

Consolidated Financial Statements,
Supplementary Information and Report of
Independent Certified Public Accountants

Virtua Health, Inc.

December 31, 2017 and 2016

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Report of Independent Certified Public Accountants

Board of Trustees
Virtua Health, Inc.

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

Management’s responsibility for the financial statements

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

Auditors’ responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Virtua Health, Inc. as of December 31, 2017 and 2016 and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 47 - 54 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such supplementary 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 our audits of the consolidated financial statements and certain additional procedures. These additional procedures include comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such additional supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania

April 27, 2018

CONSOLIDATED BALANCE SHEETS

December 31,

(In thousands)

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	\$ 72,233	\$ 80,632
Assets limited as to use	16,265	21,802
Patient accounts receivable (net of estimated uncollectibles of \$48,202 in 2017 and \$44,396 in 2016)	130,271	133,730
Other current assets	52,524	44,221
Total current assets	271,293	280,385
ASSETS LIMITED AS TO USE:		
By Board of Trustees' designation	1,087,617	1,067,465
Other designated funds	283,126	158,334
Under debt agreements	26,325	26,248
Trust funds	13,471	13,439
Temporarily restricted funds	16,134	13,228
Permanently restricted endowment funds	1,733	1,677
	1,428,406	1,280,391
PROPERTY, PLANT, AND EQUIPMENT, NET	850,138	801,964
OTHER LONG-TERM ASSETS:		
Investment in unconsolidated joint ventures	148,882	126,805
Other assets	28,141	34,781
Goodwill and other intangibles	15,113	3,916
Beneficial interest in perpetual trust	8,530	7,939
	200,666	173,441
TOTAL	\$ 2,750,503	\$ 2,536,181

(Continued)

CONSOLIDATED BALANCE SHEETS - CONTINUED

December 31,

(In thousands)

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 11,395	\$ 11,240
Accounts payable and accrued expenses	122,317	115,635
Accrued compensation and related liabilities	60,839	58,987
Accrued interest payable	9,977	10,079
Estimated settlements due to third-party payers	<u>7,355</u>	<u>9,192</u>
Total current liabilities	211,883	205,133
LONG-TERM LIABILITIES:		
Estimated settlements due to third-party payers	3,256	9,183
Self-insurance liabilities	27,153	27,847
Accrued retirement benefits	31,071	33,074
Long-term debt, net of current maturities	594,245	605,970
Other liabilities	<u>22,874</u>	<u>16,318</u>
Total liabilities	890,482	897,525
NET ASSETS:		
Unrestricted:		
Virtua Health, Inc.	1,798,206	1,585,809
Noncontrolling interests	<u>31,429</u>	<u>27,443</u>
Total unrestricted net assets	1,829,635	1,613,252
Temporarily restricted	20,123	15,788
Permanently restricted	<u>10,263</u>	<u>9,616</u>
Total net assets	<u>1,860,021</u>	<u>1,638,656</u>
TOTAL	<u>\$ 2,750,503</u>	<u>\$ 2,536,181</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31,

(In thousands)

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS:		
Revenue:		
Net patient service revenue	\$ 1,280,508	\$ 1,286,289
Less: Provision for bad debts	<u>(52,960)</u>	<u>(49,203)</u>
Net patient service revenue, net of provision for bad debts	1,227,548	1,237,086
Other revenue	70,906	55,763
Equity in income of unconsolidated joint ventures	<u>46,362</u>	<u>36,404</u>
Total revenue	1,344,816	1,329,253
Expenses:		
Salaries and wages	571,792	558,329
Professional fees	19,081	19,077
Employees' fringe benefits	132,875	122,399
Other operating expenses	434,697	428,375
Interest	19,596	20,597
Depreciation	<u>89,675</u>	<u>85,438</u>
Total expenses	<u>1,267,716</u>	<u>1,234,215</u>
INCOME FROM OPERATIONS (includes \$10,455 in 2017 and \$8,142 in 2016 attributed to noncontrolling interests)	77,100	95,038
NONOPERATING GAINS AND LOSSES:		
Investment return, net	153,309	76,863
Realized gain from sale of investment	<u>106</u>	<u>1,220</u>
Total nonoperating gains, net	<u>153,415</u>	<u>78,083</u>
EXCESS OF REVENUE AND NONOPERATING GAINS, NET OVER EXPENSES	230,515	173,121
EXCESS OF REVENUE AND NONOPERATING GAINS NET OVER EXPENSES ATTRIBUTED TO NONCONTROLLING INTERESTS	<u>(10,445)</u>	<u>(8,142)</u>
EXCESS OF REVENUE AND NONOPERATING GAINS, NET OVER EXPENSES ATTRIBUTED TO VIRTUA HEALTH, INC.	220,070	164,979

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED

Year ended December 31,

(In thousands)

	<u>2017</u>	<u>2016</u>
EXCESS OF REVENUE AND NONOPERATING GAINS, NET OVER EXPENSES ATTRIBUTED TO VIRTUA HEALTH, INC.	\$ 220,070	\$ 164,979
OTHER CHANGES IN UNRESTRICTED NET ASSETS - Virtua Health, Inc.:		
Net assets released for property, plant, and equipment	862	1,537
Other changes in accrued retirement benefits	<u>(8,535)</u>	<u>(6,940)</u>
Increase in unrestricted net assets - Virtua Health, Inc.	212,397	159,576
NONCONTROLLING INTERESTS:		
Excess of revenues and nonoperating gains, net over expenses attributable to noncontrolling interests	10,445	8,142
Distributions	(10,138)	(7,506)
Membership interest transfer	<u>3,679</u>	<u>5,779</u>
Increase in unrestricted net assets - noncontrolling interests	3,986	6,415
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions, net of provision for uncollectibles	5,579	3,005
Investment income, net	215	113
Net assets released from restrictions for operations	(597)	(637)
Net assets released from restrictions for property, plant, and equipment	<u>(862)</u>	<u>(1,537)</u>
Increase in temporarily restricted net assets	4,335	944
PERMANENTLY RESTRICTED NET ASSETS:		
Increase in beneficial interest in perpetual trust	591	64
Investment income, net	<u>56</u>	<u>30</u>
Increase in permanently restricted net assets	647	94
INCREASE IN NET ASSETS	221,365	167,029
NET ASSETS - beginning of year	<u>1,638,656</u>	<u>1,471,627</u>
NET ASSETS - end of year	<u>\$ 1,860,021</u>	<u>\$ 1,638,656</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

(In thousands)

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES:		
Increase in net assets	\$ 221,365	\$ 167,029
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Other changes in accrued retirement benefits	8,535	6,940
Equity in income of unconsolidated joint ventures	(46,362)	(36,404)
Distributions to noncontrolling interest	10,138	7,506
Membership interest transfer	(3,679)	(5,779)
Restricted contributions, including change in beneficial interest in perpetual trust	(6,170)	(3,066)
Depreciation and amortization	89,345	85,121
Provision for bad debts	52,960	49,203
Net realized and unrealized gains on investments	(158,953)	(82,115)
Realized gain from sale of consolidated joint venture	(12,717)	-
Realized gain from sale of investment	(106)	(1,220)
Changes in certain assets and liabilities:		
Patient accounts receivable	(50,080)	(59,188)
Distributions from unconsolidated joint ventures	45,138	34,190
Other assets	(1,083)	13,423
Accounts payable and accrued expenses	7,962	12,580
Other liabilities	6,556	1,572
Accrued compensation and related liabilities	1,852	1,160
Accrued interest payable	(102)	(90)
Self-insurance liabilities	(1,323)	3,227
Accrued retirement benefits	(11,544)	(17,554)
Estimated settlements due to third-party payers	<u>(7,764)</u>	<u>(697)</u>
Net cash provided by operating activities	143,968	175,838
INVESTING ACTIVITIES:		
Additions to property, plant, and equipment	(138,428)	(90,890)
Purchases of investments	(327,550)	(160,907)
Sales of investments	345,031	112,616
Investment in unconsolidated joint ventures	(6,589)	(16,099)
Proceeds from sale of managed care organization	106	1,220
Acquisition of licenses	(3,590)	-
Acquisition of SCSJ and other physician services and dissolution of RADONC, net	<u>(3,490)</u>	<u>(105)</u>
Net cash used in investing activities	(134,510)	(154,165)

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

(In thousands)

	<u>2017</u>	<u>2016</u>
FINANCING ACTIVITIES:		
Repayment of long-term debt	\$ (11,240)	\$ (10,355)
Distributions to noncontrolling interests	(10,138)	(7,506)
Net restricted contributions and pledge payments	<u>3,521</u>	<u>728</u>
Net cash used in financing activities	<u>(17,857)</u>	<u>(17,133)</u>
 (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (8,399)	 4,540
 CASH AND CASH EQUIVALENTS - beginning of year	 <u>80,632</u>	 <u>76,092</u>
 CASH AND CASH EQUIVALENTS - end of year	 <u>\$ 72,233</u>	 <u>\$ 80,632</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest, net of capitalized interest	<u>\$ 21,179</u>	<u>\$ 20,779</u>
 Change in accrued capital expenditures in accounts payable and accrued expenses	 <u>\$ (1,718)</u>	 <u>\$ 4,677</u>
Non-cash components of acquisition of SCSJ and other physician services and dissolution of RADONC, net:		
Patient accounts receivable	<u>\$ (579)</u>	
Other assets	<u>\$ (1,788)</u>	
Property, plant and equipment	<u>\$ (1,139)</u>	
Accounts payable	<u>\$ (1,067)</u>	

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(Dollars in thousands)

NOTE A - ORGANIZATION

Virtua Health, Inc., is a nonprofit corporation incorporated in New Jersey to establish, operate, maintain, and conduct a regional health network serving Burlington, Camden, Mercer, Ocean, and Gloucester counties in New Jersey, and Philadelphia, Pennsylvania. The consolidated financial statements include the accounts of Virtua Health, Inc., and its controlled entities (collectively, "Virtua"). Virtua is composed of the following controlled entities:

Hospital Group - Virtua-Memorial Hospital of Burlington County ("Virtua-Memorial") is a 383-licensed-bed, tax-exempt acute care hospital in Mount Holly, New Jersey. Virtua-Memorial provides general health care services to residents within its geographic location for a wide range of inpatient and outpatient services, including medical, surgical, cardiac, obstetrical, gynecological, oncological, pediatric, emergency, and ambulatory care. Virtua-Memorial also provides a variety of outpatient services in space leased from a third-party developer in the Virtua Health and Wellness Center in Moorestown, New Jersey.

Virtua-West Jersey Health System ("Virtua-West Jersey") is a 600-licensed-bed, tax-exempt health system that operates two general acute care hospitals, which are located in Marlton, and Voorhees, New Jersey. Virtua-West Jersey provides general health care services to residents within its geographic location for a wide range of inpatient and outpatient services, including medical, surgical, cardiac, obstetrical, gynecological, oncological, pediatric, emergency, and ambulatory care. Virtua-West Jersey owns and operates facilities in Berlin and Camden, New Jersey, which provide emergent care and other outpatient services; and in the Camden facility rents available space primarily to outside social services programs. Virtua-West Jersey also provides a variety of outpatient services, in space leased from a third-party developer, in two Virtua Health and Wellness Centers, one in Voorhees, New Jersey and one in Washington Township, New Jersey, as well as in a fitness center located in Voorhees, New Jersey.

Virtua-West Jersey and a local physician owned Virtua Radiation Oncology Associates, LLC ("RADONC") in which Virtua-West Jersey maintained a 51% ownership interest. On June 30, 2017 RADONC ceased operations, at which time a \$12,717 gain was realized as a component of other revenue in the statements of operations and changes in net assets.

Virtua-West Jersey and an unrelated corporation own Voorhees Endoscopy Holding Co., LLC ("Voorhees Endo Holding") in which Virtua-West Jersey, maintains a 51% ownership interest. The purpose of Voorhees Endo Holding is to own a majority equity interest in The Voorhees NJ Endoscopy ASC, LLC, an ambulatory surgical center located in Voorhees, New Jersey.

Virtua-Memorial and an unrelated corporation own Virtua-SCA Holdings, LLC ("SCA Holdings") in which Virtua-Memorial, maintains a 51% ownership interest. SCA Holdings consolidates its 100% ownership interest of SCA-South Jersey, which owns 60% of Surgical Center of South Jersey, LLC ("SCSJ"). The purpose of SCA Holdings is to acquire, own and operate ambulatory surgical centers and to maintain a majority equity in such owned centers.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE A - ORGANIZATION - Continued

Virtua-Memorial and an unrelated corporation own Virtua-USP Princeton, LLC (“Virtua-USP Princeton”) in which Virtua-Memorial, maintains a 68.2% ownership interest. The purpose of Virtua-USP Princeton is to hold a majority interest in Surgical Specialists at Princeton, LLC, a multi-specialty ambulatory surgery center in Princeton, New Jersey.

Virtua-West Jersey is the sole corporate member of West Jersey RENEW, Inc., a nonprofit corporation, which is inactive.

Virtua Medical Group - Virtua Medical Group, PA (“VMG”) is a not-for-profit professional association consisting of 492 clinicians, primarily specialty and primary care physicians. VMG includes Virtua Surgical Group, PA (“VSG”), which was a not-for-profit professional association consisting of multispecialty surgeons that was merged with VMG and has ceased operations. VMG provides services to Virtua’s hospitals and also at many owned and leased physician-practice sites located throughout southern New Jersey.

Ambulatory and Long-Term Care - Virtua Health and Rehabilitation Center at Berlin, Inc., is a not-for-profit health care organization, which operates a 128-bed skilled nursing facility in Berlin, New Jersey.

Virtua Health and Rehabilitation Center at Mount Holly, Inc., is a not-for-profit health care organization, which operates a 180-bed skilled nursing facility in Mount Holly, New Jersey.

Virtua Home Care-Community Nursing Services (“CNS”) is a not-for-profit corporation, which provides home care services in Virtua’s service area.

VRI, Inc. (“VRI”), is a for-profit organization whose sole shareholder is CNS. VRI primarily consists of fitness centers and spas that are located in the Virtua Health and Wellness Centers in Moorestown and Washington Township, retail shops, management of a bioidentical hormone replacement therapy practice and private home health aide and companion services. VRI is also the sole shareholder of Radiation Therapy Rentals, LLC (“Therapy Rentals”), which provides rentals of medical equipment and real estate.

Foundation - Virtua Health Foundation, Inc. (“VHF”), is a not-for-profit corporation established to promote and support Virtua, its sole corporate member and affiliated corporations, and the health care of the population of southern New Jersey, by developing the resources necessary to attain these goals.

In 2003, Memorial Hospital of Burlington County Foundation (“MHBCF”), a not-for-profit corporation established to promote the scientific, educational, and charitable activities and policies of Virtua-Memorial, and West Jersey Health & Hospital Foundation, Inc. (“WJHHF”), a not-for-profit corporation, which raised funds for the benefit of Virtua-West Jersey, its subsidiaries, and the community, combined their operations and transferred their net assets into VHF. The restricted funds of MHBCF and WJHHF are administered in a manner consistent with the original donors’ intentions.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE A - ORGANIZATION - Continued

Insurance Captive - Virtua Assurance, Inc. ("VAI") is a for-profit captive insurance company in the state of Vermont whose sole shareholder is Virtua Health, Inc.

Population Health Management Group - Summit Health-Virtua, Inc., is a not-for-profit health care organization, which operates VirtuaCare, an accountable care organization that is an approved participant in the Medicare Shared Savings Program.

VirtuaPhysicianPartners, LLC ("VPP") is a for-profit clinically integrated network that enhances the access, quality, cost-efficiency and experience of healthcare for patients, and whose sole owner is Virtua Health, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation

Virtua, through Virtua-West Jersey and Virtua-Memorial, owns interests in several companies that are included in the consolidated financial statements. The noncontrolling interests of these companies, RADONC, Voorhees Endo Holding, SCA Holdings and Virtua-USP Princeton are reported as a component of net assets. Significant intercompany balances and transactions have been eliminated. Ventures in which Virtua has financial interest and shares controlled equally with unrelated investors are accounted for under the equity method as discussed in Note H. The assets of any member of Virtua may not be available to meet the obligations of other members in Virtua, except as disclosed in Note J.

2. 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 of America ("U.S. GAAP") consistent with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 954, *Health Care Entities*, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, and other pronouncements applicable to health care organizations.

3. Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates comprise the allowance for uncollectible accounts receivable, contractual allowances, estimated settlements with third-party payers, useful lives of property, plant and equipment, goodwill, self-insurance program liabilities, accrued retirement benefits, and the reported fair values of certain assets and liabilities. Actual results could differ from those estimates.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets limited as to use, investments, accounts payable and accrued expenses, estimated settlements with third-party payers and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, assets limited as to use, investments, accounts payable and accrued expenses and estimated settlements with third-party payers approximate fair value. Management's estimates of the fair value of other financial instruments are described elsewhere in the notes to the consolidated financial statements.

5. Cash and Cash Equivalents

Cash and cash equivalents include various checking, savings, time deposits, and money market accounts with initial maturities of three months or less. At December 31, 2017 and 2016, Virtua had cash balances in financial institutions that exceeded federal depository insurance limits. Management believes that credit risk related to these deposits is minimal.

6. Patient Accounts Receivable

Patient accounts receivable for which Virtua receives payment under cost reimbursement, prospective payment formulas, or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payers, which are generally less than the established billing rates of Virtua. Patient accounts receivable are reported net of provisions for uncollectible accounts.

7. Allowance for Uncollectible Accounts

Virtua establishes an allowance for doubtful accounts to report the net realizable amounts to be received from payers and patients. Increases to this allowance are reflected as a provision for doubtful accounts in the consolidated statements of operations and changes in net assets. Virtua regularly performs a detailed analysis of the collectability of patient accounts receivable and considers such factors as prior collection experience and the age of the receivables to determine the appropriate allowance level.

In evaluating the collectability of accounts receivable, Virtua 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 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, Virtua 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, Virtua provides an allowance for doubtful accounts and a provision for bad debts on the basis of its past experience. The allowance for doubtful accounts for self-pay patients was 69% and 66% of the total allowance for doubtful accounts at December 31, 2017 and 2016, respectively. Accounts receivable are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and ceases collection efforts. Virtua has not experienced significant changes in write-off trends.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Assets Limited as to Use, Investments, and Investment Income

Investments in marketable equity and debt securities are presented at fair value in the consolidated balance sheets as disclosed in Note F. Certain other investments are accounted for under the equity method of accounting as disclosed in Note H.

Assets limited as to use by the Board of Trustees' designation are resources arising from results of operations and investment returns that have been designated by the Board of Trustees for specific purposes. These securities are classified as trading securities.

Assets limited as to use - other designated funds are resources arising from results of operations that have been designated for specific purposes, such as building funds, self-funded professional liabilities, and a life income fund. These investments are classified as trading securities. The life income fund consists of assets acquired through deferred giving programs on the condition that VHF receive from donors irrevocable gifts and direct a proportionate share of the income from the fund to them or to others for life. All contributions to the life income fund are invested together, and all life beneficiaries receive income based on their proportionate interest in the fund. Upon the death of those for whom the income from a specific gift is reserved, the gift will be withdrawn from the fund and will become the property of VHF and will be used by VHF for its general purposes or for such specific charitable purposes of VHF as the donor may designate.

Assets limited as to use - under debt agreements are held by a trustee under bond indenture agreements and consist of those assets designated for the payments of principal and interest due on indebtedness, construction projects, and certain security provisions. These investments are accounted for as available for sale.

Assets limited as to use - trust funds include funds that are held by a trustee for Virtua's self-insurance workers' compensation program and assets for vested employee benefits. These investments are classified as trading securities.

Assets limited as to use - temporarily restricted funds and permanently restricted endowment funds are assets to be held by Virtua in accordance with the donor's intentions. Temporarily and permanently restricted investment income are recognized as a direct increase or decrease to temporarily and permanently restricted net assets, respectively.

Investment income or losses (including realized and unrealized gains and losses on investments, interest, and dividends) designated as trading, are included in nonoperating gains and losses as investment returns, unless the income or losses are restricted by donor or law. Investment income or losses (including realized and unrealized gains and losses on investments, interest, and dividends) designated as available for sale, are included in other revenue, except for interest income capitalized during construction, which is included in property, plant, and equipment, net.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 balance sheets and consolidated statements of operations and changes in net assets.

9. Contributions Receivable

Contributions receivable are unconditional promises to give and include annuities for which Virtua is not the trustee but is the future beneficiary under irrevocable unitrust agreements that are expected to be collected in future years, and are recorded at the present value of estimated future cash flows. The discounts on pledges are computed using a risk adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contributions in temporarily restricted net assets. The allowance for uncollectible contributions is based on experience in past fund-raising campaigns and currently available information.

10. Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Depreciation are provided over the estimated useful life of each class of depreciable asset and are computed on the straight-line method based on the following estimated useful lives:

Land improvements	5-25 years
Building and improvements	10-40 years
Fixed equipment	5-20 years
Furniture and fixtures	3-20 years

Construction in progress represents amounts expended or incurred toward property and equipment projects that have not been completed. No depreciation or amortization has been recorded for these items. Interest cost incurred, net of investment income earned on borrowed funds, during the period of construction is capitalized as a component of the cost of acquiring those assets. In cases where internal cash reserves are used to fund construction, interest is capitalized based on average accumulated expenditures multiplied by the weighted-average interest rate on existing debt. Virtua had capitalized interest of \$1,481 and \$92 for the years ended December 31, 2017 and 2016, respectively.

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

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. 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. As of December 31, 2017, management believes that no revisions to the remaining useful lives or write-down of long-lived assets are required, except those noted in property, plant, and equipment in Note I.

12. Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. As the donors' intentions are met, the net assets are reclassified to unrestricted and reported in the consolidated statements of operations and changes in net assets as other revenue for operating purposes and as other changes in unrestricted net assets for acquisitions of property, plant, and equipment.

13. Self-Insurance

Virtua is self-insured with regard to health insurance offered to its employees. A third-party administrator is utilized to process the health insurance claims. Virtua is also self-insured for workers' compensation. An estimated liability for incurred but not reported employee medical benefits and workers' compensation claims is included in accounts payable and accrued expenses.

14. Goodwill and other intangibles

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets of businesses acquired. Other intangibles represent a certificate of need and a license to operate long-term care beds, which was acquired for future use and has an indefinite useful life. During the year ended December 31, 2017, Virtua added net goodwill of \$7,607 through the acquisition of the SCSJ and physician practices and the dissolution of RADONC.

Goodwill and other intangibles at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Goodwill	\$ 11,523	\$ 3,916
Other intangibles	<u>3,590</u>	<u>-</u>
	<u>\$ 15,113</u>	<u>\$ 3,916</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Goodwill and other intangibles are not amortized but are tested for impairment at least annually and whenever events or circumstances change that indicate impairment may have occurred. Virtua first assesses qualitative factors to determine whether it is necessary to perform quantitative impairment tests for goodwill. If the result of the qualitative assessment conclude that it is more likely than not that goodwill is not impaired, a quantitative impairment test is not required. If a quantitative impairment test is required, Virtua's testing consists of performing an internal valuation analysis and considering other publicly available market information. If the carrying amount of goodwill exceeds the estimated fair value, an impairment charge to current operations is recorded to reduce the carrying value to the estimated fair value. Virtua completed the quantitative impairment test of its goodwill and other intangibles and determined there to be no impairment for the years ended December 31, 2017 and 2016.

15. Other assets

Other assets at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Advanced rental payments	\$ 18,296	\$ 26,548
Insurance recoveries	7,042	6,748
Contributions receivable, net	2,565	1,228
Other	<u>238</u>	<u>257</u>
	<u>\$ 28,141</u>	<u>\$ 34,781</u>

Advance rental payments are being expensed over the term of the lease agreements.

16. Investment in Managed Service Organization

Virtua had an 8.84% interest in QualCare Alliance Networks, Inc. ("QANI"), a New Jersey-based managed care organization, prior to QANI's sale on February 28, 2015. Virtua received \$106 and \$1,220, respectively, in proceeds from a realized gain on sale of investment for the years ended December 31, 2017 and 2016, respectively.

17. Beneficial Interest in Perpetual Trust

Virtua has recorded its portion of the fair value of a trust. The trust is perpetual in nature, and the original corpus cannot be violated. The trust is recorded as a permanently restricted net asset.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

18. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets represent those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity, with income to support nursing scholarships and to support various other needs, in accordance with donor stipulations.

Income from permanently restricted net assets is recorded as temporarily restricted and is expended according to donor intent. VHF and Virtua senior management determine the best operating and capital needs of Virtua within the donor intent. Funds are then expended by Virtua and reimbursed by VHF once proof of expenditure according to donor intent is satisfied.

Virtua follows the requirements of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). Virtua’s endowments consist of numerous individual funds established for a variety of purposes and consist solely of donor-restricted endowment funds. As required, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Virtua has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Virtua classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts donated to the permanent endowment, and accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instruments.

Virtua’s investment policies for its endowment assets are consistent with the policies and objectives of its overall investments. The assets are invested in a manner that is intended to produce a positive rate of return while assuming a low level of risk. From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor requires Virtua to maintain in perpetual duration. Deficiencies of this nature would be reported in unrestricted net assets, however, none existed at December 31, 2017 and 2016.

Changes in permanently restricted endowment funds for the years ended December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Net assets - beginning of year	\$ 1,677	\$ 1,647
Investment return - net realized and unrealized gains	<u>56</u>	<u>30</u>
Net assets - end of year	<u>\$ 1,733</u>	<u>\$ 1,677</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

19. Net Patient Service Revenue

Virtua has negotiated agreements with third-party payers including health insurance companies and has rates set by government regulations (for payers such as Medicare and Medicaid) that provide for reimbursement at amounts different from established charges. Reimbursement methodologies include prospectively determined rates per discharge, per diem rates, reimbursed costs, and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

20. Performance Indicator

The consolidated statements of operations and changes in net assets include as the performance indicator the excess of revenue and nonoperating gains, net, over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Other transactions, including investment income, realized gains and losses on the sale of investments, and changes in unrealized gains and losses on investments designated as trading, are reported as investment return. Changes in unrestricted net assets that are excluded from the excess of revenue and nonoperating gains, net, over expenses include net assets released from restrictions for property, plant, and equipment, and other changes in accrued retirement benefits.

21. Advertising Costs

Virtua expenses advertising costs as incurred. For the years ended December 31, 2017 and 2016, Virtua incurred advertising costs of \$10,821 and \$12,136, respectively, which are included in other operating expenses in the accompanying consolidated statements of operations and changes in net assets.

22. Functional Expenses

Virtua's primary mission is to provide health care services to its patients. The majority of all operating expenses incurred by Virtua are related to the provision of health care services. Virtua provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Health care services	\$ 1,100,607	\$ 1,049,169
General and administrative	<u>167,109</u>	<u>185,046</u>
	<u>\$ 1,267,716</u>	<u>\$ 1,234,215</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

23. Tax Status

Virtua, excluding VAI, VPP, VRI, RADONC, Voorhees Endo Holding, SCA Holdings, Virtua-USP Princeton and Therapy Rentals, 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 Virtua, except for VSG and VMG, are also exempt from state income taxes. Income taxes are not material to the consolidated financial statements.

24. Reclassifications

Certain reclassifications have been made to prior-year balances in order to conform to the current-year presentation.

25. Pending Accounting Pronouncement

In May 2014, the FASB issued Accounting Standards Updated (“ASU”) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance 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 these goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of retained earnings at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. Currently, the American Institute of Certified Public Accountants Healthcare Revenue Recognition Task Force is interpreting ASU 2014-09 and its effects on the health care industry.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard changes how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line items(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. The new standard is effective for annual financial statements after December 15, 2017.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date.

Virtua is in the process of quantifying the consolidated financial statements' impacts of ASU 2014-09, 2017-07, 2016-14 and 2016-02 at this time.

NOTE C - CHARITY CARE AND STATE SUBSIDY

Virtua provides care to all in need of medical assistance, irrespective of their ability to pay. Many patients cared for at Virtua do not have health insurance or the ability to pay for the cost of their care. A portion of Virtua's operating expense is associated with providing care to these community members, for which Virtua is not directly compensated. Uninsured patients may qualify for financial assistance under the provisions of two separate programs. Some will qualify for assistance under the State of New Jersey's Hospital Care Payment Assistance Program ("Charity Care Assistance"). The eligibility criterion for this program includes both an income and an asset test. Individuals with incomes up to 300% of the federal poverty guidelines can qualify for assistance. Virtua recognized that some uninsured patients will not qualify for assistance under the state program or will not go through the process of applying for assistance under this program. With the goal of being able to provide financial assistance to a larger population of uninsured patients, Virtua established its own reduced-fee Charity Assistance Program ("CAP"). The qualification criterion for CAP is substantially less restrictive than the state program, having no asset test and providing assistance to those with incomes up to 500% of the federal poverty guidelines. Patients qualifying for these programs receive services without charge or at amounts less than established charges. Virtua maintains records to identify and monitor the level of financial assistance provided under both programs. Included in the records is the amount of forgone patient service revenue furnished as charity care. Virtua has not changed its charity care policy.

Under a provision of the Affordable Care Act, the State of New Jersey opted to accept federal government funding to expand the eligibility for enrolling in the state's Medicaid program.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE C - CHARITY CARE AND STATE SUBSIDY - Continued

Cost of providing charity care, based on Virtua's estimated cost-to-charge ratios, for the years ended December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
State of New Jersey Program	\$ 12,436	\$ 13,343
Virtua Charity Assistance Program	<u>6,303</u>	<u>5,074</u>
Total	<u>\$ 18,739</u>	<u>\$ 18,417</u>

Virtua received \$893 and \$1,623 of State of New Jersey Charity Care Subsidy Funds for the years ended December 31, 2017 and 2016, respectively, which is recorded in net patient service revenue in the consolidated statements of operations and changes in net assets.

NOTE D - NET PATIENT SERVICE REVENUE

Net patient service revenue, net of the provision for bad debts, recognized from these major payer sources based on primary insurance designation for the years ended December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Managed care	69%	68%
Medicare and Medicaid	26	27
Other third-party payers	4	4
Self-pay	<u>1</u>	<u>1</u>
	<u>100%</u>	<u>100%</u>

Inpatient acute care services for Medicare and Medicaid program beneficiaries and outpatient services for Medicare beneficiaries are paid at prospectively determined rates per discharge or outpatient service. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Outpatient services for Medicaid beneficiaries, defined Medicare program pass-through items, and certain other costs provisionally reimbursed by Medicare, are paid based on a cost reimbursement methodology or tentative rate. These are ultimately subjected to certain cost limitations or contingent on actual data for the year, with final settlement determined after submission of annual cost reports by Virtua and audits thereof, by the programs' fiscal intermediaries.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE D - NET PATIENT SERVICE REVENUE - Continued

The Centers for Medicare and Medicaid Services (“CMS”) previously approved the State of New Jersey’s proposal under Section 1115 of the Social Security Act to implement a mandatory Medicaid managed care program, which requires certain Medicaid beneficiaries to enroll in approved managed care plans. In addition, certain Medicare beneficiaries may opt for coverage through federally approved managed care plans. Payments to Virtua for these Medicaid and Medicare beneficiaries are based upon the rates negotiated with these plans.

Virtua’s Medicare cost reports have not yet been settled for the years ended December 31, 2015, 2016 and 2017. Virtua’s Medicaid cost reports have not been settled by the fiscal intermediary for the years ended December 31, 2016 and 2017. Virtua also has outstanding appeal issues relating to prior-year settled cost reports. Differences between the estimated settlements and the amounts settled are recorded in the year of settlement.

Estimated favorable results of appeal items are recorded when realization is reasonably assured. These estimates are included in estimated settlements due to third-party payers in the consolidated balance sheets. In the opinion of management, adequate provision has been made for any adjustment, which may result from the final settlement of these cost reports, and any appeal issues. For the years ended December 31, 2017 and 2016, net patient service revenue includes net favorable settlements and adjustments for cost reports, audit and appeal items from prior years of \$10,182 and \$7,278, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation, and noncompliance could result in significant regulatory action, including fines and penalties. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Virtua believes that it is in compliance with applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subjected to future government review and interpretations as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. Virtua has a corporate compliance program to monitor compliance with these laws and regulations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE E - ASSETS LIMITED AS TO USE

Investments and assets limited as to use, stated at fair value as of December 31, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
By Board of Trustees' designation:		
Cash and short-term investments	\$ 1	\$ 1
Mutual and private placement funds - fixed income	525,416	514,972
Mutual and private placement funds - equity	<u>562,200</u>	<u>552,492</u>
	<u>\$ 1,087,617</u>	<u>\$ 1,067,465</u>
Other designated funds:		
Cash and short-term investments	\$ 11	\$ 11
Mutual and private placement funds - fixed income	139,961	79,881
Mutual and private placement funds - equity	<u>149,690</u>	<u>86,403</u>
	289,662	166,295
Less assets limited as to use that are required for current liabilities	<u>(6,536)</u>	<u>(7,961)</u>
	<u>\$ 283,126</u>	<u>\$ 158,334</u>
Under debt agreements:		
Cash and short-term investments	\$ 10,085	\$ 14,011
U.S. government obligations	<u>25,969</u>	<u>26,078</u>
	36,054	40,089
Less assets limited as to use that are required for current liabilities	<u>(9,729)</u>	<u>(13,841)</u>
	<u>\$ 26,325</u>	<u>\$ 26,248</u>
Under debt agreements, assets are maintained for the following purposes:		
Debt service reserve fund	\$ 26,286	\$ 26,231
Debt service interest fund	9,745	9,939
Debt service principal fund	<u>23</u>	<u>3,919</u>
	<u>\$ 36,054</u>	<u>\$ 40,089</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE E - ASSETS LIMITED AS TO USE - Continued

	<u>2017</u>	<u>2016</u>
Trust funds:		
Cash and short-term investments	\$ 990	\$ 1,655
Mutual and private placement funds - fixed income	3,003	2,993
Mutual and private placement funds - equity	6,633	5,827
Investment contract	<u>2,845</u>	<u>2,964</u>
	<u>\$ 13,471</u>	<u>\$ 13,439</u>
Temporarily and permanently restricted funds:		
Cash and short-term investments	\$ 107	\$ 62
Mutual and private placement funds - fixed income	8,379	7,348
Mutual and private placement funds - equity	<u>9,381</u>	<u>7,495</u>
	<u>\$ 17,867</u>	<u>\$ 14,905</u>
Investment income and realized and unrealized gains and losses, net of fees for assets limited as to use and cash equivalents for the years ended December 31, 2017 and 2016, are composed of the following:		
	<u>2017</u>	<u>2016</u>
Other revenue - interest income	<u>\$ 90</u>	<u>\$ 380</u>
Nonoperating gains, net:		
Investment income:		
Interest and dividend income	\$ 137	\$ 93
Net realized gains and losses on sales of investments	126,805	4,691
Net change in unrealized gains and losses on trading securities	31,880	77,281
Investment management fees	<u>(5,513)</u>	<u>(5,202)</u>
	153,309	76,863
Realized gain from sale of investment	<u>106</u>	<u>1,220</u>
Total	<u>\$ 153,415</u>	<u>\$ 78,083</u>
Temporarily restricted net assets - net realized and unrealized gains	<u>\$ 215</u>	<u>\$ 113</u>
Permanently restricted net assets - net realized and unrealized gains	<u>\$ 56</u>	<u>\$ 30</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE F - FAIR VALUE MEASUREMENTS

Fair Value Measurements

Virtua classifies its investments into: Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market, but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Asset Valuation Techniques

Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Mutual Funds - Fair value estimates for publicly traded mutual funds are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Such mutual funds are actively traded and are classified as Level 1.

U.S. Government Obligations - The fair value of the U.S. government obligations reported as Level 2 has been determined using quoted market prices for similar instruments.

Investment Contract - The fair value of the investment contract is provided by the respective insurance company and is equal to the funds deposited by Virtua and accrued income. The investment contract is reported as Level 3.

Beneficial Interest in Perpetual Trust - The estimated fair value of the beneficial interest in perpetual trust is determined based upon information provided by the trustee. Such information is based on the pro rata interest in the net assets of the trust. The assets held in the trust consist primarily of cash equivalents and marketable securities. The fair value of the perpetual trust is measured using the fair value of the underlying investments and is reported as Level 3.

Private Placement Funds - The fair value of private placement funds has been determined using the net asset value of the funds as provided by the respective fund managers. The net asset value is used as a practical expedient to estimate fair value and is excluded from the fair value hierarchy. The underlying investments of these funds consist of securities with readily determinable market values.

The valuation methods as described above may produce a fair value that may not be indicative of what management would realize upon disposition or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

As of December 31, 2017 and 2016, there were no withdrawal restrictions or unfunded commitments on investments reported at net asset value and the investment contract.

The information as of December 31, 2017 and 2016, about Virtua's financial assets that are measured at fair value on a recurring basis using the market approach, is as follows:

	2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash and short-term investments	\$ 11,194	\$ 11,194	\$ -	\$ -
Mutual funds:				
U.S. equity	6,001	6,001	-	-
International equity	1,025	1,025	-	-
U.S. fixed income	3,433	3,433	-	-
International fixed income	80	80	-	-
Real estate	479	479	-	-
U.S. government obligations	25,969	-	25,969	-
Investment contract	2,845	-	-	2,845
Beneficial interest in perpetual trust	<u>8,530</u>	<u>-</u>	<u>-</u>	<u>8,530</u>
	<u>59,556</u>	<u>\$ 22,212</u>	<u>\$ 25,969</u>	<u>\$ 11,375</u>
Private placement funds (at NAV):				
Fixed income ^(a)	673,246			
Domestic equity ^(b)	393,754			
International equity ^(c)	<u>326,645</u>			
	<u>1,393,645</u>			
	<u>\$ 1,453,201</u>			

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

	2016			
	Total	Level 1	Level 2	Level 3
Assets				
Cash and short-term investments	\$ 15,740	\$ 15,740	\$ -	\$ -
Mutual funds:				
U.S. equity	4,828	4,828	-	-
International equity	1,271	1,271	-	-
U.S. fixed income	3,311	3,311	-	-
International fixed income	182	182	-	-
Real estate	488	488	-	-
U.S. government obligations	26,078	-	26,078	-
Investment contract	2,964	-	-	2,964
Beneficial interest in perpetual trust	<u>7,939</u>	<u>-</u>	<u>-</u>	<u>7,939</u>
	<u>62,801</u>	<u>\$ 25,820</u>	<u>\$ 26,078</u>	<u>\$ 10,903</u>
Private placement funds (at NAV):				
Fixed income ^(a)	601,701			
Domestic equity ^(b)	460,267			
International equity ^(c)	<u>185,363</u>			
	<u>1,247,331</u>			
	<u>\$ 1,310,132</u>			

- (a) Fixed income - Seeks favorable returns comparable to the broad fixed-income market by investing in bonds representing diverse sectors and maturities.
- (b) Domestic equity - Seeks to provide long-term capital growth, by investing in common stocks of U.S. companies with various capitalizations, while managing volatility and maintaining diversification.
- (c) International equity - Seeks high, long-term returns comparable to the broad international stock market by investing in companies from developed and emerging countries around the world.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Transfers between Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported during the reporting period.

There were no transfers into or out of the levels per the tables above, for the years ended December 31, 2017 and 2016.

The table below sets forth the change in the fair value of investments measured using significant unobservable inputs (Level 3) for the years ended December 31, 2017 and 2016, as follows:

	<u>Investment contract</u>	<u>Beneficial interest in perpetual trusts</u>	<u>Total</u>
Balance - December 31, 2015	\$ 3,407	\$ 7,875	\$ 11,282
Net realized gains	34	-	34
Net unrealized gains	74	64	138
Purchases	309	-	309
Sales	<u>(860)</u>	<u>-</u>	<u>(860)</u>
Balance - December 31, 2016	2,964	7,939	10,903
Net realized gains	28	-	28
Net unrealized gains	63	591	654
Purchases	302	-	302
Sales	<u>(512)</u>	<u>-</u>	<u>(512)</u>
Balance - December 31, 2017	<u>\$ 2,845</u>	<u>\$ 8,530</u>	<u>\$ 11,375</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE G - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give, included in contributions receivable, at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Major gifts	\$ 4,838	\$ 2,793
Planned gifts	725	725
Annuities - unitrusts	<u>292</u>	<u>281</u>
Gross unconditional promises to give	<u>5,855</u>	<u>3,799</u>
Less: unamortized discount	(1,018)	(613)
Less: allowance for doubtful accounts	<u>(714)</u>	<u>(631)</u>
Total	<u>\$ 4,123</u>	<u>\$ 2,555</u>
Amounts due in:		
One year	\$ 1,558	
Two to five years	2,135	
More than five years	<u>2,162</u>	
Total	<u>\$ 5,855</u>	

The future expected cash flows from contributions receivable have been discounted using rates ranging between 0.67% and 6.00%.

NOTE H - INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

Virtua and physicians located throughout New Jersey have joined together, along with other non-related for-profit investors, to expand surgical and certain other services within the physicians' local communities through jointly owned ventures. These ventures are for-profit organizations. Virtua also has ownership in a medical revenue cycle joint venture that provides billing services to physician practices and ambulatory surgical centers.

Specifically related to the Voorhees Endo Holding, SCA Holdings and Virtua-USP Princeton joint ventures, the operating agreements do not allow Virtua, Voorhees Endo Holding, SCA Holdings and Virtua-USP Princeton to control operating or financial decisions related to the ventures. Virtua does, however, consolidate Voorhees Endo Holdings, SCA Holdings, and Virtua-USP Princeton with a non-controlling interest. Regardless of the proportionate ownership of capital investment in these physician ventures, all decisions are made by the respective venture's operating board. In each case, the operating board is composed equally of members appointed by Virtua and the physician investors as a group. Accordingly, Virtua, Voorhees Endo Holding, SCA Holdings and Virtua-USP Princeton account for their interest in these ventures on the equity method of accounting.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE H - INVESTMENT IN UNCONSOLIDATED JOINT VENTURES - Continued

The balances for these statements are as follows:

	Membership percentage		Investment in unconsolidated affiliates		Equity earnings in unconsolidated affiliates	
	December 31,		December 31,		Year ended December 31,	
	2017	2016	2017	2016	2017	2016
Virtua-Memorial:						
Memorial Ambulatory Surgery Center, LLC	55.59%	55.91%	\$ 473	\$ 512	\$ 864	\$ 849
Vantage Surgical Center, LLC	51.00%	51.00%	1,010	662	935	1,016
Burlington County Endoscopy Center, LLC	52.00%	52.00%	6,891	5,899	3,394	1,167
SCA Holdings:	51.00%	51.00%				
Seashore Surgical Institute, LLC ^(a)	-	-	7,159	8,125	947	1,378
Surgicare of Central Jersey, LLC ^(a)	-	-	15,234	15,174	2,855	2,262
Bergen-Passaic Eye Surgery Center ^(a)	-	-	5,861	5,641	2,390	485
Virtua-USP Princeton	68.2%	68.20%				
Surgical Specialist at Princeton, LLC ^(b)	-	-	10,567	10,206	2,190	57
Virtua-West Jersey:						
Summit Surgical, LLC	62.80%	55.87%	9,860	4,817	2,815	1,587
South Jersey Musculoskeletal Institute, LLC	51.53%	51.82%	1,273	1,654	3,615	4,014
Ambulatory Surgery Center at Virtua Washington Township, LLC	62.91%	62.91%	1,337	473	1,169	829
Jersey Shore, LLC	51.00%	51.00%	11,212	11,335	2,526	3,203
Ramapo Valley Surgical	53.91%	52.30%	9,289	9,535	1,079	1,266
Virtua Adult Imaging Services	50.00%	50.00%	4,956	4,928	2,564	2,795
Center for Ambulatory and Minimally Invasive Surgery, LLC	56.13%	55.56%	13,426	13,461	3,596	2,447
Freehold Endoscopy Associates, LLC	62.75%	60.00%	8,737	8,689	2,649	2,750
Gastro-Surgi Center of New Jersey, LLC	51.00%	51.00%	12,354	12,376	2,745	2,559
Presenius Medical Care, LLC	30.00%	30.00%	877	969	(92)	-
Virtua Penn Radiation Oncology Partners, LLC	51.00%	-	15,241	-	732	-
Voorhees Endo Holding: The Voorhees NJ Endoscopy ASC, LLC ^(c)	51.00%	51.00%	-	-	-	-
			12,805	12,349	9,444	7,740
VRI:						
Acentus Practice Management, LLC	50.00%	50.00%	320	-	(55)	-
			<u>\$ 148,882</u>	<u>\$ 126,805</u>	<u>\$ 46,362</u>	<u>\$ 36,404</u>

^(a) As of December 31, 2017, SCA Holdings owns 52% of Seashore Surgical Institute, LLC, 55% of Surgicare of Central Jersey, LLC, 57% of Bergen-Passaic Eye Surgery Center. Virtua-Memorial holds a 51% membership percentage of SCA Holdings and effectively owns 26.52% interest in Seashore Surgical Institute, LLC, 28.05% interest in Surgicare of Central Jersey, LLC, and 29.07% interest in Bergen-Passaic Eye Surgery Center. As of December 31, 2016, SCA Holdings owned 55.67% of Seashore Surgical Institute, LLC, 55% of Surgicare of Central Jersey, LLC, and 57% of Bergen-Passaic Eye Surgery Center. Virtua-Memorial held a 51% membership percentage of SCA Holdings and effectively owned 28.39% interest in Seashore Surgical Institute, LLC, 28.05% interest in Surgicare of Central Jersey, LLC, and 29.07% interest in Bergen-Passaic Eye Surgery Center.

^(b) Virtua-USP Princeton owns 55% of Surgical Specialists at Princeton, LLC as of December 31, 2017 and 2016. Virtua-Memorial holds a 68.2% membership percentage of Virtua-USP Princeton and thus effectively owns a 37.51% interest in Surgical Specialists at Princeton, LLC.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE H - INVESTMENT IN UNCONSOLIDATED JOINT VENTURES - Continued

(c) Voorhees Endo Holding owns 51% of The Voorhees NJ Endoscopy ASC, LLC as of December 31, 2017 and 2016. Virtua - West Jersey holds a 51% membership percentage in The Voorhees Endo Holding and thus effectively owns a 26% interest in the Voorhees NJ Endoscopy ASC, LLC.

Operating revenues for the combined group of ventures accounted for under the equity method of accounting were \$219,339 and \$180,441 for the years ended December 31, 2017 and 2016, respectively.

Virtua provides employee leasing, rental, and management services to several of its joint ventures. The total revenue, included in other revenue, collected from these services was \$13,428 and \$11,527 for the years ended December 31, 2017 and 2016, respectively. The total amounts receivable, included on other current assets, related to these services are \$2,216 and \$1,554 at December 31, 2017 and 2016, respectively.

NOTE I - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 94,249	\$ 94,012
Land improvements	66,546	47,479
Buildings and improvements	661,192	654,262
Fixed equipment	242,131	241,817
Furniture and equipment	<u>645,170</u>	<u>591,217</u>
	1,709,288	1,628,787
Less accumulated depreciation	<u>(979,463)</u>	<u>(888,198)</u>
	729,825	740,589
Construction in progress	<u>120,313</u>	<u>61,375</u>
	<u>\$ 850,138</u>	<u>\$ 801,964</u>

Depreciation expense related to property, plant, and equipment was \$89,675 and \$85,438 for the years ended December 31, 2017 and 2016, respectively. During 2017, the estimated useful lives of revenue cycle management systems were reduced due to the anticipated implementation of the new revenue system, EPIC. This reduction in useful life increased depreciation expense by \$4,347 in 2017, resulting in the remaining net book value consistent with the anticipated disposal date in 2018.

Virtua has committed to an information technology project, which has \$104,384 remaining on the commitment, and is expected to be fully completed in 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE J - LONG-TERM DEBT

Long-term debt at December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
New Jersey Health Care Facilities Financing Authority (“NJHCFFA”):		
\$11,000 Virtua Health Issue, Series 2003 A-7 Variable Rate Revenue Bonds Composite Program - less issuance cost of \$2 and \$5 at December 31, 2017 and 2016, respectively ^(a)	\$ 898	\$ 1,795
\$60,000 Virtua Health Issue, Series 2004 Variable Rate Revenue Bonds - less issuance cost of \$274 and \$301 at December 31, 2017 and 2016, respectively ^(b)	49,271	49,999
\$379,645 Virtua Health Issue, Series 2009A Fixed Rate Revenue Bonds - less net original issue discount and issuance cost of \$6,110 and \$6,562 at December 31, 2017 and 2016, respectively ^(c)	224,005	231,373
\$185,000 Virtua Health Issue, Series 2009B-E Variable Rate Revenue Bonds - less issuance cost of \$1,465 and \$1,527 at December 31, 2017 and 2016, respectively ^(d)	183,535	183,473
\$47,085 Virtua Health Issue, Series 2011 Fixed Rate Revenue and Refunding Bonds - less issuance cost of \$2 and \$8 at December 31, 2017 and 2016, respectively ^(e)	1,848	3,607
\$140,020 Virtua Health Issue, Series 2013 Fixed Rate Revenue and Refunding Bonds - plus net original issue premium and issuance cost of \$6,528 and \$7,408 at December 31, 2017 and 2016, respectively ^(f)	<u>146,083</u>	<u>146,963</u>
	605,640	617,210
Less current maturities of long-term debt	<u>(11,395)</u>	<u>(11,240)</u>
	<u>\$ 594,245</u>	<u>\$ 605,970</u>

- ^(a) The NJHCFFA Variable Rate Revenue Bonds, Virtua Health Issue, Series 2003 A-7 (the “Series 2003 Bonds”) were issued for funding and reimbursing costs of various capital improvements and equipment purchases by Virtua Health, Inc., Virtua-Memorial, and Virtua-West Jersey. The remaining principal payment is \$900, maturing on July 1, 2018. Interest is payable monthly at a variable rate not to exceed 12%. The interest rate was 1.74% and 0.68% at December 31, 2017 and 2016, respectively. The Series 2003 Bonds are variable rate demand bonds secured by an irrevocable letter of credit with a bank, which expires on July 2, 2018. No amounts were outstanding on the letter of credit at December 31, 2017 and 2016.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE J - LONG-TERM DEBT - Continued

- (b) The NJHCFFA Variable Rate Revenue Bonds, Virtua Health Issue, Series 2004 (the “Series 2004 Bonds”) were issued for the purpose of refinancing the 2001 Capital Asset Program loan and funding and reimbursing costs of various capital improvements and equipment purchases by Virtua-Memorial and Virtua-West Jersey. Annual principal payments range from \$820 to \$6,385, maturing on July 1 of each year through 2033. Interest is payable monthly at a variable rate not to exceed 10%. The interest rate was 1.74% and 0.68% at December 31, 2017 and 2016, respectively. The Series 2004 Bonds are variable rate demand bonds secured by an irrevocable letter of credit with a bank, which expires on July 2, 2021. No amounts were outstanding on the letter of credit at December 31, 2017 and 2016.
- (c) The NJHCFFA Fixed Rate Revenue Bonds, Virtua Health Issue, Series 2009A (the “Series 2009A Bonds”) bear interest between 5.50% and 5.75%, payable on January 1 and July 1. Annual principal payments on the Series 2009A Bonds range from \$5,455 to \$33,430, maturing on July 1 of each year through 2038. A portion of the Series 2009A Bonds are insured by Assured Guaranty Corp. (“Assured”) for \$161,650 with the remaining bonds uninsured for \$68,465 at December 31, 2017. Bond proceeds were used for constructing and equipping the Voorhees replacement hospital, funding capitalized interest, funding a Debt Service Reserve Fund, and paying certain finance costs.
- (d) NJHCFFA Variable Rate Revenue Bonds, Virtua Health Issue, Series 2009B-E (the “Series 2009B-E Bonds”) were issued in connection with the Series 2009A Bonds for the purpose of constructing and equipping the Voorhees replacement hospital, funding capitalized interest, and paying certain finance costs. Annual principal payments range from \$34,820 to \$39,245, maturing on July 1 of each year from 2039 to 2043. Interest is payable monthly at a variable rate not to exceed 12%. The interest rates were 1.65%, 1.80%, 1.80%, and 1.53% at December 31, 2017 and 0.57%, 0.66%, 0.70%, and 0.66% at December 31, 2016, respectively. The Series 2009B-E Bonds are variable rate demand bonds secured by irrevocable letters of credit with two banks; with one bank for Series B-C providing two letters of credit for a total of \$100,000, which expire on January 2, 2020; and another bank for Series D-E providing two letters of credit for a total of \$85,000, which expire on January 2, 2021. No amounts were outstanding on the letters of credit at December 31, 2017 and 2016.
- (e) The NJHCFFA Fixed Rate Revenue and Refunding Bonds, Virtua Health Issue, Series 2011 (the “Series 2011 Bonds”) bear interest at 1.96%, payable on January 1 and July 1. The remaining principal payment on the Series 2011 Bonds is \$1,850, maturing on July 1, 2018. The Series 2011 Bonds were issued to refinance a portion of Series 1998 Bonds. The bonds were issued as a private placement at fixed rates with a bank as the direct purchasing bank.
- (f) The NJHCFFA Fixed Rate and Revenue Refunding Bonds, Virtua Health Issue, Series 2013 (the “Series 2013 Bonds”) were issued to refund the outstanding Series 1998 Bonds and certain Series 2009A Bonds and pay for costs of issuance of the Series 2013 Bonds. The Series 2013 Bonds bear interest between 3% and 5%, payable on January 1 and July 1. Annual principal payments on the Series 2013 Bonds range from \$4,975 to \$15,515, maturing on July 1 of each year through 2029.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE J - LONG-TERM DEBT - Continued

Original issue discounts/premiums and debt issuance costs for indebtedness are being amortized over the term of the related debt using the effective interest method.

Under the terms of its bond trust agreements, Virtua has the option to convert the variable rate demand bonds to a fixed rate term mode. For all series of variable rate demand bonds backed by bank letters of credit and subjected to remarketing agreements, in the event that any or all of the bonds are tendered by the bondholder and are unable to be remarketed, the letters of credit are drawn upon by the bond trustee to purchase the unremarketed bonds. Draws for this purpose under the letters of credit are repaid with interest over a period of one to three years under existing term-out provisions, noting certain bonds have a one-year interest-only period prior to the repayment period. All series of variable rate demand bonds are subjected to mandatory tender for purchase prior to the expiration of the letter of credit if a substitute facility has not been made effective. The Series 2009 B-C Bonds have a three-year loan provision for converting a letter of credit draw for the purchase of bonds in connection with the letter of credit expiration.

The Series 2003, 2004, 2009A, 2009B-E, 2011, and 2013 Bonds are all secured equally and ratably on a parity basis by notes issued under the master trust indenture (the "Master Trust Indenture"), with Virtua Health, Inc., Virtua-West Jersey, and Virtua-Memorial as obligated issuers (the "Virtua Obligated Group"). The notes are secured by a pledge of gross receipts of the Virtua Obligated Group and a mortgage on the Voorhees replacement hospital. The Virtua Obligated Group is obligated to pay the principal or redemption price and interest on the bonds under loan agreements with the NJHCFFA. The Master Trust Indenture requires the Virtua Obligated Group to comply with certain financial covenants. At December 31, 2017 and 2016, the Virtua Obligated Group has complied with all financial covenants related to the bonds.

Future Principal Payments

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

Year ending December 31,	
2018	\$ 11,395
2019	11,780
2020	12,290
2021	12,855
2022	13,355
Thereafter	<u>545,290</u>
	<u>\$ 606,965</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE J - LONG-TERM DEBT - Continued

Lines and Letters of Credit

Virtua has a revolving credit line in place with a bank for \$30,000, with the interest rate based on the London Inter Bank Offered Rate (“LIBOR”), plus 75 basis points (the one-month LIBOR was 1.56% and 0.77% at December 31, 2017 and 2016, respectively), or the bank’s prime rate, minus 50 basis points (the prime rate was 4.50% and 3.75% at December 31, 2017 and 2016, respectively), which expires on December 31, 2018. Virtua-West Jersey and Virtua-Memorial have guaranteed the line of credit. There were no amounts outstanding under the line of credit at December 31, 2017 and 2016. The line of credit has a provision for letters of credit. There was \$4,040 in letters of credit commitments at December 31, 2017, which was not drawn upon, with expiration dates in 2018 in connection with Virtua’s insurance captive and a capital project.

Virtua has bank agreements for two additional lines of credit of \$25,000 for each line with expiration dates in December 2018 and January 2019. The interest rate for one line is based on LIBOR, plus 75 basis points, or the prime rate, with the rate on the other line at LIBOR, plus 100 basis points, or access to prime in the event of LIBOR unavailability. There were no amounts outstanding on the lines of credit at December 31, 2017 and 2016.

Fair Value

Virtua uses current quoted market prices in estimating the fair value of its revenue bonds. The fair value of Virtua’s long-term debt at December 31, 2017 and 2016 is \$637,477 and \$653,388, respectively. Fair value of long-term debt was determined using the market approach, which Virtua considers a Level 2 measurement.

NOTE K - RETIREMENT BENEFIT PLANS

Defined Contribution Plans

Virtua sponsors the Virtua 401(k) savings plan covering all nonbargaining unit employees and a group of bargaining unit employees. Employer contributions to the Virtua 401(k) savings plan are based on a formula as defined by the plan document.

Virtua also has a supplemental executive retirement plan (“SERP”) that covers a group of management designated by the Board of Trustees. The contributions to the plan are determined annually. The accrued benefit amount of this SERP as of December 31, 2017 and 2016, was \$13,144 and \$12,640, respectively, and is recorded in accrued retirement benefits in the consolidated balance sheets.

The amount of expense related to these two plans was \$16,039 and \$15,751 for the years ended December 31, 2017 and 2016, respectively, and is included in employees’ fringe benefits in the consolidated statements of operations and changes in net assets.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE K - RETIREMENT BENEFIT PLANS - Continued

Defined Benefit Plan

Virtua has a noncontributory defined benefit pension plan (the "Virtua Pension Equity Plan"), which used a pension equity plan formula for all nonbargaining unit employees and a portion of the bargaining unit employees through December 31, 2003. Effective January 1, 2004, benefits for nonbargaining employees who had not attained 50 years of age and 10 years of service as of December 31, 2003, were frozen. Nonbargaining unit employees who had attained 50 years of age and 10 years of service continue to accrue vesting and eligibility service. Also effective January 1, 2004, certain active bargaining unit employees who had attained both an age and years of service criteria by December 31, 2003, were provided the choice of accruing benefits in the Virtua 401(k) savings plan or accruing benefits under a legacy formula in the Virtua Pension Equity Plan. These changes were reflected as of January 1, 2004. The Virtua Pension Equity Plan uses a measurement date of December 31.

The information at December 31, 2017 and 2016, and for the years then ended, about the Virtua Pension Equity Plan is as follows:

	<u>2017</u>	<u>2016</u>
Weighted-average assumptions used to determine benefit obligations - end of year:		
Discount rate	3.74%	4.22%
Rate of compensation increase	3.00%	3.00%
Accumulated benefit obligation - end of year	\$ <u>268,336</u>	\$ <u>249,664</u>
Changes in benefit obligations:		
Benefit obligations - beginning of year	\$ 250,271	\$ 242,761
Service cost	1,116	1,152
Interest cost	10,305	10,864
Actuarial loss	25,303	12,080
Benefits paid	<u>(18,563)</u>	<u>(16,586)</u>
Benefit obligations - end of year	268,432	250,271
Changes in plan assets:		
Fair value of plan assets - beginning of year	229,901	211,245
Actual return on plan assets	27,383	15,242
Employer contribution	12,001	20,000
Benefits paid	<u>(18,563)</u>	<u>(16,586)</u>
Fair value of plan assets - end of year	<u>250,722</u>	<u>229,901</u>
Funded status of the plan - end of year	\$ <u>(17,710)</u>	\$ <u>(20,370)</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE K - RETIREMENT BENEFIT PLANS - Continued

	<u>2017</u>	<u>2016</u>
Amounts recognized in the consolidated balance sheets - noncurrent accrued retirement benefits	\$ <u>(17,710)</u>	\$ <u>(20,370)</u>
Amounts recognized in unrestricted net assets:		
Actuarial loss	\$ 118,097	\$ 109,549
Prior service cost	<u>267</u>	<u>280</u>
Total amounts recognized in unrestricted net assets	\$ <u>118,364</u>	\$ <u>109,829</u>
Components of net periodic benefit cost (credit):		
Service cost	\$ 1,116	\$ 1,152
Interest cost	10,305	10,864
Expected return on plan assets	(14,121)	(13,179)
Amortization of actuarial loss	3,495	3,066
Amortization of prior service credit	<u>11</u>	<u>11</u>
Total net periodic benefit cost	806	1,914
Other changes in accrued retirement benefits recognized in unrestricted net assets:		
Current-year actuarial loss	12,041	10,017
Recognized actuarial loss	(3,495)	(3,066)
Recognition of prior service cost	<u>(11)</u>	<u>(11)</u>
Total recognized in unrestricted net assets	<u>8,535</u>	<u>6,940</u>
Total recognized in net periodic benefit cost and change in unrestricted net assets	\$ <u>9,341</u>	\$ <u>8,854</u>
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.22%	4.62%
Expected long-term rate of return on plan assets	6.40%	6.50%
Rate of compensation increase	3.00%	3.00%

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE K - RETIREMENT BENEFIT PLANS - Continued

To develop the expected long-term rate of return on assets assumption, Virtua considered the historical returns and the future expectations for returns for each asset class, as well as the target allocation of the pension portfolio. This resulted in the selection of the 6.40% and 6.50% expected return on plan assets for 2017 and 2016, respectively.

The Virtua Pension Equity Plan amortizes prior service cost as a result of plan amendments on a straight-line basis over the expected average future lifetime of active participants expected to benefit under the plan. Plan amendments for the prior West Jersey Health System Retirement Plan were amortized on a decreasing-amount basis, based on the expected future service of active participants as of the date first recognized in each future year. The estimated net actuarial loss and prior service benefit that is expected to be amortized from unrestricted net assets into net periodic pension cost for the year ending December 31, 2017 is \$3,867 and \$3,396, respectively.

Plan Assets

The pension plan's actual weighted-average asset allocations and target asset allocations, by asset category as of December 31, 2017 and 2016, are as follows:

<u>Asset Category</u>	Target asset	<u>2017</u>	<u>2016</u>
	allocation <u>range</u>		
Fixed income	30% - 80%	69%	64%
Equity securities	20% - 65%	26	31
Alternative investments/real estate	0% - 10%	<u>5</u>	<u>5</u>
Total		<u>100%</u>	<u>100%</u>

The investment policy and strategy for the pension plan assets has established guidelines for an asset mix that provides diversification to absorb risk while not sacrificing investment returns.

The fair value of the common/collective trust funds has been determined using the net asset value of the funds as provided by the respective fund managers. There were no withdrawal restrictions or unfunded commitments on such funds.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE K - RETIREMENT BENEFIT PLANS - Continued

The plan assets in the defined benefit pension plan measured at fair value, using NAV, at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Common/collective trust funds:		
Fixed income ^(a)	\$ 172,183	\$ 145,985
Domestic equity ^(b)	38,319	41,818
International equity ^(c)	26,881	29,580
U.S. real estate ^(d)	<u>13,339</u>	<u>12,518</u>
Total	<u>\$ 250,722</u>	<u>\$ 229,901</u>

- (a) Fixed income - Seeks favorable returns comparable to the broad fixed-income market by investing in bonds representing diverse sectors and maturities.
- (b) Domestic equity - Seeks to provide a long-term capital growth, by investing primarily in common stocks of U.S. companies with various capitalizations, while managing volatility and maintaining diversification.
- (c) International equity - Seeks long-term returns comparable to the broad international stock market by investing in companies from developed and emerging countries around the world.
- (d) U.S. real estate - Employs a multiadvisor, multifund approach to private core and enhanced core real estate investments with a focus on high current income. Manages risk through property type and regional diversification and generally limits portfolio leverage to 30%.

Cash Flows

Contributions - Virtua intends to make contributions to the plan assets, as necessary, that will ensure compliance with all provisions of the Pension Protection Act of 2006, as amended ("PPA").

Estimated future benefit payments:	
2018	\$ 19,132
2019	18,198
2020	18,404
2021	18,709
2022	18,621
2023-2027	85,338

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE K - RETIREMENT BENEFIT PLANS - Continued

Multi-employer Plan

Certain Virtua employees represented by a bargaining unit participate in a multi-employer pension plan based on a union-negotiated agreement. For these employees, Virtua contributes to the Central Pension Fund of the International Union of Operating Engineers and Participating Employers (the "Multi-employer Plan"). Participation in the Multi-employer Plan commences on the first of the month after the employee's successful completion of 90 days of employment. Contributions to the Multi-employer Plan are based on union employee worked hours and a negotiated contribution rate in accordance with the union's contractual arrangement.

Under the Employee Retirement Income Security Act of 1974, as amended by the Multi-employer Pension Plan Amendments Act of 1980, the risks of participating in multi-employer plans are different from single-employer plans in the following respects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the employer chooses to stop participating in some of its multi-employer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Until such events above occur, Virtua's share, if any, of the unfunded vested liabilities cannot be determined. As of December 31, 2017, Virtua has no plans to withdraw from the Multi-employer Plan.

Virtua's participation in the Multi-employer Plan for the years ended December 31, 2017 and 2016, is outlined below:

- The Multi-employer Plan's Employer Identification Number is 36-6052390, and the three-digit plan number is 001.
- The PPA zone status is based on information that Virtua received from the Multi-employer Plan's sponsor and is certified by the Multi-employer Plan's actuary. The Multi-employer Plan is in the green zone, which indicates that it is at least 80% funded. The most recent PPA zone status available in 2017 and 2016 is for the Multi-employer Plan years ended January 31, 2017 and 2016, respectively.
- A financial improvement plan or a rehabilitation plan is neither pending nor has one been implemented for the Multi-employer Plan.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE K - RETIREMENT BENEFIT PLANS - Continued

- Virtua was not required to pay a surcharge to the Multi-employer Plan.
- On March 15, 2018, the bargaining unit members voted to ratify a new three-year collective bargaining agreement to which the Multi-employer Plan is subjected. The contract expires on February 28, 2021.
- Virtua contributed \$4,038 and \$3,775 to the Multi-employer Plan for the years ended December 31, 2017 and 2016, respectively. Virtua did not contribute more than 5% of the total contributions to the Multi-employer Plan and was not listed in the Form 5500 for the Multi-employer Plan years ended January 31, 2017 and 2016.

At the date the consolidated financial statements were issued, the Form 5500 was not available for the Multi-employer Plan year ended January 31, 2017.

NOTE L - CONTINGENCIES AND COMMITMENTS

Operating Leases

Virtua maintains various operating lease agreements for space and equipment. Rent expense for the years ended December 31, 2017 and 2016 totaled \$58,996 and \$60,311, respectively. The future minimum rental commitments for all noncancelable operating leases as of December 31, 2017, are as follows:

Years ending December 31,	
2018	\$ 37,171
2019	30,292
2020	25,517
2021	24,090
2022	15,654
Thereafter	<u>38,726</u>
	<u>\$ 171,450</u>

Self-Insured Malpractice and General Liability and Litigation

Virtua's captive insurance company, VAI, commenced business principally to reinsure the primary layer of exposure underwritten by a third-party insurer for claims-made-basis hospital professional liability, physicians professional liability, and occurrence-basis general liability. For the years ended December 31, 2017 and 2016, malpractice professional liability coverage is limited to \$1,000 per claim and \$3,000 aggregate per facility, and general liability coverage is limited to \$1,000 per claim. In addition to the primary layer by VAI, Virtua maintains excess coverage from third-party insurers for amounts above the limits insured by VAI.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE L - CONTINGENCIES AND COMMITMENTS - Continued

The reserves for reported claims and claims incurred but not reported (“IBNR”) are reported gross of expected insurance recoveries. The reserves for reported claims and claims IBNR are reported within accounts payable and accrued expenses and self-insurance liabilities in the consolidated balance sheets. In addition, the expected insurance recoveries are reported in other current assets and insurance recoveries in the consolidated balance sheets.

The loss reserves are management’s best estimate based on actuarial estimates of the ultimate net cost of settling losses on incurred claims. The estimates are reviewed and adjusted, as necessary, as experience develops or new information becomes known. Management believes that the loss reserves are adequate; however, the ultimate settlement of losses may vary significantly from the amounts recorded in the accompanying consolidated financial statements.

Claims reserve activity for the years ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Claims reserves and IBNR - beginning of the year	\$ 35,955	\$ 32,821
Less: Insurance recoveries on unpaid claims	<u>(8,005)</u>	<u>(11,415)</u>
Claims reserves and IBNR, net - beginning of the year	27,950	21,406
Incurred related to:		
Current year	7,400	6,800
Prior year	<u>(1,187)</u>	<u>4,511</u>
Total incurred	6,213	11,311
Change in IBNR	364	854
Paid related to:		
Current year	(317)	(102)
Prior year	<u>(8,223)</u>	<u>(5,519)</u>
Total incurred	<u>(8,540)</u>	<u>(5,621)</u>
Claims reserves and IBNR, net - end of the year	25,987	27,950
Add: Insurance recoveries on unpaid claims	<u>8,181</u>	<u>8,005</u>
Claims reserves and IBNR - end of the year	<u>\$ 34,168</u>	<u>\$ 35,955</u>

Virtua is not a party to, nor are any of its properties the subject of, any material pending legal proceedings other than ordinary, routine litigation incidental to the business.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

(Dollars in thousands)

NOTE L - CONTINGENCIES AND COMMITMENTS - Continued

Self-Funded Healthcare Plan for Employees

Virtua has a self-funded healthcare employee benefit plan that is administered by a third-party administrator. Virtua obtains an excess insurance policy for claims to a member in excess of \$1,000. The reserves for claims that are not paid at December 31, 2017 and 2016 totaled \$6,995 and \$6,500, respectively, and are reported within accounts payable and accrued expenses in the consolidated balance sheets.

NOTE M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 and 2016, are restricted for the following programs:

	<u>2017</u>	<u>2016</u>
Property, plant, and equipment and other	\$ 18,816	\$ 14,654
Education and nursing scholarships	<u>1,307</u>	<u>1,134</u>
	<u>\$ 20,123</u>	<u>\$ 15,788</u>

NOTE N - CONCENTRATIONS OF CREDIT RISK

Virtua grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of accounts receivable from patients and third-party payers prior to allowances at December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Managed care	31%	32%
Medicare and Medicaid	29	32
Self-pay	26	25
Other third-party payers	<u>14</u>	<u>11</u>
	<u>100%</u>	<u>100%</u>

NOTE O - SUBSEQUENT EVENTS

Virtua has evaluated its December 31, 2017 consolidated financial statements for subsequent events through April 27, 2018, the date the consolidated financial statements were issued. Virtua is not aware of any subsequent events, which require recognition or disclosure in the consolidated financial statements, except as noted in Note K.

SUPPLEMENTARY INFORMATION

Virtua Health, Inc.

COMBINING BALANCE SHEET INFORMATION - VIRTUA OBLIGATED GROUP

December 31, 2017

ASSETS	Virtua Obligated Group	Reclassifying/ Eliminating Entries	Total	Virtua Health, Inc.	Virtua/Memorial Hospital of Burlington County	Virtua- West Jersey Health System	Virtua Radiation Oncology Associates	Virtua Holding Companies
CURRENT ASSETS:								
Cash and cash equivalents	\$ 61,042	\$ -	\$ 61,042	\$ 357	\$ 215	\$ 58,850	\$ -	\$ 1,620
Assets limited as to use	9,729	(9,557)	19,286	9,729	198	9,359	-	-
Patient accounts receivable (net of estimated uncollectibles)	113,105	-	113,105	-	31,491	80,304	-	1,310
Due from affiliates, net	25,359	(21,988)	47,347	25,743	-	21,604	-	-
Other current assets	41,067	-	41,067	17,155	4,265	18,316	-	1,331
Total current assets	<u>250,302</u>	<u>(31,545)</u>	<u>281,847</u>	<u>52,984</u>	<u>36,169</u>	<u>188,433</u>	<u>-</u>	<u>4,261</u>
ASSETS LIMITED AS TO USE:								
By Board of Trustees' designation	1,029,371	-	1,029,371	12,878	123,727	892,766	-	-
Other designated funds	260,000	-	260,000	-	-	260,000	-	-
Under debt agreements	26,325	(26,325)	52,650	26,325	1	26,324	-	-
Trust funds	13,471	-	13,471	13,279	192	-	-	-
Permanently restricted endowment funds	1,169	-	1,169	-	1,169	-	-	-
Total assets limited as to use	<u>1,330,336</u>	<u>(26,325)</u>	<u>1,356,661</u>	<u>52,482</u>	<u>125,089</u>	<u>1,179,090</u>	<u>-</u>	<u>-</u>
PROPERTY, PLANT, AND EQUIPMENT, NET	<u>783,491</u>	<u>-</u>	<u>783,491</u>	<u>-</u>	<u>107,904</u>	<u>674,444</u>	<u>-</u>	<u>1,143</u>
OTHER LONG-TERM ASSETS:								
Due from affiliates, net	45,045	(731,436)	776,481	382,092	394,389	-	-	-
Investment in unconsolidated joint ventures	148,562	(40,123)	188,685	7,930	34,037	95,092	-	51,626
Other assets	17,314	-	17,314	7,548	1,923	7,842	-	1
Goodwill and other intangibles	11,355	-	11,355	-	-	3,660	-	7,695
Beneficial interest in perpetual trust	8,530	-	8,530	-	8,530	-	-	-
Total other long-term assets	<u>230,806</u>	<u>(771,559)</u>	<u>1,002,365</u>	<u>397,570</u>	<u>438,879</u>	<u>106,594</u>	<u>-</u>	<u>59,322</u>
TOTAL	<u>\$ 2,594,935</u>	<u>\$ (829,429)</u>	<u>\$ 3,424,364</u>	<u>\$ 503,036</u>	<u>\$ 708,041</u>	<u>\$ 2,148,561</u>	<u>\$ -</u>	<u>\$ 64,726</u>

Virtua Health, Inc.

COMBINING BALANCE SHEET INFORMATION - VIRTUA OBLIGATED GROUP - CONTINUED

December 31, 2017

LIABILITIES AND NET ASSETS	Virtua Obligated Group	Reclassifying/ Eliminating Entries	Total	Virtua Health, Inc.	Virtua/Memorial Hospital of Burlington County	Virtua- West Jersey Health System	Virtua Radiation Oncology Associates	Virtua Holding Companies
CURRENT LIABILITIES:								
Current maturities of long-term debt	\$ 11,395	\$ (11,243)	\$ 22,638	\$ 11,395	\$ 1,088	\$ 10,155	\$ -	\$ -
Accounts payable and accrued expenses	100,872	-	100,872	36,326	10,358	53,400	-	788
Due to affiliates, net	-	(212)	212	-	212	-	-	-
Accrued compensation and related liabilities	45,165	-	45,165	20,290	8,057	16,818	-	-
Accrued interest payable	9,977	(9,804)	19,781	9,977	206	9,598	-	-
Estimated settlements due to third-party payers	7,060	-	7,060	-	1,938	5,122	-	-
Total current liabilities	174,469	(21,259)	195,728	77,988	21,859	95,093	-	788
LONG-TERM LIABILITIES:								
Estimated settlements due to third-party payers	2,953	-	2,953	-	1,854	1,099	-	-
Self-insurance liabilities	27,153	-	27,153	27,153	-	-	-	-
Accrued retirement benefits	31,071	-	31,071	30,009	-	1,062	-	-
Due to affiliates, net	-	(181,790)	181,790	-	-	181,790	-	-
Long-term debt, net of current maturities	594,245	(586,256)	1,180,501	594,245	9,870	576,386	-	-
Other liabilities	17,590	-	17,590	7,379	4,359	5,536	-	316
Total liabilities	847,481	(789,305)	1,636,786	736,774	37,942	860,966	-	1,104
MEMBERS' EQUITY (DEFICIT)	-	(39,220)	39,220	-	-	-	(864)	40,084
RETAINED EARNINGS	-	(20,108)	20,108	-	-	-	864	19,244
NET ASSETS (DEFICIENCY)								
Unrestricted:								
Virtua Obligated Group	1,687,438	(7,796)	1,695,234	(241,641)	652,065	1,284,810	-	-
Noncontrolling interests	31,429	27,135	4,294	-	-	-	-	4,294
Total unrestricted net assets (deficiency)	1,718,867	19,339	1,699,528	(241,641)	652,065	1,284,810	-	4,294
Temporarily restricted	18,888	(135)	19,023	7,903	8,335	2,785	-	-
Permanently restricted	9,699	-	9,699	-	9,699	-	-	-
Total net assets (deficiency)	1,747,454	19,204	1,728,250	(233,738)	670,099	1,287,595	-	4,294
TOTAL	\$ 2,594,935	\$ (829,429)	\$ 3,424,364	\$ 503,036	\$ 708,041	\$ 2,148,561	\$ -	\$ 64,726

Virtua Health, Inc.

**COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION -
VIRTUA OBLIGATED GROUP**

For the year ended December 31, 2017

	Virtua Obligated Group	Eliminating Entries	Total	Virtua Health, Inc.	Virtua/Memorial Hospital of Burlington County	Virtua- West Jersey Health System	Virtua Radiation Oncology Associates	Virtua Holding Companies
UNRESTRICTED NET ASSETS:								
Revenue:								
Net patient service revenue	\$ 1,108,498	\$ -	\$ 1,108,498	\$ -	\$ 334,241	\$ 761,371	\$ 5,631	\$ 7,255
Less: Provision for bad debts	(49,316)	-	(49,316)	-	(16,418)	(31,367)	(1,399)	(132)
Net patient service revenue, net of provision for bad debts	1,059,182	-	1,059,182	-	317,823	730,004	4,232	7,123
Other revenue	79,865	(294,998)	374,863	325,405	11,327	38,253	-	(122)
Equity in income of unconsolidated joint ventures	46,417	(10,631)	57,048	-	10,568	28,655	-	17,825
Total revenue	1,185,464	(305,629)	1,491,093	325,405	339,718	796,912	4,232	24,826
Expenses:								
Salaries and wages	419,118	(745)	419,863	100,556	104,568	212,535	745	1,459
Professional fees	36,447	-	36,447	583	17,099	18,594	162	9
Employees' fringe benefits	121,368	(54,524)	175,892	94,868	26,541	53,992	231	260
Other operating expenses	358,417	(220,195)	578,612	108,374	151,618	313,776	2,176	2,668
Interest	19,596	(20,713)	40,309	21,024	422	18,846	-	17
Depreciation	83,422	-	83,422	-	11,250	71,916	54	202
Total expenses	1,038,368	(296,177)	1,334,545	325,405	311,498	689,659	3,368	4,615
INCOME FROM OPERATIONS	147,096	(9,452)	156,548	-	28,220	107,253	864	20,211
NONOPERATING GAINS AND LOSSES:								
Investment return, net	141,977	(4,793)	146,770	6,051	12,198	128,521	-	-
Realized gain from sale of investment	106	-	106	106	-	-	-	-
Total nonoperating gains and losses, net	142,083	(4,793)	146,876	6,157	12,198	128,521	-	-
EXCESS OF REVENUE AND NONOPERATING GAINS AND LOSSES, NET OVER EXPENSES	289,179	(14,245)	303,424	6,157	40,418	235,774	864	20,211
EXCESS OF REVENUE AND NONOPERATING GAINS, NET OVER EXPENSES ATTRIBUTED TO NONCONTROLLING INTERESTS	(10,445)	(9,477)	(968)	-	-	-	-	(968)
EXCESS OF REVENUE AND NONOPERATING GAINS AND LOSSES, NET OVER EXPENSES ATTRIBUTED TO VIRTUA OBLIGATED GROUP	278,734	(23,722)	302,456	6,157	40,418	235,774	864	19,243

Virtua Health, Inc.

**COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION -
VIRTUA OBLIGATED GROUP - CONTINUED**

For the year ended December 31, 2017

	Virtua Obligated Group	Eliminating Entries	Total	Virtua Health, Inc.	Virtua/Memorial Hospital of Burlington County	Virtua- West Jersey Health System	Virtua Radiation Oncology Associates	Virtua Holding Companies
EXCESS OF REVENUE AND NONOPERATING GAINS AND LOSSES, NET OVER EXPENSES ATTRIBUTED TO VIRTUA OBLIGATED GROUP	\$ 278,734	\$ (23,722)	\$ 302,456	\$ 6,157	\$ 40,418	\$ 235,774	\$ 864	\$ 19,243
OTHER CHANGES IN UNRESTRICTED NET ASSETS - Virtua Obligated Group								
Net assets released for property, plant, and equipment	862	-	862	-	670	192	-	-
Other changes in accrued retirement benefits	(8,535)	-	(8,535)	(8,535)	-	-	-	-
Transfers with affiliates, net	(74,446)	-	(74,446)	(30,834)	10,191	(53,803)	-	-
Paid-in capital	-	(2,825)	2,825	-	-	-	-	2,825
Income distributions	-	10,566	(10,566)	-	-	-	(1,822)	(8,744)
Other	-	2,839	(2,839)	-	-	-	(2,839)	-
Increase (decrease) in unrestricted net assets - Virtua Obligated Group	196,615	(13,142)	209,757	(33,212)	51,279	182,163	(3,797)	13,324
NONCONTROLLING INTERESTS:								
Excess of revenues and nonoperating gains, net over expenses attributable to noncontrolling interests	10,445	9,477	968	-	-	-	-	968
Distributions	(10,138)	-	(10,138)	-	-	-	(1,751)	(8,387)
Membership interest transfer	3,679	-	3,679	-	-	-	(2,728)	6,407
Increase (decrease) in unrestricted net assets - noncontrolling interests	3,986	9,477	(5,491)	-	-	-	(4,479)	(1,012)
TEMPORARILY RESTRICTED NET ASSETS:								
Contributions, net of provision for uncollectibles	5,477	(135)	5,612	1,161	4,131	320	-	-
Net assets released from restrictions for operations	(523)	-	(523)	(359)	(120)	(44)	-	-
Net assets released from restrictions for property, plant, and equipment	(862)	-	(862)	-	(670)	(192)	-	-
Transfers with affiliates, net	-	-	-	(144)	19	125	-	-
Increase (decrease) in temporarily restricted net assets	4,092	(135)	4,227	658	3,360	209	-	-
PERMANENTLY RESTRICTED NET ASSETS								
Increase in beneficial interest in perpetual trust	591	-	591	-	591	-	-	-
Increase in permanently restricted net assets	591	-	591	-	591	-	-	-
INCREASE (DECREASE) IN NET ASSETS	205,284	(3,800)	209,084	(32,554)	55,230	182,372	(8,276)	12,312
NET ASSETS (DEFICIENCY) - beginning of year	1,542,170	(36,324)	1,578,494	(201,184)	614,869	1,105,223	8,276	51,310
NET ASSETS (DEFICIENCY) - end of year	<u>\$ 1,747,454</u>	<u>\$ (40,124)</u>	<u>\$ 1,787,578</u>	<u>\$ (233,738)</u>	<u>\$ 670,099</u>	<u>\$ 1,287,595</u>	<u>\$ -</u>	<u>\$ 63,622</u>

DEBT SERVICE COVERAGE RATIO CALCULATION - VIRTUA OBLIGATED GROUP

December 31, 2017

(Dollars in thousands)

1 Funds available for debt service:		
Excess of revenue and nonoperating gains over expenses	\$	278,734
Plus:		
Interest expense		19,596
Depreciation		83,422
Joint venture depreciation		(125)
Provision for bad debts		49,316
Joint venture provision for bad debts		<u>(750)</u>
Total	\$	<u>430,193</u>
2 Maximum annual debt service requirement:	\$	<u>39,376</u>
3 Debt service coverage ratio:		
<u>Funds available for debt service</u>	\$	<u>430,193</u>
Maximum annual debt service requirement	\$	39,376
Debt service coverage ratio		<u>10.93</u>

* “Funds Available for Debt Service” shall mean, in any Fiscal Year, for any one or more Members of the Obligated Group or, as the context requires, the entire Obligated Group, the sum of: (i) the excess of revenues over expenses, as determined in accordance with generally accepted accounting principles; (ii) interest expense with respect to interest requirements on all Long-Term Indebtedness then outstanding; and (iii) all depreciation expense, amortization of financing charges and other noncash expenses deducted in determining the excess of revenues over expenses for such Fiscal Year, all as determined in accordance with accounting principles generally accepted in the United States of America. In the event that the Fiscal Year of any Member of the Obligated Group ends on a date other than the last day of any Fiscal Year under consideration, the Funds Available for Debt Service for such Fiscal Year will include the amounts for such Member of the Obligated Group for its most recent Fiscal Year.

CUSHION RATIO CALCULATION - VIRTUA OBLIGATED GROUP

December 31, 2017

(Dollars in thousands)

1	Cash and cash equivalents and assets limited as to use by Board of Trustees' designation as of December 31, 2017:	
	Cash and cash equivalents	\$ 61,042
	Less: Joint venture's cash and cash equivalents	(794)
	Assets limited as to use by Board of Trustees' designation	<u>1,029,371</u>
	Total	<u>\$ 1,089,619</u>
2	Maximum annual debt service requirement:	<u>\$ 39,376</u>
3	Cushion ratio:	
	<u>Cash and cash equivalents and assets limited as to use by Board of Trustees' designation</u>	<u>\$ 1,089,619</u>
	Maximum annual debt service requirement	\$ 39,376
	Cushion ratio	<u>27.67</u>

DAY'S CASH ON HAND CALCULATION - VIRTUA OBLIGATED GROUP

December 31, 2017

(Dollars in thousands)

Cash and cash equivalents and assets limited as to use by Board of Trustees' designation as of December 31, 2017:

Cash and cash equivalents	\$ 61,042
Less: Joint venture's cash and cash equivalents	(794)
Assets limited as to use by Board of Trustees' designation	<u>1,029,371</u>

Adjusted cash and cash equivalents	<u>\$ 1,089,619</u>
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2017 operating expenses	\$ 1,038,368
Less: Joint venture operating expenses	(3,911)
Less: Depreciation	(83,422)
Add: Joint venture depreciation	<u>125</u>

Cash operating expenses	951,160
Divided by 365 days	<u>/365</u>

Daily cash operating expenses	<u>\$ 2,606</u>
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Day's cash on hand	<u>418.13</u>
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DEBT TO CAPITALIZATION RATIO CALCULATION - VIRTUA OBLIGATED GROUP

December 31, 2017

(Dollars in thousands)

1 Long-term indebtedness at December 31, 2017:	
Long-term debt	<u>\$ 605,640</u>
2 Capitalization amount:	
Long-term debt	\$ 605,640
Unrestricted net assets - Virtua Obligated Group	<u>1,687,438</u>
Total	<u>\$ 2,293,078</u>
3 Debt to capitalization ratio:	
<u>Long-term indebtedness</u>	<u>\$ 605,640</u>
Capitalization amount	\$ 2,293,078
Debt to capitalization ratio	<u>0.26</u>