Hackensack Meridian Health, Inc.

Consolidated Financial Statements and Consolidating Supplemental Schedules
December 31, 2020 and 2019

Hackensack Meridian Health, Inc.
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December 31, 2020 and 2019

Report of Independent Auditors

To the Board of Trustees
Hackensack Meridian Health, Inc.

We have audited the accompanying consolidated financial statements of Hackensack Meridian Health, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider internal control relevant to the Company's 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of Hackensack Meridian Health, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

New York, New York
April 13, 2021

Hackensack Meridian Health, Inc.
Consolidated Balance Sheets
December 31, 2020 and 2019

(in thousands)	**2020**	**2019**
Assets		
Current assets		
Cash and cash equivalents	$ 692,711	$ 194,305
Patient accounts receivable, net	602,989	626,025
Pledges receivable, net	46,556	50,875
Other current assets	513,164	320,667
Assets limited as to use and short-term investments, current portion	744,047	861,012
Total current assets	2,599,467	2,052,884
Assets limited as to use and investments, noncurrent portion	4,114,107	2,470,016
Investment in joint ventures	145,487	149,326
Property and equipment, net	3,197,040	2,994,508
Operating lease right-of-use assets	237,552	206,078
Other assets	164,687	161,838
Total assets	$ 10,458,340	$ 8,034,650
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt and finance lease obligations	$ 62,807	$ 60,417
Current portion of operating lease obligations	34,467	28,333
Accounts payable and accrued expenses	979,399	872,803
Other current liabilities	360,084	93,764
Total current liabilities	1,436,757	1,055,317
Long-term debt and finance lease obligations, less current maturities	3,196,457	2,064,328
Long-term operating lease obligations	209,350	180,217
Accrued pension benefits	317,354	312,472
Other liabilities	955,355	496,071
Total liabilities	6,115,273	4,108,405
Net assets		
Without donor restrictions controlled by the Network	4,021,365	3,632,920
Without donor restrictions attributable to noncontrolling interests	83,309	80,671
Net assets without donor restrictions	4,104,674	3,713,591
Net assets with donor restrictions	238,393	212,654
Total net assets	4,343,067	3,926,245
Total liabilities and net assets	$ 10,458,340	$ 8,034,650

The accompanying notes are an integral part of these consolidated financial statements.

Hackensack Meridian Health, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2020 and 2019

(in thousands)	2020	2019
Unrestricted revenues and other support		
Net patient service revenue	$ 5,309,424	$ 5,585,717
Other revenue	300,805	287,959
Net gain on equity investments	19,502	27,937
Net assets released from restriction used for operating activities	22,292	20,624
Total unrestricted revenues and other support	5,652,023	5,922,237
Expenses		
Salaries and contracted labor	2,492,623	2,180,621
Physician salaries and fees	458,235	427,387
Employee benefits	590,542	561,033
Supplies and other	2,262,986	2,131,451
Depreciation and amortization	274,012	253,422
Interest	87,425	83,146
Total expenses	6,165,823	5,637,060
(Deficit) excess of revenues over expenses before federal legislative relief and other operating adjustments	(513,800)	285,177
Federal legislative relief	558,400	-
Excess of revenues over expenses before other operating adjustments	44,600	285,177
Other operating adjustments		
Investment income, net	329,127	348,626
Contribution revenue from acquisitions	-	53,829
Unrealized loss on derivative investments	(11,656)	(14,550)
Other gains, net	55,798	3,795
Excess of revenues over expenses	417,869	676,877
Other adjustments in net assets without donor restrictions		
Net assets released from restriction for capital acquisitions	6,515	6,104
Pension-related adjustments	(89,519)	24,567
Other changes	54,692	2,775
Noncontrolling interest attributable to acquisitions	-	45,231
Contributions from (distributions to) noncontrolling interests	1,526	(8,403)
Increase in net assets without donor restrictions	$ 391,083	$ 747,151

The accompanying notes are an integral part of these consolidated financial statements.

Hackensack Meridian Health, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2020 and 2019

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Balances at December 31, 2018	$ 2,966,440	$ 197,120	$ 3,163,560
Excess of revenues over expenses	676,877	-	676,877
Investment income	-	2,560	2,560
Contributions	-	29,729	29,729
Contribution revenue from acquisition of Carrier	-	353	353
Net assets released from restriction for capital acquisitions	6,104	(6,104)	-
Net assets released from restriction used for operating activities	-	(20,624)	(20,624)
Pension-related adjustments	24,567	-	24,567
Other changes	2,775	9,620	12,395
Noncontrolling interest attributable to acquisitions	45,231	-	45,231
Distributions to noncontrolling interests	(8,403)	-	(8,403)
Increase in net assets	747,151	15,534	762,685
Balances at December 31, 2019	3,713,591	212,654	3,926,245
Excess of revenues over expenses	417,869		417,869
Investment income	-	2,246	2,246
Contributions	-	41,633	41,633
Net assets released from restriction for capital acquisitions	6,515	(6,515)	-
Net assets released from restriction used for operating activities	-	(22,292)	(22,292)
Pension-related adjustments	(89,519)	-	(89,519)
Other changes	54,692	10,667	65,359
Contributions from noncontrolling interests	1,526	-	1,526
Increase in net assets	391,083	25,739	416,822
Balances at December 31, 2020	$ 4,104,674	$ 238,393	$ 4,343,067

The accompanying notes are an integral part of these consolidated financial statements.

Hackensack Meridian Health, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

(in thousands)	2020	2019
Cash flows from operating activities		
Increase in net assets	$ 416,822	$ 762,685
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	274,012	253,422
Loss on disposal of property and equipment	162	16,794
Contribution revenue from acquisitions	-	(54,182)
Noncontrolling interest attributable to acquisitions	-	(45,231)
Amortization of deferred financing costs	859	571
Amortization of bond premium	(4,228)	(4,367)
Unrealized loss on derivative investments	11,656	14,550
Net gain on equity investments	(19,502)	(27,937)
Realized and unrealized gains on investments	(295,608)	(304,309)
Restricted contributions for capital acquisitions	(2,360)	(5,362)
Pension-related adjustments	89,519	(24,567)
Changes in assets and liabilities		
Patient accounts receivable and pledges receivable	24,212	(85,643)
Other assets	(198,173)	(64,429)
Accounts payable and accrued expenses	107,405	16,928
Accrued pension benefits	(84,637)	(40,117)
Other liabilities	712,394	(31,747)
Net cash provided by operating activities	1,032,533	377,059
Cash flows from investing activities		
Purchases of property and equipment	(447,525)	(466,379)
Cash paid for acquisitions, net of cash acquired	-	(45,981)
Sales of investment securities	1,769,238	642,650
Purchases of investment securities	(2,778,092)	(671,342)
Net cash used in investing activities	(1,456,379)	(541,052)
Cash flows from financing activities		
Repayment on long-term debt and finance lease obligations	(174,275)	(83,534)
Proceeds from borrowings	1,317,902	27,000
Contributions from (distributions to) noncontrolling interests	1,526	(8,403)
Restricted contributions for capital acquisitions	5,503	9,982
Payment of deferred financing costs	(5,739)	-
Net cash provided by (used in) financing activities	1,144,917	(54,955)
Change in cash, cash equivalents and restricted cash	721,071	(218,948)
Cash, cash equivalents and restricted cash		
Beginning of period	343,457	562,405
End of period	$ 1,064,528	$ 343,457
Supplemental information		
Cash paid for interest expense	$ 83,342	$ 83,590
Change in non-cash acquisitions of property and equipment	749	15,107
Right-of-use assets obtained in exchange for operating lease obligations	71,361	27,326
Net carrying value of noncash assets and liabilities obtained from acquisitions	-	145,394

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands)

1. Organization

Hackensack Meridian Health, Inc. and its subsidiaries and controlled entities ("HMH" or the "Network") comprise an integrated health care delivery system. The Network is incorporated as a New Jersey non-profit, nonstock corporation established to promote and carry out charitable, scientific, academic and research activities and was created as a result of the merger of Hackensack University Health Network, Inc. ("HUHN") and Meridian Health System, Inc. ("MHS"). The surviving parent entity was renamed Hackensack Meridian Health on July 1, 2016. The Network is the sole corporate member of the following entities: HMH Hospitals Corporation, Inc. ("HMHHC"); HMH Residential Care, Inc. ("HMHRC"); Hackensack University Medical Center Foundation ("HUMCF"); Meridian Health Foundation, Inc. and its six foundation subsidiaries ("MHF"); Palisades Medical Center Foundation ("PMCF"); Hackensack Meridian Health Realty Corporation and five subsidiaries ("Realty"); and Bergen Health Management System, Inc. ("BHMS").

On January 1, 2019, HMH became the sole corporate member of Carrier Clinic ("Carrier"). Carrier is a non-profit, tax-exempt, behavioral healthcare system treating patients with psychiatric, emotional, and addictive illnesses. Carrier's service area encompasses the entire state of New Jersey. The Network transferred no consideration and acquired all of the assets and liabilities of Carrier. This business combination has been accounted for as an acquisition.

On January 1, 2018, HMH became the sole corporate member of JFK Health System, Inc. ("JFK Health"). JFK Health was the parent company of the Community Hospital Group, Inc. d/b/a JFK Medical Center; Muhlenberg Regional Medical Center, Inc.; John F. Kennedy Medical Center Foundation, Inc. ("JFKF"); Muhlenberg Foundation, Inc.; RWJ Lifestyle Institute, Inc.; JFK Healthshare, Inc. ("Healthshare"); Hartwyck at JFK, Inc.; Hartwyck West Nursing Home, Inc. and affiliates ("Hartwyck West"); Hartwyck at Oak Tree, Inc. ("Oak Tree"), collectively, the "Hartwycks"; JFK Medical Group, P.C.; and Atlantic Insurance Exchange, Ltd. ("Atlantic"), a wholly owned insurance company. Hartwyck West operates Hartwyck at Cedar Brook, JFK Assisted Living, Inc. d/b/a Whispering Knoll, and JFK Hartwyck Management and Consulting, Inc. The Network transferred no consideration and acquired all of the assets and liabilities of JFK Health. During 2019, Healthshare and JFK Hartwyck Management and Consulting, Inc. were dissolved. As of December 31, 2019, Atlantic was merged with Coastal Medical Insurance Ltd. ("Coastal"). On January 1, 2019, JFK Health merged into Hackensack Meridian Health, resulting in all of the existing subsidiaries of JFK Health noted above becoming subsidiaries of HMH. On January 31, 2021, JFK Hartwyck at Edison Estates, an affiliate of Oak Tree, was sold in the amount of $20,000.

The Network is also the sole shareholder of Hackensack Meridian Health Ventures, Inc. and its subsidiary ("HMHV"), and is the sole member of Meridian Accountable Care Organization, LLC ("MACO"), Hackensack Physician-Hospital Alliance ACO, LLC ("ACO") and Hackensack Meridian Health Partners, LLC ("HMHP").

HMHHC is the sole corporate member of HMH Casualty Company Ltd. ("HMHCCL"), and 20 Prospect Holdings, LLC. Effective December 31, 2020, Hackensack University Medical Center Casualty Company Ltd., ("HUMCCO") and Coastal merged with HMHCCL whereby HMHCCL continued as the surviving entity. Prior to the effective date of the HMHCCL merger, HMHHC was the sole corporate member of both HUMCCO and Coastal. HMHCCL is, and HUMCCO and Coastal were, wholly owned, off-shore insurance companies domiciled in Bermuda.

(in thousands)

HMH Physician Services, Inc. ("HMHPS") was merged into HMHHC on January 1, 2020. The HMH Physician Division includes seventeen professional corporations (four taxable and thirteen tax exempt) consolidated with the Network and provides other physician practice development strategies.

The Network operates an extensive acute care hospital system which consists of three academic medical centers (which include two children's hospitals and a cancer center), seven community hospitals, and a behavioral health hospital as follows:

- HUMC, located in Hackensack, New Jersey, is an academic medical center and the largest stand-alone medical center in the state with 781 beds. HUMC includes the Joseph M. Sanzari Children's Hospital, the Donna A. Sanzari Women's Hospital, the John Theurer Cancer Center, and the Heart and Vascular Hospital;

- Jersey Shore University Medical Center ("JSUMC"), located in Neptune, New Jersey, is a major academic medical center and regional trauma center with 614 beds that includes the K. Hovnanian Children's Hospital;

- JFK Medical Center ("JFK"), is a 499-bed academic medical center located in Edison, New Jersey;

- Riverview Medical Center ("RMC"), is a 468-bed community hospital located in Red Bank, New Jersey;

- Raritan Bay Medical Center ("RBMC") at Perth Amboy, is a 395-bed community hospital located in Perth Amboy, New Jersey;

- Ocean Medical Center ("OMC"), is a 357-bed community hospital located in Brick, New Jersey;

- Carrier, located in Belle Mead, New Jersey is a 337-bed behavioral health hospital that includes Blake Recovery Center;

- Bayshore Medical Center ("BMC"), is a 211-bed community hospital located in Holmdel, New Jersey;

- Palisades Medical Center ("PMC"), located in North Bergen, New Jersey, is a 206-bed community hospital, that includes a 247-bed nursing home known as the Harborage;

- Southern Ocean Medical Center ("SOMC"), is a 176-bed community hospital located in Manahawkin, New Jersey; and

- RBMC at Old Bridge, located in Old Bridge, New Jersey, is a 113-bed community hospital.

On June 5, 2015, the former HUHN, now replaced by the Network, and Seton Hall University ("SHU") signed a definitive agreement to form a new allopathic school of medicine. The partnership established the only private school of medicine in the State of New Jersey. In conjunction with the formation of the new school of medicine, the Network and SHU entered into a long-term lease for two buildings in the town of Nutley and the city of Clifton, New Jersey.

(in thousands)

On March 19, 2018, the Network entered into a letter agreement (the "Letter Agreement") with SHU which provided for the School of Medicine ("SOM") to seek its own independent accreditation from its various accrediting and licensing bodies. The Letter Agreement stipulated that the Network would assume full responsibility for the finances of the SOM, effective July 1, 2018, inclusive of the long-term lease for the two buildings on the campus. Additionally, the Letter Agreement stipulated that SHU would assign its interest in Kingsland Street Urban Renewal, LLC ("Kingsland"), a real estate holding company, to the Network, and enter into a Sublease with Kingsland to relocate their School of Nursing and School of Allied Health programs at the campus. On July 3, 2020, the SOM received accreditation, and the Board of Governors of the Hackensack Meridian School of Medicine, a New Jersey nonprofit corporation assumed full governance over the SOM.

On September 23, 2019, HMH and Englewood Health signed a definitive agreement with the intent to merge. Englewood Health, which includes Englewood Hospital, is a 531-bed medical center located in Englewood, New Jersey.

Over the past several years, HMH has continued to expand its network through acquisitions and partnerships with various unrelated entities as a means to continue to fulfill its mission to the surrounding communities that HMH serves.

For the following transactions entered into during the year ended December 31, 2019, these were accounted for as business combinations and met the requirements for consolidation:

- On January 1, 2019, HMH became the sole corporate member of Carrier. Carrier is a non-profit, tax-exempt, behavioral healthcare system treating patients with psychiatric, emotional, and addictive illnesses. Carrier's service area encompasses the entire state of New Jersey. The Network transferred no consideration and acquired all of the assets and liabilities of Carrier. The change in control was accounted for as an acquisition under ASC 958-805, *Not-for-Profit Entities: Business Combinations*. As such, the Network recorded $42,495 of contribution income, which is included in the performance indicator in the 2019 consolidated statement of operations, and $353, which is presented as an increase in net assets with donor restrictions in the consolidated statement of changes in net assets at December 31, 2019. These amounts represent the excess of the fair value of assets acquired over the fair value of liabilities assumed.

- On July 1, 2019, HMHRC entered into a purchase agreement whereby HMHRC paid $25,020 for all of the assets of Regent Care Center ("Regent"). Regent is a 180-bed skilled nursing facility located in Hackensack, New Jersey.

- On July 1, 2019, HMHRC entered into a purchase agreement whereby HMHRC paid $9,540 in consideration for a 51% interest in the assets and liabilities of Essex Residential Care ("ERC"). ERC operates a 180-bed skilled nursing facility located in West Caldwell, New Jersey, under the newly renamed HMH West Caldwell Care Center ("West Caldwell").

- On July 1, 2019, HMHRC entered into a purchase agreement whereby HMHRC paid $10,919 in consideration for a 51% interest in the assets and liabilities of Bergen Post-Acute Care ("BPAC"). BPAC operates a 196-bed skilled nursing facility located in Hackensack, New Jersey, under the newly renamed HMH Prospect Heights Care Center ("Prospect Heights").

(in thousands)

- In 2019, HMAV and a separate unrelated entity formed a limited liability company to acquire a 51% interest in two ambulatory surgical centers and a 55% interest in a third ambulatory surgical center located in Bergen, Middlesex, and Ocean counties, New Jersey (collectively, the "ASCs"). HMAV obtained 51% voting rights in the limited liability company. HMAV paid cash of $9,467 as a part of the purchase price to acquire the controlling interest in the ASCs. As a result, the Network consolidated the ASCs and reflected a noncontrolling interest for the equity related to the previous owners and the unrelated party in accordance with ASC 810. The net assets acquired of the ASCs was $29,168 (including goodwill of $21,970).

Regent, West Caldwell, and Prospect Heights described in preceding paragraphs, are collectively referred to as the "SNFs". As a result of the acquisitions of the SNFs and ASCs, the Network recognized a noncontrolling interest attributable to acquisitions of $45,231, which is included in the consolidated statement of operations for the year ended December 31, 2019. As a result of the acquisitions of the SNFs, the Network recognized contribution revenue of $11,334, which is included in contribution revenue from acquisitions in the consolidated statement of operations.

Joint ventures in which the Network exerts significant influence in the operations of the unconsolidated entities, primarily through shared representation on the governing bodies of the investee and equal voting rights, and has an equity interest of more than 20% but less than 50%, are accounted for under the equity method of accounting. Income from joint ventures is reflected in the net gain on equity investments in the consolidated statements of operations.

During 2012, HUMC entered into two separate joint ventures with an unrelated entity. Under the first joint venture arrangement, entered into on March 23, 2012, HUMC contributed the existing property and equipment of the former Pascack Valley Hospital campus for a 35% interest in the joint venture which was valued at $51,100. The investment in the Pascack Valley joint venture recorded on the consolidated balance sheets was $38,878 and $39,873 as of December 31, 2020 and 2019, respectively.

Under the second joint venture, entered into on July 1, 2012, HUMC purchased a 20% ownership interest in Mountainside Hospital. For its ownership interest, HUMC contributed $10,644 in cash and entered into a nonrecourse loan agreement with its joint venture partner. In July 2016, HUMC entered into a bank loan and used the proceeds to pay off the remaining outstanding balance on the nonrecourse loan and its accrued interest. The investment in the Mountainside joint venture recorded on the consolidated balance sheets was $36,547 and $35,592 as of December 31, 2020 and 2019, respectively.

During 2012, HUMC and a separate unrelated entity formed a joint venture limited liability company which purchased a 51% interest in two ambulatory surgical centers (the "Centers") located in Bergen County, New Jersey, with HUMC receiving 50.1% voting rights in the joint venture entity. As a result, HUMC consolidated the Centers and reflected a noncontrolling interest for the equity related to the previous owners and the unrelated party in accordance with ASC 810. The net assets acquired of the Centers were $34,950 (including goodwill of $34,250).

(in thousands)

The following schedule of changes in consolidated net assets attributable to the parent and the noncontrolling interests reconciles beginning and ending balances of the parent's controlling interest and the noncontrolling interests for the years ended December 31, 2020 and 2019:

	Total	The Network (Controlling Interest)	Noncontrolling Interests
Balances at December 31, 2018	$ 2,966,440	$ 2,938,768	$ 27,672
Excess of revenues over expenses	676,877	660,706	16,171
Noncontrolling interest attributable to acquisitions	45,231	-	45,231
Distributions to noncontrolling interests	(8,403)	-	(8,403)
Other changes	33,446	33,446	-
Change in net assets without donor restrictions	747,151	694,152	52,999
Balances at December 31, 2019	3,713,591	3,632,920	80,671
Excess of revenues over expenses	417,869	416,757	1,112
Contributions from noncontrolling interests	1,526	-	1,526
Other changes	(28,312)	(28,312)	-
Change in net assets without donor restrictions	391,083	388,445	2,638
Balances at December 31, 2020	$ 4,104,674	$ 4,021,365	$ 83,309

The fair value of the assets acquired, liabilities assumed and net assets of Carrier, the SNFs, and the ASCs that were acquired during the year ended December 31, 2019 were as follows:

	Carrier	SNFs	ASCs
Assets			
Cash and cash equivalents	$ 2,848	$ -	$ 243
Investments	26,395	-	-
Patient accounts receivable, net	7,439	-	3,269
Other assets	5,428	9,622	22,638
Property and equipment, net	34,995	110,200	3,708
Operating lease right-of-use assets, net	-	-	2,274
Total assets acquired	$ 77,105	$ 119,822	$ 32,132
Liabilities and Net Assets			
Accounts payable and accrued expenses	$ 13,823	$ -	$ 691
Long-term debt and capital lease obligations	17,541	43,353	-
Operating lease obligations	-	-	2,273
Accrued pension benefits	2,893	-	-
Total liabilities assumed	34,257	43,353	2,964
Net assets			
Without donor restrictions	42,495	76,469	29,168
With donor restrictions	353	-	-
Total net assets	42,848	76,469	29,168
Total liabilities and net assets	$ 77,105	$ 119,822	$ 32,132

(in thousands)

A summary of the unaudited proforma financial results of the Network including these acquisitions for the year ended December 31, 2019 as if the acquisitions had occurred on January 1, 2019 is as follows:

	2019			
	Network	**SNFs**	**ASCs**	**Total**
Excess (deficiency) of revenues over expenses before other operating adjustments	$ 285,177	$ (3,065)	$ 1,264	$ 283,376
Excess (deficiency) of revenues over expenses	676,877	(3,065)	1,264	675,076
Net assets released from restriction for capital acquisitions	6,104	-	-	6,104
Pension-related adjustments	24,567	-	-	24,567
Other changes	2,775	-	-	2,775
Noncontrolling interest attributable to acquisitions	45,231	-	-	45,231
Distributions to noncontrolling interests	(8,403)	1,428	(941)	(7,916)
Increase (decrease) in net assets without donor restrictions	$ 747,151	$ (1,637)	$ 323	$ 745,837

2. Coronavirus (SARS-Cov-2) Pandemic ("COVID-19")

HMH admitted the first diagnosed COVID-19 patient in New Jersey on March 2, 2020. Thereafter, the numbers of COVID patients began significantly increasing in New Jersey, with the Governors of New Jersey (March 9, 2020) and New York (March 7, 2020) declaring states of emergency. On Friday, March 13, 2020, the President declared a national state of emergency, which would begin the process of allowing billions of dollars of Federal funding and ordering all states to set up emergency operations centers to combat the pandemic. Emergency measures including closing schools, restricting gatherings, closing theaters, gyms and casinos, began in mid-March and by the end of March most businesses not deemed 'essential' were closed in New Jersey and each of its neighboring states as a means to slow the spread or to "flatten the curve" of the coronavirus.

The Governor of New Jersey signed Executive Order No. 109, effective March 27, 2020, which mandated that all elective surgeries cease with the intent to protect the capacity of hospitals for the expected surge in COVID-19 patients as well as to ensure that non-COVID-19 patients were not infected through transmission from COVID-19 patients. This mandate extended to all outpatient medical and dental ambulatory surgical centers and physician offices and remained in place until May 26, 2020, when as a part of the Governor's approach to re-start the economy and put New Jersey on the road to recovery, he ended this mandate. The recovery has included a safe return of non-COVID-19 patients to our hospitals, outpatient sites and physician practices. A second, reduced surge of COVID-19 patients began in November 2020, peaked in January 2021 and is now in decline.

HMH's Response to COVID-19

HMH has long established, emergency management systems in place and activated those processes in February 2020 in anticipation of the first wave of this pandemic impacting New Jersey. As such, HMH's health care professionals are routinely trained for emergencies such as COVID-19. Additionally, HMH's supply chain leadership began acquiring certain supplies such as personal protective equipment (PPE) in late January in anticipation of this virus spreading to the United States. While there were substantial supply chain disruptions, HMH was able to weather the storm, through purchasing efforts that began in January and the use of alternate suppliers to source product.

(in thousands)

Through the date of this report, HMH has tested over 127,000 patients within its hospitals and ambulatory care sites and HMH has admitted over 20,000 COVID-19 positive patients. All of the hospitals within the Network have made infrastructure changes, including to expand their respective inpatient capacity and to expand the number of negative pressure rooms needed for the influx of critical care patients. In December 2020, two COVID-19 vaccines received Emergency Use Authorization from the U.S. Food and Drug Administration and began distribution to providers. HMH has established vaccination sites within all of its hospitals, several physician practices, and is operating one of six vaccination mega-sites established by the State. HMH has successfully administered over 412,000 vaccines to individuals within our surrounding communities, including team members, first responders, and community members aged 65+ and those with specific medical conditions.

Lastly, the team at HMH consisting of 35,000 team members has worked tirelessly, around-the-clock – first, in preparation for this pandemic, and then living and working through it to care for our patients, their families and our own team members who became ill from COVID-19.

Coronavirus Aid, Relief, and Economic Security Act ("CARES Act")
In response to the economic impact of COVID-19, the CARES Act was enacted by Congress and was subsequently signed into law on March 27, 2020. Through the end of 2020, additional legislation has been signed into law. Led by the CARES Act, these pieces of legislation included a variety of economic assistance provisions for business and individuals, including $178 billion in Provider Relief Funds government grants ("PRF") for hospitals, nursing homes, surgical centers, outpatient clinics, and physician practices. In accordance with ASC 958-605, funds received are deemed refundable advances until conditions are met. As the conditions were met and restrictions satisfied in the same period as the funding was received (unreimbursed expenses / lost revenues), in accordance with the simultaneous release policy HMH recognized all of the $518,405 funding received as federal legislative relief within net assets without donor restriction in the consolidated statement of operations for the year ended December 31, 2020.

Federal Emergency Management Agency ("FEMA")
During 2020, due to the related operating and capital expense incurred by the Network in response to COVID-19, the Network has submitted claims to FEMA. As of December 31, 2020, the Network has recorded a total of $77,298 in obligated FEMA funds in federal legislative relief and other changes within the consolidated statements of operations. The Network has additional claims outstanding and under review with FEMA as of December 31, 2020 related to 2020 operating and capital expenses incurred related to COVID-19. In accordance with generally accepted accounting principles, the Network will recognize those claims in the year the related funds are obligated by FEMA.

Specific to PRF and FEMA funds received, HMH believes the amount of revenue recognized in the consolidated statements of operations is appropriate based on information contained in laws and regulations, as well as interpretations issued by the U.S. Department of Health and Human Services ("HHS") and FEMA policies governing the funding, which was publicly available at December 31, 2020. As this crisis has evolved, and through new legislation, HHS has made multiple modifications to its guidance over the past several months. The potential financial impacts of future changes in guidance may impact the Network's ability to retain some or all of the distributions received.

Medicare Accelerated Payments
Under the CARES Act, the Network received $614,598 in advance payments from the Centers for Medicare and Medicaid Services ("CMS") in April 2020, which is included in other current liabilities

(in thousands)

and other liabilities in the consolidated balance sheet as of December 31, 2020. CMS will recoup these payments over two years beginning in April 2021 by withholding 25% of Medicare reimbursements through February 2022, and then 50% of Medicare reimbursements thereafter until August 2022. Under ASC 606, the liability represents a contract liability. During the recoupment periods HMH will reduce the contract liability based upon Medicare claims recognized as revenue.

Deferred Payment of Employer Payroll Taxes

As allowed under the CARES Act, beginning in May 2020 and through December 2020, the Network has deferred its payments of the employer portion of social security payroll tax in the amount of $102,842, which is included in accounts payable and accrued expenses and other liabilities in the consolidated balance sheet as of December 31, 2020. The CARES Act requires payment of 50% of these deferred taxes by December 31, 2021 and the remaining 50% of these deferred taxes by December 31, 2022.

3. Significant Accounting Policies

The following is a summary of the Network's significant accounting policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Hackensack Meridian Health, Inc. and all of its subsidiaries in which a controlling interest is maintained. Intercompany balances and transactions are eliminated. Controlling interest is determined by majority ownership interest. For those consolidated subsidiaries where HMH's ownership is less than 100%, the outside parties' interests are shown as net assets without donor restrictions attributable to noncontrolling interests. Investments in joint ventures over which HMH has significant influence but not a controlling interest are recognized using the equity method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 include the contractual discounts on accounts receivable, valuation of alternative investments, estimated amounts due to and from third-party payors, professional liability costs and accrued pension benefit liabilities. Actual results could differ from those estimates.

Income Taxes

All of the not-for-profit entities included in the consolidated financial statements are corporations as described in Section 501(c)(3) of the Internal Revenue Code ("Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. These entities, except for the physician practices, are also exempt from state income taxes. Per the requirement to assess for tax uncertainty, management has determined that it does not have any significant uncertain tax positions required to be accrued or reported.

The for-profit corporations are subject to federal and state income taxes.

(in thousands)

Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents and restricted cash include investments in highly-liquid instruments with original maturities of three months or less. The Network elected to treat highly-liquid short-term investments held within assets limited as to use and investments as cash equivalents. Cash is also held in the assets limited as to use and investments portfolio. At December 31, 2020 and 2019, the Network had cash balances held at a financial institution that exceeded federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

ASU 2016-18, *Restricted Cash*, addresses the presentation, disclosure, and cash flow classification of restricted cash and requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	2020	2019
Cash and cash equivalents	$ 692,711	$ 194,305
Cash and cash equivalents included in assets limited as to use and investments	371,817	149,152
Total cash, cash equivalents and restricted cash shown in the consolidatated statements of cash flows	$ 1,064,528	$ 343,457

Assets Limited as to Use and Investments

Investments and assets limited as to use are recorded at fair values, which are based on the assumptions and methods described in the “Fair Value Measurements” section of this note.

Assets limited as to use include cash and investments set aside by the Network Board of Trustees (the “Board”) for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, assets held by trustees under indenture agreements, assets held in connection with the captive insurance program, assets held for deferred employee benefit plans, and donor-restricted assets.

Investment income or losses (including realized gains and losses on investments, interest, dividends, holding gains and losses on trading securities, and changes in the value of investments that are valued using NAV as a practical expedient) are included in the accompanying consolidated statements of operations as other operating adjustments, unless the income or loss is restricted by donor or law. Gains and losses on sales of investment assets are determined using the first-in, first-out method. Investments classified as current assets are available to support current operations.

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

Financial Instruments

The Network has entered into interest rate swap agreements to manage its exposure to fluctuations in interest rates (interest rate risk) and lower cost of capital. These swap agreements

(in thousands)

involve the exchange of fixed and variable rate interest payments between the Network and counterparties based on common notional principal amounts and maturity dates that correspond to the Network's outstanding long-term debt.

The Network recognizes all derivatives at fair value within other liabilities on the consolidated balance sheets. Changes in fair value of these instruments are reported in the consolidated statements of operations as discussed in Note 9.

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Network for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, or quoted prices in markets that are not active.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- Market Approach (M) – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- Cost Approach (C) – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- Income Approach (I) – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions the market participants use to make

(in thousands)

valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors. The Network utilized the best available information in measuring fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments held by the Network:

- Cash and Cash Equivalents – Estimated fair values of cash equivalents are based on daily values (closing price on primary market) that are validated with a sufficient level of observable activity (i.e., purchases and sales).

- Mutual Funds – Estimated fair values of mutual funds are based on daily values (closing price on primary market) that are validated with a sufficient level of observable activity (i.e. purchases and sales).

- Corporate Equity Securities – Securities listed on national stock exchanges are valued at the last published sales price on the last business day of the year; over-the-counter securities for which no sale was reported on the last business day of the year are valued at the latest reported bid price from a published source.

- U.S. Government, Municipal, and Corporate Debt Securities – Valued on the basis of the quoted market prices at year-end. If quoted market prices are not available for the investments, these investments are valued based on yields currently available on comparable securities or issuers with similar credit ratings.

- Derivative Instruments – Consist of interest rate swap agreements. Value is determined using a market-based interest rate yield curve adjusted specifically to take into account the Network's and counterparty's risk of nonperformance.

- Alternative Investments and common/collective trusts - Fair value of alternative investments are measured based on unobservable inputs that cannot be corroborated by observable market data. The Network accounts for these investments within its assets limited as to use and investments portfolios using the net asset value as a practical expedient and as such, these investments are excluded from the fair value hierarchy.

- The Network's alternative investments include holdings in common/collective trusts, limited partnerships or hedge funds which engage in a variety of investment strategies and are managed by money managers. Certain pension plan asset investments in alternative investments are valued by management utilizing the net asset value ("NAV") provided by the respective fund manager of the underlying investment companies unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties as the Network does not intend to sell such investments before the expiration of the early redemption periods. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

(in thousands)

- Changes in the value of these alternative investments are included in investment income, in the consolidated statements of operations. Generally, alternative investments upon which redemptions may be made annually with written notice of 100 days are recorded as current assets. Limited partnerships which do not provide for voluntary withdrawal and are long term in nature are classified as noncurrent assets.

Inventories

Inventories are stated at lower of cost (determined on an average cost basis) or net realizable value and are included in other current assets on the consolidated balance sheets.

Property and Equipment

Property and equipment are recorded at cost. The Network determines depreciation using the straight-line method, over the estimated useful life of each class of depreciable asset. Estimated lives range from 3 to 20 years for equipment and up to 40 years for buildings.

Finance leases are recorded at their present value at the inception of the lease. Property and equipment under finance leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations. Gains and losses resulting from the retirement of property and equipment are included in the results of current operations.

Gifts of long-lived assets such as property and equipment are determined at their fair value at the date of the gift and reported as an increase to net assets without donor restrictions 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.

Right-of-Use Assets and Lease Liabilities

Under ASU 2016-02, *Leases (Topic 842)* lessees are required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Leases are classified as either operating or finance. Operating leases result in straight-line expense in the statement of operations (similar to previous operating leases), while finance leases result in more expense being recognized in the earlier years of the lease term (similar to previous capital leases).

Long-Lived Assets and Goodwill

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such 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. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell.

(in thousands)

In May 2019, the FASB issued ASU 2019-06, *Intangibles—Goodwill and Other, Business Combinations, and Not-for-Profit Entities.* The new guidance allowed a not-for-profit entity to elect to amortize goodwill on a straight-line basis and test for impairment when a triggering event occurs that indicates that the fair value of the reporting unit may be below its carrying amount. Effective January 1, 2019, the Network adopted this new policy for all existing goodwill and all new goodwill generated from acquisitions in 2019. For the year ended December 31, 2020 and 2019, the Network recorded $18,279 and $32,874, respectively, in amortization of goodwill and intangibles within depreciation and amortization in the consolidated statement of operations.

Due to consistent recurring financial losses at PMC and its adjoining nursing home, the Harborage, HMH determined that the goodwill of $22,612 associated with these two entities was impaired, and as such, included impairment of goodwill within depreciation and amortization in the consolidated statement of operations for the year ended December 31, 2019.

Deferred Financing Costs

Deferred financing costs include legal, financing, and placement fees associated with the issuance of long-term debt and are presented net of the related long-term debt issuances. These costs are amortized using the effective interest method over the period the related obligations are outstanding.

Professional, General and Workers Compensation Liabilities

The Network's policy is to accrue an estimate of the ultimate cost of malpractice and workers compensation claims covered through either its wholly owned captive insurance companies or insurance policies with third party insurers. These accrued liabilities are included in other liabilities in the accompanying consolidated balance sheets. The Network also records an estimate for insurance recoveries associated with these claims, which is recorded in other assets in the consolidated balance sheets.

Net Assets

Net assets without donor restrictions are derived from gifts that are not subject to explicit donor-imposed restrictions. Resources arising from the results of operations or assets set aside by the Board of Trustees are classified as without donor restrictions for external reporting purposes. Included in net assets without donor restrictions are board-designated endowment funds of $83,115 and $83,737 at December 31, 2020 and 2019, respectively.

Net assets with donor restrictions are those funds whose use has been limited by donors to a specified time period and/or purpose. Net assets are available for the funding of healthcare services and capital acquisitions. Certain donor restrictions are perpetual in nature and the income from those funds is expendable to support various health care services.

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 the cost basis. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Net assets released from restrictions for capital acquisitions are excluded from excess of revenues over expenses within the consolidated statements of operations.

(in thousands)

Donor-restricted contributions whose restrictions are met within the same year as received are reflected as net assets without donor restrictions.

The Boards of HUMCF, PMCF, JFKF, and MHF, collectively (the "Foundations"), consistent with regulatory requirements, require the preservation of the fair value of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Foundations classify net assets with donor restrictions as (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which the Network expects to be entitled in exchange for providing patient care. These amounts are net of appropriate discounts to give recognition to differences between the Network's charges and reimbursement rates from third party payers. The Network is reimbursed from third party payers under various methodologies based on the level of care provided. Certain net revenues received are subject to audit and retroactive adjustment for which amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Network bills patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

The Network determines performance obligations based on the nature of the services provided. The Network recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The Network measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The Network recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) we do not believe the patient requires additional services.

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

The Network determines the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Network's policy, and implicit price concessions provided to uninsured patients. The Network determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Network determines its estimate of implicit price concessions based on its historical collection

(in thousands)

experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

A summary of the payment arrangements with major third-party payers is as follows:

- Medicare - inpatient acute care services and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology, the Network is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Network. The Network's Medicare cost reports have been audited and finalized through December 31, 2016 except for 2010 for HUMC & 2011 for OMC. RMC has been audited and finalized through December 31, 2017 except for 2010 & 2011. BMC has been audited and finalized through December 31, 2017. SOMC has been audited and finalized through December 31, 2018.

- Medicaid - inpatient acute care services rendered to Medicaid program beneficiaries are reimbursed under a prospective methodology in accordance with N.J.A.C. 10:52 sub-chapter 14. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule. The Network's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary up through December 31, 2017 except for 2007 through 2009 for HUMC, 2016 for PMC. BMC has been audited and finalized through December 31, 2018.

- The Network has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per patient day or procedure and discounts from established charges.

Generally, patients who are covered by third-party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Network provides services to uninsured patients and offers uninsured patients a discount from standard charges. The Network estimates the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. Under the Network's uninsured discount programs, the discount offered to certain uninsured patients is recognized as a contractual discount, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual discounts recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenues in the period of the change. For the years ended December 31, 2020 and 2019, the Network recorded $322,882 and $264,673 of implicit price concessions as a direct reduction of net patient service revenues.

(in thousands)

The components of net patient service revenue for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Gross charges	$ 20,888,575	$ 22,187,295
Contractual discounts and implicit price concessions	(15,630,671)	(16,672,471)
Change in estimate of prior year's net patient service revenue	17,990	42,579
Charity care subsidy	23,676	19,104
Hospital relief subsidy	9,854	9,210
	$ 5,309,424	$ 5,585,717

The mix of patient service revenue, net of contractual discounts and implicit price concessions from patients and third-party payors for the years ended December 31, 2020 and 2019 is as follows:

Net Patient Service Revenue %	2020	2019
Medicare, including Managed Medicare	34 %	35 %
Medicaid, including Managed Medicaid	10	10
NJ Blue Cross	25	21
Other Payors	29	33
Self pay	2	1
	100 %	100 %

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare and Medicaid programs. The Network believes that they are currently in compliance with all applicable laws and regulations. The Network has established a Corporate Compliance Program to monitor compliance with various regulations.

Performance Indicator

The consolidated statements of operations includes excess of revenues over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include noncontrolling interest attributable to acquisitions, contributions from and distributions to noncontrolling interests, pension-related adjustments, net assets released from restriction for capital acquisitions and other changes.

The Network differentiates its core operating activities through the use of excess of revenues over expenses before federal legislative relief and other operating adjustments as an intermediate measure of operations. For the purposes of display, investment income, contribution revenue without donor restrictions, loss on extinguishment of debt and certain other transactions, which management does not consider being components of the Network’s core operating activities, are reported as other operating adjustments in the consolidated statements of operations.

New Accounting Standards, not yet adopted

In March 2020, the FASB issued a new accounting standard which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform due to the

(in thousands)

discontinuation of the London Interbank Offered Rate ("LIBOR"). The amendments apply to contracts, hedges and other transactions affected by reference rate reform due to reference to LIBOR or another reference rate expected to be discontinued. The pronouncement is effective immediately and can be applied through December 31, 2022. Management is currently assessing the implications of the potential adoption of this accounting standard.

4. Charity and Uncompensated Care

The Network provides care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services without charge or at amounts less than its established rates. The Network maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished. The Network receives partial reimbursement for the uncompensated care provided. Of the Network's total consolidated operating expenses reported, estimated costs of $115,517 and $80,164 for the years ended December 31, 2020 and 2019, are attributable to providing services to charity patients, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Network's total operating expenses, divided by gross patient service revenue.

5. Assets Limited as to Use and Investments

The following tables provide a summary of the Network's assets limited as to use and investments that are measured at fair value on a recurring basis at December 31, 2020 and 2019:

	2020		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
Under Board of Trustees designation			
Cash and cash equivalents	$ 322,513	$ -	$ 322,513
Mutual funds	941,912	-	941,912
Corporate equity securities	415,457	-	415,457
Corporate debt securities	-	485,986	485,986
U.S. government obligations	11	369,250	369,261
	1,679,893	855,236	2,535,129
Accrued interest			5,177
Common/collective trusts			2,106,655
Alternative investments			156,914
Total under Board of Trustees designation			4,803,875
Under donor designation			
Cash and cash equivalents	193	-	193
Mutual funds	3,982	-	3,982
Corporate equity securities	993	-	993
Total under donor designation	5,168	-	5,168
Under bond indenture agreements held by trustee			
Cash and cash equivalents	49,111	-	49,111
Total under bond indenture agreements held by trustee	$ 49,111	$ -	49,111
Total assets limited as to use and investments			$ 4,858,154

(in thousands)

	2019		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Under Board of Trustees designation			
Cash and cash equivalents	$ 95,377	$ -	$ 95,377
Mutual funds	675,173	-	675,173
Corporate equity securities	462,734	-	462,734
Corporate debt securities	-	478,450	478,450
U.S. government obligations	10	88,761	88,771
	1,233,294	567,211	1,800,505
Accrued interest			3,397
Common/collective trusts			1,384,550
Alternative investments			84,341
Total under Board of Trustees designation			3,272,793
Under donor designation			
Cash and cash equivalents	251	-	251
Mutual funds	3,697	-	3,697
Corporate equity securities	763	-	763
Total under donor designation	4,711	-	4,711
Under bond indenture agreements held by trustee			
Cash and cash equivalents	53,524	-	53,524
Total under bond indenture agreements held by trustee	$ 53,524	$ -	53,524
Total assets limited as to use and investments			$ 3,331,028

Assets limited as to use and investments are reported on the consolidated balance sheets at December 31, 2020 and 2019 as follows:

	2020	2019
Assets limited as to use and investments, current portion	$ 744,047	$ 861,012
Assets limited as to use and investments, noncurrent portion	4,114,107	2,470,016
	$ 4,858,154	$ 3,331,028

There were no transfers between Levels 1 and 2 during the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, the Network's remaining outstanding funding commitments to alternative investments approximated $4,166 and $4,239, respectively.

(in thousands)

Assets under bond indenture agreements held by trustees are maintained in the following accounts at December 31, 2020 and 2019:

	2020	2019
Debt service fund, principal	$ 15,159	$ 15,421
Debt service fund, interest	27,571	30,899
Debt service reserve fund	6,381	7,204
Total assets under bond indenture agreements	$ 49,111	$ 53,524

Investment income consists of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Interest and dividend income	$ 39,790	$ 48,827
Realized gains (losses) and net change in unrealized gains (losses)	295,608	304,309
Investment management fees and other	(6,271)	(4,510)
	$ 329,127	$ 348,626

6. Liquidity and Availability of Resources

The Network's financial assets and resources available to meet the cash needs for general expenditures within one year of the date of the consolidated statements of financial position were as follows:

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 692,711	$ 194,305
Patient accounts receivable, net	602,989	626,025
Pledges receivable, net	19,387	17,540
Assets limited as to use and investments under Board of Trustees designation	4,710,805	3,219,076
Total financial assets available within one year	6,025,892	4,056,946
Liquidity resources:		
Bank lines of credit (undrawn)	186,750	46,750
Total financial assets and resources available within one year	$ 6,212,642	$ 4,103,696

As part of the Network's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Assets limited as to use and investments in the table above are all under Board of Trustees designation. These assets could be used for general expenditures, but would require approval from the Board of Trustees. These assets exclude alternative investments with lock-up provisions greater than one year of $93,071 and $53,717 as of December 31, 2020 and 2019, respectively (see Note 5 for disclosures about investments).

(in thousands)

7. Property and Equipment

Property and equipment, including assets held under finance lease obligations, consist of the following at December 31, 2020 and 2019:

	2020	2019
Land	$ 155,013	$ 162,253
Land improvements	30,547	28,794
Buildings and fixed equipment	3,251,042	3,115,412
Major movable equipment	1,617,612	1,397,941
	5,054,214	4,704,400
Accumulated depreciation and amortization	(2,187,841)	(1,931,165)
Construction-in-progress	330,667	221,273
Property and equipment, net	$ 3,197,040	$ 2,994,508

Depreciation expense for the years ended December 31, 2020 and 2019 was $245,580 and $222,171, respectively.

8. Long-Term Debt and Finance Lease Obligations

The Network has various bond issues outstanding, primarily issued through the New Jersey Health Care Facilities Financing Authority (the “Authority”), as well as various bank loans, mortgages and finance lease obligations. During 2017, the Network established one legally obligated group for certain borrowings with the Authority and other lenders. This obligated group is represented by Hackensack Meridian Health, HMHHC and JFK (“Obligated Group”). The Obligated Group is subject to the covenants of the Master Trust Indenture (“MTI”) with the Authority.

(in thousands)

Long-term debt and finance lease obligations consist of the following at December 31, 2020 and 2019:

	2020	2019
Revenue Bonds		
Series 2020, 2.675%, due December 31, 2041	$ 500,000	$ -
Series 2020, 2.875%, due December 31, 2050	500,000	-
Series 2018, 4.211%, due July 1, 2048	300,000	300,000
Series 2017, 4.5%, due July 1, 2057	300,000	300,000
Series 2016A, 0.80% and 2.04% at December 31, 2020 and 2019, respectively, due July 1, 2038	120,702	123,335
Series 2015A, 2.5%, due November 1, 2045	107,973	112,306
Series 2006, 0.06% and 1.35% at December 31, 2020 and 2019, respectively, due July 1, 2036*	13,800	14,220
Series 2006 A-3, 0.10% and 1.75% at December 31, 2020 and 2019, respectively, due July 1, 2031*	3,500	3,500
Series 2006 A-4, 0.06% and 1.20% at December 31, 2020 and 2019, respectively, due July 1, 2027*	10,090	11,300
Series 2006 A-5, 0.06% and 1.20% at December 31, 2020 and 2019, respectively, due July 1, 2036*	10,915	10,915
Series 2004 A-3, 0.10% and 1.62% at December 31, 2020 and 2019, respectively, due July 1, 2035*	8,935	9,405
Series 2003, 0.10% and 1.60% at December 31, 2020 and 2019, respectively, due July 1, 2033*	60,000	60,000
Series 1998A, 0.10% and 1.65% at December 31, 2020 and 2019, respectively, due July 1, 2028*	6,625	7,320
Refunding Bonds		
Series 2017A, 2.5% to 5.0%, which mature annually from July 1 ,2020 through July 1, 2040	474,705	489,870
Series 2017A, 4.0% to 5.25%, which mature annually from July 1, 2043 through July 1, 2057	98,920	98,920
Series 2013A, 2.0% to 5.0%, in varying maturities through July 1, 2032	21,230	21,230
Series 2011, 2.0% to 5.0%, in varying maturities through July 1, 2027	91,125	101,755
Bank Loans		
Series 2020, 2.50%, a term of 120 months with a 15 year amortization and a fixed monthly	197,013	-
Series 2016, 2.59%, a term of 120 months with a 25 year amortization and a fixed monthly payment of $92; commencing July 28, 2016 and ending July 28, 2041	17,666	18,301
Series 2015A (tax exempt), 2.38%, a term of 120 months with a 25-year amortization, and a fixed monthly payment of $372; commencing August 12, 2015 and ending July 12, 2040	69,966	72,732
Series 2015B, 3.31%, a term of 120 months with a 25-year amortization, and a fixed monthly payment of $177; commencing August 12, 2015 and ending July 12, 2040	30,622	31,702
Series 2013A, 1.93%, and a term of 84 months with a fixed monthly payment of $957 commencing May 1, 2013 and ending April 1, 2020	-	4,705
Series 2013B, 1.80%, and a term of 84 months with a fixed monthly payment of $1,270, commencing May 1, 2013 and ending April 1, 2020	-	5,090
Other		
Township of Clifton Redevelopment Area Bonds	963	-
Township of Nutley Redevelopment Area Bonds	963	-
Series 2019 Capital Asset Loan, 1.61% at December 31, 2020 and 2019, respectively.	21,214	25,071
New Jersey Economic Development Authority Series 1997 Revenue Bonds , 4.1% to 5.7%, due annually from January 1, 1998 through January 1, 2022	4,768	7,359
Accreted bond interest payable on the capital appreciation portion of the Series 1997 bonds due between January 1, 2012 and January 1, 2022.	13,632	18,759
Various commercial mortgages with fixed interest rates ranging from 3.625% to 4.25% and variable interest rates equal to the LIBOR rate for each period plus 0.85% to 1.0%.	68,089	69,801
Other long-term borrowings	30,464	20,889
Total long-term debt	$ 3,083,880	$ 1,938,485
Finance lease obligations		
Finance lease obligations and other obligations with interest rates ranging from 1.74% to 12.3%	148,014	149,641
Total long-term debt and finance lease obligations	3,231,894	2,088,126
Current portion of accreted interest, included in accrued interest payable	(6,749)	(6,608)
Original issue premium, net	50,330	54,558
Deferred financing costs, net of accumulated amortization	(16,211)	(11,331)
Current portion	(62,807)	(60,417)
Long-term debt and finance lease obligations, net of current portion	$ 3,196,457	$ 2,064,328

**Interest is payable monthly and determined weekly based upon market rates with a 12% per annum maximum*

(in thousands)

On August 26, 2020, the Network issued Series 2020 taxable bonds in the amount of $1,000,000. On April 1, 2020, the Network closed on a $200,000 15-year bank replacement loan. On May 21, 2019, the Network entered into a seven-year loan to borrow $27,000 from a pool of funds that are made available by the Authority to healthcare institutions. These three financings are to be utilized to finance or refinance certain construction projects, acquisitions and installation of capital assets over the next several years. Interest is paid monthly at a variable rate of interest sufficient to pay interest on the bonds and the program expenses. The interest rate was 1.61% as of December 31, 2020.

Management is not aware of any noncompliance with any of the required covenants related to its outstanding debt at December 31, 2020 and 2019. The Obligated Group's most restrictive covenants are meeting minimum requirements for debt service coverage ratio, debt-to-capitalization ratio and cushion ratio. At December 31, 2020 and 2019, the Obligated Group was in compliance with all financial ratio covenants.

The future principal payments on long-term debt and payments on finance lease obligations are as follows:

	Long-Term Debt	Finance Lease Obligations	Total
2021	$ 58,861	$ 7,534	$ 66,395
2022	71,139	7,341	78,480
2023	57,218	7,464	64,682
2024	58,684	7,650	66,334
2025	142,360	7,842	150,202
Thereafter	2,695,618	155,773	2,851,391
	3,083,880	193,604	3,277,484
Amounts representing interest on finance lease obligations	-	(45,590)	(45,590)
Total long-term debt and finance lease obligations	$ 3,083,880	$ 148,014	$ 3,231,894

9. Interest Rate Swap Agreements

As of December 31, 2020, the Network had three forward starting pay fixed interest swap agreements which were entered into to mitigate variable rate exposure and take advantage of low interest rates. Under the terms of these agreements, the Network is paying fixed interest rates ranging from 3.33% to 3.65% in exchange for variable rate payments equal to either 67% or 68% of the one month LIBOR rate. The notional amounts on these swap agreements are also tied to the outstanding principal on the underlying bond series.

At December 31, 2020 and 2019, the fair value of the Network's derivative instruments was in a liability position of $71,542 and $60,325, respectively, and is included in other liabilities in the consolidated balance sheets, respectively. At December 31 2020, the fair values of the Network's derivative instruments are classified as Level 2 financial instruments. The total loss recognized on these derivatives for the year ended December 31, 2020 and 2019 was $11,656 and $14,550,

(in thousands)

respectively. These losses are included within other operating adjustments in the consolidated statements of operations.

10. Pension Plans, Postretirement Health Care and Postemployment

The Network sponsors a tax-qualified noncontributory defined benefit plan, the Consolidated Pension Plan of Hackensack Meridian Health ("Consolidated Plan"). The Consolidated Plan consists of seven legacy defined benefit plans that used to be maintained separately by BMC, Carrier, HUMC, JFK, MHC, PMC and RBMC. These plans have been merged into a single plan as of December 31, 2020.

All legacy component plans are closed for new membership. Benefit accruals are frozen except for certain grandfathered participants of the legacy HUMC and PMC plans. The Consolidated Plan was recently amended to freeze benefit accruals for the HUMC grandfathered participants as of December 31, 2021, and the calculation of benefit obligations and net periodic benefit costs reflects the plan freeze. This resulted in a curtailment gain due to the accelerated recognition of the prior service credit balance.

Certain participants of the legacy HUMC plan have also accrued benefits under a 457(f) deferred compensation plan ("HUMC SERP") where benefit accruals were frozen as of December 31, 2010. The plan intended to restore benefits lost by certain employees due to the statutory limits based on salary and service through December 31, 2010.

(in thousands)

The following table sets forth the funded status of the combined defined benefit pension plans for the years ended December 31, 2020 and 2019:

	Pension Benefits	
	2020	**2019**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,009,056	$ 1,807,564
Transfer of benefit obligation due to acquisitions	-	29,903
Service cost	12,825	14,158
Interest cost	67,003	78,947
Actuarial loss	205,423	167,006
Benefits paid	(87,430)	(83,202)
Expenses paid	-	(187)
Curtailments	(7,405)	-
Settlements	-	(5,133)
Net benefit obligation at end of year	2,199,472	2,009,056
Change in plan assets		
Fair value of plan assets at beginning of year	1,691,555	1,426,760
Transfer of fair value of plan assets due to acquisitions	-	27,010
Actual return on plan assets	231,624	280,798
Employer contributions	40,012	45,509
Expenses paid	-	(187)
Benefits paid	(87,430)	(83,202)
Settlements	-	(5,133)
Fair value of plan assets at end of year	1,875,761	1,691,555
Funded status at end of year	$ 323,711	$ 317,501
Accumulated benefit obligation, end of year	$ 2,185,830	$ 1,991,928
Amounts recognized in the consolidated balance sheets consist of		
Current liability (included in accounts payable and accrued expenses)	$ 6,357	$ 5,029
Accrued pension benefits	317,354	312,472
Total accrued pension liability	$ 323,711	$ 317,501
Amounts recognized in net assets without donor restrictions not yet captured within net periodic benefit costs consist of		
Net loss	$ 572,033	$ 502,075
Prior service credit	-	(19,561)
	$ 572,033	$ 482,514
Amounts in net assets without donor restrictions expected to be recognized in the following fiscal year's net periodic benefit cost		
Net loss	$ 13,411	$ 13,181
Prior service credit	-	(4,153)
	$ 13,411	$ 9,028

(in thousands)

At December 31, 2020 and 2019, the respective plans utilized discount rates as described below for the determination of the benefit obligations at December 31, 2020 and 2019 and the net periodic benefit cost for the periods ended December 31, 2020 and 2019. The discount rate was derived using the bond matching method and determined with an analysis of bonds available with an “AA-“ or better rating rated by S&P or Moody’s. A hypothetical bond portfolio was constructed to match the expected monthly benefit payments under the plans.

	2020	2019
Weighted-average assumptions used to determine benefit obligations		
Discount rate	2.68%	3.42%
Rate of compensation increase	3.00%	3.00%
Weighted average assumptions used to determine net periodic benefit cost		
Discount rate	3.42%	4.36%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%

The net periodic pension cost and pension-related adjustments included the following components for the years ended December 31, 2020 and 2019:

	Pension Benefits	
	2020	2019
Net periodic benefit cost		
Service cost	$ 12,825	$ 14,158
Interest cost	67,003	78,947
Expected return on assets	(116,745)	(99,643)
Settlement loss	-	2,360
Curtailment gain	(15,407)	-
Prior service credit	(4,153)	(4,153)
Actuarial loss	13,181	12,211
Net periodic benefit cost	(43,296)	3,880
Pension-related adjustments		
Net actuarial loss (gain)	69,958	(28,720)
Net prior service cost	19,561	4,153
Total pension-related adjustments	89,519	(24,567)
Total net periodic benefit cost and pension-related adjustments	$ 46,223	$ (20,687)

Pursuant to the ASU 2017-07, only the service cost of the net periodic pension cost is included in employee benefits in the consolidated statements of operations. The other components of net periodic benefit cost represent gains of $56,122 (including a curtailment gain of $15,407) and $10,278 for the years ended December 31, 2020 and 2019, respectively, are included in other gains, net in the consolidated statements of operations.

(in thousands)

Funding Policy

The Network's funding policy for the defined benefit plan is to contribute annually an amount at least as much as the minimum amount required by the Employee Retirement Income Security Act of 1974 (ERISA), plus additional amounts, which may be approved by the Board or delegated committees and management from time to time.

Investment Policy

The pension investment portfolio is managed by a dedicated internal investment office with oversight from the Investment Committee of the Board of Trustees. As such, the investment policy and strategy with respect to all defined benefit plan portfolios is to provide for growth of capital with a moderate level of volatility by investing in assets based on the plan's target allocations. The expected long-term rate of return assumptions are based on forward-looking return forecasts for specific modeled asset classes. The long-term forecasts are based on their analysis of long-cycle historical data as well as their longer-term global views.

The target asset allocations of the pension plan assets are as follows:

Investment categories	2020	2019
Equities (domestic and foreign)	48 %	48 %
Fixed income	37	37
Alternative investments	14	14
Cash equivalents	1	1
	100 %	100 %

Based on the current target allocations and capital market outlook, an updated analysis indicates that our strategy is expected to generate a long-term rate of return of 6.58%. This rate will be used to calculate the net periodic benefit cost for the fiscal year 2021.

(in thousands)

Fair Value Measurements
The following table sets forth by level, within the fair value hierarchy, the Plans' investments at fair value as of December 31, 2020 and 2019:

	2020		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Cash and cash equivalents	$ 47,533	$ -	$ 47,533
Corporate equity securities	212,980	-	212,980
Corporate bonds	-	91,019	91,019
Government securities	-	23,523	23,523
Mutual funds-equity	542,058	-	542,058
Mutual funds-fixed income	396,586	-	396,586
Total assets at fair value	$ 1,199,157	$ 114,542	1,313,699
Common/collective trusts			362,550
Alternative investments			196,840
Accrued interest			2,672
			$ 1,875,761

	2019		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Cash and cash equivalents	$ 5,055	$ -	$ 5,055
Corporate equity securities	231,936	-	231,936
Corporate bonds	-	103,956	103,956
Government securities	-	19,582	19,582
Mutual funds-equity	447,412	-	447,412
Mutual funds-fixed income	395,157	-	395,157
Total assets at fair value	$ 1,079,560	$ 123,538	1,203,098
Common/collective trusts			344,048
Alternative investments			141,765
Accrued interest			2,644
			$ 1,691,555

Common/collective trusts and alternative investments in the Plans' investments are excluded from the fair value hierarchy table as they are valued using NAV as a practical expedient.

(in thousands)

There were no transfers between Level 1 and Level 2 during 2020 and 2019.

At December 31, 2020 and 2019, the Network's remaining outstanding funding commitments to alternative investments were $2,050 and $1,970, respectively.

Contributions
The Network expects to contribute $5,000 to its pension plans in 2021.

Estimated Future Benefit Payments
The following benefit payments which reflect future service as appropriate are expected to be paid:

	Pension Benefits
2021	$ 101,826
2022	103,049
2023	106,916
2024	108,065
2025	113,412
2026–2030	572,137

Defined Contribution Plans
As of December 31, 2020, the Network sponsors four 401(k) savings plans where all eligible employees of HMH are contributing and receiving matching contributions where applicable. The Network also maintains frozen legacy 403(b) and 401(a)/401(k) plans. Total contributions to the defined contribution plans for the years December 31, 2020 and 2019 were $71,909 and $61,267, respectively.

Other Benefit Plans
Certain employees of the Network participate in various postemployment benefit plans. In connection with these plans, the Network funds the expenses as incurred.

Certain employees of the Network participate in various deferred compensation plans established pursuant to Sections 457(b) and 457(f) of the Code. For 457(b) plans, the Network deposits amounts with trustees on behalf of the participating employees. Under the terms of these plans, the Network is not responsible for investment gains or losses incurred. The assets set aside under the plans are designated for payments under the plans, but may revert to the Network under certain specified circumstances. The participating employees will receive the account balance at retirement. Therefore, at December 31, 2020 and 2019, amounts on deposit with the trustees (at fair value) were equal to the liability under the 457(b) plans. For 457(f) plans, the Network funds benefit payments and expenses as incurred.

The Network has recognized liabilities, in connection with a self-insured medical and dental plan for its employees of $18,145 and $16,831 at December 31, 2020 and 2019, respectively. This liability is included in accounts payable and accrued expenses in the consolidated balance sheets.

(in thousands)

11. Leases

On January 1, 2019, the Network adopted new guidance for the accounting and reporting of leases. The Network has operating leases primarily for real estate, including medical office buildings, corporate and other administrative offices, as well as medical and office equipment. As permitted under the transition guidance in ASC 842, the Network elected a package of practical expedients which, among other provisions, allowed the Network to carry forward historical lease classifications. The Network determines if an arrangement is a lease at inception of the contract. When evaluating contracts for embedded leases, the Network exercises judgment to determine if there is an explicit or implicit identified asset in the contract and if the Network controls the use of that asset. Embedded leases are immaterial to the consolidated financial statements.

Under ASC 842 transition guidance, the Network elected the hindsight practical expedient to determine the lease term for existing leases, which permitted companies to consider available information prior to the effective date of the new guidance as to the actual or likely exercise of options to extend or terminate the lease. Certain real estate leases have renewal options and the lease term includes options to extend or terminate the lease when it is reasonably certain that the Network will exercise that option. Real estate lease agreements typically have initial terms of five to 10 years, and equipment lease agreements typically have initial terms of three years.

Lease expense for operating lease payments is recognized on a straight-line basis over the term of the lease. Operating lease assets and liabilities are recognized based on the present value of lease payments over the lease term. Since the Network's leases do not have a readily determinable implicit discount rate, the Network uses its incremental borrowing rate to calculate the present value of lease payments. As a practical expedient, the Network has made an accounting policy election for all asset classes not to separate lease components from nonlease components in the event that the agreement contains both. The Network includes both the lease and nonlease components for purposes of calculating the right-of-use asset and related lease liability (if the nonlease components are fixed). For finance leases, interest expense on the lease liability is recognized using the effective interest method and amortization of the right-to-use asset is recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. The Network's policy for equipment leases with future minimum lease payments totaling less than $50 is to expense as paid as they are immaterial.

The table below presents certain information related to the lease costs for finance and operating leases:

	2020	2019
Finance lease cost		
Amortization of leased assets	$ 4,334	$ 4,573
Interest on lease liabilities	(3,279)	4,268
Operating lease cost	46,699	37,858
Short-term and variable lease costs, net of sublease income	23,437	23,691
Total lease cost	$ 71,191	$ 70,390

(in thousands)

Supplemental consolidated balance sheet information related to operating and finance leases at December 31, 2020 and 2019 is as follows:

	Classification on the Consolidated Balance Sheet	2020	2019
Assets			
Operating lease assets	Operating lease right-of-use assets	$ 237,552	$ 206,078
Finance lease assets	Property and equipment, net	101,437	122,311
Total lease assets		$ 338,989	$ 328,389
Liabilities			
Current			
Operating	Current portion of operating lease obligations	$ 34,467	$ 28,333
Finance	Current maturities of long-term debt and finance lease obligations	4,254	-
Noncurrent			
Operating	Long-term operating lease obligations	209,350	180,217
Finance	Long-term debt and finance lease obligations, less current maturities	143,760	149,641
Total lease liabilities		$ 391,831	$ 358,191
Weighted-average remaining lease term (in years)			
Operating leases		9	10
Finance leases		20	22
Weighted-average discount rate			
Operating leases		3.17%	3.51%
Finance leases		4.08%	2.83%

The table below presents supplemental cash flow information related to leases:

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$ 43,053	$ 35,298
Operating cash flows for finance leases	6,815	4,000

Future minimum lease payments under operating leases at December 31, 2020 is as follows:

2021	$ 41,994
2022	37,340
2023	32,751
2024	30,573
2025	28,183
Thereafter	112,167
Total minimum lease payments	283,008
Less: Imputed interest	(39,191)
Total lease liabilities	$ 243,817

(in thousands)

12. Functional Expenses

The Network provides general health care services and programs. Expenses that can be identified with a specific program are charged directly. Other expenses that are common to program and management services are allocated by various statistical bases.

Expenses related to providing these services consist of the following:

	2020			2019		
	Program Services	Management Services	Total	Program Services	Management Services	Total
Salaries and contracted labor	$ 1,943,551	$ 549,072	$ 2,492,623	$ 1,645,315	$ 535,306	$ 2,180,621
Physician salaries and fees	421,927	36,308	458,235	367,424	59,963	427,387
Employee benefits	450,822	139,720	590,542	419,598	141,435	561,033
Supplies and other	1,639,441	623,545	2,262,986	1,493,108	638,343	2,131,451
Depreciation and amortization	184,567	89,445	274,012	175,845	77,577	253,422
Interest	59,466	27,959	87,425	55,656	27,490	83,146
Total expenses	4,699,774	1,466,049	6,165,823	4,156,946	1,480,114	5,637,060
Other components of net periodic benefit cost	(56,122)		(56,122)	(10,278)	-	(10,278)
Total	$ 4,643,652	$ 1,466,049	$ 6,109,701	$ 4,146,668	$ 1,480,114	$ 5,626,782

13. Commitments and Contingencies

Lines of Credit

The Network had available lines of credit totaling $200,000 and $60,000 at December 31, 2020 and 2019, respectively. The Network had $13,250 at December 31, 2020 and 2019, ear-marked against these lines as collateral for certain insurance policies at HMHHC, leaving $186,750 and $46,750 available for cash demands at December 31, 2020 and 2019, respectively. No amounts are outstanding as of December 31, 2020.

Litigation

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

14. Professional and General Liability Insurance

The Network maintains alternative risk finance programs for its facilities via wholly owned Bermuda domiciled captive insurance companies. Additionally, certain risks are covered through third party insurance policies.

(in thousands)

The Network's consolidated balance sheets includes the following estimated liabilities included in other liabilities for hospital professional liability ("HPL"), employed (physician) provider professional liability ("EPPL") general liability ("GL") and workers compensation ("WC") at December 31, 2020 and 2019:

Type of coverage	**Nature of claims**	**2020**	**2019**
HMHCCL insurance liabilities	HPL, GL, EPPL and WC	$ 114,724	$ -
Coastal insurance liabilities	HPL, GL, EPPL and WC	-	101,827
HUMCCO insurance liabilities	HPL and GL	-	10,289
Third party insured liabilities	WC	21,608	28,668
Incurred but not reported	HPL, GL and WC	68,181	47,466
		$ 204,513	$ 188,250

Additionally, the Network has recorded estimated insurance recoveries totaling $28,915 and $34,882 at December 31, 2020 and 2019, which is included in other assets on the consolidated balance sheets, respectively. The total represents estimated recoveries from the captives' reinsurance policies as well as third party insurance policies.

Captive Insurance Companies

Coastal (established in 1998); HUMCCO (established in 2003); and Atlantic (established in 1987) provided various coverages to legacy MHS, HUHN and JFK Health facilities, respectively. As of December 31, 2019, Atlantic merged with Coastal and Coastal assumed all coverage obligations of Atlantic. All captives provided indemnification for respective HPL and GL exposures. Additionally, Coastal provided funding for indemnification for exposures related to EPPL; Excess HPL; Umbrella Liability; and WC. Atlantic also provided indemnification for certain property risks of the Hartwycks. As of December 31, 2020, Coastal and HUMCCO merged with HMHCCL whereby HMHCCL continued as the surviving entity and assumed all coverage obligations of Coastal and HUMCCO.

As of December 31, 2020 and 2019, following the merger with Coastal, HMHCCL provides the following indemnifications for JSUMC, RMC, RBMC, OMC, BMC, and SOMC. HMHCCL provides indemnification for HPL exposures of $1,000 per medical incident subject to an annual aggregate of $3,000 for each hospital and entity, respectively, and indemnification for GL exposures of $1,000 per occurrence subject to an annual aggregate of $1,000 for each hospital and entity, respectively. HMHCCL provides funding for EPPL exposures of $1,000 per medical incident subject to an annual aggregate of $3,000 per physician and $6,000 program aggregate. HMHCCL also provides indemnification of $3,000 per medical incident excess of indemnification for primary HPL exposures and effective January 1, 2018 for EPPL. HPL and EPPL on this program component respond to claims and suits on a claims-made basis. GL on this program component responds to claims and suits on an occurrence basis.

Prior to January 1, 2020, Coastal provided indemnification for the deductible portion of legacy MHS workers compensation claims per occurrence exposures ranging from $250 to $750 per accident subject to an overall annual aggregate. The per occurrence exposure and annual aggregate for the year ending December 31, 2019 was $750 and $17,100, respectively. HMHCCL assumed responsibility for these obligations as consequence of the HMHCCL Merger.

As of December 31, 2020 and 2019, following the merger with HUMCCO, HMHCCL provides indemnification for HPL and GL exposures of $6,000 per claim subject to an annual aggregate of

(in thousands)

$13,000 for HUMC. HPL and GL on this program component respond to claims and suits on a claims-made basis.

As at December 31, 2020 and 2019 following the merger with Coastal, HMHCCL provides indemnification for the Atlantic program HPL and GL exposures of $2,000 per claim subject to an annual aggregate of $9,000. HPL on this program component responds to claims and suits on a claims-made basis. GL on this program component responds to claims and suits on an occurrence basis.

Reinsurance and Excess Coverage
For the years ended December 31, 2020 and 2019, Coastal purchased annual reinsurance policies in the amount of $150,000 and $100,000, respectively, per claim subject to an annual aggregate of $150,000 and $100,000, respectively, in excess of Coastal's primary and first excess layer.

For the years ended December 31, 2020 and 2019, HUMCCO purchased reinsurance policies in the amount of $5,000 per claim subject to a $13,000 aggregate and $250 corridor deductible in excess of the HUMCCO primary retained layer of $1,000, respectively. In addition, HUMC purchased additional layers of insurance totaling $100,000 per claim subject to a $100,000 annual aggregate for 2019. For the year ended December 21, 2020, all of the Excess and Umbrella coverage for the Network was covered under the Coastal Excess program of $150M. This includes excess of various commercial coverages and limits for Carrier and PMC.

For the years ended December 31, 2019 JFK purchased annual reinsurance policies in the amount of $50,000, per claim subject to an annual aggregates of $50,000, in excess of Atlantic's primary and first excess layer.

Third Party Insurance – Workers Compensation
HUMC had an occurrence-based policy for workers compensation claims with a third party insurance company through June 30, 2016. Effective July 1, 2016, HUMC created its own self-insured workers compensation plan, and has since added PMC on January 1, 2017, RBMC and JFKMC on January 1, 2019 and Carrier on June 30, 2019 to this plan. HMH has recorded an estimated liability for claims incurred but not yet reported within the self-insurance period on the consolidated balance sheets as of December 31, 2020 and 2019 of $27,843 and $12,812, respectively. Effective January 1, 2020, the team members of legacy MHS were added to this plan and removed from Coastal.

15. Concentration of Credit Risk

The Network grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements.

Concentrations of net accounts receivable from patients and third party payors were as follows:

(in thousands)

	2020	2019
Medicare and Medicaid	38 %	38 %
Managed Care/HMO	50	48
Other third party payors	11	13
Self-pay patients	1	1
	100 %	100 %

16. Subsequent Events

The Network performed an evaluation of subsequent events through April 13, 2021 which is the date the consolidated financial statements were issued.

Consolidating Supplemental Schedules

Hackensack Meridian Health, Inc.
Consolidating Balance Sheet
December 31, 2020

(in thousands)

							Hackensack Meridian Health Residential Care, Inc.									
	Hackensack Meridian Health Inc.	HMH Hospitals Corporation	HMH & HMH Hospitals Corporation (Obligated Group) Subtotal	Carrier Clinic	Hackensack Meridian Health Foundations	Hackensack Meridian Health Realty Corporation & Subsidiaries	Home Care Division	Long-Term Care & Other Divisions	HMH Physician Division	Hackensack Meridian Health Ventures, Inc. & Subsidiary	Hackensack Meridian Ambulatory Ventures Inc.	Hackensack Meridian School of Medicine at Seton Hall University	Other Affiliates	Total Before Eliminations	Eliminations	Total
Assets																
Current assets																
Cash and cash equivalents	$ 654,320	$ 2,498	$ 656,818	$ 7,955	$ 4,924	$ 1,274	$ 932	$ 1,367	$ 5,176	$ 730	$ (602)	$ 9,057	$ 5,080	$ 692,711	$ -	$ 692,711
Patient accounts receivable, net	-	531,200	531,200	5,668	-	-	12,300	20,391	26,405	941	5,667	-	417	602,989	-	602,989
Pledges receivable, net	-	-	-	10	46,546	-	-	-	-	-	-	-	-	46,556	-	46,556
Due from affiliates	1,523,537	1,706,199	3,229,736	8,081	89,102	4,173	27,978	42,055	114,366	16,178	26,523	-	2,346	3,560,538	(3,560,538)	-
Other current assets	61,045	392,515	453,560	466	176	1,179	1,175	12,861	(2,910)	3,956	9,508	9,893	28,098	517,962	(4,798)	513,164
Assets limited as to use and short-term investments, current portion	595,841	9,200	605,041	-	3,446	-	-	407	-	120	-	-	135,033	744,047	-	744,047
Total current assets	2,834,743	2,641,612	5,476,355	22,180	144,194	6,626	42,385	77,081	143,037	21,925	41,096	18,950	170,974	6,164,803	(3,565,336)	2,599,467
Assets limited as to use and investments, noncurrent portion	3,158,657	698,872	3,857,529	30,017	82,297	-	69,140	41,011	-	-	-	-	34,113	4,114,107	-	4,114,107
Investment in joint ventures	14,949	80,661	95,610	-	-	1,522	4,404	865	1,532	3,015	41,539	-	-	148,487	(3,000)	145,487
Property and equipment, net	17,132	2,587,443	2,604,575	36,456	1,415	75,833	925	235,428	15,046	15,908	3,580	7,885	199,989	3,197,040	-	3,197,040
Operating lease right-of-use assets	-	45,067	45,067	41	-	187,332	-	239	1,771	818	2,011	-	273	237,552	-	237,552
Other assets	2,000	330,447	332,447	2,448	32,891	1,615	7,819	18,514	1,582	1,518	59,425	16,575	17,125	491,959	(327,272)	164,687
Due from affiliates	-	12,715	12,715	-	-	-	-	-	-	-	-	-	-	12,715	(12,715)	-
Total assets	$ 6,027,481	$ 6,396,817	$ 12,424,298	$ 91,142	$ 260,797	$ 272,928	$ 124,673	$ 373,138	$ 162,968	$ 43,184	$ 147,651	$ 43,410	$ 422,474	$ 14,366,663	$ (3,908,323)	$ 10,458,340
Liabilities and Net Assets																
Current liabilities																
Current maturities of long-term debt and capital lease obligations	$ 53,571	$ 3,012	$ 56,583	$ 498	$ -	$ 673	$ -	$ 309	$ -	$ 378	$ 635	$ 86	$ 3,645	$ 62,807	$ -	$ 62,807
Current portion of operating lease obligations	-	5,884	5,884	24	-	26,849	-	28	456	304	688	-	234	34,467	-	34,467
Accounts payable and accrued expenses	254,779	613,998	868,777	7,049	1,478	1,708	3,056	27,050	43,817	2,795	5,056	9,527	13,885	984,198	(4,799)	979,399
Due to affiliates	2,023,233	1,206,329	3,229,562	11,419	734	100	-	127,996	95,574	5,954	21	22,779	66,304	3,560,443	(3,560,443)	-
Other current liabilities	80,506	237,278	317,784	1,536	-	-	6,356	18,845	10,084	2,973	-	-	2,506	360,084	-	360,084
Total current liabilities	2,412,089	2,066,501	4,478,590	20,526	2,212	29,330	9,412	174,228	149,931	12,404	6,400	32,392	86,574	5,001,999	(3,565,242)	1,436,757
Long-term debt and capital lease obligations, less current maturities	2,946,912	9,038	2,955,950	12,914	-	21,034	-	55,374	-	3,584	1,810	4,773	141,018	3,196,457	-	3,196,457
Long-term operating lease obligations	-	40,101	40,101	17	-	165,772	-	216	1,326	516	1,362	-	40	209,350	-	209,350
Due to affiliates	(60,651)	60,651	-	-	-	218	-	2,530	-	8,051	-	-	2,010	12,809	(12,809)	-
Accrued pension benefits	(42,161)	356,218	314,057	498	-	-	-	-	-	-	-	-	2,799	317,354	-	317,354
Other liabilities	205,470	686,607	892,077	7,575	1,089	232	5,604	8,189	11,536	-	79	4,500	133,512	1,064,393	(109,038)	955,355
Total liabilities	5,461,659	3,219,116	8,680,775	41,530	3,301	216,586	15,016	240,537	162,793	24,555	9,651	41,665	365,953	9,802,362	(3,687,089)	6,115,273
Net assets																
Without donor restrictions controlled by the Network	549,247	2,986,398	3,535,645	48,863	39,625	55,440	-	223,005	175	16,040	77,435	(14,881)	47,123	4,028,470	(7,105)	4,021,365
Without donor restrictions attributable to noncontrolling interests	-	-	-	-	-	902	109,657	(90,404)	-	2,589	60,565	-	-	83,309	-	83,309
Net assets without donor restriction	549,247	2,986,398	3,535,645	48,863	39,625	56,342	109,657	132,601	175	18,629	138,000	(14,881)	47,123	4,111,779	(7,105)	4,104,674
Net assets with donor restrictions	16,575	191,303	207,878	749	217,871	-	-	-	-	-	-	16,626	9,398	452,522	(214,129)	238,393
Total net assets	565,822	3,177,701	3,743,523	49,612	257,496	56,342	109,657	132,601	175	18,629	138,000	1,745	56,521	4,564,301	(221,234)	4,343,067
Total liabilities and net assets	$ 6,027,481	$ 6,396,817	$ 12,424,298	$ 91,142	$ 260,797	$ 272,928	$ 124,673	$ 373,138	$ 162,968	$ 43,184	$ 147,651	$ 43,410	$ 422,474	$ 14,366,663	$ (3,908,323)	$ 10,458,340

The accompanying note is an integral part of these consolidating financial statements.

Hackensack Meridian Health, Inc.
Consolidating Statement of Operations
Year Ended December 31, 2020

(in thousands)

							Hackensack Meridian Health Residential Care, Inc.										
	Hackensack Meridian Health Inc.	HMH Hospitals Corporation	HMH & HMH Hospitals Corporation (Obligated Group) Subtotal	Carrier Clinic	Hackensack Meridian Health Foundations	Hackensack Meridian Health Realty Corporation & Subsidiaries	Home Care Division	Long-Term Care & Other Divisions	HMH Physician Division	Hackensack Meridian Health Ventures, Inc. & Subsidiary	Hackensack Meridian Ambulatory Ventures Inc.	Hackensack Meridian School of Medicine at Seton Hall University	Other Affiliates	Total Before Eliminations	Eliminations	Total
Unrestricted revenues and other support																
Net patient service revenue	$ 17,942	$ 4,555,045	$ 4,572,987	$ 80,396	$ -	$ -	$ 82,462	$ 200,958	$ 339,581	$ 15,756	$ 33,005	$ -	$ 2,650	$ 5,327,795	$ (18,371)	$ 5,309,424
Other revenue	28,280	152,318	180,598	913	2,631	12,230	804	20,889	16,251	1,295	9,236	14,457	86,896	346,200	(45,395)	300,805
Net gain on equity investments	(2,152)	16,861	14,709	-	-	165	107	(1,975)	1,015	(4,463)	9,944	-	-	19,502	-	19,502
Net assets released from restriction used for operating activities	-	18,848	18,848	1,301	-	-	478	(373)	1,564	-	-	448	26	22,292	-	22,292
Total unrestricted revenues and other support	44,070	4,743,072	4,787,142	82,610	2,631	12,395	83,851	219,499	358,411	12,588	52,185	14,905	89,572	5,715,789	(63,766)	5,652,023
Expenses																
Salaries and contracted labor	-	2,031,787	2,031,787	48,796	9,184	845	41,902	179,220	132,501	11,731	13,669	9,062	17,926	2,496,623	(4,000)	2,492,623
Physician salaries and fees	-	82,331	82,331	6,969	4	-	437	30	363,247	1,216	-	3,303	698	458,235	-	458,235
Employee benefits	7,347	471,731	479,078	12,746	1,368	204	9,167	42,058	61,032	(5,119)	1,549	2,110	3,300	607,493	(16,951)	590,542
Supplies and other expenses	7,659	2,224,451	2,232,110	14,509	5,853	12,558	25,381	84,974	(183,715)	14,139	12,196	4,958	82,838	2,305,801	(42,815)	2,262,986
Depreciation and amortization	1,385	224,028	225,413	3,619	110	1,694	1,155	18,590	4,895	981	7,316	745	9,494	274,012	-	274,012
Interest	-	77,016	77,016	839	-	837	4	6,340	-	203	(1)	534	1,722	87,494	(69)	87,425
Total expenses	16,391	5,111,344	5,127,735	87,478	16,519	16,138	78,046	331,212	377,960	23,151	34,729	20,712	115,978	6,229,658	(63,835)	6,165,823
(Deficit) excess of revenues over expenses before federal legislative relief and other operating adjustments	27,679	(368,272)	(340,593)	(4,868)	(13,888)	(3,743)	5,805	(111,713)	(19,549)	(10,563)	17,456	(5,807)	(26,406)	(513,869)	69	(513,800)
Federal legislative relief	(71)	486,252	486,181	7,973	-	-	1,262	43,535	17,692	216	1,541	-	-	558,400	-	558,400
Excess (deficit) of revenues over expenses before other operating adjustments	27,608	117,980	145,588	3,105	(13,888)	(3,743)	7,067	(68,178)	(1,857)	(10,347)	18,997	(5,807)	(26,406)	44,531	69	44,600
Other operating adjustments																
Investment income (loss), net	317,561	2,058	319,619	-	6,342	85	2	69	30	327	165	(2)	2,686	329,323	(196)	329,127
Unrealized (loss) on derivative investments	(10,536)	-	(10,536)	(681)	-	-	-	(439)	-	-	-	-	-	(11,656)	-	(11,656)
Other gains, net	56,122	(45)	56,077	-	-	-	-	17	-	(296)	-	-	-	55,798	-	55,798
Excess of revenues over expenses	390,755	119,993	510,748	2,424	(7,546)	(3,658)	7,069	(68,531)	(1,827)	(10,316)	19,162	(5,809)	(23,720)	417,996	(127)	417,869
Other adjustments in net assets without donor restrictions																
Net assets released from restriction for capital acquisitions	-	6,497	6,497	12	28,752	-	-	-	-	-	-	-	-	35,261	(28,746)	6,515
Transfers (to)/from affiliates	(120)	(21,011)	(21,131)	(12)	(25,508)	-	-	-	-	(77)	-	-	17,982	(28,746)	28,746	-
Pension-related adjustments	-	(89,519)	(89,519)	-	-	-	-	-	-	-	-	-	-	(89,519)	-	(89,519)
Other changes	-	35,752	35,752	108	-	-	-	1,565	1,423	2,772	1,082	238	10,926	53,866	826	54,692
Contributions from (distributions to) noncontrolling interests	-	-	-	-	(9)	16	-	8,442	-	237	(7,160)	-	-	1,526	-	1,526
Increase in net assets without donor restrictions	$ 390,635	$ 51,712	$ 442,347	$ 2,532	$ (4,311)	$ (3,642)	$ 7,069	$ (58,524)	$ (404)	$ (7,384)	$ 13,084	$ (5,571)	$ 5,188	$ 390,384	$ 699	$ 391,083

The accompanying note is an integral part of these consolidating financial statements.

1. Basis of Presentation

The consolidating supplemental schedules (the “consolidating schedules”) presented above were derived from and relate directly to the underlying accounting and other records used to prepare the consolidating financial statements. The consolidating schedules are presented for purposes of additional analysis of the consolidating financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies within the Network and are not a required part of the consolidated financial statements. The individual companies within the Network as presented within the consolidating schedules are disclosed within Note 1 to the consolidated financial statements.