

# **Inspira Health Network, Inc.**

Consolidated Financial Statements  
and Supplementary Information

December 31, 2019 and 2018

# Inspira Health Network, Inc.

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## **Independent Auditors' Report**

To the Board of Directors of  
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, 2019 and 2018, 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, 2019 and 2018, 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 2 to the consolidated financial statements, in 2019, the Network adopted new accounting guidance related to the Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, ASU No. 2016-02, *Leases (Topic 842)*, and ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. 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  
May 5, 2020

# Inspira Health Network, Inc.

Consolidated Balance Sheets

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 101,627,000	\$ 122,036,000
Assets limited as to use, externally designated	18,814,000	18,457,000
Patient accounts receivable, net	80,587,000	74,474,000
Supplies	7,555,000	6,684,000
Prepaid expenses and other current assets	<u>21,333,000</u>	<u>18,781,000</u>
Total current assets	<u>229,916,000</u>	<u>240,432,000</u>
<b>Assets Limited as to Use</b>		
Internally designated by Board of Directors	762,639,000	668,801,000
Externally designated by donor	5,478,000	2,577,000
Externally designated under bond indenture agreements	26,245,000	156,343,000
Under interest rate swap agreements	<u>8,007,000</u>	<u>6,796,000</u>
Total assets limited as to use	<u>802,369,000</u>	<u>834,517,000</u>
<b>Property and Equipment, Net</b>	<u>813,382,000</u>	<u>627,771,000</u>
<b>Other Assets</b>		
Pledges receivable, net	8,165,000	12,644,000
Investment in unconsolidated entities	16,938,000	13,233,000
Insurance recoveries receivable	2,085,000	4,081,000
Other assets	2,543,000	3,626,000
Operating lease right-of-use asset	15,240,000	-
Pension asset	<u>4,334,000</u>	<u>1,960,000</u>
Total other assets	<u>49,305,000</u>	<u>35,544,000</u>
<b>Beneficial Interest in Perpetual and Temporary Trusts</b>	<u>10,502,000</u>	<u>9,471,000</u>
Total assets	<u>\$ 1,905,474,000</u>	<u>\$ 1,747,735,000</u>

See notes to consolidated financial statements

# Inspira Health Network, Inc.

Consolidated Balance Sheets

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 112,527,000	\$ 95,459,000
Construction accounts payable	18,058,000	29,217,000
Accrued salaries and payroll taxes	19,898,000	17,052,000
Accrued vacation and other employee benefits	21,916,000	20,796,000
Accrued interest payable	10,282,000	10,662,000
Estimated settlements due to third-party payors	52,591,000	50,364,000
Current portion of operating lease obligations	3,019,000	-
Current installments of long-term debt	9,656,000	9,256,000
	<u>247,947,000</u>	<u>232,806,000</u>
Total current liabilities	247,947,000	232,806,000
<b>Accrued Retirement Benefits</b>	11,054,000	8,395,000
<b>Interest Rate Swap Agreements</b>	8,007,000	6,796,000
<b>Estimated Settlements Due to Third-Party Payors</b>	18,710,000	22,791,000
<b>Operating Lease Obligations</b>	12,560,000	-
<b>Other Long-Term Liabilities</b>	26,141,000	30,255,000
<b>Long-Term Debt</b>	<u>520,322,000</u>	<u>530,790,000</u>
	<u>844,741,000</u>	<u>831,833,000</u>
Total liabilities	844,741,000	831,833,000
<b>Net Assets</b>		
Without donor restrictions	1,047,102,000	892,869,000
With donor restrictions	13,631,000	23,033,000
	<u>1,060,733,000</u>	<u>915,902,000</u>
Total net assets	1,060,733,000	915,902,000
Total liabilities and net assets	<u>\$ 1,905,474,000</u>	<u>\$ 1,747,735,000</u>

See notes to consolidated financial statements

## Inspira Health Network, Inc.

Consolidated Statements of Operations and Changes in Net Assets  
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Net Assets Without Donor Restrictions</b>		
Revenue:		
Net patient service revenue	\$ 818,523,000	\$ 763,726,000
Other revenue	30,748,000	34,866,000
Total revenue	<u>849,271,000</u>	<u>798,592,000</u>
Expenses:		
Salaries and wages	362,555,000	342,603,000
Employee benefits	100,168,000	90,377,000
Physician fees	35,949,000	35,550,000
Supplies and other expenses	232,662,000	212,968,000
Interest	8,392,000	6,193,000
Depreciation and amortization	52,054,000	45,359,000
Loss on disposal	3,284,000	-
Total expenses	<u>795,064,000</u>	<u>733,050,000</u>
Operating income	54,207,000	65,542,000
<b>Nonoperating Gains and Losses</b>		
Interest and dividend income	18,355,000	13,738,000
Change in value of interest rate swap agreements	(1,211,000)	1,649,000
Net realized gains on sale of investments	1,813,000	16,808,000
Change in net unrealized gains and losses on investments	68,931,000	-
Gain on sale of property and equipment	-	424,000
Excess of revenue and gains over expenses	<u>142,095,000</u>	<u>98,161,000</u>

See notes to consolidated financial statements

## Inspira Health Network, Inc.

Consolidated Statements of Operations and Changes in Net Assets  
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Net Assets Without Donor Restrictions (Continued)</b>		
Excess of revenue and gains over expenses (from previous page)	\$ 142,095,000	\$ 98,161,000
Other changes in net assets without donor restrictions:		
Other	(761,000)	(860,000)
Pension liability adjustment	261,000	138,000
Change in net unrealized gains and losses on investments	-	(55,884,000)
Net assets released from restriction for property and equipment	<u>12,638,000</u>	<u>3,977,000</u>
Increase in net assets without donor restrictions	<u>154,233,000</u>	<u>45,532,000</u>
<b>Net Assets With Donor Restrictions</b>		
Contributions	1,820,000	4,748,000
Change in beneficial interest in temporary trust	518,000	(296,000)
Net assets released from restriction	(12,644,000)	(3,986,000)
Investment income	573,000	(74,000)
Other	(182,000)	-
Change in beneficial interest in perpetual trusts	<u>513,000</u>	<u>(646,000)</u>
Decrease in net assets with donor restrictions	<u>(9,402,000)</u>	<u>(254,000)</u>
Increase in net assets	144,831,000	45,278,000
<b>Net Assets, Beginning</b>	<u>915,902,000</u>	<u>870,624,000</u>
<b>Net Assets, Ending</b>	<u><u>\$1,060,733,000</u></u>	<u><u>\$ 915,902,000</u></u>

See notes to consolidated financial statements



**Inspira Health Network, Inc.**Consolidated Statements of Cash Flows  
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Increase in net assets	\$ 144,831,000	\$ 45,278,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Income from unconsolidated entities	(2,667,000)	(2,504,000)
Depreciation and amortization	52,054,000	45,359,000
Accretion of bond premium	(3,453,000)	(3,705,000)
Amortization of underwriter discount	97,000	99,000
Amortization of deferred financing costs	56,000	51,000
Change in right-of-use asset and lease obligation, net	339,000	-
Pension liability adjustment	(261,000)	(138,000)
Gain on sale of property and equipment	-	(424,000)
Loss on disposal	3,284,000	-
Net realized and unrealized (gains) losses on investments	(70,744,000)	39,076,000
Change in beneficial interest in perpetual and temporary trusts	(1,031,000)	942,000
Change in value of interest rate swap agreements	1,211,000	(1,649,000)
Capital campaign pledges	2,641,000	(4,572,000)
Changes in certain assets and liabilities:		
Patient accounts receivable	(6,113,000)	(4,459,000)
Supplies	(871,000)	(32,000)
Prepaid expenses and other current assets	(2,552,000)	(332,000)
Insurance recoveries receivable	1,996,000	385,000
Accounts payable, accrued expenses and other liabilities	17,466,000	(1,497,000)
Accrued interest payable	(380,000)	819,000
Estimated settlements due to third-party payors	(1,854,000)	(16,827,000)
Net cash provided by operating activities	<u>134,049,000</u>	<u>95,870,000</u>
<b>Investing Activities</b>		
Additions to property and equipment, net	(251,887,000)	(203,072,000)
Proceeds from sale of property and equipment	-	1,327,000
Increase in assets limited as to use	(27,548,000)	(15,998,000)
Change in investment in unconsolidated entities	(1,038,000)	4,052,000
Increase in other assets	862,000	(759,000)
Net cash used in investing activities	<u>(279,611,000)</u>	<u>(214,450,000)</u>
<b>Financing Activities</b>		
Restricted contributions	1,838,000	1,825,000
Payments of long-term debt	(7,720,000)	(8,825,000)
Proceeds from issuance of long-term debt, net	952,000	168,000
Net cash used in financing activities	<u>(4,930,000)</u>	<u>(6,832,000)</u>
Decrease in cash and cash equivalents and restricted cash and cash equivalents	(150,492,000)	(125,412,000)
<b>Cash and Cash Equivalents and Restricted Cash and Restricted Cash Equivalents, Beginning</b>	<u>305,220,000</u>	<u>430,632,000</u>
<b>Cash and Cash Equivalents and Restricted Cash and Restricted Cash Equivalents, Endng</b>	<u>\$ 154,728,000</u>	<u>\$ 305,220,000</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest, net of amount capitalized	<u>\$ 12,072,000</u>	<u>\$ 8,932,000</u>
<b>Noncash Investing and Financing Activities</b>		
Construction accounts payable for acquisition of property and equipment	<u>\$ 18,058,000</u>	<u>\$ 29,217,000</u>
<b>Reconciliation of Cash and Restricted Cash to Balance Sheets</b>		
Cash and cash equivalents	\$ 101,627,000	\$ 122,036,000
Externally designated by donor	35,000	1,588,000
Externally designated under bond indenture agreements	45,059,000	174,800,000
Under interest rate swap agreements	8,007,000	6,796,000
	<u>\$ 154,728,000</u>	<u>\$ 305,220,000</u>

See notes to consolidated financial statements

# Inspira Health Network, Inc.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

## 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 the following acute care hospitals: Inspira Medical Center Mullica Hill (Mullica Hill) in Harrison Township, New Jersey, Inspira Medical Center Vineland (Vineland) in Cumberland County, New Jersey and Inspira Medical Center Elmer (Elmer) in Salem County, New Jersey. IMC also controls three 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, the Inspira Health Center Vineland, which provides select outpatient services, and the Inspira Health Center Woodbury, which provides select outpatient services, emergency services and psychiatric services.

Woodbury was a tax-exempt acute care hospital providing a complete range of inpatient and outpatient services. Effective December 13, 2019, Woodbury's operations merged with IMC. As a result, a net asset transfer was recorded to merge Woodbury's assets, liabilities and net assets into IMC.

IMC also functions as the sole corporate member of Inspira Health Network Foundation Cumberland/Salem, Inc. (FDNCS) and Inspira Health Network Foundation Gloucester County, Inc. (FDNG) which are tax exempt organizations that support the Network and its affiliates. Effective January 1, 2020, FDNCS and FDNG were merged.

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.

IMG also controls two non-for-profit corporations, Inspira Health Connections PC (IHC) and Tri-County Cardiovascular Services PC (TCCS) which engage in activities to enhance the mission of the Network and its affiliates, such as physician, cardiology and management services.

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.**

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Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 Medical Center Associates, LLP and its controlled affiliate, Gloucester County Surgery Center, LLC, provide various healthcare-related services.

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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### **Cash and Cash Equivalents and Restricted Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include investments purchased with an initial maturity of three months or less.

### **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 2019 or 2018.

### **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, 2019 and 2018

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### **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 \$1,727,000 and \$4,164,000 for the years ended December 31, 2019 and 2018, respectively. Investment income and realized gains and losses on assets limited as to use by the Board are recorded as nonoperating gains, net. During 2018, unless unrealized losses were deemed to be other-than-temporary declines in market value, unrealized gains and losses on assets limited as to use were 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 \$8,757,000 and \$9,449,000 during 2019 and 2018, respectively, net of capitalized investment income.

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 2019 and 2018.

## Inspira Health Network, Inc.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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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 2019 and 2018 were approximately \$504,000 and \$5,156,000, 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, 2019 and 2018 was \$9,311,000 and \$14,764,000, and the net pledges receivable balance of \$8,165,000 and \$12,644,000 includes a present value discount of \$1,146,000 and \$2,120,000, respectively. The present value discount at December 31, 2019 and 2018 was approximately 5 percent. At December 31, 2019, cash collections from the pledges are expected to be \$4,153,000 in less than a year, \$4,555,000 in one to five years and \$603,000 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.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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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 revenue is 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 (during 2018), 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 (prior to the adoption of the FASB's Accounting Standards Update (ASU) No. 2016-01), 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, 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. In January 2020, IMG filed to change its tax status to a Section 501(c)(3) organization.

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 liability company of the Network and is considered a disregarded entity for tax purposes.

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 2019 or 2018.

## Inspira Health Network, Inc.

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### Reclassifications

Certain reclassifications have been made to the 2018 balances previously reported in order to conform to 2019 presentation.

### New Accounting Pronouncements

In 2019, the Network retrospectively adopted the FASB's 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 total of cash, cash equivalents and amounts generally described as restricted cash and cash equivalents. Amounts generally described as restricted cash and 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 statements of cash flows.

The following line items on the consolidated statement of cash flows for the year ended December 31, 2018 were affected by this change in accounting principle:

	After Adoption of ASU No. 2016-18	As Originally Presented
Increase (decrease) in assets limited as to use	\$ (15,998,000)	\$ 126,228,000
Net cash used in investing activities	(214,450,000)	(72,224,000)
Decrease in cash and cash equivalents and restricted cash and cash equivalents	(125,412,000)	-
Cash and cash equivalents and restricted cash and cash equivalents, beginning	430,632,000	-
Cash and cash equivalents and restricted cash and cash equivalents, ending	305,220,000	-
Increase (decrease) in cash and cash equivalents	-	16,814,000
Cash and cash equivalents, beginning of year	-	105,222,000
Cash and cash equivalents, end of year	-	122,036,000

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance 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 (ROU) 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 adopted the new standard on January 1, 2019. The Network elected the option to apply the transition requirements in Topic 842 at the effective date of January 1, 2019. Consequently, financial information has not been updated and the disclosures required under the new standard have not been provided for dates and periods before January 1, 2019.

The adoption of the new standard had a material effect on the Network's financial statements. The most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on its consolidated balance sheets for operating leases; and (2) providing significant new disclosures about its leasing activities.



## Inspira Health Network, Inc.

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Upon adoption, the Network recognized operating lease liabilities of \$15,945,000 based on the present value of the remaining minimum rental payments as determined in accordance with Topic 842 for leases that had historically been accounted for as operating leases under the previous leasing standards. The Network recognized corresponding ROU assets of \$15,606,000 based on the operating lease liabilities, adjusted for existing straight-line lease liabilities. The resulting net impact associated with this change in accounting was immaterial to opening net assets.

The Network makes certain assumptions and judgements in determining the discount rate. As most of the Network's leases do not provide an implicit rate, the Network uses their incremental borrowing rate, for collateralized borrowings, based on the information available at commencement date in determining the present value of lease payments.

The new standard provides a number of optional practical expedients in transition. The Network elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Network does not recognize ROU assets or lease liabilities, and includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition.

During 2019, the Network adopted the guidance in the FASB's ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The provisions of ASU No. 2016-01: a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized within net income (excess of revenue and gains over expenses); and (b) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The Network has adjusted the presentation of these consolidated financial statements accordingly.

The new standard changed the consolidated statements of operations and changes in net assets by recognizing unrealized gains and losses on investments as a component of both nonoperating gains and losses and excess of revenue and gains over expenses. The adoption of ASU No. 2016-01 did not result in a change in the Network's net assets as of January 1, 2019.

Prior to the adoption of ASU No. 2016-01, unrealized gains and losses on the Network's equity investments were excluded from the excess of revenues and gains over expenses. ASU No. 2016-01 does not allow for the restatement of the Network's 2018 financial statements for the impact of the new standard. As a result, comparability of total nonoperating gains and losses and excess of revenue and gains over expenses from 2019 to 2018 have been affected.

## Inspira Health Network, Inc.

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### 3. 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>2019</u>	<u>2018</u>
In accordance with the:		
State of New Jersey's criteria	\$ 6,246,000	\$ 5,248,000
Network's additional criteria	<u>12,888,000</u>	<u>13,211,000</u>
Total	<u>\$ 19,134,000</u>	<u>\$ 18,459,000</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.

### 4. 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 \$885,000 and \$974,000 in 2019 and 2018, 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 System Reform Incentive Plan (DSRIP), to provide statewide funding to certain hospitals. The Network received \$8,737,000 and \$6,706,000 in 2019 and 2018, 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, 2020; however, such amounts are subject to change.

### 5. 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. IMC's Medicare cost reports have not been final settled by the fiscal intermediaries for the 2014 through 2019 cost report years.

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- **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 nonacute 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. The Network's Medicaid cost report years have not been audited by the fiscal intermediaries for the 2016 through 2019 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 nonacute 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.

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, as 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 \$21,005,000 and \$30,097,000 for the years ended December 31, 2019 and 2018, respectively.

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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, 2019, 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.

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

	<u>2019</u>	<u>2018</u>
Medicare	\$ 295,871,000	\$ 263,640,000
Commercial	176,481,000	165,348,000
Medicaid	153,629,000	153,463,000
Blue Cross	159,903,000	151,885,000
Other	29,362,000	26,076,000
Self-pay/uninsured	3,277,000	3,314,000
Total	<u>\$ 818,523,000</u>	<u>\$ 763,726,000</u>

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

	<u>2019</u>	<u>2018</u>
Inpatient	\$ 409,095,000	\$ 369,001,000
Outpatient	314,820,000	311,949,000
Physician services	44,821,000	33,972,000
Capitation	28,155,000	25,578,000
Other	21,632,000	23,226,000
Total	<u>\$ 818,523,000</u>	<u>\$ 763,726,000</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.

# Inspira Health Network, Inc.

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## 6. Fair Value Measurements and Other Financial Instruments

### Fair Value Measurements

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

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

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

Level 3 - Significant unobservable inputs.

The following table presents financial instruments measured at fair value at December 31, 2019, by caption on the consolidated balance sheets:

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>				
<b>Assets</b>				
Assets limited as to use:				
Internally designated by Board of Directors:				
Mutual funds, equities	\$ 274,613,000	\$ 274,613,000	\$ -	\$ -
Mutual funds, fixed income	198,935,000	198,935,000	-	-
Corporate and government bonds	114,969,000	-	114,969,000	-
Government securities	12,328,000	-	12,328,000	-
	<u>600,845,000</u>	<u>473,548,000</u>	<u>127,297,000</u>	<u>-</u>
Externally designated by donor:				
Mutual funds, equities	1,501,000	1,501,000	-	-
Mutual funds, fixed income	3,942,000	3,942,000	-	-
	<u>5,443,000</u>	<u>5,443,000</u>	<u>-</u>	<u>-</u>
Total assets limited as to use, measured at fair value	606,288,000	478,991,000	127,297,000	-
Beneficial interest in trusts	10,502,000	-	-	10,502,000
Total assets in the fair value hierarchy	616,790,000	<u>\$ 478,991,000</u>	<u>\$ 127,297,000</u>	<u>\$ 10,502,000</u>
Assets measured at net asset value (a)	<u>150,707,000</u>			
Assets at fair value	<u>\$ 767,497,000</u>			
<b>Liabilities</b>				
Interest rate swap agreements	\$ 8,007,000	\$ -	\$ -	\$ 8,007,000

# Inspira Health Network, Inc.

## Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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
<b>Reported at Fair Value</b>				
<b>Assets</b>				
Assets limited as to use:				
Internally designated by Board of Directors:				
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>531,343,000</u>	<u>494,285,000</u>	<u>37,058,000</u>	<u>-</u>
Externally designated by donor:				
Mutual funds	983,000	983,000	-	-
Marketable equity securities	6,000	6,000	-	-
	<u>989,000</u>	<u>989,000</u>	<u>-</u>	<u>-</u>
Total assets limited as to use, measured at fair value	532,332,000	495,274,000	37,058,000	-
Beneficial interest in trusts	9,471,000	-	-	9,471,000
Total assets in the fair value hierarchy	541,803,000	<u>\$ 495,274,000</u>	<u>\$ 37,058,000</u>	<u>\$ 9,471,000</u>
Assets measured at net asset value (a)	<u>111,107,000</u>			
Assets at fair value	<u>\$ 652,910,000</u>			
<b>Liabilities</b>				
Interest rate swap agreements	<u>\$ 6,796,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,796,000</u>

(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.

The assets included on the consolidated balance sheets at December 31, 2019 and 2018 are as follows:

	2019	2018
Assets limited as to use, internally designated by Board of Directors:		
Cash and cash equivalents	\$ 11,087,000	\$ 26,351,000
Assets limited as to use, internally designated by Board of Directors:		
Measured in the fair value hierarchy	600,845,000	531,343,000
Assets limited as to use, internally designated by Board of Directors:		
Measured outside the fair value hierarchy	<u>150,707,000</u>	<u>111,107,000</u>
	<u>\$ 762,639,000</u>	<u>\$ 668,801,000</u>

## Inspira Health Network, Inc.

Notes to Consolidated Financial Statements

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	<u>2019</u>	<u>2018</u>
Assets limited as to use, externally designated by donor:		
Cash and cash equivalents	\$ 35,000	\$ 1,588,000
Assets limited as to use, externally designated by donor:		
Measured in the fair value hierarchy	<u>5,443,000</u>	<u>989,000</u>
	<u>\$ 5,478,000</u>	<u>\$ 2,577,000</u>
Assets limited as to use, externally designated under bond indenture agreements:		
Cash and cash equivalents	<u>\$ 45,059,000</u>	<u>\$ 174,800,000</u>
	<u>\$ 45,059,000</u>	<u>\$ 174,800,000</u>
Assets limited as to use, under interest rate swap agreements:		
Cash and cash equivalents	<u>\$ 8,007,000</u>	<u>\$ 6,796,000</u>
	<u>\$ 8,007,000</u>	<u>\$ 6,796,000</u>
Total assets limited as to use	\$ 821,183,000	\$ 852,974,000
Less current portion	<u>18,814,000</u>	<u>18,457,000</u>
Assets limited as to use	<u>\$ 802,369,000</u>	<u>\$ 834,517,000</u>

### 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.

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.

## Inspira Health Network, Inc.

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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, 2019 and 2018, 58 percent and 59 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, 2019. 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, 2019 and 2018, 12 percent 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, 2019. 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, 2019 and 2018, 18 percent and 19 percent of the Network's commingled funds were held in the Sanderson Fund, respectively. 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, 2019.

The Network had no commitment requirements related to other commingled funds at December 31, 2019.

### 7. Property and Equipment

	<u>2019</u>	<u>2018</u>	<u>Depreciable Life</u>
Land	\$ 32,545,000	\$ 20,558,000	
Land improvements	24,076,000	7,155,000	5-25 years
Leasehold improvements	8,188,000	7,923,000	10-15 years
Buildings and building improvements	738,820,000	460,258,000	10-40 years
Fixed equipment	77,412,000	95,225,000	10-20 years
Major movable equipment	447,980,000	394,730,000	5-20 years
	<u>1,329,021,000</u>	<u>985,849,000</u>	
Less accumulated depreciation	<u>577,965,000</u>	<u>575,428,000</u>	
	751,056,000	410,421,000	
Construction-in-progress	<u>62,326,000</u>	<u>217,350,000</u>	
Total	<u>\$ 813,382,000</u>	<u>\$ 627,771,000</u>	

In December 2019, the Network commenced operations of Mullica Hill, a new acute care hospital. As a result of the opening of the new hospital, a significant amount of Woodbury's assets were removed from service and a loss on disposal of assets of \$3,284,000 was recorded and is included in total expenses on the consolidated statements of operations. At December 31, 2019, the Network had commitments outstanding of approximately \$16,926,000 related to current construction projects.

Depreciation on property and equipment for the years ended December 31, 2019 and 2018 amounted to \$51,828,000 and \$44,833,000, respectively.



## **Inspira Health Network, Inc.**

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### **8. 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, 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 \$15,428,000 and \$17,477,000 at December 31, 2019 and 2018, respectively.

The Series 2016A Bonds were issued under a Master Trust Indenture (MTI), dated June 1, 2016. As such, the obligations issued pursuant to the MTI are joint and several obligations of IMC (the Obligated Group), and does not include any other affiliates of the Network. All property and equipment, and gross receipts of IMC are pledged to secure payment of interest and principal. The MTI and loan agreement between the Authority and IMC require the compliance with financial covenants, including the requirement that IMC 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, 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 were used by IMC to (i) finance the construction of Mullica Hill, (ii) establish a radiation oncology program at Woodbury, including the purchase of a linear accelerator, (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 3.0 percent to 5.0 percent due January 1 and July 1 of each year. The net original issue premium balance was \$19,015,000 and \$20,419,000 at December 31, 2019 and 2018, respectively.

## Inspira Health Network, Inc.

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The Series 2017B Bonds, which mature in 2042, are due in monthly installments beginning in January 2018. Annual principal payments range from \$1,000,000 to \$4,800,000. Interest is payable monthly at a variable rate. The interest rate was 1.83 percent and 2.00 percent at December 31, 2019 and 2018, respectively.

The 2017 Bonds were issued under a Third Supplemental MTI and the bond agreements. The MTI and loan agreement between the Authority and IMC require the compliance with financial covenants, including the requirement that to 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 (2.46 percent at December 31, 2019). Interest is payable monthly and principal is due at maturity. In November 2019 the term loan was amended to extend the maturity date to October 2020. 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, 2019 and 2018.

### 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 \$2,798,000 and \$3,006,000 at December 31, 2019 and 2018, respectively.

### Long-Term Debt Summary

	<u>2019</u>	<u>2018</u>
Series 2016A Bonds	\$ 157,400,000	\$ 164,400,000
Series 2017A Bonds	263,730,000	264,500,000
Series 2017B Bonds	58,000,000	59,000,000
Term loan	14,278,000	14,278,000
Other long-term obligations	<u>5,444,000</u>	<u>3,442,000</u>
	498,852,000	505,620,000
Plus original issue premium	34,443,000	37,896,000
Less:		
Current maturities of long-term debt	(9,656,000)	(9,256,000)
Deferred financing costs, net	(1,140,000)	(1,196,000)
Underwriters' discount, net	<u>(2,177,000)</u>	<u>(2,274,000)</u>
Long-term debt	<u>\$ 520,322,000</u>	<u>\$ 530,790,000</u>

## Inspira Health Network, Inc.

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### Future Principal Payments

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

	<u>2017A Bonds</u>	<u>2017B Bonds</u>	<u>2016 Bonds</u>	<u>Other Long-Term Obligations</u>	<u>Total</u>
2020	\$ 900,000	\$ 1,000,000	\$ 7,255,000	\$ 501,000	\$ 9,656,000
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
2024	1,490,000	4,400,000	4,970,000	254,000	11,114,000
Thereafter	257,135,000	42,400,000	129,500,000	18,262,000	447,297,000
Total	<u>\$ 263,730,000</u>	<u>\$ 58,000,000</u>	<u>\$ 157,400,000</u>	<u>\$ 19,722,000</u>	<u>\$ 498,852,000</u>

### 9. Leases

The Network leases various physician offices. Lease payments are increased based on the terms of each specific lease agreement. The Network assesses renewal options using a reasonably certain threshold, which is understood to be a high threshold and, therefore, certain leases do not include the renewal periods for accounting purposes.

The maturity and future minimum commitments of total operating lease obligations at December 31, 2019 is as follows:

2020	\$ 3,302,000
2021	2,784,000
2022	2,364,000
2023	2,298,000
2024	2,166,000
Thereafter	<u>6,010,000</u>
Total lease payments	18,924,000
Less present value discount	<u>(3,345,000)</u>
Total lease obligations	15,579,000
Less current portion	<u>(3,019,000)</u>
Long-term lease obligations	<u>\$ 12,560,000</u>

Lease related expenses for the year ended December 31, 2019 was \$5,995,000.

## Inspira Health Network, Inc.

Notes to Consolidated Financial Statements

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The following tables include supplemental lease information as of and for the year ended December 31, 2019:

Lease Term and Discount Rate	December 31, 2019
Weighted-average remaining lease term (years):	
Operating leases	7.3
Weighted-average discount rate:	
Operating leases	5.75%

### 10. Derivative Financial Instruments

IMC 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 IMC 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 3.760 percent). The interest rate swaps require IMC to exchange quarterly the net difference between the fixed rate and variable rate interest amounts calculated by reference to the notional amounts, which are consistent with the amount of the Tranches outstanding. The fair value of the Morgan Stanley Swaps I and II represented a liability of \$7,591,000 and \$6,408,000 at December 31, 2019 and 2018, respectively, and is included in total liabilities in the consolidated balance sheets.

IMC has another interest rate swap agreement with Morgan Stanley (Morgan Stanley Swap III) which was entered into to reduce IMC's overall interest expense. Under this interest rate swap, IMC receives payments from Morgan Stanley in the amount of 67 percent of the 5-year LIBOR. In exchange, IMC will pay 67 percent of the 1-month LIBOR. The fair value of the Morgan Stanley Swap III represented a liability of \$416,000 and \$388,000 at December 31, 2019 and 2018, respectively, and is included in total liabilities in the consolidated balance sheets.

The net expense related to net cash settlements was \$1,018,000 and \$1,009,000 for the years ended December 31, 2019 and 2018, respectively, and is included in interest expense in the consolidated statements of operations.

### 11. Retirement Benefits

#### Defined Contribution Pension Plans and Supplemental Executive Retirement Plans

IMC sponsors 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 \$16,669,000 and \$16,025,000 for the years ended December 31, 2019 and 2018, 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 \$1,166,000 and \$1,236,000 associated with the SERP Plan for the years ended December 31, 2019 and 2018, respectively. The Network had an outstanding liability related to the SERP Plan of \$5,670,000 and \$3,819,000 at December 31, 2019 and 2018, respectively, and is included in accrued retirement benefits in the consolidated balance sheets.

## Inspira Health Network, Inc.

Notes to Consolidated Financial Statements

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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 \$5,384,000 and \$4,576,000 at December 31, 2019 and 2018, respectively, and is included in accrued retirement benefits in the consolidated balance sheets.

### Defined Benefit Pension Plan

IMC 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 50,551,000	\$ 56,403,000
Interest cost	1,939,000	1,790,000
Actuarial loss (gain)	4,663,000	(3,931,000)
Benefits paid	<u>(3,797,000)</u>	<u>(3,711,000)</u>
Projected benefit obligation at end of year	<u>53,356,000</u>	<u>50,551,000</u>
Change in plan assets:		
Fair value of the plan assets at beginning of year	52,511,000	55,691,000
Actual return on plan assets	7,496,000	(1,004,000)
Contributions	2,000,000	2,000,000
Benefits and administrative expenses paid	<u>(4,317,000)</u>	<u>(4,176,000)</u>
Fair value of the plan assets at end of year	<u>57,690,000</u>	<u>52,511,000</u>
Funded status	<u>\$ 4,334,000</u>	<u>\$ 1,960,000</u>
Accumulated benefit obligation	<u>\$ 53,356,000</u>	<u>\$ 50,551,000</u>
Amounts recognized in the balance sheet consist of:		
Noncurrent asset	<u>\$ 4,334,000</u>	<u>\$ 1,960,000</u>
Amounts recognized in unrestricted net assets consist of:		
Actuarial loss	<u>\$ 26,544,000</u>	<u>\$ 26,805,000</u>

## Inspira Health Network, Inc.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Components of net periodic pension income:		
Interest cost	\$ 1,939,000	\$ 1,790,000
Expected return on plan assets	(3,839,000)	(4,079,000)
Recognized actuarial loss	724,000	683,000
Recognized loss due to settlements	1,062,000	1,072,000
	<u>(114,000)</u>	<u>(534,000)</u>
Amounts recognized as changes in unrestricted net assets consist of:		
Net actuarial gain	261,000	138,000
	<u>261,000</u>	<u>138,000</u>
Total recognized in net periodic pension income and changes in net assets without donor restrictions	<u>\$ 147,000</u>	<u>\$ (396,000)</u>

During 2019 and 2018, lump sum benefit payments to Cash Balance Plan beneficiaries totaled \$2,136,000 and \$2,022,000, respectively, and are included in benefits paid. Since the lump sum payments/settlements in 2019 and 2018 exceeded the interest cost of \$1,939,000 and \$1,790,000, respectively, IMC was required to recognize a loss of \$1,062,000 in 2019 and \$1,072,000 in 2018 which is included in 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, 2020, is \$728,000.

<u>Assumptions</u>		<u>2019</u>	<u>2018</u>
Weighted average assumptions used to determine pension obligation:			
Discount rate		2.87 %	4.05 %
Weighted average assumptions used to determine net periodic pension income:			
Discount rate		4.05	3.36
Expected return on the plan assets		7.50	7.50
	<b>Target Asset Allocation</b>		
<b>Plan Assets</b>		<b>2019</b>	<b>2018</b>
Equity securities / mutual funds	20 %	6 %	13 %
Debt securities / mutual funds	75	86	78
Alternative investments	5	8	9
		<u>100 %</u>	<u>100 %</u>

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.

## Inspira Health Network, Inc.

Notes to Consolidated Financial Statements

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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 2020 are \$2,000,000.

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

2020	\$	4,100,000
2021		4,073,000
2022		4,038,000
2023		4,377,000
2024		4,226,000
2025		16,606,000

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, 2019 and 2018:

	December 31, 2019		
	Total Fair Value	Level 1	Level 2
Government bonds	\$ 7,139,000	\$ -	\$ 7,139,000
Mutual funds:			
Fixed income	42,715,000	42,715,000	-
Equity	3,461,000	3,461,000	-
Collective and private equity funds	4,375,000	-	4,375,000
Total assets	<u>\$ 57,690,000</u>	<u>\$ 46,176,000</u>	<u>\$ 11,514,000</u>
	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>

**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 \$23,985,000 and \$23,154,000 at December 31, 2019 and 2018, 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 \$2,085,000 and \$4,081,000 at December 31, 2019 and 2018, 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.

**13. Investments in Unconsolidated Entities****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 \$1,030,000 and \$1,101,000 for the years ended December 31, 2019 and 2018, respectively, which is included in other revenue in the consolidated statements of operations. During 2019 and 2018, IMC received distributions from Sprague of \$1,030,000 and \$1,615,000, respectively. IMC made a contribution to Sprague of \$955,000 in 2019. IMC's investment in Sprague is recorded under the equity method of accounting and totaled \$8,850,000 and \$7,895,000 at December 31, 2019 and 2018, respectively.



## **Inspira Health Network, Inc.**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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### **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 \$13,000 and \$5,000 for the years ended December 31, 2019 and 2018, respectively, which is included in other revenue in the consolidated statements of operations. IMC's remaining investment in CBJ is recorded under the equity method of accounting and totaled \$1,106,000 and \$1,093,000 at December 31, 2019 and 2018, 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 \$1,251,000 and \$373,000, respectively, for the year ended December 31, 2019, and \$1,079,000 and \$319,000, respectively, for the year ended December 31, 2018, which is included in other revenue in the consolidated statements of operations. During 2019, HCHC and IMC received distributions of earnings in the amounts of \$400,000 and \$120,000, respectively. During 2018, HCHC and IMC received distributions of earnings in the amounts of \$1,620,000 and \$480,000, respectively. HCHC and IMC's investments in Tri-County are recorded under the equity method of accounting and totaled \$3,715,000 and \$1,101,000 for HCHC and IMC, respectively, at December 31, 2019 and \$2,864,000 and \$848,000, respectively, at December 31, 2018.

### **Ellmac Dialysis, LLC**

Ellmac Dialysis, LLC (Ellmac) is a partnership that was established in June 2019 between IMC and two independent companies to provide outpatient dialysis treatments in New Jersey. IMC acquired a 30 percent interest in Ellmac and made an initial contribution of \$1,154,000. Operations of Ellmac commenced in October 2019. IMC's investment in Ellmac is recorded under the equity method of accounting.

### **Claymount Dialysis, LLC**

Claymount Dialysis, LLC (Claymount) is a partnership that was established in November 2019 between IMC and three independent companies to provide outpatient dialysis treatments in New Jersey. IMC acquired a 30 percent interest in Claymount and made an initial contribution of \$1,012,000. Operations of Claymount commenced in 2020. IMC's investment in Claymount is recorded under the equity method of accounting.

In addition to these investments, the Network has investments in several partnerships, all of which are accounted for under the equity method of accounting.

## Inspira Health Network, Inc.

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

### 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>2019</u>	<u>2018</u>
Medicare	28 %	28 %
Commercial	21	22
Blue Cross	15	14
Medicaid	14	14
Self-pay/uninsured	12	13
Other	10	9
Total	<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

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 101,627,000	\$ 122,036,000
Patient accounts receivable, net	80,587,000	74,474,000
Assets limited as to use, designated by the Board	762,639,000	668,801,000
Total	<u>\$ 944,853,000</u>	<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.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

### 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:

	2019			Total
	Program Services	General and Administrative	Fundraising	
Salaries and wages	\$ 325,726,000	\$ 36,146,000	\$ 683,000	\$ 362,555,000
Employee benefits	89,954,000	10,001,000	213,000	100,168,000
Physician fees	34,916,000	1,033,000	-	35,949,000
Supplies and other expenses	205,969,000	25,896,000	797,000	232,662,000
Interest	7,553,000	839,000	-	8,392,000
Depreciation and amortization	46,822,000	5,203,000	29,000	52,054,000
Loss on disposal	3,284,000	-	-	3,284,000
Total	<u>\$ 714,224,000</u>	<u>\$ 79,118,000</u>	<u>\$ 1,722,000</u>	<u>\$ 795,064,000</u>

  

	2018			Total
	Program Services	General and Administrative	Fundraising	
Salaries and wages	\$ 307,156,000	\$ 34,756,000	\$ 691,000	\$ 342,603,000
Employee benefits	80,377,000	9,779,000	221,000	90,377,000
Physician fees	34,480,000	1,070,000	-	35,550,000
Supplies and other expenses	187,845,000	24,482,000	641,000	212,968,000
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>\$ 656,193,000</u>	<u>\$ 75,276,000</u>	<u>\$ 1,581,000</u>	<u>\$ 733,050,000</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, 2019

Subsequent events have been evaluated through May 5, 2020, which is the date the consolidated financial statements were issued.

The Network's operations and financial performance will be affected by the recent COVID-19 outbreak which has spread globally and is adversely affecting economic conditions throughout the world. The Network's evaluation of the effects of these events is ongoing as of the date the accompanying consolidated financial statements were issued. The pandemic will impact various parts of 2020 operations and financial performance including, but not limited to, additional costs for emergency preparedness, disease control and containment, potential shortages of personnel, supply chain disruption, closure of certain facilities or service lines and declines in revenue related to decreases in occupancy or volumes of certain revenue streams. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

**Inspira Health Network, Inc.**  
Consolidating Schedule, Balance Sheet  
December 31, 2019  
(In Thousands)

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group		Inspira Health Network, Inc.	Inspira Network Foundations	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	Red Bank Development Corporation	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation	
			Eliminations	Combined														Eliminations	Consolidated
<b>Assets</b>																			
<b>Current Assets</b>																			
Cash and cash equivalents	\$ 74,973	\$ -	\$ -	\$ 74,973	\$ 413	\$ 1,532	\$ 1,397	\$ 256	\$ 769	\$ 5,109	\$ 912	\$ 2,875	\$ -	\$ 12,441	\$ 813	\$ -	\$ 137	\$ -	\$ 101,627
Assets limited as to use, externally designated	18,814	-	-	18,814	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,814
Patient accounts receivable, net	74,361	-	-	74,361	-	-	2,498	136	360	2,985	-	247	-	-	-	-	-	-	80,587
Supplies	7,390	-	-	7,390	-	-	-	-	56	-	-	-	-	-	109	-	-	-	7,555
Prepaid expenses and other current assets	21,674	-	-	21,674	171	101	405	34	355	3,792	-	88	-	2,298	6	-	-	(7,591)	21,333
Due from affiliated organizations	74,063	-	-	74,063	-	-	-	-	-	-	-	-	-	-	-	-	-	(74,063)	-
Total current assets	271,275	-	-	271,275	584	1,633	4,300	426	1,540	11,886	912	3,210	-	14,739	928	-	137	(81,654)	229,916
<b>Assets Limited as to Use</b>																			
Internally designated by Board of Directors	621,644	-	-	621,644	48,710	27,040	-	-	-	-	-	-	-	65,245	-	-	-	-	762,639
Externally designated by donor	-	-	-	-	-	5,478	-	-	-	-	-	-	-	-	-	-	-	-	5,478
Externally designated under bond indenture agreements	26,245	-	-	26,245	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,245
Under interest rate swap agreements	8,007	-	-	8,007	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,007
655,896	-	-	655,896	48,710	32,518	-	-	-	-	-	-	-	-	65,245	-	-	-	-	802,369
<b>Investments in Subsidiaries</b>	(392)	-	-	(392)	38,286	-	-	-	-	-	-	-	-	-	-	-	-	(37,894)	-
<b>Investments in Partnerships</b>	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	(15)	-
<b>Property and Equipment, Net</b>	785,854	-	-	785,854	4,159	810	6,489	161	1,933	4,321	-	476	5,495	-	3,684	-	-	-	813,382
<b>Other Assets</b>																			
Pledges receivable, net	-	-	-	-	-	8,165	-	-	-	-	-	-	-	-	-	-	-	-	8,165
Investment in unconsolidated entities	13,278	-	-	13,278	-	-	-	-	-	-	3,715	-	-	-	-	-	-	(55)	16,938
Insurance recoveries receivable	19,260	-	-	19,260	-	-	-	-	-	-	-	-	-	2,085	-	-	-	(19,260)	2,085
Other assets	1,752	-	-	1,752	-	-	-	-	263	544	-	-	-	-	-	-	-	(16)	2,543
Operating lease right-of-use asset	6,096	-	-	6,096	119	-	3,674	-	163	7,155	-	828	-	-	-	-	-	(2,795)	15,240
Pension asset	4,334	-	-	4,334	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,334
44,720	-	-	44,720	119	8,165	3,674	-	426	7,699	3,715	828	-	-	2,085	-	-	-	(22,126)	49,305
<b>Beneficial Interest in Perpetual and Temporary Trusts</b>	8,745	-	-	8,745	-	1,757	-	-	-	-	-	-	-	-	-	-	-	-	10,502
<b>Beneficial Interest in Inspira Health Network Foundations</b>	12,134	-	-	12,134	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,134)	-
Total assets	\$ 1,778,232	\$ -	\$ -	\$ 1,778,232	\$ 91,873	\$ 44,883	\$ 14,463	\$ 587	\$ 3,899	\$ 23,906	\$ 4,627	\$ 4,514	\$ 5,495	\$ 82,069	\$ 4,612	\$ -	\$ 137	\$ (153,823)	\$ 1,905,474
<b>Liabilities and Net Assets</b>																			
<b>Current Liabilities</b>																			
Accounts payable and accrued expenses	\$ 102,599	\$ -	\$ -	\$ 102,599	\$ 325	\$ 172	\$ 1,367	\$ 139	\$ 365	\$ 4,876	\$ -	\$ 2,564	\$ -	\$ 7,591	\$ 153	\$ -	\$ 18	\$ (7,642)	\$ 112,527
Construction accounts payable	18,058	-	-	18,058	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,058
Accrued salaries and payroll taxes	18,231	-	-	18,231	-	-	255	-	-	1,412	-	-	-	-	-	-	-	-	19,898
Accrued vacation and other employee benefits	21,621	-	-	21,621	-	-	295	-	-	-	-	-	-	-	-	-	-	-	21,916
Accrued interest payable	10,282	-	-	10,282	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,282
Due to affiliated organizations	-	-	-	-	1,463	515	-	-	-	-	8,617	5,227	-	435	350	-	-	(16,607)	-
Estimated settlements due to third-party payors	49,127	-	-	49,127	-	-	334	51	34	2,844	14	187	-	-	-	-	-	-	52,591
Current portion of operating lease obligations	1,650	-	-	1,650	67	-	501	-	50	1,198	-	517	-	-	-	-	-	(964)	3,019
Current installments of long-term debt	9,499	-	-	9,499	-	-	-	-	16	-	-	-	-	157	-	-	-	(16)	9,656
Total current liabilities	231,067	-	-	231,067	1,855	687	2,752	190	465	10,330	14	11,885	5,227	7,591	745	350	18	(25,229)	247,947
<b>Due to Affiliated Organizations</b>	-	-	-	-	-	1,504	19,934	789	16,820	18,409	-	-	-	-	-	-	-	(57,456)	-
<b>Accrued Retirement Benefits</b>	11,054	-	-	11,054	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,054
<b>Interest Rate Swap Agreements</b>	8,007	-	-	8,007	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,007
<b>Estimated Settlements Due to Third-Party Payors</b>	18,710	-	-	18,710	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,710
<b>Operating Lease Obligations</b>	4,665	-	-	4,665	53	-	3,258	-	116	5,987	-	312	-	-	-	-	-	(1,831)	12,560
<b>Other Long-Term Liabilities</b>	25,818	-	-	25,818	-	-	-	-	-	-	-	-	-	19,583	-	-	-	(19,260)	26,141
<b>Long-Term Debt</b>	503,787	-	-	503,787	14,278	-	-	-	-	-	-	-	-	-	2,257	-	-	-	520,322
Total liabilities	803,108	-	-	803,108	16,186	2,191	25,944	979	17,401	34,726	14	12,197	5,227	27,174	3,002	350	18	(103,776)	844,741
<b>Net Assets</b>																			
Without donor restrictions	966,024	-	-	966,024	75,687	38,161	(11,481)	(392)	(13,502)	(10,820)	4,613	(7,683)	268	54,895	1,610	(350)	119	(50,047)	1,047,102
With donor restrictions	9,100	-	-	9,100	-	4,531	-	-	-	-	-	-	-	-	-	-	-	-	13,631
Total net assets	975,124	-	-	975,124	75,687	42,692	(11,481)	(392)	(13,502)	(10,820)	4,613	(7,683)	268	54,895	1,610	(350)	119	(50,047)	1,060,733
Total liabilities and net assets	\$ 1,778,232	\$ -	\$ -	\$ 1,778,232	\$ 91,873	\$ 44,883	\$ 14,463	\$ 587	\$ 3,899	\$ 23,906	\$ 4,627	\$ 4,514	\$ 5,495	\$ 82,069	\$ 4,612	\$ -	\$ 137	\$ (153,823)	\$ 1,905,474

**Inspira Health Network, Inc.**

Consolidating Schedule, Statement of Operations and Changes in Net Assets

Year Ended December 31, 2019

(In Thousands)

	Inspira Medical Centers, Inc.	Inspira Medical Center Woodbury, Inc.	Obligated Group		Inspira Health Network, Inc.	Inspira Network Foundations	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	Red Bank Development Corporation	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation	
			Eliminations	Combined													Eliminations	Consolidated	
<b>Net Assets Without Donor Restrictions</b>																			
Revenue:																			
Net patient service revenue	\$ 504,045	\$ 230,129	\$ (6,062)	\$ 728,112	\$ -	\$ -	\$ 14,581	\$ 1,671	\$ 1,772	\$ 44,992	\$ -	\$ 28,155	\$ -	\$ -	\$ 3,612	\$ -	\$ (4,372)	\$ 818,523	
Other revenue	17,966	6,553	(804)	23,715	3,226	1,072	51	28	7,671	6,297	1,263	285	409	8,060	1,387	2,760	(25,476)	30,748	
Total revenue	522,011	236,682	(6,866)	751,827	3,226	1,072	14,632	1,699	9,443	51,289	1,263	28,440	409	8,060	4,999	2,760	(29,848)	849,271	
Expenses:																			
Salaries and wages	202,295	96,848	-	299,143	304	683	8,061	837	5,352	40,634	-	6,535	-	1,001	5	-	-	362,555	
Employee benefits	64,458	28,684	(6,062)	87,080	97	213	1,802	171	1,606	6,943	-	2,056	-	200	-	-	-	100,168	
Physician fees	25,265	9,947	(317)	34,895	-	-	2,263	70	542	1,866	-	290	-	56	-	-	(4,033)	35,949	
Supplies and other expenses	138,402	62,344	(487)	200,259	999	797	7,247	618	2,407	15,307	-	19,071	49	6,467	3,521	29	18	(24,127)	232,662
Interest	6,323	1,516	-	7,839	444	-	-	-	2	-	-	-	-	148	-	-	(41)	8,392	
Depreciation and amortization	33,184	16,503	-	49,687	27	29	791	36	383	635	-	188	-	278	-	-	-	52,054	
Loss on disposal	-	3,284	-	3,284	-	-	-	-	-	-	-	-	-	-	-	-	-	3,284	
Total expenses	469,927	219,126	(6,866)	682,187	1,871	1,722	20,164	1,732	10,292	65,385	-	28,140	49	6,467	5,204	34	18	(28,201)	795,064
Operating income (loss)	52,084	17,556	-	69,640	1,355	(650)	(5,532)	(33)	(849)	(14,096)	1,263	300	360	1,593	(205)	(34)	2,742	(1,647)	54,207
<b>Nonoperating Gains (Losses), Net</b>																			
Interest and dividend income	13,176	3,029	-	16,205	486	575	-	-	-	-	-	-	1,091	-	-	-	(2)	18,355	
Change in value of interest rate swap agreements	-	(1,211)	-	(1,211)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,211)	
Net realized gains (losses) on sale of investments	692	(187)	-	505	-	1,308	-	-	-	-	-	-	-	-	-	-	-	1,813	
Change in net unrealized gains and losses on investments	40,667	11,642	-	52,309	4,776	2,538	-	-	-	-	-	-	9,308	-	-	-	-	68,931	
Excess (deficiency) of revenue and gains over expenses	106,619	30,829	-	137,448	6,617	3,771	(5,532)	(33)	(849)	(14,096)	1,263	300	360	11,992	(205)	(34)	2,742	(1,649)	142,095
Other changes in net assets without donor restrictions:																			
Other	(1,190)	(3,643)	-	(4,833)	1,389	(90)	-	-	(193)	-	-	-	-	1,837	-	(2,701)	3,830	(761)	
Pension liability adjustment	-	261	-	261	-	-	-	-	-	-	-	-	-	-	-	-	-	261	
Net assets released from restriction for property and equipment	12,057	-	-	12,057	-	12,630	-	-	-	-	-	-	-	-	-	-	(12,049)	12,638	
Net asset transfers	226,617	(223,153)	-	3,464	1,500	(4,698)	-	-	(12,000)	11,922	(1,500)	-	-	1,312	-	-	-	-	
Increase (decrease) in net assets without donor restrictions	344,103	(195,706)	-	148,397	9,506	11,613	(5,532)	(33)	(13,042)	(2,174)	(237)	300	360	11,992	2,944	(34)	41	(9,868)	154,233
<b>Net Assets With Donor Restrictions</b>																			
Contributions	87	-	-	87	-	1,733	-	-	-	-	-	-	-	-	-	-	-	1,820	
Change in beneficial interest in temporary trust	229	-	-	229	-	289	-	-	-	-	-	-	-	-	-	-	-	518	
Net assets released from restriction	(12,063)	-	-	(12,063)	-	(12,630)	-	-	-	-	-	-	-	-	-	-	12,049	(12,644)	
Investment income	-	-	-	-	-	573	-	-	-	-	-	-	-	-	-	-	-	573	
Other	16,073	(15,124)	-	949	-	(99)	-	-	-	-	-	-	-	-	-	-	(1,032)	(182)	
Change in beneficial interest in perpetual trusts	-	451	-	451	-	62	-	-	-	-	-	-	-	-	-	-	-	513	
Net asset transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Increase in net assets with donor restrictions	4,326	(14,673)	-	(10,347)	-	(10,072)	-	-	-	-	-	-	-	-	-	-	-	11,017	(9,402)
Increase (decrease) in net assets	348,429	(210,379)	-	138,050	9,506	1,541	(5,532)	(33)	(13,042)	(2,174)	(237)	300	360	11,992	2,944	(34)	41	1,149	144,831
<b>Net Assets (Deficit), Beginning</b>	626,695	210,379	-	837,074	66,181	41,151	(5,949)	(359)	(460)	(8,646)	4,850	(7,983)	(92)	42,903	(1,334)	(316)	78	(51,196)	915,902
<b>Net Assets (Deficit), Ending</b>	\$ 975,124	\$ -	\$ -	\$ 975,124	\$ 75,687	\$ 42,692	\$ (11,481)	\$ (392)	\$ (13,502)	\$ (10,820)	\$ 4,613	\$ (7,683)	\$ 268	\$ 54,895	\$ 1,610	\$ (350)	\$ 119	\$ (50,047)	\$ 1,060,733

**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 Network Foundations	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 Healthpark, LLC	June	Red Bank Development Corporation	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation	
			Eliminations	Combined													Eliminations	Consolidated	
<b>Assets</b>																			
<b>Current Assets</b>																			
Cash and cash equivalents	\$ 81,331	\$ 10,966	\$ -	\$ 92,297	\$ 1,158	\$ 1,713	\$ 4,185	\$ 136	\$ 1,496	\$ 6,426	\$ 2,001	\$ 2,728	\$ -	\$ 9,623	\$ 166	\$ -	\$ 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
Prepaid expenses and other current assets	15,593	5,308	-	20,901	54	52	464	21	539	2,324	-	94	2,077	45	-	-	-	(7,790)	18,781
Due from affiliated organizations	90,935	13,330	(44,843)	59,422	873	16	1,285	-	-	-	-	-	104	-	-	-	10	(61,710)	-
Total current assets	250,560	61,170	(44,843)	266,887	2,085	1,781	8,846	282	2,568	9,860	2,001	2,950	104	11,700	751	-	117	(69,500)	240,432
<b>Assets Limited as to Use</b>																			
Internally designated by Board of Directors	437,561	110,328	-	547,889	42,558	23,336	-	-	-	-	-	-	55,018	-	-	-	-	-	668,801
Externally designated by donor	-	-	-	-	-	2,577	-	-	-	-	-	-	-	-	-	-	-	-	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
	440,245	270,783	-	711,028	42,558	25,913	-	-	-	-	-	-	55,018	-	-	-	-	-	834,517
<b>Investments in Subsidiaries</b>	(394)	-	-	(394)	36,898	-	-	-	-	-	-	-	-	-	-	-	-	(36,504)	-
<b>Investments in Partnerships</b>	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	(15)	-
<b>Property and Equipment, Net</b>	272,762	331,072	-	603,834	4,184	839	7,260	169	2,152	3,927	-	491	4,800	-	115	-	-	-	627,771
<b>Other Assets</b>																			
Pledges receivable, net	-	-	-	-	-	12,644	-	-	-	-	-	-	-	-	-	-	-	-	12,644
Investment in unconsolidated entities	8,539	1,093	-	9,632	-	-	-	-	-	-	2,864	-	-	792	-	-	(55)	-	13,233
Insurance recoveries receivable	11,669	3,718	-	15,387	-	-	-	-	-	-	-	-	2,054	-	-	-	(13,360)	-	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
	21,222	10,016	-	31,238	-	12,644	-	264	544	2,864	-	-	2,054	794	-	-	-	(14,858)	35,544
<b>Beneficial Interest in Perpetual and Temporary Trusts</b>	4,429	3,636	-	8,065	-	1,406	-	-	-	-	-	-	-	-	-	-	-	-	9,471
<b>Beneficial Interest in Inspira Health Network Foundation Cumberland/Salem, Inc.</b>	3,584	11,033	-	14,617	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,617)	-
Total assets	\$ 992,408	\$ 687,710	\$ (44,843)	\$ 1,635,275	\$ 85,740	\$ 42,583	\$ 16,106	\$ 451	\$ 4,984	\$ 14,331	\$ 4,865	\$ 3,441	\$ 4,904	\$ 68,772	\$ 1,660	\$ -	\$ 117	\$ (135,494)	\$ 1,747,735
<b>Liabilities and Net Assets</b>																			
<b>Current Liabilities</b>																			
Accounts payable and accrued expenses	\$ 62,801	\$ 21,910	\$ -	\$ 84,711	\$ 454	\$ 218	\$ 1,845	\$ 134	\$ 329	\$ 4,225	\$ -	\$ 2,284	\$ -	\$ 7,790	\$ 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	882	64	-	-	-	-	8,550	4,996	-	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	1,100	2,276	163	416	6,984	15	11,424	4,996	7,790	1,686	316	39	(27,824)	232,806
<b>Due to Affiliated Organizations</b>	-	-	-	-	-	332	19,779	647	5,012	15,993	-	-	-	-	-	-	-	(41,763)	-
<b>Accrued Retirement Benefits</b>	8,395	-	-	8,395	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,395
<b>Interest Rate Swap Agreements</b>	-	6,796	-	6,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,796
<b>Estimated Settlements Due to Third-Party Payors</b>	16,605	6,186	-	22,791	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,791
<b>Other Long-Term Liabilities</b>	16,866	8,670	-	25,536	-	-	-	-	-	-	-	-	18,079	-	-	-	-	(13,360)	30,255
<b>Long-Term Debt</b>	177,022	339,517	-	516,539	14,278	-	-	-	16	-	-	-	-	-	1,308	-	-	(1,351)	530,790
Total liabilities	365,713	477,331	(44,843)	798,201	19,559	1,432	22,055	810	5,444	22,977	15	11,424	4,996	25,869	2,994	316	39	(84,298)	831,833
<b>Net Assets</b>																			
Without donor restrictions	621,921	195,706	-	817,627	66,181	26,548	(5,949)	(359)	(460)	(8,646)	4,850	(7,983)	(92)	42,903	(1,334)	(316)	78	(40,179)	892,869
With donor restrictions	4,774	14,673	-	19,447	-	14,603	-	-	-	-	-	-	-	-	-	-	-	(11,017)	23,033
Total net assets	626,695	210,379	-	837,074	66,181	41,151	(5,949)	(359)	(460)	(8,646)	4,850	(7,983)	(92)	42,903	(1,334)	(316)	78	(51,196)	915,902
Total liabilities and net assets	\$ 992,408	\$ 687,710	\$ (44,843)	\$ 1,635,275	\$ 85,740	\$ 42,583	\$ 16,106	\$ 451	\$ 4,984	\$ 14,331	\$ 4,865	\$ 3,441	\$ 4,904	\$ 68,772	\$ 1,660	\$ -	\$ 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 Foundations	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 Healthpark, LLC	Juno	Red Bank Development Corporation	Inspira Care Connect, LLC	Inspira Health Partners, LLC	Consolidation	
			Eliminations	Combined														Eliminations	Consolidated
<b>Net Assets Without Donor Restrictions</b>																			
Revenue:																			
Net patient service revenue	\$ 467,137	\$ 222,215	\$ (5,648)	\$ 683,704	\$ -	\$ -	\$ 15,059	\$ 1,835	\$ 1,871	\$ 34,068	\$ -	\$ 25,578	\$ -	\$ -	\$ 4,461	\$ -	\$ -	\$ (2,850)	\$ 763,726
Other revenue	18,043	9,612	(493)	27,162	6,752	1,247	47	6	6,469	5,383	1,067	127	-	7,389	428	-	508	(21,717)	34,866
Total revenue	485,180	231,827	(6,141)	710,866	6,752	1,247	15,106	1,841	8,340	39,451	1,067	25,705	-	7,389	4,887	-	508	(24,567)	798,592
Expenses:																			
Salaries and wages	189,376	96,289	-	285,665	2,023	691	6,532	848	5,044	34,451	-	6,041	-	-	1,308	-	-	-	342,603
Employee benefits	57,384	26,530	(5,648)	78,266	647	221	1,656	178	1,552	5,924	-	1,933	-	-	-	-	-	-	90,377
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	641	6,226	635	2,093	12,992	(73)	16,120	92	8,048	3,712	62	18	(20,455)	212,968
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	(6,141)	628,374	4,490	1,581	17,847	1,761	9,567	55,724	(73)	24,959	92	8,048	5,133	62	18	(24,533)	733,050
Operating income (loss)	55,557	26,935	-	82,492	2,262	(334)	(2,741)	80	(1,227)	(16,273)	1,140	746	(92)	(659)	(246)	(62)	490	(34)	65,542
<b>Nonoperating Gains (Losses), Net</b>																			
Interest and dividend income	9,579	99	-	9,678	2,642	429	-	-	-	-	-	-	-	774	-	-	-	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
Inherent contribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	(1,798)	(2,741)	80	(1,227)	(16,273)	1,140	746	(92)	115	(246)	(62)	490	181	98,161
Other changes in net assets without donor restrictions:																			
Other	(10,951)	2,401	-	(8,550)	-	(1,055)	-	-	(1,017)	10,193	-	-	-	-	-	-	(646)	215	(860)
Pension liability adjustment	-	138	-	138	-	-	-	-	-	-	-	-	-	-	-	-	-	-	138
Change in net 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	-	4,196	-	-	-	-	-	-	-	-	-	-	-	(3,861)	3,977
Increase (decrease) in net assets without donor restrictions	35,691	24,624	-	60,315	137	1,343	(2,741)	80	(2,244)	(6,080)	1,140	746	(92)	(3,143)	(246)	(62)	(156)	(3,465)	45,532
<b>Net Assets Without Donor Restrictions</b>																			
Contributions	9	-	-	9	-	4,739	-	-	-	-	-	-	-	-	-	-	-	-	4,748
Change in beneficial interest in temporary trust	(296)	-	-	(296)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(296)
Net assets released from restriction	(3,651)	-	-	(3,651)	-	(4,196)	-	-	-	-	-	-	-	-	-	-	-	3,861	(3,986)
Investment income	-	-	-	-	-	(74)	-	-	-	-	-	-	-	-	-	-	-	-	(74)
Other	678	3,908	-	4,586	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,586)	-
Change in beneficial interest in perpetual trusts	(111)	(485)	-	(596)	-	(50)	-	-	-	-	-	-	-	-	-	-	-	-	(646)
Increase in net assets with donor restrictions	(3,371)	3,423	-	52	-	419	-	-	-	-	-	-	-	-	-	-	-	(725)	(254)
Increase (decrease) in net assets	32,320	28,047	-	60,367	137	1,762	(2,741)	80	(2,244)	(6,080)	1,140	746	(92)	(3,143)	(246)	(62)	(156)	(4,190)	45,278
<b>Net Assets (Deficit), Beginning</b>	594,375	182,332	-	776,707	66,044	39,389	(3,208)	(439)	1,784	(2,566)	3,710	(8,729)	-	46,046	(1,088)	(254)	234	(47,006)	870,624
<b>Net Assets (Deficit), Ending</b>	\$ 626,695	\$ 210,379	\$ -	\$ 837,074	\$ 66,181	\$ 41,151	\$ (5,949)	\$ (359)	\$ (460)	\$ (8,646)	\$ 4,850	\$ (7,983)	\$ (92)	\$ 42,903	\$ (1,334)	\$ (316)	\$ 78	\$ (51,196)	\$ 915,902