets of the individual entities and are not a required part of the consolidated financial statements. Such 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 information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
April 9, 2018

Inspira Health Network, Inc.

Consolidated Balance Sheet
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 105,222,000	$ 191,516,000
Assets limited as to use - externally designated	27,157,000	7,436,000
Patient accounts receivable, net	70,015,000	72,904,000
Supplies	6,652,000	6,224,000
Pledges receivable	2,219,000	113,000
Prepaid expenses and other current assets	18,449,000	19,017,000
Total current assets	229,714,000	297,210,000
Assets Limited as to Use		
Internally designated by Board of Directors	692,319,000	504,919,000
Externally designated by donor	1,143,000	1,123,000
Externally designated under bond indenture agreements	289,214,000	-
Under interest rate swap agreements	8,445,000	9,150,000
	991,121,000	515,192,000
Property and Equipment, Net	441,218,000	364,920,000
Other Assets		
Pledges receivable, net	7,678,000	1,051,000
Investment in unconsolidated affiliates	14,781,000	15,343,000
Insurance recoveries receivable	3,198,000	4,419,000
Other assets	3,655,000	3,889,000
	29,312,000	24,702,000
Beneficial Interest in Perpetual and Temporary Trusts	10,151,000	9,177,000
Total assets	$ 1,701,516,000	$ 1,211,201,000

See notes to consolidated financial statements

	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 90,138,000	$ 87,061,000
Construction accounts payable	13,880,000	1,569,000
Accrued salaries and payroll taxes	15,734,000	14,005,000
Accrued vacation and other employee benefits	17,520,000	17,800,000
Accrued interest payable	9,843,000	4,859,000
Estimated settlements due to third-party payors	57,816,000	52,474,000
Current installments of long-term debt	8,782,000	7,058,000
Total current liabilities	213,713,000	184,826,000
Accrued Retirement Benefits	9,527,000	6,866,000
Interest Rate Swap Agreements	8,445,000	9,150,000
Other Long-Term Liabilities	55,731,000	59,894,000
Long-Term Debt	543,476,000	210,004,000
Total liabilities	830,892,000	470,740,000
Net Assets		
Unrestricted	847,337,000	727,821,000
Temporarily restricted	14,862,000	5,670,000
Permanently restricted	8,425,000	6,970,000
Total net assets	870,624,000	740,461,000
Total liabilities and net assets	$ 1,701,516,000	$ 1,211,201,000

See notes to consolidated financial statements

Inspira Health Network, Inc.

Consolidated Statement of Operations and Changes in Net Assets
December 31, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Revenue:		
Net patient service revenue	$ 733,349,000	$ 713,553,000
Other	27,175,000	30,242,000
Total revenue	760,524,000	743,795,000
Expenses:		
Salaries and wages	318,800,000	298,532,000
Employee benefits	95,096,000	92,682,000
Physician fees	31,016,000	29,245,000
Supplies and other expenses	201,135,000	204,193,000
Interest	7,192,000	8,801,000
Depreciation and amortization	43,866,000	40,919,000
Total expenses	697,105,000	674,372,000
Operating income	63,419,000	69,423,000
Nonoperating Gains, Net		
Interest and dividend income	11,702,000	8,140,000
Change in value of interest rate swap agreements	705,000	937,000
Net realized gains on sale of investments	21,799,000	1,184,000
Gain on sale of property and equipment	103,000	8,057,000
Excess of revenue and gains over expenses	97,728,000	87,741,000

See notes to consolidated financial statements

Inspira Health Network, Inc.

Consolidated Statement of Operations and Changes in Net Assets
December 31, 2017 and 2016

	2017	2016
Unrestricted Net Assets (continued)		
Excess of revenue and gains over expenses (from previous page)	$ 97,728,000	$ 87,741,000
Other changes in unrestricted net assets:		
Other	-	(215,000)
Pension liability adjustment	-	586,000
Change in unrealized gains and losses on investments	21,059,000	14,492,000
Net assets released from restriction for property and equipment	729,000	13,000
Increase in unrestricted net assets	119,516,000	102,617,000
Temporarily Restricted Net Assets		
Contributions	9,404,000	300,000
Change in beneficial interest in temporary trust	325,000	51,000
Net assets released from restriction	(749,000)	(32,000)
Other	212,000	479,000
Increase in temporarily restricted net assets	9,192,000	798,000
Permanently Restricted Net Assets		
Contributions	806,000	6,000
Change in beneficial interest in perpetual trusts	649,000	176,000
Increase in permanently restricted net assets	1,455,000	182,000
Increase in net assets	130,163,000	103,597,000
Net Assets, Beginning of Year	740,461,000	636,864,000
Net Assets, End of Year	$ 870,624,000	$ 740,461,000

See notes to consolidated financial statements

Consolidated Statement of Cash Flows
December 31, 2017 and 2016

	2017	2016
Operating Activities		
Increase in net assets	$ 130,163,000	$ 103,597,000
provided by operating activities:		
Income from unconsolidated affiliates	(193,000)	(5,036,000)
Depreciation and amortization	43,866,000	40,919,000
Accretion of bond premium	(3,013,000)	(1,429,000)
Pension liability adjustment	-	(586,000)
Gain on sale of property and equipment	(103,000)	(8,057,000)
Net realized and unrealized (gains) losses on investments	(42,858,000)	(15,676,000)
Change in beneficial interest in perpetual and temporary trusts	(974,000)	(227,000)
Change in value of interest rate swap agreements	(705,000)	(937,000)
Restricted contributions	(10,210,000)	(306,000)
Changes in certain assets and liabilities:		
Patient accounts receivable	2,889,000	4,039,000
Supplies	(428,000)	(461,000)
Prepaid expenses and other current assets	568,000	115,000
Insurance recoveries receivable	1,221,000	4,692,000
Accounts payable, accrued expenses and other liabilities	5,139,000	(4,352,000)
Accrued interest payable	4,984,000	486,000
Estimated settlements due to third-party payors	1,658,000	9,740,000
Net cash provided by operating activities	132,004,000	126,521,000
Investing Activities		
Additions to property and equipment, net	(105,125,000)	(60,990,000)
Acquisition of emergency transport service company	(3,700,000)	-
Proceeds from sale of property and equipment	2,826,000	4,570,000
Increase in assets limited as to use	(452,792,000)	(17,357,000)
Investments in unconsolidated affiliates, net of distributions	755,000	(7,680,000)
Decrease in pledges receivable and other assets	(8,499,000)	894,000
Net cash used in investing activities	(566,535,000)	(80,563,000)
Financing Activities		
Restricted contributions	10,210,000	306,000
Payment of financing costs	(674,000)	(558,000)
Payments of long-term debt	(7,055,000)	(215,324,000)
Proceeds from issuance of long-term debt, net	345,756,000	200,498,000
Net cash provided by (used in) financing activities	348,237,000	(15,078,000)
(Decrease) increase in cash and cash equivalents	(86,294,000)	30,880,000
Cash and Cash Equivalents, Beginning of Year	191,516,000	160,636,000
Cash and Cash Equivalents, End of Year	$ 105,222,000	$ 191,516,000
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of amount capitalized	$ 5,168,000	$ 9,557,000
Noncash Investing and Financing Activities		
Construction accounts payable for acquisition of property and equipment	$ 13,880,000	$ 1,569,000

See notes to consolidated financial statements

1. Organization

Inspira Health Network, Inc. d/b/a Inspira Health Network (the "Network") is a tax-exempt health care organization. The Network functions as the parent corporation for the following entities, which are related by common membership and/or ownership.

Inspira Medical Centers, Inc. ("IMC") is a tax-exempt health care organization. IMC consists of two acute care hospitals, Inspira Medical Center Vineland ("Vineland") in Cumberland County, New Jersey and Inspira Medical Center Elmer ("Elmer") in Salem County, New Jersey and two health centers, the Inspira Health Center Bridgeton, which provides inpatient and outpatient psychiatric services, select outpatient services including a satellite emergency department, and administrative services and the Inspira Health Center Vineland, which provides select outpatient services.

IMC also functions as the sole corporate member of Inspira Health Network Foundation Cumberland/Salem, Inc. ("FDNCS") which is a tax-exempt organization that supports IMC and the Network and its affiliates.

Inspira Medical Center Woodbury, Inc. ("Woodbury"), located in Woodbury, New Jersey, is a tax-exempt acute-care hospital providing a complete range of inpatient and outpatient services.

Woodbury also functions as the sole corporate member of Inspira Health Network Foundation Gloucester County, Inc. ("FDNG") which is a tax exempt organization that supports Woodbury and the Network and its affiliates.

Inspira Health Network Urgent Care, P.C. ("Urgent Care"), incorporated in the state of New Jersey, provides a wide range of medical services for minor or non-life-threatening conditions.

Oak & Main Surgicenter, LLC ("Oak & Main") is an ambulatory surgery center located in Vineland, New Jersey. In May 2011, IMC initially acquired 81% of the outstanding ownership interest of Oak & Main, and then acquired another 4% of interest in August 2011.

Inspira Health Management Corporation ("IHMC") is a for-profit corporation, which engages in activities to enhance and support the mission of the Network and its affiliates, such as the operations of the Center for Health and Fitness, management services organization and building management. Additionally, IHMC is the general partner in Bridgeton Physician Office Center, L.P. ("BPOC"), which owns and leases a medical office building in Bridgeton, New Jersey. The building is used for physicians' offices. The limited partner of BPOC is the Network. IHMC is also the controlling partner at Inspira SJ Urgent Care Management Company, LLC ("SJUC"), which manages and operates urgent care service centers in New Jersey. SJUC controls Inspira SJ Urgent Care, P.C. ("UCPC").

Inspira Health Network Medical Group, P.C. ("IMG") is a for-profit professional corporation, which engages in activities to enhance and support the mission of the Network and its affiliates, such as the operations of physician practices in Cumberland, Salem, and Gloucester Counties.

Inspira HomeCare & HospiceCare, Inc. ("HCHC") is a not-for-profit corporation, which has the following programs: certified home health agency as a direct provider of skilled nursing, therapy services and home health aides for residents of Salem and Cumberland counties; hospice care to southern New Jersey residents.

Inspira Health Network LIFE, Inc. ("LIFE") is a not-for-profit corporation which engages in activities to enhance and support the mission of the Network and its affiliates, such as the operation of the Program of All-Inclusive Care for the Elderly in Cumberland County.

Juno Assurance, LTD ("Juno") is a freestanding corporation through which the Network insures a portion of its professional liability and general liability risk through the single parent captive insurance company.

Red Bank Development Corporation ("Red Bank"), a for-profit subsidiary, and its wholly-owned subsidiary, Woodbury Home Care Services, Inc. and its controlled affiliate, Gloucester County Surgery Center, LLC, provide various healthcare-related services.

Inspira Health Connections PC ("IHC"), Tri-County Cardiovascular Services PC ("TCCS"), and Inspira Management Services LLC ("IMS") (collectively, "Tri-County") are organizations established in 2012 to coordinate physician, cardiology, and management services between Woodbury and its affiliated physicians.

Inspira Care Connect, LLC ("ICC") is a Medicare Shared Savings Program. ICC's mission is to establish a group of coordinated healthcare providers which agree to be accountable for the quality, cost and overall care for an assigned group of Medicare beneficiaries.

Inspira Health Partners, LLC. ("IHP") is a physician hospital organization. IMC owns 51% of IHP. IHP's mission is to establish a clinically integrated physician-hospital enterprise which is designed to achieve improvement in healthcare quality, efficiency and cost.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Network and the related entities under control or ownership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid debt instruments with original maturities of three months or less, except for amounts included within assets limited as to use.

Receivables for Patient Care

Patient accounts receivable for which the Network receives payment under cost reimbursement, prospective payment formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Network. Patient accounts receivable are reported net of provisions based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. For receivables associated with services provided to patients who have third-party coverage (which includes both patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Network analyzes contractually due amounts and provides an allowance for doubtful accounts, if necessary. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against net patient service revenue.

The Network has not changed its financial assistance policy in 2017 or 2016.

Supplies

In 2017, the Network adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2015-11, *Simplifying the Measurement of Inventory*. As a result of ASU No. 2015-11, the Network is required to measure supplies, other than supplies measured using the last-in, first-out or retail inventory methods, at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. The effect of the required prospective application of this change did not have a material effect on the Network's financial statements.

Supplies are carried at the lower of cost, determined by the first-in, first-out method, or net realizable value. Supplies are used in the provision of patient care and are not held for sale.

Assets Limited as to Use

Assets limited as to use by Board of Directors ("the Board") are resources that have been designated by the Board for specific purposes. Assets limited as to use under bond indenture agreements are held by a trustee in a construction fund and debt service fund.

Assets limited as to use under the interest rate swap agreements are Woodbury funds to collateralize the liability of the interest rate swaps in an account held by Morgan Stanley. This is a requirement which began in 2009 because the insurer, Ambac, had their credit rating fall below A3 by Moody's.

Assets limited as to use by donor include assets set aside for specific donor purposes or endowment to provide for specified payments to designated individuals. Assets limited as to use by donor are restricted for permanent investment.

Amounts required to meet current liabilities of the Network have been classified as current assets in the consolidated balance sheet.

Investments and Investment Income

All investments with readily determinable fair values are measured at fair value in the consolidated balance sheet. The fair value of debt and equity securities is based upon quoted market prices.

Investment income from assets limited as to use under bond indenture agreements is included in other revenue. Interest income from cash and cash equivalents and assets limited as to use under bond indenture agreements was $3,088,000 and $3,392,000 for the years ended December 31, 2017 and 2016, respectively. Investment income and realized gains and losses on assets limited as to use by the Board are recorded as nonoperating gains, net. Unless unrealized losses are deemed to be other-than-temporary declines in market value, unrealized gains and losses on assets limited as to use are excluded from the excess of revenue and gains over expenses since the underlying investments represent other-than-trading securities. Realized gains and losses for all investments are determined by the average cost method.

Property and Equipment

Property and equipment is recorded at cost. Donated assets are recorded at their market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Network capitalized interest of $5,020,000 during 2017.

Gifts of long-lived assets such as land, buildings, or equipment are reported as other changes in net assets, unless explicit donor stipulations specify how the donated assets must be used. When applicable, 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-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

The Network continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Network uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset, or determines the fair market value of the long-lived asset in measuring whether the long-lived asset is recoverable. No revision to the remaining useful lives or write-down of long-lived assets was recorded in 2017 and 2016.

Pledges Receivable and Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. 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 and changes in net assets as other revenue for operating activities and other changes in unrestricted net assets for property and equipment.

During 2017, FDNCS and FDNG established a capital campaign on behalf of Vineland and Woodbury, primarily to raise funds for a replacement acute-care hospital in Mullica Hill, NJ. Total pledge commitments made during 2017 were $10,124,000. Pledges receivable are recorded at the net present value of estimated future cash flows, using an interest rate that a market participant would demand. The gross amount of pledges receivable outstanding at December 31, 2017 was $11,471,000, and the net pledges receivable balance of $9,897,000 includes a present value discount of 1,574,000. The present value discount at December 31, 2017 was approximately 5%. At December 31, 2017, cash collections from the pledges are expected to be $2,219,000 in less than a year, $8,255,000 in one to five years, and $997,000 in more than five years.

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized under the straight-line method over the remaining term of the related indebtedness, which approximates the effective interest method, and is included in interest expense in the consolidated statement of operations and changes in net assets.

Beneficial Interest in Perpetual and Temporary Trusts

The Network has recorded its portion of the fair value of these trusts. Certain trusts are perpetual in nature, and the original corpus cannot be expended. These trusts are reported as permanently restricted net assets.

One trust is temporary in nature and can be released to the Network after a sequence of events takes place. This trust has been reported as a temporarily restricted net asset.

Classification of Net Assets

The Network separately accounts for and reports donor-restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Network and an outside party other than the donor or grantor.

Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time frame or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The Network follows the requirements of the Uniform Prudent Management of Institutional Funds Act as they relate to its permanently restricted contributions and net assets.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Network's consolidated balance sheet at net realizable value.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including an estimate for retroactive adjustments that may occur as a result of future audits, reviews and investigations.

The Network has agreements with third-party payors, including commercial insurance carriers and health maintenance organizations, which provide for payments to the Network at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem and case rate payments. For uninsured patients that do not qualify for charity care, the Network recognizes revenues on the basis of its standard rates, discounted in accordance with the Network's policy. On the basis of historical experience, a significant portion of the Network's uninsured patients will be unable to pay for the services provided. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Patient service revenues, net of contractual allowances and discounts, recognized in 2017 and 2016 from these major payors sources, are as follows:

	December 31, 2017			
	Third-Party Government Payors	**Third-Party Commercial Payors**	**Self-Pay**	**Total**
Patient service revenues (net of contractual allowances and discounts)	$ 388,256,000	$ 343,340,000	$ 1,753,000	$ 733,349,000
	December 31, 2016			
Patient service revenues (net of contractual allowances and discounts)	$ 371,753,000	$ 340,200,000	$ 1,600,000	$ 713,553,000

Performance Indicator

The consolidated statement of operations and changes in net assets includes the excess of revenue and gains over expenses as the performance indicator. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Other transactions, including investment income, realized gains and losses on the sale of investments, and other-than-temporary declines in the market value of investments, are reported as nonoperating gains and losses. Changes in unrestricted net assets that are excluded from the excess of revenue and gains over expenses, include the change in unrealized gains and losses on investments, to the extent losses are considered temporary, permanent transfers of assets to and from affiliates, assets released from restriction for property and equipment, and certain pension liability adjustments.

Income Taxes

The Network, IMC, Woodbury, FDNG, FDNCS, HCHC, LIFE, TCCS, and IHC are Section 501(c)(3) organizations exempt from federal income taxes under Section 501(a) of the Internal Revenue Code. The Network, IMC, Woodbury, FDNG, FDNCS, and HCHC also are exempt from state income taxes. IHMC, Red Bank, Juno, and IMG are for-profit corporations subject to federal and state income taxes; however, income tax expense is not significant to the Network's consolidated financial statements.

Urgent Care has elected to be taxed as an S Corporation for federal and state purposes. Accordingly, no provision has been made for federal or state income taxes.

Oak & Main, IMS, IHP, ICC, SJUC, and UCPC are treated as if they were partnerships for federal and state income tax purposes. Therefore, income earned is passed through to its members and, as such, no income taxes have been incurred or accrued.

Reclassifications

Certain reclassifications have been made to 2016 balances previously reported in order to conform to the 2017 presentation.

3. New Accounting Pronouncements

Revenue Recognition

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the *Revenue Recognition Requirements in Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Network will be required to adopt the guidance in ASU No. 2014-09 for its fiscal year ending December 31, 2018. The Network is currently assessing the impact that ASU No. 2014-09 will have on its consolidated financial statements.

Financial Statements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The Network will be required to adopt the guidance in ASU No. 2016-14 for its fiscal year ending December 31, 2018. The Network is currently assessing the impact that ASU No. 2016-14 will have on its consolidated financial statements.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. ASU No. 2016-01 was issued to enhance the reporting model for financial instruments in financial statements. The provisions of ASU No. 2016-01 requires marketable equity securities to be reported at fair value with changes in fair value recognized within the performance indicator, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. The Network will be required to adopt the guidance in ASU No. 2016-01 for its fiscal year ending December 31, 2018. The Network is currently assessing the impact that ASU No. 2016-01 will have on its consolidated financial statements.

Pension Accounting

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. ASU No. 2017-07 requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost will be required to be presented in the statement of operations separately from the service cost component and outside of operating income. The Network will be required to adopt the guidance in ASU No. 2017-07 for its fiscal year ending December 31, 2018. The Network is currently assessing the impact that ASU No. 2017-07 will have on its consolidated financial statements.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*. The amendments in this update require that a 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. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Network will be required to retroactively adopt the guidance in ASU No. 2016-18, with transitive provisions, for its fiscal year ending December 31, 2018. The Network is currently assessing the impact that ASU 2016-18 will have on its consolidated financial statements.

Lease Accounting

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Network's leasing activities. The Network will be required to retrospectively adopt the guidance in ASU No. 2016-02 for its fiscal year ending December 31, 2019. The Network has not yet determined the impact of adoption of ASU No. 2016-02 on its consolidated financial statements.

4. Charity Care

Certain entities within the Network have a patient acceptance policy, which is based on its mission statement and its charitable purposes. Accordingly, these entities accept all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain financial criteria established by the State of New Jersey and the Network's policy. The Network's charity care policy includes additional financial criteria which were established with the intent of expanding the availability of financial assistance. Because the Network does not believe that accounts which qualify for charity care are likely to be collected, they are not reported as net patient service revenue. The unreimbursed costs for services and supplies furnished to patients eligible for such charity care are based on cost to charge ratios and costs incurred and are as follows:

	2017	2016
In accordance with the:		
State of New Jersey's criteria	$ 6,114,000	$ 3,549,000
Network's additional criteria	13,876,000	10,996,000
Total	$ 19,990,000	$ 14,545,000

The Network also sponsors certain other charitable programs, which provide substantial benefit to the broader community. Such programs include services to needy and elderly populations that require special support, as well as health promotion and education for the general community welfare. In addition, all other uncollectible amounts resulting from the patients' inability to pay are recorded as a reduction to net patient service revenue, consistent with the Network's charity care policy.

5. State Subsidies

The New Jersey Health Care Reform Act of 1992 established the Health Care Subsidy Fund ("HCSF") to provide a mechanism and funding source to compensate certain entities for charity care. The Network received $1,719,000 and $3,695,000 in 2017 and 2016, respectively, for charity care that is included in net patient service revenue.

The New Jersey Department of Human Services, Medicaid Program, has established a Hospital Relief and Special Subsidy Fund ("HRSSF") to provide statewide funding to certain hospitals based on their levels of uncompensated care and other services. The Network received $6,881,000 and $7,895,000 in 2017 and 2016, respectively, from the HRSSF. These amounts are included in net patient service revenue.

The allocations to the Network from HCSF and HRSSF are subject to change from year to year based on available state budget amounts and allocation methodologies. A proportionate amount is in place through June 30, 2018; however, such amounts are subject to change.

6. Net Patient Service Revenue

Inpatient acute care services for Medicare and Medicaid program beneficiaries and outpatient service for Medicare beneficiaries are paid primarily at prospectively determined rates per discharge or outpatient service. Outpatient services for Medicaid beneficiaries, certain defined costs and disproportional share payments are paid based on reimbursement methodologies, subject to certain limitations. In addition, certain Medicare and Medicaid beneficiaries may opt for coverage through approved managed care organizations. As such, payment to the Network for these Medicaid and Medicare beneficiaries is based upon negotiated rates with these managed care organizations.

The Network is reimbursed for costs reimbursable and other items at a tentative rate with final settlements determined after submission of annual cost reports by the Network and audits thereof by the programs' fiscal intermediaries. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. Woodbury's Medicare cost reports have not been final settled by the fiscal intermediaries for the 2007 through 2013 and 2015 through 2017 cost report years, and Woodbury's Medicaid cost report years have not been audited by the fiscal intermediaries for the 2007 through 2017 cost report years. IMC's cost reports have not been final settled by the fiscal intermediaries for the 2014 through 2017 cost report years. Although the prior period IMC cost reports have been settled by the Medicare fiscal intermediary, the Medicare disproportionate share calculations for fiscal years 2008 through 2013 are still currently in an open status and a potential Medicare repayment exists. These amounts have been reserved in the Network's consolidated financial statements in the event of a repayment.

In the opinion of management, adequate provision has been made for any adjustment, which may result from the final settlement of these reports or appeal items. Differences between the estimated adjustments and the amounts settled are recorded in the year of settlement. Net settlements and adjustments of prior-year cost reports and appeal items resulted in an increase to the Network's net patient service revenue of $6,517,000 and $3,190,000 for the years ended December 31, 2017 and 2016, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Network believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations that could have a material adverse effect on its consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

The Network has also entered into agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Network under these agreements includes prospectively determined per diem and case rates and discounts from established charges. Some agreements have retrospective audit clauses, allowing the payor to review and adjust claims subsequent to initial payment. Changes in estimates resulting from such adjustments are recorded when estimable.

7. Fair Value Measurements and Other Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Network for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following table presents financial instruments measured at fair value at December 31, 2017, by caption on the balance sheet:

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets				
Cash and cash equivalents	$ 105,222,000	$ 105,222,000	$ -	$ -
Assets limited as to use:				
Internally designated by Board of Directors:				
Cash and cash equivalents	15,776,000	15,776,000	-	-
Mutual funds - equities	182,966,000	182,966,000	-	-
Mutual funds - fixed income	201,714,000	201,714,000	-	-
Corporate and government bonds	124,301,000	-	124,301,000	-
Government securities	19,178,000	-	19,178,000	-
Marketable equity securities	25,155,000	25,155,000	-	-
	569,090,000	425,611,000	143,479,000	-
Externally designated under bond indenture agreements:				
Cash and cash equivalents	316,371,000	316,371,000	-	-
Externally designated under interest rate swap agreement,				
Cash and cash equivalents	8,445,000	8,445,000	-	-
Externally designated by donor:				
Cash and cash equivalents	594,000	594,000	-	-
Mutual funds	530,000	530,000	-	-
Marketable equity securities	19,000	19,000	-	-
	1,143,000	1,143,000	143,479,000	-
Total assets limited as to use	895,049,000	751,570,000	286,958,000	-
Beneficial interest in trusts	10,151,000	-	-	10,151,000
Total assets in the fair value hierarchy	1,010,422,000	$ 856,792,000	$ 286,958,000	$ 10,151,000
Assets measured at net asset value (a)	123,229,000			
Assets at fair value	$ 1,133,651,000			
Liabilities				
Interest rate swap agreements	$ 8,445,000	$ -	$ -	$ 8,445,000
Disclosed at Fair Value				
Pledges receivable	$ 9,897,000	$ -	$ -	$ 9,897,000
Bonds payable (carrying value of $534,193,000)	$ 539,680,000	$ -	$ 539,680,000	$ -
Notes payable	$ 18,006,000	$ -	$ -	$ 18,006,000

The following table presents financial instruments measured at fair value at December 31, 2016, by caption on the balance sheet:

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets				
Cash and cash equivalents	$ 191,516,000	$ 191,516,000	$ -	$ -
Assets limited as to use:				
Internally designated by Board of Directors:				
Cash and cash equivalents	18,143,000	18,077,000	66,000	-
Mutual funds - equities	158,277,000	158,277,000	-	-
Mutual funds - fixed income	112,629,000	112,629,000	-	-
Corporate and government bonds	57,239,000	-	57,239,000	-
Government securities	15,845,000	-	15,845,000	-
Marketable equity securities	19,414,000	19,405,000	9,000	-
	381,547,000	308,388,000	73,159,000	-
Externally designated under bond indenture agreements:				
Cash and cash equivalents	7,436,000	7,436,000	-	-
Externally designated under interest rate swap agreement,				
Cash and cash equivalents	9,150,000	9,150,000	-	-
Externally designated by donor:				
Cash and cash equivalents	826,000	826,000	-	-
Mutual funds	-	112,000	3,000	-
Marketable equity securities	182,000	182,000	-	-
	182,000	1,120,000	3,000	-
Total assets limited as to use	398,315,000	326,094,000	73,162,000	-
Beneficial interest in trusts	9,177,000	-	-	9,177,000
Total assets in the fair value hierarchy	800,642,000	$ 517,610,000	$ 73,162,000	$ 9,177,000
Assets measured at net asset value (a)	123,372,000			
Assets at fair value	$ 924,014,000			
Liabilities				
Interest rate swap agreements	$ 9,150,000	$ -	$ -	$ 9,150,000
Disclosed at Fair Value				
Pledges receivable	$ 1,164,000	$ -	$ -	$ 1,164,000
Bonds payable (carrying value of $198,572,000)	$ 187,940,000	$	$ 187,940,000	$ -
Notes payable	$ 18,186,000	$ -	$ -	$ 18,186,000

(a) In accordance with ASU No. 2015-07, certain investments that are measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheet.

Valuation Methodologies

Government securities, corporate and government bonds and marketable equity securities are stated at fair value, which are the amounts reported in the consolidated balance sheets in assets limited as to use, based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

Mutual funds are valued at the net asset value ("NAV") of shares held by the Network at year-end.

The beneficial interest in perpetual and temporary trusts is valued at fair value which takes into consideration the underlying investments and the Network's interest in the trusts. This approximates the present value of the future distributions expected to be received.

The fair value of the Network's interest rate swaps is estimated based on a model utilizing current interest rates and other factors that would be considered Level 3 inputs in the fair value hierarchy.

Pledges receivable are valued based on the original pledge amount, adjusted by a discount rate that a market participant would demand.

Long-term debt is valued based on current rates offered for similar issues with similar security terms and maturities, or estimated using a discount rate that a market participant would demand.

Investments that have been excluded from the fair value hierarchy consist of commingled funds and limited partnerships that are valued based on the NAV of the underlying investments (basis for trade) of the funds held at the end of the year.

Commingled funds consist of the Network's investment in the Wellington Trust Company, NA, CTF Research Equity Portfolio ("Wellington Fund") and the Champlain Small Cap Fund, LLC ("Champlain Fund"). The Wellington Fund's objective is long-term total returns in excess of the S&P 500 Index. The Wellington Fund is managed on a total return basis, and not with an objective of achieving or avoiding any particular tax consequences. At December 31, 2017 and 2016, 75% and 76%, respectively, of the Network's commingled funds were held in the Wellington Fund. The Network is able to withdrawal or contribute to the Wellington fund on the first of each month, as dictated by the investment agreement. There were no commitments related to the Wellington Fund at December 31, 2017. The Champlain Fund's investment objective is capital appreciation. In order to achieve this objective, the Champlain Fund invests mainly in common stocks of small capitalization companies. The Champlain Fund attempts to identify investments that have strong long-term fundamentals, potential for superior capital appreciation and attractive valuation. At December 31, 2017 and 2016, 16% and 19%, respectively, of the Network's commingled funds were held in the Champlain Fund. The Network is able to withdrawal or contribute to the Champlain fund on the first of each month, as dictated by the investment agreement. There were no commitments related to the Champlain Fund at December 31, 2017.

8. Property and Equipment

	2017	2016	Depreciable Life
Land	$ 21,413,000	$ 21,804,000	
Land improvements	6,899,000	6,737,000	5-25 years
Leasehold improvements	8,269,000	3,539,000	10-15 years
Buildings and building improvements	416,106,000	410,692,000	10-40 years
Fixed equipment	69,730,000	64,120,000	10-20 years
Major movable equipment	338,567,000	311,491,000	5-20 years
	860,984,000	818,383,000	
Less accumulated depreciation	530,732,000	488,600,000	
	330,252,000	329,783,000	
Construction-in-progress	110,966,000	35,137,000	
	$ 441,218,000	$ 364,920,000	

The Network has begun the process of replacing Woodbury's acute care facilities, with a new acute care hospital campus in Mullica Hill, New Jersey, which will cost approximately $350,000,000. The Network has also begun an expansion project on the Vineland campus. At December 31, 2017, the Network had commitments outstanding of approximately $213,000,000 related to these construction projects. The Network funded these projects through the issuance of bonds in 2017 (Note 9).

Depreciation on property and equipment for the years ended December 31, 2017 and 2016 amounted to $43,684,000 and $40,991,000, respectively.

9. Long-Term Debt

Series 2016A Refunding Bonds

In June 2016, the New Jersey Health Care Facilities Financing Authority (the “Authority”) issued, on behalf of IMC and Woodbury, its $177,765,000 aggregate principal amount of Refunding Bonds, Inspira Health Obligated Group Issue (Series 2016A) (the "Series 2016A Bonds"). Total proceeds of $201,352,000 (including a net original issue premium of $23,587,000) were used by IMC and Woodbury to (i) refinance all of the outstanding Authority Series 2004 Bonds, Series 2006 Bonds, and Series 2008 Bonds ("Refunded Bonds"), (ii) refinance the 2011 Note Payable and (iii) pay for the costs of issuance of the Series 2016A Bonds. The Network recognized a net gain on extinguishment of debt of $195,000 as a result of the 2016 debt refinancing which is included in depreciation and amortization expense in the accompanying consolidated statement of operations and changes in net assets.

The Series 2016A Bonds consist of $120,015,000 of serial bonds that mature in 2036, and $26,570,000 and $31,180,000 of term bonds that mature in 2041 and 2046, respectively. Annual principal/sinking fund payments range from $4,415,000 to $7,720,000, maturing on July 1 of each year with interest rates ranging from 2.0% to 5.0% due January 1 and July 1 of each year. The net original issue premium balance was $19,767,000 and $22,279,000 at December 31, 2017 and 2016, respectively.

The Series 2016A Bonds were issued under a Master Trust Indenture ("MTI"), dated June 1, 2016. As such, the obligations issued pursuant to the MTI are joint and several obligations of the Obligated Group, which currently consists of IMC and Woodbury and does not include any other affiliates of the Network. All property and equipment, and gross receipts of the Obligated Group are pledged to secure payment of interest and principal. The MTI and loan agreement between the Authority, IMC, and Woodbury require the Obligated Group to comply with financial covenants, including the requirement that the Obligated Group generate funds available for debt service (as defined) equivalent to at least 125% of maximum annual debt service, and a cushion rate (as defined) of at least 1.25.

Series 2017 Revenue Bonds

In August 2017, the Authority issued, on behalf of IMC and Woodbury, its $265,000,000 aggregate principal amount of Revenue Bonds, Inspira Health Obligated Group Issue, Series 2017A (the "Series 2017A Bonds"), and its Revenue Bonds, Inspira Health Obligated Group Issues, Series 2017B (the “Series 2017B Bonds”), collectively the “2017 Bonds”. Total proceeds of the Series 2017A Bonds (including a net original premium, net of an underwriter’s discount, of $20,756,000), were $285,756,000, and total proceeds of the Series 2017B Bonds were $60,000,000. The Series 2017B Bonds were purchased by TD Bank, N.A.

The proceeds from the 2017 Bonds will be used by IMC and Woodbury to (i) finance the construction of a new acute-care hospital and medical center facility in Mullica Hill, New Jersey, which will serve as a replacement for Woodbury’s acute-care facilities, (ii) establish a radiation oncology program at Woodbury, including the construction of a linear accelerator vault, (iii) finance the expansion of the Vineland emergency department, (iv) construction of two additional floors to the existing facility to house 36 new inpatient beds, and (v) pay for the costs of issuance of the 2017 Bonds.

The Series 2017A Bonds consist of $1,900,000 and $90,035,000 of serial bonds that mature in 2029 and 2037, respectively, and $66,445,000 and $106,620,000 of term bonds that mature in 2042 and 2047, respectively. Annual principal/sinking fund payments range from $500,000 to $28,595,000, maturing on July 1 of each year with interest rates ranging from 2.0% to 5.0% due January 1 and July 1 of each year. The net original issue premium balance was $21,834,000 at December 31, 2017.

The Series 2017B Bonds, which mature in 2042, are due in monthly installments beginning in January 2018. Annual principal payments range from $1,000,000 to $4,800,000. Interest is payable monthly at a variable rate. The interest rate was 1.53% at December 31, 2017.

The 2017 Bonds were issued under a Third Supplemental MTI and the bond agreements. The MTI and loan agreement between the Authority, IMC, and Woodbury require the Obligated Group to comply with financial covenants, including the requirement that the Obligated Group generate funds available for debt service (as defined) equivalent to at least 125% of maximum annual debt service, and a cushion ratio (as defined) of at least 1.25.

Term Loan

The Network has a term loan with a bank for available borrowings up to $14,296,000, with an interest rate adjustable every 30 days based on LIBOR (1.49% at December 31, 2017). Interest is payable monthly and principal is due in full in August 2018. The Network has investments which are classified as assets limited as to use by the Board that are held in a separate account, which meet the collateral requirement of approximately $20,000,000. The outstanding balance on the term loan was $14,278,000 at December 31, 2017 and 2016.

Other Long-Term Obligations

During 2011, IMC entered into a loan agreement with the City of Vineland's Urban Enterprise Zone Authority ("UEZ") for a total of $4,000,000. This loan is secured by a bank letter of credit and guaranteed by the Network. The term of the loan is 20 years with interest-only payments for the first 36 months through July 2013, and principal and interest payments of $27,000 per month beginning in August 2013. The interest rate on this loan is 5% during the interest-only period and 4% thereafter. The outstanding obligation was $3,206,000 and $3,398,000 at December 31, 2017 and 2016, respectively, and is included in long-term debt in the consolidated balance sheet.

Red Bank has financing agreements for certain equipment, which are collateralized under the agreements. Payments under the financing agreements are payable in monthly installments through the term of the respective agreement. The outstanding balance was $371,000 and $539,000 at December 31, 2017 and 2016, respectively.

The Network also leases certain equipment under capital lease agreements at various interest rates. The outstanding balance under these lease obligations was $59,000 and $304,000 at December 31, 2017 and 2016, respectively.

Long-Term Debt Summary

		2017	2016
Series 2016A Bonds		$ 190,952,000	$ 200,044,000
Series 2017A Bonds		286,834,000	-
Series 2017B Bonds		60,000,000	-
Term loan		14,278,000	14,278,000
Other long-term obligations		3,814,000	4,241,000
		555,878,000	218,563,000
Less:	Current maturities of long-term debt	(8,782,000)	(7,058,000)
	Deferred financing costs, net	(1,247,000)	(583,000)
	Underwriters' discount, net	(2,373,000)	(918,000)
	Long-term debt	$ 543,476,000	$ 210,004,000

Future Principal Payments

Maturities and principal payments on long-term debt for the next five years and thereafter are as follows (net of original issue premium of $41,601,000):

	2016 A Bonds	2017 A Bonds	2017 B Bonds	Other Long-Term Obligations	Total
2018	$ 6,785,000	$ 500,000	$ 1,000,000	$ 497,000	$ 8,782,000
2019	7,000,000	770,000	1,000,000	325,000	9,095,000
2020	7,255,000	900,000	1,000,000	278,000	9,433,000
2021	6,420,000	1,185,000	2,000,000	226,000	9,831,000
2022	4,520,000	1,525,000	4,000,000	235,000	10,280,000
Thereafter	139,205,000	260,120,000	51,000,000	16,531,000	466,856,000
	$ 171,185,000	$ 265,000,000	$ 60,000,000	$ 18,092,000	$ 514,277,000

10. Derivative Financial Instruments

Woodbury has two interest rate swap agreements with Morgan Stanley ("Morgan Stanley Swaps I and II") which had been entered into to manage its risk relating to the changes in cash flow associated with its variable rate bonds. These interest rate swaps allowed Woodbury to effectively swap the variable rate interest on the variable rate bonds to a fixed interest rate (Tranche I of 3.459% and Tranche II of 3.76%). The interest rate swaps require Woodbury to exchange quarterly the net difference between the fixed rate and variable rate interest amounts calculated by reference to the notional amounts, which are consistent with the amount of the Tranches outstanding. The fair value of the Morgan Stanley Swaps I and II represented a liability of $7,996,000 and $9,196,000 at December 31, 2017 and 2016, respectively, and is included in total liabilities in the consolidated balance sheet.

Woodbury has another interest rate swap agreement with Morgan Stanley ("Morgan Stanley Swap III") which was entered into to reduce Woodbury's overall interest expense. Under this interest rate swap, Woodbury receives payments from Morgan Stanley in the amount of 67% of the 5-year LIBOR. In exchange, Woodbury will pay 67% of the 1-month LIBOR. The fair value of the Morgan Stanley Swap III represented a liability and asset, respectively, of $449,000 and $46,000, at December 31, 2017 and 2016, respectively, and is included in total liabilities in the consolidated balance sheet.

The net expense related to net cash settlements was $1,291,000 and $1,495,000 for the years ended December 31, 2017 and 2016, respectively, and is included in interest expense in the consolidated statement of operations and changes in net assets.

11. Retirement Benefits

Defined Contribution Pension Plans and Supplemental Executive Retirement Plans

The Network, through IMC, sponsors a noncontributory defined contribution pension plan (the "Plan"). Effective July 1, 2014, IMC ceased contributions and accruing benefits for non-union employees as of December 31, 2013. The Plan previously covered substantially all of its employees. These non-union employees now participate in IMC's defined contribution plan. Contributions and cost are determined based on a target benefit formula and totaled $108,000 and $1,147,000 for the years ended December 31, 2017 and 2016, respectively. Participants vest based on a graduated timeline with 100% after six years of service. Forfeitures are used to reduce future contributions. The Plan was frozen during 2017 and is expected to be liquidated in 2018.

IMC and Woodbury sponsor defined contribution plans that are available to substantially all of its employees, should they elect to participate. The plans match a portion of an employee's contribution to a tax-sheltered annuity. The amount of expense related to the plans was $15,113,000 and $11,212,000 for the years ended December 31, 2017 and 2016, respectively.

The Network has a Supplemental Executive Retirement Plan ("SERP Plan") that covers a group of management and physician employees designated by the Board. The contributions to the plan are determined annually. The Network recorded expenses of $1,464,000 and $1,233,000 associated with the SERP Plan for the years ended December 31, 2017 and 2016, respectively. The Network had an outstanding liability related to the SERP Plan of $4,056,000 and $3,216,000 at December 31, 2017 and 2016, respectively, and is included in accrued retirement benefits in the consolidated balance sheet.

During 2017, the Network established a retirement plan for certain management level employees, which is funded strictly by employee deferrals. The outstanding liability related to the employee deferral retirement plan was $4,759,000 at December 31, 2017 and is included in accrued retirement benefits in the consolidated balance sheet.

Defined Benefit Pension Plan

Woodbury has a noncontributory defined benefit pension plan (the "Cash Balance Plan") covering all full-time employees who meet prescribed eligibility requirements. The Cash Balance Plan uses a December 31 measurement date. Effective January 1, 2010, the Cash Balance Plan was amended to eliminate service benefit accruals for Plan years after 2009 and to no longer permit new participants into the Cash Balance Plan. The Board approved this action of freezing the Cash Balance Plan.

The following table summarizes information about the Cash Balance Plan at December 31, 2017 and 2016:

	2017	2016
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 55,967,000	$ 57,546,000
Interest cost	2,044,000	2,186,000
Actuarial loss	1,847,000	383,000
Benefits paid	(3,455,000)	(4,148,000)
Projected benefit obligation at end of year	$ 56,403,000	$ 55,967,000
Change in plan assets:		
Fair value of the plan assets at beginning of year	$ 52,317,000	$ 50,700,000
Actual return on plan assets	5,934,000	3,950,000
Contributions	1,500,000	2,500,000
Benefits and administrative expenses paid	(4,060,000)	(4,833,000)
Fair value of the plan assets at end of year	55,691,000	52,317,000
Funded status	$ (712,000)	$ (3,650,000)
Accumulated benefit obligation	$ 56,403,000	$ 55,967,000
Amounts recognized in the balance sheet consist of,		
Noncurrent liability	$ 712,000	$ 3,650,000
Amounts recognized in unrestricted net assets consist of,		
Actuarial loss	$ 26,943,000	$ 26,943,000

	2017	2016
Components of net periodic pension income:		
Interest cost	$ 2,044,000	$ 2,186,000
Expected return on plan assets	(4,182,000)	(4,052,000)
Recognized actuarial loss	700,000	670,000
Recognized loss due to settlements	-	1,087,000
Net periodic pension income	(1,438,000)	(109,000)
Amounts recognized as changes in unrestricted net assets consist of:		
Net actuarial gain	-	(586,000)
Total recognized in net periodic pension income and changes in unrestricted net assets	$ (1,438,000)	$ (695,000)

During 2017 and 2016, lump sum benefit payments to Cash Balance Plan beneficiaries totaled $1,594,000 and $2,258,000, respectively, and are included in benefits paid. Since the lump sum payments/settlements in 2016 exceeded the 2016 interest cost of $2,186,000, Woodbury was required to recognize a loss of $1,087,000 which is included in 2016 net periodic pension income.

The estimated net actuarial loss that is expected to be amortized from other changes in unrestricted net assets into net periodic pension cost for the year ending December 31, 2018, is $712,000.

Assumptions	2017	2016
Weighted average assumptions used to determine pension obligation,		
Discount rate	3.36 %	3.77 %
Weighted average assumptions used to determine net periodic pension income:		
Discount rate	3.77 %	3.97 %
Expected return on the plan assets	8.20 %	8.20 %

Plan Assets	Target Asset Allocation	2017	2016
Equity securities	25 %	26 %	25 %
Debt securities	60	64	62
Alternative investments	15	10	12
Other (cash equivalents)	0	-	1
		100 %	100 %

The expected long-term rate of return for the Cash Balance Plan's total assets is based on the expected return of each of the above categories, weighted based on the target allocation for each class. Equity securities and alternative investments are expected to return 10% to 11% over the long-term, while debt securities are expected to return between 4% and 6%. The Investment Committee expects that the Cash Balance Plan's asset manager will provide a modest (0.5% to 1.0% per annum) premium to the respective market benchmark indices.

The investment policy, as established by the Investment Committee, is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The asset allocation and the investment policy are reviewed on a semiannual basis, to determine if the policy should be changed.

Expected contributions to the Cash Balance Plan in 2018 are $2,000,000.

Estimated future benefit payments, including future benefit accruals are as follows:

2018	$ 4,485,000
2019	4,447,000
2020	4,170,000
2021	4,185,000
2022	3,983,000
2023 - 2026	18,968,000

The following fair value hierarchy table presents information about each major category of the Cash Balance Plan's financial assets measured at fair value, on the Market approach valuation technique, on a recurring basis as of December 31, 2017 and 2016:

	December 31, 2017		
	Total Fair Value	**Level 1**	**Level 2**
Government bonds	$ 6,848,000	$ -	$ 6,848,000
Mutual funds:			
Fixed income	14,453,000	14,453,000	-
Equity	29,043,000	29,043,000	-
Collective and private equity funds	5,347,000	5,347,000	5,347,000
Total assets	$ 55,691,000	$ 43,496,000	$ 12,195,000

	December 31, 2016		
Cash and cash equivalents	$ 500,000	$ 500,000	$ -
Government bonds	5,960,000	-	5,960,000
Mutual funds:			
Fixed income	26,444,000	26,444,000	-
Equity	13,162,000	13,162,000	-
Collective and private equity funds	6,251,000	-	6,251,000
Total assets	$ 52,317,000	$ 40,106,000	$ 12,211,000

12. Commitments and Contingencies

Malpractice Litigation and Estimated Malpractice Cost

The Network currently maintains claims-made malpractice insurance coverage and occurrence-based reinsurance for excess coverage and has estimated losses for liabilities relating to unasserted malpractice claims incurred but not reported to its malpractice insurance company. This estimate for unreported incidents and losses is based on actuarial estimates which use its own past experience and industry experience data and the unpaid deductibles on open claims. Additionally, under the provisions of the Network's insurance program, the Network was responsible for deductibles up to $150,000 per claim and $750,000 in the annual aggregate for 2005, 2004, and 2003; for 2002 the deductibles were $100,000 per claim and $500,000 in the annual aggregate. The Network records actuarial estimates for this deductible component of its medical malpractice and comprehensive general liability insurance programs. Effective November 1, 2010, the Network's primary malpractice insurance coverage is being provided through Juno, its wholly-owned captive insurance company. The total amount recorded for malpractice insurance program liabilities is $21,486,000 and $23,119,000 at December 31, 2017 and 2016, respectively, and is included in other liabilities in the consolidated balance sheet. The Network has recorded a receivable and related claim liability, for anticipated insurance recoveries of $3,198,000 and $4,419,000 at December 31, 2017 and 2016, respectively.

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Network's consolidated balance sheet at net realizable value.

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Network. Such lawsuits and claims are either specifically covered by insurance or are not deemed material. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of the Network.

Estimated Third-Party Settlement Reserves

The Network currently maintains estimated third party settlement reserves related to governmental and non-governmental audits. The Network's reserves totaled $89,983,000 and $88,325,000 at December 31, 2017 and 2016, respectively, of which $32,167,000 and $35,851,000 are included in other long-term liabilities in the consolidated balance sheet as of December 31, 2017 and 2016, respectively.

13. Investments in Unconsolidated Affiliates

Sprague Dialysis, LLC

Sprague Dialysis, LLC ("Sprague") is a partnership that was established in December 2016 between IMC and an independent healthcare provider to provide outpatient dialysis treatments in New Jersey. IMC acquired a 30% interest in Sprague. In conjunction with the formation of Sprague, the Kidney Center of Vineland ("KCV") and the Kidney Center of Millville ("KCM") also acquired a 30% interest in Sprague which they transferred to IMC upon closing of the transaction. Under the Contribution and Purchase Agreement ("IMC Contribution and Purchase Agreement") that IMC entered into related to the formation of Sprague, IMC contributed assets associated with its Kidney Center at Bridgeton ("Bridgeton Center") and recognized a gain on sale of Bridgeton Assets of $8,057,000 which is included in nonoperating income in the accompanying 2016 consolidated statement of operations and changes in net assets. IMC recorded a loss from Sprague of $799,000 for the year ended December 31, 2017, which is included in other revenue in the consolidated statements of operations and changes in net assets. IMC's investment in Sprague is recorded under the equity method of accounting and totaled $8,409,000 and $9,208,000 at December 31, 2017 and 2016, respectively.

The Kidney Center of Vineland

KCV is a partnership organized to provide outpatient dialysis treatments in Vineland, New Jersey. IMC owned 50% of KCV and had guaranteed 50% of a KCV bank loan that was paid off in 2013. Income (loss) from KCV of ($149,000) and $4,761,000 for the years ended December 31, 2017 and 2016, respectively, is recorded as other revenue in the consolidated statements of operations and changes in net assets. During 2017 and 2016, IMC received distributions of earnings, net of IMC contributions, in the amount of $944,000 and $4,771,000, respectively. In conjunction with the IMC Contribution and Purchase Agreement discussed above, KCV entered into a separate Contribution and Purchase agreement related to the formation of Sprague and contributed assets associated with its Kidney Center at Vineland ("Vineland Center"). KCV recognized a gain on sale of Vineland Center assets of approximately $8,000,000 and acquired a 30% interest in Sprague, which it transferred to IMC upon closing of the transaction. IMC's investment in KCV is recorded under the equity method of accounting and totaled $110,000 and $1,203,000 at December 31, 2017 and 2016, respectively.

The Kidney Center of Millville

KCM is a partnership which began operations in 2010 and is organized to provide outpatient dialysis treatments in Millville, New Jersey. IMC owned 50% of KCM and has guaranteed 50% of KCM bank loans. The bank loan was paid off as a result of the formation of Sprague. During 2010, IMC made an initial capital contribution to KCM of $291,000. Income from KCM of $620,000 and $1,236,000 for the years ended December 31, 2017 and 2016, respectively, is recorded as other revenue in the consolidated statements of operations and changes in net assets. During 2017 and 2016, IMC received distributions of earnings, net of IMC contributions in the amount of $309,000 and $1,418,000, respectively. In conjunction with the IMC Contribution and Purchase Agreement discussed above, KCM entered into a separate Contribution and Purchase agreement related to the formation of Sprague and contributed assets associated with its Kidney Center at Millville ("Millville Center"). KCM recognized a gain on sale of Millville Center assets of approximately $2,400,000 and acquired a 30% interest in Sprague, which it transferred to IMC upon closing of the transaction. IMC's investment in KCM is recorded under the equity method of accounting and totaled $59,000 and $(252,000) at December 31, 2017 and 2016, respectively.

The Cooper Bone & Joint at Inspira Woodbury, P.C.

During 2014, Woodbury and an independent health system formed the Cooper Bone & Joint at Inspira Woodbury, P.C. ("CBJ"). CBJ is a partnership organized to provide orthopedic services to the community. Woodbury owns 50% of CBJ. Woodbury made an initial investment in CBJ of $1,371,000 in 2015 and additional investments of $1,724,000 and $1,014,000 in 2017 and 2016, respectively. The losses from CBJ of $1,014,000 and $1,247,000 for the years ended December 31, 2017 and 2016, respectively, and are included in other revenue in the consolidated statement of operations and changes in net assets. Woodbury's investment in CBJ is recorded under the equity method of accounting and totaled $1,088,000 and $378,000 at December 31, 2017 and 2016, respectively. CBJ ceased providing patient care activities in August 2017 and intends to terminate in 2018.

Tri-County Home and Hospice Care, LLC

During 2016, HCHC, IMC and an independent healthcare provider formed Tri-County Home and Hospice Care, LLC ("Tri-County"). Tri-County is a partnership organized to own and operate home health care and hospice agencies in Gloucestor, Salem and Cumberland counties. HCHC and IMC own 27% and 8%, respectively, of Tri-County. HCHC and IMC made initial investments in Tri-County of $3,080,000 and $913,000, respectively. HCHC and IMC recorded income from Tri-County of $1,184,000 and $351,000, respectively, for the year ended December 31, 2017, and $221,000 and $65,000, respectively, for the year ended December 31, 2016, which is included in other revenue in the consolidated statement of operations and changes in net assets. During 2017, HCHC and IMC received distributions of earnings in the amounts of $1,080,000 and $320,000, respectively. HCHC and IMC's investments in Tri-County are recorded under the equity method of accounting and totaled $3,405,000 and $1,009,000 for HCHC and IMC, respectively, at December 31, 2017 and $3,301,000 and $978,000, respectively, at December 31, 2016.

In addition to the investments in Sprague, KCV, KCM, CBJ, and Tri-County, the Network has investments in several partnerships, all of which are accounted for under the equity method of accounting.

14. Concentrations of Credit Risk

The Network grants credit without collateral to its patients who are insured under third-party payor agreements. The composition of accounts receivable from payors is as follows:

	2017	2016
Medicare and Medicaid	56 %	55 %
Commercial insurance	31	34
Self-pay	13	11
Total	100 %	100 %

The Network invests its operating cash and cash equivalents with several local banks on a short-term basis. The amounts on deposit exceed the federal insurance deposit limits. In addition, cash and cash equivalents related to assets limited as to use by Board of Directors are invested in certain mutual funds which invest in highly liquid U.S. Government and agency obligations.

15. Functional Expenses

The Network provides general health care to residents within its geographic locations. Expenses related to providing these services are as follows:

	2017	2016
Health care services	$ 627,423,000	$ 606,946,000
General and administrative services	69,682,000	67,426,000
Total	$ 697,105,000	$ 674,372,000

16. Events Subsequent to December 31, 2017

Subsequent events have been evaluated through April 9, 2018, which is the date the consolidated financial statements were issued.

Inspira Health Network, Inc.
Consolidating Schedule, Balance Sheet
December 31, 2017
(in thousands)

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group Eliminations	Obligated Group Combined	Inspira Health Network, Inc.	Inspira Health Network Foundation Cumberland/ Salem, Inc.	Inspira Health Network Urgent Care, P.C.	Oak and Main Surgicenter, LLC	Inspira Health Management Corporation	Inspira Health Network Medical Group, P.C.	Inspira HomeCare & HospiceCare, Inc.	Inspira Health Network LIFE, Inc.	Inspira Deptford Healthpark, LLC	Juno	Inspira Health Network Foundation Gloucester County, Inc.	Red Bank Development Corporation	Combined Tri-County	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation Eliminations	Consolidation Consolidated
Assets																					
Current Assets																					
Cash and cash equivalents	$ 72,052	$ 8,692	$ -	$ 80,744	$ 738	$ 917	$ 3,535	$ 180	$ 1,808	$ 5,053	$ 892	$ 3,071	$ -	$ 5,980	$ 757	$ 206	$ 1,079	$ -	$ 262	$ -	$ 105,222
Assets limited as to use – externally designated	10,624	16,533	-	27,157	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,157
Patient accounts receivable, net	44,147	22,297	-	66,444	-	-	706	120	243	1,857	-	402	-	-	-	243	-	-	-	-	70,015
Supplies	5,046	1,204	-	6,250	-	-	-	-	71	-	-	-	-	-	-	331	-	-	-	-	6,652
Pledges receivable	-	-	-	-	-	703	-	-	-	-	-	-	-	-	1,516	-	-	-	-	-	2,219
Prepaid expenses and other current assets	13,137	5,028	-	18,165	135	50	263	52	1,053	2,883	-	199	-	1,923	1	20	973	-	-	(7,268)	18,449
Due from affiliated organizations	73,800	9,447	(34,978)	48,269	801	403	107	11	-	130	-	-	-	-	-	-	785	-	2	(50,508)	-
Total current assets	218,806	63,201	(34,978)	247,029	1,674	2,073	4,611	363	3,175	9,923	892	3,672	-	7,903	2,274	800	2,837	-	264	(57,776)	229,714
Assets Limited as to Use																					
Internally designated by Board of Directors	451,152	114,429	-	565,581	44,040	23,753	-	-	-	-	-	-	-	57,605	1,340	-	-	-	-	-	692,319
Externally designated by donor	-	-	-	-	-	549	-	-	-	-	-	-	-	-	594	-	-	-	-	-	1,143
Externally designated under bond indenture agreements	31,150	258,064	-	289,214	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	289,214
Under interest rate swap agreements	-	8,445	-	8,445	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,445
	482,302	380,938	-	863,240	44,040	24,302	-	-	-	-	-	-	-	57,605	1,934	-	-	-	-	-	991,121
Investments in Subsidiaries	(439)	-	-	(439)	37,124	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(36,685)	-
Investments in Partnerships	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15)	-
Property and Equipment, Net	240,396	177,389	-	417,785	4,188	860	8,719	197	2,431	2,237	-	505	4,140	-	2	154	-	-	-	-	441,218
Other Assets																					
Pledges receivable, net	-	-	-	-	-	2,630	-	-	-	-	-	-	-	-	5,048	-	-	-	-	-	7,678
Investment in unconsolidated affiliates	9,587	1,088	-	10,675	-	-	-	-	-	-	3,405	-	-	-	-	756	-	-	-	(55)	14,781
Insurance recoveries receivable	12,351	3,463	-	15,814	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,616)	3,198
Other assets	1,219	3,509	-	4,728	-	-	-	-	264	230	-	-	-	-	-	2	-	-	-	(1,569)	3,655
	23,157	8,060	-	31,217	-	2,630	-	-	264	230	3,405	-	-	-	5,048	758	-	-	-	(14,240)	29,312
Beneficial Interest in Perpetual and Temporary Trusts	4,836	4,121	-	8,957	-	1,002	-	-	-	-	-	-	-	-	192	-	-	-	-	-	10,151
Beneficial Interest in Inspira Health NetworkFoundation Cumberland/Salem, Inc.	3,121	7,125	-	10,246	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,246)	-
Total assets	$ 972,179	$ 640,834	$ (34,978)	$ 1,578,035	$ 87,041	$ 30,867	$ 13,330	$ 560	$ 5,870	$ 12,390	$ 4,297	$ 4,177	$ 4,140	$ 65,508	$ 9,450	$ 1,712	$ 2,837	$ -	$ 264	$ (118,962)	$ 1,701,516
Liabilities and Net Assets																					
Current Liabilities																					
Accounts payable and accrued expenses	$ 56,092	$ 22,793	$ -	$ 78,885	$ 630	$ 187	$ 1,972	$ 186	$ 441	$ 4,378	$ 65	$ 2,825	$ -	$ 6,846	$ 14	$ 948	$ 4	$ -	$ 20	$ (7,263)	$ 90,138
Construction accounts payable	4,641	9,239	-	13,880	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,880
Accrued salaries and payroll taxes	14,586	-	-	14,586	-	-	114	-	-	1,012	-	-	-	-	-	-	22	-	-	-	15,734
Accrued vacation and other employee benefits	17,484	36	-	17,520	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,520
Accrued interest payable	4,128	5,715	-	9,843	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,843
Due to affiliated organizations	-	34,978	(34,978)	-	6,089	-	-	-	-	-	522	9,908	4,140	-	31	151	412	254	10	(21,517)	-
Estimated settlements due to third-party payors	41,042	14,254	-	55,296	-	-	-	232	76	2,039	-	173	-	-	-	-	-	-	-	-	57,816
Current installments of long-term debt	5,654	2,889	-	8,543	-	-	-	-	136	-	-	-	-	-	-	239	-	-	-	(136)	8,782
Total current liabilities	143,627	89,904	(34,978)	198,553	6,719	187	2,086	418	653	7,429	587	12,906	4,140	6,846	45	1,338	438	254	30	(28,916)	213,713
Due to Affiliated Organizations	6	-	-	6	-	696	14,452	581	3,330	9,926	-	-	-	-	-	-	-	-	-	(28,991)	-
Accrued Retirement Benefits	8,815	712	-	9,527	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,527
Interest Rate Swap Agreements	-	8,445	-	8,445	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,445
Other Long-Term Liabilities	40,668	15,063	-	55,731	-	-	-	-	-	-	-	-	-	12,616	-	-	-	-	-	(12,616)	55,731
Long-Term Debt	184,688	344,378	-	529,066	14,278	-	-	-	103	-	-	-	-	-	-	1,462	-	-	-	(1,433)	543,476
Total liabilities	377,804	458,502	(34,978)	801,328	20,997	883	16,538	999	4,086	17,355	587	12,906	4,140	19,462	45	2,800	438	254	30	(71,956)	830,892
Net Assets																					
Unrestricted	586,230	171,082	-	757,312	66,044	24,255	(3,208)	(439)	1,784	(4,965)	3,710	(8,729)	-	46,046	950	(1,088)	2,399	(254)	234	(36,714)	847,337
Temporarily restricted	5,642	7,129	-	12,771	-	4,120	-	-	-	-	-	-	-	-	8,263	-	-	-	-	(10,292)	14,862
Permanently restricted	2,503	4,121	-	6,624	-	1,609	-	-	-	-	-	-	-	-	192	-	-	-	-	-	8,425
Total net assets	594,375	182,332	-	776,707	66,044	29,984	(3,208)	(439)	1,784	(4,965)	3,710	(8,729)	-	46,046	9,405	(1,088)	2,399	(254)	234	(47,006)	870,624
Total liabilities and net assets	$ 972,179	$ 640,834	$ (34,978)	$ 1,578,035	$ 87,041	$ 30,867	$ 13,330	$ 560	$ 5,870	$ 12,390	$ 4,297	$ 4,177	$ 4,140	$ 65,508	$ 9,450	$ 1,712	$ 2,837	$ -	$ 264	$ (118,962)	$ 1,701,516

Inspira Health Network, Inc.

Consolidating Schedule, Statement of Operations and Changes in Net Assets
Year Ended December 31, 2017
(in thousands)

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group Eliminations	Obligated Group Combined	Inspira Health Network, Inc.	Inspira Health Network Foundation Cumberland/ Salem, Inc.	Inspira Health Network Urgent Care, P.C.	Oak and Main Surgicenter, LLC	Inspira Health Management Corporation	Inspira Health Network Medical Group, P.C.	Inspira HomeCare & HospiceCare, Inc.	Inspira Health Network LIFE, Inc.	Inspira Deptford Healthpark, LLC	Juno	Inspira Health Network Foundation Gloucester County, Inc.	Red Bank Development Corporation	Combined Tri-County	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation Eliminations	Consolidation Consolidated
Unrestricted Net Assets																					
Revenue:																					
Net patient service revenue	$ 448,445	$ 212,365	$ -	$ 660,810	$ -	$ -	$ 13,704	$ 1,574	$ 1,488	$ 30,597	$ 10	$ 21,059	$ -	$ -	$ -	$ 4,387	$ 6	$ -	$ -	$ (286)	$ 733,349
Other	14,287	8,944	(684)	22,547	2,295	989	10	4	5,802	5,737	1,212	1	-	5,528	500	415	-	-	368	(18,233)	27,175
Total revenue	462,732	221,309	(684)	683,357	2,295	989	13,714	1,578	7,290	36,334	1,222	21,060	-	5,528	500	4,802	6	-	368	(18,519)	760,524
Expenses:																					
Salaries and wages	179,978	90,574	-	270,552	2,035	376	4,839	800	3,717	29,653	-	5,687	-	-	261	1,267	-	(230)	(157)	-	318,800
Employee benefits	59,349	25,350	-	84,699	688	120	1,175	188	1,216	5,133	-	1,924	-	-	89	-	-	(78)	(58)	-	95,096
Physician fees	21,965	8,205	-	30,170	-	-	2,461	3	456	1,137	-	655	-	-	-	-	-	-	-	(3,866)	31,016
Supplies and other expenses	119,900	56,207	(684)	175,423	1,240	353	6,472	713	1,720	10,235	6	13,035	-	3,122	206	3,588	(166)	37	(8)	(14,841)	201,135
Interest	4,796	2,178	-	6,974	181	-	-	-	21	-	-	-	-	-	-	62	-	-	-	(46)	7,192
Depreciation and amortization	27,250	14,667	-	41,917	19	28	632	49	385	578	-	188	-	-	-	70	-	-	-	-	43,866
Total expenses	413,238	197,181	(684)	609,735	4,163	877	15,579	1,753	7,515	46,736	6	21,489	-	3,122	556	4,987	(166)	(271)	(223)	(18,753)	697,105
Operating income (loss)	49,494	24,128	-	73,622	(1,868)	112	(1,865)	(175)	(225)	(10,402)	1,216	(429)	-	2,406	(56)	(185)	172	271	591	234	63,419
Nonoperating Gains (Losses), Net																					
Interest and dividend income	8,205	(186)	-	8,019	2,126	496	-	-	-	-	-	-	-	744	186	-	-	-	-	131	11,702
Change in value of interest rate swap agreements	-	705	-	705	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	705
Net realized gains (losses) on sale of investments	17,131	2,202	-	19,333	-	2,466	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,799
Gain on sale of property and equipment	-	103	-	103	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	103
Excess (deficiency) of revenue and gains over expenses	74,830	26,952	-	101,782	258	3,074	(1,865)	(175)	(225)	(10,402)	1,216	(429)	-	3,150	130	(185)	172	271	591	365	97,728
Other changes in unrestricted net assets:																					
Other	(18,200)	291	-	(17,909)	10,000	(1,013)	-	-	840	8,500	-	-	-	10,000	(272)	-	(25)	-	(232)	(9,889)	-
Pension liability adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in unrealized gains and losses on investments	8,436	6,168	-	14,604	1,954	-	-	-	-	-	-	-	-	4,501	-	-	-	-	-	-	21,059
Net assets released from restriction for property and equipment	214	-	-	214	-	639	-	-	-	-	-	-	-	-	90	-	-	-	-	(214)	729
Increase (decrease) in unrestricted net assets	65,280	33,411	-	98,691	12,212	2,700	(1,865)	(175)	615	(1,902)	1,216	(429)	-	17,651	(52)	(185)	147	271	359	(9,738)	119,516
Temporarily Restricted Net Assets																					
Contributions	20	-	-	20	-	2,194	-	-	-	-	-	-	-	-	7,190	-	-	-	-	-	9,404
Change in beneficial interest in temporary trust	325	-	-	325	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	325
Net assets released from restriction	(234)	-	-	(234)	-	(639)	-	-	-	-	-	-	-	-	(90)	-	-	-	-	214	(749)
Other	2,040	7,125	-	9,165	-	118	-	-	-	-	-	-	-	-	94	-	-	-	-	(9,165)	212
Increase (decrease) in temporarily restricted net assets	2,151	7,125	-	9,276	-	1,673	-	-	-	-	-	-	-	-	7,194	-	-	-	-	(8,951)	9,192
Permanently Restricted Net Assets																					
Contributions	-	-	-	-	-	806	-	-	-	-	-	-	-	-	-	-	-	-	-	-	806
Change in beneficial interest in perpetual trusts	95	276	-	371	-	262	-	-	-	-	-	-	-	-	16	-	-	-	-	-	649
Increase in permanently restricted net assets	95	276	-	371	-	1,068	-	-	-	-	-	-	-	-	16	-	-	-	-	-	1,455
Increase (decrease) in net assets	67,526	40,812	-	108,338	12,212	5,441	(1,865)	(175)	615	(1,902)	1,216	(429)	-	17,651	7,158	(185)	147	271	359	(18,689)	130,163
Net Assets (Deficit), Beginning of Year	526,849	141,520	-	668,369	53,832	24,543	(1,343)	(264)	1,169	(3,063)	2,494	(8,300)	-	28,395	2,247	(903)	2,252	(525)	(125)	(28,317)	740,461
Net Assets (Deficit), End of Year	$ 594,375	$ 182,332	$ -	$ 776,707	$ 66,044	$ 29,984	$ (3,208)	$ (439)	$ 1,784	$ (4,965)	$ 3,710	$ (8,729)	$ -	$ 46,046	$ 9,405	$ (1,088)	$ 2,399	$ (254)	$ 234	$ (47,006)	$ 870,624

Inspira Health Network, Inc
Consolidating Schedule, Balance Sheet
December 31, 2016
(in thousands)

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group Eliminations	Obligated Group Combined	Inspira Health Network, Inc.	Inspira Health Network Foundation Cumberland/ Salem, Inc.	Inspira Health Network Urgent Care, P.C.	Oak and Main Surgicenter, LLC	Inspira Health Management Corporation	Inspira Health Network Medical Group, P.C.	Inspira HomeCare & HospiceCare, Inc.	Inspira Health Network LIFE, Inc.	Inspira Deptford Healthpark, LLC	Juno	Inspira Health Network Foundation Gloucester County, Inc.	Red Bank Development Corporation	Combined Tri-County	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation Eliminations	Consolidation Consolidated
Assets																					
Current Assets																					
Cash and cash equivalents	$ 162,356	$ 4,296	$ -	$ 166,652	$ 908	$ 379	$ 1,690	$ 378	$ 3,900	$ 5,279	$ 2,377	$ 4,000	$ -	$ 4,008	$ 623	$ 361	$ 891	$ -	$ 70	$ -	$ 191,516
Assets limited as to use – externally designated	5,699	1,737	-	7,436	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,436
Patient accounts receivable, net	46,857	21,010	-	67,867	-	-	1,319	122	-	1,803	-	1,571	-	-	-	222	-	-	-	-	72,904
Supplies	4,646	1,246	-	5,892	-	-	-	-	-	-	-	-	-	-	-	332	-	-	-	-	6,224
Pledges receivable	-	-	-	-	-	113	-	-	-	-	-	-	-	-	-	-	-	-	-	-	113
Prepaid expenses and other current assets	14,704	4,983	-	19,687	182	53	191	41	733	2,383	70	31	-	1,609	42	18	1,610	-	2	(7,635)	19,017
Due from affiliated organizations	74,381	9,102	(39,242)	44,241	74	586	10	65	271	23	-	-	-	-	-	-	1,492	-	179	(46,941)	-
Total current assets	308,643	42,374	(39,242)	311,775	1,164	1,131	3,210	606	4,904	9,488	2,447	5,602	-	5,617	665	933	3,993	-	251	(54,576)	297,210
Assets Limited as to Use																					
Internally designated by Board of Directors	293,668	106,976	-	400,644	39,887	21,117	-	-	-	-	-	-	-	42,360	911	-	-	-	-	-	504,919
Externally designated by donor	-	-	-	-	-	435	-	-	-	-	-	-	-	-	688	-	-	-	-	-	1,123
Externally designated under bond indenture agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Under interest rate swap agreements	-	9,150	-	9,150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,150
	293,668	116,126	-	409,794	39,887	21,552	-	-	-	-	-	-	-	42,360	1,599	-	-	-	-	-	515,192
Investments in Subsidiaries	(227)	-	-	(227)	27,140	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,913)	-
Investments in Partnerships	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15)	-
Property and Equipment, Net	220,287	124,888	-	345,175	4,180	887	6,243	188	1,968	1,369	-	551	4,078	-	2	158	121	-	-	-	364,920
Other Assets																					
Pledges receivable, net	-	-	-	-	-	1,051	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,051
Investment in unconsolidated affiliates	11,137	378	-	11,515	-	-	-	-	-	-	3,301	-	-	-	-	721	-	-	-	(194)	15,343
Insurance recoveries receivable	13,827	3,413	-	17,240	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,821)	4,419
Other assets	1,511	3,739	-	5,250	-	-	-	-	-	394	-	-	-	-	-	-	-	-	-	(1,755)	3,889
	26,475	7,530	-	34,005	-	1,051	-	-	-	394	3,301	-	-	-	-	721	-	-	-	(14,770)	24,702
Beneficial Interest in Perpetual and Temporary Trusts	4,416	3,845	-	8,261	-	740	-	-	-	-	-	-	-	-	176	-	-	-	-	-	9,177
Beneficial Interest in Inspira Health NetworkFoundation Cumberland/Salem, Inc.	1,195	-	-	1,195	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,195)	-
Total assets	$ 854,457	$ 294,763	$ (39,242)	$ 1,109,978	$ 72,386	$ 25,361	$ 9,453	$ 794	$ 6,872	$ 11,251	$ 5,748	$ 6,153	$ 4,078	$ 47,977	$ 2,442	$ 1,812	$ 4,114	$ -	$ 251	$ (97,469)	$ 1,211,201
Liabilities and Net Assets																					
Current Liabilities																					
Accounts payable and accrued expenses	$ 54,168	$ 21,146	$ -	$ 75,314	$ 955	$ 179	$ 1,086	$ 173	$ 242	$ 4,384	$ 109	$ 4,325	$ -	$ 6,761	$ 42	$ 646	$ 410	$ -	$ 70	$ (7,635)	$ 87,061
Construction accounts payable	627	942	-	1,569	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$ 1,569
Accrued salaries and payroll taxes	12,991	-	-	12,991	-	-	132	-	-	742	-	-	-	-	-	-	140	-	-	-	14,005
Accrued vacation and other employee benefits	17,746	54	-	17,800	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,800
Accrued interest payable	3,494	1,365	-	4,859	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,859
Due to affiliated organizations	-	39,242	(39,242)	-	3,321	-	-	-	-	-	3,137	9,696	-	-	153	143	1,312	525	306	(18,593)	-
Estimated settlements due to third-party payors	34,991	15,445	-	50,436	-	-	-	657	-	941	8	432	-	-	-	-	-	-	-	-	52,474
Current installments of long-term debt	5,339	1,489	-	6,828	-	-	-	-	127	-	-	-	-	-	-	228	-	-	-	(125)	7,058
Total current liabilities	129,356	79,683	(39,242)	169,797	4,276	179	1,218	830	369	6,067	3,254	14,453	-	6,761	195	1,017	1,862	525	376	(26,353)	184,826
Due to Affiliated Organizations	483	-	-	483	-	639	9,578	228	5,095	8,247	-	-	4,078	-	-	-	-	-	-	(28,348)	-
Accrued Retirement Benefits	3,216	3,650	-	6,866	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,866
Interest Rate Swap Agreements	-	9,150	-	9,150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,150
Other Long-Term Liabilities	44,101	15,793	-	59,894	-	-	-	-	-	-	-	-	-	12,821	-	-	-	-	-	(12,821)	59,894
Long-Term Debt	150,452	44,967	-	195,419	14,278	-	-	-	239	-	-	-	-	-	-	1,698	-	-	-	(1,630)	210,004
Total liabilities	327,608	153,243	(39,242)	441,609	18,554	818	10,796	1,058	5,703	14,314	3,254	14,453	4,078	19,582	195	2,715	1,862	525	376	(69,152)	470,740
Net Assets																					
Unrestricted	520,950	137,671	-	658,621	53,832	21,555	(1,343)	(264)	1,169	(3,063)	2,494	(8,300)	-	28,395	1,002	(903)	2,252	(525)	(125)	(26,976)	727,821
Temporarily restricted	3,491	4	-	3,495	-	2,447	-	-	-	-	-	-	-	-	1,069	-	-	-	-	(1,341)	5,670
Permanently restricted	2,408	3,845	-	6,253	-	541	-	-	-	-	-	-	-	-	176	-	-	-	-	-	6,970
Total net assets	526,849	141,520	-	668,369	53,832	24,543	(1,343)	(264)	1,169	(3,063)	2,494	(8,300)	-	28,395	2,247	(903)	2,252	(525)	(125)	(28,317)	740,461
Total liabilities and net assets	$ 854,457	$ 294,763	$ (39,242)	$ 1,109,978	$ 72,386	$ 25,361	$ 9,453	$ 794	$ 6,872	$ 11,251	$ 5,748	$ 6,153	$ 4,078	$ 47,977	$ 2,442	$ 1,812	$ 4,114	$ -	$ 251	$ (97,469)	$ 1,211,201

Inspira Health Network, Inc

Consolidating Schedule, Statement of Operations and Changes in Net Assets
Year Ended December 31, 2016
(in thousands)

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group Eliminations	Obligated Group Combined	Inspira Health Network, Inc.	Inspira Health Network Foundation Cumberland/ Salem, Inc.	Inspira Health Network Urgent Care, P.C.	Oak and Main Surgicenter, LLC	Inspira Health Management Corporation	Inspira Health Network Medical Group, P.C.	Inspira HomeCare & HospiceCare, Inc.	Inspira Health Network LIFE, Inc.	Inspira Deptford Healthpark, LLC	Juno	Inspira Health Network Foundation Gloucester County, Inc.	Red Bank Development Corporation	Combined Tri-County	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation Eliminations	Consolidation Consolidated
Unrestricted Net Assets																					
Revenue:																					
Net patient service revenue	$ 451,746	$ 193,327	$ -	$ 645,073	$ -	$ -	$ 10,601	$ 2,308	$ -	$ 28,562	$ 2,872	$ 20,286	$ -	$ -	$ -	$ 4,226	$ (98)	$ -	$ -	$ (277)	$ 713,553
Other	20,991	7,731	(626)	28,096	1,388	942	11	-	4,789	3,399	185	-	-	5,328	571	367	3,909	-	80	(18,823)	30,242
Total revenue	472,737	201,058	(626)	673,169	1,388	942	10,612	2,308	4,789	31,961	3,057	20,286	-	5,328	571	4,593	3,811	-	80	(19,100)	743,795
Expenses:																					
Salaries and wages	171,316	83,915	-	255,231	312	364	4,297	912	2,072	21,571	1,992	5,261	-	-	259	1,194	4,614	296	157	-	298,532
Employee benefits	59,670	24,721	-	84,391	-	119	850	196	688	3,260	590	1,727	-	-	81	-	621	101	58	-	92,682
Physician fees	21,318	6,230	-	27,548	-	-	851	72	-	6,199	-	415	-	-	-	-	-	-	-	(5,840)	29,245
Supplies and other expenses	125,746	54,878	(626)	179,998	688	403	4,484	859	1,513	8,616	873	12,751	-	2,649	197	3,431	744	4	63	(13,080)	204,193
Interest	6,204	2,356	-	8,560	181	-	-	3	30	-	-	-	-	-	-	60	-	-	-	(33)	8,801
Depreciation and amortization	27,025	11,976	-	39,001	16	28	393	50	288	639	40	170	-	-	-	91	203	-	-	-	40,919
Total expenses	411,279	184,076	(626)	594,729	1,197	914	10,875	2,092	4,591	40,285	3,495	20,324	-	2,649	537	4,776	6,182	401	278	(18,953)	674,372
Operating income (loss)	61,458	16,982	-	78,440	191	28	(263)	216	198	(8,324)	(438)	(38)	-	2,679	34	(183)	(2,371)	(401)	(198)	(147)	69,423
Nonoperating Gains (Losses), Net																					
Interest and dividend income	6,049	(108)	-	5,941	1,177	607	-	-	-	-	1	-	-	346	101	-	-	-	-	(33)	8,140
Change in value of interest rate swap agreements	-	937	-	937	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	937
Net realized gains (losses) on sale of investments	310	(41)	-	269	-	915	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,184
Inherent contribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of property and equipment	8,057	-	-	8,057	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,057
Excess (deficiency) of revenue and gains over expenses	75,874	17,770	-	93,644	1,368	1,550	(263)	216	198	(8,324)	(437)	(38)	-	3,025	135	(183)	(2,371)	(401)	(198)	(180)	87,741
Other changes in unrestricted net assets:																					
Other	(15,741)	(3,096)	-	(18,837)	10,000	(1,029)	-	-	(500)	7,000	-	-	-	10,000	(486)	-	3,253	-	65	(9,681)	(215)
Pension liability adjustment	-	586	-	586	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	586
Change in unrealized gains and losses on investments	8,766	3,106	-	11,872	1,131	-	-	-	-	-	-	-	-	1,489	-	-	-	-	-	-	14,492
Net assets released from restriction for property and equipment	93	-	-	93	-	(105)	-	-	-	-	-	-	-	-	139	-	-	-	-	(114)	13
Increase (decrease) in unrestricted net assets	68,992	18,366	-	87,358	12,499	416	(263)	216	(302)	(1,324)	(437)	(38)	-	14,514	(212)	(183)	882	(401)	(133)	(9,975)	102,617
Temporarily Restricted Net Assets																					
Contributions	11	-	-	11	-	205	-	-	-	-	-	-	-	-	84	-	-	-	-	-	300
Change in beneficial interest in temporary trust	45	-	-	45	-	-	-	-	-	-	-	-	-	-	(219)	-	-	-	-	225	51
Net assets released from restriction	(112)	-	-	(112)	-	105	-	-	-	-	-	-	-	-	(139)	-	-	-	-	114	(32)
Other	-	(87)	-	(87)	-	47	-	-	-	-	-	-	-	-	724	-	-	-	-	(205)	479
(Decrease) increase in temporarily restricted net assets	(56)	(87)	-	(143)	-	357	-	-	-	-	-	-	-	-	450	-	-	-	-	134	798
Permanently Restricted Net Assets																					
Contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6	-	-	-	-	-	6
Change in beneficial interest in perpetual trusts	9	55	-	64	-	112	-	-	-	-	-	-	-	-	-	-	-	-	-	-	176
Increase in permanently restricted net assets	9	55	-	64	-	112	-	-	-	-	-	-	-	-	6	-	-	-	-	-	182
Increase (decrease) in net assets	68,945	18,334	-	87,279	12,499	885	(263)	216	(302)	(1,324)	(437)	(38)	-	14,514	244	(183)	882	(401)	(133)	(9,841)	103,597
Net Assets (Deficit), Beginning of Year	457,904	123,186	-	581,090	41,333	23,658	(1,080)	(480)	1,471	(1,739)	2,931	(8,262)	-	13,881	2,003	(720)	1,370	(124)	8	(18,476)	636,864
Net Assets (Deficit), End of Year	$ 526,849	$ 141,520	$ -	$ 668,369	$ 53,832	$ 24,543	$ (1,343)	$ (264)	$ 1,169	$ (3,063)	$ 2,494	$ (8,300)	$ -	$ 28,395	$ 2,247	$ (903)	$ 2,252	$ (525)	$ (125)	$ (28,317)	$ 740,461