Consolidated Financial Statements and Supplementary Information

Saint Joseph's Health, Inc.
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Saint Joseph’s Health, Inc.

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2017 and 2016

Contents

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Report of Independent Auditors

The Board of Trustees
Saint Joseph's Health, Inc.

We have audited the accompanying consolidated financial statements of Saint Joseph's Health, Inc., formerly known as St. Joseph's Healthcare System, Inc., which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, 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 Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2016 financial statements of St, Joseph's Regional Cardiology, LLC, St. Joseph's Wayne Cardiology, LLC, St. Joseph's Hospital and Medical Center Foundation, Inc., St. Joseph's Wayne Hospital Foundation, Inc. and VHS Management, Inc. and subsidiary, which statements reflect total assets constituting approximately 5% at December 31, 2016 and total revenue constituting approximately 2% for the year ended December 31, 2016 of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for St, Joseph's Regional Cardiology, LLC, St. Joseph's Wayne Cardiology, LLC, St. Joseph's Hospital and Medical Center Foundation, Inc., St. Joseph's Wayne Hospital Foundation, Inc. and VHS Management, Inc. and subsidiary for 2016, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, based on our audits and, for 2016, the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Joseph's Health, Inc. at December 31, 2017 and 2016, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet at December 31, 2017 and the consolidating statements of operations and changes in net assets for the year then ended are presented for purposes of additional analysis 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. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

May 24, 2018

Saint Joseph's Health, Inc.

Consolidated Balance Sheets

	December 31 2017	2016
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 68,228**	$ 139,429
Investments	**246,191**	178,441
Current portion of assets whose use is limited	**17,052**	15,894
Patient accounts receivable – less allowance for doubtful accounts of $69,901 in 2017 and $84,539 in 2016	**90,748**	91,097
Contributions and pledges receivable	**1,299**	2,896
Prepaid expenses and other current assets	**24,872**	22,664
Total current assets	**448,390**	450,421
Assets whose use is limited – less current portion	**46,908**	53,055
Property and equipment – net	**335,964**	324,327
Beneficial interest in perpetual trusts	**6,139**	5,711
Equity investments in joint ventures	**27,558**	23,993
Other noncurrent assets	**15,651**	16,694
Total assets	**$ 880,610**	$ 874,201
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 5,882**	$ 7,077
Accounts payable	**43,905**	40,719
Accrued salaries and expenses	**73,862**	70,549
Accrued interest payable	**5,359**	4,052
Deferred revenue	**314**	756
Current portion of estimated third-party payer settlements	**555**	3,374
Total current liabilities	**129,877**	126,527
Long-term debt – net of current portion	**372,211**	296,125
Estimated third-party payer settlements – net of current portion	**7,475**	8,184
Accrued pension liability	**111,427**	204,061
Estimated professional liability claims payable – net of current portion	**27,423**	23,381
Other liabilities	**11,024**	10,537
Total liabilities	**659,437**	668,815
Commitments and contingencies		
Net assets:		
Unrestricted	**195,350**	178,821
Temporarily restricted	**13,865**	15,096
Permanently restricted	**8,077**	7,649
Total Saint Joseph's Health, Inc. net assets	**217,292**	201,566
Non-controlling interests in joint ventures	**3,881**	3,820
Total net assets including non-controlling interests	**221,173**	205,386
Total liabilities and net assets	**$ 880,610**	$ 874,201

See accompanying notes.

Saint Joseph's Health, Inc.

Consolidated Statements of Operations

	Year Ended December 31 2017	2016
	(In Thousands)	
Operating revenues:		
Net patient service revenue (after contractual allowances and discounts)	**$ 788,984**	$ 786,253
Provision for bad debts	**(81,377)**	(75,172)
Net patient service revenue – net of provision for bad debts	**707,607**	711,081
Other revenue	**93,122**	81,877
Net assets released from restrictions – operations	**2,746**	3,189
Total operating revenues	**803,475**	796,147
Operating expenses:		
Salaries and wages	**383,408**	369,430
Employee benefits	**86,239**	88,910
Physician fees	**22,119**	24,925
Supplies and other	**271,551**	247,839
Interest	**14,142**	16,816
Depreciation and amortization	**33,316**	38,506
Total operating expenses	**810,775**	786,426
Operating (loss) income	**(7,300)**	9,721
Non-operating gains and losses:		
Investment return	**6,249**	5,466
Loss on extinguishment of debt	**(1,853)**	(29,701)
Deficiency of revenues over expenses, before non-controlling interests in joint ventures	**(2,904)**	(14,514)
Less: net gain attributable to non-controlling interests in joint ventures	**4,843**	4,933
Deficiency of revenues over expenses	**(7,747)**	(19,447)
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments	**1,118**	(564)
Pension-related adjustments	**22,804**	(538)
Net assets released from restrictions – capital acquisitions	**779**	1,051
Transfer of assets to joint venture	**(425)**	–
Release of pediatric surgery joint venture obligation	**–**	2,911
Change in unrestricted net assets	**$ 16,529**	$ (16,587)

See accompanying notes.

Saint Joseph’s Health, Inc.

Consolidated Statements of Changes in Net Assets

	Year Ended December 31 2017	2016
	(In Thousands)	
Unrestricted net assets:		
Change in unrestricted net assets	**$ 16,529**	$ (16,587)
Temporarily restricted net assets:		
Contributions, grants, investment income, and other support	**2,294**	3,841
Net assets released from restrictions – operations	**(2,746)**	(3,189)
Net assets released from restrictions – capital acquisitions	**(779)**	(1,051)
Decrease in temporarily restricted net assets	**(1,231)**	(399)
Permanently restricted net assets:		
Change in net unrealized gains and losses on investments held in perpetual trusts	**428**	1,502
Increase in permanently net assets	**428**	1,502
Increase (decrease) in Saint Joseph’s Health, Inc. net assets	**15,726**	(15,484)
Non-controlling interests in joint ventures:		
Net gain attributable to non-controlling interests in joint ventures	**4,843**	4,933
Distributions to non-controlling interests in joint ventures	**(4,989)**	(4,720)
Contributions from non-controlling interests in joint ventures	**207**	131
Release of pediatric surgery joint venture obligation	**–**	2,120
Increase in non-controlling interests	**61**	2,464
Change in net assets including non-controlling interests	**15,787**	(13,020)
Net assets at beginning of year	**205,386**	218,406
Net assets at end of year	**$ 221,173**	$ 205,386

See accompanying notes.

Saint Joseph's Health, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31 2017	2016
	(In Thousands)	
Operating activities		
Change in net assets including non-controlling interests	**$ 15,787**	$ (13,020)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**33,316**	38,506
Change in net unrealized gains and losses on investments and perpetual trusts	**(1,546)**	992
Net realized gains and losses on sales of investments	**48**	(2,223)
Temporarily restricted contributions and other support	**(2,294)**	(3,841)
Distributions to non-controlling interests in joint ventures	**4,989**	4,720
Contributions from non-controlling interest in joint ventures	**(207)**	(131)
Gain on sale of certain assets and business operations of VHS Management, Inc.	**(8,000)**	–
Equity in earnings of joint ventures	**(4,214)**	(2,901)
Dividend received from equity investment in joint ventures	**–**	2,966
Loss on extinguishment of debt and amortization of financing costs and bond premium and discount	**2,112**	31,742
Changes in operating assets and liabilities:		
Patient accounts receivable	**349**	(5,453)
Prepaid expenses and other assets	**1,082**	411
Accounts payable, accrued salaries and expenses and interest payable	**7,806**	2,572
Estimated third-party payer settlements	**(3,528)**	(5,943)
Accrued pension liability	**(92,634)**	12,359
Estimated professional liability claims payable and other liabilities	**4,087**	1,739
Net cash (used in) provided by operating activities	**(42,847)**	62,495
Investing activities		
Acquisition of property and equipment, net	**(44,953)**	(30,394)
Purchases of investments	**(161,119)**	(171,009)
Proceeds from sales of investments and other investments	**107,427**	160,676
Net cash used in investing activities	**(98,645)**	(40,727)
Financing activities		
Repayment of long-term debt and escrow deposits	**(33,071)**	(253,412)
Issuance of long-term debt	**105,850**	272,692
Repayment of notes receivable	**–**	1,112
Equity contributions from non-controlling interests	**207**	131
Distributions paid to non-controlling interests in joint ventures	**(4,989)**	(4,691)
Temporarily restricted contributions other support	**2,294**	3,841
Net cash provided by financing activities	**70,291**	19,673
Net (decrease) increase in cash and cash equivalents	**(71,201)**	41,441
Cash and cash equivalents, beginning of year	**139,429**	97,988
Cash and cash equivalents, end of year	**$ 68,228**	$ 139,429
Supplemental information		
Cash paid for interest	**$ 12,835**	$ 20,306

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the accounts of Saint Joseph's Health, Inc., formerly known as St. Joseph's Healthcare System, Inc. (the Parent), a not-for-profit holding corporation sponsored by the Sisters of Charity of Saint Elizabeth, and its affiliates (collectively, the System). Affiliated members of the Parent include St. Joseph's Hospital and Medical Center and subsidiaries, St. Joseph's Hospital and Medical Center Foundation, Inc. (the Medical Center Foundation), St. Joseph's Wayne Hospital Foundation, Inc. (the Wayne Foundation), 200 Hospital Plaza Corporation (200 Hospital Plaza), SJHS Insurance Limited (the Insurance Captive), and VHS Management, Inc. and subsidiary (VHS).

Saint Joseph's University Medical Center, formerly known as St. Joseph's Hospital and Medical Center, (the University Medical Center) was founded in 1867 and is located in Paterson, New Jersey. It is an acute-care hospital with 651 licensed beds and 30 newborn bassinets. The University Medical Center is a state-designated trauma center and provides a full range of health care services. Effective January 1, 2010, St. Joseph's Wayne Medical Center and subsidiary (Wayne Medical Center) was merged with the University Medical Center and collectively the entities are referred to herein as the Medical Center. Wayne Medical Center is located in Wayne, New Jersey, and is an acute-care hospital with 229 licensed beds. Wayne Medical Center provides comprehensive medical and surgical care, and emergency and diagnostic services for its community.

The Medical Center also operates St. Joseph's Healthcare and Rehab Center, a 151 bed skilled nursing facility located in Cedar Grove, New Jersey. In addition, the Medical Center includes the following wholly owned subsidiaries:

- St. Joseph's Hospital Housing Corp. (the Housing Corp.) and its subsidiaries, Genesis Property Development Holding, LLC and Genesis Property Development, LLC (collectively, Genesis), provide property-management services for nonhospital-related real estate holdings. The Housing Corp. ceased its operations in 2009.
- St. Joseph's Healthcare, Inc.; St. Joseph's Emergency Physicians, Inc.; St. Joseph's Faculty Physicians, Inc.; and St. Joseph's Physician's, Inc. manage the Medical Center's faculty staff billing services.
- Harbor House, Inc. and its subsidiaries, Harborside Apartments, Inc. and Harborview Apartments, Inc., provide housing and services to individuals with mental illnesses.

1. Organization and Summary of Significant Accounting Policies (continued)

The Medical Center is also the majority member of the following consolidated subsidiaries: St. Joseph's Regional Cardiology, LLC (Paterson Cardiology); St. Joseph's Wayne Cardiology, LLC (Wayne Cardiology); Blue Moon Properties, LLC (Blue Moon); St. Joseph's Ambulatory Surgical Associates, LLC (Ambulatory Surgical); and St. Joseph's Surgery Management, LLC (Surgery Management). Paterson Cardiology and Wayne Cardiology are limited liability corporations that each operate a cardiac catheterization laboratory. Blue Moon is a limited liability corporation that provides radiology-management services. Ambulatory Surgical is a limited liability corporation that invests in ambulatory surgical centers (the Medical Center transferred its ownership interests in Ambulatory Surgical to the other LLC member in 2016). Surgery Management is a limited liability corporation established to manage the surgical services at the University Medical Center.

The Paterson Foundation and the Wayne Foundation are public charities whose primary purpose is to raise funds for the Medical Center and Wayne Medical Center, respectively, and their affiliated organizations, and other area charitable organizations.

200 Hospital Plaza is a not-for-profit organization whose purpose is to further the operations of the Medical Center by owning, managing, and operating parking facilities and any other facilities that may be deemed useful or necessary for employees, patients, visitors, doctors, and other persons affiliated with the Medical Center.

The Insurance Captive, which is a wholly owned captive insurance company domiciled in Bermuda, was established in 2007 to provide the System with general liability and professional medical liability insurance.

VHS is a not-for-profit corporation incorporated in the state of New Jersey and is the holding company of Visiting Health Services of New Jersey, Inc. (the Agency). The Agency is located in Totowa, New Jersey, and is a not-for-profit home health agency that served Passaic, Bergen, and Morris counties in New Jersey. In May 2017, the System sold certain assets and business operations related to VHS to a newly formed joint venture, VHSNJ at Home, LLC, a joint venture between a recently formed subsidiary of the System, St. Joseph's Home Health, LLC, and Hackensack Meridian Home Care Services, Inc. The System realized a gain of approximately $8.0 million on the sale, included in other revenue in the accompanying 2017 consolidated statement of operations. The System holds 50% ownership interest in the VHSNJ at Home, LLC joint venture.

1. Organization and Summary of Significant Accounting Policies (continued)

In connection with the issuance of the New Jersey Healthcare Facilities Financing Authority St. Joseph's Healthcare System Obligated Group Issue, Series 2016 Revenue Bonds in 2016, the System formed an "Obligated Group," which includes only the Medical Center. The Obligated Group issued Series 2017 Taxable Bonds in September 2017.

Significant Accounting Policies

A summary of the System's significant accounting policies is as follows:

Principles of Consolidation: The consolidated financial statements include the accounts of the Parent and its affiliates. The Parent accounts for its interests in entities in which it has significant influence but not control on the equity basis of accounting.

Investment in Consolidated Subsidiaries: The Medical Center is a majority member of Paterson Cardiology, Wayne Cardiology, and Blue Moon and maintains a 51% interest in each of these at December 31, 2017 and 2016. In addition, the Medical Center is a majority member of Surgery Management and maintains a 59% and 54% interest at December 31, 2017 and 2016, respectively. The accounts of these consolidated subsidiaries are consolidated with those of the Medical Center. The change in the non-controlling interests are separately reported. All intercompany transactions and account balances have been eliminated in consolidation.

Basis of Accounting: The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP) consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification 954, *Health Care Entities*, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to health care organizations.

Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, contractual allowances,

1. Organization and Summary of Significant Accounting Policies (continued)

estimated third-party payer settlements, valuation of goodwill, valuation of investments, accrued pension liability, estimated professional liability claims payable, and other self-insurance liabilities.

Cash and Cash Equivalents: Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, except for amounts recorded in assets whose use is limited. The carrying amount of cash and cash equivalents reported on the consolidated balance sheets approximates fair value. The System does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Investments and Investment Income: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value and are classified as other-than-trading securities. Fair value is based on quoted market prices of the investment or similar investments. Investment return (including realized gains and losses on investments, interest, and dividends) is included in the deficiency of revenues over expenses in the accompanying consolidated statements of operations, unless the income or loss is restricted by donor or law. The change in net unrealized gains and losses on investments is reported as a separate component of the change in unrestricted net assets, except that declines in fair value that are determined by management to be other than temporary are reported as realized losses. Donated investments are recorded at the fair value on the date of receipt.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

The System reviews its investments to identify those for which fair value is below cost. The System then makes a determination as to whether the investment should be considered other-than-temporarily impaired. No such losses were recorded in 2017 or 2016. Unrealized losses on individual investment holdings were not significant.

1. Organization and Summary of Significant Accounting Policies (continued)

Assets Whose Use is Limited: Assets whose use is limited include assets held by trustees under bond indenture agreements, professional liability funds and investments held by the Insurance Captive, designated assets set aside by the Board of Trustees (the Board) over which the Board retains control and may at its discretion subsequently use for other purposes, and donor-restricted assets. Amounts available to meet current liabilities of the System have been classified as current assets in the accompanying consolidated balance sheets.

Supplies: Supplies are stated at the lower of cost (first in, first out) or net realizable value. Supplies are used in the provision of patient care and are not held for sale.

Property and Equipment: Property and equipment acquisitions are recorded at cost, except donated assets, which are recorded at fair value at the date of donation. Depreciation expense is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations.

Estimated useful lives for the property and equipment are as follows:

Land improvements	15–20 years
Buildings and improvements	5–60 years
Fixed and major movable equipment	5–12 years

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

1. Organization and Summary of Significant Accounting Policies (continued)

Goodwill and Other Intangible Assets: Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is not amortized, but instead is tested for impairment at the reporting unit level annually or more frequently if the presence of certain circumstances indicates that impairment may have occurred. The impairment review process compares the fair value of the reporting unit in which goodwill resides to the carrying value. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The System has selected December 31 as its annual testing date.

Acquired identified intangible assets (other than goodwill) are amortized on a straight-line basis over the period of benefit, which is five years. The System evaluates the recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. Goodwill and other intangible assets are included in other noncurrent assets in the accompanying consolidated balance sheets at December 31, 2017 and 2016.

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects at the Medical Center and 200 Hospital Plaza. These costs are amortized over the remaining term of the applicable indebtedness using the effective interest method. The System paid financing costs of approximately $1.0 million and wrote-off costs of approximately $0.5 million as part of 2017 debt transactions (see Note 9) (costs paid and written-off in 2016 were $1.4 million and $2.1 million, respectively). At December 31, 2017 and 2016, deferred financing costs, net of accumulated amortization, of approximately $2.3 million and $1.9 million, respectively, are included as a deduction to long-term debt in the accompanying consolidated balance sheets. Total accumulated amortization at December 31, 2017 and 2016 was approximately $0.2 million and $0.3 million, respectively.

1. Organization and Summary of Significant Accounting Policies (continued)

Beneficial Interest in Perpetual Trusts: Perpetual trusts are arrangements in which a donor establishes and funds a perpetual trust administrated by a third party. The perpetual trusts consist of life estate gifts. Under the terms of the trusts, the Paterson Foundation and the Wayne Foundation have an irrevocable right to receive the income earned on the trust assets in perpetuity. Income earned is unrestricted and included in other revenue in the accompanying consolidated statements of operations. The Paterson Foundation and the Wayne Foundation do not control the assets held by an outside trust. The Paterson Foundation and the Wayne Foundation recognize their respective interests in the trusts as a permanently restricted contribution based on the fair value of the trust assets. Changes in the fair value of the trusts are recorded as a change in net unrealized gains and losses on investments held in perpetual trusts in the accompanying consolidated statements of changes in net assets.

Equity Investments in Joint Ventures: The System's investments in joint ventures are accounted for using the equity method of accounting except for joint ventures where the System holds a controlling interest.

Other Investments: The System's other investments are accounted for using the cost method of accounting and are included in other noncurrent assets in the accompanying balance sheets at December 31, 2017 and 2016.

Other Assets: Other assets consist primarily of goodwill, other intangible assets, investments held by trustee, security deposits and physician loan receivables.

Other Liabilities: Capital project obligations related to grant agreements with the State of New Jersey Department of Health and Human Services, Division of Mental Health Services in the amount of $945,000 at December 31, 2017 and 2016, are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

Deferred Revenue: Advances received from third-party payers for future services to be provided to patients are recorded as deferred revenue in the consolidated balance sheets. The System is the recipient of various awards and contracts from governmental agencies. Unearned revenue is recorded as deferred revenue in the consolidated balance sheets upon receipt. Revenue is recognized only to the extent of expenditures incurred, and are recorded in other revenue in the consolidated statements of operations.

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions and Pledges Receivable: Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free discount rate ranging from 3.5% to 4.5% at December 31, 2017 and 2016. Conditional promises to give are not included as support until the conditions are substantially met.

Self-Insurance: The Medical Center offers medical insurance to its employees through a health maintenance organization and a preferred provider organization (PPO). The PPO provides third-party administrative services for employees, who are enrolled in the program. The Medical Center remains self-insured for health insurance claims associated with the employees that select the PPO option. The Medical Center is also self-insured for workers' compensation. An estimated liability for employee medical benefits incurred but not reported is included within accrued salaries and expenses in the accompanying consolidated balance sheets.

The estimated liability for worker's compensation of approximately $4.7 million and $3.5 million at December 31, 2017 and 2016, respectively, is included in accrued salaries and expenses and approximately $5.6 million at December 31, 2017 and 2016 as long-term in other liabilities in the accompanying consolidated balance sheets.

Estimated Professional Liability Claims Payable: The System is insured for medical malpractice claims on a claims-made basis. An estimated liability for medical malpractice costs related to reported claims that exceed or are not subject to insurance coverage, if any, and incurred claims that have not been reported to the Insurance Captive or claims-made insurance carrier is recorded in the consolidated balance sheets. The Insurance Captive maintains a self-insurance reserve trust as the funding vehicle for the self-insurance program. The System recognizes a receivable for insurance recoveries at the time a liability is recorded, and records a valuation allowance for uncollectible receivables.

Asset Retirement Obligations: The System recognizes a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. Asset retirement obligations are $4.3 million and $3.5 million at December 31, 2017 and 2016, respectively. Such amounts are included in other liabilities in the accompanying consolidated balance sheets.

1. Organization and Summary of Significant Accounting Policies (continued)

Accounting for Pension Plans: The Medical Center maintains a noncontributory defined benefit pension plan (the Plan) covering substantially all employees of the Medical Center. The Agency maintains a tax-deferred annuity plan and a noncontributory defined contribution employee benefit plan. The System recognizes the overfunded or underfunded status of the Plan in the consolidated balance sheets. Changes in the funded status of the Plan are reported in the year in which the changes occur as a change in unrestricted net assets presented after the deficiency of revenues over expenses in the consolidated statements of operations.

Performance Indicator: The consolidated statements of operations include the deficiency of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include pension-related adjustments, contributions of long-lived assets, permanent transfers of assets to and from affiliates for other than goods and services and the net change in unrealized gains and losses on investments (except for declines in fair value that are determined by management to be other than temporary, which are reported as realized losses).

Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and operating expenses and are included in operating (loss) income. Investment return and certain transactions of an infrequent nature are excluded from operating (loss) income.

Classification of Net Assets: The System separately accounts for donor-restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the System and an outside party other than the donor or grantor. Temporarily restricted net assets are those whose use is temporarily limited to a specific time period or purpose by the donor. Permanently restricted net assets are to be held in perpetuity.

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payers, and others for services rendered and includes estimated retroactive adjustments due to ongoing and future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an

1. Organization and Summary of Significant Accounting Policies (continued)

estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Donor-Restricted Gifts: Donor-restricted gifts are reported as temporarily 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the consolidated statements of operations. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of unrestricted net assets.

Tax Status: The System and substantially all of its affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The not-for-profit affiliates of the System are also exempt from state income taxes. The provision for income taxes is not material to the System's consolidated statements of operations. Genesis, Paterson Cardiology, Wayne Cardiology, Blue Moon, and Surgery Management are limited liability corporations, which are treated as partnerships for income tax purposes, and do not require a provision for income taxes. The Insurance Captive is exempt from taxes through March 2035.

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions, as well as taxable entities. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the System cannot be determined presently.

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 became effective for the System for annual reporting periods beginning after December 15, 2017 and interim periods within that reporting period. The System will adopt ASU 2014-09 following the modified retrospective method. Subsequent to adoption, certain patient activity where collection is uncertain which was previously reported through December 31, 2017 as net patient service revenue and the provision for bad debts in the System's consolidated statements of operations will no longer meet the criteria for revenue recognition and, accordingly, the provision for bad debts after the adoption date will be significantly reduced with a corresponding reduction to net patient service revenue. Such patient activity will be classified as an implicit price concession. Additionally, the provision for bad debts will be presented as an expense item rather than a reduction to net patient service revenue. Other aspects of the System's implementation of ASU 2014-09 will impact net patient service revenue, including judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures. The System continues to assess the impact of the adoption of ASU 2014-09 in relation to other revenue activity, as applicable; however, other revenue is less significant to the System's consolidated statements of operations.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 will require business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicality exception. The practicality exception is available for equity investments without a readily determinable fair value, for which measurement would be based on cost less impairment and adjusted for observable price changes. Subsequent to the adoption of ASU 2016-01, the System will no longer be able to recognize unrealized holding gains and losses on equity securities currently classified as other-than-trading outside of the performance indicator. This ASU does not impact the accounting

1. Organization and Summary of Significant Accounting Policies (continued)

for investments in debt securities. The guidance is effective for annual periods beginning after December 15, 2018. Early adoption is permitted for annual periods beginning after December 15, 2017. The System has not completed the process of evaluating the impact of ASU 2016-01 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require a lessee to report most leases on its balance sheet but recognize expenses on its income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for the System for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other*. ASU 2017-04 will simplify the accounting for goodwill impairment and will remove Step two of the current goodwill impairment test, which requires a hypothetical purchase price allocation. Under ASU 2017-04, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for the System for annual periods beginning after December 15, 2021, with early adoption permitted for any impairment tests performed after January 1, 2017. The System has not completed the process of evaluating the impact of ASU 2017-04 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the System for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the System for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the System for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. The System will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The System will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the System for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted.

1. Organization and Summary of Significant Accounting Policies (continued)

Adoption of ASU 2017-07 will require the System to include the service cost component of net periodic benefit cost related to its defined benefit plan (approximately $16.8 million for 2017) within salaries and wages on the consolidated statements of operations and to present all other components (aggregate of approximately $8.2 million for 2017) as a separate line item excluded from the subtotal for operating (loss) income. Net periodic benefit cost is reported currently within employee benefits expense on the accompanying consolidated statements of operations.

2. Charity Care

The Medical Center provides care to patients who meet certain eligibility criteria defined by New Jersey Department of Health charity care program guidelines. The Medical Center receives partial payment for the charity care it provides based upon the approved submission of patient claims once they are qualified for the program (see Note 3).

The estimated cost incurred by the System to provide services to patients who are unable to pay based on adjudicated claims was approximately $44.2 million and $40.4 million for the years ended December 31, 2017 and 2016, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients include only the related charges for those patients who are financially unable to pay and qualify under the System's charity care policy and that do not otherwise qualify for payment from a governmental program. Because the collection of amounts determined to qualify as charity care is not pursued, it is not reported as revenue.

3. Net Patient Service Revenue

The System provides care to patients under Medicare, Medicaid, and other third-party contractual arrangements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Medicare program pays for most services at predetermined rates. However, certain services and specified expenses are reimbursed on a reasonable-cost basis. The New Jersey Medicaid program pays the Medical Center at predetermined rates for inpatient services. New Jersey Medicaid outpatient services are reimbursed on a reasonable cost basis. The System recognizes patient service revenue associated with services provided to patients who have other third-party payer coverage on the basis of contractual rates for the services rendered. The System has entered into payment agreements with

3. Net Patient Service Revenue (continued)

certain commercial insurance carriers, health maintenance organizations, and PPOs. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy).

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Patient service revenue for the years ended December 31, 2017 and 2016, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the periods from these major payer sources based on primary insurance designation is as follows:

	2017	**2016**
	(In Thousands)	
Third party payers	**$ 785,974**	$ 781,907
Self-pay	**3,010**	4,346
Patient service revenue (net of contractual allowances and discounts)	**$ 788,984**	$ 786,253

3. Net Patient Service Revenue (continued)

The Medical Center's allowance for doubtful accounts for self-pay patients increased from 77% of self-pay accounts receivable at December 31, 2016 to 84% of self-pay accounts receivable at December 31, 2017. In addition, the Medical Center's self-pay write-offs net of recoveries increased from $74.9 million for 2016 to $81.3 million for 2017. The Medical Center has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016.

Net patient service revenue (after contractual allowances and discounts) recognized during the years ended December 31, 2017 and 2016 from the System's major payer sources is as follows:

	2017	**2016**
Medicare	**38%**	39%
Medicaid	**27**	27
Managed care	**23**	23
Other third-party payers	**11**	10
Self-pay	**1**	1
Total	**100%**	100%

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the System. These retroactive settlements are recorded in the consolidated financial statements in the year of the settlement or when amounts can be estimated. A portion of the accrual for estimated settlements with third-party payers has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, are not expected to be paid within one year. The estimated settlements recorded at December 31, 2017 and 2016 could differ from actual settlements based on the results of cost report audits. At December 31, 2017, Medicare cost reports for all years through 2014, except 2010 and 2012, have been audited and settled. Medicaid cost reports have been audited and settled through 2014. Net patient service revenue was increased by approximately $2.0 million during 2016 (none in 2017), as a result of changes in estimates of prior-year settlements.

Combined revenue from the Medicare and Medicaid programs accounted for approximately 66% of the Medical Center's and the Agency's net patient service revenue, exclusive of state subsidies for charity care, for the years ended December 31, 2017 and 2016. There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or

3. Net Patient Service Revenue (continued)

modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of or revisions to health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the System.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The System is not aware of any pending or threatened investigations involving allegations of potential wrongdoing which could have a material adverse effect on the accompanying consolidated financial statements. Action for noncompliance may include repayment of amounts fines, penalties, and exclusion from the Medicare and Medicaid programs.

State Subsidy Funds – The New Jersey Health Care Subsidy Fund was established for various purposes, including the distribution of charity care payments to hospitals statewide. The amount of the fund allocation is based on a formula using prior-year claim data for each hospital. Effective January 1, 2014, the State of New Jersey implemented a new payment mechanism referred to as the Delivery System Reform Incentive Payment Pool (the Pool). The Pool is available to certain hospitals that are able to establish performance improvement activities in one of eight specified clinical improvement areas. Amounts received from the Pool are subject to the satisfaction of certain performance criteria, with adjustments to the Pool allocations processed prospectively. The amounts of state subsidy and Pool funds included in net patient service revenue for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	2017	**2016**
Charity care payments	**$ 43,891**	$ 54,784
Delivery system reform incentive payments	**8,821**	8,645
	$ 52,712	$ 63,429

The System expects to receive approximately $20.7 million in charity care payments from the state for the period from January 1, 2018 to June 30, 2018. Amounts for payments subsequent to June 30, 2018 have yet to be determined by the State of New Jersey.

4. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited, stated at fair value, as of December 31, 2017 and 2016 consist of the following (in thousands):

	2017	2016
Investments	**$ 246,191**	$ 178,441
Assets whose use is limited:		
By bond indenture agreements	**18,430**	22,670
Under Board designation	**–**	2,244
Assets held for captive insurance program	**31,752**	30,705
Temporarily restricted assets	**12,200**	11,487
Permanently restricted assets	**1,578**	1,843
Total assets whose use is limited	**63,960**	68,949
Less current assets whose use is limited	**17,052**	15,894
Noncurrent assets whose use is limited	**46,908**	53,055
Total investments and assets whose use is limited	**$ 310,151**	$ 247,390

The composition of investments and assets whose use is limited as of December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Cash and cash equivalents	**$ 27,449**	$ 31,949
U.S. government securities and agency obligations	**84,201**	50,915
Corporate and foreign debt securities	**181,609**	147,127
Asset-backed and mortgage-backed securities	**–**	34
Marketable equity securities	**4,523**	4,779
Investments held by trustee	**1,578**	1,578
Municipal bonds	**4,636**	6,141
Mutual funds – fixed income	**6,155**	4,867
Total	**$ 310,151**	$ 247,390

4. Investments and Assets Whose Use is Limited (continued)

Return on investments for the years ended December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Return on investments:		
Unrestricted net assets:		
Investment return:		
Interest and dividend income	**$ 6,216**	$ 5,301
Net realized gains and losses on sales of investments	**33**	165
	6,249	5,466
Change in net unrealized gains and losses on investments	**1,118**	(564)
	7,367	4,902
Temporarily restricted net assets:		
Investment income	**15**	41
Net realized gains and losses on sales of investments	**(1)**	11
	14	52
Total return on investments	**$ 7,381**	$ 4,954

5. Fair Value of Financial Instruments

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. A three-level hierarchy for fair value measurements exists based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

5. Fair Value of Financial Instruments (continued)

In determining fair value, the System used valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risks in its assessment of fair value. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables present the financial instruments carried at fair value by caption on the consolidated balance sheets based on the valuation hierarchy defined above:

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments, assets whose use is limited and other assets:				
Cash and cash equivalents	$ 27,449	$ –	$ –	$ 27,449
Marketable equity securities	4,523	–	–	4,523
U.S. government securities and agency obligations	889	83,312	–	84,201
Corporate and foreign debt securities	–	181,609	–	181,609
Municipal bonds	–	4,636	–	4,636
Mutual funds – fixed income	–	6,155	–	6,155
Investments held by trustee	–	1,578	–	1,578
Beneficial interest in perpetual trusts	–	–	6,139	6,139
Total	$ 32,861	$ 277,290	$ 6,139	$ 316,290
Assets held in pension plan:				
Cash and cash equivalents	$ 1,740	$ –	$ –	$ 1,740
Marketable equity securities	209,341	–	–	209,341
U.S. government securities	82,593	–	–	82,593
Corporate bonds	44,204	–	–	44,204
Foreign obligations	–	4,683	–	4,683
Other debt securities	–	10,086	–	10,086
	$ 337,878	$ 14,769	$ –	352,647
Investments measured at net asset value:				
Fund of funds				1,853
				$ 354,500

5. Fair Value of Financial Instruments (continued)

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investments, assets whose use is limited and other assets:				
Cash and cash equivalents	$ 31,949	$ –	$ –	$ 31,949
Marketable equity securities	4,779	–	–	4,779
U.S. government securities and agency obligations	17,892	33,023	–	50,915
Asset-backed and mortgaged-backed securities	–	34	–	34
Corporate and foreign debt securities	–	147,127	–	147,127
Municipal bonds	–	6,141	–	6,141
Mutual funds – fixed income	6,445		–	6,445
Investments held by trustee	–	1,578	–	1,578
Beneficial interest in perpetual trusts	–	–	5,711	5,711
Total	$ 61,065	$ 187,903	$ 5,711	$ 254,679
Assets held in pension plan:				
Cash and cash equivalents	$ 6,091	$ –	$ –	$ 6,091
Marketable equity securities	130,719	–	–	130,719
Mutual funds	77,185	–	–	77,185
U.S. government securities	11,694	–	–	11,694
Corporate bonds	–	8,616	–	8,616
Foreign obligations	–	590	–	590
	$ 225,689	$ 9,206	$ –	234,895
Investments measured at net asset value:				
Fund of funds				2,217
				$ 237,112

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is estimated based on quoted prices for similar instruments, pricing metrics, and other valuation considerations (e.g., credit quality and prevailing interest rates).

5. Fair Value of Financial Instruments (continued)

Level 3 investments include a limited liability partnership and beneficial interest in perpetual trusts. The investment in a fund of funds limited partnership held by the pension plan does not have a readily determinable market value. The estimated fair value of the limited partnership is determined based upon information provided by the fund manager. Such information is generally based on the net asset value (NAV) of the fund, which is used as a practical expedient to estimate fair value. The estimated fair value of the beneficial interest in perpetual trusts is determined based upon information provided by the trustees. Such information is based on the pro rata interest in the net assets of the trusts. Attributes relating to the nature and risk of the limited partnership investment as of December 31, 2017 and 2016 are as follows (in thousands):

	2017 Fair Value	2016 Fair Value	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Assets held in pension plan:						
Limited liability partnership – PMF TEI Fund	**$ 1,853**	$ 2,217	None	Illiquid	Discretion of Fund	Discretion of Fund

The PMF TEI Fund operates as a feeder fund. The PMF TEI Fund's investment objective is to manage a portfolio of investment funds, including limited partnerships, limited liability companies, offshore corporations, other foreign investment vehicles, and cash to preserve value while prioritizing liquidity to investors over active management, until such time as the Endowment PMF Master Fund L.P's portfolio has been liquidated.

There were no transfers between levels of the System's or the Plan's investments for the years ended December 31, 2017 and 2016.

5. Fair-Value of Financial Instruments (continued)

The change in fair value measurements for the beneficial interest in perpetual trusts with unobservable inputs at December 31, 2017 and 2016 are presented as follows (in thousands):

	2017	2016
Balance – January 1	**$ 5,711**	$ 3,761
Change in net unrealized gains and losses	**428**	1,950
Balance – December 31	**$ 6,139**	$ 5,711

Long-Term Debt – The fair value of the System's outstanding revenue bonds is based on quoted market prices and is classified as Level 2. The fair value of the System's other long-term debt is estimated to approximate the carrying value and is classified as Level 2 (see Note 9). The carrying amounts and fair values of the System's long-term debt as of December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Carrying amount, including original issue premium/discount	**$ 380,408**	$ 305,146
Estimated fair value	**$ 367,740**	$ 275,012

6. Property and Equipment

Property and equipment as of December 31, 2017 and 2016 consist of the following (in thousands):

	2017	2016
Land	**$ 11,831**	$ 11,783
Land improvements	**8,602**	8,380
Buildings and improvements	**468,708**	482,437
Fixed and major movable equipment	**263,403**	240,987
Total property and equipment	**752,544**	743,587
Less accumulated depreciation and amortization	**(450,122)**	(433,341)
	302,422	310,246
Construction in progress	**33,542**	14,081
Property and equipment – net	**$ 335,964**	$ 324,327

Substantially, all property of the Medical Center serves as collateral under debt agreements (see Note 9).

7. Goodwill and Other Intangible Asset

In 2010, the System recorded goodwill and an intangible asset in connection with the acquisition of two radiology practices. At December 31, 2017 and 2016, goodwill was approximately $2.1 million. The intangible asset in the amount of $2.9 million, which is a noncompete agreement, had an estimated useful life of five years (fully amortized in 2015). Goodwill is included in other assets in the accompanying consolidated balance sheets.

8. Equity Investments in Joint Ventures

The System's investments in unconsolidated entities accounted for under the equity method of accounting as of December 31, 2017 and 2016 consist of the following (in thousands):

	2017						
Name of Joint Venture	**Ownership Percentage**	**Total Assets**	**Total Liabilities**	**Total Revenue**	**Net Income**	**Equity Investment**	**Share of Earnings**
Simeon Dialysis, LLC	**35%**	**$ 64,941**	**$ 757**	**$ 22,885**	**$ 4,327**	**$ 22,464**	**$ 1,515**
Wayne Valley Imaging, LLC	**50%**	**1,161**	**279**	**2,226**	**780**	**479**	**390**
VHSNJ at Home, LLC	**50%**	**10,723**	**3,208**	**5,639**	**(485)**	**3,758**	**(242)**
Eufaula Dialysis, LLC	**20%**	**4,633**	**350**	**6,013**	**626**	**857**	**125**
		$ 81,458	**$ 4,594**	**$ 36,763**	**$ 5,248**	**$ 27,558**	**$ 1,788**

	2016						
Name of Joint Venture	**Ownership Percentage**	**Total Assets**	**Total Liabilities**	**Total Revenue**	**Net Income**	**Equity Investment**	**Share of Earnings**
Simeon Dialysis, LLC	35%	$ 66,327	$ 1,636	$ 26,618	$ 5,229	$ 22,643	$ 1,831
Wayne Valley Imaging, LLC	50%	1,223	521	2,379	672	389	336
Eufaula Dialysis, LLC	20%	5,187	381	6,201	604	961	121
		$ 72,737	$ 2,538	$ 35,198	$ 6,505	$ 23,993	$ 2,288

9. Long-Term Debt

Long-term debt as of December 31, 2017 and 2016 consists of the following (in thousands):

	2017	2016
New Jersey Healthcare Facilities Financing Authority – $246,845 St. Joseph's Healthcare System Obligated Group Issue, Series 2016 Revenue Bonds[(a)]	**$ 241,740**	$ 246,845
St. Joseph's Hospital and Medical Center – $81,200 St. Joseph's Healthcare System Obligated Group, Series 2017 Taxable Bonds [(b)]	**81,200**	–
Passaic Authority – $29,620 200 Hospital Plaza Corporation Project, Series 2010 County Guaranteed Parking Revenue Bonds[(c)]	**2,015**	27,220
Passaic Authority – $24,650 200 Hospital Plaza Corporation Project, Series 2017 County Guaranteed Parking Revenue Bonds [(d)]	**24,650**	–
Promissory note with Urban Enterprise Zone, bearing interest at 2.25%, maturing in 2021	**350**	452
Promissory note bearing interest of 6.04%, maturing in 2020[(e)]	**2,895**	3,977
Term loan bearing interest at a rate of 6.5%, maturing in 2020	**397**	546
Total long-term debt	**353,247**	279,040
Original issue premium	**29,419**	27,745
Original issue discount	**(2,258)**	(1,639)
Net deferred financing costs	**(2,315)**	(1,944)
Current portion of long-term debt	**(5,882)**	(7,077)
Long-term debt – net of current portion of long-term debt	**$ 372,211**	$ 296,125

9. Long-Term Debt (continued)

(a) The New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2016 Revenue Bonds (the Series 2016 Bonds) bear interest at rates ranging from 3.00% to 5.00%. The Series 2016 Bonds mature annually, commencing July 1, 2017 through July 1, 2048. The proceeds of the Series 2016 Bonds were used by the System to advance refund the outstanding principal balance of NJHCFFA Series 2008 Bonds and the (a) renovation of inpatient nursing care units; (b) renovation and equipment upgrades within ambulatory surgery and neuro-interventional suites; (c) build out of clinic facilities; and (d) upgrade and installation of information technology systems for clinical information systems, pharmaceutical dispensing technology, imaging and other minor equipment.

Using the proceeds obtained from the Series 2016 Bonds issuance, certain funds available from the System's debt service funds ($19.1 million), and other System funds totaling approximately $3.2 million, the Series 2008 Bonds were defeased and assets totaling $243.9 million to be used to repay the bondholders for future interest and principal were deposited into an escrow account held by a trustee (the Escrow Account). The bondholders will be repaid as the Series 2008 Bonds become callable, with the final remaining bonds to be fully repaid in July 2018. As the Series 2008 Bonds were defeased and the funds in the Escrow Account which will be used to repay the bondholders were deemed to be legally isolated from the System, the System's Series 2008 Bonds were considered extinguished and were derecognized in August 2016.

In connection with the extinguishment of the Series 2008 Bonds as described above, a net loss on extinguishment of approximately $29.7 million was recognized in the accompanying 2016 consolidated statement of operations. The extinguishment loss is comprised of the write-off of unamortized deferred financing costs related to the Series 2008 Bonds issuance ($2.1 million) and amounts paid into the Escrow Account in advance for future interest requirements on the extinguished debt through the final redemption date of the corresponding bonds ($25.4 million) and other related fees ($2.2 million).

9. Long-Term Debt (continued)

(b) The St. Joseph's Hospital and Medical Center Series 2017 Taxable Bonds (the Series 2017 Bonds) were issued in September 2017 and consist of two term bonds of $40.6 million, which bear interest at 3.926% and 4.584% and are due at July 1, 2022 and July 1, 2027, respectively. The proceeds of the Series 2017 Bonds were used to provide funding for additional contributions to the defined benefit pension plan (see Note 10). The Series 2017 Bonds are secured by a Series 2017 Note which was issued on a parity with other obligations under the Master Indenture for the Series 2016 Bonds.

(c) The Passaic Authority Series 2010 County Guaranteed Parking Revenue Bonds (the Series 2010 Bonds) bear interest at rates ranging from 2% to 5%. The Series 2010 Bonds were scheduled to mature between 2014 and 2042; a portion of the Series 2010 Bonds was advance refunded in 2017 (see (d) below). Funds were paid into escrow to repay the debt through the final redemption date in May 2020. The proceeds of the Series 2010 Bonds were used by 200 Hospital Plaza to finance a portion of project costs associated with the design and construction of a mixed-use parking/retail structure. 200 Hospital Plaza is subject to certain operating covenants under its Master Indenture Agreement and the maintenance of certain financial ratios. At December 31, 2017 and 2016, 200 Hospital Plaza was in compliance with such financial covenants.

(d) The Passaic Authority Series 2017 County Guaranteed Parking Revenue Bonds (the PA Series 2017 Bonds) bear interest at rates ranging from 2% to 5%. The PA Series 2017 Bonds mature between 2018 and 2042. The proceeds of the PA Series 2017 Bonds were used by 200 Hospital Plaza to advance refund the Series 2010 Bonds and pay certain costs of issuance relating to the PA Series 2017 Bonds.

(e) Surgery Management entered into a loan agreement to purchase equipment and to make leasehold improvements to the surgical facility. On June 1, 2015, the amount advanced was converted to a loan payable over a five-year period bearing interest equal to the five-year US Treasury rate of 3.79% plus 2.25%. The loan is collateralized by substantially all of the assets of Surgery Management and guaranteed by all members as contained in the loan agreement. The System is not a guarantor of this loan. The loan is subject to a debt service coverage ratio, which is tested annually. Management is not aware of any noncompliance with this ratio as of December 31, 2017 and 2016.

9. Long-Term Debt (continued)

The Series 2016 Bonds and Series 2017 Bonds are secured by (i) amounts held in the revenue fund created under the Master Indenture Agreement, (ii) the gross receipts of the Obligated Group (see Note 1), and (iii) a first mortgage lien on various properties of the University Medical Center and Wayne Medical Center as defined in the Master Indenture Agreement. The Obligated Group is subject to various operating covenants under the Master Indenture Agreement and maintenance of certain financial ratios. At December 31, 2017 and 2016, the Obligated Group was in compliance with such financial covenants.

Required principal payments on long-term debt for the next five years and thereafter as of December 31, 2017 are as follows (in thousands):

Years Ending December 31		
2018	$	5,882
2019		5,918
2020		5,449
2021		4,843
2022		45,645
Thereafter		285,510
	$	353,247

At December 31, 2017, the System has unused letters of credit of: $0.7 million, expiring in April 2019; $1.3 million, expiring in January 2019; $2.4 million, expiring in January 2019; $1.7 million expiring in January 2019; $1.1 million expiring in January 2019; and $0.3 million, expiring in February 2019.

The System maintains a line of credit (currently with an available amount of $1.0 million as of March 2018) which expires in March 2019, with interest at LIBOR plus 0.75%. There are no amounts outstanding as of December 31, 2017 and 2016.

10. Pension Plans

The Medical Center maintains a noncontributory defined benefit pension plan (the Plan) covering substantially all of the employees of the Medical Center as well as an executive SERP plan. The Plan provides benefits based on the participant's years of service and compensation. The Plan is operated as a church plan under the Code. Under church plan status, the Plan is not subject to the minimum funding or other requirements of the Employee Retirement Income Security Act of 1974. In addition, benefits under the Plan are not covered by the Pension Benefit Guaranty Corporation.

The Medical Center has been involved with litigation challenging the church plan status of the Plan which is in the process of being settled (a final, binding term sheet was signed by both parties in June 2017). The terms conform with management's plans related to the Plan as described below. The settlement does not make the Plan subject to ERISA.

The System issued long-term debt in September 2017 (see Note 9) with net proceeds of approximately \$80.0 million, the purpose of which was to provide funding for additional contributions paid into the Plan. In addition to the 2017 funding into the Plan, management froze the Plan and closed it to new participants effective December 31, 2017, initiated a defined contribution retirement program on January 1, 2018, and intends to continue annual funding to the Plan so that in conjunction with investment earnings thereon, the plan assets will exceed the projected benefit obligation by the year 2026. As a result of freezing the Plan, a curtailment occurred which reduced the projected benefit obligation by approximately \$30.3 million.

The Medical Center contributed approximately \$93.8 million to the Plan in 2017 and expects to contribute approximately \$15.0 million to the Plan in 2018.

10. Pension Plans (continued)

The funded status of the Plan as of December 31, 2017 and 2016 is set forth as follows (in thousands):

	2017	2016
Change in benefit obligation:		
Projected benefit obligation – beginning of year	**$ 440,123**	$ 413,986
Service cost	**16,806**	16,073
Interest cost	**19,664**	18,958
Actuarial loss	**34,907**	4,210
Benefit payments	**(15,271)**	(13,104)
Curtailment	**(30,302)**	–
Projected benefit obligation – end of year	**465,927**	440,123
Change in Plan assets:		
Fair value of Plan assets – beginning of year	**237,112**	224,507
Actual return on Plan assets	**39,061**	12,918
Employer contributions	**93,800**	12,650
Benefit payments	**(14,173)**	(11,850)
Administrative expenses	**(1,300)**	(1,113)
Fair value of Plan assets – end of year	**354,500**	237,112
Accrued pension liability	**$ 111,427**	$ 203,011
Accumulated benefit obligation	**$ 465,927**	$ 412,707

At December 31, 2017 and 2016, unrestricted net assets include unrecognized losses of $100.4 million and $122.8 million, respectively, and unrecognized prior service costs of $0 and $433,000, respectively, for the Plan. Approximately $1.6 million of unrecognized losses are expected to be recognized in net periodic benefit costs in 2018.

At December 31, 2017 and 2016, the mortality assumption was determined using the RP-2014 mortality tables with blue collar adjustments adjusted backwards to 2006 with scale MP-2014 and projected with improvement scale MP-2016.

10. Pension Plans (continued)

Weighted-average assumptions used in determining the benefit obligation as of December 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	**4.03%**	4.53%
Rate of compensation increase	**N/A**	3.00%

Net periodic pension costs for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Service cost	**$ 16,806**	$ 16,073
Interest cost	**19,664**	18,958
Expected return on Plan assets	**(19,251)**	(17,270)
Amortization of prior service cost	**87**	87
Amortization of net loss	**7,713**	7,796
Net periodic pension costs	**$ 25,019**	$ 25,644

Weighted-average assumptions used in determining the net periodic pension costs for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	**4.53%**	4.64%
Expected long-term return on Plan assets	**7.25**	7.25
Rate of compensation increase	**3.00**	3.00

10. Pension Plans (continued)

The discount rate was determined using the hypothetical portfolio method at December 31, 2017 and 2016.

To develop the expected long-term rate of return on Plan assets, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This approach resulted in the selection of the 7.25% long-term rate of return on Plan assets' assumption for 2017 and 2016.

The date used to determine the Plan's measurements is December 31.

The Plan's weighted-average asset allocation as of December 31, 2017 and 2016, by asset category, is as follows:

Asset Category	2017	2016
Equity securities	**59%**	60%
Debt securities	**40**	36
Alternative investments	**1**	4
	100%	100%

The Plan's investment policy includes the following asset allocation guidelines:

Asset Category	Target	Range
Domestic equity:		
Large to mid-capitalization growth	22.0%	18%–28%
Large to mid-capitalization value	22.0	18–28
Small capitalization	4.0	0–8
International equity:		
Core	7.5	2–14
Emerging	2.0	0–6
Fixed income	37.5	30–50
Alternative investments	5.0	0–10

10. Pension Plans (continued)

The asset allocation policy was developed in consideration of the long-term financial objectives of the Plan, which include ensuring that there is an adequate level of assets to support benefit obligations and maintaining liquidity sufficient to cover current benefit obligations.

In addition to the broad asset allocation guidelines described above, the following policies apply to individual asset classes:

- Fixed-income investments are oriented toward risk-adverse, investment-grade securities with an average quality of "A" or higher. Up to 10% of the portfolio may be invested in bonds rated below investment grade. With the exception of US government securities, fixed-income investments are diversified among individual securities and sectors.

- Equity investments are diversified among industries and economic sectors. International equity holdings are also diversified by country. Limitations are placed on the overall allocation to any individual security.

Pension benefit payments, which reflect expected future service and salary, as appropriate, are expected to be paid as follows (in thousands):

Years Ending December 31	
2018	$ 15,968
2019	17,302
2020	18,776
2021	20,047
2022	21,243
2023–2027	121,090

In addition to the Plan, the Medical Center maintains a deferred employee benefit plan. At December 31, 2016, the accrued pension liability for this plan was approximately $0.8 million (no balance at December 31, 2017).

11. Professional Liability Insurance

Effective February 1, 2007, the Insurance Captive began providing the University Medical Center with claims-made professional and general liability insurance. The Insurance Captive policy provides coverage of $1 million per occurrence and $3 million annual aggregate. The Insurance Captive has a self-insurance program for a first excess layer above the primary layer. The first excess layer is on a claims-made basis with retentions of $4 million for individual claims and $17 million in the aggregate. The Insurance Captive maintains a self-insurance reserve trust as the funding vehicle for the self-insurance program (see Note 4). The Insurance Captive has a second excess layer of insurance of $10 million annual aggregate, a third excess layer of insurance of $20 million annual aggregate, and a fourth layer of $15 million annual aggregate each maintained with separate commercial carriers.

The Insurance Captive is registered under the Bermuda Insurance Act of 1978 and the Related Regulations (the Insurance Act) and is obliged to comply with various provisions of the Insurance Act regarding solvency and liquidity. The minimum statutory capital and surplus at December 31, 2017 and 2016 was $2.7 million and $2.5 million, respectively, and the actual statutory capital and surplus was $4.8 million and $5.8 million, respectively. In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Insurance Act, must exceed 75% of relevant liabilities. As of December 31, 2017 and 2016, the liquidity ratio was met.

Prior to the inception of the Insurance Captive, the University Medical Center maintained its primary professional liability insurance coverage of $1 million for individual claims and $3 million in the aggregate on a claims-made basis with a commercial carrier. The first excess layer was on a claims-made basis with retentions of $4 million for individual claims and $7 million in the aggregate. A second excess layer of coverage was maintained with a commercial carrier.

Effective March 1, 2009, the Insurance Captive began providing Wayne Medical Center with claims-made professional and general liability insurance, and Wayne Medical Center began participating in the self-insurance program for a first excess layer above the primary layer. Prior to March 1, 2009, Wayne Medical Center maintained primary professional liability insurance coverage on a claims-made basis with a commercial carrier.

VHS maintains primary professional liability insurance coverage on an occurrence basis with a commercial carrier.

11. Professional Liability Insurance (continued)

The estimated undiscounted professional liabilities for asserted claims and for incidents that have been incurred but not reported included in the consolidated balance sheets as of December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Estimated professional liability claims payable included in accrued salaries and expenses	**$ 6,762**	$ 6,817
Noncurrent estimated professional liability claims payable	**27,423**	23,381
Total estimated professional liability claims payable	**$ 34,185**	$ 30,198

The System's estimates for professional liability for asserted claims and for incidents that have been incurred but not reported are based upon complex actuarial calculations, which utilize factors such as historical claim experience for the System and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from project expectations are recorded in the period the information becomes known.

12. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. Major concentrations of net accounts receivable from patients and third-party payers as of December 31, 2017 and 2016 are as follows:

	2017	2016
Medicare	**14%**	23%
Medicaid	**9**	8
Horizon Blue Cross Blue Shield of New Jersey	**9**	7
Amerigroup	**6**	5
Aetna	**4**	3
Health Maintenance Organizations and other third-party payers	**54**	50
Self-pay patients	**4**	4
	100%	100%

12. Concentrations of Credit Risk (continued)

The System invests its surplus operating funds in fixed-income funds. These funds generally invest in highly liquid US government and agency obligations. Investments in fixed-income funds are not insured or guaranteed by the US government. The System deposits cash with various financial institutions in which the amounts may exceed federally insured limits.

13. Other Revenue

Other revenue at December 31, 2017 and 2016 consists of the following (in thousands):

	2017	**2016**
Physician billing revenue	**$ 50,921**	$ 46,537
Grant income	**14,964**	14,180
Gain on sale of certain assets and business operations of VHS Management, Inc.	**8,000**	–
Qualcare sale of stock	**1,867**	2,047
Equity in earnings of joint ventures	**1,788**	2,288
Rental income	**3,757**	3,845
Electronic health records funding	**–**	872
Parking revenue	**3,870**	3,851
Contributions	**2,429**	2,243
Other	**5,526**	6,014
Total	**$ 93,122**	$ 81,877

14. Operating Leases

The System leases equipment and office space under various noncancelable operating leases. Future minimum payments due under noncancelable operating leases with a term of one year or greater as of December 31, 2017 are as follows (in thousands):

2018	$ 5,672
2019	5,080
2020	4,623
2021	3,470
2022	2,990
Thereafter	9,665

14. Operating Leases (continued)

Payments made under operating leases amounted to approximately $5.6 million in 2017 and $4.2 million in 2016.

15. Net Assets

Temporarily Restricted Net Assets – Temporarily restricted net assets are available for future periods or for specific purposes. Net assets during the year were released from donor restrictions by incurring expenditures satisfying the restricted purpose.

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes (in thousands):

	2017	2016
Capital acquisitions and improvements	**$ 1,748**	$ 2,507
Scholarship fund	**82**	78
Research	**1,210**	1,168
Other health care programs	**10,825**	11,343
	$ 13,865	$ 15,096

Permanently Restricted Net Assets – At December 31, 2017 and 2016, permanently restricted net assets in the amount of $8.1 million and $7.6 million, respectively, consist of endowment funds to be held in perpetuity, and the beneficial interest in perpetual trusts. The assets in the perpetual trusts are held and managed by an independent trustee. The income earned on the beneficial interest in the perpetual trusts is unrestricted. The income from the endowment funds is expendable to support health care services.

The Board classifies donor-restricted assets based upon the explicit directions of the donor and the provisions of the New Jersey Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board has determined that, absent donor stipulations to the contrary, the provisions of New Jersey State law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gift.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets as of year-end. There are no such deficiencies at December 31, 2017 and 2016.

16. Functional Expenses

The System's functional expenses for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Health care services	**$ 707,448**	$ 686,422
General and administrative	**103,327**	100,004
Total	**$ 810,775**	$ 786,426

17. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the System. Such lawsuits and claims are either specifically covered by insurance, provided for through estimated self-insurance liabilities, or are not 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 consolidated financial position or results of operations of the System.

18. Subsequent Events

The System has evaluated subsequent events through May 24, 2018, the date the accompanying consolidated financial statements were available to be issued. Except as disclosed in Note 10, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Supplementary Information

Saint Joseph's Health, Inc.

Consolidating Balance Sheet

(In Thousands)

December 31, 2017

	Saint Joseph's University Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	St. Joseph's Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	200 Hospital Plaza Corp.	Saint Joseph's Health, Inc.	SJHS Insurance Limited	Eliminations	Total
Assets									
Current assets:									
Cash and cash equivalents	$ 58,541	$ 5,034	$ 1,771	$ 2,719	$ 163	$ –	$ –	$ –	$ 68,228
Investments	244,148	–	2,043	–	–	–	–	–	246,191
Current portion of assets whose use is limited	8,578	–	–	–	1,743	–	6,731	–	17,052
Patient accounts receivable, net	90,748	–	–	–	–	–	–	–	90,748
Contributions and pledges receivable	–	1,177	122	–	–	–	–	–	1,299
Prepaid expenses and other current assets	27,056	724	–	–	211	–	1,447	(4,566)	24,872
Due from affiliates	383	–	76	–	–	–	–	(459)	–
Total current assets	429,454	6,935	4,012	2,719	2,117	–	8,178	(5,025)	448,390
Assets whose use is limited – less current portion	10,600	3,977	1,003	–	6,307	–	25,021	–	46,908
Property and equipment – net	311,355	423	–	–	24,186	–	–	–	335,964
Beneficial interest in perpetual trusts	–	5,293	846	–	–	–	–	–	6,139
Equity investments in joint ventures	27,558	–	–	–	–	–	–	–	27,558
Other noncurrent assets	47,870	2,975	31	–	–	3,178	–	(38,403)	15,651
Total assets	$ 826,837	$ 19,603	$ 5,892	$ 2,719	$ 32,610	$ 3,178	$ 33,199	$ (43,428)	$ 880,610

The System presents its interests in its controlled affiliates using the cost method of accounting.

Saint Joseph's Health, Inc.

Consolidating Balance Sheet (continued)

(In Thousands)

December 31, 2017

	Saint Joseph's University Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	St. Joseph's Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	200 Hospital Plaza Corp.	Saint Joseph's Health, Inc.	SJHS Insurance Limited	Eliminations	Total
Liabilities and net assets									
Current liabilities:									
Current portion of long-term debt	$ 5,082	$ –	$ –	$ –	$ 800	$ –	$ –	$ –	$ 5,882
Accounts payable	46,492	163	20	–	9	–	1,771	(4,550)	43,905
Accrued salaries and expenses	67,113	–	–	18	–	–	6,731	–	73,862
Accrued interest payable	5,359	–	–	–	–	–	–	–	5,359
Due to affiliates	–	288	38	–	149	–	–	(475)	–
Deferred revenue	314	–	–	–	–	–	–	–	314
Current portion of estimated third-party payer settlements	555	–	–	–	–	–	–	–	555
Total current liabilities	124,915	451	58	18	958	–	8,502	(5,025)	129,877
Long-term debt – net of current portion	344,858	–	–	–	27,353	–	–	–	372,211
Estimated third-party payer settlements – net of current portion	7,475	–	–	–	–	–	–	–	7,475
Accrued pension liability	111,427	–	–	–	–	–	–	–	111,427
Estimated professional liability claims payable – net of current portion	17,977	–	–	–	–	–	19,850	(10,404)	27,423
Other liabilities	10,839	82	–	–	103	–	–	–	11,024
Total liabilities	617,491	533	58	18	28,414	–	28,352	(15,429)	659,437
Commitments and contingencies									
Net assets:									
Unrestricted	183,607	7,321	4,012	2,701	4,196	3,178	4,847	(14,512)	195,350
Temporarily restricted	13,781	6,455	850	–	–	–	–	(7,221)	13,865
Permanently restricted	8,077	5,294	972	–	–	–	–	(6,266)	8,077
Total Saint Joseph's Health, Inc. and affiliates net assets	205,465	19,070	5,834	2,701	4,196	3,178	4,847	(27,999)	217,292
Non-controlling interests in joint ventures	3,881	–	–	–	–	–	–	–	3,881
Total net assets including non-controlling interests	209,346	19,070	5,834	2,701	4,196	3,178	4,847	(27,999)	221,173
Total liabilities and net assets	$ 826,837	$ 19,603	$ 5,892	$ 2,719	$ 32,610	$ 3,178	$ 33,199	$ (43,428)	$ 880,610

Saint Joseph's Health, Inc.

Consolidating Statement of Operations

(In Thousands)

Year Ended December 31, 2017

	Saint Joseph's University Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	St. Joseph's Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	200 Hospital Plaza Corp.	Saint Joseph's Health, Inc.	SJHS Insurance Limited	Eliminations	Total
Operating revenues:									
Net patient service revenue (after contractual allowances and discounts)	$ 785,888	$ –	$ –	$ 3,096	$ –	$ –	$ –	$ –	$ 788,984
Provision for bad debts	(81,295)	–	–	(82)	–	–	–	–	(81,377)
Net patient service revenue – net of provision for bad debts	704,593	–	–	3,014	–	–	–	–	707,607
Other revenue	85,927	2,975	1,530	39	3,870	–	4,550	(5,769)	93,122
Net assets released from restrictions – operations	–	2,549	197	–	–	–	–	–	2,746
Total operating revenues	790,520	5,524	1,727	3,053	3,870	–	4,550	(5,769)	803,475
Operating expenses:									
Salaries and wages	381,036	589	366	2,372	–	–	–	(955)	383,408
Employee benefits	85,643	140	88	596	–	–	–	(228)	86,239
Physician fees	22,119	–	–	–	–	–	–	–	22,119
Supplies and other	261,934	3,881	657	863	1,158	–	7,644	(4,586)	271,551
Interest	13,099	–	–	(42)	1,085	–	–	–	14,142
Depreciation and amortization	31,628	13	–	4	1,671	–	–	–	33,316
Total operating expenses	795,459	4,623	1,111	3,793	3,914	–	7,644	(5,769)	810,775
Operating (loss) income	(4,939)	901	616	(740)	(44)	–	(3,094)	–	(7,300)
Non-operating gains and losses:									
Investment return	4,984	201	50	(75)	25	–	1,064	–	6,249
Loss on extinguishment of debt	–	–	–	–	(1,853)	–	–	–	(1,853)
Excess (deficiency) of revenues over expenses, before non-controlling interests in joint ventures	45	1,102	666	(815)	(1,872)	–	(2,030)	–	(2,904)
Less: net gain attributable to non-controlling interests in joint ventures	4,843	–	–	–	–	–	–	–	4,843
(Deficiency) excess of revenues over expenses	(4,798)	1,102	666	(815)	(1,872)	–	(2,030)	–	(7,747)
Other changes in unrestricted net assets:									
Change in net unrealized gains and losses on investments	(515)	293	205	85	–	–	1,050	–	1,118
Pension-related adjustments	22,804	–	–	–	–	–	–	–	22,804
Net assets released from restrictions – capital acquisitions	779	–	–	–	–	–	–	–	779
Transfer of assets to joint venture	–	–	–	(425)	–	–	–	–	(425)
Change in interest in unrestricted net assets of St. Joseph's Hospital and Medical Center Foundation, Inc.	1,395	–	–	–	–	–	–	(1,395)	–
Change in interest in unrestricted net assets of St. Joseph's Wayne Hospital Foundation, Inc.	872	–	–	–	–	–	–	(872)	–
Change in unrestricted net assets	$ 20,537	$ 1,395	$ 871	$ (1,155)	$ (1,872)	$ –	$ (980)	$ (2,267)	$ 16,529

The System presents its interests in its controlled affiliates using the cost method of accounting.

Saint Joseph's Health, Inc.

Consolidating Statement of Changes in Net Assets
(In Thousands)

Year Ended December 31, 2017

	Saint Joseph's University Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	St. Joseph's Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	200 Hospital Plaza Corp.	Saint Joseph's Health, Inc.	SJHS Insurance Limited	Eliminations	Total
Unrestricted net assets:									
Change in unrestricted net assets	$ 20,537	$ 1,395	$ 871	$ (1,155)	$ (1,872)	$ –	$ (980)	$ (2,267)	$ 16,529
Temporarily restricted net assets:									
Contributions, grants, investment income, and other support	953	1,182	159	–	–	–	–	–	2,294
Changes in interest in temporarily restricted net assets of St. Joseph's Hospital and Medical Foundation, Inc.	(1,367)	–	–	–	–	–	–	1,367	–
Changes in interest in temporarily restricted net assets of St. Joseph's Wayne Hospital Foundation, Inc.	(38)	–	–	–	–	–	–	38	–
Net assets released from restrictions – operations	–	(2,549)	(197)	–	–	–	–	–	(2,746)
Net assets released from restrictions – capital acquisitions	(779)	–	–	–	–	–	–	–	(779)
Decrease in temporarily restricted net assets	(1,231)	(1,367)	(38)	–	–	–	–	1,405	(1,231)
Permanently restricted net assets:									
Change in net unrealized gains and losses on investments held in perpetual trusts	428	377	50	–	–	–	–	(427)	428
Increase in permanently restricted net assets	428	377	50	–	–	–	–	(427)	428
Increase (decrease) in net assets	19,734	405	883	(1,155)	(1,872)	–	(980)	(1,289)	15,726
Non-controlling interests in joint ventures:									
Net gain attributable to non-controlling interests in joint ventures	4,843	–	–	–	–	–	–	–	4,843
Distributions to non-controlling interests in joint ventures	(4,989)	–	–	–	–	–	–	–	(4,989)
Contributions from non-controlling interests in joint ventures	207	–	–	–	–	–	–	–	207
Increase in non-controlling interests	61	–	–	–	–	–	–	–	61
Change in net assets including non-controlling interests	19,795	405	883	(1,155)	(1,872)	–	(980)	(1,289)	15,787
Net assets at beginning of year	189,551	18,665	4,951	3,856	6,068	3,178	5,827	(26,710)	205,386
Net assets at end of year	$ 209,346	$ 19,070	$ 5,834	$ 2,701	$ 4,196	$ 3,178	$ 4,847	$ (27,999)	$ 221,173

The System presents its interests in its controlled affiliates using the cost method of accounting.

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