



Inspira Health Network, Inc.

Consolidated Financial Statements
and Supplementary Information

December 31, 2018 and 2017

Inspira Health Network, Inc.

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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 sheets as of December 31, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, in 2018, the Network adopted new accounting guidance related to the Financial Accounting Standards Board Accounting Standard Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

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 34 through 37 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, 2019

Inspira Health Network, Inc.

Consolidated Balance Sheets

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 122,036,000	\$ 105,222,000
Assets limited as to use - externally designated	18,457,000	27,157,000
Patient accounts receivable, net	74,474,000	70,015,000
Supplies	6,684,000	6,652,000
Pledges receivable	3,159,000	2,219,000
Prepaid expenses and other current assets	18,781,000	18,449,000
	<u>243,591,000</u>	<u>229,714,000</u>
Assets Limited as to Use		
Internally designated by Board of Directors	668,801,000	692,319,000
Externally designated by donor	2,577,000	1,143,000
Externally designated under bond indenture agreements	156,343,000	289,214,000
Under interest rate swap agreements	6,796,000	8,445,000
	<u>834,517,000</u>	<u>991,121,000</u>
Property and Equipment, Net	<u>627,771,000</u>	<u>441,218,000</u>
Other Assets		
Pledges receivable, net	9,485,000	7,678,000
Investment in unconsolidated affiliates	13,233,000	14,781,000
Insurance recoveries receivable	4,081,000	4,466,000
Other assets	3,626,000	3,655,000
Pension asset	1,960,000	-
	<u>32,385,000</u>	<u>30,580,000</u>
Beneficial Interest in Perpetual and Temporary Trusts	<u>9,471,000</u>	<u>10,151,000</u>
	<u>9,471,000</u>	<u>10,151,000</u>
Total assets	<u>\$ 1,747,735,000</u>	<u>\$ 1,702,784,000</u>

See notes to consolidated financial statements

Inspira Health Network, Inc.

Consolidated Balance Sheets

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 95,459,000	\$ 90,138,000
Construction accounts payable	29,217,000	13,880,000
Accrued salaries and payroll taxes	17,052,000	15,734,000
Accrued vacation and other employee benefits	20,796,000	17,520,000
Accrued interest payable	10,662,000	9,843,000
Estimated settlements due to third-party payors	50,364,000	57,816,000
Current installments of long-term debt	9,256,000	8,782,000
	<u>232,806,000</u>	<u>213,713,000</u>
Total current liabilities	232,806,000	213,713,000
Accrued Retirement Benefits	8,395,000	9,527,000
Interest Rate Swap Agreements	6,796,000	8,445,000
Other Long-Term Liabilities	53,046,000	56,999,000
Long-Term Debt	<u>530,790,000</u>	<u>543,476,000</u>
	<u>831,833,000</u>	<u>832,160,000</u>
Total liabilities	831,833,000	832,160,000
Net Assets		
Without donor restrictions	892,869,000	847,337,000
With donor restrictions	23,033,000	23,287,000
	<u>915,902,000</u>	<u>870,624,000</u>
Total net assets	915,902,000	870,624,000
Total liabilities and net assets	<u>\$ 1,747,735,000</u>	<u>\$ 1,702,784,000</u>

See notes to consolidated financial statements

Inspira Health Network, Inc.**Consolidated Statements of Operations and Changes in Net Assets**

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net Assets Without Donor Restrictions		
Revenue:		
Net patient service revenue	\$ 771,914,000	\$ 733,349,000
Other revenue	<u>34,865,000</u>	<u>27,175,000</u>
Total revenue	<u>806,779,000</u>	<u>760,524,000</u>
Expenses:		
Salaries and wages	342,603,000	318,800,000
Employee benefits	96,025,000	95,056,000
Physician fees	35,550,000	31,016,000
Supplies and other expenses	215,507,000	201,175,000
Interest	6,193,000	7,192,000
Depreciation and amortization	<u>45,359,000</u>	<u>43,866,000</u>
Total expenses	<u>741,237,000</u>	<u>697,105,000</u>
Operating income	65,542,000	63,419,000
Nonoperating Gains, Net		
Interest and dividend income	13,738,000	11,702,000
Change in value of interest rate swap agreements	1,649,000	705,000
Net realized gains on sale of investments	16,808,000	21,799,000
Gain on sale of property and equipment	<u>424,000</u>	<u>103,000</u>
Excess of revenue and gains over expenses	98,161,000	97,728,000

See notes to consolidated financial statements

Inspira Health Network, Inc.Consolidated Statements of Operations and Changes in Net Assets
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net Assets Without Donor Restrictions (continued)		
Excess of revenue and gains over expenses (from previous page)	\$ 98,161,000	\$ 97,728,000
Other changes in net assets without donor restrictions:		
Other	(860,000)	-
Pension liability adjustment	138,000	-
Change in unrealized gains and losses on investments	(55,884,000)	21,059,000
Net assets released from restriction for property and equipment	<u>3,977,000</u>	<u>729,000</u>
Increase in net assets without donor restrictions	<u>45,532,000</u>	<u>119,516,000</u>
Net Assets With Donor Restrictions		
Contributions	4,748,000	10,210,000
Change in beneficial interest in temporary trust	(296,000)	325,000
Net assets released from restriction	(3,986,000)	(749,000)
Other	(74,000)	212,000
Change in beneficial interest in perpetual trusts	<u>(646,000)</u>	<u>649,000</u>
(Decrease) increase in net assets with donor restrictions	<u>(254,000)</u>	<u>10,647,000</u>
Increase in net assets	45,278,000	130,163,000
Net Assets, Beginning of Year	<u>870,624,000</u>	<u>740,461,000</u>
Net Assets, End of Year	<u><u>\$ 915,902,000</u></u>	<u><u>\$ 870,624,000</u></u>

See notes to consolidated financial statements

Inspira Health Network, Inc.Consolidated Statements of Cash Flows
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Increase in net assets	\$ 45,278,000	\$ 130,163,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Income from unconsolidated affiliates	(2,504,000)	(193,000)
Depreciation and amortization	45,359,000	43,866,000
Accretion of bond premium	(3,705,000)	(3,102,000)
Amortization of underwriter discount	99,000	56,000
Amortization of deferred financing costs	51,000	39,000
Pension liability adjustment	(138,000)	-
Gain on sale of property and equipment	(424,000)	(103,000)
Net realized and unrealized (gains) losses on investments	39,076,000	(42,858,000)
Change in beneficial interest in perpetual and temporary trusts	942,000	(974,000)
Change in value of interest rate swap agreements	(1,649,000)	(705,000)
Capital campaign pledges	(4,572,000)	(10,124,000)
Changes in certain assets and liabilities:		
Patient accounts receivable	(4,459,000)	2,889,000
Supplies	(32,000)	(428,000)
Prepaid expenses and other current assets	(332,000)	568,000
Insurance recoveries receivable	385,000	1,221,000
Accounts payable, accrued expenses and other liabilities	(1,497,000)	5,139,000
Accrued interest payable	819,000	4,984,000
Estimated settlements due to third-party payors	(16,827,000)	1,658,000
Net cash provided by operating activities	<u>95,870,000</u>	<u>132,096,000</u>
Investing Activities		
Additions to property and equipment, net	(203,072,000)	(105,125,000)
Acquisition of emergency transport service company	-	(3,700,000)
Proceeds from sale of property and equipment	1,327,000	2,826,000
Decrease (increase) in assets limited as to use	126,228,000	(452,792,000)
Change in investment in unconsolidated affiliates	4,052,000	755,000
(Increase) decrease in other assets	(759,000)	671,000
Net cash used in investing activities	<u>(72,224,000)</u>	<u>(557,365,000)</u>
Financing Activities		
Restricted contributions	1,825,000	954,000
Payment of financing costs	-	(674,000)
Payments of long-term debt	(8,825,000)	(7,061,000)
Proceeds from issuance of long-term debt, net	168,000	345,756,000
Net cash (used in) provided by financing activities	<u>(6,832,000)</u>	<u>338,975,000</u>
Increase (decrease) in cash and cash equivalents	16,814,000	(86,294,000)
Cash and Cash Equivalents, Beginning of Year	<u>105,222,000</u>	<u>191,516,000</u>
Cash and Cash Equivalents, End of Year	<u>\$ 122,036,000</u>	<u>\$ 105,222,000</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest, net of amount capitalized	<u>\$ 8,932,000</u>	<u>\$ 5,184,000</u>
Noncash Investing and Financing Activities		
Construction accounts payable for acquisition of property and equipment	<u>\$ 29,217,000</u>	<u>\$ 13,880,000</u>

See notes to consolidated financial statements

Inspira Health Network, Inc.

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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 percent of the outstanding ownership interest of Oak & Main, and then acquired another 4 percent 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 a noncontrolling interest in a certified home health company that provides skilled nursing, therapy services, home health aides, and 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.

Inspira Health Network, Inc.

Notes to Consolidated Financial Statements

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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") and Tri-County Cardiovascular Services PC ("TCCS") (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. IHN owns 51 percent 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.

Patient Accounts Receivable, Net

The Network assesses collectability on patient contracts prior to the recognition of net patient service revenue. Patient accounts receivable, net, are recorded at net realizable value. Accounts are written off when the Network has exhausted all collection efforts and determines accounts are impaired based on changes in credit worthiness.

The Network has not changed its financial assistance policy in 2018 or 2017.

Supplies

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

Inspira Health Network, Inc.

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Assets Limited as to Use, Investment, and Investment Income

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 sheets.

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

Interest and dividend income from assets limited as to use under bond indenture agreements is included in other revenue. Interest and dividend income from cash and cash equivalents and assets limited as to use under bond indenture agreements was \$4,164,000 and \$3,088,000 for the years ended December 31, 2018 and 2017, 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, Net

Property and equipment, net 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 \$9,449,000 and \$5,020,000 during 2018 and 2017, respectively.

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 2018 and 2017.

Inspira Health Network, Inc.

Notes to Consolidated Financial Statements
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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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as other revenue for operating activities and net assets released from restriction 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 2018 and 2017 were approximately \$5,156,000 and \$10,124,000, respectively. 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, 2018 and 2017 was \$14,764,000 and \$11,471,000, and the net pledges receivable balance of \$12,644,000 and \$9,897,000 includes a present value discount of \$2,120,000 and \$1,574,000, respectively. The present value discount at December 31, 2018 and 2017 was approximately 5 percent. At December 31, 2018, cash collections from the pledges are expected to be \$3,159,000 in less than a year, \$10,065,000 in one to five years, and \$1,540,000 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 statements 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. The trusts are either perpetual in nature, and the original corpus cannot be expended, or are temporary in nature and can be released to the Network after a sequence of events takes place. All of the beneficial interest in perpetual and temporary trusts are reported as net assets with donor restriction. Income earned on the trust assets and distributed to the Network is recorded as interest and dividend income in the consolidated statements of operations and changes in net assets unless otherwise restricted by the donor.

Classification of Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Inspira Health Network, Inc.

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Net Assets With Donor Restrictions - net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 sheets at net realizable value.

Net Patient Service Revenue

Net patient service revenues are reported at the amount that reflects the consideration to which the Network expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payers, and others and includes variable consideration for retroactive adjustments due to settlements of audits and reviews. Generally, the Network bills patients and third-party payers several days after the services are performed and the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the network. The Network recognizes net operating revenues in the period in which it satisfies performance obligations under contracts by transferring services to customers. Revenue for performance obligations satisfied over time is recognized based on the actual charges incurred in relation to total expected or actual charges. The Network believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Network measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided and the Network does not believe it is required to provide additional services to the patient.

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

Inspira Health Network, Inc.

Notes to Consolidated Financial Statements
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The Network determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured or underinsured patients in accordance with the Network's policy and implicit price concessions provided to patients. The Network determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Network determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as a collective group rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Consistent with the Network's mission, care is provided to patients regardless of their ability to pay. Therefore, the Network has determined the estimated uncollectible amounts due from patients are generally considered implicit price concessions that are a direct reduction to net operating revenues. The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts the Network expects to collect based on its collection history.

Patients who meet the Network's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Performance Indicator

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses within operating income. Other transactions, including interest and dividend income, realized gains and losses on the sale of investments, other-than-temporary declines in the market value of investments, and change in value of interest rate swap agreements are reported as nonoperating activities. The performance indicator is the excess of revenue and gains over expenses and includes nonoperating activities.

Changes in net assets without donor restrictions 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, LIFE, and HCHC also are exempt from state income taxes. IHMC, Red Bank, Juno, Urgent Care, UCPC, 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.

Oak & Main, IHP, and SJUC 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. ICC is a single member limited liabilities company of the Network.

The Network accounts for uncertainty in income taxes using a recognition threshold of more likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2018 or 2017.

Inspira Health Network, Inc.

Notes to Consolidated Financial Statements
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Reclassifications

Certain reclassifications have been made to the 2017 balances previously reported in order to conform to 2018 presentation.

3. Recent Accounting Pronouncements

Revenue Recognition

In 2018, the Network adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective approach. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements.

The Network applied the modified retrospective approach to all contracts when adopting ASU No. 2014-09. The adoption of ASU No. 2014-09 did not have a material impact on the consolidated financial statements of the Network, but resulted in additional disclosures as required under ASU No. 2014-09.

Financial Statements

In 2018, the Network adopted the FASB’s ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Network has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources. These disclosures have been presented for 2018 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called Net Assets With Donor Restrictions;
- The consolidated financial statements include a disclosure about liquidity and availability of resources (Note 15).
- The functional expense disclosure for 2018 and 2017 includes expenses reported both by nature and function (Note 16).

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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, 2019. 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 consolidated statements 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, 2019. 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 No. 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 consolidated statements of cash flows. The Network will be required to retroactively adopt the guidance in ASU No. 2016-18, with transition provisions, for its fiscal year ending December 31, 2019. The Network is currently assessing the impact that ASU No. 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 consolidated balance sheets 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 sheets. 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.

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Contributions Received and Contributions Made

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Network will be required to adopt the guidance in ASU No. 2018-08 for its fiscal year ending December 31, 2019. The Network has not yet determined the impact this standard will have 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:

	<u>2018</u>	<u>2017</u>
In accordance with the:		
State of New Jersey's criteria	\$ 5,248,000	\$ 6,114,000
Network's additional criteria	<u>13,211,000</u>	<u>13,876,000</u>
 Total	 <u>\$ 18,459,000</u>	 <u>\$ 19,990,000</u>

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.

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 \$974,000 and \$1,719,000 in 2018 and 2017, 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 for Mental Health (the "Hospital Relief Fund"), and a Delivery Based System Reform Incentive Plan ("DSRIP"), to provide statewide funding to certain hospitals. The Network received \$6,706,000 and \$6,881,000 in 2018 and 2017, respectively, from the Hospital Relief Fund and DSRIP. These amounts are included in net patient service revenue.

The allocations to the Network from HCSF, the Hospital Relief Fund, and DSRIP 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, 2019; however, such amounts are subject to change.

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6. Net Patient Service Revenue

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care, psychiatric and rehabilitation services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. In addition, the Network is reimbursed for certain cost reimbursable items at tentative interim rates, with final settlement determined after submission of annual costs reports and audits thereof by the Medicare fiscal intermediary. 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 2016 through 2018 cost report years. IMC's cost reports have not been final settled by the fiscal intermediaries for the 2014 through 2018 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 2012 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.
- **Medicaid:** Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge based on severity of illness. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services are paid at prospectively determined per diem rates. Outpatient services are paid based on a published fee schedule. 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. IMC's and Woodbury's Medicaid cost report years have not been audited by the fiscal intermediaries for the 2016 through 2018 cost report years.
- **Blue Cross:** Inpatient acute care services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services are paid at prospectively determined per diem rates. Outpatient services are reimbursed based on ambulatory payment classifications.
- **Other:** The Network has also entered into payment arrangements with certain managed care and commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The Network has agreements with various health maintenance organizations ("HMOs") to provide medical services to subscribing participants. Under the agreements, HMOs make capitated and fee-for-service payments to the Network for certain covered services based upon discounted fee schedules.

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Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Network's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Network. In addition, the contracts the Network has with commercial payors also provide for retroactive audit and review of claims. 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.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor and the Network's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known. (that is, new information become available), or as years are settled or no longer subject to such audits, reviews and investigations. In the opinion of management, adequate provision has been made for any adjustment, which may result from the final settlement of cost reports or appeal items. 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 \$30,097,000 and \$6,517,000 for the years ended December 31, 2018 and 2017, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Network also provides services to uninsured patients, and offers those uninsured or underinsured patients a discount, either by policy or law, from standard charges. The Network estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustment, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenue in the period of the change. For the year ended December 31, 2018 the impact of changes in the estimates of discounts and contractual adjustments for performance obligations satisfied in prior years was insignificant to the consolidated financial statements.

Consistent with the Network's mission, care is provided to patients regardless of their ability to pay. Therefore, the Network has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Network expects to collect based on its collection history with those patients.

The Network disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Tables providing details of these factors are presented below.

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The composition of patient care service revenue by primary payor for the years ended December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 263,642,000	\$ 250,825,000
Commercial	165,348,000	162,905,000
Medicaid	153,463,000	135,647,000
Blue Cross	151,884,000	149,334,000
Other	34,263,000	30,720,000
Self-pay/uninsured	<u>3,314,000</u>	<u>3,918,000</u>
Total	<u>\$ 771,914,000</u>	<u>\$ 733,349,000</u>

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

	<u>2018</u>	<u>2017</u>
Inpatient	\$ 372,124,000	\$ 359,289,000
Outpatient	317,229,000	301,521,000
Physician services	34,068,000	30,597,000
Capitation	25,578,000	21,059,000
Other	<u>22,915,000</u>	<u>20,883,000</u>
Total	<u>\$ 771,914,000</u>	<u>\$ 733,349,000</u>

The Network has not further disaggregated other revenues as the economic factors affecting the nature, timing, amount, and uncertainty of revenue and cash flows do not significantly vary within the revenue category.

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.

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The following table presents financial instruments measured at fair value at December 31, 2018, by caption on the consolidated balance sheets:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets				
Cash and cash equivalents	\$ 122,036,000	\$ 122,036,000	\$ -	\$ -
Assets limited as to use:				
Internally designated by Board of Directors:				
Cash and cash equivalents	26,351,000	26,284,000	67,000	-
Mutual funds, equities	297,734,000	297,734,000	-	-
Mutual funds, fixed income	196,551,000	196,551,000	-	-
Corporate and government bonds	29,013,000	-	29,013,000	-
Government securities	8,045,000	-	8,045,000	-
	<u>557,694,000</u>	<u>520,569,000</u>	<u>37,125,000</u>	<u>-</u>
Externally designated under bond indenture agreements:				
Cash and cash equivalents	174,800,000	174,800,000	-	-
Externally designated under interest rate swap agreement:				
Cash and cash equivalents	6,796,000	6,796,000	-	-
Externally designated by donor:				
Cash and cash equivalents	1,588,000	1,588,000	-	-
Mutual funds	983,000	983,000	-	-
Marketable equity securities	6,000	6,000	-	-
	<u>2,577,000</u>	<u>2,577,000</u>	<u>-</u>	<u>-</u>
Total assets limited as to use	<u>741,867,000</u>	<u>704,742,000</u>	<u>37,125,000</u>	<u>-</u>
Beneficial interest in trusts	9,471,000	-	-	9,471,000
Total assets in the fair value hierarchy	<u>873,374,000</u>	<u>\$ 826,778,000</u>	<u>\$ 37,125,000</u>	<u>\$ 9,471,000</u>
Assets measured at net asset value (a)	<u>111,107,000</u>			
Assets at fair value	<u>\$ 984,481,000</u>			
Liabilities				
Interest rate swap agreements	\$ 6,796,000	\$ -	\$ -	\$ 6,796,000
Disclosed at Fair Value				
Pledges receivable	\$ 12,644,000	\$ -	\$ -	\$ 12,644,000
Bonds payable (carrying value of \$522,350,000)	\$ 516,986,000	\$ -	\$ 516,986,000	\$ -
Notes payable	\$ 17,657,000	\$ -	\$ -	\$ 17,657,000

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

	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	-	-
	<u>569,090,000</u>	<u>425,611,000</u>	<u>143,479,000</u>	<u>-</u>
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	-	-
	<u>1,143,000</u>	<u>1,143,000</u>	<u>-</u>	<u>-</u>
Total assets limited as to use	<u>895,049,000</u>	<u>751,570,000</u>	<u>143,479,000</u>	<u>-</u>
Beneficial interest in trusts	10,151,000	-	-	10,151,000
Total assets in the fair value hierarchy	1,010,422,000	<u>\$ 856,792,000</u>	<u>\$ 143,479,000</u>	<u>\$ 10,151,000</u>
Assets measured at net asset value (a)				
	<u>123,229,000</u>			
Assets at fair value	<u>\$ 1,133,651,000</u>			
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

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- (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 sheets.

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.

Cash and cash equivalents are valued at cost which approximates fair value because of the short maturity of these financial instruments.

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 primarily consist of the Network's investment in the Wellington Trust Company, NA, CTF Research Equity Portfolio ("Wellington Fund"), the Champlain Small Cap Fund, LLC ("Champlain Fund"), and The Sanderson International Value Fund ("Sanderson 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, 2018 and 2017, 59 percent and 75 percent, 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, 2018. 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, 2018 and 2017, 12 percent and 16 percent, 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, 2018. During 2018, the Network made an initial investment in the Sanderson Fund. The Sanderson Fund's objective is long-term growth principally by investing in a diversified portfolio of equity securities of international companies. At December 31, 2018, 19 percent of the Network's commingled funds were held in the Sanderson Fund. The Network is able to withdrawal or contribute to the Sanderson Fund on the first of each month, as dictated by the investment agreement. There were no commitments related to the Sanderson Fund at December 31, 2018.

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The Network had no commitment requirements related to other commingled funds at December 31, 2018.

8. Property and Equipment

	<u>2018</u>	<u>2017</u>	<u>Depreciable Life</u>
Land	\$ 20,558,000	\$ 21,413,000	
Land improvements	7,155,000	6,899,000	5-25 years
Leasehold improvements	7,923,000	8,269,000	10-15 years
Buildings and building improvements	460,258,000	416,106,000	10-40 years
Fixed equipment	95,225,000	69,730,000	10-20 years
Major movable equipment	394,730,000	338,567,000	5-20 years
	985,849,000	860,984,000	
Less accumulated depreciation	<u>575,428,000</u>	<u>530,732,000</u>	
	410,421,000	330,252,000	
Construction-in-progress	<u>217,350,000</u>	<u>110,966,000</u>	
	<u>\$ 627,771,000</u>	<u>\$ 441,218,000</u>	

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. At December 31, 2018, the Network had commitments outstanding of approximately \$229,752,000 related to current construction projects. The Network funded the projects primarily through the issuance of bonds in 2017 (Note 9).

Depreciation on property and equipment for the years ended December 31, 2018 and 2017 amounted to \$44,833,000 and \$43,439,000, 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 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 percent to 5.0 percent due January 1 and July 1 of each year. The net original issue premium balance was \$17,477,000 and \$19,767,000 at December 31, 2018 and 2017, respectively.

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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 percent 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 are being 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 percent to 5.0 percent due January 1 and July 1 of each year. The net original issue premium balance was \$20,419,000 and \$21,834,000 at December 31, 2018 and 2017, respectively.

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 2 percent and 1.53 percent at December 31, 2018 and 2017, respectively.

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 percent of maximum annual debt service, and a cushion ratio (as defined) of at least 1.25 percent.

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 (3.10 percent at December 31, 2018). Interest is payable monthly and principal is due at maturity. In August 2018 the term loan was amended to extend the maturity date to August 2019. 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, 2018 and 2017.

Inspira Health Network, Inc.

Notes to Consolidated Financial Statements
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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 percent during the interest-only period and 4 percent thereafter. The outstanding obligation was \$3,006,000 and \$3,206,000 at December 31, 2018 and 2017, respectively.

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 \$127,000 and \$371,000 at December 31, 2018 and 2017, respectively.

The Network also leases certain equipment under capital lease agreements at various interest rates. The outstanding balance under these lease obligations was \$39,000 and \$59,000 at December 31, 2018 and 2017, respectively.

Long-Term Debt Summary

	<u>2018</u>	<u>2017</u>
Series 2016A Bonds	\$ 164,400,000	\$ 171,185,000
Series 2017A Bonds	264,500,000	265,000,000
Series 2017B Bonds	59,000,000	60,000,000
Term loan	14,278,000	14,278,000
Other long-term obligations	<u>3,442,000</u>	<u>3,814,000</u>
	505,620,000	514,277,000
Plus: Original issue premium	37,896,000	41,601,000
Less: Current maturities of long-term debt	(9,256,000)	(8,782,000)
Deferred financing costs, net	(1,196,000)	(1,247,000)
Underwriters' discount, net	<u>(2,274,000)</u>	<u>(2,373,000)</u>
Long-term debt	<u>\$ 530,790,000</u>	<u>\$ 543,476,000</u>

Future Principal Payments

Maturities and principal payments on long-term debt for the next five years and thereafter are as follows:

	<u>2017 A Bonds</u>	<u>2017 B Bonds</u>	<u>2016 Bonds</u>	<u>Other Long-Term Obligations</u>	<u>Total</u>
2019	\$ 770,000	\$ 1,000,000	\$ 7,000,000	\$ 486,000	\$ 9,256,000
2020	900,000	1,000,000	7,255,000	374,000	9,529,000
2021	1,185,000	2,000,000	6,420,000	226,000	9,831,000
2022	1,525,000	4,000,000	4,520,000	235,000	10,280,000
2023	1,495,000	4,200,000	4,735,000	244,000	10,674,000
Thereafter	<u>258,625,000</u>	<u>46,800,000</u>	<u>134,470,000</u>	<u>16,155,000</u>	<u>456,050,000</u>
Total	<u>\$ 264,500,000</u>	<u>\$ 59,000,000</u>	<u>\$ 164,400,000</u>	<u>\$ 17,720,000</u>	<u>\$ 505,620,000</u>

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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 percent and Tranche II of 3.76 percent). 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 \$6,408,000 and \$7,996,000 at December 31, 2018 and 2017, respectively, and is included in total liabilities in the consolidated balance sheets.

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 percent of the 5-year LIBOR. In exchange, Woodbury will pay 67 percent of the 1-month LIBOR. The fair value of the Morgan Stanley Swap III represented a liability of \$388,000 and \$449,000 at December 31, 2018 and 2017, respectively, and is included in total liabilities in the consolidated balance sheets.

The net expense related to net cash settlements was \$1,009,000 and \$1,291,000 for the years ended December 31, 2018 and 2017, respectively, and is included in interest expense in the consolidated statements of operations and changes in net assets.

11. Retirement Benefits

Defined Contribution Pension Plans and Supplemental Executive Retirement Plans

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 \$16,025,000 and \$15,113,000 for the years ended December 31, 2018 and 2017, 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 \$1,236,000 and \$1,464,000 associated with the SERP Plan for the years ended December 31, 2018 and 2017, respectively. The Network had an outstanding liability related to the SERP Plan of \$3,819,000 and \$4,056,000 at December 31, 2018 and 2017, respectively, and is included in accrued retirement benefits in the consolidated balance sheets.

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 \$4,576,000 and \$4,759,000 at December 31, 2018 and 2017, respectively, and is included in accrued retirement benefits in the consolidated balance sheets.

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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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 56,403,000	\$ 55,967,000
Interest cost	1,790,000	2,044,000
Actuarial (gain) loss	(3,931,000)	1,847,000
Benefits paid	(3,711,000)	(3,455,000)
	<u>\$ 50,551,000</u>	<u>\$ 56,403,000</u>
Change in plan assets:		
Fair value of the plan assets at beginning of year	\$ 55,691,000	\$ 52,317,000
Actual return on plan assets	(1,004,000)	5,934,000
Contributions	2,000,000	1,500,000
Benefits and administrative expenses paid	(4,176,000)	(4,060,000)
	<u>52,511,000</u>	<u>55,691,000</u>
	<u>\$ 1,960,000</u>	<u>\$ (712,000)</u>
Accumulated benefit obligation	<u>\$ 50,551,000</u>	<u>\$ 56,403,000</u>
Amounts recognized in the balance sheet consist of,		
Noncurrent (asset) liability	<u>\$ (1,960,000)</u>	<u>\$ 712,000</u>
Amounts recognized in unrestricted net assets consist of,		
Actuarial loss	<u>\$ 26,805,000</u>	<u>\$ 26,943,000</u>

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	<u>2018</u>	<u>2017</u>
Components of net periodic pension income:		
Interest cost	\$ 1,790,000	\$ 2,044,000
Expected return on plan assets	(4,079,000)	(4,182,000)
Recognized actuarial loss	683,000	700,000
Recognized loss due to settlements	1,072,000	-
Net periodic pension income	(534,000)	(1,438,000)
Amounts recognized as changes in unrestricted net assets consist of:		
Net actuarial gain	(138,000)	-
Total recognized in net periodic pension income and changes in unrestricted net assets	<u>\$ (672,000)</u>	<u>\$ (1,438,000)</u>

During 2018 and 2017, lump sum benefit payments to Cash Balance Plan beneficiaries totaled \$2,022,000 and \$1,594,000, respectively, and are included in benefits paid. Since the lump sum payments/settlements in 2018 exceeded the 2018 interest cost of \$1,790,000, Woodbury was required to recognize a loss of \$1,072,000 which is included in 2018 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, 2019, is \$730,000.

<u>Assumptions</u>		<u>2018</u>	<u>2017</u>
Weighted average assumptions used to determine pension obligation,			
Discount rate		4.05 %	3.36 %
Weighted average assumptions used to determine net periodic pension income:			
Discount rate		3.36 %	3.77 %
Expected return on the plan assets		7.50 %	8.20 %
	Target Asset Allocation		
Plan Assets		2018	2017
Equity securities	20 %	13 %	26 %
Debt securities	75	78	64
Alternative investments	5	9	10
		<u>100 %</u>	<u>100 %</u>

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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 percent to 11 percent over the long-term, while debt securities are expected to return between 4 percent and 6 percent. The Investment Committee expects that the Cash Balance Plan's asset manager will provide a modest (0.5 percent to 1.0 percent 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 2019 are \$2,000,000.

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

2019	\$	4,154,000
2020		4,083,000
2021		4,207,000
2022		4,025,000
2023		4,330,000
2024 - 2025		17,828,000

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, 2018 and 2017:

	December 31, 2018		
	Total Fair Value	Level 1	Level 2
Government bonds	\$ 8,247,000	\$ -	\$ 8,247,000
Mutual funds:			
Fixed income	32,579,000	32,579,000	-
Equity	6,795,000	6,795,000	-
Collective and private equity funds	4,890,000	-	4,890,000
Total assets	<u>\$ 52,511,000</u>	<u>\$ 39,374,000</u>	<u>\$ 13,137,000</u>
	December 31, 2017		
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
Total assets	<u>\$ 55,691,000</u>	<u>\$ 43,496,000</u>	<u>\$ 12,195,000</u>

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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 \$23,154,000 and \$22,754,000 at December 31, 2018 and 2017, respectively, and is included in other liabilities in the consolidated balance sheets. The Network has recorded a receivable and related claim liability, for anticipated insurance recoveries of \$4,081,000 and \$4,466,000 at December 31, 2018 and 2017, 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 sheets 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 \$73,155,000 and \$89,983,000 at December 31, 2018 and 2017, respectively, of which \$22,791,000 and \$32,167,000 are included in other long-term liabilities in the consolidated balance sheets as of December 31, 2018 and 2017, respectively.

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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 percent interest in Sprague. IMC recorded income from Sprague of \$1,101,000 and a loss of \$799,000 for the years ended December 31, 2018 and 2017, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. During 2018, IMC received distributions from Sprague of \$1,615,000. IMC's investment in Sprague is recorded under the equity method of accounting and totaled \$7,895,000 and \$8,409,000 at December 31, 2018 and 2017, 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 percent 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. CBJ ceased providing patient care activities in August 2017 and is in the process of dissolution. Woodbury recorded income from CBJ of \$5,000 and a loss of \$1,014,000 for the years ended December 31, 2018 and 2017, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. Woodbury's investment in CBJ is recorded under the equity method of accounting and totaled \$1,093,000 and \$1,088,000 at December 31, 2018 and 2017, respectively.

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 Gloucester, Salem and Cumberland counties. HCHC and IMC own 27 percent and 8 percent, 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 \$1,079,000 and \$319,000, respectively, for the year ended December 31, 2018, and \$1,184,000 and \$351,000, respectively, for the year ended December 31, 2017, which is included in other revenue in the consolidated statements of operations and changes in net assets. During 2018, HCHC and IMC received distributions of earnings in the amounts of \$1,620,000 and \$480,000, respectively. 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 \$2,864,000 and \$848,000 for HCHC and IMC, respectively, at December 31, 2018 and \$3,405,000 and \$1,009,000, respectively, at December 31, 2017.

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

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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:

	<u>2018</u>	<u>2017</u>
Medicare	28 %	27 %
Commercial	22	25
Medicaid	14	13
Blue Cross	14	14
Self-pay/uninsured	13	12
Other	9	9
	<u>100 %</u>	<u>100 %</u>

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. Liquidity and Availability of Resources

As of December 31, 2018, the Network has working capital of approximately \$10,785,000 and average days (based on normal expenditures) cash on hand of 415 days.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31, 2018:

Cash and cash equivalents	\$ 122,036,000
Patient accounts receivable, net	74,474,000
Assets limited as to use, designated by the Board	<u>668,801,000</u>
Total	<u>\$ 865,311,000</u>

The Network has other assets limited as to use that are externally designated, under bond indenture agreements, under interest rate swap agreements, and endowments that have donor-restricted purposes. These assets are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the Network's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Network invests excess cash in short-term investments.

Inspira Health Network, Inc.

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16. Functional Expenses

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

	2018			
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 307,156,000	\$ 34,756,000	\$ 691,000	\$ 342,603,000
Employee benefits	86,025,000	9,779,000	221,000	96,025,000
Physician fees	34,480,000	1,070,000	-	35,550,000
Supplies and other expenses	190,384,000	24,482,000	641,000	215,507,000
Interest	5,564,000	629,000	-	6,193,000
Depreciation and amortization	40,771,000	4,560,000	28,000	45,359,000
Total	<u>\$ 664,380,000</u>	<u>\$ 75,276,000</u>	<u>\$ 1,581,000</u>	<u>\$ 741,237,000</u>

	2017			
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 286,356,000	\$ 31,808,000	\$ 636,000	\$ 318,800,000
Employee benefits	85,401,000	9,446,000	209,000	95,056,000
Physician fees	30,115,000	901,000	-	31,016,000
Supplies and other expenses	178,169,000	22,447,000	559,000	201,175,000
Interest	6,480,000	712,000	-	7,192,000
Depreciation and amortization	39,450,000	4,388,000	28,000	43,866,000
Total	<u>\$ 625,971,000</u>	<u>\$ 69,702,000</u>	<u>\$ 1,432,000</u>	<u>\$ 697,105,000</u>

The consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on a square footage basis.

17. Events Subsequent to December 31, 2018

Subsequent events have been evaluated through April 9, 2019, which is the date the consolidated financial statements were issued.

Inspira Health Network, Inc.
Consolidating Schedule, Balance Sheet
December 31, 2018
(in thousands)

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group		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	Junio	Inspira Health Network Foundation Gloucester County, Inc.	Red Bank Development Corporation	Combined Tri-County	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation	
			Eliminations	Combined																Eliminations	Consolidated
Assets																					
Current Assets																					
Cash and cash equivalents	\$ 81,331	\$ 10,966	\$ -	\$ 92,297	\$ 1,158	\$ 526	\$ 4,185	\$ 136	\$ 1,496	\$ 6,348	\$ 2,001	\$ 2,728	\$ -	\$ 9,623	\$ 1,187	\$ 166	\$ 78	\$ -	\$ 107	\$ -	\$ 122,036
Assets limited as to use – externally designated	9,071	9,386	-	18,457	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,457
Patient accounts receivable, net	48,577	20,943	-	69,520	-	-	2,912	125	477	1,110	-	128	-	-	202	-	-	-	-	-	74,474
Supplies	5,053	1,237	-	6,290	-	-	-	-	56	-	-	-	-	-	338	-	-	-	-	-	6,684
Pledges receivable	-	-	-	-	544	-	-	-	-	-	-	-	-	2,615	-	-	-	-	-	-	3,159
Prepaid expenses and other current assets	15,593	5,308	-	20,901	54	40	464	21	539	2,324	-	94	-	2,077	12	45	-	-	-	(7,790)	18,781
Due from affiliated organizations	90,935	13,330	(44,843)	59,422	873	-	1,285	-	-	-	-	-	104	-	16	-	-	-	-	10	(61,710)
Total current assets	250,560	81,170	(44,843)	286,887	2,085	1,110	8,846	282	2,588	9,782	2,001	2,950	104	11,700	3,830	751	78	-	117	(69,500)	243,591
Assets Limited as to Use																					
Internally designated by Board of Directors	437,561	110,328	-	547,889	42,558	22,049	-	-	-	-	-	-	-	55,018	1,287	-	-	-	-	-	688,801
Externally designated by donor	-	-	-	-	990	-	-	-	-	-	-	-	-	-	1,587	-	-	-	-	-	2,577
Externally designated under bond indenture agreements	2,684	153,659	-	156,343	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	156,343
Under interest rate swap agreements	-	6,796	-	6,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,796
Total assets limited as to use	440,245	270,783	-	711,028	42,558	23,039	-	-	-	-	-	-	-	55,018	2,874	-	-	-	-	-	834,517
Investments in Subsidiaries																					
	(394)	-	-	(394)	36,898	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(36,504)
Investments in Partnerships																					
	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15)
Property and Equipment, Net																					
	272,762	331,072	-	603,834	4,184	838	7,260	169	2,152	3,827	-	491	4,800	-	1	115	-	-	-	-	627,771
Other Assets																					
Pledges receivable, net	-	-	-	-	2,951	-	-	-	-	-	-	-	-	-	6,534	-	-	-	-	-	9,485
Investment in unconsolidated affiliates	8,539	1,093	-	9,632	-	-	-	-	-	2,864	-	-	-	-	792	-	-	-	-	(65)	13,233
Insurance recoveries receivable	11,669	3,718	-	15,387	-	-	-	-	-	-	-	-	-	2,054	-	-	-	-	-	(13,960)	4,081
Other assets	1,014	3,245	-	4,259	-	-	-	-	264	544	-	-	-	-	2	-	-	-	-	(1,443)	3,626
Pension asset	-	1,960	-	1,960	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,960
Total other assets	21,222	10,016	-	31,238	-	2,951	-	-	264	544	2,864	-	-	2,054	6,534	794	-	-	-	(14,858)	32,385
Beneficial Interest in Perpetual and Temporary Trusts																					
	4,429	3,636	-	8,065	-	1,264	-	-	-	-	-	-	-	-	142	-	-	-	-	-	9,471
Beneficial Interest in Inspira Health Network/Foundation Cumberland/Salem, Inc.																					
	3,584	11,033	-	14,617	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,617)
Total assets	\$ 992,408	\$ 687,710	\$ (44,843)	\$ 1,635,275	\$ 85,740	\$ 29,202	\$ 16,106	\$ 451	\$ 4,984	\$ 14,253	\$ 4,865	\$ 3,441	\$ 4,904	\$ 68,772	\$ 13,381	\$ 1,660	\$ 78	\$ -	\$ 117	\$ (135,494)	\$ 1,747,735
Liabilities and Net Assets																					
Current Liabilities																					
Accounts payable and accrued expenses	\$ 62,801	\$ 21,910	\$ -	\$ 84,711	\$ 454	\$ 172	\$ 1,845	\$ 134	\$ 329	\$ 4,225	\$ -	\$ 2,284	\$ -	\$ 7,790	\$ 46	\$ 1,241	\$ -	\$ -	\$ 18	\$ (7,790)	\$ 95,459
Construction accounts payable	2,052	27,165	-	29,217	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,217
Accrued salaries and payroll taxes	15,829	-	-	15,829	-	-	166	-	-	1,057	-	-	-	-	-	-	-	-	-	-	17,052
Accrued vacation and other employee benefits	20,560	35	-	20,595	-	201	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,796
Accrued interest payable	4,025	6,637	-	10,662	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,662
Due to affiliated organizations	-	44,843	(44,843)	-	4,827	-	64	-	-	-	-	8,550	4,996	-	882	291	-	316	21	(19,947)	-
Estimated settlements due to third-party payors	35,720	12,308	-	48,028	-	-	29	-	1,702	15	590	-	-	-	-	-	-	-	-	-	50,364
Current installments of long-term debt	5,838	3,264	-	9,102	-	-	-	-	87	-	-	-	-	-	-	154	-	-	-	(87)	9,256
Total current liabilities	146,825	116,162	(44,843)	218,144	5,281	172	2,276	163	416	6,984	15	11,424	4,996	7,790	928	1,686	-	316	39	(27,824)	232,806
Due to Affiliated Organizations																					
	-	-	-	-	332	19,779	647	5,012	15,993	-	-	-	-	-	-	-	-	-	-	-	(41,763)
Accrued Retirement Benefits																					
	8,395	-	-	8,395	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,395
Interest Rate Swap Agreements																					
	-	6,796	-	6,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,796
Other Long-Term Liabilities																					
	33,471	14,856	-	48,327	-	-	-	-	-	-	-	-	-	18,079	-	-	-	-	-	-	(13,360)
Long-Term Debt																					
	177,022	339,517	-	516,539	14,278	-	-	-	16	-	-	-	-	-	-	1,308	-	-	-	-	(1,351)
Total liabilities	365,713	477,331	(44,843)	798,201	19,559	504	22,055	810	5,444	22,977	15	11,424	4,996	25,869	928	2,994	-	316	39	(84,298)	831,833
Net Assets																					
Without donor restrictions	621,921	195,706	-	817,627	66,181	25,897	(5,949)	(359)	(460)	(8,724)	4,850	(7,983)	(92)	42,903	651	(1,334)	78	(316)	78	(40,179)	892,869
With donor restrictions	4,774	14,673	-	19,447	-	2,801	-	-	-	-	-	-	-	11,802	-	-	-	-	-	-	(11,017)
Total net assets	626,695	210,379	-	837,074	66,181	28,698	(5,949)	(359)	(460)	(8,724)	4,850	(7,983)	(92)	42,903	12,453	(1,334)	78	(316)	78	(51,196)	915,902
Total liabilities and net assets	\$ 992,408	\$ 687,710	\$ (44,843)	\$ 1,635,275	\$ 85,740	\$ 29,202	\$ 16,106	\$ 451	\$ 4,984	\$ 14,253	\$ 4,865	\$ 3,441	\$ 4,904	\$ 68,772	\$ 13,381	\$ 1,660	\$ 78	\$ -	\$ 117	\$ (135,494)	\$ 1,747,735

Inspira Health Network, Inc.

Consolidating Schedule, Statement of Operations and Changes in Net Assets

Year Ended December 31, 2018

(in thousands)

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group		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	June	Inspira Health Network Foundation Gloucester County, Inc.	Red Bank Development Corporation	Combined Tri-County	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation	
			Eliminations	Combined																Eliminations	Consolidated
Net Assets Without Donor Restrictions																					
Revenue:																					
Net patient service revenue	\$ 467,138	\$ 222,215	\$ -	\$ 689,353	\$ -	\$ -	\$ 15,059	\$ 1,835	\$ 1,871	\$ 34,068	\$ -	\$ 25,578	\$ -	\$ -	\$ -	\$ 4,461	\$ -	\$ -	\$ -	\$ (311)	\$ 771,914
Other revenue	18,042	9,612	(493)	27,161	6,752	751	47	6	6,469	5,383	1,067	127	-	7,389	496	426	-	-	508	(21,717)	34,865
Total revenue	485,180	231,827	(493)	716,514	6,752	751	15,106	1,841	8,340	39,451	1,067	25,705	-	7,389	496	4,887	-	-	508	(22,028)	806,779
Expenses:																					
Salaries and wages	189,376	96,289	-	285,665	2,023	373	6,532	848	5,044	34,451	-	6,041	-	-	318	1,308	-	-	-	-	342,603
Employee benefits	57,384	26,530	-	83,914	647	119	1,656	178	1,552	5,938	-	1,933	-	-	102	-	(12)	-	-	-	96,025
Physician fees	24,459	9,612	-	34,071	-	-	2,666	58	473	1,602	-	667	-	-	-	-	-	-	-	(3,987)	35,550
Supplies and other expenses	124,695	57,166	(493)	181,368	1,489	342	6,226	635	2,093	12,967	(73)	16,120	92	8,048	299	3,712	25	62	18	(17,916)	215,507
Interest	4,857	1,050	-	5,907	307	-	-	-	11	-	-	-	-	-	-	59	-	-	-	(91)	6,193
Depreciation and amortization	28,852	14,245	-	43,097	24	28	767	42	394	755	-	198	-	-	-	54	-	-	-	-	45,359
Total expenses	429,623	204,892	(493)	634,022	4,490	862	17,847	1,761	9,567	55,711	(73)	24,959	92	8,048	719	5,133	13	62	18	(21,994)	741,237
Operating income (loss)	55,557	26,935	-	82,492	2,262	(111)	(2,741)	80	(1,227)	(16,260)	1,140	746	(92)	(659)	(223)	(246)	(13)	(62)	490	(34)	65,542
Nonoperating Gains (Losses), Net																					
Interest and dividend income	9,579	99	-	9,678	2,642	476	-	-	-	-	-	-	-	774	(47)	-	-	-	-	215	13,738
Change in value of interest rate swap agreements	-	1,649	-	1,649	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,649
Net realized gains (losses) on sale of investments	16,316	2,385	-	18,701	-	(1,893)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,808
Gain on sale of property and equipment	424	-	-	424	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	424
Excess (deficiency) of revenue and gains over expenses	81,876	31,068	-	112,944	4,904	(1,528)	(2,741)	80	(1,227)	(16,260)	1,140	746	(92)	115	(270)	(246)	(13)	(62)	490	181	98,161
Other changes in net assets without donor restrictions:																					
Other	(10,951)	2,401	-	(8,550)	-	(503)	-	-	(1,017)	12,501	-	-	-	-	(552)	-	(2,308)	-	(646)	215	(860)
Pension liability adjustment	-	138	-	138	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	138
Change in unrealized gains and losses on investments	(38,876)	(8,983)	-	(47,859)	(4,767)	-	-	-	-	-	-	-	-	(3,258)	-	-	-	-	-	-	(55,884)
Net assets released from restriction for property and equipment	3,642	-	-	3,642	-	3,673	-	-	-	-	-	-	-	-	523	-	-	-	-	(3,861)	3,977
Increase (decrease) in net assets without donor restrictions	35,691	24,624	-	60,315	137	1,642	(2,741)	80	(2,244)	(3,759)	1,140	746	(92)	(3,143)	(299)	(246)	(2,321)	(62)	(156)	(3,465)	45,532
Net Assets With Donor Restrictions																					
Contributions	9	-	-	9	-	798	-	-	-	-	-	-	-	-	3,941	-	-	-	-	-	4,748
Change in beneficial interest in temporary trust	(296)	-	-	(296)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(296)
Net assets released from restriction	(3,651)	-	-	(3,651)	-	(3,673)	-	-	-	-	-	-	-	-	(523)	-	-	-	-	3,861	(3,986)
Other	678	3,908	-	4,586	-	(53)	-	-	-	-	-	-	-	(21)	-	-	-	-	-	(4,586)	(74)
Change in beneficial interest in perpetual trusts	(111)	(485)	-	(596)	-	-	-	-	-	-	-	-	-	(50)	-	-	-	-	-	-	(646)
Increase in net assets with donor restrictions	(3,371)	3,423	-	52	-	(2,928)	-	-	-	-	-	-	-	3,347	-	-	-	-	-	(725)	(254)
Increase (decrease) in net assets	32,320	28,047	-	60,367	137	(1,286)	(2,741)	80	(2,244)	(3,759)	1,140	746	(92)	(3,143)	3,048	(246)	(2,321)	(62)	(156)	(4,190)	45,278
Net Assets (Deficit), Beginning 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
Net Assets (Deficit), End of Year	\$ 626,695	\$ 210,379	\$ -	\$ 837,074	\$ 66,181	\$ 28,698	\$ (5,949)	\$ (359)	\$ (460)	\$ (8,724)	\$ 4,850	\$ (7,983)	\$ (92)	\$ 42,903	\$ 12,453	\$ (1,334)	\$ 78	\$ (316)	\$ 78	\$ (51,196)	\$ 915,902

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

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group		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	Inspira Health Network Foundation Gloucester County, Inc.	Red Bank Development Corporation	Combined Tri-County	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation		
			Eliminations	Combined															Eliminations	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	10,824	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	-	-	-	-	-	-	-	-	1,268	-	-	-	-	-	-	(12,616)	4,466
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	-	-	1,268	5,048	758	-	-	-	-	(14,240)	30,580
Beneficial Interest in Perpetual and Temporary Trusts																					
4,836	4,121	-	8,957	-	1,002	-	-	-	-	-	-	-	-	192	-	-	-	-	-	-	10,151
Beneficial Interest in Inspira Health Network Foundation 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	\$ 66,776	\$ 9,450	\$ 1,712	\$ 2,837	\$ -	\$ 264	\$ (118,962)	\$ 1,702,784
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	-	-	-	-	-	-	-	-	-	13,884	-	-	-	-	-	-	(12,616)	56,999
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	20,730	45	2,800	438	254	30	(71,956)	832,160
Net Assets																					
Without donor restrictions	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
With donor restrictions	8,145	11,250	-	19,395	-	5,729	-	-	-	-	-	-	-	8,455	-	-	-	-	-	(10,292)	23,287
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	\$ 66,776	\$ 9,450	\$ 1,712	\$ 2,837	\$ -	\$ 264	\$ (118,962)	\$ 1,702,784

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		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	June	Inspira Health Network Foundation Gloucester County, Inc.	Red Bank Development Corporation	Combined Tri-County	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation	
			Eliminations	Combined																Eliminations	Consolidated
Net Assets Without Donor Restrictions																					
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 revenue	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	5,093	-	1,924	-	-	89	-	-	(78)	(58)	-	95,056
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	10,275	6	13,035	-	3,122	206	3,588	(166)	37	(8)	(14,841)	201,175
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	(1,866)	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
Inherent contribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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 net assets without donor restrictions:																					
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 net assets without donor restrictions	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
Net Assets Without Donor Restrictions																					
Contributions	20	-	-	20	-	3,000	-	-	-	-	-	-	-	7,190	-	-	-	-	-	-	10,210
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
Change in beneficial interest in perpetual trusts	95	276	-	371	-	262	-	-	-	-	-	-	-	16	-	-	-	-	-	-	649
Increase in net assets with donor restrictions	2,246	7,401	-	9,647	-	2,741	-	-	-	-	-	-	-	7,210	-	-	-	-	-	(8,951)	10,647
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