NEW ISSUE—FULL BOOK-ENTRY ONLY

In the opinion of Wilentz, Goldman & Spitzer, P.A., Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance by the Authority and the Institutions with certain covenants described herein, interest on the Series 2017A Bonds is not includable in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not treated as a preference item under Section 57 of the Code for purposes of calculating the Federal alternative minimum tax imposed on individuals and corporations; such interest is, however, included in the adjusted current earnings of a corporation for purposes of the Federal alternative minimum tax imposed on corporations. Bond Counsel is further of the opinion that, under existing laws of the State of New Jersey, interest on the Series 2017A Bonds and any gain realized on the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act, as amended. See “TAX MATTERS” herein.

$265,000,000*

New Jersey Health Care Facilities Financing Authority
Revenue Bonds
Inspira Health Obligated Group Issue, Series 2017A

Dated: Date of Issuance

The New Jersey Health Care Facilities Financing Authority Revenue Bonds, Inspira Health Obligated Group Issue, Series 2017A (the “Series 2017A Bonds”) are issuable only as fully registered bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the Series 2017A Bonds. Purchases of the Series 2017A Bonds will be made in book-entry form, in denominations of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in Series 2017A Bonds purchased. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (hereinafter defined) of the Series 2017A Bonds. See “THE SERIES 2017A BONDS—Book-Entry Only System” herein. U.S. Bank National Association, Morristown, New Jersey, shall act as trustee, paying agent and bond registrar (the “Trustee”, the “Paying Agent” and the “Bond Registrar”) for the Series 2017A Bonds.

The principal or redemption price of and interest on the Series 2017A Bonds will be paid by the Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2017A Bonds, such payments will be made directly to Cede & Co. Disbursement of such payments to the DTC Participants (defined herein) is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. Interest will be payable on January 1, 2018 and semiannually thereafter on January 1 and July 1 of each year (each an “Interest Payment Date”), to the registered owner of record as of the close of business on the fifteenth day of the month next preceding such Interest Payment Date.

The Series 2017A Bonds are subject to redemption prior to maturity, including Optional Redemption, Mandatory Sinking Fund Redemption and Extraordinary Redemption, all as described herein. See “THE SERIES 2017A BONDS—Redemption Prior to Maturity of Series 2017A Bonds” herein.

The Series 2017A Bonds are being issued under the New Jersey Health Care Facilities Financing Authority Law, N.J.S.A. 26:2I-1, et seq. (the “Act”), the General Health Care Facilities Registered Bond Resolution (the “General Resolution”) adopted by the New Jersey Health Care Facilities Financing Authority (the “Authority”) on October 29, 1992 and a Series Resolution adopted by the Authority on April 27, 2017, as amended and supplemented by the First Supplement to the Series Resolution adopted by the Authority on June 22, 2017 (collectively, the “Series Resolution”). The General Resolution and the Series Resolution are referred to herein collectively as the “Resolutions”.

The principal or redemption price of and interest on the Series 2017A Bonds are payable solely from payments to be made by Inspira Medical Centers, Inc. (“IMC”) and Inspira Medical Center Woodbury, Inc. (“IMC Woodbury” and, together with IMC, the “Institutions” and individually, an “Institution”), each a New Jersey nonprofit corporation, under a Loan Agreement between the Authority and the Institutions, dated as of August 1, 2017 (the “Loan Agreement”), and from certain funds and the investment income thereon held by the Trustee pursuant to the Resolutions. The obligations of the Institutions to make payments to the Trustee on behalf of the Authority are evidenced and secured by the Series 2017A Bond Obligation (in the principal amount equal to the aggregate principal amount of the Series 2017A Bonds) to be issued by the Institutions, on behalf of themselves and the other Members of the Obligated Group created pursuant to the Master Trust Indenture, as described herein.

There are certain risks associated with the purchase of the Series 2017A Bonds. See “BONDHOLDERS’ RISKS” herein.

THE SERIES 2017A BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT A DEBT OR A LIABILITY OF THE STATE OF NEW JERSEY OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE AUTHORITY TO THE LIMITED EXTENT SET FORTH IN THE RESOLUTIONS), OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF NEW JERSEY, OR ANY SUCH POLITICAL SUBDIVISION OR THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS AND REVENUES PLEDGED TO THE PAYMENT THEREOF PURSUANT TO THE RESOLUTIONS. THE AUTHORITY HAS NO TAXING POWER.

MATURITY DATES, AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIP NUMBERS
(See page (i) herein)

This cover page contains certain information for quick reference only. It is not a summary of the matters relating to the Series 2017A Bonds. Potential investors must read the entire Official Statement, including all Appendices to obtain information essential to making an informed investment decision.

The Series 2017A Bonds are offered when, as and if issued by the Authority, and delivered and received by the Underwriters, subject to prior sale, or withdrawal or modification of the offer without notice, and to the approval of validity by Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Newark, New Jersey, and for the Obligated Group by its counsel, Giordano, Halleran & Ciesla, P.C., Red Bank, New Jersey. The Series 2017A Bonds are expected to be available through DTC on or about August __, 2017.

J.P. Morgan
Loop Capital Markets
M&T Securities
TD Securities
Morgan Stanley
Morgan Stanley
Wells Fargo Securities

Dated: ______________, 2017

* Preliminary, subject to change.
Artist Rendering Inspira Mullica Hill Hospital

* This artist rendering is provided for informational purposes only, and any final elements may vary from the rendering shown.
$265,000,000*  
New Jersey Health Care Facilities Financing Authority  
Revenue Bonds  
Inspira Health Obligated Group Issue, Series 2017A  
Maturity Dates, Amounts, Interest Rates, Prices or Yields and CUSIP Numbers  
$____________ Serial Bonds

<table>
<thead>
<tr>
<th>Maturity Date (July 1)</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
<th>Yield</th>
<th>CUSIP Numbers†</th>
</tr>
</thead>
</table>

$__________ ____% Term Bond Due July 1, 20__, Price to Yield ____% CUSIP Number†__________
$__________ ____% Term Bond Due July 1, 20__, Price to Yield ____% CUSIP Number†__________

* Preliminary, subject to change.

† CUSIP numbers have been provided by the CUSIP Global Services, which is operated on behalf of the American Bankers Association by S&P Global Market Intelligence. None of the Authority, the Underwriters or either of the Institutions is responsible for the selection of CUSIP numbers and makes no representation as to their correctness on the Series 2017A Bonds or as set forth in this Official Statement.
CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SERIES 2017A BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

No dealer, broker, salesman or other person has been authorized by the Authority or the Obligated Group to give any information or to make representations with respect to the Series 2017A Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2017A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information contained herein has been obtained from the Obligated Group and other sources, including DTC, which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the Authority. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof or the date as of which particular information is given, if earlier.


The following Official Statement contains a general description of the Series 2017A Bonds, the Authority, the Obligated Group, and the plan of finance and sets forth summaries of certain provisions of the Act, the Loan Agreement, the Series Resolution, the General Resolution, and the Master Indenture (together with related amendments and supplements). The descriptions and summaries herein do not purport to be complete and are not to be construed to be a representation of the Authority. Persons interested in purchasing the Series 2017A Bonds should carefully review this Official Statement (including the Appendices attached hereto) as well as copies of such documents in their entireties, which are held by the Trustee at its principal corporate trust office.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety.

Information included under the heading “BONDHOLDERS’ RISKS” and other sections in this Official Statement and Appendix A attached hereto includes forward-looking statements about the future that are necessarily subject to various risks and uncertainties (the “Forward-Looking Statements”). These Forward-Looking Statements are (i) based on the beliefs and assumptions of management of the Obligated Group and on information currently available to such management as of the date of this Official Statement and (ii) generally identifiable by words such as “estimates”, “expects”, “anticipates”, “plans”, “believes” and other similar expressions.

Events that could cause future results to differ materially from those expressed in or implied by Forward-Looking Statements or historical experience include the impact or outcome of many factors that are described throughout this Official Statement and Appendix A attached hereto, including, without limitation, the discussion under “BONDHOLDERS’ RISKS” in this Official Statement and “PATIENT UTILIZATION”, “FINANCIAL INFORMATION” and “MANAGED CARE” in such Appendix A. Although the ultimate impact of such factors is uncertain, they may cause future performance to differ materially from results or outcomes that are currently sought or expected by the Obligated Group.
The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.
# TABLE OF CONTENTS

INTRODUCTION .................................................................................................................. 1
THE AUTHORITY .................................................................................................................. 5
THE OBLIGATED GROUP ................................................................................................. 10
PLAN OF FINANCE .......................................................................................................... 10
ESTIMATED SOURCES AND USES OF FUNDS ............................................................... 11
ANNUAL DEBT SERVICE REQUIREMENTS ..................................................................... 12
THE SERIES 2017A BONDS .......................................................................................... 13
THE SERIES 2017B BONDS .......................................................................................... 18
SOURCES OF PAYMENT FOR THE SERIES 2017A BONDS .......................................... 19
BONDHOLDERS’ RISKS .................................................................................................. 23
TAX MATTERS ................................................................................................................ 72
LEGALITY FOR INVESTMENT AND DEPOSIT .............................................................. 74
NEGOTIABLE INSTRUMENTS ........................................................................................ 74
STATE OF NEW JERSEY NOT LIABLE ON SERIES 2017A BONDS .............................. 74
PLEDGE OF STATE NOT TO AFFECT RIGHTS OF BONDHOLDERS .............................. 74
LEGAL MATTERS .......................................................................................................... 75
LITIGATION ................................................................................................................... 75
INDEPENDENT AUDITORS ............................................................................................. 75
UNDERWRITING ............................................................................................................ 75
RATINGS ........................................................................................................................ 78
FINANCIAL ADVISOR ................................................................................................... 78
CONTINUING DISCLOSURE ......................................................................................... 78
MISCELLANEOUS .......................................................................................................... 79

Appendix A – Information Concerning Inspira Health Network, Inc ................................ A-1
Appendix B – Consolidated Financial Statements and Supplementary Information of Inspira Health Network, Inc. as of and for the Years Ended December 31, 2016 and 2015 ................................................................. B-1
Appendix C – Definitions and Summaries of Certain Provisions of the Loan Agreement, the Resolutions and the Master Indenture ........................................................................... C-1
Appendix D – Form of Bond Counsel Opinion ................................................................ D-1
OFFICIAL STATEMENT
Relating to
$265,000,000*
New Jersey Health Care Facilities Financing Authority
Revenue Bonds
Inspira Health Obligated Group Issue,
Series 2017A

INTRODUCTION

This Official Statement, including the cover page and Appendices, sets forth certain information concerning the offering by the New Jersey Health Care Facilities Financing Authority (the “Authority”) of its $265,000,000’ aggregate principal amount of Revenue Bonds, Inspira Health Obligated Group Issue, Series 2017A (the “Series 2017A Bonds”). Certain capitalized terms used in this Official Statement and not otherwise defined herein shall have the meaning given to such terms in Appendix C hereto. This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to the entire Official Statement of which a full review should be made by potential investors.

The proceeds of the Series 2017A Bonds will be loaned by the Authority to Inspira Medical Centers, Inc. (“IMC”) and Inspira Medical Center Woodbury, Inc. (“IMC Woodbury” and, together with IMC, the “Institutions” and individually, each an “Institution”), each a New Jersey nonprofit corporation, pursuant to a Loan Agreement, dated as of August 1, 2017 (the “Loan Agreement”), by and among the Authority and the Institutions. Such loan will be used, together with other available funds, to: (A) finance and/or reimburse the Institutions for the costs of the planning, development, construction, expansion, renovation, furnishing and/or equipping of (i) a new acute care hospital and medical center facility to be located in Mullica Hill, New Jersey, which will serve as a replacement for IMC Woodbury’s existing hospital and medical center facility located in Woodbury, New Jersey, (ii) at Inspira Medical Center Woodbury, the establishment of a Radiation Oncology program, including, without limitation, the construction of a linear accelerator vault, and (iii) at Inspira Medical Center Vineland, the expansion of the Emergency Department, including the construction of eleven (11) new patient treatment rooms for seniors and the repositioning of the current waiting room area, and the construction of two additional floors of additional space over the Outpatient Building, with one floor housing a 36-bed inpatient unit and the other to be a shell floor (clauses (i) through (iii) above being hereinafter collectively referred to as the “Project”); and (B) pay all or a portion of the costs of the issuance and sale of the Series 2017A Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS”.

This Introduction is subject in all respects to the more complete information appearing elsewhere in this Official Statement, including the cover page and the appendices. This Introduction is to be read and used only with reference to the entire Official Statement.

The Authority

The Authority is a public body corporate and politic, a political subdivision of the State of New Jersey (the “State”) and a public instrumentality organized and existing under and by virtue of the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, c. 29, N.J.S.A. 26:21-1, et seq. (the “Act”). See “THE AUTHORITY” herein.

* Preliminary, subject to change.
The Obligated Group

Inspira Health Network, Inc. (the “Network”) functions as the parent corporation for a number of entities, which are related by common membership and/or ownership. IMC is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code which owns and operates two acute care hospitals, Inspira Medical Center Vineland (“Vineland”) in Cumberland County, New Jersey and Inspira Medical Center Elmer (“Elmer”) in Salem County, New Jersey and two health centers, the Inspira Health Center Bridgeton, which provides inpatient and outpatient psychiatric services, select outpatient services including a satellite emergency department, and administrative services and the Inspira Health Center Vineland, which provides select outpatient services. IMC Woodbury is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code which owns and operates an acute care hospital located in Gloucester County, New Jersey, which facility is to be replaced in connection with the Series 2017A Bond financing by a new, replacement facility to be located in Mullica Hill, New Jersey. As of the date of this Official Statement, IMC and IMC Woodbury are the only Members of the Obligated Group under the Master Indenture (as defined herein). For a more detailed discussion of the Institutions and the Network, see Appendix A hereto. Additional entities may become Members of the Obligated Group pursuant to the terms of the Master Indenture, as described in Appendix C hereto. See “SUMMARY OF THE MASTER INDENTURE - Additional Obligated Issuers” in Appendix C hereto.

The Series 2017A Bonds

The Series 2017A Bonds will be dated their date of delivery, and will bear interest from such date, payable initially on January 1, 2018 and semiannually thereafter on January 1 and July 1 in each year. The Series 2017A Bonds will bear interest and mature on the dates and in the amounts set forth on page (i) hereof.

The Series 2017A Bonds are issuable as fully registered bonds in denominations of $5,000 each or any integral multiple thereof, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company. See “THE SERIES 2017A BONDS – Book-Entry Only System” herein.

The Series 2017A Bonds are authorized by the General Health Care Facilities Registered Bond Resolution (the “General Resolution”) adopted by the Authority on October 29, 1992 and by the Series Resolution Authorizing the Issuance of New Jersey Health Care Facilities Financing Authority Revenue Bonds, Inspira Health Obligated Group Issue, Series 2017A adopted by the Authority on April 27, 2017, as amended and supplemented by the First Supplement to the Series Resolution adopted by the Authority on June 22, 2017 (collectively, the “Series Resolution”). The General Resolution and the Series Resolution are hereinafter collectively called the “Resolutions”. The Series 2017A Bonds are to be issued in accordance with the provisions of the Resolutions and the Act. U.S. Bank National Association, Morristown, New Jersey, is serving as the trustee, paying agent and bond registrar under the Resolutions for the Series 2017A Bonds (the “Trustee”, “Paying Agent” and “Bond Registrar”). See “THE SERIES 2017A BONDS” herein.

The Series 2017A Bonds are special obligations of the Authority equally and ratably payable from certain revenues of the Authority paid by the Institutions pursuant to the Loan Agreement and from amounts on deposit in certain of the funds and accounts established under the Resolutions and investment earnings thereon. See “INTRODUCTION – Security for the Series 2017A Bonds” and “SOURCES OF PAYMENT FOR THE SERIES 2017A BONDS” herein. The Series 2017A Bonds and any Additional Bonds, if any, issued under the Series Resolution, as may be amended for such purpose, are referred to herein collectively as the “Bonds.”
Redemption of the Series 2017A Bonds

The Series 2017A Bonds will be subject to redemption prior to maturity, including Optional Redemption, Mandatory Sinking Fund Redemption and Extraordinary Redemption, at such prices and pursuant to such terms as are described herein. Notice of redemption shall be given not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to DTC or its nominee for so long as DTC or its nominee is the registered owner of the Series 2017A Bonds. See “THE SERIES 2017A BONDS – Redemption Prior to Maturity of Series 2017A Bonds” herein.

Security for the Series 2017A Bonds

The Series 2017A Bonds and any Additional Bonds, if any, that may be issued under the Resolutions are special and limited obligations of the Authority, equally and ratably payable solely from payments to be made by the Institutions pursuant to the Loan Agreement and from amounts on deposit in certain of the funds and accounts established under the Resolutions and investment earnings thereon. To evidence and secure their obligations under the Loan Agreement to repay the Series 2017A Bonds, the Institutions, on behalf of themselves and any other Member of the Obligated Group, will issue and deliver the Series 2017A Bond Obligation (as defined herein) to the Authority, which will assign the Series 2017A Bond Obligation to the Trustee. The Series 2017A Bond Obligation will be issued under and pursuant to the Master Indenture in the same principal amount as the Series 2017A Bonds and will contain payment provisions corresponding to those of the Series 2017A Bonds. The Series 2017A Bond Obligation will be on a parity with a Debt Obligation (as defined in the Master Indenture) which evidences and secures the Obligated Group’s payment obligations with respect to the Authority’s Refunding Bonds, Inspira Health Obligated Group Issue, Series 2016A (the “Series 2016A Bond Obligation”), Derivative Obligations (as defined in the Master Indenture) issued by the Obligated Group to evidence and secure IMC Woodbury’s payment obligations under three interest rate swap transactions previously entered into by IMC Woodbury (the “Series 2016 Derivative Obligations”), a Debt Obligation issued to evidence and secure the Obligated Group’s payment obligations with respect to the Series 2017B Bonds (as defined herein) (the “Series 2017B Bond Obligation”), an Ancillary Obligation (as defined in the Master Indenture) issued by the Obligated Group to evidence and secure the Obligated Group’s financial obligations under its continuing covenants agreement with TD Bank, N.A. relating to the Series 2017B Bonds (the “Series 2017B Ancillary Obligation”), and any other Debt Obligations, Derivative Obligations and/or Ancillary Obligations issued by the Obligated Group to become outstanding under the Master Indenture from time to time. The Members of the Obligated Group pursuant to the Master Indenture, have granted to the Master Trustee (as defined herein) a pledge of and a security interest in their Gross Receipts, which will be perfected to the extent that the same may be perfected pursuant to the New Jersey Uniform Commercial Code.

The Obligated Group has other indebtedness outstanding which is not secured under the Master Indenture. See Appendix A hereto under the caption “Outstanding Indebtedness”.

Under the Loan Agreement, the Institutions are required to make loan repayments corresponding to the principal or redemption price of and interest on the Series 2017A Bonds. The Authority will assign to the Trustee its right, title and interest in the Loan Agreement with the exception of the right to receive payments of certain fees, the right to indemnity and the right to grant certain approvals and to enforce certain covenants and remedies. See “SOURCES OF PAYMENT FOR THE SERIES 2017A BONDS” herein and the definition of “Gross Receipts” in Appendix C hereto for additional information regarding the security for the Series 2017A Bonds.
The Master Indenture

IMC and IMC Woodbury have entered into the Master Trust Indenture dated as of June 1, 2016, (the “Master Trust Indenture”), with TD Bank, National Association as master trustee (the “Master Trustee”). To evidence and secure their obligations under the Loan Agreement, IMC and IMC Woodbury, on behalf of the Obligated Group, will issue and deliver to the Trustee their Obligated Group Promissory Note, Series 2017A (the “Series 2017A Bond Obligation” or the “Series 2017A Note”), which will constitute a Debt Obligation for all purposes of the Master Indenture. The Series 2017A Bond Obligation will be issued in the same principal amount as the Series 2017A Bonds and will contain payment provisions corresponding to those of the Series 2017A Bonds. The Series 2017A Bond Obligation will be issued and secured under the provisions of the Master Trust Indenture, as supplemented by and through a Third Supplemental Indenture, dated as of August 1, 2017 (the “Third Supplemental Indenture” and collectively with the Master Trust Indenture, as previously supplemented, the “Master Indenture”), by and between the Obligated Group and the Master Trustee. Under the Master Indenture, each Member of the Obligated Group is required to grant to the Master Trustee a security interest in the Revenue Fund created by the Master Indenture and in the Gross Receipts of such Member of the Obligated Group to secure the payment of all Obligations issued under the Master Indenture, including the Series 2017A Bond Obligation. See “SOURCES OF PAYMENT FOR THE SERIES 2017A BONDS” herein and Appendix C hereto for additional information regarding the Master Indenture and the Series 2017A Bond Obligation.

The Master Indenture permits the restatement or substitution of the Master Indenture and the substitution of Obligations issued thereunder upon the satisfaction of, and compliance with, certain covenants and restrictions set forth therein. See “SUMMARY OF THE MASTER INDENTURE – Substitution of Obligations and Documents” in Appendix C hereto.

Bondholders’ Risks

Certain risks associated with the purchase of the Series 2017A Bonds are described in the section entitled “BONDHOLDERS’ RISKS” herein. Careful evaluation should be made of the risks described in such section and elsewhere in this Official Statement concerning the factors which may affect the payment of the principal or redemption price of and interest on the Series 2017A Bonds when due.

Additional Bonds and Other Indebtedness

The terms and conditions set forth in the Resolutions permit the Authority to issue Additional Bonds for the purpose of making additional loans to the Institutions to pay the cost of completing a project, the funding of the applicable reserve fund therefor, if any, and the costs of refunding any of the Series 2017A Bonds or other bonds issued by the Authority under the Resolutions on behalf of the Institutions. A series of Additional Bonds will be on parity with the Series 2017A Bonds under the Resolutions. All Bonds issued under the Resolutions and secured by a Debt Obligation issued under the Master Indenture will have a parity interest in all security, including Gross Receipts pledged under the Master Indenture. The issuance of Additional Bonds will require an amendment to the Series Resolution, a separate loan agreement, or a supplement to the Loan Agreement, and the issuance of an additional Debt Obligation issued under the Master Indenture, and the Institutions will agree to make additional payments thereunder sufficient to pay the debt service on such Additional Bonds. See “SUMMARY OF THE RESOLUTIONS - Additional Bonds and other Obligations” in Appendix C hereto for a description of certain of the provisions of the Series Resolution relating to the issuance or incurrence of and security for Additional Bonds.
The Members of the Obligated Group are also permitted under the Master Indenture to incur other indebtedness which may be secured by the pledge of Gross Receipts or otherwise on parity with the Obligated Group’s obligations under the Master Indenture. Such other indebtedness could include notes issued to secure bonds issued through the Authority or debt through other lenders. The Master Indenture sets forth the terms and conditions under which such indebtedness may be issued or incurred by the Members of the Obligated Group, and the terms and conditions under which such indebtedness may be secured. Such indebtedness may be secured on a parity with, or on a subordinate basis to, the Series 2017A Bond Obligation, the Series 2017B Bond Obligation, the Series 2017B Ancillary Obligation, the Series 2016A Bond Obligation, the Series 2016 Derivative Obligations, or other Debt Obligations, Derivative Obligations and/or Ancillary Obligations hereafter issued under the Master Indenture, or in certain instances by a senior lien on accounts receivable or other assets. See “SUMMARY OF THE MASTER INDENTURE - Permitted Indebtedness” in Appendix C hereto.

Limited Obligations of Authority

THE SERIES 2017A BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE FUNDS AND REVENUES PLEDGED TO THE PAYMENT THEREOF UNDER THE RESOLUTIONS AND ARE NOT A DEBT OR LIABILITY OF THE STATE OF NEW JERSEY OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY (EXCEPT TO THE EXTENT SET FORTH IN THE RESOLUTIONS), OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF NEW JERSEY, ANY POLITICAL SUBDIVISION THEREOF OR THE AUTHORITY. THE AUTHORITY HAS NO TAXING POWER.

Continuing Disclosure

The Institutions have covenanted in the Loan Agreement to provide certain quarterly disclosure on their operations and financial condition in addition to the annual continuing disclosure requirements required by Rule 15c2-12 of the Securities Exchange Commission. See “CONTINUING DISCLOSURE” herein.

Miscellaneous

Copies of the Master Indenture, the Loan Agreement, the Resolutions and the Series 2017A Bond Obligation are available for inspection at the principal corporate trust office of the Trustee. All inquiries should be directed to the Corporate Trust Department of U.S. Bank National Association in Morristown, New Jersey.

THE AUTHORITY

The Authority is a public body corporate and politic, a political subdivision of the State of New Jersey and a public instrumentality organized and existing under and by virtue of the Act. The purpose of the Act is to ensure that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State.

Authority Membership

The Act provides that the Authority shall consist of seven members: the State Commissioner of the Department of Health, who shall be Chairperson; the State Commissioner of Banking and Insurance; the State Commissioner of Human Services; and four public members who are citizens of the State appointed for terms of four years by the Governor with the advice and consent of the State Senate. Each member holds office for the term of his or her appointment and until his or her successor is appointed and
qualified. All Authority members serve without compensation but may be reimbursed for their necessary expenses incurred in their official duties. On or about April 30 of each year, the Authority shall elect from its members a Vice Chairman and may appoint other officers. The Authority currently has two vacancies among its public members. The members of the Authority are as follows:

CATHLEEN D. BENNETT, Chairperson (serves during her tenure as Commissioner of the Department of Health).

Cathleen D. Bennett began serving as Acting Commissioner of the New Jersey Department of Health on August 1, 2015. She was confirmed by the State Senate on May 26, 2016.

Ms. Bennett joined the Department of Health as Director of Policy and Strategic Planning in August 2010.

Prior to joining the Department of Health, Ms. Bennett worked as an executive in the private sector for 20 years, providing consulting, strategy, and management services to federal and state health and human services agencies. Ms. Bennett has managed stakeholder and client relationships, built high performing teams and ensured complex projects succeed through every phase to completion.

As head of the Department of Health’s Office of Policy and Strategic Planning, she directed strategic public health and healthcare delivery initiatives including healthcare quality assessment, health statistics and informatics, population health and health equity, regional health planning, and health information technology.

Ms. Bennett holds a Master of Government Administration from the University of Pennsylvania, a Juris Doctorate from The Dickinson School of Law, and a Bachelor of Arts from Villanova University.

She lives in Haddonfield with her husband and daughter.

ELIZABETH CONNOLLY, Member (serves during her tenure as Acting Commissioner of the Department of Human Services).

Elizabeth Connolly became the Department of Human Services’ Acting Commissioner on February 28, 2015. She has worked in various roles at the Department of Human Services for 26 years, most recently as Chief of Staff. She began her career in the Department of Human Services’ Division of Family Development and worked in child welfare reform as Director of Data Analysis and Reporting in the Office of Children’s Services. Ms. Connolly also served as Director of Research and Evaluation, Special Assistant to the Commissioner and led the Department of Human Services’ Sandy recovery initiatives and emergency preparedness activities related to Ebola Virus Disease. She lives in North Brunswick and holds a Bachelor of Arts degree and Masters in Public Administration from Seton Hall University.

RICHARD J. BADOLATO, Member (serves during his tenure as Commissioner of the Department of Banking and Insurance).

During his 47 years of practice, Richard J. Badolato has developed an expertise in civil trial litigation. His experience on the trial levels and appellate levels in both State and Federal Courts has included: medical, legal, and dental malpractice; products liability; all forms of general liability; construction litigation; automobile litigation; insurance coverage and policy interpretation; subrogation recovery, fire and theft losses; and declaratory judgment proceedings.
Mr. Badolato has represented many national and local insurance companies (life, health and property); self-insureds; manufacturers and distributors of various products including, but not limited to automobiles, brakes, ladders and scaffolding, boats, etc.; oil companies; doctors, dentists, lawyers, architects, engineers and accountants in defense of malpractice litigation, etc.

Mr. Badolato has been AV rated by Martindale-Hubbell since 1977. Mr. Badolato has served as President of the New Jersey State Bar Association from 2002 to 2003. He recently served as President of the New Jersey State Bar Foundation from 2009 to 2011. He also serves as Chairman for the Supreme Court Advisory Committee on Professional Ethics; is a committee member of the Supreme Court Professional Responsibility Rules Committee (2013); is a member of the Supreme Court’s “E” Filing Committee and was a member of the Supreme Court’s Advisory Committee for Mandatory Continuing Legal Education.

Mr. Badolato is also the Past State Chair of the Fellows of the American Bar Foundation; he served as President of a local bar association (Essex County Bar Association) 1977-1978. He was also a Delegate to American Bar Association House of Delegates 1978-1990.

He also served as Chairman of the Supreme Court of New Jersey Commission on Professionalism in the Law.

Mr. Badolato received his law degree from Rutgers University and his bachelor’s from Fairfield University.

DR. MUNR KAZMIR, Vice Chair (term of office expires April 30, 2019).

Dr. Munr Kazmir has served as a CEO, entrepreneur, physician, and philanthropist in the healthcare industry. Having served on numerous hospital boards, healthcare research, and healthcare advisory committees, his experience benefits his participation as a member of the Authority. As a recipient of various humanitarian awards, Dr. Kazmir also brings an appreciation of the intricate and essential role of health care for the citizens of New Jersey. Dr. Kazmir has served on the Medicare Coverage Advisory Committee and The National Advisory Council for the Agency for Healthcare Research and Quality.

Currently, he is serving his second term as vice chairman for the New Jersey Lottery Commission, and has served under four Governors as a commissioner of the New Jersey Lottery Commission. Dr. Kazmir is the founder and CEO of Quality Home Care Providers, Direct Meds Pharmacies, Inc., and Easy Carry Inc.

Over the past three decades, Dr. Kazmir has been recognized domestically and internationally for humanitarian efforts to combat juvenile diabetes, contributions of prosthetic devices to children, improving the care and rehabilitation of multi-handicapped blind children, opening a school in Asia with top-quality education and medical care, promoting democratic governance in third-world countries, and supporting law enforcement foundations throughout the United States. In May 2011, Dr. Kazmir joined the ranks of six former United States Presidents and Nobel Prize winners in being awarded the distinguished Ellis Island Medal of Honor for his outstanding accomplishments and upstanding citizenry.

Dr. Kazmir graduated from the University of Punjab where he received his M.B.B.S./M.D. He completed his internal medicine internship at the White Plains Hospital/Montefiore Medical Center in New York and additional medical studies at the Methodist Hospital, Baylor College of Medicine, in Houston, Texas. He also completed his PGY-3 at SUNY Downstate Medical Center, Department of Medicine in New York.
SUZETTE T. RODRIGUEZ, ESQ., Treasurer and Secretary (term of office expired April 30, 2013; Ms. Rodriguez will continue to serve until a successor is appointed and qualified).

Suzette T. Rodriguez, Esq. is in-house Associate Counsel for Jackson Hewitt Tax Service Inc., where she is responsible for managing defensive and affirmative litigation matters, including vicarious and direct liability claims, employment litigation, franchise litigation, and enforcing intellectual property rights. She is also responsible for advising company personnel in diverse matters affecting the business operations of the Company.

Prior to joining Jackson Hewitt, Ms. Rodriguez worked in the Labor and Employment Departments of LeClairRyan in Newark, New Jersey and Wong Fleming in Princeton, New Jersey. Ms. Rodriguez also served as a judicial law clerk to the Honorable Travis L. Francis of the Superior Court of New Jersey, Chancery Division-General Equity.

Ms. Rodriguez received her Bachelor of Arts, cum laude, in English Literature from Hunter College, City University. She received her Juris Doctorate from Rutgers School of Law-Newark. While in law school, Ms. Rodriguez served as the Managing Articles Editor of the Rutgers’ Race and the Law Review and was awarded a fellowship from Equal Justice America. In addition, Ms. Rodriguez served as a judicial extern for the Honorable Marina Corodemus, Superior Court of New Jersey, Civil Division Mass Torts. In 2003, Ms. Rodriguez was granted the Distinguished Graduate Award by the National Catholic Educational Association for exemplifying the best qualities of Catholic education and rendering distinguished service to the Catholic Church.

Ms. Rodriguez is admitted to practice law in the State of New Jersey, State of New York and the United States District Court for the District of New Jersey.

Ms. Rodriguez is currently the President of the Hispanic Bar Association of New Jersey and the Deputy Regional President (Region III) of the Hispanic National Bar Association. She is also active in the community and serves as an Advisory Board Member for the New Jersey Law and Educational Empowerment Project, a pipeline diversity effort dedicated to increasing minority representation in the legal profession by introducing students to the law and skill building at a young age. In December 2009, Ms. Rodriguez was appointed by Governor Jon S. Corzine to serve as a public member of the New Jersey Health Care Facilities Financing Authority, where she is currently the Secretary and serves on the Audit Evaluation Committee.

The Act provides that the Authority may appoint such officers, agents and employees as it may require.

Mark E. Hopkins was appointed as Executive Director of the Authority on August 2, 2004. Prior to joining the Authority, Mr. Hopkins served as Deputy Attorney General where he represented the New Jersey Educational Facilities Authority and the New Jersey Housing and Mortgage Finance Agency as issuer counsel. Before joining the Attorney General’s office, Mr. Hopkins was an associate at the law firm of McCarter & English LLP in the Public Finance Practice Group where he represented the State, counties, municipalities, State and county authorities, investment banking firms and borrowers in project financings for government entities, nonprofit organizations, acute and sub-acute healthcare providers, housing operators, public and private academic entities, cultural organizations, port operators, water facility operators, public and small manufacturers. Immediately following law school, Mr. Hopkins clerked for the Honorable Eduardo C. Robreno in the United States District Court for the Eastern District of Pennsylvania.
Mr. Hopkins earned a Bachelor of Arts degree from Rutgers College in New Brunswick. He earned his Juris Doctor with high honors from Rutgers University Law School at Camden.

Powers of the Authority

Under the terms of the Act, as amended, the powers of the Authority are vested in its members. The Authority has, among others, the following powers: to issue bonds as provided in the Act for the several purposes therein specified, including refunding bonds of the Authority already outstanding; to acquire, lease as lessee or lessor, hold and dispose of real and personal property or any interest therein in the exercise of its powers and the performance of its duties under the Act, by contracts with and for health care organizations (organizations located in the State authorized or permitted by law, whether directly or indirectly through a holding company, partnership or other entity, to provide health care related services or entities affiliated with health care organizations or a group of legally affiliated health care organizations), and pursuant to public bidding requirements of the Act as applicable, to construct, acquire, reconstruct, rehabilitate and improve, and furnish and equip health care organization projects; to enter into contracts for the management and operation of projects in the event of default as described in the Act using, however, its best efforts to conclude its position as an operator as soon as practicable; generally to fix and revise from time to time and to charge and collect rates, rents, fees and other charges for the use of and for the services furnished or to be furnished by a project or any portion thereof and to contract with holders of its bonds and with any other person, partnership, association, corporation or other body, public or private, in respect thereof, to make loans to health care organizations for the construction or acquisition of projects in accordance with loan agreements (such loans may not exceed the total cost of the project); to make loans to health care organizations to refund existing bonds, mortgages or advances given or made by the health care organizations for the construction of projects to the extent that this will enable the health care organization to offer greater security for loans for new project construction; to enter into agreements, credit agreements or contracts, execute any and all instruments, and do and perform any and all acts or things necessary, convenient or desirable for the purposes of the Authority or to carry out any power expressly given to the Authority in the Act; and to invest any moneys held in reserve or sinking funds, or any moneys not required for immediate use for disbursement, at the discretion of the Authority, in such obligations as are authorized by bond resolutions of the Authority.

The Act defines a “project” or “health care organization project” as the acquisition, construction, improvement, renovation or rehabilitation of lands, buildings, fixtures, equipment and articles of personal property, or other tangible or intangible assets that are necessary or useful in the development, establishment or operation of a health care organization pursuant to the Act. “Projects” or “health care organization projects” may include the financing, refinancing or consolidation of secured or unsecured debt, borrowings or obligations; the provision of financing for any other expense incurred in the ordinary course of business, all of which lands, buildings, fixtures, equipment and articles of personal property are to be used or occupied by any person in the health care organization; the acquisition of an entity interest, including capital stock, in a corporation; or any combination thereof; and may include any combination of the foregoing undertaken jointly by any health care organization with one or more other health care organizations. Nothing in the Act is to be construed to provide the Authority with greater authority to finance a project for a for-profit health care organization than the New Jersey Economic Development Authority has under its enabling legislation (P.L. 1974, c. 80, as amended).

Outstanding Bonds and Notes of the Authority

The Authority has previously authorized the issuance of its bonds and notes in negotiated public offerings, competitive bid offerings and in private placements. Based on unaudited financials, as of June 30, 2017, the Authority had $6,798,047,780 principal amount of its revenue bonds outstanding that were sold in public offerings; $114,150,000 principal amount of its revenue bonds outstanding that were sold in
limited public offerings; $695,758,244 principal amount of its revenue bonds outstanding that were sold in private placements; $275,233 principal amount of its equipment notes outstanding; and $30,340,215 in master leases outstanding.

Except for certain issues for the same health care organization which may be on parity with one another, each of the Authority’s issues of bonds and notes is payable out of revenues derived from separate health care organizations, is secured by its own series resolution, note resolution or trust agreement and is separate and distinct as to source of payment and security from the Series 2017A Bonds.

The Authority has entered into and intends to enter into additional agreements with other health care institutions in the State for the purpose of financing projects for such institutions and to issue other series of bonds and notes for the purpose of financing such projects. Each such series of bonds or notes will be issued pursuant to a series, bond or note resolution or trust agreement separate and apart from the Series Resolution.

THE OBLIGATED GROUP

The Obligated Group

The Network functions as the parent corporation for a number of entities, which are related by common membership and/or ownership. IMC is a tax-exempt health care organization which owns and operates two acute care hospitals, Vineland in Cumberland County, New Jersey and Elmer in Salem County, New Jersey and two health centers, the Inspira Health Center Bridgeton, which provides inpatient and outpatient psychiatric services, select outpatient services including a satellite emergency department, and administrative services and the Inspira Health Center Vineland, which provides select outpatient services. IMC Woodbury is a tax-exempt health care organization which owns and operates an acute care hospital located in Gloucester County. As of the date of this Official Statement, IMC and IMC Woodbury are the only Members of the Obligated Group under the Master Indenture. For a more detailed discussion of the Institutions and the Network, see Appendix A hereto. Additional entities may become Members of the Obligated Group pursuant to the terms of the Master Indenture, as described in Appendix C hereto. As of December 31, 2016, the Obligated Group accounted for approximately 92% of total assets and approximately 91% of total revenues of the Network. See “SUMMARY OF THE MASTER INDENTURE – Additional Obligated Issuers” in Appendix C hereto.

For a more detailed description of the Members of the Obligated Group, see Appendix A hereto. For the consolidated financial statements of the Network, see Appendix B hereto.

PLAN OF FINANCE

The Institutions will apply the proceeds of the Series 2017A Bonds, together with the Series 2017B Bonds (as defined below), to: (A) finance and/or reimburse the Institutions for the costs of the planning, development, construction, expansion, renovation, furnishing and/or equipping of the Project; and (B) pay all or a portion of the costs of the issuance and sale of the Series 2017A Bonds.

Concurrently with the issuance of the Series 2017A Bonds, it is anticipated that the Authority’s Revenue Bonds, Inspira Health Obligated Group Issue, Series 2017B in the approximate principal amount of $60,000,000* (the “Series 2017B Bonds”) will be issued to and purchased directly by TD Bank, N.A.

* Preliminary, subject to change.
(“TD Bank”) on a private placement basis. The Series 2017B Bonds are not being offered by the Underwriters and are not being offered pursuant to this Official Statement, but are referenced herein by virtue of being additional indebtedness of the Obligated Group. See “SERIES 2017B BONDS” herein. The Series 2017B Bonds will be secured on a parity with the Series 2017A Bonds by virtue of the issuance of one or more Obligations under the Master Indenture.

The proceeds of the Series 2017A Bonds and the Series 2017B Bonds will not be sufficient to pay all of the costs of the Project. Under the Loan Agreement, the Institutions are obligated to pay, from their own sources of funds, any costs of the Project which are in excess of the costs of the Project to be paid from the proceeds of the Series 2017A Bonds and the Series 2017B Bonds. It is currently expected that moneys from the Series 2017B Bond Construction Fund will be expended in full prior to the Institutions drawing funds from the Series 2017A Construction Fund.

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds of the Series 2017A Bonds and the Series 2017B Bonds are expected to be used as follows:

<table>
<thead>
<tr>
<th>Source/Use of Funds</th>
<th>Series 2017A Bonds</th>
<th>Series 2017B Bonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estimated Sources of Funds</strong></td>
<td>$265,000,000*</td>
<td>$60,000,000*</td>
<td>$325,000,000*</td>
</tr>
<tr>
<td>Par Amount</td>
<td>$265,000,000*</td>
<td>$60,000,000*</td>
<td>$325,000,000*</td>
</tr>
<tr>
<td>Plus Net Original Issue Premium/Discount</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Total Sources of Funds</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Estimated Uses of Funds</strong></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Deposit into the Series 2017A Construction Fund</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Deposit into the Series 2017B Construction Fund</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Costs of Issuance (1)</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Total Uses of Funds</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

(1) Estimated amount to provide for Underwriters’ discount, legal, consulting and printing fees and associated bond issuance costs.

* Preliminary, subject to change.
ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending December 31, the amounts required in such year to be made available for the payment of debt service by the Institutions with respect to the Series 2017A Bonds, the Series 2017B Bonds and existing bond indebtedness of the Obligated Group. See Appendix A hereto under the caption “Outstanding Indebtedness” for additional information regarding the Authority’s outstanding Refunding Bonds, Inspira Health Obligated Group Issue, Series 2016A and other indebtedness of IMC and IMC Woodbury, which other indebtedness is not secured by any Obligations issued under the Master Indenture. The principal amounts and sinking fund requirements of the Series 2017A Bonds will be payable on July 1 of each year as set forth on page (i) hereof and interest will be payable initially on January 1, 2018 and semiannually thereafter on January 1 and July 1 in each year. Columns may not add to total due to rounding.

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Series 2017A Bonds</th>
<th>Series 2017B Bonds</th>
<th>Existing Bond Indebtedness</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$</td>
<td></td>
<td>$14,643,762</td>
<td>$</td>
</tr>
<tr>
<td>2018</td>
<td>14,563,225</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>14,467,875</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>14,387,125</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>13,189,375</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>10,995,875</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>11,029,125</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2024</td>
<td>11,030,625</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>11,042,125</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2026</td>
<td>11,062,925</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2027</td>
<td>11,084,925</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2028</td>
<td>11,122,175</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2029</td>
<td>11,133,175</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2030</td>
<td>11,168,425</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2031</td>
<td>11,195,925</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2032</td>
<td>11,215,325</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2033</td>
<td>11,241,225</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2034</td>
<td>7,550,225</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2035</td>
<td>7,524,475</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2036</td>
<td>7,526,175</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2037</td>
<td>7,526,800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2038</td>
<td>7,530,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2039</td>
<td>7,526,400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2040</td>
<td>7,529,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2041</td>
<td>7,523,400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2042</td>
<td>7,529,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2043</td>
<td>7,530,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2044</td>
<td>7,527,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2045</td>
<td>7,523,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2046</td>
<td>5,727,750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2047</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$</td>
<td></td>
<td>$300,647,737</td>
<td>$</td>
</tr>
</tbody>
</table>
THE SERIES 2017A BONDS

Description of the Series 2017A Bonds

The Series 2017A Bonds are being issued by the Authority under the Act and pursuant to the Resolutions, will be dated their date of delivery and will bear interest from such date, payable initially on January 1, 2018 and semiannually thereafter on January 1 and July 1 in each year (each an “Interest Payment Date”). The Series 2017A Bonds will bear interest and mature on the dates and in the amounts set forth on page (i) hereof. The Series 2017A Bonds will be subject to the redemption provisions set forth below.

The Series 2017A Bonds are issuable as fully registered bonds in the denomination of $5,000 each or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will act as a securities depository for the Series 2017A Bonds. Purchases of the Series 2017A Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof. See “THE SERIES 2017A BONDS – Book–Entry Only System” herein.

As long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2017A Bonds, payments of principal, redemption price and interest on the Series 2017A Bonds will be made directly to Cede & Co. Interest on the Series 2017A Bonds which is payable and is punctually paid or provided for on any Interest Payment Date will be paid to the registered owner at the close of business on the 15th day (whether or not a Business Day) of the calendar month next preceding each Interest Payment Date (a “Regular Record Date”). Interest on each Interest Payment Date is payable by check mailed by the Trustee in its capacity as paying agent for the Series 2017A Bonds to the registered holder thereof at its registered address; provided, however under the Resolutions, registered holders of $1,000,000 or more in aggregate amount of Series 2017A Bonds may request payout by wire transfer.

Any interest on any Series 2017A Bonds that is payable, but is not punctually paid or provided for, on any Interest Payment Date shall forthwith cease to be payable to the registered owner on the relevant Regular Record Date. Such defaulted interest shall be paid to the owner in whose name the Series 2017A Bond is registered at the close of business on a special record date to be fixed by the Trustee, such date to be not more than fifteen (15) nor less than ten (10) days (whether or not a Business Day) prior to the date of proposed payment (a “Special Record Date”). The Trustee shall, at the expense of the Authority, cause notice of the proposed payment of such defaulted interest and Special Record Date therefor to be mailed, first-class postage prepaid, to each registered owner at the address as it appears in the Bond Register not less than ten (10) days prior to such Special Record Date. The Trustee may, in its discretion, cause a similar notice to be published once in an Authorized Newspaper, but such publication is not a condition precedent to the establishment of such Special Record Date.

For every transfer and exchange of the Series 2017A Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

Redemption Prior to Maturity of Series 2017A Bonds

Optional Redemption. The Series 2017A Bonds maturing on and after July 1, 20__ shall be subject to optional redemption prior to maturity, in whole or in part at any time (provided, however, that any such optional redemption on a date other than an Interest Payment Date shall be in an amount greater than $100,000) at the option of the Authority, upon the written direction of the Institutions, on or after
July 1, 20__ at a redemption price equal to one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued to the redemption date. The Series 2017A Bonds or portions thereof to be redeemed shall be selected by the Trustee in such order of maturity as the Authority shall direct (upon the written direction of the Institutions) and within a maturity by lot or in any other customary manner of selection as determined by the Trustee.

**Mandatory Sinking Fund Redemption.** The Series 2017A Bonds maturing on July 1, 20__ shall be subject to redemption prior to maturity by operation of the Sinking Fund Account established under the Resolutions, at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest thereon to the date of redemption, on July 1 of the years and in the amounts set forth below. The Series 2017A Bonds maturing on July 1, 20__ or portions thereof to be redeemed shall be selected by the Trustee by lot or in any other customary manner determined by the Trustee.

| $__________ Series 2017A Term Bond Maturing on July 1, 20__ |
|-------------|-------------|
| Year        | Amount      |
|             | $           |

* Maturity.

The Series 2017A Bonds maturing on July 1, 20__ shall be subject to redemption prior to maturity by operation of the Sinking Fund Account established under the Resolutions, at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest thereon to the date of redemption, on July 1 of the years and in the amounts set forth below. The Series 2017A Bonds maturing on July 1, 20__ or portions thereof to be redeemed shall be selected by the Trustee by lot or in any other customary manner determined by the Trustee.

| $__________ Series 2017A Term Bond Maturing on July 1, 20__ |
|-------------|-------------|
| Year        | Amount      |
|             | $           |

* Maturity.

Notwithstanding the foregoing, on or before the forty-fifth (45th) day preceding each Sinking Fund Installment date, provided no Event of Default under the Resolutions shall have occurred and is continuing, the Institutions may deliver Series 2017A Bonds in any Authorized Denomination to the
Upon delivery, such Series 2017A Bonds shall be cancelled by the Trustee and credited to future Sinking Fund Installments as shall be directed by the Institutions.

**Extraordinary Redemption.** The Series 2017A Bonds are subject to redemption prior to maturity, in whole or in part at any time (provided, however, that any such extraordinary redemption on a date other than an Interest Payment Date shall be in an amount greater than or equal to $100,000) from and to the extent of any insurance proceeds or condemnation awards that are received in respect of any damage to or destruction or taking under the power of eminent domain of all or any part of the Health Care Facilities (as defined in the Loan Agreement) of the Institutions and which insurance proceeds or condemnation awards are not applied toward the replacement, restoration or repair of such property as set forth in the Loan Agreement. Any such redemption of the Series 2017A Bonds shall be made on a pro rata basis with the Obligations issued and outstanding under the Master Indenture at a redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus accrued interest to the redemption date. The Series 2017A Bonds or portions thereof to be redeemed shall be selected by the Trustee in such order of maturity as the Authority (upon the written direction of the Institutions) shall direct and within a maturity by lot or in any other customary manner of selection as determined by the Trustee.

**Notice of Redemption**

So long as DTC or its nominee is the registered owner of the Series 2017A Bonds, the Trustee, the Bond Registrar and the Paying Agent will recognize DTC or its nominee as the Bondholder for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Trustee shall give notice of redemption to the Bondholders by registered or certified mail, postage prepaid, mailed not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption. If at the time of mailing of any notice of optional redemption the Authority has not deposited with the Trustee moneys sufficient to redeem all Series 2017A Bonds then to be called for redemption, such notice must state that it is conditional and is subject to the deposit with the Trustee of moneys sufficient to effect such redemption not later than the opening of business on the redemption date. Such notice of redemption will be of no effect unless the moneys described in the preceding sentence are so deposited.

So long as DTC or its nominee is the Bondholder, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected, shall not affect the validity of the redemption.

So long as DTC or its nominee is the Bondholder, if less than all of the Series 2017A Bonds of any one maturity shall be called for redemption, the particular Series 2017A Bonds or portions of Series 2017A Bonds of such maturity to be redeemed shall be selected by lot by DTC and the DTC Participants in such manner as DTC and the DTC Participants may determine. If a Series 2017A Bond is of a denomination in excess of five thousand dollars ($5,000), portions of the principal amount in the amount of five thousand dollars ($5,000) or any multiple thereof may be redeemed.

**Payment of Redeemed Bonds**

Notice having been given in the manner provided above, Series 2017A Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the
redemption price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Series 2017A Bonds, or portions thereof, shall be paid at the redemption price, plus interest accrued and unpaid to the redemption date, provided that interest shall be payable to the Bondholder in whose name such Series 2017A Bond is registered as of the applicable Record Date. If, on the redemption date, monies for the redemption together with interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the redemption date, the Series 2017A Bonds so called for redemption shall cease to bear interest and such Series 2017A Bonds shall no longer be considered to be Outstanding under the Resolutions. If said moneys shall not be so available on the redemption date, the principal of such Series 2017A Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

**Book-Entry Only System**

THE INFORMATION IN THIS SECTION HAS BEEN PROVIDED BY DTC AND IS NOT DEEMED TO BE A REPRESENTATION OF THE AUTHORITY OR THE OBLIGATED GROUP.

DTC will act as securities depository for the Series 2017A Bonds. The Series 2017A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2017A Bond certificate will be issued for each maturity of the Series 2017A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2017A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2017A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from
the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2017A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2017A Bonds, except in the event that use of the book-entry system for the Series 2017A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2017A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2017A Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2017A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2017A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017A Bonds, such as redemptions, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2017A Bonds may wish to ascertain that the nominee holding the Series 2017A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2017A Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2017A Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Series 2017A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2017A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
DTC may discontinue providing its services as depository with respect to the Series 2017A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2017A Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2017A Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

THE AUTHORITY, THE OBLIGATED GROUP, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO ITS PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO BENEFICIAL OWNERS OF THE SERIES 2017A BONDS (I) PAYMENTS OF THE PRINCIPAL OF, OR INTEREST OR PREMIUM, IF ANY, ON THE SERIES 2017A BONDS, OR (II) CONFIRMATION OF OWNERSHIP INTERESTS IN THE SERIES 2017A BONDS, OR (III) REDEMPTION OR OTHER NOTICES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT “RULES” APPLICABLE TO DTC ARE ON FILE WITH THE SEC AND THE CURRENT “PROCEDURES” OF DTC TO BE FOLLOWED IN DEALING WITH ITS PARTICIPANTS ARE ON FILE WITH DTC.

NONE OF THE AUTHORITY, THE OBLIGATED GROUP, THE TRUSTEE AND THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OF THE SERIES 2017A BONDS WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT, (II) THE PAYMENT BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF, OR INTEREST ON, ANY SERIES 2017A BONDS, (III) THE DELIVERY OF ANY NOTICE BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT, (IV) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2017A BONDS, OR (V) ANY OTHER ACTION TAKEN BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT.


THE SERIES 2017B BONDS

It is anticipated that the Series 2017B Bonds will be issued to and purchased directly by TD Bank on a private placement basis concurrently with the issuance of the Series 2017A Bonds. The proceeds of the Series 2017B Bonds will be applied: (i) to finance and/or reimburse the Institutions for the costs of
the Project; and (ii) to pay certain costs incurred in connection with the issuance of the Series 2017B Bonds. The Series 2017B Bonds are not being offered by the Underwriters and are not being offered pursuant to this Official Statement, but are referenced herein by virtue of being additional indebtedness of the Obligated Group. The issuance of the Series 2017A Bonds is neither dependent nor contingent upon the issuance of the Series 2017B Bonds.

The Series 2017B Bonds are not Additional Bonds under the Resolution; however, the Series 2017B Bond Obligation securing the Series 2017B Bonds will be secured with respect to the pledge of Gross Receipts under the Master Indenture on a parity with the Series 2017A Bond Obligation, Series 2017B Ancillary Obligation, Series 2016A Bond Obligation, Series 2016 Derivative Obligations and any other Obligations issued in the future under the Master Indenture. Upon the issuance of the Series 2017A Bonds and the Series 2017B Bonds, the only Obligations outstanding under the Master Indenture will be the Series 2017A Bond Obligation, Series 2017B Bond Obligation, Series 2016B Ancillary Obligation, Series 2016 Derivative Obligations and 2016A Bond Obligation.

In connection with the issuance of the Series 2017B Bonds, the Institutions and TD Bank will be entering into a Continuing Covenants Agreement (the “CCA”) which will set forth, among other things, the financial obligations of the Institutions relating to the payment of the principal or redemption price of and interest on the Series 2017B Bonds, when due, and other amounts to TD Bank. The obligations of the Institutions under the CCA will be evidenced and secured by the Series 2017B Ancillary Obligation issued under the Master Indenture. The CCA will contain certain covenants that are either not contained in the Master Indenture or that are similar to, but vary in some respects from, the covenants contained in the Master Indenture. For instance, the Series 2017B Bonds, which will initially bear interest at a variable rate adjusted monthly, will be subject to mandatory tender and purchase from TD Bank on July 1, 2027 or such later date as is agreed upon by the Institutions and TD Bank (the “Mandatory Purchase Date”). The failure of the Institutions to pay or provide for the payment of the purchase price of the Series 2017B Bonds on the Mandatory Purchase Date could result in an event of default under the CCA which could, in turn, result in an Event of Default under the Master Indenture. Upon an Event of Default under the Master Indenture, the Master Trustee may be required to accelerate all Obligations then outstanding under the Master Indenture, including the Series 2017A Bond Obligation, the Series 2017B Bond Obligation and the Series 2017B Ancillary Obligation. See “BONDHOLDERS’ RISKS – Risks Related to Variable Rate or Private Placement Indebtedness” herein and “SUMMARY OF THE MASTER INDENTURE – Events of Default” in Appendix C hereto.

Following the issuance of the Series 2017A Bonds and the Series 2017B Bonds, a copy of the CCA is expected to be posted on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”), found at http://emma.msrb.org.

It is currently expected that moneys from the Series 2017B Bond Construction Fund will be expended in full prior to the Institutions drawing funds from the Series 2017A Construction Fund.

**Sources of Payment for the Series 2017A Bonds**

**General**

THE STATE OF NEW JERSEY, ANY POLITICAL SUBDIVISION THEREOF OR THE AUTHORITY. THE AUTHORITY HAS NO TAXING POWER.

Pledge of Trust Estate

The Series 2017A Bonds are payable from, and secured by a pledge and assignment to the Trustee of the Loan Agreement and the rights of the Authority to receive loan payments thereunder (excluding certain fees and expenses and certain indemnity payments), including amounts received pursuant to the Series 2017A Bond Obligation. Under the Loan Agreement, the Institutions are required to make loan payments in amounts which will be sufficient to pay the principal, premium, if any, and interest on the Series 2017A Bonds and to pay certain administrative costs of the Authority. The loan payments under the Loan Agreement will be a general obligation of the Institutions and will be evidenced and secured by the Series 2017A Bond Obligation. Moneys held by the Trustee under the Resolutions are required to be invested as provided therein. See “SUMMARY OF THE RESOLUTIONS – Investment of Moneys” in Appendix C hereto.

The Master Indenture

As additional security for the Series 2017A Bonds, and to evidence and secure its obligations under the Loan Agreement, the Obligated Group will deliver the Series 2017A Bond Obligation to the Authority which will assign the Series 2017A Bond Obligation to the Trustee. The Series 2017A Bond Obligation will be issued in the same principal amount as the Series 2017A Bonds and will contain payment provisions corresponding to those of the Series 2017A Bonds. The Series 2017A Bond Obligation will be issued and secured under the provisions of the Master Trust Indenture, as supplemented by the Third Supplemental Indenture.

Currently, IMC and IMC Woodbury are the only Members of the Obligated Group under the Master Indenture. See “THE OBLIGATED GROUP” herein and Appendix A to this Official Statement for certain information regarding the Institutions. Under the Master Indenture, each Member of the Obligated Group will be jointly and severally liable for the performance of all of the obligations of the Obligated Group under the Master Indenture, and each Supplemental Indenture, including without limitation all payment obligations with respect to all Obligations from time to time outstanding under the Master Indenture, including the Series 2017A Bond Obligation. In the future, other entities may become Members of the Obligated Group in accordance with the provisions of the Master Indenture as supplemented from time to time. A Member of the Obligated Group may withdraw from the Obligated Group and may be released from its obligations under the Master Indenture upon compliance with the conditions prescribed therein. See “SUMMARY OF THE MASTER INDENTURE – Additional Obligated Issuers” and “– Release of Obligated Issuers” in Appendix C hereto.

The Series 2017A Bond Obligation will be a joint and several obligation of the Members of the Obligated Group. Under the Master Indenture, each Member of the Obligated Group is required to grant to the Master Trustee a security interest in the Revenue Fund created by the Master Indenture and in the Gross Receipts of such Obligated Group Member to secure the payment of all Obligations issued under the Master Indenture, including the Series 2017A Bond Obligation. See “SOURCES OF PAYMENT FOR THE SERIES 2017A BONDS” herein and Appendix C hereto for additional information regarding the Master Indenture and the Series 2017A Bond Obligation.

Upon the issuance of the Series 2017A Bonds, the pledge of Gross Receipts made by the Members of the Obligated Group to the Master Trustee pursuant to the Master Indenture will secure, equally and ratably, the Series 2017A Bond Obligation, the Series 2016A Bond Obligation, the Series 2016 Derivative Obligations, the Series 2017B Bond Obligation, the Series 2017B Ancillary Obligation
and any other Debt Obligations, Derivative Obligations and/or Ancillary Obligations hereafter issued under the Master Indenture. The rights of the holder of a Derivative Obligation or Ancillary Obligation under the Master Indenture are limited to receiving payment of the Derivative Obligation or Ancillary Obligation without the ability to exercise any rights or provide consents as more fully set forth in the Master Indenture. See “SUMMARY OF THE MASTER INDENTURE – Obligations Created under the Master Indenture; Security” and “– Rights of Holders of Ancillary Obligations and Derivative Obligations” in Appendix C hereto.

The Members of the Obligated Group covenant under the Master Indenture (a) not to withdraw from or permit other entities to join the Obligated Group, except as permitted under the Master Indenture and all Supplemental Indentures then in effect, (b) not to transfer assets to any entity which is not a Member of the Obligated Group unless certain conditions are met as specified in the Master Indenture and (c) not to merge or consolidate with any entity which is not a Member of the Obligated Group unless the successor entity assumes all obligations of such Member under the Master Indenture and all Supplemental Indentures then in effect, and unless certain debt service coverage tests and other conditions as specified in the Master Indenture are met. See “SUMMARY OF THE MASTER INDENTURE – Additional Obligated Issuers,” “– Release of Obligated Issuers,” “– Consolidation or Mergers,” and “– Disposition of Assets” in Appendix C hereto.

A new Member of the Obligated Group must execute and deliver to the Master Trustee an appropriate instrument or Supplemental Indenture under which it agrees to be jointly and severally liable for the payment of all present and future Obligations issued under the Master Indenture whenever issued. A Member, with the written consent of the Obligated Group Representative, may withdraw from the Obligated Group and be released from its obligations if the fact of such withdrawal does not result in an event of default under the terms of the Master Indenture or any Supplemental Indenture then in effect (subject to satisfaction of certain additional conditions set forth in the Master Indenture). The Institutions may not withdraw from the Obligated Group so long as the Series 2017A Bonds are Outstanding under the Resolutions, subject to the provisions of the Master Indenture relating to consolidations and mergers and substitution of obligations. See “SUMMARY OF THE MASTER INDENTURE – Additional Obligated Issuers” and “– Release of Obligated Issuers” in Appendix C hereto.

The Master Indenture permits the restatement or substitution of the Master Indenture and the substitution of Obligations issued thereunder upon the satisfaction of, and compliance with, certain covenants and restrictions set forth therein. See “SUMMARY OF THE MASTER INDENTURE – Substitution of Obligations and Documents” in Appendix C hereto.

Limitations on Liens Under Master Indenture

Except for Permitted Encumbrances under the Master Indenture, the Institutions have covenanted that they will not create or suffer to be created or exist any mortgage or other lien, security interest, charge or encumbrance on any Restricted Property or its Gross Receipts unless there is a provision made in each instance and by the instrument creating the mortgage or lien to secure all Obligations equally and ratably with the Indebtedness secured by such mortgage or lien. See “SUMMARY OF THE MASTER INDENTURE – Restrictions as to Creation of Liens and Encumbrances” in Appendix C hereto.

Pledge of Gross Receipts

Under the Master Indenture, the Members of the Obligated Group have granted to the Master Trustee for the equal and ratable benefit of the holders of all Obligations issued under the Master Indenture (including the Series 2017A Bond Obligation) a pledge of and a security interest in the amounts, if any, in the Revenue Fund created under the Master Indenture and in the Gross Receipts of
each Member of the Obligated Group. Inasmuch as payments on Obligations issued under the Master Indenture may be made directly to the holders of such Obligations, and Gross Receipts may be expended, deposited or comingled by the Members of the Obligated Group (unless certain Events of Default exist under the Master Indenture), there may not be any amounts deposited in the Revenue Fund. Gross Receipts include all revenues, rents, profits, receipts, benefits, royalties, and income of each Member of the Obligated Group and any other moneys received by or on behalf of such Member, including, without limitation, (i) such Member’s rights to receive such revenues, rents, profits, receipts, benefits, royalties, and income of such Member and any other moneys under agreements with insurance companies, Medicare, Medicaid, governmental units and prepaid health organizations, including health care insurance receivables and rights to Medicare and Medicaid loss recapture under applicable regulations to the extent not prohibited by applicable law, rules or regulations; (ii) gifts, grants, bequests, donations, contributions and pledges; (iii) insurance proceeds or any award, or payment in lieu of an award, resulting from condemnation proceedings; and (iv) all proceeds from the sale or other transfer of any goods, inventory and other tangible and intangible property, and all rights to receive the foregoing, whether now owned or hereafter acquired and regardless of whether generated in the form of Accounts, Accounts Receivable, contract rights, Chattel Paper, Documents, General Intangibles, Instruments, Investment Property (as such terms are defined in the Master Indenture), proceeds of insurance and all proceeds of the foregoing, excluding, however, gifts, grants, bequests, donations, contributions and pledges, and the income and gains derived therefrom, which are specifically restricted or designated by the donor or grantor to a particular purpose which is inconsistent with its use for payments required under the Master Indenture or on any Obligations or Indebtedness.

The Master Indenture permits the creation of parity interests in Gross Receipts upon satisfaction of covenants relating to the incurrence of additional indebtedness. See “SUMMARY OF THE MASTER INDENTURE - Permitted Indebtedness in Appendix C hereto”. The Master Indenture also permits liens on a subordinate basis to the Obligations, and in certain instances on a senior basis with respect to certain assets. See “SUMMARY OF THE MASTER INDENTURE – Restrictions as to Creation of Liens and Encumbrances” and – “Securing Permitted Indebtedness” in Appendix C hereto.

No Real Estate Security Pledged to Obligations

No Obligations issued under the Master Indenture are secured by a mortgage or other interest in any real property of the Institutions. The Master Indenture does restrict the ability of the Institutions to encumber Restricted Property, which upon the issuance of the Series 2017A Bonds, will be defined generally as the existing hospital and medical center facility in Woodbury, New Jersey, the medical center located in Vineland, New Jersey, the medical center in Elmer, New Jersey and the new hospital and medical center facility to be built in Mullica Hill, New Jersey. Property not constituting Restricted Property may be encumbered without regard to the restrictions set forth in the Master Indenture.

Additional Bonds

The terms and conditions set forth in the Resolutions permit the Authority to issue Additional Bonds for the purpose of making additional loans to the Institutions to pay the cost of completing a project, the funding of the applicable reserve fund therefor, if any, and the costs of refunding any of the Series 2017A Bonds or other bonds issued by the Authority on behalf of the Institutions. A series of Additional Bonds will be on a parity with the Series 2017A Bonds under the Resolutions. All Bonds issued under the Resolutions and secured by a Debt Obligation issued under the Master Indenture will have a parity interest in all security, including Gross Receipts pledged under the Master Indenture. The issuance of Additional Bonds will require an amendment to the Series Resolution, a separate loan agreement, or a supplement to the Loan Agreement and the issuance of an additional Debt Obligation under the Master Indenture, and the Institutions will agree to make additional payments thereunder.
sufficient to pay the debt service on such Additional Bonds. See “SUMMARY OF THE RESOLUTIONS - Additional Bonds and Other Obligations” in Appendix C hereto for a description of certain of the provisions of the Resolutions relating to the issuance or incurrence of and security for Additional Bonds.

Other Indebtedness of the Obligated Group

The Members of the Obligated Group are also permitted under the Master Indenture to incur other indebtedness which may be secured by the pledge of Gross Receipts or otherwise on parity with the Obligated Group’s obligations under the Master Indenture. Such other indebtedness could include notes issued to secure bonds issued through the Authority or debt through other lenders. The Master Indenture sets forth the terms and conditions under which other indebtedness may be issued or incurred by the Members of the Obligated Group, and the terms and conditions under which such indebtedness may be secured. Such indebtedness may be secured on a parity with, or on a subordinate basis to, the Series 2017A Bond Obligation, the Series 2017B Bond Obligation, the Series 2017B Ancillary Obligation, the Series 2016A Bond Obligation, the Series 2016 Derivative Obligations, or other Debt Obligations, Derivative Obligations and/or Ancillary Obligations hereafter issued under the Master Indenture, or in certain instances by a senior lien on accounts receivable or other assets. See “SUMMARY OF THE MASTER INDENTURE - Permitted Indebtedness” in Appendix C hereto. See Appendix A hereto under the heading “Outstanding Indebtedness” for further information on indebtedness of the Obligated Group.

BONDHOLDERS’ RISKS

The discussion herein of risks to the registered owners of the Series 2017A Bonds is not intended as dispositive, comprehensive or definitive, but rather is to summarize certain matters which could affect payment on the Series 2017A Bonds. Other sections of this Official Statement, as cited herein, should be referred to for a more detailed description of risks described in this section, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the principal office of the Trustee.

General

The Series 2017A Bonds are not a debt or liability of the State of New Jersey or any political subdivision thereof other than the Authority to the limited extent set forth herein, or a pledge of the faith and credit of the State of New Jersey or any such political subdivision or the Authority, but are special and limited obligations of the Authority, payable solely from the revenues received by the Authority from the Institutions in accordance with the Loan Agreement, the funds and accounts held pursuant to the Series Resolution, if any (except the Rebate Fund) and certain investment income thereon. The Authority has no taxing power.

No Independent Feasibility Study

Although the New Jersey Department of Health approved the Certificate of Need for the replacement and relocation of IMC Woodbury’s existing acute care hospital facility located in Woodbury, New Jersey with a new acute care hospital facility to be located in Mullica Hill, New Jersey and concluded based on a financial analysis undertaken by Department of Health staff that the Institutions have sufficient revenues to undertake such project, no independent financial feasibility study has been prepared to provide an analysis of the financial feasibility of such project. There can be no assurance that IMC Woodbury’s new acute care hospital facility at Mullica Hill will maintain utilization and market share in the primary and secondary service area comparable to that of IMC Woodbury’s existing acute care hospital facility or any of the other existing acute care hospital facilities of IMC Woodbury or IMC,
that the replacement and relocation of IMC Woodbury’s existing acute care hospital facility located in Woodbury, New Jersey with a new acute care hospital facility to be located in Mullica Hill, New Jersey will achieve the operational cost savings anticipated by IMC Woodbury, or that physicians and physician groups will continue to provide services at IMC Woodbury’s new acute care hospital facility to be located in Mullica Hill at levels come comparable to IMC Woodbury’s existing acute care hospital facility located in Woodbury, New Jersey.

Risk of Redemption or Acceleration

The Series 2017A Bonds are subject to redemption or acceleration prior to maturity in certain circumstances, including but not limited to the failure of the Institutions to make timely payments under the Loan Agreement. Bondholders may not realize their anticipated yield on investment to maturity because the Series 2017A Bonds may be redeemed or accelerated prior to maturity at par or at a redemption price that results in the realization of less than anticipated yield to maturity.

Adequacy of Revenues

Except to the extent otherwise noted herein, the Series 2017A Bonds are payable solely from the payments required to be made by the Institutions to the Authority under the Loan Agreement. No representation or assurance can be made that revenues will be realized by the Institutions in amounts sufficient to pay maturing principal of, redemption premium, if any, and interest on the Series 2017A Bonds. The ability of the Institutions to make payments under the Loan Agreement and the ability of the Authority to make payments on the Series 2017A Bonds under the Series Resolution depends, among other things, upon the capabilities of management of the Institutions and the ability of the Institutions to maximize revenues under various third party reimbursement programs and to minimize costs and to obtain sufficient revenues from their operations to meet such obligations. Revenues and costs are affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. The risk factors discussed below should be considered in evaluating the ability of the Institutions and other Members of the Obligated Group, if any, to make payments in amounts sufficient to meet their obligations under the Loan Agreement, the Master Indenture and the Series 2017A Bond Obligation. This discussion is not, and is not intended to be, exhaustive.

The ability of the Institutions and the other Members of the Obligated Group to make required payments on the Series 2017A Bond Obligation is subject to, among other things, the capabilities of the management of the Members of the Obligated Group and future economic and other conditions, which are unpredictable and which may affect revenues and costs and, in turn, the payment of principal of, premium, if any, and interest on the Series 2017A Bonds. Future revenues and expenses of the Obligated Group will be affected by events and conditions relating generally to, among other things, demand for the Obligated Group’s services, its ability to provide the services required by patients, physicians’ relationships with the Obligated Group, management capabilities, the design and success of the Obligated Group’s strategic plans, economic developments in the service area, the Obligated Group’s ability to control expenses, maintenance by the Members of the Obligated Group of relationships with HMOs and PPOs (as defined herein) and other third-party programs, competition, rates, costs, third-party reimbursement, future federal and State funding of healthcare reimbursement programs and potential future modifications of said programs, legislation, governmental regulation, general economic conditions, changes in technology used in the delivery of health care services and other conditions which are impossible to predict. Federal and state funding statutes and regulations are the subject of intense legislative debate and are likely to change, and unanticipated events and circumstances may occur which cause variations from the Obligated Group’s expectations, and the variations may be material. The Authority has not made any independent investigation of the extent to which any such factors may have an adverse impact on the financial condition of the Members of the Obligated Group. THERE CAN BE
NO ASSURANCE THAT THE REVENUES OF THE MEMBERS OF THE OBLIGATED GROUP OR UTILIZATION OF THEIR FACILITIES WILL BE SUFFICIENT TO ENABLE THE MEMBERS OF THE OBLIGATED GROUP TO MAKE SUCH PAYMENTS.

No representation or assurance can be given that the Institutions will generate revenues sufficient to allow payment of debt service on the Series 2017A Bonds when due.

None of the provisions, covenants, terms and conditions of the Master Indenture or the Loan Agreement will afford the Trustee any assurance that the principal and interest owing under the Series 2017A Bond Obligation (which, except for money held under the Series Resolution, constitute the sole source of funds for the payment of the Series 2017A Bonds) will be paid as and when due, if the financial condition of the Obligated Group deteriorates to a point where the Institutions and the other Members of the Obligated Group are unable to pay their debts as they come due, or otherwise become insolvent.

Health Care Industry Factors Affecting the Obligated Group

The health care industry is highly dependent on a number of factors that may limit the ability of the Institutions to meet their obligations under the Loan Agreement and the Members of the Obligated Group to meet their obligations under the Master Indenture, many of which are beyond their control. Among other things, participants in the health care industry are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third-party payment and reimbursement programs. Discussed below are certain of these factors which could have a significant impact on the future operations and financial condition of the Members of the Obligated Group.

The Institutions’ ability to pay their obligations under the Loan Agreement or the Master Indenture, as the case may be, could be adversely affected by legislation, regulatory actions, economic conditions, increased competition from other health care providers, changes in the demand for health care services, government and third-party payor payment and reimbursement changes, demographic changes, and malpractice claims and other litigation. None of the Underwriters or the Authority has made any independent investigation of the extent to which any such factors may have an adverse impact on the financial condition of the Members of the Obligated Group.

Federal Legislative and Regulatory Initiatives

The discussion herein describes risks related to certain existing federal and state laws, regulations, rules and governmental administrative policies and determinations to which the Obligated Group and the healthcare industry are subject. Several of the federal statutes and regulations described herein may be substantially modified or repealed in whole or in part. The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the laws are referred to as the “PPACA” or “Health Care Reform”), is summarized below; however, all or parts of PPACA are subject to modifications or repeal. Such legislation could have a material impact on the Obligated Group's operations, financial condition and financial performance. Further, regulatory changes through adoption or repeal and executive actions could have a material impact on the Obligated Group's operations, financial condition and financial performance, even in the absence of statutory changes.
Patient Protection and Affordable Care Act and Healthcare Reform Initiatives

The changes to various aspects of the healthcare system in the PPACA are far-reaching and include substantial adjustments to Medicare payment and reimbursement, establishment of individual and employer mandates for health insurance coverage, extension of Medicaid coverage to certain populations, provision of incentives for employer-provided healthcare insurance, restrictions on physician-owned hospitals, and increased efficiency and oversight provisions. One of the primary goals of the PPACA is to provide or make available, or subsidize the premium costs of, healthcare insurance for consumers who are currently uninsured (or underinsured) and who fall below certain income levels. The PPACA proposes to accomplish that objective through various provisions, including:

- creating organized insurance markets (referred to as exchanges) in which individuals and small employers can purchase healthcare insurance for themselves and their families or their employees and dependents,
- providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels,
- mandating that individual consumers obtain and certain employers provide a minimum level of healthcare insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates,
- establishing insurance reforms that expand coverage generally through such provisions as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and
- expanding existing public programs, including Medicaid for individuals and families.

Some of the specific provisions of the PPACA that may affect hospital operations, financial performance or financial conditions are described below. This listing is not comprehensive. The PPACA is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to previously existing programs, policies, practices and laws. Additional PPACA programs and initiatives and changes to previously existing PPACA programs, policies and laws will likely occur in the future.

- With varying effective dates, the annual Medicare market basket updates for many providers, including inpatient and outpatient hospital services, will be adjusted based on a ten year average of national productivity and will be reduced by specified percentages each year.

- In federal fiscal year 2014, Medicare disproportionate share hospital (“DSH”) payments (i.e., payments a provider receives from the federal government to help defray the cost of treating the uninsured) were reduced by 75%; going forward the amount of these payments will be determined by a formula that takes into account the national number of consumers who do not have healthcare insurance and the amount of uncompensated care provided by a hospital. Medicare DSH payment reductions are scheduled to continue through 2019. Medicaid DSH payments also were to be reduced beginning in fiscal year 2014, but such reductions were delayed until federal fiscal year 2018.

- Commencing October 1, 2010 through September 30, 2019, payments under the “Medicare Advantage” programs (Medicare managed care) have been or will continue to be reduced, which may result in increased premiums or out-of-pocket costs to Medicare
beneficiaries enrolled in Medicare Advantage plans and may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs.

- Medicaid programs have been expanded in some states, including New Jersey.

- Under the Hospital Readmissions Reduction Program (“HRRP”) in effect prior to the PPACA, Medicare reduces payments to hospitals for readmissions within 30 days of discharge of beneficiaries with certain conditions, imposing a maximum penalty of a 3% reduction in Medicare payments. Such conditions include myocardial infarction, heart failure, pneumonia, chronic obstructive pulmonary disease, hip and knee replacements and – beginning in 2017 – coronary artery bypass graft surgery. Payment reduction penalties under the HRRP apply to all Medicare patients, not just to beneficiaries with conditions subject to readmission penalties. Under the PPACA, readmission information is available to the public.

- Beginning in fiscal year 2015, hospitals with high volumes of “hospital acquired conditions” have had their payment for discharges reduced to 99% of the amount of payment that would otherwise apply to such discharges. Federal payments to states for Medicaid services related to hospital-acquired conditions have been prohibited since federal fiscal year 2011. Data regarding individual hospital performance is publicly available.

- The Centers for Medicare and Medicaid Services (“CMS”) of the U.S. Department of Health and Human Services (“HHS”), the agency responsible for administering Medicare, has established a value-based purchasing program. This program provides incentive payments to hospitals based on their performance on certain quality and efficiency measures. Funding for this program comes from the reductions to Medicare inpatient payments.

- CMS has introduced numerous bundled payment models, including its first mandatory program, the Comprehensive Care for Joint Replacement bundled payment model, which launched in April of 2016. On December 20, 2016, CMS finalized the Advanced Care Coordination Through Episode Payment Models (EPMs), Cardiac Rehabilitation Incentive Model, and Changes to the Comprehensive Care for Joint Replacement Model rule, which, among other things, expands the Comprehensive Care for Joint Replacement bundled payment model to include other surgeries for hip and femur fractures. These rules were anticipated to take effect in May 2017; however, CMS has solicited additional public comments which has further delayed implementation.

- In order to reduce waste, fraud, and abuse in public programs, the PPACA provides for provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs. It also requires Medicare and Medicaid program providers and suppliers to establish compliance programs. The PPACA requires the development of a database to capture and share healthcare provider data across federal healthcare programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities. Healthcare fraud enforcement activities have increased substantially under the PPACA, yielding the government billions of dollars in recoveries annually.
On January 26, 2015, HHS announced a timetable for transitioning Medicare payments and reimbursements from the traditional fee-for-service model to a value-based payment system. This schedule calls for tying 30% of traditional Medicare fee-for-service payments to quality or value through alternative payment models, such as accountable care organizations or bundled payment arrangements (meaning payments for multiple services during a single episode of care), by the end of 2016, increasing to 50% by 2018. The goal of 30% was reached nearly one year ahead of schedule. In addition, HHS has proposed that by 2016, 85% of all Medicare fee-for-service payments have a component based on quality or efficiency of care, such as value-based purchasing or readmission reductions, increasing to 95% by 2018. As of the date of such announcement, approximately 20% of Medicare’s fee-for-service payments are made through alternative delivery models, and 80% of fee-for-service payments have a component based upon quality or efficiency of care, up from almost none in 2011.

The PPACA establishes an Independent Payment Advisory Board to develop proposals to improve the quality of care and to recommend proposals to limit Medicare spending growth. Beginning January 15, 2019, if the Medicare spending growth rate exceeds the target recommended by the Independent Payment Advisory Board, then the Independent Payment Advisory Board is required to develop proposals to reduce the growth rate and require the Secretary of HHS to implement those proposals, unless Congress enacts legislation related to the proposals.

The PPACA imposes substantial new data reporting obligations on hospital initiatives to improve the quality of care, reduce errors and improve health outcomes. Health care insurers now are required to include quality improvement covenants in their contracts with hospital providers, and will be required to report their progress on such actions to HHS. Commencing January 1, 2015, health care insurers participating in the health insurance exchanges are allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care.

The PPACA immediately imposed additional requirements upon nonprofit hospitals to maintain their tax-exempt status, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and control the billing and collection processes. Additionally, effective for tax years commencing January 1, 2013, tax-exempt hospitals must conduct a community needs assessment at least once every three tax years and adopt an implementation strategy to meet those identified needs. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status.

Payments to primary care physicians, including hospital-employed physicians, for services to Medicaid beneficiaries were raised to 100% of Medicare rates for the same services in 2013 and remained elevated through 2014. This program was not continued by the State of New Jersey and beginning January 1, 2015, payments to primary care physicians under Medicaid were reduced to standard Medicaid rates.

Broadly speaking, the provisions of the PPACA that encourage or mandate healthcare coverage for individuals can be expected to increase demand for health care and reduce the amount of uncompensated care that the Members of the Obligated Group provide. However, revisions to the Medicare program could reduce revenues. Therefore, the impact of the PPACA on the operations of the Obligated Group cannot be currently ascertained, and it may have a material impact, either positive or negative, on the Obligated Group’s operations.
Efforts to repeal or substantially modify provisions of the PPACA continue. On June 28, 2012, the Supreme Court upheld most provisions of the PPACA, while limiting the power of the federal government to penalize states for refusing to expand Medicaid. The Supreme Court ruled on various legal challenges to portions of the PPACA, finding that its individual mandate was constitutional as a valid exercise of Congress’ taxing power but that its Medicaid expansion provisions were improperly coercive on the states to the extent existing Medicaid funding was put at risk if a state opted out of the PPACA’s expansion of the current Medicaid program. In July 2014, two federal appeals courts issued conflicting rulings with respect to the PPACA on whether the federal government could subsidize health insurance premiums in states that use the federal health insurance exchange. On June 25, 2015, the Supreme Court of the United States issued its opinion in King v. Burwell holding that the tax credit subsidies provided in the PPACA apply equally to state-run exchanges and the federal exchange, obviating the potential disparate treatment of program participants nationally. Efforts to repeal or delay the implementation of the PPACA continue in Congress. On March 6, 2017, two bills (commonly referred to as the American Health Care Act or the “AHCA”) were drafted and passed by the House Energy and Commerce Committee and the House Ways and Means Committee, which were intended to be a replacement to the PPACA. On March 24, 2017, the AHCA was initially withdrawn from review and approval by the House of Representatives due to a lack of support but subsequently underwent certain revisions and an amended version of the AHCA was reintroduced and approved by the House of Representatives on May 4, 2017. The following list summarizes many of the key elements of the AHCA in its current form.

- Repeal of the individual mandate which currently subjects individuals to a tax penalty if they are not covered by minimum essential coverage as defined under the PPACA in exchange for a continuous coverage incentive that would require insurers to assess a 30% penalty premium on individuals who have not maintained continuous coverage over the previous year.

- Repeal of the employer mandate which currently requires businesses beyond a certain size to provide employees with minimum essential coverage as defined under the PPACA or be subject to tax penalties.

- Repeal or defer certain taxes currently imposed by the PPACA.

- Permit a state to submit an application to the Secretary of Health and Human Services for a 10-year waiver with respect to the PPACA requirements that insurers cover individuals regardless of pre-existing medical conditions, that insurers offer “essential health benefits” in all policies sold in individual and small group markets and that prohibits insurers from varying the premium rates charged for policies sold in individual and small group markets with respect to a particular plan or coverage (other than for rate changes based on factors specified in the PPACA).

- Create a new fund for the stabilization of health insurance premiums and other purposes to be known as the Patient and State Stability Fund.

- Repeal the income-based tax credits and cost-sharing subsidies for individuals provided for in the PPACA. Instead, the AHCA creates a new tax credit for premiums expended for eligible health insurance for the months during which the taxpayer did not qualify for other coverage under certain plans up to a maximum monthly limitation amount determined based on the age of the taxpayer and the taxpayer’s qualifying family members.
• Repeal the disallowance of federal income tax deductions for compensation paid by any “covered health insurance provider” to an employee, officer, director or other individual service provider in excess of $500,000.

• Relax existing rules relating to qualifying expenses, contributions and taxable distributions of health savings accounts.

• Limit the expansion of Medicaid under the PPACA and contains several other provisions that affect Medicaid; would de-fund the Prevention and Public Health Fund established under the PPACA; and would prohibit funding and tax credits in respect of abortion services (subject to limited exceptions).

• The AHCA retains certain PPACA provisions, including those that: (i) require insurers to cover children on their parents’ insurance policies until age 26; (ii) establish the state exchanges where insurers may offer qualified health plans; and (iii) require insurers to disclose annual medical loss ratios and provide rebates if the ratios of health care expenditures to premiums in a plan year are below certain thresholds. Other PPACA requirements are technically retained but may be affected by the ability of states to waive the requirements (or related requirements).

The Senate has introduced its own bill with respect to PPACA, however as broadly reported, there is no expectation that the Senate bill as initially introduced or as modified will be voted upon. Notwithstanding the status of current legislation, the ultimate outcomes of attempts, including the AHCA, to repeal or amend the PPACA and other legal challenges to the PPACA are unknown and their impact on the operations of the Obligated Group cannot be determined at this time. Management of the Institutions cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of any legislation and associated regulatory activity.

Other Legislation

The American Recovery and Reinvestment Act of 2009 (“ARRA”), also known as the “Stimulus Bill,” contained a number of provisions that may impact hospital institutions. For example, ARRA provided approximately $19 billion for Medicare and Medicaid health information technology incentives. The incentives are provided through the Medicare program and encourage physicians and hospitals to adopt and use certified electronic health records in a meaningful way (as defined by the Secretary of Health and Human Services and may include reporting quality measures) before 2015. Providers who had not already adopted and used certified electronic health records in a meaningful way were subject to financial penalties. Additional financial penalties and incentives will be imposed on physicians and hospitals who fail to satisfy heightened standards for meaningful use of electronic health records during a 2015 through 2017 reporting period under the Modified Stage 2 Electronic Health Record Incentive Program.

The Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) was signed into law on April 16, 2015. MACRA created numerous changes to Medicare payment and created new quality reporting programs, as discussed further below (see Medicare Reimbursement and Related Federal Legislation). On May 9, 2016, CMS published a proposed rule and request for comments in the Federal Register. The final rule went into effect on January 1, 2017 and alters how physicians and other practitioners are paid by Medicare for services furnished to program beneficiaries. The Institutions are evaluating this rule but cannot determine at this time its effects on the financial performance of the Members of the Obligated Group.
General Health Care Industry Factors

The Institutions and the health care industry in general are subject to regulation by a number of governmental agencies, including agencies which administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health planning programs and the licensure of health care providers and payors, and other federal, state and local governmental agencies. The health care industry is also affected by federal, state and local policies developed to regulate the manner in which health care is provided, administered and paid for nationally and locally. As a result, the health care industry is sensitive to legislative and regulatory changes in such programs and is affected by reductions and limitations in governmental spending for such programs as well as changing health care policies. In addition, Congress and other governmental agencies have focused on the provision of care to indigent and uninsured patients, the prevention of “dumping” such patients on other hospitals in order to avoid provision of unreimbursed care, the tax-exempt status of not-for-profit corporations which engage in joint ventures and activities unrelated to their exempt purposes and other issues. The Institutions receive a significant portion of their revenues from government programs, and it is unlikely that the Institutions could ever attract sufficient numbers of private-pay patients to become self-sufficient without reimbursements from governmental programs. The enactment of new legislation or the adoption of new regulations in these areas could have an adverse effect on the results of operations of the Institutions. Some of the legislation and regulations affecting the health care industry are discussed in this section.

Increased Competition. The Institutions may likely face increased competition in the future. Increased competition could be caused by: (i) the development of alternative health care delivery systems (e.g., health maintenance organizations (“HMOs”), preferred provider organizations (“PPOs”), Accountable Care Organizations (“ACOs”), clinically integrated networks (“CIN”) and patient-centered medical homes) in the service areas of the Institutions; (ii) competition with other hospitals to provide health care services; (iii) competition for patients with delivery systems of HMOs, PPOs and large, multi-disciplinary physician groups providing services at their own or other facilities; (iv) competition for enrollees between traditional insurers, whose patients generally have a free choice of hospitals, and HMOs and PPOs, which may own their own hospitals or substantially restrict the hospitals and physicians from which their enrollees may receive services or provide more favorable in-network status to certain hospital and physicians, including through the development of tiered networks such as the Horizon Omnia plan recently launched by New Jersey’s largest health insurance company; (v) competition for patients between physicians, who generally use hospitals, and non-physician practitioners such as nurse-midwives, advance practice nurses, chiropractors, physical and occupational therapists and others, who may not generally use hospitals; (vi) competition from nursing homes, home health agencies, hospice programs, ambulatory care facilities, ambulatory surgical centers, rehabilitation and therapy centers, physician group practices, urgent care centers, and other non-hospital providers that provide services for which patients currently rely on hospitals as health care moves from inpatient to outpatient and becomes less hospital-centric; (vii) competition with other hospitals and licensed health facilities for qualified nursing and para-professional personnel; and (viii) competition with other hospitals, large physician groups and HMOs, all of which are seeking different forms of alignment transactions with physicians in the communities serviced by the Institutions. Based on recent changes in federal and state laws, the scope of practice of certain non-physician practitioners in New Jersey and elsewhere has been expended, thereby creating even more competition for patients between physicians, who generally use hospitals, and non-physician practitioners, who may not generally use hospitals. In addition, the New Jersey Legislature approved legislation in June of 2017 which could potentially expand the availability and use of telemedicine in New Jersey. The legislation has not yet been signed into law by the Governor. If it becomes law, it could lead to increased consumer use of telemedicine services, which may impact the volume of in-person treatment services provided by members of the Obligated Group.
The effects of such increased competition on the Institutions’ revenue, including pressures for increased discounts in contracts with alternate delivery or payment systems, cannot be predicted.

**Joint Operating Agreements and Joint Ventures.** The Institutions, Members of the Obligated Group and affiliated entities may enter into joint operating agreements or joint ventures with previously unrelated, tax-exempt health systems or corporations to develop regionally-based health care delivery systems or networks. These joint operating agreements and joint ventures provide for corporations, limited liability companies, partnerships, or other jointly operated entities to operate hospitals and other related health care assets, subject to reserve powers vested in the corporate or sponsoring organizations. The parties to these joint operating agreements and joint ventures remain separate corporations and retain title to their assets. Each joint operating agreement and joint venture may provide for the annual sharing of net income and may impose certain operating and organizational restrictions and conditions upon the parties thereto.

The Members of the Obligated Group and affiliated entities may also be participants in ancillary joint ventures with tax-exempt or for-profit entities. Participation in joint ventures, particularly joint ventures with for-profit entities, that do not meet requirements of the Code, potentially may (i) result in a finding of private benefit which could result in a loss of tax-exempt status, (ii) result in a finding of an excess benefit transaction which could result in the imposition of an excise tax on the insider involved in the transaction or on Obligated Group management that knowingly approved the transaction, or both, or (iii) result in a finding that the activity is unrelated to the exempt purpose of a Member of the Obligated Group and a determination that certain income received by the tax-exempt organization from the joint-venture with the for-profit entity is taxable. Management of the Obligated Group does not believe that participation by Members of the Obligated Group or an affiliated entity in any such presently existing ancillary joint venture will have a material adverse effect on a Member of the Obligated Group’s tax-exempt status or financial condition.

**Inadequate Payments and Uncompensated Care.** The Obligated Group is also at risk for the provision of hospital services on an uncompensated basis. Consistent with their status as tax-exempt 501(c)(3) organizations, the Institutions pursue policies of providing care to the poor and indigent without regard to ability to pay. Governmental agencies may also compel the provision of uncompensated care. For example, State law imposes significant fines on a hospital that denies appropriate care on the basis of the patient’s ability to pay or the source of payment. Moreover, Congress has previously considered (and may again in the future) legislation which would require a hospital to perform a certain amount of charity care to maintain its 501(c)(3) status. Also, pursuant to PPACA, 501(c)(3) tax-exempt hospitals must develop and report on their financial assistance policies. As a result, the Institutions may be required to provide services for which they receive payment below cost, or for which they may receive no payment, from the patient or third party payors. While the Institutions attempt to provide care to the poor and indigent in a prudent manner, the continuation or expansion of such policy, or the inability to properly document its indigent care, could have an adverse financial effect on the Institutions.

While PPACA is designed to reduce uncompensated care by expanding health care coverage to a larger portion of the population, improvements to coverage and access will take time. In addition, despite expansion of the Medicaid program in some states under PPACA, the Medicaid program, which plays an essential role in ensuring the coverage of the American population, is dependent on the continued ability of federal and state funding, which could be curtailed in the future in response to growing budget deficits at all governmental levels. The continued availability, comprehensiveness of coverage and adequacy of reimbursement for care for the indigent and disabled cannot be assured in the future.

State legislation enacted in 1992 established a Health Care Subsidy Fund (“HCSF”) to provide a mechanism and a funding source to provide subsidies to certain hospitals for charity care and other forms
of uncompensated care. Budgetary pressures are likely to result in efforts to reduce or limit the amount of funding for uncompensated care from general revenues of the State. Of note, the 2018 New Jersey State budget enacted on July 3, 2017 effectively reduced the New Jersey’s charity care funding pool from $302 million to $252 million, which will result in a decline in charity care subsidies for the year 2018. There can be no assurances that HCSF funding available to the Institutions will remain at its current level and there is a risk that it may decline in the future.

**Financial Distress of Private Health Plans.** The Institutions may also be affected by the financial instability of the HMOs, PPOs and other third-party payors with which the Institutions contract and/or from which they receive reimbursement for furnished health care services. For example, if the regulators place a financially-troubled third-party payor into rehabilitation under State law, or if a third-party payor files for protection under the federal bankruptcy laws, it is unlikely that health care providers will be reimbursed in full for services furnished to enrollees of the third-party payor. Also, health care providers may be required by law or court order to continue furnishing health care services to the enrollees of an insolvent third-party payor, even though the providers may not be reimbursed in full for such services.

**Managed Care and Integrated Delivery Systems**

**General.** As a response to the increase in competition in the health care industry and to the increasing shift of patients to managed care companies, many hospitals and health systems are pursuing strategies with physicians in order to offer an integrated package of health care services, including physician and hospital services, to patients, health care insurers, and managed care providers. These integration strategies take many forms. Further, many of these integration strategies are capital intensive and may create certain business and legal liabilities for health care providers such as the Institutions.

Even when these activities are conducted by affiliates, the start-up costs for implementation of such strategies, as well as operational deficits, are sometimes derived from the hospitals rather than from the affiliates. Depending on the size and organizational characteristics of a particular strategy, these funding requirements may be substantial. In some cases, the hospital may be asked to provide a financial guaranty for the debt of a related entity which is carrying out an integrated delivery strategy or the hospital may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis.

Further, the Institutions have entered into contractual arrangements with PPOs, HMOs, and other managed care organizations (“MCOs”), pursuant to which they agree to provide or arrange to provide certain health care services for these organizations’ eligible enrollees. There can, however, be no assurance that revenues received under such contracts will be sufficient to cover all costs of services provided which may have a material adverse effect on the operations or financial condition of the Institutions.

**State and Federal Laws.** The Obligated Group could be subject to a variety of laws and regulations, affecting both MCOs and health care providers, including laws and regulations prohibiting, restricting, or otherwise governing PPOs, third party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the “corporate practice of medicine”; selective contracting (“any willing provider” laws and “freedom of choice” laws); coinsurance and deductible amounts; insurance agencies and brokerages; quality assurance and improvement, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; payment of claims by electronic means; medical information privacy laws; and many other areas. Integrated delivery systems also create risks under federal law and regulations, including the Medicare Anti-Kickback Statute, the Stark Law and antitrust laws (as described below under “Regulation
of Health Care Industry”), and the rules applicable to tax-exempt organizations and their relationships with for-profit entities.

Such requirements may impose operational, financial and legal burdens, costs and risks on the Obligated Group.

**Contracted Managed Care Health Plans and Commercial Insurers.** Some MCOs contract with hospitals on an “exclusive” or a “preferred” provider basis. Under such plans, there may be financial incentives for subscribers to use only those hospitals which contract with the plans. Under an exclusive provider plan, private payors may limit coverage to those services provided by selected hospitals that have agreed to accept certain typically discounted, reimbursement levels for such services. With this contracting authority, MCOs may effectively create narrow networks and direct patients to their participating health care providers and away from others. The ability of the Obligated Group to secure and maintain contracts with MCOs, and with HMOs and other plans participating under the Medicare Advantage and Medicaid programs will be critical to the financial performance of the Obligated Group. There can be no assurance that the Obligated Group will be successful in its ability to secure and maintain these contracts or that the contracts will be profitable.

As a result of these developments, the volume of business of health care providers is increasingly dependent upon the providers’ ability to attract and retain contracts with Managed Care Plans. The necessity for obtaining such contracts also increases competition among health care providers on the basis of price as well as quality. Also, recently there has been competition in contracting with Managed Care Plans for “population health” or “population management” contracts, which provide bonuses to hospitals and other providers for meeting quality metrics, cost savings or both. Termination, or expiration without renewal, of such contracts could have a material adverse effect on the financial condition of the Obligated Group. There can be no assurances that such contracts will be renewed upon expiration or that such contracts will not be terminated prior to expiration. Conversely, renewal of such contracts may maintain or increase business volume, but may result in reduced payments and lower net income to the Obligated Group.

The volume of business of health care providers is increasingly dependent upon the providers’ ability to attract and retain contracts with MCOs. The necessity for obtaining such contracts also increases competition among health care providers on the basis of price as well as quality. Termination, or expiration without renewal, of such contracts could have a material adverse effect on the Obligated Group’s financial condition. There can be no assurances that such contracts will be renewed upon expiration or that such contracts will not be terminated prior to expiration. Conversely, renewal of such contracts may maintain or increase business volume, but may result in reduced payment and lower net income to the Obligated Group.

MCOs that contract on a discounted fee-for-service or discounted fixed rate-per-day basis also exert strong controls over the utilization of health care resources. Utilization management by MCOs has led to reductions in the number of hospitalizations and the length of hospital stays, both of which may reduce patient service revenue to hospitals. Furthermore, shortened hospital lengths of stay have not necessarily been accompanied with a reduced demand for services and in fact may lead to more intensive hospital visits and correspondingly increased costs to hospital providers.

Per diem rates, other risk-based payment systems and discounts pose major challenges to hospital providers. In order to enter into such contracts, hospitals are required not only to anticipate the cost of rendering specific services to patients, but also to estimate the likelihood and severity of illness or injury within the population which the hospital serves. If payment under a MCOs contract is insufficient to meet the hospital’s costs of caring for the needs of the population it serves, the financial condition of the
hospital may erode rapidly and significantly. Often, MCO contracts are enforceable for the stated term, regardless of provider losses. Furthermore, MCO contracts and insurance laws may require that a hospital continue to provide care for enrollees for a certain period of time irrespective of whether the MCOs has funds to make payment to the hospital.

Increasingly, physician practice groups, independent practice associations and other physician management companies have become a part of the process of negotiating payment rates to hospitals by MCOs. This involvement has taken many forms but typically increases the competition for limited payment resources from MCOs. For example, it is increasingly common for MCOs to enter into contracts with physicians that may give physicians incentives with regard to the implementation of patient care decisions which may result in reduced hospital admissions and procedures.

Horizon Blue Cross Blue Shield of New Jersey, a commercial insurer with the largest market share in the State of New Jersey, began offering a new insurance product in the Fall of 2015. This product was a two-tiered insurance plan, which classified hospitals as “tier 1” and “tier 2” providers. Tier 1 providers have a much higher rate of reimbursement from the insurer. Tier 2 hospitals have lower reimbursement rates from the insurer, which shifts more of the cost sharing to patient consumers in the form of higher co-payments, co-insurance and deductibles. There have been several lawsuits brought by the tier 2 hospitals regarding exclusion from the tier 1 classification. The litigation is ongoing. The tier 2 hospitals have also challenged the approval process used by the Department of Banking and Insurance to approve the new plan. Lawmakers have also introduced bills which would impose tougher regulations on tiered health plans. While the Institutions are currently classified as tier 1 providers in their plan, there is no guarantee that the Members will remain tier 1 providers, or that they will be tier 1 providers under similar plans that will be available in the future, which could impact reimbursement.

PPACA includes insurance market reforms that, among other things, require individual and group health insurance plans to offer coverage (including renewability) on a guaranteed basis. PPACA prohibits pre-existing conditions limitations, certain coverage limitations, lifetime and annual dollar limits for essential health benefits, and requires coverage of certain preventive health benefits. Individuals are required to enroll in a health plan through an employer, a federal government health program such as Medicare, Medicaid or Tricare, or to purchase insurance through a health insurance exchange established by each state, or the federal government. Subject to various compliance exceptions, individuals who do not enroll for coverage, and large employers who do not offer affordable and adequate coverage, will be subject to tax penalties. It is unclear at this time whether the tax penalties will result in substantial compliance with the mandate to obtain insurance, but initial reports are positive. Survey results from the National Center for Health Statistics indicate that the uninsured rate for American adults has steadily decreased from 22.3% in 2010, the year in which the PPACA was enacted, to 12.8% in 2015. As noted under the section entitled “Patient Protection and Affordable Care Act and Healthcare Reform Initiatives,” the U.S. Supreme Court has upheld the individual mandate provision.

PPACA establishes the criteria for new Qualified Health Plans (“QHPs”) that may participate in the state run exchanges. A QHP must meet certain minimum essential coverage requirements. Minimum essential coverage requirements may be offered at one of five levels of coverage: bronze, silver, gold, platinum, or catastrophic. Each QHP must agree to offer at least one plan at the silver and gold level. PPACA sets forth the minimum coverage offered under each plan level and limits the variations in premiums that may be charged for exchange coverage on the basis of age and tobacco use. A QHP must also be certified by each exchange through which the plan is offered, must be licensed in each state where it offers insurance, and the QHP must limit cost sharing with the insured.

Under PPACA, individuals with family income under 400% of the Federal Poverty Level (“FPL”) are eligible for subsidized premiums, deductibles and co-pays for exchange plan coverage.
Starting in 2014, individuals and small employers became able to access coverage through the exchanges. By 2017, large employers will also be able to use the exchanges to provide employer-based coverage to their employees if their state so elects. Although existing health insurance plans may continue to offer coverage as grandfathered plans in the individual and group markets, enrollment in such plans will be limited to those who were currently enrolled, their families, or new employees and their families in the case of grandfathered employer-sponsored coverage. In February 2013, CMS published the final rule outlining the exchange and issuer standards related to essential benefits and actuarial value. The rule also finalizes a timeline for QHPs to be accredited in federally facilitated exchanges. In May 2014, CMS published a final rule that covers policies regarding consumer notices, quality reporting and satisfaction surveys, the small business health options program, standards for navigators and other matters. It is expected that CMS will continue to publish rules regarding matters related to the exchanges over the next couple of years. At this time, it is not possible to project what impact the exchanges will have on competition in the insurance markets, the cost of coverage for employers, reimbursement rates for hospitals and physicians or the number of uninsured patients that the Institutions will still need to treat.

**Termination of Managed Care Contracts.** Contracts with MCOs can be terminated by the third-party payor at any time without the necessity of showing cause upon approximately six months prior written notice. Termination of contracts between the Obligated Group and MCOs could have an adverse effect on the financial performance of the Institutions.

**Physician Contracting and Relations.** The Obligated Group may wish to contract with physician organizations (e.g., independent physician associations, physician-hospital organizations, etc.) (“POs”) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the POs.

The success of the Obligated Group will be partially dependent upon its ability to attract physicians to join the POs and to attract POs to participate in the network, and upon the physicians’, including the employed physicians, abilities to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the Obligated Group will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality health care services. Without impaneling a sufficient number and type of providers in the Obligated Group’s network, the Obligated Group could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect on the business or operations of the Obligated Group.

**Medicare Reimbursement and Related Federal Legislation**

**Background.** Congress is frequently engaged in debates over federal budget commitments, and, in particular, the extent of the government’s financial commitment to the Medicare program. Any prospective changes in Medicare payments to hospitals, including the potential reduction of funding levels and the transition of Medicare enrollees into Medicare managed care plans, could have an adverse effect on the Obligated Group’s revenues.

**Medicare and Medicaid Programs.** Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act Amendments of 1965. The federal government uses reimbursement as a key tool to implement health care policies, to allocate health care resources and to control utilization, facility and provider development and expansion, and technology use and development. These programs reflect the national policy that persons who are aged and persons who are poor should be entitled to receive medical care regardless of ability to pay. Medicare provides certain health care benefits to beneficiaries who are
Medicare covers inpatient hospital, nursing home care and certain other services, including home health care services in limited circumstances. Medicare Part B covers outpatient hospital services, certain physician services, medical supplies and durable medical equipment. Medicare Part C, the Medicare Advantage program (formerly known as the Medicare+Choice Program) enables Medicare beneficiaries who are entitled to Part A and are enrolled in Part B to choose to obtain their benefits through a variety of private, managed care, risk-based plans.

Medicare is administered by the Centers for Medicare and Medicaid Services (“CMS”) of the U.S. Department of Health and Human Services (“HHS”), which delegates to the states the process for certifying those organizations to which CMS will make payment. The HHS’s rule-making authority is substantial and the rules are extensive and complex. Substantial deference is given by courts to rules promulgated by HHS.

Medicare claims are processed by non-governmental organizations or agencies that contract to serve as the fiscal agent between providers and the federal government to locally process Medicare’s Part A and Part B claims. These claims processors are known as “intermediaries” and “carriers”, for Parts A and B, respectively. They apply the Medicare coverage rules to determine the appropriateness of claims. CMS selects organizations (generally insurance companies) to act as intermediaries and carriers in various states or regions, and enters into a “prime contract” with each. Most Medicare hospital services are provided through a fixed rate per case program under the reimbursement methods described below. Some Medicare recipients, however, enroll in Medicare Advantage managed care plans, which may reimburse providers on a capitated basis. Health care providers that participate in the Medicare program must agree to be bound by the terms and conditions of the program such as meeting the quality standards for rendering covered services and adopting and enforcing policies to protect patients from certain discriminatory practices. In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (“MMA”) was signed into law. This law provides for a new Medicare Part D, under which outpatient prescription drug benefits became available to Medicare beneficiaries as of January 1, 2006 through a voluntary enrollment program. On January 1, 2005, the MMA established a new Medicare Advantage program under Part C. The Medicare Advantage program is designed to expand the number and types of private regional plans available to beneficiaries as an alternative to traditional Parts A and B Medicare coverage.

The MMA has authorized the replacement of fiscal intermediaries with Medicare Administrative Contractors (“MACs”). MACs will handle not only hospital claims, but also Part B claims from physicians, laboratories and other suppliers. CMS has adopted a policy that all providers and suppliers, with some exceptions, are assigned a MAC based on geographic location. No assurance can be given on the impact, if any, transitions of MAC claim administration may have on the Obligated Group’s revenues.

**Hospital Inpatient Services/Operating Expenditures.** Medicare payments for operating expenses incurred in the delivery of certain inpatient hospital services are based on a prospective payment system (“PPS”) that essentially pays hospitals a fixed amount for each Medicare inpatient discharge based upon patient diagnosis and certain other factors used to classify each patient into a Diagnosis Related Group (“DRG”).

CMS periodically promulgates regulations, such as its annual inpatient PPS rules, to adjust the rates paid to hospitals based on its continuing experience with hospital operating and capital costs, and to implement various quality improvement, patient safety and fraud and abuse programs. PPACA expands programs to improve the quality of care, with reductions in reimbursements in future years for excessive readmissions, medical errors and preventable conditions such as hospital acquired infections. Many hospitals in New Jersey have already experienced penalties for excessive readmissions. Depending on the
mix of future services delivered, the overall result of these changes to the inpatient PPS reimbursement rules may be to reduce Medicare reimbursement to the Institutions.

To partially offset the cost of repealing the sustainable growth rate system, as discussed below, MACRA reduces Medicare payments to hospitals. A 3.2% increase in the base rate for inpatient hospital payments (scheduled for fiscal year 2018 under the American Taxpayer Relief Act of 2012) will instead be phased in at 0.5% per fiscal year, from 2018 through 2023. MACRA also reduces market basket updates for post-acute care providers by limiting the 2018 post-acute care update to 1%. Changes to the reimbursement schedules may negatively impact the revenue received by Members of the Obligated Group for the cost of providing inpatient services.

**Hospital Outpatient Services.** Procedures, evaluations and management services, and drugs and devices in outpatient departments are classified into one of approximately 750 groups called Ambulatory Payment Classifications (“APC”). Services provided within an APC are similar clinically and in terms of the resources they require. Each APC has been assigned a weight derived from the median hospital cost of the services in the group relative to the median hospital cost of the services included in the APC for mid-level clinic visits. CMS determines the portion of the median labor related hospital costs and adjusts those costs for variations in hospital labor costs across geographic regions.

Under outpatient PPS, the prospective payment system relating to outpatient services, a hospital with costs exceeding the applicable payment rate would incur losses on such services provided to Medicare beneficiaries. There can be no assurance that outpatient PPS payments will be sufficient to cover all of the Institutions’ actual costs of providing hospital outpatient services to Medicare patients. See Appendix A hereto under the caption “Sources of Patient Service Revenue” for a discussion of Medicare reimbursement as it relates to the Institutions.

Section 603 of the Bipartisan Budget Act of 2015 (“Section 603”) included a revision to the payment system to be used to reimburse hospitals for outpatient services rendered at certain off-campus provider-based departments (“PBDs”). Pursuant to Section 603, any services rendered at such off-campus PBDs from and after January 1, 2017, will no longer be considered covered outpatient department services reimbursable under the Hospital Outpatient Prospective Payment System (“OPPS”). Rather, they will be reimbursed under the lower fee schedule of an “applicable payment system” to be determined by CMS. Section 603 will apply to all off-campus PBDs, except PBDs that were billing as a hospital department as of November 2, 2015 (“grandfathered PBDs”), which will continue to be reimbursed under the higher OPPS. Section 603 does not apply to on-campus PBDs, off-campus inpatient remote locations of a hospital (or hospital departments within 250 yards of such remote locations) or dedicated emergency departments.

On July 6, 2016, CMS issued a proposed rule implementing numerous changes to the 2017 Hospital OPPS and Ambulatory Surgical Center Payment System, including rules implementing the change in reimbursement of PBDs pursuant to Section 603. On November 1, 2016, CMS released the policy changes, quality provisions and payment rates in the form of a final rule and a concurrent interim final rule with comment period. Under the final rule, if a grandfathered PBD relocates its physical address, it will lose its grandfathered status (except under limited circumstances set forth in the final rule). Under the interim final rule, services performed in non-grandfathered PBDs will be reimbursed under the MPFS. As a result, hospitals will have very limited ability to replace or expand their existing off-campus hospital out-patient departments and continue to be reimbursed under OPPS. In addition, the use of the MPFS for non-grandfathered PBDs will result in reduced reimbursement for services provided at new off-campus hospital out-patient departments established after November 2, 2015. Section 603 and the implementing regulations could have a negative impact on future reimbursement of the Members of the Obligated Group.
Beginning in 2021, the Secretary of HHS may expand the MIPS program (discussed further below) to incorporate social workers, psychologists, dieticians, nutritionists, physician and occupational therapists, speech pathologists and audiologists. This may also negatively impact payments to Members of the Obligated Group for the provision of these services.

**Hospital Capital Expenditures.** Medicare payments for capital costs are based upon a PPS system similar to that applicable to operating costs. Prospective payment for capital costs based on the federal rate was transitioned in over a ten-year period. Under PPS, payments for capital costs are calculated by multiplying the federal rate by the DRG weight for each discharge and by a geographical adjustment factor. The payments are subject to further adjustment by a disproportionate share hospital factor that contemplates the increased capital costs associated with providing care to low income patients, and an indirect medical education factor that contemplates the increased capital costs associated with medical education programs.

There can be no assurance that payments under the PPS inpatient capital regulations will be sufficient to fully reimburse the Institutions for their capital expenditures.

**Medical Education Costs.** Under PPS, teaching hospitals receive additional payments from Medicare for certain direct and indirect costs related to their graduate medical education (“GME”) programs. Direct graduate medical education (“DGME”) payments compensate teaching hospitals for the cost directly related to educating residents. Such costs include the residents’ stipends and benefits, the salaries and benefits of supervising faculty, other costs directly attributable to the GME program, and allocated overhead costs. Payment for direct medical education costs are calculated based upon set formulae taking into account hospital-specific medical education costs associated with each resident, the number of full-time equivalent residents, and the proportion of Medicare inpatient days to non-Medicare inpatient days. Indirect medical education payments compensate teaching hospitals for the higher patient care costs they incur relative to non-teaching hospitals. Those indirect payments are issued as a percentage adjustment to the PPS payments. The calculation for both the direct and indirect parts of Medicare payments for GME include certain limitations on the number and classification of full-time equivalent residents reimbursed by Medicare. President Obama’s fiscal year 2015 and 2016 budgets both proposed reducing the indirect GME adjustment by 10%, which would have reduced Medicare medical education payments by approximately $14.6 billion over 10 years. MACRA extended funding for the GME programs through 2017. It is not known if funding for the program will be granted in future budgets.

The formula used to determine payments for medical education do not necessarily reflect the actual costs of such education, and the federal government will continue to evaluate its policy on graduate medical education and teaching hospital payments. There can be no assurance that payments to the Institutions under the Medicare program will be adequate to cover their direct and indirect costs of providing medical education to interns, residents, fellows and allied health professionals.

PPACA includes some changes to funding for primary care residency programs and provides grants to establish teaching health centers, which are community based ambulatory patient care centers. PPACA also establishes other programs to encourage the training and development of more primary care residents (including family medicine, internal medicine, pediatrics, obstetrics and gynecology, psychiatry and geriatrics) and the primary care workforce.

**Physician Payments.** Payment for physician fees is covered under Part B of Medicare. Under Part B, physician services are reimbursed in an amount equal to the lesser of actual charges or the amount determined under a fee schedule known as the “resource-based relative value scale” or “RBRVS”. RBRVS sets a relative value for each physician service; that value is then multiplied by a geographic
adjustment factor and a nationally-uniform conversion factor to determine the amount Medicare will pay for each service.

In October 2011, the Medicare Payment Advisory Commission (“MedPAC”) recommended to Congress that the Sustainable Growth Rate (“SGR”) system be fully repealed and replaced by a different methodology for determining the nationally-uniform conversion factor. With the enactment of the MACRA, the SGR System was repealed. Beginning in July 2015 and continuing through 2019, the Medicare Physician’s Fee Schedule (“PFS”) increases by 0.5% annually. The PFS will then remain at the same reimbursement level for five years (2020-2025). Beginning in 2026, the PFS will be increased either by (i) 0.25% annually for providers participating in the Merit-Based Incentive Payment System, or (ii) 0.75% annually for providers participating in Alternative Payment Models.

In 2019, penalties under Medicare’s current quality reporting programs (the Physician Quality Reporting System, Electronic Health Records Incentive Program, and the Physician Value-Based Modifier) will end and be replaced with the Merit-Based Incentive Payment System (“MIPS”). MIPS combines the Physician Quality Reporting System, Electronic Health Records Incentive Program, and Physician Value-Based Modifier into a single payment adjustment. The payment adjustment can be an increase or a decrease. The MIPS creates four categories which will be used to calculate the payment adjustment:

1. Quality (which will be 50% of the total adjustment in 2019 and decrease to 30% of the total adjustment by 2021);
2. Resource Use (which will be 10% of the total adjustment in 2019 and increase to 30% of the total adjustment by 2021);
3. Clinical Improvement (which will be 15% of the total adjustment); and
4. Electronic Health Record Use (which will be 25% of the total adjustment).

The range of potential payment adjustments based on performance increases each year through 2022. In 2019, adjustments may range from -4% up to +12%. By 2022, the range will be -9% up to +27%. The program is designed to be budget neutral, meaning the total negative adjustments will equal total positive adjustments across all providers. Additionally, high performers are eligible to share in an additional pool of bonus funds.

Alternatively, providers may participate in the Alternative Payment Models (“APMs”). APMs are programs that involve more than nominal financial risk on behalf of the provider. MACRA had created an advisory panel to consider proposals for new payments models and coverage for telehealth services in APMs. By April 1, 2017, the Secretary of HHS was required to establish criteria for the panel to use in making recommendations on the APMs. By July 1, 2017, MedPAC must submit a report to Congress on how physician spending and ordering patterns relate to spending under Parts A, B, and D. A final report is due by July 1, 2021.

From 2019 through 2024, providers qualifying for APMs will receive an annual lump sum bonus of 5% of PFS payments. To qualify for APM participation, providers must meet a certain threshold for the percentage of revenue received through qualifying APMs, which will increase over time. Providers are also required to report quality measures and use electronic health records. Providers who have not reached these thresholds, but whose revenue is close to the required threshold may be exempt from adjustments.
The specific parameters of these programs are still being developed by CMS. The new quality reporting programs may negatively impact the reimbursement amounts received by Members of the Obligated Group for the cost of providing physician services.

In July 2014, CMS proposed to transition all 10-day and 90-day global billing codes to 0-day global codes in 2017 and 2018, respectively. Under this proposal, medically reasonable and necessary visits would have been billed separately during the preoperative and postoperative periods outside the day of the surgical procedure. MACRA preserved the 10-day and 90-day global billing period for over 4,000 surgical service codes, reversing the recently adopted CMS rule.

There can be no assurance that payments to the Members of the Obligated Group for the services of their employed physicians or other employed health care professionals will be sufficient to fully reimburse such Members of the Obligated Group for their cost of providing the services of such professionals.

**Outlier Payments.** As noted above, hospitals are eligible to receive additional payments under the inpatient PPS for individual cases incurring extraordinarily high costs. Historically, the amount of an outlier payment was based, in part, on the hospital charges for a particular case as compared to that hospital’s cost-to-charge ratio. As the hospital specific cost-to-charge ratio was calculated based on the most recently settled cost report, it was typically many months or years old and out of date.

Following an audit of aggressive pricing strategies at one of the nation’s largest hospital chains, and a determination that some hospitals might be manipulating current hospital charge data to maximize reimbursement from Medicare under the outlier payment provisions, the Office of the Inspector General of HHS (“OIG”) began investigating past outlier billing practices, and CMS amended the regulations on how outlier payments were to be calculated in the future. The methodology for calculating outlier payments is designed to prevent hospitals from manipulating the outlier formula to maximize reimbursement and allows for recovery of overpayments in certain cases.

The OIG continues to scrutinize outlier payments in an effort to determine whether outlier payments to the hospitals were paid in accordance with Medicare regulations or whether such payments were the result of potentially abusive billing practices. While the Members of the Obligated Group believe that they have calculated their outlier payments appropriately, there can be no assurance that a Member of the Obligated Group will not become the subject of an investigation or audit with respect to its past outlier payments, or that such an audit would not have a material adverse impact on such Member of the Obligated Group. Moreover, there can be no assurance that any future revisions to the formula for calculating outlier payments will not reduce the payments to the Members of the Obligated Group, or that any such reduction will not have a material adverse impact on the Members of the Obligated Group.

**Medicare Managed Care Program.** Individuals entitled to Medicare Part A benefits, and who are enrolled in Medicare Part B, with the exception of individuals who suffer from end stage renal disease, may elect coverage under either the traditional Medicare fee for service program (Parts A and B) or a Medicare managed care (Part C) program.

The shift of Medicare eligible beneficiaries from traditional Part A and Part B coverage to Part C Medicare Advantage programs is intended to increase competitive pressure to improve benefits, reduce premiums and reduce costs. These changes may result in reduced utilization of health care services and have a material negative impact upon the Obligated Group’s revenue.

**ICD-10.** On October 1, 2015, Medicare changed its billing and coding system to ICD-10. The code set has been expanded from a combination of five numbers and letters to a combination of nine
numbers and letters. ICD-10 has greatly increased the specificity required when billing Medicare for services rendered. ICD-9 contained approximately 13,000 codes and ICD-10 has increased the number of codes to approximately 68,000. In an effort to assist providers with the transition to ICD-10, CMS is initially allowing flexibility with coding. Ending September 30, 2016, there was no denial or audit based solely on the specificity of the ICD-10 code as long as the ICD-10 code used was from an appropriate family of codes. Thereafter, accurate ICD-10 coding has become mandatory. It is expected that the transition to ICD-10 will delay payments to providers. The new required level of specificity in coding may negatively impact the reimbursement amounts received by Members of the Obligated Group.

Audits, Exclusions, Fines and Enforcement Actions. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments under the Medicare program. Based on an audit, a Medicare contractor may conclude, among other things, that a charge was improper for many reasons, such as (for example): that a patient discharge has been claimed under an incorrect MS-DRG, that services may not have been provided under the direct supervision of a physician (to the extent so required), that a patient should not have been characterized as an inpatient, that certain services provided prior to admission as an inpatient should not have been billed as outpatient services, or that certain required procedures or processes were not satisfied or that the services were not properly documented or did not satisfy Medicare rules regarding the provision of the service (such as medical necessity). As a consequence, payments may be disallowed retroactively. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the hospital to civil or criminal sanctions.

Members of the Obligated Group are also subject to Recovery Audit Contractor (“RAC”) audits under a program originally established under section 306 of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. RACs are private companies that contract with CMS on a contingency fee basis to conduct audits of claims and to identify and correct Medicare overpayments. RAC review is not intended to replace the level of analysis conducted by the Medicare Administrative Contractors; rather, it creates a supplemental level of review. The RAC program is intended to detect and correct improper Medicare payments by reviewing claims data received from a hospital’s fiscal intermediary every 45 days. The RAC auditors are authorized to look back three years from the date the claim was paid, but in no event earlier than October 1, 2007, and to review the appropriateness of each claim by applying the same standards and guidance as would a Medicare contractor at the time. A hospital’s failure to submit a requested medical record to a RAC within 45 days, absent good cause for delay, results in disallowance of a claim and demand for recoupment of any reimbursement paid.

On January 2, 2013, the American Taxpayer Relief Act of 2012 (the “Taxpayer Relief Act”) was signed into law to address the federal deficit and the budget sequestration provisions of the Budget Control Act of 2011. The Taxpayer Relief Act postponed the budget sequestration provisions of the Budget Control Act of 2011 for two months to allow Congress to attempt to reach a budget compromise. With no budget compromise forthcoming, on March 1, 2013, the President issued a sequestration order, requiring across-the-board reductions in Federal spending. Accordingly, on March 8, 2013, CMS announced that Medicare claims for payment with a date of service or date of discharge on or after April 1, 2013, incurred a two percent (2%) reduction in Medicare payment. In late December 2013, a budget agreement was signed into law that raised the sequestration caps for fiscal years 2014 and 2015 in exchange for extending the sequestration through 2023. On November 2, 2015, President Obama signed into law the “Bipartisan Budget Act of 2015,” which extended sequestration for an additional year, through fiscal year 2025. The law also provides a uniform 2% reduction for 2024 instead of applying different rates during the first and second halves of the fiscal year, but the FY 2025 sequestration will be “front loaded” (that is, a 4% reduction will apply during the first 6 months of the fiscal year and no reduction will be imposed during the second half of the fiscal year). In the future, Congress and the Administration may or may not reach budget deals to lessen the impact or end sequestration. It is
impossible to predict, however, whether any such further budget deals will be made and whether such budget deals or the failure to do so would impact federal spending on the Medicare and Medicaid programs. Likewise, it is not possible to predict whether additional budget control measures will be made to the Medicare payment system in light of Federal budgetary pressures.

**New Models for Care Under Health Care Reform.** Among various other programs, the PPACA directed HHS to establish and implement various ACO programs, including the Medicare Shared Savings Program that promotes accountability for the care of Medicare beneficiaries and encourages coordination of care and other efficiencies through ACOs. Under the Shared Savings Program, Medicare providers are offered a financial incentive to band together in an ACO with the shared goals of improving the quality of care provided to Medicare beneficiaries and coordinating care to achieve cost savings. If an ACO realizes savings in Medicare expenditures as compared to an expenditure benchmark established by CMS for the ACO’s assigned patients, and meets or exceeds quality performance standards established by CMS, it will be paid a share of Medicare’s savings. The Shared Savings Program became effective on January 1, 2012.

CMS released final regulations on ACOs on October 20, 2011 setting forth governance standards, application requirements and acceptance standards, and options for sharing in any savings or losses. On June 9, 2015, CMS released final rule provisions amending the Shared Savings Program. Several other federal agencies simultaneously released final guidance regarding ACOs. CMS and OIG jointly released an interim final rule with a comment period granting ACOs participation in the Shared Savings Program waivers with respect to certain federal laws in connection with the Shared Savings Program, including the Stark Law, the Anti-Kickback Law, and certain provisions of the CMP Law. The Federal Trade Commission and the United States Department of Justice jointly released a final enforcement policy that sets forth an antitrust “safety zone” for ACOs that meet the CMS eligibility criteria for the program and are highly unlikely to raise significant competitive concerns. The IRS released a fact sheet in connection with the ACO final rule, which serves as a follow-up to Notice 2011-20 regarding the proposed ACO regulations, which stated that tax-exempt organizations that participate in an ACO with for-profit entities will not jeopardize their tax-exempt status or be subject to unrelated business income tax if certain requirements are met.

Several hospitals and physician groups in New Jersey (including the Institutions) have formed ACOs that have been approved to participate in the Medicare Shared Savings Program. It is unclear what effect current or future participation in the Medicare Shared Savings Program by any Members of the Obligated Group or other hospitals and physicians throughout New Jersey will have on the Members of the Obligated Group and their revenues.

**Medicaid Reimbursement**

**Medicaid and Other State Health Care Programs.** Unlike Medicare which is an exclusively federal program, Medicaid is a cooperative federal-state program of medical care for the poor and other Medicaid-eligible groups (e.g., Supplemental Security Income recipients). States obtain federal matching funds for their Medicaid programs by obtaining the approval of CMS of a “state plan” which conforms to Title XIX of the Social Security Act and its implementing regulations. Within broad national guidelines which the Federal government provides, each of the states establishes its own eligibility standards, determines the type, amount, duration, and scope of services, sets the rate of payment for services, and administers its own program. Thus, the Medicaid program varies considerably from state to state, as well as within each state over time. After its state plan is approved and provided the state plan provides certain basic and/or optional services, a state is entitled to federal matching funds for Medicaid expenditures.
Medicaid is designed to pay providers for care given to the indigent and other persons who qualify based on certain conditions. Medicaid is funded by federal and state appropriations and is administered by an agency of the applicable state. Under PPACA, eligibility for Medicaid has been expanded in some states, including New Jersey, to cover individuals with income at or below 133% of the FPL. Current Medicaid eligibility is based on a combination of both income and the categorical classification of the individuals seeking benefits (i.e. families with children, pregnant women, etc.).

**Medicaid Payments to Health Care Providers.** Medicaid operates as a vendor payment program. Subject to federally-imposed upper limits and specific restrictions, states may either pay providers directly or may pay for Medicaid services through various prepayment arrangements, see “Medicaid Managed Care” below. Providers participating in Medicaid must accept Medicaid payment rates as payment in full. States must make additional payments to qualified hospitals that provide services to a disproportionately large number of Medicaid, low income and/or uninsured patients. These payments are referred to as a DSH adjustment. Often DSH payments are insufficient to cover a hospital’s costs in providing care to such patients, and there can be no assurance that any future DSH payments will cover Institution’s costs.

Under PPACA, there will be incremental decreases to the Medicare and Medicaid payments for disproportionate share hospitals totaling $36 billion over the period of fiscal years 2014 to 2024, based on an assumption that the law’s new coverage and access provisions will substantially reduce uncompensated care provided by hospitals. Under PPACA, annual Medicaid DSH payment reductions were scheduled to start in 2014, but the start date was delayed under MACRA until fiscal year 2018. Reductions are scheduled to occur through 2025.

States may impose nominal deductibles, coinsurance, or co-payments on some Medicaid recipients for certain services. Emergency services, family planning services, pregnancy-related services and preventative services for children are exempt from such co-payments. Certain Medicaid recipients must be excluded from this cost sharing including but not limited to: pregnant women (states may choose to exempt all services provided to pregnant women), children under age 18 (or 19, 20 or 21 at the state’s option), hospital or nursing home patients who are expected to contribute most of their income to institutional care, hospice patients and categorically needy HMO enrollees.

**Medicaid Managed Care.** In New Jersey, the Medicaid managed care program is administered by the State’s Department of Human Services (“DHS”). Under this program, DHS contracts with managed care companies to arrange for the provision of health care services to most of the Medicaid recipients in the State. The managed care companies are paid a fixed amount per enrollee per month by the State. These companies in turn negotiate rates for services with hospitals and other health care providers. There can be no assurance that the negotiated rates will cover expenses incurred in providing care to the Medicaid patients.

For Supplemental Security Income (“SSI”) recipients and other Medicaid-eligible groups not enrolled in a managed care program, hospitals are reimbursed for inpatient services using DRG rates. These rates are based on the average cost of hospital care for Medicaid patients at New Jersey hospitals. Because hospitals are reimbursed the median rate per case, there can be no assurance that Medicaid revenues will cover expenses for Medicaid patients. Further reduction in Medicaid payments and/or the conversion of Medicaid recipients to managed care Medicaid coverage would reduce the amount of reimbursement that the Institutions receive for providing services to Medicaid beneficiaries. There can be no assurances that the Institutions can reduce the costs associated with treating Medicaid patients to offset these potential reimbursement reductions. See Appendix A hereto under the caption “Sources of Patient Service Revenue”.

44
**PPACA and Medicaid.** Some of PPACA’s major modifications to the Medicaid program include the following changes. Subsequent to litigation in 2012, states have the option under PPACA to expand Medicaid program eligibility to cover individuals with household income at or below 133% of the FPL, plus a 5% income disregard. Over half of the states, including New Jersey, have elected to expand coverage. The federal government is responsible for the cost of this coverage expansion in the initial three years. Thereafter, each state that participates in the Medicaid expansion will share in the financial burden of the expanded coverage. Finally, as previously discussed, PPACA mandates that Medicaid DSH payments be reduced annually beginning fiscal year 2014 (delayed by MACRA until fiscal year 2018), which may have an adverse effect upon the revenue of the Obligated Group.

**Medicaid DSH Verification and Reporting Requirements**

CMS Regulations at 42 CFR 455.301 and 455.304(d) require states to verify Medicaid DSH payments. New Jersey’s Medicaid DSH verification is executed under an independent accountant’s report and includes an examination of the hospital’s payment and cost related to inpatient and outpatient Medicaid fee-for-service, Medicaid managed care, the uninsured and the underinsured. Federal law limits Federal Financial Participation (“FFP”) for DSH payments through the hospital-specific DSH limit. Under the hospital-specific DSH limit, FFP is not available for DSH payments that are more than the hospital's cost. It should be noted that significant costs, such as hospital-subsidized physician costs for treating Medicaid and uninsured patients are not recognized in the Medicaid DSH cost, as well as the treatment of reducing Medicaid DSH costs by certain grants, results in the cost of treating this population to be understated.

**Future Federal Legislation**

Future legislation, regulation, or other actions by the federal government are expected to continue the trend toward more restrictive limitations on reimbursement for health care services. Legislation has been introduced in Congress and is now pending, which would dramatically change the way in which healthcare services are insured and paid for throughout the United States. If enacted, such legislation would very likely result in limitations on health care revenues, reimbursement and costs or charges. At present, no determination can be made concerning whether, or in what form, such legislation will be enacted into law. Similarly, the impact of future cost control programs and future regulations upon the Obligated Group’s forecasted financial performance cannot be determined at this time.

Any future changes to the Medicare and Medicaid programs could result in substantial reductions in the amounts of Medicare and Medicaid payments to health care providers in the future which could substantially reduce the revenues available to the Institutions, and any reduction in the levels of payment in these government payment programs could substantially adversely affect the Institutions’ financial condition and ability to fulfill their obligations securing the Series 2017A Bonds.

From time to time, Congress considers the issue of organizations whose income is exempt from federal income taxation, such as the Obligated Group. Such studies may result in additional requirements which the Obligated Group must meet in order to maintain its tax-exempt status. One proposal which has been made concerns reporting requirements to the Internal Revenue Service (“IRS”) by tax-exempt hospitals about their provision of charity care. Congress can at any time impose additional requirements on tax-exempt organizations. Should Congress impose any new requirements on tax-exempt organizations, such as the Obligated Group, including any requirements relating to charity care, it is not certain that (i) the Obligated Group would be able to meet such requirements, or (ii) if it should meet such requirements, it would not suffer adverse economic consequences in doing so.
Regulation of Health Care Industry

General. The Institutions and the Members of the Obligated Group, and the health care industry in general are subject to regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health care planning programs, and other federal, state and local governmental agencies. As a result, the health care industry is sensitive to legislative and regulatory changes in such programs, and is affected by reductions and limitations in government spending for such programs as well as changing health care policies. Over the past several years, Congress has consistently attempted to curb the growth of federal spending on health care programs. In addition, Congress and governmental agencies have focused on the provision of care to indigent and uninsured patients, the prevention of the transfer of such patients to other hospitals in order to avoid the provision of uncompensated care, activities of tax-exempt institutions that are unrelated to their exempt purposes, and other issues. Some of the legislation and regulations affecting the health care industry are discussed below.

Additionally, laws, regulations and accreditation standards require that hospitals meet various detailed standards relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, utilization, rate setting, compliance with building codes and environmental protection laws, and numerous other matters. Failure to comply with applicable regulations can jeopardize a hospital’s licenses, ability to participate in the Medicare and Medicaid programs, and ability to operate as a hospital. These laws and regulations, as well as similar laws and regulations now in effect, and the adoption of additional laws, regulations and accreditation standards in these and other areas could have an adverse effect on the Obligated Group’s ability to generate revenues in sufficient amounts to timely pay the Series 2017A Bonds.

Federal “Fraud and Abuse” Laws and Regulations. Section 1128(b) of the Social Security Act (the “Anti-Kickback Law”) prohibits the knowing and willful offer, solicitation, payment or receipt of remuneration in exchange for or as an inducement to make or influence a referral of a patient for goods or services, or the purchase, lease, order or arrangement for the provision of goods or services, that may be reimbursed under Medicare, Medicaid or other health benefit programs funded by the federal government. The scope of the Anti-Kickback Law is very broad, and it potentially implicates many practices and arrangements common in the health care industry, including space and equipment leases, personal services contracts, purchase of physician practices, joint ventures, and relationships with vendors. Penalties for violation of the Anti-Kickback Law include criminal prosecution with imprisonment up to 5 years, civil penalties of up to $50,000 for each violation and damages of up to three times the amount of the illegal remuneration, as well as exclusion from the federal health care programs. Under PPACA, a violation of the Anti-Kickback Law is deemed to be a violation of the federal False Claims Act. The May 12, 2014 proposed rule from the OIG provides that for violations of the Anti-Kickback Law, penalties may be imposed for “each offer, payment, solicitation, or receipt of remuneration and that each action constitutes a separate violation.” Current safe harbor regulations are narrowly drawn and do not cover all of the practices and arrangements that health care providers may consider legitimate business arrangements that do not violate the Anti-Kickback Law. Compliance with the safe harbor regulation is not mandatory, and the failure to comply with all elements of an applicable safe harbor does not indicate that an arrangement violates the law. However, arrangements that do not comply with all of the strict requirements of the safe harbors, though not necessarily illegal, may nevertheless face an increased risk of investigation or prosecution.

In light of the narrowness of the safe harbor regulations, there can be no assurances that the Obligated Group will not be found to have violated the Anti-Kickback Law, and if such a violation were found, that any sanctions imposed would not have a material adverse effect upon the future operations.
and financial condition of the Obligated Group, or the status of the applicable Members of the Obligated Group, as organizations described in Section 501(c)(3) of the Code.

**Restrictions on Referrals.** Section 1877 of the Social Security Act (the “Stark Law”) prohibits a physician (or an immediate family member of the physician) who has a financial relationship with an entity that provides certain “designated” health services from referring Medicare and Medicaid patients to that entity for the provision of such health services, with limited exceptions. Financial relationships include direct or indirect ownership or investment interests, as well as compensation arrangements. These restrictions currently apply to referrals for several designated health services and goods, including clinical laboratory services, physical therapy services, occupational therapy services, radiology or other diagnostic services, durable medical equipment, radiation therapy services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, and inpatient and outpatient hospital services.

The Stark Law is a strict liability statute. Intent behind violations does not matter and even technical violations can result in harsh penalties. Sanctions for violations of the Stark Law include refunds of the amounts collected for services rendered pursuant to a prohibited referral, civil money penalties of up to $15,000 for each claim arising out of such referral, plus up to three times the reimbursement claimed, and exclusion from the Medicare-program. The Stark Law also provides for a civil penalty of up to $100,000 for entering into an arrangement with the intent of circumventing its provisions. In addition, knowing violation of the Stark Law may also serve as the basis for liability under the federal False Claims Act. As required under PPACA, CMS released a protocol under which health care providers can make self-disclosures of actual and potential Stark violations, with reduced penalties for self-disclosure violations. CMS released this protocol on September 23, 2010.

The Stark Law and its accompanying regulations do not specifically refer to Medicaid, however the United States Department of Justice (“DOJ”) and courts have applied the Stark Law to health care services covered by Medicaid, and CMS has indicated that it believes that the Stark Law already applies to Medicaid, although it does not state that in its regulations. Numerous federal district and appellate courts have likewise held that the Stark Law applies to health services covered by Medicaid. Although the Stark Law only applies to Medicare (and possibly also Medicaid), a number of states (including New Jersey) have passed similar statutes pursuant to which similar types of prohibitions are made applicable to all other health plans or third-party payors.

Some federal courts, including federal circuit courts, have opined on the Stark Law as it applies to arrangements between hospitals and physicians, and these decisions have added some uncertainty to the interpretation of the Stark Law. Because of the complexity of the Stark Law and the evolving nature of quality improvement and cost-reduction efforts, there can be no assurances that the Institutions will not be found to have violated the Stark Law or the state law equivalent. If such violation were found to have occurred, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the Institutions. The Institutions attempts to comply with the Stark Law in structuring their relationships with physicians. However, because of the complexity of the Stark Law and the lack of final, comprehensive regulatory guidance on many of its provisions, there can be no assurances that they will not be found to have violated the Stark Law. If such violation were found to have occurred, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the Institutions.

**Federal False Claims Acts and Civil Money Penalties Law.** There are multiple federal laws concerning the submission of inaccurate or fraudulent claims for reimbursement and errors or misrepresentations on cost reports by hospitals and other providers. The coding, billing and reporting obligations of Medicare providers are extensive, complex and highly technical. In some cases, errors and
omissions by billing and reporting personnel may result in liability under one of the federal False Claims Acts or similar laws, exposing a health care provider to civil and criminal monetary penalties, as well as exclusion from participation in the Medicare and Medicaid programs.

The federal False Claims Act prohibits knowingly submitting a false or fraudulent claim for payment to the United States. This statute is violated if a person acts with actual knowledge, or in deliberate ignorance or reckless disregard of the falsity of the claim. Penalties under the federal False Claims Act currently include fines of up to $11,000 per violation occurring prior to November 2, 2015 and up to $21,563 (subject to annual escalations based on the Consumer Price Index) per violation occurring on or after November 2, 2015, plus treble damages, potentially resulting in penalties aggregating in the multiple millions of dollars for ongoing claims submission errors. Anyone who knowingly makes a false statement or representation in any claim to Medicare, Medicaid or other federally funded programs may be subject to criminal penalties, including fines and imprisonment. Moreover, PPACA revised the Social Security Act to state that retention of Medicare, Medicaid and other federally funded overpayment more than 60 days after the overpayment is identified constitutes a federal False Claims Act violation. PPACA also provides that a violation of the Anti-Kickback law is also deemed to be a federal False Claims Act violation. CMS issued final regulations effective March 14, 2016, implementing PPACA’s provisions for Medicare Part A and B providers and suppliers, which expand the overpayment reporting and return obligations, and include a 6-year look-back period, a change from the former 4-year look back period. The final rule departed from the federal False Claims Act’s well-established requirement of “actual knowledge,” “reckless disregard,” or “deliberate ignorance” to provide that the 60 day deadline for reporting a Medicare overpayment is triggered whenever an entity has determined “or should have determined through the exercise of reasonable diligence” that there was an overpayment. Rule-making has not been initiated to implement the PPACA provision as it relates to provider obligations under traditional Medicaid. However, the PPACA provision is self-implementing, meaning that all persons that it covers have an obligation to report and refund overpayments within the time limit set out in the statute. On May 19, 2014, CMS issued a final rule implementing the above PPACA provision for Medicare Part C and D. That final rule also includes a 6-year look-back provision. On June 1, 2015, CMS published a proposed rule covering (among other things) the return of overpayments by Medicaid managed care plans. A final rule was published on May 6, 2016, which includes provisions for the prompt return of identified overpayments.

The federal False Claims Act includes “whistleblower” provisions under which a person who believes that someone is violating the federal False Claims Act can file a sealed complaint against the alleged violator in the name of the United States government. The nature of the allegations is not revealed to the target during the time the DOJ investigates the complaint and determines whether to join in the suit. The initial sealing period is for 60 days but is often extended for months or even years while the DOJ conducts its investigation. If the DOJ decides not to join in the suit, the original whistleblower nonetheless can proceed. If the case is successful, the whistleblower is entitled to between 15% and 30% of the proceeds of any fines or damages paid, the percentages vary depending on whether or not the United States has joined the suit. Although the federal False Claims Act has been in effect for many years, in recent years there has been a significant increase in the number of whistleblower allegations filed under the federal False Claims Act, a large number of which involve the health care and pharmaceutical industries. Additionally, on April 29, 2013, CMS issued a proposed rule that would increase the reward for a successful whistleblower, which is intended to incentivize individuals to report suspected fraud. On December 5, 2014, CMS adopted a final rule, which included a statement that it “may finalize provisions relating to the Incentive Reward Program in future rule making.” There has been no further action on this proposed rule to date.

On May 9, 2014, the OIG issued a proposed rule that provided, in part, that there would be no statute of limitations period applicable to the OIG’s exclusion authority, unlike the OIG’s other
administrative remedies which have a six-year statute of limitations, even when the exclusion is based on
a violation of another statute that has a specific limitations period. The proposed rule also expanded the
OIG’s authority to impose permissive exclusions pursuant to the PPACA. On January 12, 2017, the OIG
published a final rule revising and expanding its authority to exclude individuals and entities from
participation in federal health care plans, and in response to extensive comments objecting to no time
limitations for exclusions, the OIG adopted a 10-year statute of limitations period for exclusion actions.

On June 16, 2016, the United States Supreme Court decided Universal Health Services v. United
States ex rel. Escobar. This case analyzed whether a violation of the FCA occurs when a defendant
submitting a claim that includes specific representations about the goods or service provided, fails to
disclose non-compliance with material statutory, regulatory or contractual requirements that makes those
representations misleading with respect to those goods or services (the implied false certification theory).
The Supreme Court ruled that the implied false certification theory can be a basis for liability under the
FCA and liability under the FCA, for failing to disclose violations of legal requirements does not turn
upon whether those requirements were expressly designated as conditions of payments.

The Civil Money Penalties Law under the Social Security Act (“CMP Law”) provides for the
imposition of civil money penalties against any person who submits a claim to Medicare, Medicaid or any
other federal health care program that the person knows or should know: (a) is for items or services not
provided as claimed; (b) is false or fraudulent; (c) is for services provided by an unlicensed or uncertified
physician or by an excluded person; (d) represents a pattern of claims that are based on a billing code
higher than the level of service provided; or (e) is for services that are not medically necessary. Penalties
under the CMP Law include a fine of $10,000-$50,000 for each item or service claimed, damages of up to
three times the amount claimed for each item or service, and exclusion from participation in the federal
health care programs. The CMP Law also provides for the imposition of penalties against a hospital that
knowingly makes a payment to a physician as an inducement to reduce or limit services provided to
federal program beneficiaries. On May 12, 2014, the OIG issued a proposed rule that would codify
expanded conduct covered by the CMP pursuant to PPACA. New prohibited acts include: (a) failing to
grant OIG timely access to records; (b) ordering or prescribing while excluded when the excluded person
knows or should know that the items or services may be paid for by a Federal healthcare program; (c)
making false statements, omissions, or misrepresentations in an enrollment or similar bid or application to
participate in a Federal healthcare program; (d) failing to report and return a known overpayment; and (e)
making or using a false record or statement that is material to a false or fraudulent claim. If an excluded
individual is employed/contracted with and he or she provides items or services that are not separately
billed, the OIG will calculate penalties based on the number of days of employment/contract with a
penalty of not more than $10,000 per day. Finally, the proposed rule provides for a default penalty of up
to $10,000 for each day a person fails to report and return an overpayment after the 60 day window under
the federal False Claims Act, but the OIG asked for input on whether the penalty should be $10,000 for
each item or service for which there was an identified overpayment. This provision would allow the OIG
to impose penalties even when the DOJ or a whistleblower could not make the showing under the federal
False Claims Act that the defendant “knowingly and improperly” avoided repayment. On December 7,
2016, the OIG issued a final rule which updates the CMP regulations to include a new CMP for violations
of the 60-day overpayment refund rule, to impose CMPs and exclusions on providers and vendors and
adopted the majority of the other provisions in its proposed rule.

Under an interim final rule published on June 14, 2016, the penalty amounts were increased using
the Consumer Price Index to account for inflation. This rule also clarified that CMPs may be imposed for
upcoding claims. The rule also proposes changes to the definition of “knowing.” Historically, regulations
have applied a “knows or should know” standard of proof with regard to false claims and other prohibited
acts. The “should know” standard historically placed a duty on providers to use reasonable diligence to
ensure that claims submitted to the government are true and accurate. Under the revised definition for
“should know or should have known”, individuals and entities would be liable under the CMP authority if they acted with actual knowledge, or with reckless disregard or deliberate ignorance of information supporting the truth or falsity of a claim or other fraud. No specific intent to defraud would be required. The rule also added that the term “knowingly” will be applied to the presentment of a claim under the CMP statute consistent with the standard of knowledge set forth in the False Claims Act.

The threats of large monetary penalties and exclusion from participation in Medicare, Medicaid and other federal health care programs, and the significant costs of mounting a defense, create serious pressures on providers who are targets of false claims actions or investigations to settle. Therefore, an action under the False Claims Act, CMP Law or PFCRA could have an adverse financial impact on the Institutions, regardless of the merits of the case.

**Expanded Enforcement Activity.** Congress enacted The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) (which was later amended by the HITECH Act) in August 1996 as part of a broad health care reform effort. Among other things, HIPAA established a program administered jointly by the Secretary of HHS and the United States Attorney General designed to coordinate federal, state and local law enforcement programs to control fraud and abuse in connection with the federal health care programs.

On January 25, 2013, HHS released the final HIPAA “Omnibus Rule”, which implements a number of provisions of HITECH. Among other things, the Omnibus Rule revises the standard for requiring notification to individuals following a HIPAA breach. It also further restricts the use of protected health information for marketing and further enhances government enforcement mechanisms and remedies for HIPAA violations.

The Department of Health and Human Services’ Office for Civil Rights is currently conducting Phase 2 of its HIPAA compliance audit program. It includes desk audits of select HIPAA privacy and security rule provisions, followed by on-site audits as their resources allow. Auditors will be looking for compliance with updated protocols pursuant to the Omnibus Rule and specifically focusing on arrangements with business associates (as defined under the Omnibus Rule).

The Members of the Obligated Group are actively engaged in continuing compliance efforts with HIPAA and HITECH and their accompanying regulations. However, no guarantee can be made that the Members of the Obligated Group will remain HIPAA compliant in the future. The financial costs of compliance with HIPAA, as amended by HITECH, and their accompanying regulations are substantial.

In addition, in HIPAA, Congress greatly increased funding for health care fraud enforcement activity, enabling the OIG to substantially expand its investigative staff and the Federal Bureau of Investigation to plan to quadruple the number of agents assigned to health care fraud. The result has been a dramatic increase in the number of civil, criminal and administrative prosecutions for alleged violations of the laws relating to payment under the federal health care programs, including the Anti-Kickback Law and the False Claims Act. This expanded enforcement activity, together with the whistleblower provisions of the False Claims Act, have significantly increased the likelihood that all health care providers, including the Institutions, could face inquiries or investigations concerning compliance with the many laws governing claims for payment and cost reporting under the federal health care programs.

**Exclusions from Medicare or Medicaid Participation.** The term “exclusion” means that no Medicare or state health care program payment (including Medicaid and the Maternal and Child Health programs) will be made for any services rendered by the excluded party or for any services rendered on the order or under the supervision of an excluded physician. The Secretary of HHS is required to exclude from program participation for not less than five years any individual or entity who has been convicted of
(1) a program related crime, (2) patient neglect or abuse, (3) health care fraud against any federal, state or locally financed health care program, or (4) an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance.

The Secretary of HHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty, or other financial misconduct relating either to the delivery of health care in general, or to participation in a federal, state or local government program. The excluded person/entity and the entity that enters into a contract with the excluded person/entity are subject to a civil money penalty of up to $10,000 for each item or service furnished by the excluded individual, and the responsible party is required to pay three times the amount claimed for each item or service. Any action to exclude the Institutions from participation in the Medicare program or any state health care program could have a material adverse impact on the Institutions.

**HIPAA’s Administrative Simplification Provisions.** In addition to the expanded enforcement activity noted above, the “Administrative Simplification” provisions of HIPAA mandate the use of uniform standard electronic formats for certain administrative and financial health care transactions, the adoption of minimum security standards for individually identifiable health information maintained or transmitted electronically, and compliance with privacy standards adopted to protect the confidentiality of personal health information. The Administrative Simplification provisions apply to health care providers, health plans, and healthcare clearinghouses (collectively “Covered Entities”).

Various requirements of HIPAA apply to virtually all healthcare organizations, and significant civil and criminal penalties may result from a failure to comply with the Administrative Simplification regulations. Compliance required changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in the monitoring of ongoing compliance with the various regulations. The financial costs of compliance with the Administrative Simplification regulations are substantial.

The Institutions are actively engaged in maintaining compliance with the HIPAA regulations. However, in light of the complexity of the regulations, and the lack of guidance from HHS with respect to numerous provisions of the regulations, it is impossible to accurately assess the financial and operational impact HIPAA will have on the Institutions.

**The HITECH Act.** The American Recovery and Reinvestment Act of 2009 (“ARRA”) appropriated approximately $20 billion for the development and implementation of health information technology standards and the adoption of electronic health care records. ARRA includes the HITECH Act, which contains a number of provisions that affect HIPAA’s privacy and security provisions applicable to Covered Entities and their business associates.

Under HITECH, Covered Entities that use an “electronic health record” are required to account for disclosures of protected health information, including disclosures for treatment, payment and health care operations. Covered Entities must comply with strict reporting procedures in connection with breaches of protected health information. A covered entity must report any breach of information involving over 500 individuals in a state to HHS and the local media. All other breaches must be reported annually to HHS.

HITECH includes provisions requiring Covered Entities to agree to a patient request to restrict disclosure of information to a health plan, if the information pertains solely to an item or service for which the provider was paid out of pocket in full. In addition, if a Covered Entity maintains an electronic health record, it must provide individuals with a copy of the protected health information maintained in
the record in an electronic format, if requested. HITECH also includes a prohibition on the payment or receipt of remuneration in exchange for protected health information without specific patient authorization, except in limited circumstances, and places additional restrictions on the use and disclosures of protected health information for marketing communications and fundraising communications.

HITECH revises the civil monetary penalties associated with violations of HIPAA, and provides state attorneys general with authority to enforce the HIPAA privacy and security regulations in some cases, through a damages assessment of $100 per violation or an injunction against the violator. The revised civil monetary penalties range: (a) in the case of violations due to willful neglect, from a minimum of $10,000 or $50,000 per violation depending on whether the violation was corrected within 30 days of the date the violator knew or should have known of the violation, and (b) in the case of all other violations, from a minimum of $100 to $1,000 per violation.

On January 25, 2013, HHS released the final HIPAA “Omnibus Rule”, which implements a number of provisions of HITECH. Among other things, the Omnibus Rule revises the standard for requiring notification to individuals following a HIPAA breach. It also further restricts the use of protected health information for marketing and further enhances government enforcement mechanisms and remedies to HIPAA violations.

The Institutions are actively engaged in continuing compliance efforts with HIPAA and HITECH and their accompanying regulations. However, no guarantee can be made that the Institutions will remain HIPAA compliant in the future. The financial costs of compliance with HIPAA, as amended by HITECH, and their accompanying regulations are substantial.

Cybersecurity Concerns. Information technology systems may be vulnerable to breaches, hacker attacks, computer viruses, physical or electronic break-ins and other similar events or issues. The Federal Bureau of Investigation has expressed concern that health care systems are a prime target for such cyber attacks due to the mandatory transition from paper records to EHRs and a higher financial payout for medical records in the black market. Such events or issues could lead to the inadvertent disclosure of protected health information or other confidential information or could have an adverse effect on the ability of the Members of the Obligated Group to provide health care services.

Health care providers are increasingly a primary target of cyber criminals seeking the private information of patients and employees, including protected health information, social security numbers and financial information. Breaches of hospital information technology systems may result in fines imposed by HHS under HIPAA and potential tort actions by individuals adversely impacted by such breaches. Additionally, the Federal Trade Commissions (“FTC”) in a July 29, 2016 ruling upheld its jurisdiction to enforce data security requirements against a health care company irrespective of evidence of particularized harm to customers. Although the ultimate implications of the recent FTC ruling remain unclear, it suggests that HHS and FTC may exert parallel jurisdiction over data security with respect to health care providers. Due to the increasing prevalence of cyber crime, there can be no assurance that the Members of the Obligated Group will not be exposed to fines and other liability in the event of a cyber attack or security breach, and in the event of the occurrence of a cyber attack or breach, that any sanctions imposed or liability incurred would not have a material adverse effect upon the future operations and financial condition of the Obligated Group.

Emergency Medical Treatment and Labor Act. In 1986, Congress enacted the Emergency Medical Treatment and Labor Act (“EMTALA”), in response to allegations of inappropriate hospital transfers of indigent and uninsured emergency patients. EMTALA imposes strict requirements on hospitals in the treatment and transfer of patients with emergency medical conditions.
EMTALA requires hospitals to provide a medical screening examination to any individual who comes to the hospital’s emergency department for treatment, without regard to ability to pay, to determine whether the individual suffers from an emergency medical condition within the meaning of EMTALA. A participating hospital may not delay providing a medical screening examination in order to inquire about method of payment or insurance status. If an emergency medical condition is present, the hospital must provide such additional medical examination and treatment as may be required to stabilize the emergency medical condition. If the hospital deems it in the best interest of the individual to transfer the individual to another medical facility, the treating physician must execute a transfer certificate complying with the standards of EMTALA and must provide a medically appropriate transfer.

If a hospital violates EMTALA, whether knowingly and willfully or negligently, it is subject to a civil money penalty of up to $50,000 per violation. Failure to satisfy the requirements of EMTALA may also result in termination of the hospital’s provider agreement with Medicare. EMTALA does not create a private cause of action for individuals or hospitals who suffer harm as a result of an EMTALA violation, but EMTALA does not limit or replace any professional liability claims that may arise under State law. A hospital that suffers financial loss as a result of another hospital’s violation of EMTALA may also bring a civil action under State law. Enforcement activity has increased dramatically in recent years, and because of the broad interpretation of the reach of EMTALA, there can be no assurance that the Institutions will not have been found to have violated EMTALA, and if such a violation were found, that any sanctions imposed would not have a material adverse effect upon the future operations and financial condition of the Institutions.

**Transparency in Pricing.** PPACA requires hospitals to establish and make public a list of the hospital’s standard charges for items and services, including MS-DRGs. CMS issued a final rule which became effective on October 1, 2014 to implement this PPACA provision. It provides hospitals with flexibility in choosing how to comply with the pricing transparency requirements. Hospitals can either make public a list of their standard charges or make public their policy for allowing the public to view such a list in response to an inquiry. Hospitals should update the information at least annually. A 2006 executive order required four federal agencies to make available the prices that they, their health insurance issuers or their health insurance plans pay for procedures to providers in the health care programs with which the agency, issuer or plan contracts. CMS also has made “outcomes” reporting a condition of Medicare participation. These are examples of a trend in which hospitals will be required to divulge proprietary information to the general public in order to participate in federal health care programs. The disclosure of proprietary information may have a negative impact on the ability of the Institutions to gain advantages in negotiations with payors. This, in turn, could negatively influence the revenues of the Obligated Group. Due to the relative novelty of these disclosure requirements, it is impossible to predict the effect, if any, that cost and outcomes reporting will have on the finances of the Obligated Group.

**Transparency and Reporting under the Physician Payment Sunshine Act.** PPACA amended the Social Security Act to require applicable manufacturers of drugs, devices, biologicals or medical supplies (“applicable manufacturers”) covered under Medicare, Medicaid, or SCHIP to report annually certain payments or other transfers of value made to physicians and teaching hospitals (the, “Physician Payment Sunshine Act” or “Sunshine Act”). One of the purposes of the Sunshine Act is to promote transparency in the collaborative efforts among physicians, teaching hospitals and applicable manufacturers. The payments that are reported on an annual basis are now made available for public review through the CMS Open Payments website. It is unclear what, if any, effect this expanded reporting and disclosure requirement may have on the Institutions. However, the disclosures may lead to increased scrutiny, and oversight, which may result in increased exposure under the “Fraud and Abuse Laws” as described more fully above.
Antitrust Laws. The Institutions, like other providers of health care services, are subject to antitrust laws. Those laws generally prohibit agreements and activities that restrain trade. Those laws also prohibit the acquisition or maintenance of a monopoly through anticompetitive practices. The legality of particular conduct under the antitrust laws depends on the specific facts and circumstances and cannot be predicted. Antitrust liability can arise in a number of different contexts, including medical staff privilege disputes, third-party payor contracting, joint ventures and affiliations between health care providers, and mergers and acquisitions by health care providers. Actions can be brought by federal and state enforcement agencies seeking criminal and civil remedies and, in some instances, by private plaintiffs seeking treble damages for harm from allegedly anticompetitive behavior.

Recent judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for money damages for members of hospital peer review committees under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Recent court decisions have also permitted recovery by competitors claiming harm from a hospital’s use of its market power to obtain unfair competitive advantage in expanding into ancillary health care businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved.

In 1993, the United States Department of Justice and the Federal Trade Commission issued “Statements of Antitrust Enforcement Policy in the Health Care Area,” and these statements have been revised from time to time. The statements generally describe certain analytical principles which the agencies will apply to certain factual situations and also establish certain “antitrust safety zones”. Conduct within the safety zones will not be challenged by the agencies absent extraordinary circumstances. Many activities frequently engaged in by health care providers fall outside of the zones but are not challenged, and failure to fall within a safety zone does not mean that a participant will be investigated or prosecuted, or even that the activity violated the antitrust laws. There can be no assurance that federal or state enforcement authorities or private parties will not assert that the Institutions, or any transaction in which any of them are involved, is in violation of the antitrust laws.

National Investigations. The OIG continues to conduct national investigations of perceived fraud and inappropriate billing by hospitals participating in the Medicare program in such areas as medical education payments, billing for patients transferred from one acute care hospital to another acute care hospital, DRG up coding, outlier payments, and outpatient services provided in the days immediately preceding inpatient admission. These national investigations, which are included in the OIG annual work plan, have historically resulted in large recoveries from Medicare eligible hospitals. There can be no assurance that the Institutions will not become the subject of one or more of these investigations, or that the government will not determine that the Institutions are required to repay moneys paid by federal health care programs following any such investigation.

Corporate Compliance. The sentencing of organizations for federal health care crimes is governed by the U.S. Sentencing Guidelines (the “Guidelines”), which permit the imposition of extremely large fines in many instances. The Guidelines permit the fine to be reduced significantly if the provider had in place at the time of the crime an effective corporate compliance program and/or accepts responsibility for its actions. Under new guidance issued by the DOJ in September of 2015, the DOJ is focusing on individual accountability in civil and criminal enforcement actions and corporations, including healthcare entities, will no longer being given credit for cooperating in a government investigation unless it investigates and identifies the corporate employees responsible for the conduct
giving rise to the investigation and provides the government with all non-privileged evidence implicating those employees. As a result of the current environment of increased enforcement against health care fraud and abuse, health care organizations have established compliance programs to prevent or detect violations of federal law. The OIG issued a Compliance Program Guideline for Hospitals in 1998 and Supplemental Compliance Program Guidance for Hospitals in 2005 to assist hospitals in the development and implementation of effective controls and to promote adherence to applicable federal and state laws and program requirements of federal, state and private health plans.

The Institutions each adopted a formal corporate compliance program and Code of Business Ethics and Corporate Compliance (collectively, the “Compliance Program”), which is designed to meet the OIG’s Compliance Program Guidelines for Hospitals. It governs the conduct of employees, physicians, vendors and other specified persons and entities (collectively, “Covered Persons”). Under the Compliance Program, among other things, each of the Institutions (i) reaffirms its continuing commitment to compliance with all federal health care program requirements, including the submission of accurate claims for reimbursement in accordance with federal health care program requirements, (ii) require all Covered Persons to comply with all federal health care programs, (iii) sets forth its expectation that all Covered Persons shall report to the Compliance Officer suspected violations of federal health care programs, (iv) designates the potential consequences for failure by Covered Persons to comply with the Compliance Program and other policies and procedures of the Institutions, (v) provide for on-going compliance education for Covered Persons and (vi) provide for a method to keep confidential any reports by a Covered Person of a suspected violation of the Compliance Program.

State Regulatory Issues. Health care providers are subject to a variety of New Jersey State law issues as described below:

**False Claims.** The New Jersey Insurance Fraud Prevention Act (“FPA”) prohibits a person’s or entity’s submission of false or misleading claims for payment or approval by an insurance company, and allows the State to recover substantial damages from persons or entities that knowingly present or cause to be presented a false or misleading claim for payment or approval by an insurance company. Any person or entity that violates the FPA may be liable for, among other things, a penalty of $5,000 for the first violation, $10,000 for the second violation, and $15,000 for each subsequent violation. In addition to or as an alternative to the civil sanctions provided in the FPA, the Attorney General of the State may bring a criminal action under applicable statutes.

**Health Care Claims Fraud.** N.J.S.A. 2C:21-4.3 and N.J.S.A. 2C:51-5 complements the FPA and prohibits a practitioner (a physician or health care professional as defined by the statute) from submitting bills or claims for payment reimbursement of health care services that contain false, fictitious, fraudulent and misleading statements of material fact, or omissions of material fact. In addition to other criminal penalties allowed by other applicable laws, under this body of law, a practitioner may be guilty of the crime of health care claims fraud. Practitioners can be guilty of a crime in the second or third degree depending upon the severity of the claims fraud, may be subject to a fine of up to five times the pecuniary benefit obtained or sought to be obtained, and may be subject to imprisonment, if convicted. A practitioner may in some cases, also have his license revoked or suspended.

**State False Claims Act.** Effective March 13, 2008, the New Jersey False Claims Act authorizes a person to bring an action against any other person who knowingly causes the State to pay a false claim. A person who violates this law is subject to civil penalties in the amounts set forth in the federal False Claims Act and be liable for treble damages. The Act contains “whistleblower” provisions similar to the federal Civil False Claims Act. (See “Federal Civil False Claims Act and Civil Money Penalties Law” above). The Act also amends the existing Medicaid fraud statute so that civil penalties for Medicaid fraud
committed under that statute are consistent with, and supplement, those under the New Jersey False Claims Act.

As noted above under “Federal False Claims Acts and Civil Money Penalties Law”, the potential imposition of large monetary penalties, criminal sanctions, and the significant costs of mounting a defense, create serious pressures to settle on providers who are targets of false claims actions or investigations. Therefore, an action under the FPA or the New Jersey False Claims Act could have a material adverse financial impact on the Institutions, regardless of the merits of the case.

State Anti-Kickback Law. The New Jersey Board of Medical Examiners’ regulations contain provisions which prohibit Board licensees from, directly or indirectly, giving or receiving from any licensed or unlicensed source a gift of more than nominal (negligible) value, or any fee, commission, rebate, bonus or other compensation however denominated, which a reasonable person would recognize as having been given or received in appreciation for or to promote certain conduct by a licensee, including making or receiving a referral to or from another for professional services. Provisions of State law make it a criminal offense to offer, solicit or receive any kickback, rebate or bribe in order to induce business for which reimbursement is provided under the Medicaid or other State health care programs. Violation of the State Anti-Kickback Law may lead to civil and criminal penalties, as well as exclusion from the Medicaid program. Each Member of the Obligated Group attempts to comply with the provisions of these regulations. However, at the present time, there can be no assurance that a Member of the Obligated Group or the physicians with which it has relationships with will not be found to have violated these State Anti-kickback prohibitions. The mere allegation of such a violation, or if such violation were found to have occurred, or any sanctions imposed, could have a material adverse effect upon the operations and financial condition of the Obligated Group.

State Anti-Referral Law. The New Jersey law governing referrals by physicians, which is commonly referred to as the “Codey Law”, and regulations promulgated thereunder by the New Jersey Board of Medical Examiners (the “BME”), prohibit the referral of a patient for “health care services” provider by practitioners who have, or whose immediate family members have, a “significant beneficial interest” in an entity providing such services. A “health care services” provider includes an entity that provides on an inpatient or outpatient basis testing or diagnosis, or treatment of human disease or dysfunction or dispensing of drugs or medical devices for the treatment of human disease or dysfunction, and also includes the following businesses: bioanalytical laboratory; pharmacy; home health care agency; home infusion therapy company; rehabilitation facility; nursing home; hospital; or facility which provides radiological or other diagnostic imaging services; physical therapy services; ambulatory surgery; or ophthalmic services. A “significant beneficial interest” means any “financial interest”, including an equity or ownership interest in a practice or a commercial entity holding itself out as offering health care services. A “financial interest”, in turn, means any monetary interest held by a Board licensee personally or through immediate family in a health care service to which the Board licensee’s patients are referred, other than the ownership of space leased to the entity under prevailing rates or any interest held in publicly traded securities. There are various exceptions to these prohibitions and some of the defined terms. Violations of the Codey Law could result in civil and criminal penalties and could also result in a physician’s loss of his or her license to practice medicine in New Jersey. Violations of the Codey Law could be a basis for a claim under the New Jersey False Claims Act or the FPA by a third party payor based upon the implied false certification theory.

Health Claims Authorization Processing and Payment Act. Carriers and health care providers must comply with New Jersey’s Health Claims Authorization, Processing and Payment Act (HCAPPA) which contains provisions relating to handling of claims, claims payment appeals, prior authorization processes, utilization management (UM) appeals rights and obligations, and information about clinical guidelines and claims submissions procedures. Carriers and health care providers have an obligation to
meet certain requirements of the HCAPPA with respect to both claims payment and the establishment of an independent claims arbitration program to be administered through the New Jersey Department of Banking and Insurance. No assurance can be given at this time as to the impact, if any, of the provisions of the HCAPPA to the operations and financial condition of the Obligated Group.

Certificate of Need

State law requires a health care facility, under certain circumstances, to obtain a Certificate of Need from the New Jersey Department of the Health prior to the initiation of certain new health care services, bed additions, bed reductions, or conversions, and certain transfers of ownership. By letter dated March 7, 2017, the Commissioner of the New Jersey Department of Health approved IMC Woodbury’s Certificate of Need application for the replacement and relocation of IMC Woodbury. The existence of Certificate of Need requirements may limit the ability of the Institution to initiate certain types of projects or services which might enhance their competitive position or revenue sources. Over the past several years, relaxation of Certificate of Need rules have allowed health care providers to expand activities without adhering to the more rigorous requirements previously imposed. One of the purposes of these changes is to increase opportunities for competition in the health care market. Although these changes may increase the Institutions’ opportunities to provide additional services, they also may increase their exposure to competition from other health care providers.

Health Care Facility Approvals/Licensure Risks

Health care facilities are subject to extensive regulation/oversight and may require approvals from State agencies, such as the Department of Health, in order to provide health care services. Such approvals include, but are not limited to, construction plan approval and amendments to health care facilities licenses.

State Children’s Health Insurance Program

The State Children’s Health Insurance Program (“SCHIP”) provides federal matching funds to states that cover a portion of the costs of health care coverage, primarily for low-income children. CMS administers SCHIP, but each state creates its own program based on minimum federal guidelines, or the state may apply for a waiver, which allows the state to create its own program using the federal funds, but often with different criteria for eligibility.

New Jersey’s SCHIP program, NJ FamilyCare, covers children in households with income levels up to 350% of FPL. Under New Jersey’s waiver program, NJ FamilyCare also covers parents and guardians with income levels up to 133% of FPL. Because of the state budget shortfall in New Jersey, eligibility requirements are subject to change. DHS submitted a comprehensive Medicaid waiver to the federal government, which was approved on October 2, 2012, and makes several eligibility, payment, and delivery reforms to NJ Family Care that may have an adverse effect upon the revenues of the Obligated Group. The waiver lasts for five years, but may be extended.

While generally considered to be beneficial for both patients and providers because it reduces the number of uninsured children, it is difficult to assess the fiscal impact of SCHIP payments on the Institutions. Moreover, each state must periodically submit its SCHIP plan to CMS for review to determine if it meets the federal requirements. If a state does not meet the federal requirements, it may lose its federal funding for its program. From time to time Congress and/or the President seek to expand or contract SCHIP. Most recently, PPACA authorized an extension of the SCHIP program through September 30, 2017, and beginning on October 1, 2015, the already enhanced SCHIP federal matching rate was increased by 23%, bringing the average federal matching rate to 93%. The enhanced federal
matching rate will continue until September 30, 2019. The loss of federal approval for a state’s program
or a reduction in the amounts available under SCHIP could have an adverse impact on the financial
condition of the Obligated Group.

Other State Legislation

In 2008, the New Jersey State Legislature enacted several pieces of legislation adopting reforms
that were aimed at improving the financial condition of New Jersey hospitals and preserving access to
care for residents of New Jersey. The reforms included the creation of stabilization grants for hospitals in
danger of reducing services or closing, mandating training of hospital board members on the delivery of
health care services, requiring annual public meetings of hospital boards, limiting the amount that
hospitals may charge low-income uninsured patients, and authorizing the New Jersey Department of
Health to monitor the financial performance of hospitals and to intervene in the management of
financially distressed hospitals. In February 2013, New Jersey elected a fully federally run exchange
under PPACA. In 2013, New Jersey expanded coverage of its Medicaid program under PPACA. The
federal government will fully fund the expansion for the first three years and after that New Jersey will
become responsible for covering a percentage of the cost of the expansion, increasing each year until
2020 when it becomes responsible for covering 10% of the expanded coverage. However, future
legislative action is required in order to make the Medicaid expansion permanent.

Future State Legislation

From time to time, the New Jersey State Legislature considers certain reforms aimed at
containing health care costs and increasing coverage. Such reforms often include provisions to (i) provide
more affordable coverage through expanded government health care programs, (ii) subsidize low-income
residents to enable them to purchase health care coverage and (iii) study and implement payment system
reforms. At this time, it is impossible to measure the overall financial impact that current and future
legislation (if enacted) will have on the Obligated Group.

Environmental Laws and Regulations

Health care systems are subject to a wide variety of federal, state and local environmental and
occupational health and safety laws and regulations. Among the types of regulatory requirements faced
by health care systems and hospitals are air and water quality control requirements applicable to asbestos,
polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees
and members of the public about hazardous materials handled by or located at a health care facility; and
requirements for training employees in the proper handling and management of hazardous materials and
wastes.

In their role as owners and/or operators of properties or facilities, hospitals may be subject to
liability for investigating and remedying any hazardous substances located on the property, including any
such substances that migrate off the property. Typical health care system operations include, without
limitation, the handling, use, storage, transportation, disposal and/or discharge of medical and/or other
hazardous materials, wastes, pollutants or contaminants. As a result, health care system operations are
particularly susceptible to the risks associated with compliance with such laws and regulations. Failure to
comply may result in damage to individuals, property or the environment; may interrupt operations and/or
increase their cost; may result in legal liability, damages, injunctions or fines; and may result in
investigations, administrative proceedings, penalties or other government agency actions. At the present
time, the Members of the Obligated Group are not aware of any pending or threatened environmental
claim, investigation or enforcement action which, if determined adversely, would have material adverse
consequences on any Member of the Obligated Group.
Insurance Coverage Limits

The Loan Agreement requires the Institutions to maintain prescribed levels of professional liability and property hazard insurance and the Institutions are currently complying with such requirements. The Institutions believe that their present insurance coverage limits are sufficient to cover any reasonably anticipated malpractice or property hazard exposures. No assurance can be given, however, that the Institutions will always be able to procure or maintain such levels of insurance in the future.

The Institutions are occasionally named as defendants in malpractice actions and there remains a risk that individual or aggregate judgments or settlements will exceed the Institutions’ coverage limits, or that some allegations or damages will not be covered by the Institutions’ existing insurance coverages. To the extent that the professional liability insurance coverage maintained by the Institutions is inadequate to cover settlements or judgments against it, claims may have to be discharged by payments from current funds and such payments could have a material adverse impact on the Institutions.

Medical Professional Liability Insurance Market

Rapidly deteriorating underwriting results are generating substantial premium increases and coverage reductions in the medical professional liability insurance marketplace. A rise in claim severity is driving the deterioration. As a result of the market deterioration, health care providers have experienced substantial premium increases, reductions in coverage and coverage availability, more stringently enforced policy terms, and increases in required deductibles or self-insured retentions. Several regional medical professional liability insurance carriers have taken substantial charges to their surplus capital, have had their financial ratings reduced, and/or have been subject to state insurance department takeover for rehabilitation or liquidation. The effect of these developments has been to significantly increase the operating costs of hospitals. In addition, the dramatic increase in the cost of professional liability insurance in the State may have the effect of causing established physicians to leave the market and of preventing new physicians from establishing their practices in the area. There can be no assurance that the reduction in coverage availability and the rising cost of professional liability coverage will not adversely affect the operations or financial condition of the Institutions.

Physician and Registered Nurse Recruitment

Hospitals and health systems are experiencing significant challenges to the recruitment and retention of qualified health care providers, particularly primary care providers.

The health care industry is facing a nationwide shortage of nursing professionals, including registered nurses. At the same time, enrollment in nursing programs has declined, and the skill level of those who are enrolling in nursing programs is declining as more individuals opt to enroll in non-baccalaureate programs. Additionally, the average age of the existing workforce has risen substantially over the last two decades. As a result of these factors, the health care industry is facing a severe nursing shortage. A shortage of nursing staff could result in escalating labor costs, delays in providing care, and patient care management issues, among other adverse effects. Although legislation has been introduced at both the state and federal level to mitigate the impact of the existing and projected nursing shortages, there can be no assurance that a nursing shortage will not adversely affect the operations or financial condition of the Institutions.

Likewise, the ability of the Institutions to generate revenues could be adversely affected should it be unable to attract and retain a sufficient number of qualified physicians for specialties or sub-specialties needed to deliver desired services or other health care professionals. Moreover, on April 18, 2017,
President Trump issued the “Buy American, Hire American” Executive Order, which will implement a review of the H1-B visa program, with potential future modifications to the visa program. Hospitals rely on the H1-B visa program to recruit physicians, nurses and other skilled staff members, and any modification to the visa program could adversely impact the Institutions’ ability to recruit qualified staff.

**Licensing, Surveys, Accreditations and Audits**

On a regular basis, health care facilities, including those of the Institutions, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Those requirements include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors, The Joint Commission (a private nonprofit corporation that accredits health care programs and providers in the United States), the National Labor Relations Board and other federal, state and local government agencies. Renewal and continuance of certain of these licenses, certifications and accreditations is based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Institutions. These activities are generally conducted in the normal course of business of health care facilities. Nevertheless, an adverse result could be the cause of loss or reduction in a facility’s scope of licensure, certification or accreditation, third party payor contracts or reduction in payments received. The Institutions currently expect no difficulty in renewing or maintaining currently held licenses, certifications or accreditations that are material to their operations. There can be no assurance that the requirements of present or future laws, regulations, certifications, licenses or third party payor contracts will not materially and adversely affect the future operations of the Institutions.

The IRS and State, county and local taxing authorities audit and investigate hospital operations to confirm that such organizations are in compliance with applicable tax rules and regulations. These audits may result in disputes about issues ranging from sales tax collections to qualifications of a hospital’s exemption from property or income taxation. The IRS undertakes audits and reviews of the operations of tax-exempt hospitals with respect to such matters as their generation of unrelated business taxable income or relating to inurement of or under private benefit to non 501(c)(3) entities, proper classification of workers as employees, and joint ventures. In some cases, the tax-exempt status of hospitals has been questioned as a result of activities deemed to violate the tax laws or other statutes. In addition, the OIG also undertakes audits and reviews of Medicare billing practices and other regulatory matters. In some cases, hospitals have incurred substantial liabilities including interest and penalties as a result of the findings or settlement of such audits.

**Maintenance of 501(c)(3) Status**

The Members of the Obligated Group have been determined to be a tax-exempt organization described in Section 501(c)(3) of the Code (as defined herein). Maintaining that status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that would cause their assets to inure to the benefit of private persons. The IRS has indicated that it intends to issue “compliance checks” relating to post-issuance compliance of tax-exempt bonds issued for exempt organizations.

As tax-exempt organizations, the Members of the Obligated Group are limited in their use of practice income, guarantees, reduced rent on medical office space, below-market rate interest loans, joint venture programs and other means of recruiting and maintaining physicians. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or
revocation of, their tax-exempt status or assessment of additional tax. The Members of the Obligated Group conduct diverse operations involving private parties and has entered into arrangements, directly or through affiliates, that are of the kind that the IRS has indicated that it will examine in connection with audits of tax-exempt hospitals. Therefore, there can be no assurances that certain of their transactions would not be challenged by the IRS.

The IRS has issued limited guidance that addresses joint ventures and other common arrangements between exempt health care organizations and non-exempt individuals or entities. The Members of the Obligated Group believe that their arrangements with private persons and entities are generally consistent with guidance by the IRS, but there can be no assurance concerning the outcome of an audit or other investigation given the limited authority interpreting the range of activities undertaken by the Members of the Obligated Group.

The IRS has taken the position that hospitals that are in violation of the Anti-Kickback Law may also be subject to revocation of their federal tax-exempt status. As a result, tax-exempt entities such as the Members of the Obligated Group that have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

Although the Institutions have covenanted to maintain their status as tax-exempt organizations, loss of tax-exempt status would likely have a significant adverse effect on any such organization and its operations. Any suspension, limitation or revocation of the tax-exempt status of the Institutions or assessment of significant tax liability could have a material adverse effect on the Institutions and might lead to loss of tax exemption of interest on the Series 2017A Bonds.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of exempt organizations. Since such actions and proposals have been made, they have been vigorously challenged and contested. There can be, however, no assurance that future changes in the laws and regulations of the federal, state or local governments will not materially and adversely affect the operations and revenues of the Obligated Group by requiring it to pay income or real estate taxes.

There have also been numerous Congressional hearings in the past several years held by the House Ways and Means Committee, the Senate Finance Committee and other committees investigating various activities and practices of tax-exempt and other health care organizations, including hospital pricing systems, hospital billing and collection practices, unrelated business income and prices charged to uninsured patients. It cannot be determined at this time whether any legislation will be enacted in response to congressional hearings and investigations and, if so, what form any such legislation would take and what its impact would be on the Obligated Group.

Other legislative changes or judicial actions with respect to matters relating to the tax-exempt status of nonprofit corporations, including the provision of free care to the indigent and the exemption from property taxes of such corporations, could be enacted. There can be no assurance that the future changes in federal, state or local laws, rules, regulations and policies governing tax-exempt entities will not have adverse effects on the future operations of the Institutions.

**Competition among Health Care Providers**

Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, HMOs, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and revenues of hospitals. Existing and potential competitors may not be subject to various restrictions
applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Specialty facilities or ventures that attract an important segment of an existing hospital's admitting specialists or services that generate a significant source of revenue may be particularly damaging. For example, some large hospitals may have significant dependence on heart surgery or orthopedic programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant number of such a hospital's heart surgeons or orthopedists were to develop their own specialty hospital or surgery center (alone or in conjunction with a growing number of specialty hospital operators and promoters), taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could have a material adverse effect on the operations, results of operations and financial condition of the hospital.

Freestanding ambulatory surgery centers may attract significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable for hospitals, may be lost to competitors that can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of that business may result in reduced income. Competing ambulatory surgery centers, which are often for-profit businesses, may not accept indigent patients or low paying programs and would leave these populations to receive services in the full-service, nonprofit hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers.

Additionally, scientific and technological advances, new procedures, drugs and applications, preventive medicine and outpatient health care delivery may reduce utilization and revenues of hospitals in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology. The growth of e-commerce also may result in a shift in the way that health care is delivered, i.e. from remote locations. For example, physicians will be able to provide certain services over the internet and pharmaceuticals and other health services may now be purchased online. Additionally, other service providers in competition with the Obligated Group may compete through these same electronic mediums by advertising their services and providing easy registration for competing services over the internet.

**Real Estate Tax Exemptions for Nonprofit Corporations**

The real property tax exemptions afforded to certain nonprofit health care providers by various state and local taxing authorities have been challenged on the theory that the health care providers were not sufficiently engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

Until recently, states have not been as active as the IRS in scrutinizing the income tax exemption of health care organizations. Legislation that would result in further regulation and supervision of nonprofit corporations generally is introduced from time to time in state legislatures. The loss by Members of the Obligated Group of federal tax exemption could very well trigger a challenge to its state or local tax exemption. Depending on the circumstances, such a challenge, if successful, could be material and adverse.
State and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to the indigent, or where space is used by private individuals or for-profit entities, the real property tax-exempt status of the health care providers has been questioned. The majority of the real property of the Members of the Obligated Group is currently treated as exempt from state and local real property taxation.

In June 2015 the Tax Court of New Jersey ruled in favor of the Town of Morristown in a lawsuit filed against the Town by Atlantic Health System Hospital Corp., the parent of Morristown Medical Center, in upholding the Town’s denial of property tax exemptions for Morristown Medical Center for the years 2006 through 2008 on the basis that Morristown Medical Center had conducted and operated its for-profit and not-for-profit activities in such an integrated and entangled manner such that its overall operations were essentially that of a for-profit corporation. In its ruling in favor of the Town of Morristown, the Tax Court of New Jersey focused on the overall operations of Morristown Medical Center rather than focusing on the charity care and community benefits provided by the hospital. The Tax Court’s ruling was limited solely to the exemption from property taxes under State law. The amount of property tax to be paid by Morristown Medical Center following the ruling of the Tax Court was not determined and the case was settled by the parties. Since the issuance of the Tax Court’s decision in the Morristown case, numerous New Jersey municipalities have filed suit against tax-exempt hospitals located within their borders seeking to impose real estate taxes on the hospitals. Earlier this year, the Borough of Elmer filed an appeal in the Tax Court of New Jersey challenging IMC’s property tax exemption for the years 2015 and 2016. In addition, the City of Vineland filed an appeal in the Tax Court of New Jersey asserting a similar challenge for the year 2017. See Appendix A hereto under the caption “LITIGATION”. In January of 2016, the New Jersey Legislature approved legislation which would have required all hospitals in New Jersey to make payments in lieu of taxes. The law was pocket vetoed by New Jersey Governor Christie, who has proposed a two-year freeze on property tax collections by municipalities from hospitals while the issue undergoes further study by a newly created property tax exemption study commission. Other legislative proposals would allow non-profit hospitals to enter into Payment in Lieu of Taxes (“PILOT”) agreements with municipalities. These proposals are currently being evaluated by the New Jersey Legislature.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of the State or local government will not materially adversely affect the consolidated financial condition of the Members of the Obligated Group by requiring payment of income, property or other taxes.

Community Benefit Initiatives

The IRS has also undertaken a community benefit initiative directed at hospitals. The IRS Hospital Compliance Project Final Report issued in 2009 determined that the reporting of community benefit by nonprofit hospitals varied widely, both as to types of programs and expenditures classified as community benefit and the measurement of community benefits. As a result, the IRS issued revised Form 990 that includes Schedule H, effective for tax years beginning after March 23, 2010, which is designed to provide uniformity regarding types of programs and expenditures reported as community benefits by nonprofit hospitals. As the IRS collects and reviews information from hospitals about the levels and types of community benefit provided, the IRS may issue a more stringent interpretation of community benefit. Findings from Schedule H reports may also revive proposals in Congressional committees which, from time to time, have been made to codify the requirements for hospitals’ tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care. Additionally, PPACA contains new requirements for nonprofit hospitals.
in order to maintain their tax-exempt status, which includes a requirement to conduct a periodic community health needs assessment (CHNA), among other requirements.

**Intermediate Sanctions**

The Code Section 4958 ("Intermediate Sanctions") imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an “excess benefit transaction” with a “disqualified person.” Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization has continued to function as a charity. The tax is imposed on the disqualified person receiving the excess benefit. An additional tax may be imposed on any officer, director, trustee or other person having similar powers or responsibilities who knowingly participated in the transaction willfully or without reasonable cause.

“Excess benefit transactions” include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that exceeds fair market value. “Disqualified persons” include “insiders” such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person. The legislative history sets forth Congress’ intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (1) approved by disinterested members of the organization’s board or compensation committee; (2) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (3) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

Intermediate Sanction penalties can also be assessed in situations where the exempt organization, or an entity controlled by the organization, provides an economic benefit to a disqualified person without maintaining contemporaneous written substantiation of the organization’s intent to treat the benefit as compensation. If the written contemporaneous substantiation requirements are not satisfied and unless the organization can establish that it provided the economic benefit in exchange for consideration other than the performance of services (i.e., a *bona fide* loan), the IRS shall deem such transactions as an “automatic” excess benefit transaction without regard to whether: (1) the economic benefit is reasonable; (2) any other compensation the disqualified person may have received is reasonable; or (3) the aggregate of the economic benefit and any other compensation the disqualified person may have received is reasonable. There is no defense to the assessment of automatic excess benefit penalties.

The imposition of penalty excise tax in lieu of revocation based upon a finding that an exempt organization engaged in an excess benefit transaction is likely to result in negative publicity and other consequences that could have a material adverse effect on the operations, property, or assets of the organization.

**Bond Audits**

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector, with specific review of private use. In addition, the IRS has sent several hundred post-issuance compliance questionnaires to nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the borrower’s (i) record retention, which the IRS has particularly emphasized, (ii) qualified
use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies and (v) voluntary compliance and education. IRS representatives indicate that after analyzing responses from the first wave of questionnaires, thousands more will be sent.

The IRS has also added a new schedule (Schedule K) to IRS Form 990. This schedule requests detailed information related to all outstanding bond issues of nonprofit borrowers, including information regarding operating, management and research contracts as well as private use compliance.

**Tax Reform**

From time to time, Congress has considered and is considering revisions to the Code that may limit access to the tax-exempt debt market to the Authority or borrowers such as the Institutions. On April 26, 2017, the Trump administration announced a tax reform proposal aimed at reducing tax rates, notably on corporations and businesses. While the administration’s current proposal does not call for the elimination of tax-exemption qualification for obligations such as the Series 2017A Bonds, such legislation, if enacted into law, may have the effect of increasing the capital costs of the Institutions for obligations issued in the future.

**Event of Taxability**

If the Institutions do not comply with certain covenants set forth in the Loan Agreement generally related to restrictions on use of the facilities, arbitrage limitations, rebate of certain excess investment earnings, and restrictions on the amount of issuance costs financed with the proceeds of the Series 2017A Bonds, or if certain representations or warranties made by the Institutions in the Loan Agreement, or in certain certificates or agreements of the Institutions, are false or misleading, the interest payable on the Series 2017A Bonds may become includable in the gross income of the owners of the Series 2017A Bonds for purposes of federal income taxation retroactive to the date of issuance of the Series 2017A Bonds, regardless of the date on which such noncompliance or misrepresentation is ascertained. In the event that interest on the Series 2017A Bonds should become includable in the gross income of the owners of the Series 2017A Bonds for purposes of federal income taxation, the Series Resolution does not provide for the redemption of the Series 2017A Bonds or the acceleration of the payment of debt service on the Series 2017A Bonds or for an increase in the rates of interest on the Series 2017A Bonds, although violation of any such tax covenant may give rise to an event of default for which acceleration is a possible remedy.

**Secondary Market**

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2017A Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Obligated Group’s capabilities and the financial condition and results of operations of the Members of the Obligated Group.

**Affiliation, Merger, Acquisition and Divestiture**

The Obligated Group evaluates and pursues potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, the Obligated Group reviews the use, compatibility and business viability of many of the operations of the Obligated Group, and from time to time may pursue changes in the use of, or disposition of, the facilities. Likewise, the Obligated Group occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition of
operations or properties which may become subsidiaries or affiliates of the Obligated Group in the future, or about the potential sale of some of the operations and properties which are currently conducted or owned by the Obligated Group. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use of facilities, including those which may affect the Obligated Group, are held from time to time with other parties. These may be conducted with acute care hospital facilities and may relate to potential affiliation with the Obligated Group. As a result, it is possible that the current organizations and assets of the Members of the Obligated Group may change from time to time. See Appendix A hereto under the caption “STRATEGIC PLANS AND FUTURE AFFILIATION OPPORTUNITIES”.

**Pension Funding Impact**

Changes in market interest rates and debt and equity market fluctuations also potentially could have an impact on the Obligated Group’s pension fund liabilities and its requirements for funding its related pension. Like any other entity with pension fund liabilities, the Obligated Group finds that increases or decreases in interest rates have an impact on the discounted pension benefit obligation and the assumed earnings rates on pension assets needed to match pension fund liabilities, which accordingly affects the levels of actuarial pension investment assets required to meet future pension obligations. Consequently, any substantial and sustained decline in long-term interest rates could have the effect of increasing the current pension funding requirements of the Members of the Obligated Group.

**Potential Effects of Bankruptcy**

If a Member of the Obligated Group were to file a petition for relief under the federal Bankruptcy Code, the filing would act as an automatic stay against the commencement or continuation of judicial or other proceedings against the petitioner and its property.

Any petitioner for relief may file a plan for the adjustment of its debts in a proceeding under the federal Bankruptcy Code which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the petitioner provided for in the plan. No plan may be confirmed unless certain conditions are met, including that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims will be deemed to have accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

**Enforceability of Obligations Under the United States Bankruptcy Code and Under Fraudulent Conveyance Laws**

The rights and remedies of Bondholders are subject to various provisions of the Federal Bankruptcy Code. A filing under the United States Bankruptcy Code would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Members of the Obligated Group, and their property, and as an automatic stay of any act or proceeding to enforce a lien upon their property.

The Members of the Obligated Group may file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No
plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

The Members of the Obligated Group are liable for all obligations issued pursuant to the Master Indenture. The enforcement of such liability may be limited to the extent that any payment or transfer by the Members of the Obligated Group would render them insolvent or would conflict with, not be permitted by, or be subject to recovery for the benefit of other creditors, under applicable state or federal laws.

**Certain Matters Relating to the Enforceability of the Master Indenture**

The accounts of the Members of the Obligated Group will continue to be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the issuance of additional Indebtedness) are met. This is the case notwithstanding uncertainties as to the enforceability of the joint and several obligations of the Members of the Obligated Group to make payments on the obligations issued under the Master Indenture, the Series 2017A Bond Obligation, which uncertainties bear on the availability of the assets of the Members of the Obligated Group for such payments.

Counsel to the Obligated Group will give an opinion or opinions concurrently with the delivery of the Series 2017A Bonds that the Loan Agreement and the obligations of the Institutions thereunder are enforceable against the Institutions in accordance with its terms, and that the Master Indenture and the Series 2017A Bond Obligation are enforceable against the Obligated Group in accordance with their terms. Such opinion will be qualified as to the enforceability of the provisions of the Loan Agreement, the Master Indenture and the Series 2017A Bond Obligation by limitations imposed by state and federal laws, rulings and decisions relating to equitable remedies regardless of whether enforceability is sought in a proceeding at law or in equity, fraudulent conveyances, the ability of one charitable corporation to pledge its assets to secure the debt of another, and bankruptcy, reorganization, insolvency, receivership or other similar laws affecting the rights of creditors generally.

A future Member of the Obligated Group may not be required to make a payment or use its assets to make a payment in order to provide for the payment under the Loan Agreement or the Series 2017A Bond Obligation, or a portion thereof, the proceeds of which were not lent or otherwise disbursed to such Member, to the extent that such payment or use would render the Member insolvent or which would conflict with, not be permitted by or which is subject to recovery for the benefit of other creditors of such Member under applicable law. There is no clear precedent in the law as to whether such payments or use of assets by such a Member of the Obligated Group may be voided by a trustee in bankruptcy in the event of a bankruptcy of such Member or by third party creditors in an action brought pursuant to state fraudulent conveyances statutes. Under the United States Bankruptcy Code a trustee in bankruptcy and, under state fraudulent conveyances statutes, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (ii) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or state fraudulent conveyances statutes, or the guarantor is undercapitalized.
Application by courts of the tests of “insolvency”, “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. It is possible that, in an action to force a future Member of the Obligated Group to make a payment under the Loan Agreement or on the Series 2017A Bond Obligation for which it was not a direct beneficiary, a court might not enforce such a payment in the event it is determined that the Member of the Obligated Group against which payment is sought is analogous to a guarantor of the debt of the Member of the Obligated Group who benefited from the borrowing and that sufficient consideration for the Member’s obligation was not received or that the incurrence of such obligation has rendered or will render the Member insolvent.

In addition, there exists common law authority and authority under state statutes for the ability of the state courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

**Enforceability of Lien on Gross Receipts**

The Series 2017A Bond Obligation provides that the Members of the Obligated Group shall make payments to the Authority sufficient to pay the Series 2017A Bonds and the interest thereon as the same become due. The obligation of the Obligated Group to make such payments will be secured in part by a lien granted to the Authority by the Obligated Group on its Gross Receipts. Such lien will be on a parity with the lien on Gross Receipts securing all other Obligations.

Gross Receipts is defined generally in the Master Indenture to include all revenues, rents, profits, receipts, benefits, royalties, and income of each Member of the Obligated Group and any other moneys received by or on behalf of such Member, including, without limitation, (i) such Member’s rights to receive such revenues, rents, profits, receipts, benefits, royalties, and income of such Member and any other moneys under agreements with insurance companies, Medicare, Medicaid, governmental units and prepaid health organizations, including health care insurance receivables and rights to Medicare and Medicaid loss recapture under applicable regulations to the extent not prohibited by applicable law, rules or regulations; (ii) gifts, grants, bequests, donations, contributions and pledges; (iii) insurance proceeds or any award, or payment in lieu of an award, resulting from condemnation proceedings; and (iv) all proceeds from the sale or other transfer of any goods, inventory and other tangible and intangible property, and all rights to receive the foregoing, whether now owned or hereafter acquired and regardless of whether generated in the form of Accounts, Accounts Receivable, contract rights, Chattel Paper, Documents, General Intangibles, Instruments, Investment Property (as such terms are defined in the Master Indenture), proceeds of insurance and all proceeds of the foregoing, excluding, however, gifts, grants, bequests, donations, contributions and pledges, and the income and gains derived therefrom, which are specifically restricted or designated by the donor or grantor to a particular purpose which is inconsistent with its use for payments required under the Master Indenture or on any Obligations or Indebtedness. Gross Receipts shall not include cash, cash equivalents, investment securities, endowment funds or permanently or temporarily restricted assets from time to time on hand with a Member, or the proceeds thereof, except to the extent derived from Gross Receipts received after the occurrence of an Event of Default as a result of a payment default under the Master Indenture that gives rise to the requirement that Gross Receipts be deposited into the Revenue Fund under the Master Indenture.

To the extent that Gross Receipts are derived from payments by the federal government under the Medicare or Medicaid program, any right to receive such payments directly may be unenforceable. The
Social Security Act and state regulations prohibit anyone other than the individual receiving care of the Institutions providing service from collecting Medicare and Medicaid payments directly from the federal or state government. In addition, Medicare and Medicaid receivables may be subject to provisions of the Assignment of Claims Act of 1940 which restricts the ability of a secured party to collect accounts directly from government agencies. With respect to receivables and revenues not subject to the lien, or where such lien was unenforceable, the Master Trustee would occupy the position of an unsecured creditor. Counsel to the Obligated Group has not provided an opinion with regard to the enforceability of the lien on Gross Receipts of the Obligated Group, where such Gross Receipts are derived from the Medicare and Medicaid programs.

In the event of the bankruptcy of any Member of the Obligated Group, transfers of property made by such Member at a time that it was insolvent in payment of or to secure an antecedent debt, including the payment of debt or the transfer of any collateral, including receivables and Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case under the Bankruptcy Code may be subject to avoidance as preferential transfers. Under certain circumstances a court may have the power to direct the use of Gross Receipts to meet expenses of such Member before paying debt service on the Series 2017A Bonds.

The value of the security interest in the Gross Receipts could be diluted by the incurrence of Indebtedness secured equally and ratably with (or in certain cases senior or subordinate to) the Series 2017A Bonds as to the security interest in the Gross Receipts. See “Permitted Indebtedness” in the summary of the Master Indenture included in Appendix C hereto.

Matters Relating to Security

Certain amendments to the Series Resolution and the Loan Agreement may be made with the consent of the owners of a majority of the aggregate principal amount of the Series 2017A Bonds then Outstanding. Such amendments may adversely affect the security of the Bondholders, and such majorities of owners may be composed wholly or partially of the owners of additional Obligations. In addition, upon compliance with certain conditions set forth in the Master Indenture, amendments to certain of the operational, procedural or financial covenants set forth in the Master Indenture may be effected without consent of the Bondholders or the holders of Obligations. Such amendments may adversely affect the security for the Series 2017A Bonds.

The enforceability of the obligations of the Members of the Obligated Group to make payments on the Series 2017A Bond Obligation and under the Loan Agreement is subject to certain limitations including (i) state and federal bankruptcy laws relating to fraudulent conveyances if, among other things, a Member of the Obligated Group is determined not to have received fair consideration or reasonably equivalent value for its obligation to make such payment and is rendered insolvent as a result of such obligation; (ii) restrictions on the use of assets subject to a direct, express or charitable trust; (iii) corporate or related purposes of the Member of the Obligated Group which are inconsistent with the corporate or related purposes for the issuance of the Series 2017A Bond Obligation; (iv) requests for payments from a Member of the Obligated Group which would result in the cessation or discontinuance of any material portion of the health care or related services previously provided; and (v) applicable usury laws.

Investments

The Members of the Obligated Group have significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations historically have been at times material.
Derivative Products

The Members of the Obligated Group may use interest rate hedging arrangements in connection with certain Obligations (as defined in the Master Indenture). Such arrangements may be used to manage exposure to interest rate volatility, but may expose the Members of the Obligated Group to additional risks, including the risk that a counterparty may fail to honor its obligation.

Swap agreements are subject to periodic “mark-to-market” valuations. A swap agreement may, at any time, have a positive or negative value to the Members of the Obligated Group, such value, if negative could result in the Obligated Group posting collateral related to such mark-to-market valuations. If the Members of the Obligated Group were to choose to terminate a swap agreement or if a swap agreement were terminated pursuant to an event of default or a termination event as described in the swap agreement, the Members of the Obligated Group could be required to pay a termination payment to the swap provider, and such payment could adversely affect the Members of the Obligated Group’s financial condition.

Risks Related to Variable Rate or Private Placement Indebtedness

The Institutions, like many tax-exempt health care entities, have historically incurred variable rate indebtedness. Generally, the interest cost of variable rate indebtedness is lower than for fixed rate debt of a comparable maturity. In order for variable rate indebtedness to have the desired result of lower borrowing costs, the variable rate indebtedness commonly requires credit enhancement such as bond insurance or a bank letter of credit. Any such indebtedness therefore will bear interest at rates that are directly related to the ratings accorded to, and to investor perceptions of, the financial strength of the applicable provider of credit enhancement. In addition, the Institutions, like many tax-exempt health care entities, have historically incurred indebtedness purchased by private placement purchasers in non-public transactions. The Series 2017B Bonds are expected to be purchased as private placement bonds. Such indebtedness generally bears interest at an initial rate and is subject to mandatory tender at the end of the initial holder’s purchase period. Similar to the failure to extend or replace a credit facility, the failure to remarket private placement bonds could result in such obligations bearing interest at a penalty rate or default rate, increasing the debt service obligation of the Institutions.

The applicable providers of credit enhancement and the purchasers of private placement bonds, such as the purchaser of the Series 2017B Bonds, often are the beneficiaries of covenants in addition to those set forth in the Master Indenture. The additional covenants could restrict the ability of the Members of the Obligated Group to enter into certain transactions and the violation of such covenants could result in an event of default under the applicable additional agreement which may result in a default under the Master Indenture. The failure of the Institutions to pay or provide for the payment of the purchase price of the Series 2017B Bonds on the Mandatory Purchase Date could result in an event of default under the CCA which could, in turn, result in an Event of Default under the Master Indenture. Upon an Event of Default under the Master Indenture, the Master Trustee may be required to accelerate all Obligations then outstanding under the Master Indenture, including the Series 2017A Bond Obligation, the Series 2017B Bond Obligation and the Series 2017B Ancillary Obligation.

Construction Risks

Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, strikes, shortages of materials and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds.
General Factors Affecting the Obligated Group's Revenues

The following factors, among others, may unfavorably affect the operations of health care facilities, including those of the Obligated Group, to an extent and in a manner that cannot be determined at this time:

1. Employee strikes and other adverse actions that could result in a substantial reduction in revenues with corresponding decreases in costs. Hospitals and their employees fall within the scope of, and are subject to, the National Labor Relations Act. Accordingly, labor relationships with hospital and nursing home employees are regulated by the federal government. Employees may bargain collectively and strike.

2. Reduced need for hospitalization or other services arising from future medical and scientific advances.

3. Reduced demand for the services that might result from decreases in population of the service area of the Institutions, as well as advances in technology and future regulatory reforms which could lead to the increased use of telemedicine.

4. Increased unemployment or other adverse economic conditions in the service area of the Institutions which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the Institutions’ service area or the State of New Jersey or by the closing of one or more major employers in such service area may result in a loss of health insurance benefits for a portion of the Institutions’ patients.

5. Cost, availability and sufficiency of any insurance such as medical professional liability, directors’ and officers’ liability, property, automobile liability, and commercial general liability coverages that health care facilities of a similar size and type generally carry.

6. Adoption of legislation which would establish a national health care program.

7. Cost and availability of energy.

8. Potential depletion of the Medicare trust fund.

9. The occurrence of terrorist activities or natural disasters, including floods and earthquakes, may damage the facilities of the Institutions, interrupt utility service to the facilities, or otherwise impair the operation of the Institutions and the generation of revenues from the facilities. The facilities of the Institutions are covered by general property insurance in an amount which management considers to be sufficient to provide for the replacement of such facilities in the event of a natural disaster.

10. Any increase in the quantity of indigent care provided which is mandated by law or required due to increased need of the community in order to maintain the charitable status of the Institutions.

11. Factors such as: (i) the cost and availability of insurance, such as workers’ compensation, fire and general comprehensive liability; (ii) uninsured acts of
God; and (iii) increased costs and possible liability exposure arising out of potential environmental hazards.

12. Technological advances in recent years have accelerated the trend toward the use of sophisticated diagnostic and treatment equipment in hospitals. The availability of certain equipment may be a significant factor in hospital utilization, but purchase of such equipment may be subject to health planning agency approval and to the ability of the Obligated Group to finance such purchases.

13. Imposition of wage and price controls for the health care industry or an increase in the minimum wage.

14. Developments adversely affecting the federal or state tax-exemption of municipal bonds.

15. Changes in accounting rules which could result in the reclassification of assets and transactions which are subject to the terms of the Master Indenture.

16. Changes in the governmental requirements concerning how patients are treated. These regulations are embodied in patients’ bills of rights and similar programs being promulgated with greater frequency, and changes in licensure requirements. All of these programs can increase the cost of doing business and consequently adversely affect the financial condition of the Institutions.

**TAX MATTERS**

**Federal Income Tax Treatment**

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements which must be met at the time of, and on a continuing basis subsequent to, the issuance of the Series 2017A Bonds in order for the interest on the Series 2017A Bonds to be and remain excluded from gross income for Federal income tax purposes under Section 103 of the Code. Noncompliance with such requirements could cause the interest on the Series 2017A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Series 2017A Bonds. The Authority and the Institutions have each covenanted to comply with the provisions of the Code applicable to the Series 2017A Bonds and not to take any action or fail to take any action that would cause the interest on the Series 2017A Bonds to lose the exclusion from gross income for Federal income tax purposes under Section 103 of the Code.

In the opinion of Wilentz, Goldman & Spitzer, P.A., Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance by the Authority and the Institutions with their covenants described above, interest on the Series 2017A Bonds is not includable in gross income for Federal income tax purposes pursuant to Section 103 of the Code and is not treated as a preference item under Section 57 of the Code for purposes of calculating the Federal alternative minimum tax imposed on individuals and corporations; such interest on the Series 2017A Bonds is, however, included in the adjusted current earnings of a corporation for purposes of the Federal alternative minimum tax imposed on corporations.

Bond Counsel is also of the opinion that the difference between the stated principal amount of the Series 2017A Bonds maturing on July 1, 20__, July 1, 20__ and July 1, 20__ (collectively, the “Discount Series 2017A Bonds”) and their initial offering price to the public (excluding bond houses, brokers or
similar persons or organizations acting in the capacity of underwriters or wholesalers), at which price a substantial amount of the Discount Series 2017A Bonds was sold, constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Discount Series 2017A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Series 2017A Bond, and the basis of each Discount Series 2017A Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.

Under Section 171(a)(2) of the Code, no deduction is allowed for the amortizable bond premium (determined in accordance with Section 171(b) of the Code) on the Series 2017A Bonds that are initially offered and sold at a premium. Under Section 1016(a)(5) of the Code, however, an adjustment must be made to the purchaser’s basis in such Series 2017A Bonds to the extent of any amortizable bond premium that is disallowable as a deduction under Section 171(a)(2) of the Code.

**Additional Federal Income Tax Consequences**

Prospective purchasers of the Series 2017A Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Series 2017A Bonds, may have additional federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty insurance companies, foreign corporations and certain S corporations. Prospective purchasers of the Series 2017A Bonds should consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

**State Taxation**

Bond Counsel is further of the opinion that, under existing laws of the State of New Jersey, interest on the Series 2017A Bonds and any gain realized on the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act, as amended.

**Prospective Tax Law Changes**

Federal, state or local legislation, administrative pronouncements or court decisions may affect the Federal and state tax-exempt status of interest on the Series 2017A Bonds, gain from the sale or other disposition of the Series 2017A Bonds, the market value of the Series 2017A Bonds or the marketability of the Series 2017A Bonds. The effect of any legislation, administrative pronouncements or court decisions cannot be predicted. Prospective purchasers of the Series 2017A Bonds should consult with their own tax advisors regarding such matters.

**Other Tax Consequences**

Except as described above, Bond Counsel expresses no opinion with respect to any Federal, state, local or foreign tax consequences of ownership of the Series 2017A Bonds. Bond Counsel renders its opinion under existing statutes, regulations, rulings and court decisions as of the date of issuance of the Series 2017A Bonds and assumes no obligation to update its opinion after such date of issuance to reflect any future action, fact, circumstance, change in law or interpretation, or otherwise. Bond Counsel expresses no opinion as to the effect, if any, on the tax status of the interest on the Series 2017A Bonds paid or to be paid as a result of any action hereafter taken or not taken in reliance upon an opinion of other counsel.

See Appendix D to this Official Statement for the complete text of the proposed form of Bond Counsel’s opinion with respect to the Series 2017A Bonds.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the provisions of the Act, the Series 2017A Bonds are securities in which the State and all political subdivisions of the State, their officers, boards, commissions, departments, or other agencies, all banks, bankers, savings banks, trust companies, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations, and other persons carrying on an insurance business, and all administrators, executors, guardians, trustees and other fiduciaries, and all other persons whatsoever who now are or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest any funds, including capital belonging to them or within their control, to the extent that the investment powers of the foregoing entities are governed by the laws of the State. The Series 2017A Bonds are securities that may properly and legally be deposited with and received by any State or municipal officers or any agency of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized by law.

NEGOTIABLE INSTRUMENTS

Pursuant to the Act, the Series 2017A Bonds are negotiable instruments, subject only to the provisions for registration of the Series 2017A Bonds.

STATE OF NEW JERSEY NOT LIABLE ON SERIES 2017A BONDS

The Series 2017A Bonds are special and limited obligations of the Authority payable solely from the funds and revenues pledged to the payment thereof under the Resolutions, and are not a debt nor a liability of the State of New Jersey or any political subdivision thereof (other than the Authority to the extent set forth in the Resolutions), or a pledge of the faith and credit of the State of New Jersey, any political subdivision thereof or the Authority. The Authority has no taxing power.

PLEDGE OF STATE NOT TO AFFECT RIGHTS OF BONDHOLDERS

The State has pledged to and agrees with the holders of the Series 2017A Bonds issued pursuant to authority contained in the Act, and with those parties who may enter into contracts with the Authority pursuant to the provisions of the Act, that the State will not limit, alter or restrict the rights vested by the Act in the Authority and the participating health care organization (as defined in the Act) to maintain, construct, reconstruct and/or operate any project (as defined in the Act) or to establish and collect such rents, fees, receipts or other charges as may be convenient or necessary to produce sufficient revenues to meet the expenses of maintenance and operation thereof and to fulfill the terms of any agreements made with the Bondholders authorized by the Act, and with the parties who may enter into contracts with the Authority pursuant to the provisions of the Act, or in any way impair the rights or remedies of such Bondholders or such parties until the Series 2017A Bonds, together with interest thereon, are fully paid and discharged and such contracts are fully performed on the part of the Authority.
LEGAL MATTERS

The Series 2017A Bonds and the proceedings pursuant to which they are issued are subject to the approving opinion as to legality, validity and tax status of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel. The proposed form of the opinion of Bond Counsel is attached hereto as Appendix D. Certain legal matters will be passed upon for the Authority by its counsel, The Attorney General of the State of New Jersey. Certain legal matters pertaining to the Obligated Group will be passed upon by its counsel, Giordano, Halleran & Ciesla, P.C., Red Bank, New Jersey. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Newark, New Jersey.

LITIGATION

The Authority

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2017A Bonds or questioning or affecting the validity of the Series 2017A Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of any of the present members or other officers of the Authority to their respective offices is being contested. There is no litigation pending which in any manner questions the right of the Authority to make loans to the Institutions in accordance with the provisions of the Act, the Resolutions and the Loan Agreement.

The Obligated Group

There is not now pending any litigation contesting the plan of finance or the ability of the Institutions to enter into the Loan Agreement or the Members of the Obligated Group to enter into the Master Indenture. No litigation or proceedings are pending or, to the knowledge of the Members of the Obligated Group, threatened against them except (a) litigation and proceedings involving claims for hospital professional liability in which the probable recoveries and estimated costs and expenses of defense will be entirely within the applicable insurance policy limits (subject to applicable deductibles) and (b) litigation and proceedings other than those described in (a) which if adversely determined would not, in the opinion of counsel to the Obligated Group, materially adversely affect the financial condition or results of operations of the Obligated Group. See Appendix A hereto under the caption “LITIGATION”.

INDEPENDENT AUDITORS

The consolidated financial statements and supplementary information of Inspira Health Network, Inc. as of December 31, 2016 and 2015 and for the years then ended, included in Appendix B to this Official Statement, have been audited by Baker Tilly Virchow Krause, LLP, independent certified public accountants, as stated in their report appearing in Appendix B to this Official Statement.

UNDERWRITING

Under the bond purchase contract entered into between the Authority and the underwriters named on the cover of this Official Statement (the “Underwriters”), and approved by the Members of the Obligated Group, the Series 2017A Bonds are being purchased at an aggregate purchase price of $___________ representing the par amount of the Series 2017A Bonds, less an underwriting discount in the amount of $___________, plus/less a net original issue premium/discount in the amount of $___________. The bond purchase contract provides that the Underwriters will purchase all of the Series
2017A Bonds, if any are purchased. The obligation of the Underwriters to accept delivery of the Series 2017A Bonds is subject to various conditions contained in the bond purchase contract.

The Underwriters intend to offer the Series 2017A Bonds to the public initially at the offering prices set forth on page (i) of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2017A Bonds to the public. The Underwriters may offer and sell Series 2017A Bonds to certain dealers (including dealers depositing Series 2017A Bonds into investment trusts) at prices lower than the public offering price.

The Institutions have agreed to indemnify the Underwriters and the Authority and any person who controls the Underwriters or the Authority and any member, officer, official or employee of the Underwriters or the Authority against certain liabilities arising out of certain incorrect information contained in or omitted from this Official Statement.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the Members of the Obligated Group and their affiliates in connection with such activities. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively traded securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and or instruments of the Members of the Obligated Group and persons and entities with relationships with the Members of the Obligated Group. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC has provided the following two sentences for inclusion in this Official Statement.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2017A Bonds, has entered into negotiated dealer agreements (each, a “JP Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each JP Dealer Agreement, each of CS&Co. and LPL may purchase Series 2017A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2017A Bonds that such firm sells.

Neither the Authority nor the Institutions have been furnished with any documentation relating to either JP Dealer Agreement and make no representations of any kind with respect thereto. Neither the Authority nor the Institutions are a party to either JP Dealer Agreement and the Authority and the Institutions have not entered into any agreement or arrangement with CS&Co. or LPL with respect to the offering and sale of the Series 2017A Bonds.

Morgan Stanley & Co. LLC has provided the following three sentences for inclusion in this Official Statement.
Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Series 2017A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC (the “Morgan Stanley Distribution Arrangement”). As part of the Morgan Stanley Distribution Arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of the Morgan Stanley Distribution Arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2017A Bonds.

Neither the Authority nor the Institutions have been furnished with any documentation relating to the Morgan Stanley Distribution Arrangement and make no representations of any kind with respect thereto. Neither the Authority nor the Institutions are a party to the Morgan Stanley Distribution Arrangement and the Authority and the Institutions have not entered into any agreement or arrangement with Morgan Stanley Smith Barney LLC with respect to the offering and sale of the Series 2017A Bonds.

Loop Capital Markets LLC (“LCM”), one of the Underwriters of the Bonds, has entered into an agreement (the “Loop Distribution Agreement”) with UBS Financial Services Inc. (“UBSFS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Loop Distribution Agreement, UBSFS will purchase Bonds from LCM at the original issue prices less a negotiated portion of the selling concession applicable to any Series 2017A Bonds that such firm sells.

TD Securities (USA) LLC, one of the Underwriters of the Series 2017A Bonds, has entered into a negotiated dealer agreement (the “TD Dealer Agreement”) with TD Ameritrade for the retail distribution of certain securities offerings, including the Series 2017A Bonds, at the original issue prices. Pursuant to the TD Dealer Agreement, TD Ameritrade may purchase Series 2017A Bonds from TD Securities (USA) LLC at the original issue prices less a negotiated portion of the selling concession applicable to any of the Series 2017A Bonds that TD Ameritrade sells.

Neither the Authority nor the Institutions have been furnished with any documentation relating to the TD Dealer Agreement and make no representations of any kind with respect thereto. Neither the Authority nor the Institutions are a party to the TD Dealer Agreement and the Authority and the Institutions have not entered into any agreement or arrangement with TD Ameritrade with respect to the offering and sale of the Series 2017A Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the Series 2017A Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Series 2017A Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2017A Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series 2017A Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities
transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

RATINGS

Moody’s Investors Service and Fitch Ratings have assigned their municipal bond ratings of “A2” and “A”, respectively, to the Series 2017A Bonds. Explanations of the significance of each rating may be obtained from such rating agencies. Each such rating reflects only the views of the respective rating agency, and an explanation of the significance of the ratings may be obtained from the rating agency. Generally, ratings agencies base their ratings on information and material furnished by the Obligated Group and on investigations, studies and assumptions made by the rating agencies. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by one or more of the rating agencies, if in the judgment of any such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2017A Bonds. Neither the Authority nor the Underwriters have agreed to take any action with respect to any proposed rating change or to bring such rating change, if any, to the attention of the owners of the Series 2017A Bonds.

FINANCIAL ADVISOR

Ponder & Co. (“Ponder”) has served as capital financial advisor to the Obligated Group for purposes of assisting with the development and implementation of a strategic capital plan. Ponder is an independent financial advisory firm. It is not engaged in the business of underwriting or distributing municipal securities or other public securities. Ponder is not obligated and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE

The Securities and Exchange Commission (the “SEC”), pursuant to the Securities Exchange Act of 1934, as amended and supplemented (the “Securities Exchange Act”), has adopted amendments to its Rule 15c2-12 (“Rule 15c2-12”) which generally prohibit a broker, dealer, or municipal securities dealer (“Participating Underwriter”) from purchasing or selling municipal securities, such as the Series 2017A Bonds, unless the Participating Underwriter has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and event notices to various information repositories.

The Loan Agreement contains covenants for the benefit of the holders of the Series 2017A Bonds pursuant to which the Institutions will agree to comply on a continuing basis with the disclosure requirements of Rule 15c2-12. Specifically, the Loan Agreement requires the Institutions (on behalf of themselves and any other entity which shall become an “obligated person” with respect to the Series 2017A Bonds under Rule 15c2-12) to provide certain financial and statistical data not later than one hundred fifty (150) days after the end of its fiscal year to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (“EMMA”) and to provide notices of the occurrence of certain enumerated events. The Loan Agreement also requires the Institutions to provide to EMMA unaudited financial statements and utilization data within 45 days after the end of each fiscal quarter. See “SUMMARY OF THE LOAN AGREEMENT – Secondary Market Disclosure” and “ – Financial and Other Reports” in Appendix C hereto.
MISCELLANEOUS

Reference is hereby made to Appendix C to this Official Statement for information relating to the Resolutions, the Loan Agreement and the Master Indenture which Appendices should be reviewed by prospective purchasers of the Series 2017A Bonds.

The Members of the Obligated Group have reviewed the information contained herein which describes the Obligated Group, their facilities and business and has approved all such information for use within this Official Statement. The Authority has reviewed the information contained herein which relates to it and the Series 2017A Bonds and has approved all such information for use in this Official Statement. Information herein regarding DTC has been provided by DTC.

The references herein to the Act, the Series Resolution, the General Resolution, the Loan Agreement and the Master Indenture are summaries of certain provisions thereof and do not purport to be complete. Reference is made to such Act and documents for full and complete statements of such and all other provisions thereof. Neither any advertisement for the Series 2017A Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Series 2017A Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the corporate trust office of the Trustee at U.S. Bank National Association, Morristown, New Jersey.

The Members of the Obligated Group have agreed to indemnify the Authority and any person who controls the Authority and any member, officer, official or employee of the Authority against certain liabilities.
This Official Statement, its execution, and its delivery and distribution to prospective purchasers of the Series 2017A Bonds have been approved and authorized by the Authority and the Obligated Group.

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

By: ____________________________
    Mark E. Hopkins
    Executive Director

Approved:

INSPIRA MEDICAL CENTERS, INC.

By: ____________________________
    Thomas P. Baldasaro
    Executive Vice President and Chief Financial Officer

INSPIRA MEDICAL CENTER WOODBURY, INC.

By: ____________________________
    Thomas P. Baldasaro
    Executive Vice President and Chief Financial Officer
APPENDIX A

Information Concerning Inspira Health Network, Inc.
APPENDIX A

INSPIRA HEALTH NETWORK

GENERAL OVERVIEW & CORPORATE STRUCTURE OF INSPIRA

Inspira Health Network, Inc. ("Inspira" or the "Network") is a New Jersey non-profit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). Inspira was formed in November 2012 by the merger of Underwood-Memorial Health Systems, Inc. into South Jersey Health System, Inc. ("SJHS"). In 2013, the newly combined entity changed its name to Inspira Health Network, Inc. The Network traces its roots to 1898, and now comprises three hospitals, four multi-specialty health centers and a total of more than 125 ambulatory locations. These include outpatient imaging and rehabilitation centers, numerous specialty centers, including sleep medicine, cardiac testing and wound care and more than two dozen primary and specialty physician practices in Camden, Gloucester, Cumberland and Salem counties.

The Network is the sole corporate member of Inspira Medical Centers, Inc. ("IMC") and Inspira Medical Center Woodbury, Inc. ("IMC Woodbury"). The Obligated Group consists of IMC and IMC Woodbury only. The Network controls IMC and IMC Woodbury through powers reserved to it as the sole member. The Network has several affiliated corporations (the “Affiliates”) that are listed in the organization chart herein and certain of which are described in this Appendix A. The Affiliates are not members of the Obligated Group and are not obligated to pay the principal of, premium, if any, and interest on the Series 2017A Bonds.

Inspira Medical Centers, Inc.

IMC is a New Jersey non-profit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. IMC owns and operates two acute care hospitals, Inspira Medical Center Vineland ("IMC Vineland"), a 335 bed (including bassinets) acute care hospital facility in Cumberland County, New Jersey and Inspira Medical Center Elmer ("IMC Elmer"), a 96 bed acute care hospital facility in Salem County, New Jersey. IMC also owns and operates two health care centers: Inspira Health Center Bridgeton ("IHC"") and Inspira Health Center Vineland ("IHCV"). IHC is a 59 bed facility (licensed under IMC Vineland) that provides inpatient and outpatient psychiatric services, select outpatient services including a satellite emergency department and administrative services. IHCV provides select outpatient services.

Inspira Medical Center Woodbury, Inc.

IMC Woodbury is a New Jersey non-profit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. IMC Woodbury owns and operates a 311 bed (including bassinets) acute care hospital facility in Woodbury, New Jersey. IMC Woodbury provides a comprehensive array of inpatient and outpatient services including diagnostic, therapeutic and rehabilitative services to residents in Gloucester County and parts of Salem and Camden counties. See “INSPIRA STRATEGIC MASTER FACILITY PLAN” herein for a description of the replacement hospital to be constructed in Mullica Hill, New Jersey.

Network Affiliates

As set forth on the organization chart below, the Network functions as the parent corporation for Affiliates in addition to IMC and IMC Woodbury, none of which are members of the Obligated Group, and are not obligated to pay the principal of, premium, if any, and interest on the Series 2017A Bonds. Described below are those Affiliates which report to, or are otherwise subsidiaries of members of the Obligated Group.
Inspira Health Network Foundation Cumberland/Salem, Inc. (“CS Foundation”) is a New Jersey non-profit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. The CS Foundation is the fundraising organization responsible for the philanthropic support for IMC. IMC is the sole member of, and controls CS Foundation.

Oak & Main Surgicenter, LLC (“Oak & Main”) is a New Jersey limited liability corporation that owns and operates an ambulatory surgery center located at 907 North Main Road, Vineland, New Jersey. IMC owns 85% of the membership interests of Oak & Main.

Sprague Dialysis, LLC (“Sprague”) is a New Jersey limited liability corporation that owns and operates outpatient chronic dialysis centers located at 1318 S. Main Road, Vineland, New Jersey, 3 Elizabeth Street, Millville, New Jersey and 333 Irving Avenue, Bridgeton, NJ. IMC owns thirty percent (30%) of Sprague.

IMC manages two separate affiliated New Jersey Professional Corporations - Inspira Health Network Medical Group, P.C. (“IMG”) and Inspira Health Network Urgent Care, P.C. (“IMG-UC”) - which employ physicians and operates urgent care centers and physician practices. IMG employs approximately 76 physicians of various specialties, nurse midwives and advanced practice nurses, with 40 practice locations. IMG-UC employs approximately 25 urgent care physicians and has seven urgent care centers located throughout the Network’s service area. IMG and IMG-UC are owned by a Network employed physician shareholder, subject to Pledge and Option agreements with the Network that enable the Network to name a successor physician shareholder in the event the then-current shareholder separates from the Network’s employment.

Inspira South Jersey Urgent Care, P.C. (“Inspira SJUC”) is an affiliated New Jersey Professional Corporation which operates an urgent care center located at 3722 East Landis Avenue Vineland. Inspira SJUC is owned by a Network employed physician shareholder, subject to Pledge and Option agreements with the Network that enable the Network to name a successor physician shareholder in the event the then-current shareholder separates from the Network’s employment. Inspira SJUC is managed by Inspira SJ Urgent Care Management Company, LLC, a New Jersey limited liability company which is owned 60.5% by Inspira Health Management Corp., a for profit, wholly owned subsidiary of the Network.

Inspira Health Network Foundation Gloucester County, Inc. (“GC Foundation”) is a New Jersey non-profit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. The GC Foundation is the fundraising organization responsible for the philanthropic support for IMC Woodbury. IMC Woodbury is the sole member of and controls GC Foundation.

IMC Woodbury manages and operates a New Jersey Professional Corporation - Cooper Bone & Joint at Inspira Woodbury, P.C. (“CBJIW”) which employs physicians and operates an orthopedic physician practice. CBJIW employs three orthopedic physicians and has two practice locations. CBJIW is co-owned by a Network employed physician (“Inspira Physician”) and a Cooper Health System (“Cooper”) employed Physician (“Cooper Physician”). Each of the Inspira Physician and Cooper Physician owns 50% of the shares of CBJIW. The shares owned by the Inspira Physician are subject to Pledge and Option agreements with the Network that enable the Network to name a successor physician shareholder in the event the Inspira Physician shareholder separates from the Network’s employment. The shares owned by the Cooper Physician are subject to Pledge and Option agreements with Cooper that enable Cooper to name a successor physician shareholder in the event the Cooper Physician shareholder separates from Cooper’s employment.

Inspira Deptford Healthpark LLC is a New Jersey limited liability company that owns land located in Deptford, New Jersey. It is wholly owned by IMC Woodbury.

Coastal Cooperative of New Jersey LLC (“Coastal”) is a New Jersey limited liability company that acts as a purchasing agent for licensed health care providers to coordinate and consolidate their needs in
connection with the acquisition of products, services, equipment and other useful items. IMC owns five percent (5%) of Coastal.

The table below depicts the bed count of the Network hospitals upon the completion of the IMC-Mullica Hill Replacement Project discussed under the caption “INSPIRA STRATEGIC MASTER FACILITY PLAN” herein.

![Table](https://example.com/table.png)

Source: Inspira Health Network records

* Included in IMC Vineland’s license.

A corporate organizational chart that identifies the Network and all of its subsidiaries follows:
MEDICAL AND SPECIALTY SERVICES

The Network provides a broad spectrum of inpatient care, ambulatory based diagnostic and treatment care, home-care and community services. Inspira’s inpatient services include general medical, surgical, obstetrical, gynecological, pediatric and psychiatric care. Additionally, with a total utilization of well over 100,000 visits in any given year to its three emergency departments and one satellite emergency department, Inspira is one of the largest providers of emergency services in southern New Jersey.

Inspira Medical Center Vineland

IMC Vineland opened in 2004 and was the result of the merger of three previously independent and separate, smaller hospitals (Bridgeton, Millville, and Newcomb) that historically served Cumberland County and parts of Atlantic County with a service area population of over 160,000 residents. Located on a 62.5-acre campus in Vineland, IMC Vineland is a 441,000 square-foot building with 276-beds (including bassinets) featuring all private rooms and state of the art technology. It is also the site of a comprehensive cancer program as well as a Level IIIa Neonatal Intensive Care Unit (NICU). IMC Vineland operates a 24-7 Emergency Department that is to be expanded over the next fifteen months by approximately 6,000 square feet to house an 11-bay Senior Emergency Department, the first of its kind in southern New Jersey, see “INSPIRA STRATEGIC MASTER FACILITY PLAN – IMC Vineland Master Plan”. Under its license, IMC Vineland also offers behavioral health services at IHCB through a newly expanded 17,000 square foot, 59-bed psychiatric unit as well as a Satellite Emergency Department and a variety of outpatient services.

There are four Inpatient Care Centers operating at IMC Vineland that include:

- **Women’s & Children’s Center of Care** – Home-like labor and delivery suites
- **Surgical Center of Care** – 10 operating suites and modern Surgical Intensive Care Unit (“SICU”) and rehabilitation services
- **Medical Center of Care** – Acute, Intensive Care Unit (“ICU”) and post ICU, dialysis, chemotherapy and medical infusion services
- **Cardiology Center of Care** – a Cardiac Acute Care Unit, a Cardiac Intensive Care Unit (“CICU”) and post CICU and cardiopulmonary services

Inspira Medical Center Elmer

IMC Elmer is a free-standing 96-bed acute care hospital located in Elmer, New Jersey, within the boundaries of Salem County. IMC Elmer primarily serves Salem County and the western section of Cumberland County with an overall service area population of approximately 100,000. Originally constructed in 1950, IMC Elmer has undergone several major renovations and has been nationally recognized for patient satisfaction, including being first in New Jersey to receive “Baby Friendly” certification. In 2012, this “Baby Friendly” certification was extended by Baby-Friendly, USA, an accrediting body that implements the United Nations Children’s Fund (UNICEF) and World Health Organization (WHO) Baby Friendly Hospital Initiative for the purpose of encouraging and recognizing hospitals and birthing centers that offer an optimal level of care for infant feeding and breastfeeding. IMC Elmer also operates a 24-7 Emergency Department.

Inspira Medical Center Woodbury

IMC Woodbury is a 311-bed, acute care hospital located in Woodbury, Gloucester County. IMC Woodbury traces its history back to 1915 as Underwood Hospital. In 1966, Underwood Hospital merged with Memorial Hospital to create Underwood-Memorial Hospital. IMC Woodbury is the primary provider of healthcare services to more than 250,000 Gloucester County residents, while also serving patients from
southwestern Camden County and northern Salem County. IMC Woodbury provides a comprehensive array of diagnostic, therapeutic and rehabilitation services, including a Family Practice Residency program that has been in effect for over ten years. IMC Woodbury is recognized as a certified stroke center and is a major provider of cardiac services with the introduction of angioplasty in 2010. IMC Woodbury also operates a 24-7 Emergency Department and is the major provider of Behavioral Health Services in Gloucester County with 20 Adult Psychiatric beds, 11 (closed) and 9 (open), together with multiple behavioral health outpatient programs. These programs include partial care mental health programs for both children and adults and an outpatient program for adults with co-occurring substance abuse issues. See “INSPIRA STRATEGIC MASTER FACILITY PLAN” herein for a description of the replacement hospital to be constructed in Mullica Hill, New Jersey.

**Inspira Health Network Ambulatory Care**

In addition to its acute care hospitals, Inspira has also focused on strategically growing its ambulatory care services for patients by providing an increasing variety of health services in convenient locations throughout the region. These include several large licensed ambulatory care sites each with approximately 20,000 square feet, as well as some smaller sites that house one or two services. Inspira operates over 125 ambulatory care locations, including those offered by its affiliated Medical Staff offices located throughout the southern New Jersey service area. Inspira’s development of outpatient health services, while very comprehensive is still a priority strategic focus. These ambulatory services include:

- Urgent Care
- Radiology
- Physician Offices
- Dialysis Services
- Laboratory Services
- Physical and Occupational Rehabilitation
- Wellness Centers
- Sleep Care
- Wound Care
- Ambulatory Surgery Centers

Since January 1, 2017, Inspira opened one new urgent care site in Haddon Heights, Camden County and has entered into a majority owned joint venture which owns and operates a single urgent care center located in east Vineland, Cumberland County. Inspira now operates seven urgent care sites and plans to open one more by the end of 2017 and two in 2018. Inspira also anticipates opening one other ambulatory outpatient facility in early 2018 that is expected to house a variety of services.

A service area map identifying the location of these ambulatory care and professional offices in the service area is set forth below:
AWARDS AND RECOGNITIONS

Inspira has earned several national awards for service and clinical excellence, introducing new technologies, and expanding its facilities to meet our community needs. A few are noted below:

- IMC Vineland, IMC Elmer and IHCB have been re-designated as Magnet facilities for quality patient care, nursing excellence and innovations in professional nursing practice by the American Nurses Credential Center’s (ANCC) Magnet Recognition Program.

- The Network’s three medical centers IMC Elmer, IMC Vineland and IMC Woodbury, all received an “A” grade for patient safety in the Fall 2016 Leapfrog Hospital Safety Grade. Inspira’s hospitals were three of only 25 hospitals in New Jersey and 844 hospitals across the nation to receive an “A” grade, ranking them among the safest hospitals according to this study. Once again, in 2017, the Network’s three medical facilities earned straight A’s.

- In 2016, The Leapfrog Group announced that IMC Woodbury was named one of four Top General Hospitals in New Jersey. Performance across many areas of hospital care is considered in establishing the qualifications for the award, including infection rates, maternity care, and a hospital’s ability to prevent medication error. Being acknowledged as a Top Hospital is achieved by less than three percent of hospitals nationwide.

- IMC Vineland was ranked among the top 10 hospitals in New Jersey in its 2015 annual Hospital Rankings published by U.S. News & World Report. IMC Vineland was ranked ninth, tied with two other hospitals. IMC Vineland earned its place among the "Best Hospitals in New Jersey" based on scores achieved in the treatment and care of patients with Heart Failure and Chronic Obstructive Pulmonary Disease. These common conditions are responsible for nearly 1.5 million hospital admissions in the United States each year.
• IMC Elmer was the only hospital in New Jersey to receive the 2015 Women's Choice Award as one of America's Best Hospital's for Orthopedics. IMC Elmer also earned the Women's Choice Award in 2017. Based on the Women's Choice survey process, IMC Elmer ranked in the top 10% of hospitals nationwide for orthopedic care. The Women's Choice Award identifies America's Best Hospitals in Orthopedics in order to address the growing need for bone and joint care, and disease prevention.

INSPIRA HEALTH NETWORK CENTERS OF EXCELLENCE

Maternal Child Health Services Center of Excellence

The Network provides a full complement of maternal child health services. Many services are available at all campuses. However, for services that are unique to a particular location, processes are in place to connect patients with the level of care they need in a timely fashion.

• IMC Woodbury provides obstetrical care through a Labor Delivery Recovery Post-Partum room model (“LDRP”). The use of LDRP embraces the concept of couplet care and encourages rooming in for mothers and babies. IMC Woodbury is staffed by two groups of obstetricians that see approximately 900 deliveries per year. To improve access, IMC Woodbury contracts with local obstetricians to provide a Healthy Start obstetrical program to the medically underserved women in the community. IMC Woodbury also contracts for Maternal Fetal Medicine services to manage high risk pregnancies on an outpatient basis. These services are provided twice per week. IMC Woodbury presently has an Intermediate Nursery and also a 10-bed Pediatric Unit, both of which are covered 24/7 by an in-house provider from Nemours/A.I. duPont Hospital for Children. See below under the caption “CLINICAL AFFILIATIONS”.

• IMC Vineland is the largest obstetrical service in the Network and sees approximately 2,200 deliveries annually. Due to the high volume and acuity of patients, the unit operates a Labor/Delivery/Recovery room (“LDR”) model, with postpartum taking place in a separate, but adjacent unit. IMC Vineland also supports an Obstetrics residency program with 16 residents. An obstetrician is available in house 24/7 who can attend unassigned and/or emergent deliveries, and also provides education and oversight for the residents. IMC Vineland has a 6-bed Intensive Nursery with the ability to care for neonates with as little as 28 week gestation periods, as well as an 8-bed Intermediate Nursery. Inspira worked with the State to develop processes enabling the transfer of high risk mothers and babies from other Inspira hospitals into the IMC Vineland facility, helping to ensure continuity of care. The nurseries are supported by a Neonatologist from Nemours/A.I. duPont Hospital for Children who is in-house 24/7. IMC Vineland also has a 14-bed pediatric unit that is staffed by a Nemours Pediatrician around the clock.

• IMC Elmer has 5 LDRPs and sees approximately 300 deliveries annually. Nearly two-thirds of these deliveries are attended by midwives. IMC Elmer provides patients with an individualized experience, with a strong focus on natural birth. The facility boasts one of the lowest epidural rates in New Jersey. IMC Elmer also offers the only water birth tub in South Jersey. IMC Elmer was the first hospital in New Jersey to be certified as a “Baby Friendly Hospital” by Baby-Friendly, USA. Mothers or babies unexpectedly requiring a higher level of care can be transferred to another facility within Inspira’s network.

• Ambulatory Care - Women’s & Children’s Services

IMC Vineland provides a maternal fetal medicine service, on an outpatient basis, covered by two employed maternal fetal medicine physicians. OB Clinic services are provided on both
campuses via contract with the local Federally Qualified Health Center (“FQHC”), Complete Care. Inspira and Complete Care work collaboratively in the management of this medically underserved population and residents are deployed to the Complete Care office settings to gain valuable clinical experience. Inspira is committed to continuing to enhance the breadth and depth of obstetrical services available to patients across the Network. The concept of LDRP care, as well as the incorporation of midwifery care are two cornerstones of the future plan for the expansion of obstetrical services in Gloucester County.

**Oncology Center of Excellence**

Oncology services are provided at IMC Vineland and IMC Woodbury as described below.

- **IMC Vineland Oncology Services**

  The Frank and Edith Scarpa Regional Cancer Pavilion at IMC Vineland is a comprehensive oncology program that has been accredited by the American College of Surgeons for over 25 years and diagnoses over 800 new cancers cases annually. Patients experiencing an oncology diagnosis are able to receive the full range of treatment, close to home. IMC Vineland offers full service radiation oncology, with two linear accelerators capable of delivering external beam radiation, intensity-modulated radiation therapy, stereotactic radiosurgery, and stereotactic body treatments. The Radiation Oncology department provides both high and low dose brachytherapy, as well as partial breast radiation. IMC Vineland also provides chemotherapy and supportive treatments (such as blood transfusion and antiemetics) in the Medical Outpatient department. A wide range of surgical treatments are available, including robotics and other minimally invasive techniques. Inspira has been committed to expanding access to sub-specialty oncology surgeons, and patients in the community can now access fellowship trained breast, colorectal, head and neck, and endocrine surgeons as well as urologists, gastroenterologists and gynecologists.

- **IMC Woodbury Oncology Services**

  In May 2017, IMC Woodbury achieved full accreditation (three year accreditation) from the American College of Surgeons, Commission on Cancer for oncology services. While there are not dedicated cancer services and/or support areas in the current IMC Woodbury facility, Inspira is committed to developing the same type of full service oncology program in Gloucester County that has been developed on the IMC Vineland campus over the last several years. To this end, Inspira anticipates opening a 5,500 square foot radiation oncology center in the fourth quarter of 2017. With cancer incidence expected to grow over the next 10 to15 years, ensuring that all Inspira patients have access to high quality, comprehensive oncology care close to home is an important objective of the Network.

Inspira is also dedicated to clinical research and has been a site for clinical trials for 20 years. More than 800 people have been placed on clinical trials through all hospital campuses. Inspira continues to bring new services to the community, most recently adding genetic testing and counseling to the program through a partnership with MD Anderson Cooper Cancer Center. In addition to treatment services, patients are able to access crucial support services. Inspira employs dedicated Clinical Nurse Navigators, a full time Oncology Social Worker, lay navigators, behavioral wellness professionals, dieticians, and financial counselors all of whom have a special interest in working with cancer patients and are dedicated to providing individualized support for every Inspira cancer patient.
Cardiology Center of Excellence

- IMC Woodbury Cardiac Services

In 2009, IMC Woodbury received approval from the Department of Health to provide emergency percutaneous coronary intervention (PCI) (angioplasty and stenting to open blocked coronary arteries and return blood flow to the heart). IMC Woodbury now provides experienced interventional cardiologists who are available to provide both emergency cardiac catheterization and emergency PCI to patients experiencing acute heart attacks. This intervention saves lives and minimizes damage to the heart muscle. Working closely with Inspira paramedics, the Cardiac Catheterization team has reduced “door to balloon time”, the time from a patient’s arrival at the ER to the opening of blocked coronary artery. A state-of-the-art cardiac catheterization lab provides Inspira cardiologists with exceptional image quality, aiding in the diagnosis and treatment of blocked arteries. The IMC Woodbury program has two key components:

**Cardiac Rehabilitation** - Patients who have experienced a cardiac event can benefit from the cardiac rehabilitation program offered on the IMC Woodbury campus. Patients are monitored and closely supervised to ensure their safety and return to a good quality of life. The program receives patients from academic centers in Philadelphia due to the positive patient outcomes this program produces.

**Cardiovascular Diagnostic Testing** - IMC Woodbury maintains a testing lab in support of cardiovascular services at the hospital. In addition to the testing lab at IMC Woodbury, outpatient testing is also available at Inspira Cardiology Diagnostic Center West Deptford.

- IMC Vineland Cardiac Services

The nursing team in the Cardiac ICU has been recognized for excellence in critical care nursing on two consecutive surveys. In 2012, the Vineland campus earned national Chest Pain Center designation, which identifies hospitals as having the needed expertise and processes in place to provide care that meets the latest guidelines for achieving better patient outcomes.

In 2013, IMC Vineland joined IMC Woodbury in providing emergency PCI. This rapid process requires a high level of teamwork between EMS personnel, Inspira paramedics, the ER team and the physicians and staff of the catheterization lab.

**Nationally Accredited Chest Pain Center** - This IMC Vineland based center provides rapid evidence-based care for heart attack. Staff and physicians have met the requirements to become an Accredited Chest Pain Center with PCI accreditation, affirming that the proper staff, equipment, processes and expertise are available to provide rapid evidence-based care to patients exhibiting signs of a heart attack.

**Innovative Heart Failure Programs** - Home follow up by specially trained nurses and K-9 assisted ambulation (walking with a therapy dog) are two initiatives that have brought about better outcomes for patients.

**Cardiac Rehabilitation** - Patients who have experienced a cardiac event are monitored and closely supervised to ensure their safety and return to a good quality of life. After completing cardiac rehab, a 60-day medical fitness program is available to help cardiac patients complete their transition back to an active lifestyle. This Physician Referred Exercise Program or
PREP provides continued guidance and supervision in a self-contained exercise area at Inspira Fitness Connection Vineland.

**Interventional Radiology** - Physicians and staff at IMC Vineland recently began performing diagnostic studies and treatments for patients with cancer and vascular conditions using new low-dose interventional radiologic technology. IMC Vineland is the only facility in Cumberland, Gloucester, Salem and Camden counties to offer the interventional radiologic technology that provides the lowest dose of radiation available. This equipment is utilized to perform life-saving PCI for patients having a heart attack (ST-segment elevation myocardial infarction (STEMI)), diagnostic catheterizations and peripheral vascular and carotid interventional stenting.

**Cardiac Intensive Care** - For patients requiring intensive inpatient care, the IMC Vineland ICU provides 24-hour monitoring and nurses with special training in critical care. The IMC Vineland ICU Nursing staff has been recognized with a national Beacon Award for excellence in critical care nursing two times in a row.

**Induced Hypothermia for Patients With Cardiac Arrest** - IMC Vineland has the ability to utilize targeted temperature management to help achieve and maintain a specific body temperature to help improve health outcomes. The purpose of utilizing this technology is to reduce the risk of brain tissue injury by improving blood flow after cardiac arrest or blockage of an artery by a clot, such as an ischemic stroke.

**Behavioral Health Center of Excellence**

The Network has identified behavioral health services as one of its core strategic centers of excellence. Inspira has been a long-term provider of comprehensive behavioral health services and is highly regarded in the community for the quality of care provided. Inspira has also consistently responded to the behavioral health needs of the community by expanding services. On May 1, 2017 Inspira filed three Certificates of Need in answer to the February 2017 call by the NJ Department of Health to expand voluntary acute Psychiatric services in the community by adding new beds. The DOH had identified a need for 108 total Psychiatric beds for Salem, Cumberland and Gloucester Counties. Inspira submitted the following Certificates of Need: IHCB – 19 new Psychiatric beds, IMC-Elmer 14 - new Psychiatric beds and IMC-Woodbury – 75 new Psychiatric beds. Inspira received and responded to Completeness Questions for all three applications in June 2017. The DOH is expected to submit its recommendations at the State Health Planning Board meeting in October 2017.

Licensed behavioral health programs now operate out of two Inspira facilities: IHCB and IMC Woodbury.

- **Inspira Health Center Bridgeton (IHCB)** is a former acute care hospital that currently operates an Emergency Department and numerous outpatient services. The facility serves Cumberland County and parts of Salem, Atlantic, and Cape May counties. The following behavioral health programs are provided at IHCB:
  - Child and Adolescent Partial Care Hospitalization program
  - Adult Partial Care Partial Hospitalization program
  - Wellness Program
  - Inpatient Unit (33 beds-comprised of 23 short-term care facility beds and 10 adult open/voluntary beds)
  - Child Adolescent Children’s Crisis Intervention Services Inpatient Unit (14 beds)
  - Intermediate Adolescent Inpatient Unit (12 beds)
  - Intensive Outpatient program
• Outpatient Co-Occurring program

The Network recently approved a $4.3 million expansion at IHCB to initiate a Medical Detoxification Service (20 beds licensed as acute care beds under IMC Vineland license) and a renovation to the Satellite Emergency Department to include a holding area and treatment spaces to better serve the intoxicated patient.

Inspiria recently signed a contract under the VA “Choice” program with the VA Wilmington Medical Center that allows veterans that live in the Cumberland and Salem Counties to utilize Inspiria for health services. The Network and VA initiated this new arrangement in 2017 with an emphasis on Behavioral Health and Substance Abuse Services and follow with outpatient services like rehab, radiology and urgent care.

• IMC Woodbury Behavioral Health Services

The following behavioral health programs are provided at IMC Woodbury:

• Child and Adolescent Partial Hospitalization program
• Adult Partial Hospitalization program
• Outpatient co-occurring program
• 20-bed Inpatient Psychiatric Unit, 11 short term care facility (involuntary) beds; 9 adult open (voluntary) beds

Through its relationship with the Department of Psychiatry of the Rowan University (“Rowan”) School of Osteopathic Medicine (“SOM”), the Network is able to provide consultations in its Emergency Departments and Medical Floors at all three medical centers.

At its IHCB and IMC Woodbury facilities, the Network is funded by New Jersey Department of Human Services, Division of Mental Health and Addiction Services to provide co-occurring psychiatric and addiction services. This represents a comprehensive outpatient service delivery system utilizing a multidisciplinary treatment approach to support patients with a severe and persistent mental illness, and a co-existing substance abuse disorder.

Crisis intervention and a designated psychiatric screening services operate out of both Emergency Departments at IMC Woodbury and IHCB. Through a separate affiliation agreement, these services are managed by New Point Behavioral Health Care in IMC Woodbury and the Cumberland County Guidance Center in Bridgeton. This agreement authorized by the Division of Mental Health and Addiction Services, ensures that a seamless approach is taken in the delivery of behavioral health care.

Across its many access points, Inspiria cares for over 3,500 behavioral health patients annually, helping clients overcome numerous behavioral health conditions and traumatic life experiences.

CLINICAL AFFILIATIONS

Nemours/Alfred I. DuPont Hospital for Children

Inspiria has partnered with pediatric specialists from Nemours/Alfred I. duPont Hospital for Children (“Nemours”), who work hand-in-hand with area pediatricians and Nemours’ specialists to provide advanced pediatric care in the community. Inspiria and Nemours have teamed up to provide a full spectrum of care that includes:

• Dedicated pediatric emergency departments in Vineland and Woodbury.
- Inpatient pediatric units staffed around the clock with dedicated hospitalists from Nemours.
- Expert critical care provided by a team of board-certified neonatologists from Nemours in the Level IIIa Deborah F. Sager Neonatal Intensive Care Unit in Vineland and in the Special Care Nurseries available in both Vineland and Woodbury.
- Specialized equipment and knowledge of children’s unique medical and emotional needs.
- Access to pediatric specialists from Nemours/Alfred I. duPont Hospital for Children, (one of only 20 children’s hospitals in the nation ranked in all 10 specialties by *U.S. News & World Report* in 2015).

**Cooper University Healthcare**

In addition to the Cooper Bone and Joint at Inspira Woodbury program described under Corporate Structure, the Network has a formalized relationship with Cooper University Healthcare with two programs that function across the Network. Since 2002, Cooper has provided hospitalist services at all Inspira hospital sites and in 2015, Cooper began providing intensivist services across the Network as well.

**Rowan – School of Osteopathic Medicine**

In 2014, Inspira and Rowan’s SOM Department of Psychiatry entered into a contractual relationship for Rowan to provide psychiatric physician coverage for the Bridgeton and Woodbury Behavioral Health Inpatient Units. Inspira is also projecting that over the next few years, it will work with Rowan SOM to establish a psychiatric residency based in Bridgeton. The goal of this partnership is to grow and further develop the scope of behavioral health services available to residents of Cumberland, Salem and Gloucester Counties.

**STRATEGIC PLANS AND FUTURE AFFILIATION OPPORTUNITIES**

The Network recognizes that the health care environment is rapidly evolving. Significant changes in care delivery and reimbursement are already occurring and are likely to accelerate and grow in scope and importance. The Network believes that in this environment, strategic planning is essential for future success.

Accordingly, at the end of 2011, the Network approved a Strategic Plan. With input from community leaders, area physicians and providers, the Network and hospital boards and management, the Strategic Plan advances and enhances the goals of previous plans. The approved plan focused on six key strategic issues:

**Network Leadership**

- Reconstitute and rationalize the governance, administrative, support, and infrastructure functions of the Network.

**Quality and Safety**

- Provide a safe, high quality continuum of primary, specialty, acute, post-acute, and advanced care services (hospital/physician/ambulatory/other).

**Financial and Operational Performance**

- Achieve strong network-wide financial performance (in key service lines, business units, programs, and in combined performance metrics).
CI and Population Health

- Deliver high performance clinical services (cost-efficient and high quality cross-functional, coordinated care; chronic care management; clinical bundles for episodic care). Adopt new models of care (including medical home, accountable care organization, evidence-based medicine, and pay-for-performance).

- Accelerate the Network’s learning curve and explore opportunities in the commercial and self-insured markets.

Strategic Growth and Network Development

- Achieve volume, revenue, and market share growth; service area expansion; undertake new ambulatory service development and deployment.

- Evaluate further appropriate strategic alliances, affiliations, or linkages.

People and Culture

- Foster a values-driven culture where quality, partnerships, empowerment, integrity, stewardship, and compassion become the hallmarks of the Network.

- Carry out comprehensive people development initiatives inclusive of medical staff development (medical education, succession planning, recruitment, and retention), employee staff education and talent development, management and leadership development, and governance.

In addressing these six key planning issues and their goals, the Network believed that it would set the organization on a firm base to continue its growth in the region. Some of the Network’s major successful initiatives under this plan include:

- Formation of the Network in 2012 as a result of the merger of South Jersey Health System and Underwood-Memorial Health System. This merger created a three hospital health system-comprised of the former South Jersey Regional Medical Center (now known as IMC Vineland), Elmer Hospital (now known as IMC Elmer), and Underwood-Memorial Hospital (now known as IMC Woodbury).

- In 2013, the newly merged health system was renamed Inspira Health Network. Perception surveys conducted in 2016 indicate that the name has been well received and highly recognized by residents living in the four county area of Cumberland, Salem, Gloucester and Camden Counties.

- In 2014, the Network approved engaging consultants to prepare a Strategic Master Facility plan in order to evaluate the physical plant status of each hospital in the new system, and to recommend how to best integrate the services in the new regional system. Out of that process came the decision to replace IMC Woodbury, described more fully under the caption “INSPIRA STRATEGIC MASTER FACILITY PLAN – IMC Mullica Hill Replacement Hospital Project”.

- Governance reorganization that supported a strong Network board with finely defined responsibilities and accountability.

- Ambulatory development has been a key priority resulting in the opening of six urgent care sites, two large ambulatory centers, several imaging centers and sleep labs since 2012. Some centers
include a single service while others include multiple ambulatory programs including physician offices.

- The Network Board adopted three main initiatives regarding quality of care – Achieve Zero Harm, Improve the Patient Experience and Optimize Care Transitions. Coupled with that adoption was the creation of a Quality and Patient Safety Dashboard that is reviewed by the Network Board on a bi-monthly and updated yearly. Included on this dashboard are approximately thirty five indicators intended to achieve specific targets.

- In 2015, Horizon Blue Cross/Blue Shield of New Jersey came together with a network of seven New Jersey based partner providers (including the Inspira hospitals) to form Omnia Health Alliance. It is the first insurance plan of its kind sold to employers that utilizes a tiered based network of hospitals and physicians throughout New Jersey. As of end of 2016, there were over 245,000 people enrolled in the Omnia plan.

The Network is embarking on developing a new Strategic Plan for 2017-2022. The process has been initiated with over 145 interviews across the Network including Board Members, Physicians, Administration and Directors as well as a financial and utilization data review and analysis. The Network Board met in May 2017 to begin to review initial findings and recommendations. The Network Board will continue the review process over several months and is expected to approve the Strategic Plan in November 2017.

As part of IMC’s and IMCW’s ongoing strategic planning process, IMC and IMCW consider and sometimes pursue potential affiliations, joint ventures and acquisitions of operations or properties which may become affiliated with IMC and/or IMCW in the future. The management of IMC and IMCW pursues such arrangements when there is a perceived strategic or operational benefit that is expected to enhance IMC’s and IMCW’s ability to service the community or achieve its strategic objectives. For example, IMC and IMCW recently executed a joint operating agreement and are in the process of implementing a service line joint venture in cardiology with another provider that is designed to improve the breadth and scope of that service line. The joint venture is in the early stages of development and no assurance can be given as to the effect and impact, if any, on the delivery of cardiology services by the Network; however as a result of this and future potential transactions, it is possible that the current organization and assets of IMC and IMCW, including its affiliations with other providers, may change from time to time. Discussions on possible affiliations, joint ventures and acquisitions of operations or properties are ongoing.

INSPIRA STRATEGIC MASTER FACILITY PLAN

IMC-Mullica Hill Replacement Hospital Project

In 2014, the Inspira Health Network Board of Trustees approved the engagement of consultants to prepare a Strategic Master Facility plan in order to evaluate the physical plant status of each hospital in the newly formed system, and to recommend how to best integrate the services. The consultants analyzed the strategic objectives necessary to improve cost, access, quality and stewardship. As a result of this study and after lengthy consideration, the Network Board decided that the declining physical status of the IMC Woodbury facility had reached critical stages, and began the process of deciding whether to improve the IMC Woodbury facility in place, or to relocate and rebuild it at a new campus, or a combination of the two approaches. IMC Woodbury is currently licensed as a 311-bed hospital (including bassinets), housed in a seven-story acute care hospital facility that is in many areas physically over 50 years old. The hospital itself dates back to 1915 as the former Underwood Hospital and Memorial Hospital.

The Network Board determined that relocation to a new “Greenfield” location (a location at which there were no existing buildings), while retaining a satellite location in Woodbury for certain service lines, was the best choice from a cost, quality, and accessibility perspective. After a thorough search for alternative locations, it was determined that a site located in Harrison Township would provide optimal levels of
accessibility to Inspira’s facilities for both its existing and future service area patients. A new campus offered the benefits of a much more efficient design, and the full installation of the latest technology for advanced clinical care and health information. The Network Board determined that a replacement hospital of a 198 single-bedded rooms, plus a 30-bed satellite facility (20 licensed behavioral health beds and 10 licensed acute care beds for a medical detoxification service all to be located at the IMC Woodbury facility and licensed under the replacement hospital), would create the optimal capacity levels needed to meet the inpatient acute care demands of the service area into the foreseeable future. All 228 beds would be licensed under IMC-Woodbury.

As was reflected in the Certificate of Need, the current hospital’s location in Woodbury is no longer centrally located to the residents of Gloucester County, as the county’s population center is moving to the east rather than along the Delaware River communities. Given its age, the IMC-Woodbury hospital building is essentially obsolete, and is in need of a full upgrade of its physical plant to maintain quality and to function as a competitive acute care hospital in today’s health care system. Because of its age and obsolescence, the facility maintenance costs are reaching unsustainable levels, causing several years of financial losses. More importantly, the facility is becoming increasingly incapable of accommodating evolving patient care delivery methods, technologies and equipment. For example, there is a need to create an all private patient room environment, which has become the current standard for patient safety, confidentiality and quality. In addition to its obsolescence, the current size of the IMC Woodbury facility at 305 beds is inefficient operationally, and no longer represents the needs of the community.

A Certificate of Need for a $326 million* replacement hospital was filed with the New Jersey Department of Health on April 1, 2016 and Inspira received a Letter of Approval from the Commissioner of Health on March 8, 2017. The Approval Letter includes a description of what the Commissioner took into consideration in order to make her determination including the following:

- The availability of services that may serve as alternatives or substitutes;
- The need for special equipment and services in the area;
- The possible economies and improvement in services to be anticipated from the operation of central services;
- The adequacy of financial resources and sources of present and future revenues;
- The availability of sufficient manpower in several professional disciplines; and,
- Such other factors as may be established by regulations.

The Commissioner placed a series of conditions, eleven in total, including the following four key conditions, all of which have been agreed to by the Network.

- The submission of a transportation plan for indigent individuals residing in the city of Woodbury at least six months prior to licensure of the new hospital (“IMC-Mullica Hill”);
- The submission of a transition plan for all of the services leaving from the existing hospital to IMC-Mullica Hill at least 60 days prior to completion of construction of IMC-Mullica Hill;

* Note that the capital cost for the replacement hospital as approved by the Department of Health ($326M) is different from the actual cost ($349M) because the Department does not allow certain cost categories.
The submission, prior to opening (no defined exact timeframe cited), of an emergency services plan with the input of local emergency service providers addressing the personnel and equipment needed for appropriate and timely continuity and delivery of care to inpatients of the facility during the transition and relocation of services to IMC-Mullica Hill; and

The establishment of a Satellite Emergency Department at the IMC-Woodbury campus post relocation of the acute care services.

The IMC-Mullica Hill replacement hospital is designed to incorporate the latest technology for clinical services and medical information, patient safety and comfort, and patient-focused architecture. Inspira’s new campus will be located in Harrison Township, Gloucester County, located in IMC Woodbury’s primary service area off of Route 55 and Route 322. The location, near Mullica Hill, will be central to the Network’s existing primary service area and more accessible to the faster growing eastern areas of Gloucester County. It will be co-located with Rowan’s newest “Western” campus facilities, and expects to be well positioned to become the hub of graduate and undergraduate medical education programs offered through Rowan SOM. Inspira broke ground on the replacement facility in June 2017.

The relationship with Rowan SOM is expected to become stronger moving forward. An Affiliation Agreement was recently signed between Rowan and Inspira that is expected to greatly strengthen the clinical affiliation between Rowan SOM and Inspira. The clinical focus of this affiliation is intended to offer greater access to students at Rowan, both at the graduate medical and undergraduate clinical education program levels, to have clinical experiences at Inspira hospitals. Rowan students will be offered internships across undergraduate and graduate disciplines, including but not limited to nursing, nutrition, engineering, and health care management.

IMC-Vineland Master Plan

A second phase of the Strategic Master Facility Plan included a complete study of the IMC-Vineland hospital. While the IMC-Vineland hospital site is current from a physical plant perspective having been built in 2004, the growing number of emergency room visits, observations and admissions over the past three years has significantly impacted utilization and facility use patterns. In 2016, the Network Board of Trustees approved two projects related to IMC-Vineland, an expansion of the Emergency Department and expansion of the inpatient beds. An explanation of both projects is included below.

IMC-Vineland – Emergency Department Expansion. The Emergency Department expansion includes the addition of 11 treatment bays including 6,190 of new square feet through an expansion of the currently existing Emergency Department and 1,645 square feet of renovation. Like the Pediatric sub-ED within the larger Emergency Department, this area is designed as a Senior sub-ED with a focus on patients who are 65 or older. It is expected to feature softer lighting, non-stick flooring and staff trained in geriatrics to care for patients. This will be the first Senior focused ED in the South Jersey area.

In 2009, IMC-Vineland experienced an Emergency Department average daily census of 176 and by 2016 a census of 215, a growth rate of 22%.

The “left without treatment” (LWT) population for the IMC-Vineland ED has typically approximated 5% in 2015 and 7% in 2016. The national average is approximately 2%. The new space is expected to allow the Network to capture this population.

IMC-Vineland has implemented a plan to improve the internal ED patient process as well as the flow of patients to observation and the inpatient units; however, the volume of patients in the ED has to date made implementation challenging.
• Sg2 Total Edge System, an online platform designed to provide healthcare organizations with a comprehensive view of their market, their position in the market as well as their performance projects that the 65+ emergency department population is projected to grow over the 10-year period by 16% for the IMC-Vineland service area.

**IMC-Vineland – Inpatient Bed Tower.** The IMC-Vineland Inpatient Bed Tower will include two floors built over the currently existing one story outpatient building. Each floor is approximately 30,000 square feet. The second floor is currently anticipated to be fit out with 36 beds; however, such plan remains subject to additional review.

• Since 2012, the average number of patients held in the Emergency Department waiting for a bed was 145. This grew to 272 patients by the end of 2016, which was an increase of 88% over the four years.

• The median time for a patient held in the ED for a bed (for patients with a hold time of over four hours) was 5.5 hours in 2012 and grew to 6.8 hours in 2016. This resulted in a growth rate of 23%.

• Counting inpatients and observations together in 2013 there were 13,753 patients who were admitted to a bed; in 2016, there were 15,977 patients, which resulted in an increase of 16%.

• As noted above, IMC-Vineland has implemented a plan to improve the internal ED patient process as well as the flow of patients to observation and the inpatient units; however, the volume of patients in the ED has to date made implementation challenging.

**GOVERNANCE**

The Network is governed by a self-perpetuating Board of Trustees (the “Network Board”) consisting of at least fifteen but no more than seventeen individuals. All but two Trustees are elected. The President/Chief Executive Officer of the Network, and the Chair of IMC and IMC Woodbury Joint Board of Trustees are *ex-officio*, voting Trustees. All elected Trustees are nominated and elected based on membership criteria contained in Network’s Bylaws and as further developed by the Network’s Governance Committee. The Network Board is divided into three staggered classes. No Trustee may serve more than three consecutive full terms, with a full term being three years.

The officers of the Network Board are the Chairman, Vice Chairman, President/Chief Executive Officer, Secretary and Treasurer. All officers, except the Chairman and the President/Chief Executive Officer, are elected by and from the Network Board for one-year terms. The current Chairman is appointed to the Network Board for a three year term, upon the expiration of which, the Chairman will be elected by and from the Network Board for one-year terms. With the exception of the President/Chief Executive Officer, no individual may hold the same office for more than three consecutive terms. The President/Chief Executive Officer serves at the pleasure of the Network Board.

The Network Board has six standing committees: Finance, Governance, Compensation, Corporate Compliance, Quality, and Facilities Planning.
The current Network Board is as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>First Appointed</th>
<th>Current Term Expires</th>
<th>Occupation</th>
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<tbody>
<tr>
<td>Michael A. McLaughlin (Chairman)</td>
<td>2002</td>
<td>2019</td>
<td>President McLaughlin Asset Management</td>
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<tr>
<td>Ronald Rossi (Vice Chairman)</td>
<td>2010</td>
<td>2018</td>
<td>President and Owner Rossi Honda</td>
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<tr>
<td>Shelly O. Schneider (Secretary)</td>
<td>2009</td>
<td>2019</td>
<td>Retired Superintendent of Schools</td>
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<tr>
<td>Dante G. Germano (Treasurer)</td>
<td>2013</td>
<td>2018</td>
<td>Chief Operating Officer/Chief Financial Officer Nexus Properties</td>
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<tr>
<td>Daniel J. Ball, III</td>
<td>1994</td>
<td>2019</td>
<td>Partner Cettei &amp; Connell Insurance and Financial Services</td>
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<tr>
<td>Pamela S. Clark</td>
<td>2005</td>
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<td>Peter Galetto, Jr.</td>
<td>2002</td>
<td>2019</td>
<td>President Stanker &amp; Galetto, Jr.</td>
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<td>Edgar Hathaway, Jr.</td>
<td>2003</td>
<td>2019</td>
<td>Attorney</td>
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<tr>
<td>Harry E. Hearing</td>
<td>2009</td>
<td>2020</td>
<td>Owner/Accountant Romano, Hearing, Testa &amp; Knorr, PA</td>
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<tr>
<td>Albert Kelly</td>
<td>2008</td>
<td>2018</td>
<td>Founder, President and CEO Gateway Community Center</td>
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<tr>
<td>Warner A. Knobe</td>
<td>2010</td>
<td>2019</td>
<td>Retired Bank Executive</td>
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<tr>
<td>Herbert J. Konrad</td>
<td>1990</td>
<td>2020</td>
<td>President and Owner Konrad Beer Distributor</td>
</tr>
<tr>
<td>Hugh McCaffrey</td>
<td>2010</td>
<td>2020</td>
<td>President and Owner Southern NJ Steel Company</td>
</tr>
<tr>
<td>David Robbins, Jr.</td>
<td>2015</td>
<td>2018</td>
<td>President South Jersey Energy Services’</td>
</tr>
<tr>
<td>John A. DiAngelo (President and CEO)</td>
<td>By virtue of office</td>
<td>President and CEO Inspira Health Network</td>
<td></td>
</tr>
<tr>
<td>Edgar G. Galloway III (Chair, Joint Hospital Board)</td>
<td>By virtue of office</td>
<td>Owner Rental Country</td>
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</tr>
</tbody>
</table>
Subject to the Network Board’s expressly reserved governance powers, IMC and IMC Woodbury are governed by a separate board of trustees consisting of at least fourteen but no more than twenty-two individuals. All but five voting Trustees are elected. There are five *ex-officio*, voting Trustees as follows: (i) the Network’s President/Chief Executive Officer; (ii) IMC’s President/Chief Executive Officer; (iii) IMC Woodbury’s President/Chief Executive Officer; (iv) the President of IMC’s Medical Staff, and (v) the President of IMC Woodbury’s Medical Staff. In addition to the voting Trustees, there are five *ex-officio*, non-voting Trustees, as follows: (x) the Chairman of Inspira Health Network Foundation Cumberland/Salem, Inc. (“CS Foundation”); (y) the Chairman of Inspira Health Network Foundation Gloucester County, Inc. (“GC Foundation”), and (z) the Immediate Past President of the IMC Woodbury Medical Staff (after December 31, 2018 the person serving in the foregoing position will cease to be an *ex-officio* Trustee).

The Network, as the sole corporate member of IMC and IMC Woodbury, has certain expressly reserved governance powers over IMC and IMC Woodbury pursuant to IMC’s and IMC Woodbury’s Bylaws and Certificates of Incorporation. The significant reserved powers are summarized below:

- Amending the Bylaws and Certificate of Incorporation of IMC or IMC Woodbury or their respective subsidiaries;
- Closing any health care facility of IMC or IMC Woodbury or their respective subsidiaries or converting any them to another purpose; and
- Authorizing significant corporate transactions including mergers, transfer of all or substantially all assets, significant encumbrances or incurrence of debt and major operational issues including approval of budgets and appointment and removal of board members and senior management.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
Currently, the board members of IMC and IMC Woodbury are the same. These members are set forth below:

<table>
<thead>
<tr>
<th>Trustee</th>
<th>Initial Appointment</th>
<th>Expiration of Current Term</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Galloway, Edgar G., III</td>
<td>2014</td>
<td>2020</td>
<td>Owner, Rental Country</td>
</tr>
<tr>
<td>(Chairman)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Griffith, Benjamin T.</td>
<td>2015</td>
<td>2018</td>
<td>Retired Credit Union Executive</td>
</tr>
<tr>
<td>(Vice Chairman)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bethea, Edward</td>
<td>2013</td>
<td>2019</td>
<td>Sr. Vice President/COO Gateway Community Action Partnership</td>
</tr>
<tr>
<td>(Secretary/Treasurer)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonner, James M., DO</td>
<td>By virtue of office</td>
<td></td>
<td>Physician</td>
</tr>
<tr>
<td>Catalano, John B., MD</td>
<td>2010</td>
<td>2019</td>
<td>Physician</td>
</tr>
<tr>
<td>DiAngelo, John A.</td>
<td>By virtue of office</td>
<td></td>
<td>President and CEO Inspira Health Network, Inc.</td>
</tr>
<tr>
<td>DiVetro, Lawrence M., Jr.</td>
<td>2013</td>
<td>2019</td>
<td>President and CEO Land Dimensions Engineering</td>
</tr>
<tr>
<td>Freitag, Roberta S.</td>
<td>2014</td>
<td>2020</td>
<td>Co-Owner The Freitag Funeral Home</td>
</tr>
<tr>
<td>Gelernt, Mark, MD</td>
<td>By virtue of office</td>
<td></td>
<td>Physician</td>
</tr>
<tr>
<td>George, James E., MD</td>
<td>2006</td>
<td>2020</td>
<td>Physician, Attorney TeamHealth Emergency Medicine</td>
</tr>
<tr>
<td>Kaulback, Kurt W., MD</td>
<td>By virtue of office</td>
<td></td>
<td>Physician</td>
</tr>
<tr>
<td>Sager-Rossi, Penny</td>
<td>By virtue of office</td>
<td></td>
<td>Retired Business Owner Public Relations and Marketing Co.</td>
</tr>
<tr>
<td>Pepper, Lawrence A., Jr., Esq.</td>
<td>2015</td>
<td>2018</td>
<td>Attorney</td>
</tr>
<tr>
<td>Prieto, Jorge A., MD</td>
<td>2008</td>
<td>2020</td>
<td>Physician</td>
</tr>
<tr>
<td>Rundio, Albert A., Jr.</td>
<td>2015</td>
<td>2018</td>
<td>Associate Dean, Post-Licensure Nursing Programs Drexel University</td>
</tr>
<tr>
<td>Sheppard, Jack C., Jr.</td>
<td>By virtue of office</td>
<td></td>
<td>Area Senior Vice President Arthur J. Gallagher &amp; Company</td>
</tr>
<tr>
<td>Shields, Jack M., MD</td>
<td>2007</td>
<td>2019</td>
<td>Physician</td>
</tr>
<tr>
<td>Wood, Kimberly E.</td>
<td>2012</td>
<td>2018</td>
<td>Deputy County Administrator County of Cumberland</td>
</tr>
</tbody>
</table>
Quality and Patient Safety Committee

The Network Board established The Quality and Patient Safety Committee (“QPSC”) with the sole purpose of overseeing all quality and patient safety initiatives for all entities operating within the Network, including the three acute care hospitals, health centers, ambulatory services, home care and hospice care, and the employed medical group.

The voting rights of the members of the QPSCs are set forth in the Bylaws of the Network, IMC and IMC Woodbury, respectively.

The QPSC is responsible for the following:

- Development, implementation, monitoring, and reporting on the system-wide program priorities encompassing the measurement and improvement of quality, patient safety, and clinical resource utilization at each of the Network’s facilities and other provider sites and services and within strategic clinical service lines.

- Monitoring of the ongoing readiness for regulatory and accrediting body review of all network facilities.

- Monitoring the work of the population health workgroups focused on specific disease states and high risk care management cohorts.

- Analyzing and evaluating the data trends emerging from the quality management, patient safety, and resource management programs, as well as advising the Network Board in summary fashion on the state of the Network’s quality and patient safety program at each meeting of the Network Board.

- Engaging in education on current national priorities or other key topics related to quality and patient safety.

The QPSC is composed of the following Committee members:

- Four (4) Trustees
- Chief Medical Officer
- President of the Medical Staff
- Executive Vice President, Operations
- Executive Vice President, Chief Population Health & Clinical Officer
- Other appointed members as deemed appropriate by the Network Board.

The Committee is also staffed by the following, who regularly attend each meeting:

- Hospital Chief Operating Officer
- Corporate Vice President, Quality & Patient Safety
- Corporate Vice President, Risk Management
- Hospital Director, Quality & Patient Safety

Potential Conflicts of Interest

Network, IMC and IMC Woodbury trustees are required to file and update as necessary an annual disclosure statement that sets forth their business interests and those of their immediate family members. If any Network, IMC or IMC Woodbury Trustee has an interest in a contract or other transaction involving a
potential conflict of interest, such interest is disclosed and reviewed to determine whether: (a) the contract or transaction is necessary, (b) the Trustee (or immediate family member) is qualified to provide the goods or services called for in the contract or transaction, and (c) the economic terms are at least as favorable to the organization as those terms available from other qualified persons who have no conflict of interest. It is the Network, IMC and IMC Woodbury Boards’ policy that any Trustee with a potential conflict must refrain from discussion and decision on such issue. On occasion, the Network, IMC, and IMC Woodbury and their affiliates have retained the services of, borrowed money from or entered into business transactions with firms, corporations and organizations of which Network, IMC or IMC Woodbury Trustees are officers, Directors, partners or principals following such disclosure and review.

**EXECUTIVE MANAGEMENT**

The following information identifies the Network’s senior management team and describes their experience and principal areas of responsibility.

**John DiAngelo, President & Chief Executive Officer**, age 64, was appointed President and Chief Executive Officer of Inspira Health Network on January 1, 2014. Prior to his appointment as President & CEO, Mr. DiAngelo served as the Network’s Senior Vice President of Finance & CFO to which he was appointed in September 2000. Prior to joining Inspira, he held the position of Vice President – Planning and Network Development for Virtua Health. Mr. DiAngelo also served as Chief Financial Officer of Memorial Hospital of Burlington County from 1992 to 1998. From 1986 to 1992, he served at Saint Mary Hospital, Langhorne, Pennsylvania as Chief Financial Officer and was then promoted to Executive Vice President. From 1982 to 1986, he held the position of Controller for the Children’s Hospital of Philadelphia. From 1974 to 1982, he held various positions in the Health Care Division at Arthur Andersen & Co.

Mr. DiAngelo obtained a Bachelor of Accounting from Saint Joseph’s University in Philadelphia, Pennsylvania. He also earned a Masters of Business Administration from Widener University, Philadelphia, Pennsylvania. Mr. DiAngelo is a Certified Public Accountant, a Fellow of the Healthcare Financial Management Association and a Certified Managed Care Professional.

**Todd Way, Executive Vice President of Operations**, age 58, was appointed Executive Vice President of Operations in September 2014. Prior to joining Inspira, he served as Senior Vice President of Regional Operations for Valley Health in Winchester, Virginia where he oversaw operations for the system’s hospitals, ambulatory operations, marketing and business development. During his tenure, Valley Health grew from a two hospital system to what it is today with six hospitals. Mr. Way also held positions over corporate and ancillary services as well.

Mr. Way earned a Bachelor’s Degree in Pharmacy from West Virginia University, followed by a Master’s Degree in Health Administration from Virginia Commonwealth University’s Medical College of Virginia.

**Thomas Baldosaro, Executive Vice President and CFO**, age 47, was appointed Executive Vice President and Chief Financial Officer in January 2014. Mr. Baldosaro has over 20 years of healthcare finance leadership experience. He served as Inspira’s Vice President for Finance from 2006 to 2014 and prior to that, worked as the Network’s Controller. Mr. Baldosaro studied accounting at Stockton State College and is a certified public accountant and a certified health care financial professional.

**Alka Kohli, M.D., M.B.A., Executive Vice President and Chief Population Health and Clinical Officer**, age 49, joined Inspira Health Network in May 2016. She leads the network in developing clinical strategies to improve population health, and enhance quality and the patient experience. Additionally, her focus includes reducing the cost of care for families across the region. Prior to joining Inspira, Dr. Kohli served as Senior Vice President and Chief Medical Officer at Virtua. In previous roles, she served as Vice President of Medical Affairs, Medical Director of Operations and as Chief of the Department of Obstetrics and
Gynecology. Dr. Kohli is board certified in obstetrics and gynecology and holds an Executive Master of Business Administration degree from St. Joseph’s University’s Haub School of Business.

Matthew Doonan, General Counsel, age 41, was appointed General Counsel in 2015. Prior to joining Inspira, Mr. Doonan was in house counsel at Catholic Health East and later, Trinity Health, which merged with Catholic Health East in 2013 to form the nation’s second largest not-for-profit health system. Prior to that, Mr. Doonan served as in house counsel at The Cooper Health System (Camden, NJ) a 600 bed tertiary care academic medical center and Level I trauma center. Before that, he was engaged in private practice with the law firm of Parker McCay (Mt. Laurel, NJ). Mr. Doonan received his undergraduate degree from Loyola College in Maryland (Baltimore, MD) and his J.D. from Rutgers University School of Law Camden (Camden, NJ). He clerked for the Hon. Stephen J. Bernstein, J.S.C. in the Superior Court of New Jersey (Newark, NJ).

Elizabeth A. Sheridan, Chief Operating Officer, Inspira Medical Centers Elmer & Vineland, age 70, joined Inspira in February, 1999, as the Vice President for Patient Care Services. In 2004, Mrs. Sheridan was promoted to her current position.

As Chief Operating Officer, Mrs. Sheridan is responsible for operations at Inspira Medical Centers Vineland and Elmer. She also oversees System patient care services, which include critical care, emergency, maternity, pediatric, medical-surgical, education (hospital-wide, community and patient education), DNV, nursing resource management, pharmacy, cardiopulmonary, laboratory and radiology services. Prior to her joining Inspira, Mrs. Sheridan was Vice President for Patient Care Services at JFK Medical Center in Edison, New Jersey for ten years.

Mrs. Sheridan is a member of the American College of Healthcare Executives and is a Fellow Healthcare Executive (FACHE). She is the chairperson of the Chief Nursing Constituency Group for New Jersey Hospital Association (NJHA). She is also a member of the Nursing Advisory Board for Cumberland County College. She serves as a board member for the Food Bank of Southern New Jersey. She also serves as an Advisory Board member for the College of New Jersey.

Mrs. Sheridan began her education earning a nursing diploma from Melrose-Wakefield Hospital in Massachusetts in 1967, graduated Cum Laude with a Bachelor’s of Science in Nursing from Trenton State College in 1979 and completed her Master’s Degree in Administration from Rider College in 1985. In addition, Mrs. Sheridan is a graduate from the Wharton Fellows Program for Senior Health Care Executives at the University of Pennsylvania.

Patrick Nolan, Chief Operating Officer, Inspira Medical Center Woodbury, age 52, was appointed COO in August 2015. Prior to joining Inspira, he served as President of Valley Health Warren Memorial Hospital in Front Royal, Virginia from 2004 to 2015 and President of Valley Health War Memorial Hospital in Berkeley Springs, West Virginia from 1999 to 2004. In addition to day to day hospital operations, Mr. Nolan also managed Valley Health’s Family Practice Residency Program and Long Term Care facilities.

Mr. Nolan earned a Bachelor of Science degree with a major in Finance from Lehigh University and a Master’s in Business Administration with a concentration in Health Services Management from Duke University’s Fuqua School of Business.

Steven C. Linn, MD, MPH, IMC V/E Chief Medical Officer, age 54, has served in this position since July 2001. Prior to joining Inspira, he served as senior vice president of Medical Affairs at Kingston Hospital, a 160-bed-full-service hospital in Kingston, New York. Before that, he was Vice President of Medical Affairs and chief medical officer for three years at the Drake Center in Cincinnati, Ohio.

Dr. Linn earned his Bachelor of Arts degree from Dartmouth College in 1984 and his medical degree from the Johns Hopkins School of Medicine in 1988. In 1996, Dr. Linn earned a master’s degree in Public
Health from the Boston University School of Public Health and was Board Certified in Public Health and General Preventive Medicine. He is a diplomate in the American College of Physician Executives. Through ACPE he has been credentialed as a Certified Physician Executive and is also a Certified Professional in Healthcare Quality.

Erich Florentine, Chief People Officer, age 62, assumed this position September 2001. He received his Bachelor’s Degree from the Wharton School, University of Pennsylvania, in 1976 with a BS in Economics, and a concentration in Personnel Administration and Labor Relations. He has held various positions of responsibility over thirty years in Human Resources, including nine years with the General Electric Corporation. He became Vice President Human Resources for Memorial Health Alliance in 1997. From 1999 through 2001 he was the Vice President responsible for managing the merger of Memorial Health Alliance and West Jersey Hospital System to become Virtua Health.

At Inspira, Mr. Florentine is charged with aligning Human Resource programs and Patient Satisfaction initiatives with the Network’s Vision, Mission, and Strategic Plan, and is bringing tools to the management team to successfully realize the Network’s vision. Mr. Florentine has made conference presentations and written various articles describing the applicability of Six Sigma to health care.

Clare Sapienza-Eck, Vice President of Business Development and Physician Services, age 61, has served in this capacity since December 1998. She was Director of Planning and Government Relations at South Jersey Hospital from 1994 to 1998. Ms. Sapienza-Eck was Director of Planning for Mercy Health Corporation from 1989 to 1993 and a Senior Consultant for Lavenhol & Horwath from 1986 to 1989. Ms. Sapienza-Eck was self-employed as a healthcare consultant from 1980 to 1986.

Ms. Sapienza-Eck obtained a Bachelor of Science in Occupational Therapy from the University of Pennsylvania and a Master of Health Care Administration and Master in Health Care Finance from Temple University. She sits on the Rowan Community Advisory Board, member of the Cumberland County Economic Development Advisory Committee and holds various board positions for community based organizations.

David Murray, Vice President Finance, age 47, was appointed to this position in July 2014. Mr. Murray was first employed at South Jersey Hospital in 2001. Prior to joining South Jersey, he held the position of Manager of Financial Reporting for UPS Supply Chain Solutions from February 1998 to May 2001. Mr. Murray earned a Bachelor’s Degree in Accounting from Rider University in Lawrenceville, New Jersey, followed by a Master’s Degree in Business Administration from Eastern University, St. Davids Pennsylvania. He is a Certified Public Accountant and a Fellow in the Healthcare Financial Management Association.

Peter A. Kaprielyan, Vice President of Government and External Relations, age 63, was appointed Vice President of Government and External Relations in November 2012. Previously, he served as Vice President of Organizational Improvement and Philanthropy at Underwood-Memorial Hospital, Woodbury, New Jersey where he oversaw government relations, organizational improvement, marketing, fundraising, public relations and patient satisfaction. Peter is a Member of the Board of Managers for the Development Committee and Strategic Planning Committee,Ralston Center, Philadelphia and a Member of the Cumberland County Economic Development Advisory Committee as well as a NJHA HealthPAC Board Member.

Mr. Kaprielyan earned a Bachelor’s Degree in Economics from Millersville University, followed by a Master’s Degree in Business Administration from Shippensburg University.

David Yhlen, Vice President Ambulatory Services, age 56 started at Inspira Health Network in December 2012 as the Chief Operating Officer Inspira Medical Center Elmer before being appointed Vice President Ambulatory Services November 2014. Prior to joining Inspira, he had a 22 year career at Virtua
Health serving from 2004 to 2012 as Vice President Hospital Operations Inspira Memorial Hospital, from 2002 to 2004 Executive Director Virtua Home Care, and prior to those appointments from 1990 to 2002 held various Virtua financial leadership positions.

Mr. Yhlen earned a Bachelor’s Degree in Accounting from Mount Saint Mary’s University in Emmitsburg, Maryland, followed by a Master’s Degree in Business Administration from Eastern University, St. Davids Pennsylvania. He is a Fellow in the American College of Health Care Executives.

**MEDICAL STAFF**

Two separate Medical Staffs operate within the Network. Each has its own set of Medical Bylaws and Medical Executive Committee as well as Chief Medical Officer. The Medical Staff members elect Medical Staff Presidents, Medical Staff Officers and Department Chairs. Departmental policies and procedures are campus specific.

**Residency Training**

Through an affiliation with the Rowan SOM, Osteopathic Postdoctoral Training Institution, IMC Vineland offers osteopathic residency programs in Podiatry, Obstetrics and Gynecology, Family Medicine, Orthopedic Surgery, Internal Medicine, Transitional Rotating Internship, Emergency Medicine and General Surgery. IMC Vineland is also home to fellowship programs in Uro-gynecology, Critical Care and Sports Medicine. IMC Vineland currently is approved for 143 residency and fellow slots. IMC Woodbury is approved for 15 slots for a Family Medicine Residency in affiliation with Thomas Jefferson University and serves as a clinical training site for rotating surgical residents from Temple University School of Medicine.

**Practice Excellence**

IMC Vineland and IMC Elmer Medical Staff has implemented a program called Practice Excellence that is a web based program developed by Stephen Beeson, M.D. and colleagues. The basis of the program is to train physicians in non-clinical skills. The principal pillars of the project include patient centeredness (both inpatient and outpatient), high-performing teams, quality and safety, clinical leadership, and building a healthcare group.

Currently there are 300 Network physician participants participating in the project that in 2016 included 188 attending physicians, 147 resident physicians, 9 Resident Facilitators and 32 administrators. More importantly, the Network is beginning to see a change in culture. For example, a number of physicians have changed the way they introduce himself or herself to a patient, explain diagnoses or medications, and are using tips from the team building modules to improve their leadership skills within their own practices or within the Network environment.

**Physician Leadership Academy**

Since 2014, the Network has sponsored a Physician Leadership Academy. After the initial application process, 20 members of the Medical Staff who were interested in developing their knowledge and leadership skills were selected for participation. The program, conducted in partnership with the American Association for Physician Leadership (“AAPL”), consists of two weekends of live programs each year, supplemented by online work completed by each individual. Course work includes Finance, Leadership, Quality, Change Management, Ethics and other areas that are essential for leadership in a dynamic healthcare environment.

Over a thirty-month period, physicians will be able to obtain the 160 hours of training needed to sit for the AAPL course and exam to become a Certified Physician Executive. Inspira has six doctors who have completed the coursework and are now Certified Physician Executives. This year, the Network has recruited an additional 29 physicians to join the program.
Both Medical Staffs sponsor other educational activities and all physicians and allied health practitioners with clinical privileges must participate in continuing medical education.

As of February 2017, the Medical Staff of IMC and IMC Woodbury total 1,159 physicians including active physicians, consulting staff and adjunct physicians. Inspira is also supported by allied staff, which includes nurse midwives, advance practice nurses, psychologists and physician assistants.

<table>
<thead>
<tr>
<th>Staff Classification</th>
<th>Number of Medical Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Medical Staff*</td>
<td>879</td>
</tr>
<tr>
<td>Consulting</td>
<td>53</td>
</tr>
<tr>
<td>Adjunct</td>
<td>24</td>
</tr>
<tr>
<td>Refer and Follow</td>
<td>39</td>
</tr>
<tr>
<td>Senior Active</td>
<td>13</td>
</tr>
<tr>
<td>Allied**</td>
<td>151</td>
</tr>
<tr>
<td>In-house</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,159</td>
</tr>
</tbody>
</table>

Source: Inspira Records

* The active Medical Staff includes those physicians who regularly admit patients to Inspira and comply with the department general staff attendance requirements.

** Includes other physician and non-physician members of the Medical Staff as well as house physicians, advanced practice nurses, psychologists, nurse midwives and physician assistants.

**IMC Vineland/Elmer Medical Staff**

The Medical Staff of IMC Vineland/Elmer is comprised of 587 physicians including active physicians, consulting staff and refer and follow physicians. IMC is also supported by allied health staff, which included nurse midwives, advanced practice nurses, and physician assistants.
### Staff Classification

<table>
<thead>
<tr>
<th>Staff Classification</th>
<th>Number of Medical Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Medical Staff*</td>
<td>446</td>
</tr>
<tr>
<td>Consulting</td>
<td>20</td>
</tr>
<tr>
<td>Adjunct</td>
<td>24</td>
</tr>
<tr>
<td>Senior Active</td>
<td>13</td>
</tr>
<tr>
<td>Allied**</td>
<td>84</td>
</tr>
<tr>
<td>In-house</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>587</strong></td>
</tr>
</tbody>
</table>

*The active Medical Staff includes those physicians who regularly admit patients to Inspira and comply with the department general staff attendance requirements.

**Includes other physician and non-physician members of the Medical Staff as well as house physicians, advanced practice nurses, psychologists, nurse midwives and physician assistants.

Additionally, Inspira added a net 51 practitioners to its Medical Staff in 2016 including primary and specialty physicians including tele-radiologists and hospitalists.

The Medical Staff sponsors educational activities and all physicians with clinical privileges must participate in continuing medical education. Of the active physicians, 85% are board-certified and the average age of the active staff is 51 years. The following table presents information concerning age categories of the active Medical Staff and admissions from each:

<table>
<thead>
<tr>
<th>IMC Vineland/Elmer Medical Staff by Age</th>
<th>Number of Active Medical Staff</th>
<th>Percent of Active Medical Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 to 34 years</td>
<td>58</td>
<td>10%</td>
</tr>
<tr>
<td>35 to 44 years</td>
<td>152</td>
<td>26%</td>
</tr>
<tr>
<td>45 to 54 years</td>
<td>140</td>
<td>24%</td>
</tr>
<tr>
<td>55 to 64 years</td>
<td>154</td>
<td>26%</td>
</tr>
<tr>
<td>65 &amp; over years</td>
<td>83</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>587</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Inspira Records
The following table presents the profile of the top 10 admitting physician groups at IMC for 2016:

<table>
<thead>
<tr>
<th>Group Name</th>
<th>2016 Admissions</th>
<th>Percent of Total</th>
<th>Number of Providers in Group</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>ExcelCare Alliance, LLC</td>
<td>3,607</td>
<td>17.01%</td>
<td>21</td>
<td>Multi-Specialty</td>
</tr>
<tr>
<td>Complete Care Health Network (FQHC)</td>
<td>2,892</td>
<td>13.64%</td>
<td>32</td>
<td>Family Practice, Obstetrics and Gynecology</td>
</tr>
<tr>
<td>Rowan University-SOM</td>
<td>1,611</td>
<td>7.60%</td>
<td>8</td>
<td>Psychiatry</td>
</tr>
<tr>
<td>Internal Medicine Associates, PA</td>
<td>1,547</td>
<td>7.30%</td>
<td>5</td>
<td>Internal Medicine</td>
</tr>
<tr>
<td>Medical Alliance of Southern NJ</td>
<td>541</td>
<td>2.55%</td>
<td>3</td>
<td>Internal Medicine and Pulmonology</td>
</tr>
<tr>
<td>ESA South Jersey Bariatrics</td>
<td>517</td>
<td>2.44%</td>
<td>2</td>
<td>Surgery, General and Bariatrics</td>
</tr>
<tr>
<td>Premier Orthopaedic Associates</td>
<td>505</td>
<td>2.38%</td>
<td>12</td>
<td>Surgery, Orthopedics</td>
</tr>
<tr>
<td>Cumberland Family Medicine Associates</td>
<td>448</td>
<td>2.11%</td>
<td>2</td>
<td>Family Practice</td>
</tr>
<tr>
<td>South Jersey Chest Diseases, PA</td>
<td>421</td>
<td>1.99%</td>
<td>3</td>
<td>Pulmonology</td>
</tr>
<tr>
<td>Bridgeton Family Medicine</td>
<td>396</td>
<td>1.87%</td>
<td>2</td>
<td>Family Practice</td>
</tr>
<tr>
<td>Total</td>
<td>12,485</td>
<td>58.88%</td>
<td>90</td>
<td></td>
</tr>
</tbody>
</table>

Source: Inspira Records

As the table above indicates, 58.88% of IMC’s 21,205 total admissions for 2016 are from the top 10 admitting physician groups, which in the aggregate, constitute 90 physicians.

**IMC Woodbury Medical Staff**

As of February 2017, the Medical Staff of IMC Woodbury is comprised of 505 physicians including active physicians, consulting staff and refer and follow physicians. IMC Woodbury is also supported by 67 allied health staff, which includes nurse midwives, advanced practice nurses, and physician assistants.

<table>
<thead>
<tr>
<th>Staff Classification</th>
<th>Number of Medical Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Medical Staff*</td>
<td>433</td>
</tr>
<tr>
<td>Consulting</td>
<td>33</td>
</tr>
<tr>
<td>Refer &amp; Follow</td>
<td>39</td>
</tr>
<tr>
<td>Allied Health</td>
<td>67</td>
</tr>
<tr>
<td>Total</td>
<td>572</td>
</tr>
</tbody>
</table>

Source: Inspira Records

* The active Medical Staff includes those physicians that admit patients. All other practitioners do not admit including consulting, refer and follow and allied health.
IMC Woodbury added a net 13 practitioners to its Medical Staff over the last year. The Medical Staff sponsors educational activities and all physicians with clinical privileges must participate in continuing medical education. Of the active physicians, 99.5% are either Board eligible or certified and the average age of the active staff is 50 years.

<table>
<thead>
<tr>
<th>Number of Active Medical Staff</th>
<th>Percent of Active Medical Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 to 34 years</td>
<td>42</td>
</tr>
<tr>
<td>35 to 44 years</td>
<td>139</td>
</tr>
<tr>
<td>45 to 54 years</td>
<td>132</td>
</tr>
<tr>
<td>55 to 64 years</td>
<td>134</td>
</tr>
<tr>
<td>65 &amp; over years</td>
<td>58</td>
</tr>
<tr>
<td>Total</td>
<td>505</td>
</tr>
</tbody>
</table>

Source: Inspira Records

The following table presents the profile of the top 10 admitting physician groups at IMC Woodbury for 2016:

<table>
<thead>
<tr>
<th>Group Name</th>
<th>2016 Admissions</th>
<th>Percent of Total</th>
<th>Number of Providers In Group</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rowan University-SOM</td>
<td>869</td>
<td>9.33%</td>
<td>8</td>
<td>Psychiatry</td>
</tr>
<tr>
<td>DePersia Medical Group</td>
<td>690</td>
<td>7.41%</td>
<td>3</td>
<td>Internal Medicine</td>
</tr>
<tr>
<td>Inspira Medical Group Obstetrics and Gynecology West Deptford</td>
<td>660</td>
<td>7.09%</td>
<td>3</td>
<td>Obstetrics and Gynecology</td>
</tr>
<tr>
<td>SJ Family Medicine Associates</td>
<td>605</td>
<td>6.50%</td>
<td>3</td>
<td>Family Practice</td>
</tr>
<tr>
<td>Premier’s Women’s Health of SJ</td>
<td>355</td>
<td>3.81%</td>
<td>3</td>
<td>Obstetrics and Gynecology</td>
</tr>
<tr>
<td>Internal Medicine Associates</td>
<td>313</td>
<td>3.36%</td>
<td>3</td>
<td>Internal Medicine</td>
</tr>
<tr>
<td>Akshay S. Dave, MD LLC.</td>
<td>305</td>
<td>3.27%</td>
<td>1</td>
<td>Family Practice</td>
</tr>
<tr>
<td>Inspira Medical Center Woodbury</td>
<td>246</td>
<td>2.64%</td>
<td>7</td>
<td>Family Practice</td>
</tr>
<tr>
<td>Family Medicine Residency Clinic</td>
<td>244</td>
<td>2.62%</td>
<td>7</td>
<td>Cardiology</td>
</tr>
<tr>
<td>Inspira Medical Group Cardiovascular Services Woodbury</td>
<td>222</td>
<td>2.38%</td>
<td>3</td>
<td>Family Practice</td>
</tr>
<tr>
<td>Total</td>
<td>4,509</td>
<td>48.41%</td>
<td>41</td>
<td></td>
</tr>
</tbody>
</table>

Source: Inspira Records

As the table above indicates, 48.41% of IMC Woodbury’s 9,314 total admissions for 2016 are from the top 10 admitting physician groups, which in the aggregate, constitute 41 providers.

EMPLOYEES

General

As of December 31, 2016, Inspira had 5,302 employees (including per diem) representing 4,228 full-time equivalent employees (FTE’s). FTE’s per adjusted occupied bed finished the year at 7.48.
The composition of the labor force at Inspira as of December 31, 2016 was as follows:

<table>
<thead>
<tr>
<th>Type of Employee</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>RN</td>
<td>1,257</td>
</tr>
<tr>
<td>LPN</td>
<td>42</td>
</tr>
<tr>
<td>Management</td>
<td>262 (1)</td>
</tr>
<tr>
<td>Other</td>
<td>3,741</td>
</tr>
<tr>
<td>Total</td>
<td>5,302</td>
</tr>
</tbody>
</table>

(1) Manager and above title.
Source: Inspira Records

At the beginning of May 2017, nursing union employees totaled 1,280 with one labor unit and two locals, and home health union employees totaled 31 with another labor union.

**Nursing Services**

IMC Vineland, IMC Elmer and IHCB are Magnet designated facilities, having been for the last six years (two – three year designations) and are in the process of working on a third designation that will be submitted later in 2017. The Network has submitted an Intent to Designate for IMC-Woodbury and has been accepted to submit a Magnet Application in 2019. Magnet designation is awarded by the American Nurses Association Credentialing Center (“ANCC”), is a highly competitive process with only 7% of US hospitals being awarded this designation. The criteria to be awarded includes those hospitals that promote an environment that attracts and retains professional nurses and demonstrates excellence in patient care. Additional criteria includes: professional development (promotion of BSN and higher degrees and national certification), high quality nursing care, exemplary patient satisfaction/engagement, autonomy in nursing practice, ongoing clinical inquiry in the form of research and registered nurse engagement.

IMC and IMC Woodbury Nursing Departments use a shared governance philosophy where registered nurses at the staff level are considered a vital part of the decision making process and are encouraged to become involved in all aspects of professional accountability. Nurses are also directly involved in evaluating their peers through clinical ladder applications and peer review. The shared governance model also promotes life-long learning, continuing education both formal academic degrees and new knowledge seminars. Based on recommendations from the Network’s nurse management, Inspira has developed a highly competitive salary scale that recognizes formal education and national certifications, management/leadership development programs, supports tuition and seminar reimbursement and has a paid nurse employee referral program, a clinical ladder program and a preceptor program. Inspira offers flexible working schedules and an environment that supports no mandatory overtime.

The Network has utilized the shared governance model for many years and believe that it creates and fosters a positive work environment. In fact, the Network uses this model and its human resources benefit package as a major recruitment and retention tool. In 2016, Inspira had a nursing staff turnover rate of 7.23%. The Network benchmarks nursing staff turnover rate against National Healthcare Retention/RN Staffing Report (source: Advisory Board), and the 2016 benchmark reported a national average turnover of 12%.

**Employee Benefit and Pension Plan**

Inspira offers full time and part time employees a benefits package which includes medical, and pharmacy benefits, dental insurance, life insurance, tuition assistance and, at the employees’ option, a matching tax-sheltered annuity. Inspira also provides eligible employees with a non-contributory defined contribution retirement plan that is in compliance with the Employee Retirement Income Security Act of December 31, 1993. The non-elective retirement contribution is a percentage of salary paid on a per pay period basis. Inspira’s plan is fully funded. IMC Woodbury sponsors a non-contributory defined benefit plan...
(“DB Plan”) covering full-time employees who meet prescribed eligibility requirements. The DB Plan was frozen to further benefits effective January 1, 2010. IMC Woodbury’s accrued pension liability at December 31, 2016 was approximately $3.6 million, which represents a measurement of the difference between the market value of the plan assets and the plan’s actuarially determined projected benefit obligations.

**POPULATION HEALTH INITIATIVES**

Inspira is committed to delivering value-based care modeled on the Triple Aim of improving the health of populations, improving the patient experience and reducing the per capital cost of healthcare. As the industry is transitioning from a “volume to value” payment model, Inspira is participating in programs that embrace this transition offered by our payer partners in order to learn and evolve.

**Centers of Medicaid and Medicare Innovation (CMMI) Bundled Payments for Care Improvement Initiative (BPCI) – Model 1.** In 2013, all three of the Network hospitals were selected to participate in CMMI’s Bundled Payments for Care Improvement Initiative – Model 1. This program was aimed to achieve higher quality and more coordinated care at a lower cost to Medicare, focusing on an episode of care defined as the inpatient stay in an acute care hospital. It proved successful in engaging physicians in a mutually beneficial program and the hospitals shared over $1.8 million for the period from April 1, 2013 through March 31, 2016. In October of 2016, the Inspira Population Health Department assumed care management responsibilities for enrollees in the Inspira Health Plan, a program branded as Inspira Health Connection, which was previously outsourced.

During the course of the BPCI, Inspira developed Inspira Health Partners in 2014, and re-launched it as a Clinically Integrated Network (“CIN”) in late 2016 consisting of over 200 physicians. Further development of the CIN includes creation of physician-driven metrics by specialty, models for shared savings distribution, and network optimization strategies.

**Inspira Health Partners/PHO.** Inspira Health Partners (“IHP”) was formed in 2014 as a Physician Hospital Organization. IHP intends, on behalf of its physician members and Inspira, to procure and enter into contracts with payers for the delivery of professional medical services in exchange for payment of such services.

IHP’s goals include meeting payer needs in its market, producing a platform to coordinate care and improve the quality of care provided to the enrollees of payers, building a market preference with consumers and providing physician members with the tools to best manage care and maintain profitability in the future. As of May 2017, there were 238 physicians signed with IHP.

**Accountable Care Organization.** Effective January 1, 2015 Inspira received approval from Medicare to participate in the Medicare Shared Savings Program. The program labeled Inspira Care Connect (“ICC”) currently has 11,000 attributed lives and 159 providers participating in the program. This program began the progression to strategic development of care management in the ambulatory setting.

The goals of the program are to improve the health status of the population served by IHN, improve patient experience and engagement, promote efficient use of health care resources, reduce cost of care/reduce admissions & ED overutilization, reduce clinical variation, and broaden scope of services and shared savings opportunities.

**Delivery System Reform Incentive Payment (DSRIP) Program for Inspira Medical Centers Elmer, Vineland, and Woodbury.** All three of Inspira Health Network hospitals participate in this state sponsored program focused on performance metrics and impacting the Medicaid population. DSRIP is a demonstration program designed to result in better care for individuals (including access to care, quality of care, health outcomes), better health for the population and lower costs by transitioning hospital funding to a model where payment is contingent on achieving health improvement goals.
**Inspira Health Network LIFE Program.** Inspira Health Network LIFE is a PACE Program that is located in Cumberland County, New Jersey and started in 2011. This is a fully capitated program managing the care of dual eligible participants who qualify for a nursing home level of care with the goal of keeping the participants in their homes and out of hospital and skilled nursing facilities.

**Inspira Health Network Medical Group (IMG).** In 2014, IMG joined Horizon’s Patient Centered Medical Home program with a population of approximately 5,000 patients. In 2017, the IMG primary care practices were accepted into Track one of CMS's CPC+ programs that provides additional reimbursement to promote care management services in the primary care practice setting as well as offering additional shared savings opportunities.

**Inspira Health Network Population Health Department.** Underpinning the effort of Network and IMG are the care management and analytic contributions of the Population Health Department. The care management services of the Population Health Department have grown over three years to include Population Care Coordinators (RNs), Patient Engagement Specialists, a pharmacy and pharmacy technician, and social workers. Inspira is currently working with a vendor to implement a population health system called “HealtheIntent” which is designated to include registries to provide physicians real-time information on quality metric performance that can be used for compensation design and point-of-service care delivery, a care management solution of automated work lists with tailored assessments and care plans, and analytical capabilities for panel-based reporting functionality to monitor cost, utilization, and quality results.

Inspira plans to expand its care management service offerings in the near future to private practices within its CIN and local employers looking to improve the health of their workforces and their families. Inspira also plans to strengthen community partnerships including collaboration with post-acute facilities, durable medical equipment providers and Home Health agencies to ensure delivery of a comprehensive array of quality, cost effective resources to its patients.

**PATIENT ORIGIN AND SERVICE AREA**

The Network recently re-adopted an approach to define its market based on a Primary and Secondary designation, using the origin of 75% and 90% of admissions, respectively. This newly defined service area establishes Cumberland and Gloucester Counties as core markets, with surrounding markets encompassing municipalities from Atlantic, Camden, Cape May and Salem Counties.

**IMC Service Area**

At the core of IMC Vineland’s service area are the three major municipalities of Cumberland County: Bridgeton, Millville and Vineland, representing 77% of IMC Vineland’s total admissions with the remaining municipalities of Cumberland County and parts of Salem, Gloucester and Atlantic counties rounding out its service area.

IMC Elmer’s primary service area is a wider catchment area with a total of 25 municipalities representing the counties of Cumberland, Gloucester and Salem. It shares many of the municipalities in its service area with other Network hospitals, but is the sole Inspira provider in the southwestern municipalities of Salem County. In its home base of Elmer, IMC Elmer has a market share of 32%, with IMC Vineland following at 31%.

According to the Sg2 Total Edge System, there are estimated to be 410,000 people living in IMC’s Service Area. Vineland, the largest city within the service area, is estimated to have a population of 60,815 for 2016.

As is shown in the table below, the population in IMC’s Service Area is estimated to grow by approximately 0.35% cumulatively from 2017 to 2022. The areas with the greatest anticipated growth are
Mullica Hill and Swedesboro, both in Gloucester County, with cumulative annual growth rates of 4.05% and 6.31%, respectively.
A table showing patient origin patterns and population trends for each market is as follows:

<table>
<thead>
<tr>
<th>Market</th>
<th>Zip</th>
<th>Municipality</th>
<th>2017</th>
<th>2022</th>
<th>% Change</th>
<th>Vineland</th>
<th>Elmer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>08001</td>
<td>Alloway</td>
<td>1,017</td>
<td>981</td>
<td></td>
<td>3.67</td>
<td>17</td>
<td>40</td>
</tr>
<tr>
<td>08302</td>
<td>Bridgeton</td>
<td>47,292</td>
<td>47,609</td>
<td></td>
<td>-0.67</td>
<td>3,737</td>
<td>631</td>
</tr>
<tr>
<td>08318</td>
<td>Elmer</td>
<td>11,923</td>
<td>12,160</td>
<td></td>
<td>-1.95</td>
<td>457</td>
<td>466</td>
</tr>
<tr>
<td>08322</td>
<td>Franklinville</td>
<td>10,555</td>
<td>10,540</td>
<td></td>
<td>0.14</td>
<td>92</td>
<td>126</td>
</tr>
<tr>
<td>08328</td>
<td>Malaga</td>
<td>1,146</td>
<td>1,165</td>
<td></td>
<td>-1.63</td>
<td>23</td>
<td>34</td>
</tr>
<tr>
<td>08332</td>
<td>Millville</td>
<td>40,410</td>
<td>40,355</td>
<td></td>
<td>0.14</td>
<td>4,026</td>
<td>180</td>
</tr>
<tr>
<td>08343</td>
<td>Monroeville</td>
<td>4,336</td>
<td>4,379</td>
<td></td>
<td>-0.98</td>
<td>42</td>
<td>131</td>
</tr>
<tr>
<td>08344</td>
<td>Newfield</td>
<td>6,021</td>
<td>6,058</td>
<td></td>
<td>-0.61</td>
<td>209</td>
<td>123</td>
</tr>
<tr>
<td>08079</td>
<td>Salem</td>
<td>10,348</td>
<td>10,590</td>
<td></td>
<td>-2.29</td>
<td>199</td>
<td>135</td>
</tr>
<tr>
<td>08353</td>
<td>Shiloh</td>
<td>382</td>
<td>389</td>
<td></td>
<td>-1.80</td>
<td>21</td>
<td>9</td>
</tr>
<tr>
<td>08360</td>
<td>Vineland</td>
<td>42,269</td>
<td>42,576</td>
<td></td>
<td>-0.72</td>
<td>4,934</td>
<td>261</td>
</tr>
<tr>
<td>08361</td>
<td>Vineland</td>
<td>18,328</td>
<td>18,239</td>
<td></td>
<td>0.49</td>
<td>1,032</td>
<td>54</td>
</tr>
<tr>
<td>08098</td>
<td>Woodstown</td>
<td>9,237</td>
<td>9,227</td>
<td></td>
<td>0.11</td>
<td>71</td>
<td>278</td>
</tr>
<tr>
<td>Primary Total</td>
<td></td>
<td></td>
<td>204,268</td>
<td>203,264</td>
<td>-0.49</td>
<td>14,860</td>
<td>2,468</td>
</tr>
<tr>
<td>Secondary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>08014</td>
<td>Bridgeport</td>
<td>482</td>
<td>491</td>
<td></td>
<td>-1.83</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>08310</td>
<td>Buena</td>
<td>2,164</td>
<td>2,178</td>
<td></td>
<td>-0.64</td>
<td>131</td>
<td>16</td>
</tr>
<tr>
<td>08311</td>
<td>Cedarville</td>
<td>2,164</td>
<td>2,156</td>
<td></td>
<td>0.37</td>
<td>176</td>
<td>13</td>
</tr>
<tr>
<td>08312</td>
<td>Clayton</td>
<td>7,977</td>
<td>7,838</td>
<td></td>
<td>1.77</td>
<td>42</td>
<td>46</td>
</tr>
<tr>
<td>08314</td>
<td>Delmont</td>
<td>2,517</td>
<td>2,516</td>
<td></td>
<td>0.04</td>
<td>22</td>
<td>3</td>
</tr>
<tr>
<td>08028</td>
<td>Glassboro</td>
<td>20,131</td>
<td>20,042</td>
<td></td>
<td>0.44</td>
<td>52</td>
<td>78</td>
</tr>
<tr>
<td>08323</td>
<td>Greenwich</td>
<td>739</td>
<td>758</td>
<td></td>
<td>-2.51</td>
<td>44</td>
<td>22</td>
</tr>
<tr>
<td>08324</td>
<td>Heislerville</td>
<td>160</td>
<td>163</td>
<td></td>
<td>-1.84</td>
<td>34</td>
<td>1</td>
</tr>
<tr>
<td>08326</td>
<td>Landisville</td>
<td>1,599</td>
<td>1,588</td>
<td></td>
<td>0.69</td>
<td>84</td>
<td>3</td>
</tr>
<tr>
<td>08327</td>
<td>Leesburg</td>
<td>318</td>
<td>325</td>
<td></td>
<td>-2.15</td>
<td>58</td>
<td>1</td>
</tr>
<tr>
<td>08341</td>
<td>Minotola</td>
<td>1,866</td>
<td>1,849</td>
<td></td>
<td>0.92</td>
<td>135</td>
<td>23</td>
</tr>
<tr>
<td>08062</td>
<td>Mullica Hill</td>
<td>17,737</td>
<td>17,046</td>
<td></td>
<td>4.05</td>
<td>46</td>
<td>88</td>
</tr>
<tr>
<td>08345</td>
<td>Newport</td>
<td>875</td>
<td>894</td>
<td></td>
<td>-2.13</td>
<td>70</td>
<td>5</td>
</tr>
<tr>
<td>08067</td>
<td>Pedricktown</td>
<td>1,478</td>
<td>1,523</td>
<td></td>
<td>-2.95</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>08069</td>
<td>Penns Grove</td>
<td>12,481</td>
<td>12,765</td>
<td></td>
<td>-2.22</td>
<td>125</td>
<td>84</td>
</tr>
<tr>
<td>08070</td>
<td>Pennsville</td>
<td>12,379</td>
<td>12,650</td>
<td></td>
<td>-2.14</td>
<td>40</td>
<td>37</td>
</tr>
<tr>
<td>08071</td>
<td>Pitman</td>
<td>9,337</td>
<td>9,405</td>
<td></td>
<td>-0.72</td>
<td>13</td>
<td>23</td>
</tr>
<tr>
<td>08349</td>
<td>Port Norris</td>
<td>2,029</td>
<td>2,085</td>
<td></td>
<td>-2.69</td>
<td>174</td>
<td>14</td>
</tr>
<tr>
<td>08350</td>
<td>Richland</td>
<td>530</td>
<td>534</td>
<td></td>
<td>-0.75</td>
<td>54</td>
<td>4</td>
</tr>
<tr>
<td>08080</td>
<td>Sewell</td>
<td>37,465</td>
<td>37,450</td>
<td></td>
<td>0.04</td>
<td>28</td>
<td>19</td>
</tr>
<tr>
<td>08085</td>
<td>Swedesboro</td>
<td>22,423</td>
<td>21,093</td>
<td></td>
<td>6.31</td>
<td>26</td>
<td>35</td>
</tr>
<tr>
<td>08094</td>
<td>Williamstown</td>
<td>42,910</td>
<td>41,800</td>
<td></td>
<td>2.66</td>
<td>80</td>
<td>19</td>
</tr>
<tr>
<td>08270</td>
<td>Woodbine</td>
<td>7,865</td>
<td>8,035</td>
<td></td>
<td>-2.12</td>
<td>60</td>
<td>0</td>
</tr>
<tr>
<td>Secondary Total</td>
<td></td>
<td></td>
<td>205,184</td>
<td>207,626</td>
<td>1.19</td>
<td>1,496</td>
<td>546</td>
</tr>
<tr>
<td>Outside Total</td>
<td></td>
<td></td>
<td>1,444</td>
<td>1,444</td>
<td>0</td>
<td>226</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td>409,452</td>
<td>410,890</td>
<td>0.35</td>
<td>17,800</td>
<td>3,240</td>
</tr>
</tbody>
</table>

Source: Inspira Records

**IMC Woodbury Service Area**

IMC Woodbury’s service area includes mostly all of Gloucester County representing over 76% of its admissions. There are a few southern Camden County municipalities represented in IMC Woodbury’s service area amounting to 10% of admissions. Upon completion of the new hospital in Mullica Hill, management of
the Network expects the service area to move east consistent with the location of the new hospital and more accessible to the faster growing areas of Gloucester County, see “INSPIRA STRATEGIC MASTER PLAN – IMC-Mullica Hill Replacement Hospital Project.

According to the Sg2 Total Edge System, there are estimated to be 432,000 people living in IMC Woodbury’s Service Area. Woodbury, the most densely populated city within the service area, is estimated to have a population of 36,108 for 2017.

As is shown in the table below, the population in IMC Woodbury’s Service Area is estimated to grow by approximately 0.19% per year, or 0.95% cumulatively from 2017 to 2022. The areas with the greatest anticipated growth are the municipalities in the western part of the service area, like Mullica Hill, Clarksboro, Swedesboro, Mickleton and Mount Royal, where cumulative annual growth rates range from 4.05% to 7.93%.
A table showing patient origin patterns and population trends for each market is listed below:

<table>
<thead>
<tr>
<th>Market</th>
<th>Zip</th>
<th>Municipality</th>
<th>2017</th>
<th>2022</th>
<th>Change</th>
<th>2015 Admissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>08014</td>
<td>Bridgeport</td>
<td>491</td>
<td>482</td>
<td>-1.83</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>08020</td>
<td>Clarksboro</td>
<td>2,494</td>
<td>2,633</td>
<td>5.57</td>
<td>119</td>
</tr>
<tr>
<td></td>
<td>08027</td>
<td>Gibbstown</td>
<td>4,550</td>
<td>4,479</td>
<td>-1.56</td>
<td>256</td>
</tr>
<tr>
<td></td>
<td>08030</td>
<td>Gloucester City</td>
<td>13,032</td>
<td>12,952</td>
<td>-0.61</td>
<td>433</td>
</tr>
<tr>
<td></td>
<td>08051</td>
<td>Mantua</td>
<td>10,866</td>
<td>10,949</td>
<td>0.76</td>
<td>410</td>
</tr>
<tr>
<td></td>
<td>08056</td>
<td>Mickleton</td>
<td>5,184</td>
<td>5,552</td>
<td>7.10</td>
<td>128</td>
</tr>
<tr>
<td></td>
<td>08061</td>
<td>Mount Royal</td>
<td>3,267</td>
<td>3,526</td>
<td>7.93</td>
<td>85</td>
</tr>
<tr>
<td></td>
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<td>3,017</td>
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<td></td>
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<td>7,792</td>
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<tr>
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<td>21,093</td>
<td>22,423</td>
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<tr>
<td></td>
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<td>8,183</td>
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<tr>
<td></td>
<td>08093</td>
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<td>9,084</td>
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</tr>
<tr>
<td></td>
<td>08096</td>
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<td>36,108</td>
<td>36,415</td>
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<td>3,119</td>
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<tr>
<td></td>
<td></td>
<td><strong>Primary Total</strong></td>
<td>190,831</td>
<td>193,658</td>
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<tr>
<td>Secondary</td>
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<td>Bellmawr</td>
<td>11,373</td>
<td>11,331</td>
<td>-0.37</td>
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<tr>
<td></td>
<td>08012</td>
<td>Blackwood</td>
<td>37,989</td>
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<td>12,160</td>
<td>11,923</td>
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<td>08322</td>
<td>Franklinville</td>
<td>10,540</td>
<td>10,555</td>
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<td>20,042</td>
<td>20,131</td>
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<td></td>
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<td>4,682</td>
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<tr>
<td></td>
<td>08343</td>
<td>Monroeville</td>
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<td>4,336</td>
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<td>30</td>
</tr>
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<td></td>
<td>08067</td>
<td>Pedricktown</td>
<td>1,523</td>
<td>1,478</td>
<td>-2.95</td>
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<tr>
<td></td>
<td>08069</td>
<td>Pennsgrove</td>
<td>12,765</td>
<td>12,481</td>
<td>-2.22</td>
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<td>Pitman</td>
<td>9,405</td>
<td>9,337</td>
<td>-0.72</td>
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<tr>
<td></td>
<td>08078</td>
<td>Runnemedee</td>
<td>9,227</td>
<td>9,237</td>
<td>0.11</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>08081</td>
<td>Sicklerville</td>
<td>241,217</td>
<td>242,496</td>
<td><strong>0.53</strong></td>
<td>1,465</td>
</tr>
<tr>
<td></td>
<td>08094</td>
<td>Williamstown</td>
<td>191,488</td>
<td>193,058</td>
<td><strong>1.38</strong></td>
<td>907</td>
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<tr>
<td></td>
<td>08098</td>
<td>Woodstown</td>
<td>9,227</td>
<td>9,237</td>
<td>0.11</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Secondary Total</strong></td>
<td>241,217</td>
<td>242,496</td>
<td><strong>0.53</strong></td>
<td>1,465</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Outside Total</strong></td>
<td>241,217</td>
<td>242,496</td>
<td><strong>0.53</strong></td>
<td>1,465</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Grand Total</strong></td>
<td>432,048</td>
<td>436,154</td>
<td><strong>0.95</strong></td>
<td>9,338</td>
</tr>
</tbody>
</table>

Source: Inspira Records
Service Area Income Statistics

The table below provides income statistics for the combined PSA and SSA with comparisons to the State of New Jersey. Median household incomes are only available from the U.S. Census for 2011 and 2015.

<table>
<thead>
<tr>
<th>County</th>
<th>2011</th>
<th>2015</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic County</td>
<td>$50,829</td>
<td>$54,052</td>
<td>6.34%</td>
</tr>
<tr>
<td>Camden County</td>
<td>$57,784</td>
<td>$65,025</td>
<td>12.53%</td>
</tr>
<tr>
<td>Cumberland County</td>
<td>$51,548</td>
<td>$51,315</td>
<td>-0.45%</td>
</tr>
<tr>
<td>Gloucester County</td>
<td>$71,850</td>
<td>$77,565</td>
<td>7.95%</td>
</tr>
<tr>
<td>Salem County</td>
<td>$53,926</td>
<td>$68,830</td>
<td>27.64%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>$67,458</td>
<td>$72,222</td>
<td>7.06%</td>
</tr>
</tbody>
</table>

Source: U.S. Census
SERVICE AREA EMPLOYMENT

The region’s employment base reflects a traditional employment mix with a strong healthcare and education base along with a large component of companies dedicated to food production and food retail followed by manufacturing and utility companies.

The table below lists the top 20 non-governmental employers in Cumberland, Salem and Gloucester Counties as of August 2016, the latest date for which comprehensive material is available:

<table>
<thead>
<tr>
<th>Employer</th>
<th># of Employees</th>
<th>County Location</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspira Health Network IMC Vineland/E</td>
<td>2,894</td>
<td>Cumberland</td>
<td>HealthCare</td>
</tr>
<tr>
<td>Inspira Health Network IMC Woodbury</td>
<td>1,825</td>
<td>Gloucester</td>
<td>HealthCare</td>
</tr>
<tr>
<td>Kennedy Health Alliance</td>
<td>1,675</td>
<td>Gloucester</td>
<td>HealthCare</td>
</tr>
<tr>
<td>Rowan University</td>
<td>1,483</td>
<td>Gloucester</td>
<td>Education</td>
</tr>
<tr>
<td>PSE&amp;G</td>
<td>1,300</td>
<td>Salem</td>
<td>Utilities</td>
</tr>
<tr>
<td>E.I. DuPont</td>
<td>1,250</td>
<td>Salem</td>
<td>Chemical</td>
</tr>
<tr>
<td>Durand Glass Manufacturing Co./ARC International</td>
<td>1,000</td>
<td>Cumberland</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Missa Bay LLC</td>
<td>950</td>
<td>Gloucester</td>
<td>Food</td>
</tr>
<tr>
<td>Walmart</td>
<td>910</td>
<td>Cumberland</td>
<td>Retail</td>
</tr>
<tr>
<td>Mannington Mills</td>
<td>826</td>
<td>Salem</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>ShopRite</td>
<td>767</td>
<td>Cumberland</td>
<td>Food</td>
</tr>
<tr>
<td>US FoodService</td>
<td>725</td>
<td>Gloucester</td>
<td>Food</td>
</tr>
<tr>
<td>Sheppard Bus Service</td>
<td>650</td>
<td>Cumberland</td>
<td>Transportation</td>
</tr>
<tr>
<td>F &amp; S Produce/Pipco Transportation</td>
<td>600</td>
<td>Cumberland</td>
<td>Food</td>
</tr>
<tr>
<td>Memorial Hospital of Salem County</td>
<td>600</td>
<td>Salem</td>
<td>HealthCare</td>
</tr>
<tr>
<td>Seabrook Brothers &amp; Sons, Inc.</td>
<td>575</td>
<td>Cumberland</td>
<td>Food</td>
</tr>
<tr>
<td>Wawa</td>
<td>552</td>
<td>Cumberland</td>
<td>Food/Retail/Gas</td>
</tr>
<tr>
<td>Exxonmobil Research and Engineering Co.</td>
<td>540</td>
<td>Gloucester</td>
<td>Utilities</td>
</tr>
<tr>
<td>LaBrea Bakery</td>
<td>525</td>
<td>Gloucester</td>
<td>Food/Retail</td>
</tr>
<tr>
<td>Delaware Valley Wholesale Florist</td>
<td>500</td>
<td>Gloucester</td>
<td>Service</td>
</tr>
</tbody>
</table>

Source: www.co.cumberland.nj.us & www.gloucestercountynj.gov

According to the New Jersey State Department of Labor, as of December 2014, governmental employees including State, County and local employees totaled approximately 34,415 for the Tri-County region.

As the chart below indicates, unemployment figures for the Tri-County area shows that each county’s unemployment rate declined over the 2014-2016 period as did New Jersey and the USA.

Unemployment Rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumberland County</td>
<td>9.9</td>
<td>8.7</td>
<td>7.5</td>
</tr>
<tr>
<td>Gloucester County</td>
<td>7.3</td>
<td>5.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Salem County</td>
<td>8.5</td>
<td>7.1</td>
<td>6.1</td>
</tr>
<tr>
<td>New Jersey</td>
<td>6.7</td>
<td>5.8</td>
<td>5.0</td>
</tr>
<tr>
<td>United States</td>
<td>6.2</td>
<td>5.3</td>
<td>4.9</td>
</tr>
</tbody>
</table>

Source: lwd.state.nj.us/lpaapp/app.
COMPETITION AND MARKET SHARE

General

Currently, there are no other acute care hospitals in Cumberland County and there is only one other acute care hospital in Salem County, The Memorial Hospital of Salem County (“MHSC”). MHSC, a 126-bed for-profit hospital owned by Community Health Systems based in Franklin, Tennessee. Prime Healthcare Foundation, a not-for-profit healthcare group based in Ontario, California, recently withdrew a proposal to acquire MHSC.

Outmigration and Competitor Activity

IMC and IMC Woodbury have experienced some outmigration of patients to hospitals located in Camden County and Philadelphia, primarily for services not currently provided by IMC or IMC Woodbury. IMC and IMC Woodbury view its primary competitors for services to include:

- MHSC, located in Salem, Salem County, New Jersey. The ownership status of MHSC is discussed above under the caption “General”.

- Kennedy University Hospital – Washington Township, located in Washington Township, Gloucester County, New Jersey. In August 2016, Kennedy Health and Thomas Jefferson University, the parent corporation of Thomas Jefferson University Hospitals, Inc., of Philadelphia, Pennsylvania (“Jefferson Health”) entered into a binding Definitive Agreement that spells out the terms of how Kennedy will integrate with Jefferson Health. The transaction is expected to be completed following New Jersey’s Community Health Care Assets Protection Act review process.

One trend that the Network has experienced in the past couple of years is an increasing market share by Cooper University Hospital and the two major health systems in Philadelphia: Jefferson Health and University of Pennsylvania Health System, known as Penn Medicine. While many of the services going to any of these hospitals remain on the tertiary end of the service spectrum, it is a trend that the Network is closely monitoring.

A map of hospitals considered by the Network to be competitors is set forth on following page.
A. Inspira Medical Center Woodbury
B. Inspira Medical Center Elmer
C. Inspira Medical Center Vineland
D. Kennedy University Hospital - Cherry Hill
E. Kennedy University Hospital - Washington Township
F. Kennedy University Hospital - Stratford
G. Memorial Hospital of Salem County
H. Virtua Voorhees Hospital

I. Virtua Marlton Hospital
J. Virtua Memorial Hospital
K. Cooper University Hospital
L. Our Lourdes Medical Center
M. AtlantiCare Regional Medical Center - Mainland Campus
N. AtlantiCare Regional Medical Center - Atlantic City Campus
O. Shore Medical Center
P. Cape Regional Medical Center

Source: Inspira Records
The table below sets forth market share information for Network hospitals and other hospitals in the region based on Inspira’s defined services areas, see “PATIENT ORIGIN AND SERVICE AREA”.

<table>
<thead>
<tr>
<th>Market Share</th>
<th>Distance from (mi)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>IMC</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Vineland</td>
</tr>
<tr>
<td><strong>Total Inspira Medical Centers Market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inspira Medical Center Elmer</td>
<td>6.79%</td>
<td>6.59%</td>
<td>6.26%</td>
<td>16</td>
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<tr>
<td>Inspira Medical Center Vineland</td>
<td>32.43%</td>
<td>33.94%</td>
<td>33.96%</td>
<td>--</td>
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<tr>
<td>Total Inspira Medical Centers</td>
<td>39.22%</td>
<td>40.53%</td>
<td>40.22%</td>
<td></td>
</tr>
<tr>
<td>Other IHN Hospital</td>
<td>5.43%</td>
<td>4.86%</td>
<td>4.99%</td>
<td>32</td>
</tr>
<tr>
<td>Kennedy University Hospital-Washington Twp</td>
<td>15.48%</td>
<td>15.03%</td>
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<td>24</td>
</tr>
<tr>
<td>Cooper Health System</td>
<td>6.78%</td>
<td>7.23%</td>
<td>8.42%</td>
<td>24</td>
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<tr>
<td>Memorial Hospital of Salem County</td>
<td>6.96%</td>
<td>6.39%</td>
<td>6.04%</td>
<td>28</td>
</tr>
<tr>
<td>Virtua Hospital Voorhees</td>
<td>4.02%</td>
<td>4.27%</td>
<td>4.26%</td>
<td>36</td>
</tr>
<tr>
<td>Thomas Jefferson University Hospital</td>
<td>2.90%</td>
<td>3.01%</td>
<td>3.29%</td>
<td>41</td>
</tr>
<tr>
<td>Our Lady of Lourdes Medical Center</td>
<td>2.32%</td>
<td>1.99%</td>
<td>1.96%</td>
<td>37</td>
</tr>
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<td><strong>Primary Market</strong></td>
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<tr>
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<td>9.35%</td>
<td>16</td>
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<td>56.84%</td>
<td>56.30%</td>
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<tr>
<td>Total Inspira Medical Centers</td>
<td>65.78%</td>
<td>66.58%</td>
<td>65.65%</td>
<td></td>
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<tr>
<td>Other IHN Hospital</td>
<td>1.38%</td>
<td>1.39%</td>
<td>1.52%</td>
<td>32</td>
</tr>
<tr>
<td>Cooper Health System</td>
<td>6.68%</td>
<td>6.67%</td>
<td>8.10%</td>
<td>24</td>
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<tr>
<td>Memorial Hospital of Salem County</td>
<td>5.16%</td>
<td>4.82%</td>
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<tr>
<td>Kennedy University Hospital-Washington Twp</td>
<td>3.35%</td>
<td>3.14%</td>
<td>3.18%</td>
<td>28</td>
</tr>
<tr>
<td>Thomas Jefferson University Hospital</td>
<td>2.22%</td>
<td>2.31%</td>
<td>2.86%</td>
<td>41</td>
</tr>
<tr>
<td>Virtua Hospital Voorhees</td>
<td>1.64%</td>
<td>1.55%</td>
<td>1.49%</td>
<td>36</td>
</tr>
<tr>
<td>Our Lady of Lourdes Medical Center</td>
<td>1.64%</td>
<td>1.40%</td>
<td>1.27%</td>
<td>37</td>
</tr>
<tr>
<td><strong>Secondary Market</strong></td>
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<td></td>
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<td></td>
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<tr>
<td>Inspira Medical Center Elmer</td>
<td>2.84%</td>
<td>2.86%</td>
<td>2.51%</td>
<td>16</td>
</tr>
<tr>
<td>Inspira Medical Center Vineland</td>
<td>6.06%</td>
<td>6.84%</td>
<td>6.87%</td>
<td>--</td>
</tr>
<tr>
<td>Total Inspira Medical Centers</td>
<td>8.90%</td>
<td>9.70%</td>
<td>9.38%</td>
<td></td>
</tr>
<tr>
<td>Other IHN Hospital</td>
<td>10.05%</td>
<td>8.98%</td>
<td>9.19%</td>
<td>32</td>
</tr>
<tr>
<td>Kennedy University Hospital-Washington Twp</td>
<td>29.32%</td>
<td>29.11%</td>
<td>28.27%</td>
<td>28</td>
</tr>
<tr>
<td>Cooper Health System</td>
<td>6.91%</td>
<td>7.88%</td>
<td>8.80%</td>
<td>24</td>
</tr>
<tr>
<td>Memorial Hospital of Salem County</td>
<td>9.01%</td>
<td>8.25%</td>
<td>8.08%</td>
<td>28</td>
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<tr>
<td>Virtua Hospital Voorhees</td>
<td>6.73%</td>
<td>7.49%</td>
<td>7.63%</td>
<td>36</td>
</tr>
<tr>
<td>Thomas Jefferson University Hospital</td>
<td>3.68%</td>
<td>3.84%</td>
<td>3.81%</td>
<td>41</td>
</tr>
<tr>
<td>Our Lady of Lourdes Medical Center</td>
<td>3.11%</td>
<td>3.69%</td>
<td>2.79%</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>Distance from (mi)</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>-------------------</td>
</tr>
<tr>
<td><strong>Total Inspira Medical Center Woodbury Market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inspira Medical Center Woodbury</td>
<td>21.21%</td>
<td>19.47%</td>
<td>18.72%</td>
<td></td>
</tr>
<tr>
<td>Total Inspira Medical Center Woodbury</td>
<td>21.21%</td>
<td>19.47%</td>
<td>18.72%</td>
<td></td>
</tr>
<tr>
<td>Other IHN Hospital</td>
<td>3.01%</td>
<td>3.25%</td>
<td>3.62%</td>
<td>19/32</td>
</tr>
<tr>
<td>Kennedy University Hospital-Washington Twp</td>
<td>22.19%</td>
<td>22.60%</td>
<td>21.77%</td>
<td></td>
</tr>
<tr>
<td>Cooper Health System</td>
<td>9.40%</td>
<td>10.61%</td>
<td>12.60%</td>
<td></td>
</tr>
<tr>
<td>Virtua Hospital Voorhees</td>
<td>9.71%</td>
<td>10.45%</td>
<td>10.71%</td>
<td></td>
</tr>
<tr>
<td>Our Lady of Lourdes Medical Center</td>
<td>5.05%</td>
<td>4.67%</td>
<td>4.65%</td>
<td></td>
</tr>
<tr>
<td>Memorial Hospital of Salem County</td>
<td>4.84%</td>
<td>4.56%</td>
<td>4.32%</td>
<td></td>
</tr>
<tr>
<td>Thomas Jefferson University Hospital</td>
<td>3.87%</td>
<td>3.89%</td>
<td>3.84%</td>
<td></td>
</tr>
<tr>
<td><strong>Primary Market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inspira Medical Center Woodbury</td>
<td>32.17%</td>
<td>29.69%</td>
<td>28.00%</td>
<td></td>
</tr>
<tr>
<td>Total Inspira Medical Center Woodbury</td>
<td>32.17%</td>
<td>29.69%</td>
<td>28.00%</td>
<td></td>
</tr>
<tr>
<td>Other IHN Hospital</td>
<td>1.31%</td>
<td>1.51%</td>
<td>2.01%</td>
<td>19/32</td>
</tr>
<tr>
<td>Kennedy University Hospital-Washington Twp</td>
<td>17.75%</td>
<td>18.59%</td>
<td>17.91%</td>
<td></td>
</tr>
<tr>
<td>Cooper Health System</td>
<td>10.03%</td>
<td>11.36%</td>
<td>13.32%</td>
<td></td>
</tr>
<tr>
<td>Virtua Hospital Voorhees</td>
<td>8.18%</td>
<td>8.78%</td>
<td>8.71%</td>
<td></td>
</tr>
<tr>
<td>Our Lady of Lourdes Medical Center</td>
<td>5.50%</td>
<td>5.00%</td>
<td>5.12%</td>
<td></td>
</tr>
<tr>
<td>Thomas Jefferson University Hospital</td>
<td>4.09%</td>
<td>4.68%</td>
<td>4.34%</td>
<td></td>
</tr>
<tr>
<td>Hospital of the University of Pennsylvania</td>
<td>2.24%</td>
<td>2.58%</td>
<td>2.42%</td>
<td></td>
</tr>
<tr>
<td><strong>Secondary Market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inspira Medical Center Woodbury</td>
<td>7.40%</td>
<td>6.65%</td>
<td>7.09%</td>
<td></td>
</tr>
<tr>
<td>Total Inspira Medical Center Woodbury</td>
<td>7.40%</td>
<td>6.65%</td>
<td>7.09%</td>
<td></td>
</tr>
<tr>
<td>Other IHN Hospital</td>
<td>5.15%</td>
<td>5.44%</td>
<td>5.63%</td>
<td>19/32</td>
</tr>
<tr>
<td>Kennedy University Hospital-Washington Twp</td>
<td>27.78%</td>
<td>31.48%</td>
<td>26.60%</td>
<td></td>
</tr>
<tr>
<td>Memorial Hospital of Salem County</td>
<td>10.44%</td>
<td>9.68%</td>
<td>8.97%</td>
<td></td>
</tr>
<tr>
<td>Virtua Hospital Voorhees</td>
<td>11.63%</td>
<td>12.56%</td>
<td>13.22%</td>
<td></td>
</tr>
<tr>
<td>Cooper Health System</td>
<td>8.61%</td>
<td>9.67%</td>
<td>11.69%</td>
<td></td>
</tr>
<tr>
<td>Our Lady of Lourdes Medical Center</td>
<td>4.49%</td>
<td>4.25%</td>
<td>4.06%</td>
<td></td>
</tr>
<tr>
<td>Thomas Jefferson University Hospital</td>
<td>3.06%</td>
<td>3.33%</td>
<td>3.11%</td>
<td></td>
</tr>
</tbody>
</table>
PATIENT UTILIZATION

The following table provides key operating indicators for IMC and IMC Woodbury for the years 2014 through 2016 and for the six-month periods ended June 30, 2016 and 2017:

<table>
<thead>
<tr>
<th>Utilization Statistics</th>
<th>Six Months Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td><strong>Licensed Beds:</strong></td>
<td></td>
</tr>
<tr>
<td>Med/Surg</td>
<td>515</td>
</tr>
<tr>
<td>ICU/CCU</td>
<td>57</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>47</td>
</tr>
<tr>
<td>Pediatric</td>
<td>24</td>
</tr>
<tr>
<td>Special Care Nursery</td>
<td>14</td>
</tr>
<tr>
<td>NICU</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total Licensed Beds:</strong></td>
<td>663</td>
</tr>
<tr>
<td><strong>Maintained Beds:</strong></td>
<td></td>
</tr>
<tr>
<td>Med/Surg</td>
<td>443</td>
</tr>
<tr>
<td>ICU/CCU</td>
<td>57</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>47</td>
</tr>
<tr>
<td>Pediatric</td>
<td>24</td>
</tr>
<tr>
<td>Special Care Nursery</td>
<td>14</td>
</tr>
<tr>
<td>NICU</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total Maintained Beds:</strong></td>
<td>591</td>
</tr>
<tr>
<td><strong>Admissions:</strong></td>
<td></td>
</tr>
<tr>
<td>Med/Surg</td>
<td>21,300</td>
</tr>
<tr>
<td>ICU/CCU</td>
<td>3,195</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>3,244</td>
</tr>
<tr>
<td>Pediatric</td>
<td>1,163</td>
</tr>
<tr>
<td>Special Care Nursery</td>
<td>177</td>
</tr>
<tr>
<td>NICU</td>
<td>185</td>
</tr>
<tr>
<td><strong>Total Admissions:</strong></td>
<td>29,264</td>
</tr>
<tr>
<td><strong>Patient Days:</strong></td>
<td></td>
</tr>
<tr>
<td>Med/Surg</td>
<td>96,098</td>
</tr>
<tr>
<td>ICU/CCU</td>
<td>13,976</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>8,161</td>
</tr>
<tr>
<td>Pediatric</td>
<td>2,186</td>
</tr>
<tr>
<td>Special Care Nursery</td>
<td>3,178</td>
</tr>
<tr>
<td>NICU</td>
<td>1,934</td>
</tr>
<tr>
<td><strong>Total Patient Days:</strong></td>
<td>125,533</td>
</tr>
<tr>
<td><strong>Occupancy % (Licensed Beds):</strong></td>
<td></td>
</tr>
<tr>
<td>Med/Surg</td>
<td>51.12%</td>
</tr>
<tr>
<td>ICU/CCU</td>
<td>67.18%</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>47.57%</td>
</tr>
<tr>
<td>Pediatric</td>
<td>24.95%</td>
</tr>
<tr>
<td>Special Care Nursery</td>
<td>62.19%</td>
</tr>
<tr>
<td>NICU</td>
<td>88.31%</td>
</tr>
<tr>
<td><strong>Total Occupancy %:</strong></td>
<td>51.87%</td>
</tr>
</tbody>
</table>
### Six Months Ended June 30

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Length of Stay (ALOS):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICU/CCU</td>
<td>4.37</td>
<td>4.15</td>
<td>3.98</td>
<td>4.05</td>
<td>3.92</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>2.52</td>
<td>2.55</td>
<td>2.53</td>
<td>2.50</td>
<td>2.69</td>
</tr>
<tr>
<td>Pediatric</td>
<td>1.88</td>
<td>2.00</td>
<td>2.14</td>
<td>1.99</td>
<td>3.05</td>
</tr>
<tr>
<td>Special Care Nursery</td>
<td>17.95</td>
<td>25.13</td>
<td>52.29</td>
<td>59.14</td>
<td>40.47</td>
</tr>
<tr>
<td>NICU</td>
<td>10.45</td>
<td>7.97</td>
<td>8.34</td>
<td>7.79</td>
<td>8.94</td>
</tr>
<tr>
<td><strong>Total ALOS:</strong></td>
<td><strong>4.29</strong></td>
<td><strong>4.26</strong></td>
<td><strong>4.29</strong></td>
<td><strong>4.27</strong></td>
<td><strong>4.46</strong></td>
</tr>
</tbody>
</table>

| **Outpatient Statistics:** | | | | | |
| Emergency Room Visits    | 133,137 | 137,052 | 143,713 | 72,192 | 70,615 |
| Outpatient Surgery       | 16,383  | 17,128  | 16,157  | 6,244  | 6,161  |
| Physical Therapy Procedures | 109,635 | 119,366 | 140,233 | 70,890 | 78,122 |
| Radiology Procedures     | 258,537 | 260,960 | 263,851 | 105,001| 105,811|
| Nuclear Medicine          | 3,415   | 4,663   | 4,200   | 2,363  | 1,947  |
| Laboratory Tests          | 888,344 | 838,791 | 879,811 | 438,079| 450,189|

Source: Inspira Records

[THE REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
The following table provides key operating indicators for the inpatient psychiatric services provided at the IHC Bridgeton and IMC Woodbury for the years 2014 through 2016 and for the three-month periods ended June 30, 2016 and 2017:

### Utilization Statistics — Psychiatric Services

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Licensed Beds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adult</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Child</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Intermediate(Child)</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total Licensed Beds:</strong></td>
<td>79</td>
<td>79</td>
<td>79</td>
<td>79</td>
<td>79</td>
</tr>
<tr>
<td><strong>Maintained Beds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adult</td>
<td>49</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Child</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Intermediate(Child)</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total Maintained Beds:</strong></td>
<td>75</td>
<td>79</td>
<td>79</td>
<td>79</td>
<td>79</td>
</tr>
<tr>
<td><strong>Admissions:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adult</td>
<td>1,881</td>
<td>1,779</td>
<td>1,933</td>
<td>1,014</td>
<td>935</td>
</tr>
<tr>
<td>Child</td>
<td>506</td>
<td>501</td>
<td>505</td>
<td>310</td>
<td>297</td>
</tr>
<tr>
<td>Intermediate(Child)</td>
<td>55</td>
<td>49</td>
<td>44</td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total Admissions:</strong></td>
<td>2,442</td>
<td>2,329</td>
<td>2,482</td>
<td>1,345</td>
<td>1,263</td>
</tr>
<tr>
<td><strong>Patient Days:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adult</td>
<td>14,502</td>
<td>11,678</td>
<td>12,561</td>
<td>6,397</td>
<td>6,714</td>
</tr>
<tr>
<td>Child</td>
<td>3,108</td>
<td>2,967</td>
<td>2,570</td>
<td>1,579</td>
<td>1,512</td>
</tr>
<tr>
<td>Intermediate(Child)</td>
<td>3,140</td>
<td>3,178</td>
<td>2,788</td>
<td>1,579</td>
<td>1,391</td>
</tr>
<tr>
<td><strong>Total Patient Days:</strong></td>
<td>20,750</td>
<td>17,823</td>
<td>17,919</td>
<td>9,555</td>
<td>9,617</td>
</tr>
<tr>
<td><strong>Occupancy %</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Licensed Beds):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adult</td>
<td>74.97%</td>
<td>60.37%</td>
<td>64.75%</td>
<td>66.32%</td>
<td>69.99%</td>
</tr>
<tr>
<td>Child</td>
<td>60.82%</td>
<td>58.06%</td>
<td>50.16%</td>
<td>61.97%</td>
<td>59.67%</td>
</tr>
<tr>
<td>Intermediate(Child)</td>
<td>71.69%</td>
<td>72.56%</td>
<td>63.48%</td>
<td>72.30%</td>
<td>64.04%</td>
</tr>
<tr>
<td><strong>Total Occupancy %:</strong></td>
<td>71.96%</td>
<td>61.81%</td>
<td>61.97%</td>
<td>66.46%</td>
<td>67.26%</td>
</tr>
<tr>
<td><strong>ALOS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adult</td>
<td>7.71</td>
<td>6.56</td>
<td>6.50</td>
<td>6.31</td>
<td>7.18</td>
</tr>
<tr>
<td>Child</td>
<td>6.14</td>
<td>5.92</td>
<td>5.09</td>
<td>5.09</td>
<td>5.09</td>
</tr>
<tr>
<td>Intermediate(Child)</td>
<td>57.09</td>
<td>64.86</td>
<td>63.36</td>
<td>75.19</td>
<td>44.87</td>
</tr>
<tr>
<td><strong>Total ALOS:</strong></td>
<td>8.50</td>
<td>7.65</td>
<td>7.22</td>
<td>7.10</td>
<td>7.61</td>
</tr>
</tbody>
</table>

Source: Inspira Records

Inpatient volume has shown a steady decline, as admissions have decreased 4.2% from 2014 to 2016, not unlike the market where there has been a contraction in admissions over this same period. To the positive, outpatient and observation volumes have continued to increase.
FINANCIAL INFORMATION

The following table sets forth selected financial information for IMC and IMC Woodbury derived from the audited consolidated financial statements and supplementary information of the Network for each of the three years ended December 31, 2014, 2015 and 2016. The consolidated financial statements and supplementary financial information contained in Appendix B, include IMC and IMC Woodbury. The selected financial data below is that of IMC and IMC Woodbury, the only members of the Obligated Group and the only entities financially responsible for the Series 2017A Bonds. The data below should be read in conjunction with the consolidated financial statements and supplementary information and related notes to the financial statements of the Network for the years ended December 31, 2015 and 2016, contained in Appendix B of the Official Statement.

The financial information for the six months ended June 30, 2016 and 2017 for IMC and IMC Woodbury was derived from internal, unaudited financial statements of IMC and IMC Woodbury and includes all adjustments management considers necessary for a fair presentation of the results of operations for these periods. The results of the six months ended June 30, 2017 are not necessarily indicative of the operating results to be expected for the entire fiscal year ending December 31, 2017.

Combined Statements of Operations of IMC and IMC Woodbury*

(Dollars in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Patient Service Revenue</td>
<td>$579,062</td>
<td>$604,969</td>
<td>$645,073</td>
<td>$315,379</td>
<td>$328,909</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>23,920</td>
<td>22,556</td>
<td>28,096</td>
<td>10,404</td>
<td>10,706</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>602,982</td>
<td>627,525</td>
<td>673,169</td>
<td>325,783</td>
<td>339,615</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>244,383</td>
<td>247,283</td>
<td>255,231</td>
<td>123,772</td>
<td>128,706</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>76,196</td>
<td>77,411</td>
<td>84,391</td>
<td>46,302</td>
<td>44,824</td>
</tr>
<tr>
<td>Physician Fees</td>
<td>23,151</td>
<td>25,719</td>
<td>27,548</td>
<td>14,094</td>
<td>14,851</td>
</tr>
<tr>
<td>Supplies and Other</td>
<td>174,141</td>
<td>176,653</td>
<td>179,998</td>
<td>89,158</td>
<td>91,259</td>
</tr>
<tr>
<td>Interest</td>
<td>9,993</td>
<td>9,529</td>
<td>8,560</td>
<td>4,746</td>
<td>3,732</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>38,054</td>
<td>38,704</td>
<td>39,001</td>
<td>22,285</td>
<td>21,884</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>565,918</td>
<td>575,299</td>
<td>594,729</td>
<td>300,357</td>
<td>305,256</td>
</tr>
<tr>
<td>Non-Operating Gains (Losses)</td>
<td>37,064</td>
<td>52,226</td>
<td>78,440</td>
<td>25,426</td>
<td>34,359</td>
</tr>
<tr>
<td>Net, Primarily Investment Returns</td>
<td>11,515</td>
<td>12,921</td>
<td>15,204</td>
<td>445</td>
<td>20,313</td>
</tr>
<tr>
<td><strong>Excess of Revenue and Gains Over Expenses and Losses</strong></td>
<td>$48,579</td>
<td>$65,147</td>
<td>$93,644</td>
<td>$25,871</td>
<td>$54,672</td>
</tr>
</tbody>
</table>

* In 2016, the Network adopted Accounting Standard Update (ASU) 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, which changed the amortization of debt issuance costs in the Statement of Operations. All prior period amortization expense amounts were reclassified to conform to the new guidance.
LIQUIDITY

Over the last several years, the Network has been improving its liquidity position through increasing operating cash flow margins. The table below presents days cash on hand of the Obligated Group for the three years ended December 31, 2014, 2015 and 2016 and for the six month period ended June 30, 2017.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$116,722</td>
<td>$149,294</td>
<td>$166,652</td>
<td>$107,294</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>373,192</td>
<td>374,913</td>
<td>400,644</td>
<td>513,702</td>
</tr>
<tr>
<td>Total (Calculation numerator)</td>
<td>489,914</td>
<td>524,207</td>
<td>567,296</td>
<td>620,996</td>
</tr>
<tr>
<td>Operating expenses less depreciation and amortization</td>
<td>527,864</td>
<td>536,595</td>
<td>555,728</td>
<td>283,372</td>
</tr>
<tr>
<td>Days in year/period</td>
<td>365</td>
<td>365</td>
<td>366</td>
<td>181</td>
</tr>
<tr>
<td>Expenses per day (calculation denominator)</td>
<td>1,446</td>
<td>1,470</td>
<td>1,518</td>
<td>1,566</td>
</tr>
<tr>
<td>Days Cash on Hand</td>
<td>338.8</td>
<td>356.6</td>
<td>373.7</td>
<td>396.6</td>
</tr>
</tbody>
</table>

MANAGEMENT’S DISCUSSION OF FINANCIAL PERFORMANCE

As of December 31, 2014, 2015 and 2016, the Obligated Group accounted for approximately 95% of total assets and approximately 91% of total revenues of the Network. The Obligated Group also accounted for over 100% of Inspira’s consolidated operating income. This is due to there being an aggregate operating loss relative to entities outside of the Obligated Group. The primary component of these losses is attributable to the IMG and Tri-County physician practices. The Obligated Group supports the losses occurring outside of the Obligated Group via equity transfers. Transfer of asset tests are performed pursuant to the Master Trust Indenture relative to these transfers.

The Obligated Group had income from operations of $78,440,000 in 2016. Total Revenue increased to $673,169,000 in 2016, a 7% increase from 2015 which was primarily due to improved payer contracts and increased volumes in key areas in 2016. The Obligated Group had income from operations of $34,359,000 for the six months ended June 30, 2017, a $8,933,000 or 35% increase compared to the six months ended June 30, 2016, which was primarily due to a favorable case mix along with inpatient and outpatient volume growth.

In 2016, salaries and wages were 40% of net patient service revenue, compared to 41% in 2015 and remained consistent at 39% of net patient service revenue for the six months ended June 30, 2016 and June 30, 2017.

Supplies and other expenses decreased from 29% in 2015 to 28% in 2016 of net patient service revenue. Supplies and other expenses remained consistent at 28% of net patient service revenue for the six months ended June 30, 2016 and June 30, 2017. Supplies and other expenses in 2016 and for the six months ended June 30, 2017 were slightly deflated due to management’s implementations of cost saving measures.

Total Net Assets for the Obligated Group increased by $87,279,000 from December 31, 2015 to December 31, 2016. Days Cash on Hand, including Assets limited to use by the Board, was 374 at the end of 2016. Operating cash increased by 12% during 2016, as a result of positive operations and increased cash
collections on patient accounts receivable. Days in Patient Accounts Receivable decreased to 38.5 in 2016 from 42.3 in 2015, due to process improvements and the realignment of Patient Accounting.

Long term debt decreased by $16,597,000 due to the payment of principal and the refinancing of existing debt in 2016. Debt Service Coverage Ratio, as defined by the bond documents for the Series 2017A Bonds, was 6.15 for 2015 and 9.39 for 2016, the increase mainly attributable to more favorable operations in 2016. The long term debt to unrestricted net assets was 38% and 31% at December 31, 2015 and 2016, respectively.

OUTSTANDING INDEBTEDNESS

The table below sets forth the outstanding indebtedness of IMC and IMC Woodbury as of December 31, 2016.

<table>
<thead>
<tr>
<th>Amount Outstanding at December 31, 2016</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$177,765,000</td>
<td>2016A Bonds</td>
</tr>
<tr>
<td>20,807,000</td>
<td>2016A bond premium/discounts/costs of issuance</td>
</tr>
<tr>
<td>3,369,000</td>
<td>Enterprise Zone Development loan 4% maturing in 2031, net of costs of issuance</td>
</tr>
<tr>
<td>234,000</td>
<td>Enterprise Zone Development loan 3% maturing in 2020</td>
</tr>
<tr>
<td>72,000</td>
<td>Capital Leases</td>
</tr>
<tr>
<td>$202,247,000</td>
<td>Total Debt</td>
</tr>
</tbody>
</table>

Note: The Enterprise Lease Development loans are not secured under the Master Indenture.

IMC Woodbury currently has two fixed payor interest rate swaps in place (“Interest Rate Swaps”). The fair value of these swaps represented a liability of $9,196,000 and $10,558,000 at December 31, 2016 and 2015, respectively. IMC Woodbury has another interest rate swap agreement which is a basis swap (the “Basis Swap”). The fair value of the Basis Swap represented an asset of $46,000 and $471,000 at December 31, 2016 and 2015, respectively. The net fair value of the Interest Rate Swaps and the Basis Swap, collectively, of $9,150,000 and $10,087,000 at December 31, 2016 and 2015, respectively, is reported as a liability in the December 31, 2016 and 2015 consolidated balance sheet. At June 30, 2017, the fair value of the Interest Rate Swaps was a liability of $8,489,000 and the fair value of the Basis Swap was a liability of $89,000. The Network maintains funds in a separate account held by Morgan Stanley Capital Services (as swap counterparty) to collateralize the net liability associated with the interest rate swaps.

The net expense related to net cash settlements was $1,495,000 and $1,504,000 for the years ended December 31, 2016 and 2015, respectively, and is included in interest expense in the 2016 and 2015 consolidated statement of operations and changes in net assets. See footnote 10 in the audited financial statements set forth in Appendix B for additional information regarding the interest rate swaps of the Obligated Group.

DEBT SERVICE COVERAGE RATIO

The following table sets forth the historic Debt Service Coverage Ratio (as defined in the Master Indenture) of the Obligated Group for the three fiscal years ended December 31, 2014, 2015, and 2016 and the pro-forma Debt Service Coverage Ratio for the three fiscal years ended December 31, 2014, 2015, and 2016 assuming the issuance of the Series 2017A Bonds and the Series 2017B Bonds. The Historical Maximum Annual Debt Service amounts have decreased for each of the years as a result of amortization of historic debt and interest rate assumptions for variable rate debt.
Funds Available for Debt Service ($ amounts in 000’s):

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of Revenue and Gains over Expenses and Losses</td>
<td>$48,579</td>
<td>$65,147</td>
<td>$93,644</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>38,054</td>
<td>38,704</td>
<td>39,001</td>
</tr>
<tr>
<td>Interest</td>
<td>9,993</td>
<td>9,529</td>
<td>8,560</td>
</tr>
<tr>
<td>Funds Available for Debt Service</td>
<td>96,626</td>
<td>113,380</td>
<td>141,205</td>
</tr>
<tr>
<td>Historical Maximum Annual Debt Service</td>
<td>19,770</td>
<td>18,424</td>
<td>15,031</td>
</tr>
<tr>
<td>Historical Maximum Annual Debt Service Coverage</td>
<td>4.89</td>
<td>6.15</td>
<td>9.39</td>
</tr>
<tr>
<td>Pro-Forma Maximum Annual Debt Service</td>
<td>30,852</td>
<td>30,852</td>
<td>30,852</td>
</tr>
<tr>
<td>Pro-Forma Maximum Annual Debt Service Coverage</td>
<td>3.13</td>
<td>3.67</td>
<td>4.58</td>
</tr>
</tbody>
</table>

PAYOR MIX

The following table outlines IMC and IMC Woodbury’s payer mix by gross revenue for the last three fiscal years ended December 31, 2016:

<table>
<thead>
<tr>
<th>Payer</th>
<th>2014 (%)</th>
<th>2015 (%)</th>
<th>2016 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>36.97</td>
<td>38.70</td>
<td>40.63</td>
</tr>
<tr>
<td>Medicare Managed Care</td>
<td>6.13</td>
<td>5.99</td>
<td>6.14</td>
</tr>
<tr>
<td>Medicaid</td>
<td>6.06</td>
<td>5.64</td>
<td>6.51</td>
</tr>
<tr>
<td>Medicaid Managed Care</td>
<td>14.79</td>
<td>16.78</td>
<td>16.52</td>
</tr>
<tr>
<td>Other Government Plans</td>
<td>0.46</td>
<td>0.46</td>
<td>0.37</td>
</tr>
<tr>
<td>Managed Care</td>
<td>23.36</td>
<td>22.16</td>
<td>21.08</td>
</tr>
<tr>
<td>Charity</td>
<td>3.99</td>
<td>2.27</td>
<td>2.37</td>
</tr>
<tr>
<td>Self-Pay</td>
<td>4.60</td>
<td>4.58</td>
<td>3.27</td>
</tr>
<tr>
<td>Commercial</td>
<td>3.64</td>
<td>3.42</td>
<td>3.11</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: Inspira Records

MANAGED CARE

Inspira’s managed care strategy is to contract with third party carriers who provide competitive reimbursement. Inspira negotiates contracts that include very competitive rates as well as carve outs for expensive implants and consistency in medical management provisions.

According to the New Jersey Hospital Association’s Payer Information Resource System for the month end December 31, 2015, 33.2% of Cumberland County’s, 20.3% of Gloucester County and 24.7% of Salem County’s population is enrolled in HMO/Managed Care plans.

Since the implementation of the Health Care Reform Act, see the forepart of the Official Statement under the caption “BONDHOLDER’S RISKS – Federal Legislative and Regulatory Initiatives” and “Patient Protection and Affordable Care Act and Healthcare Reform Initiatives’, Inspira has negotiated with managed care providers to enhance its position in all of its market service areas. Inspira has contracts with the following providers:
### Inpatient Reimbursement Basis

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Reimbursement Basis</th>
<th>Outpatient Reimbursement Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aetna</td>
<td>DRG</td>
<td>% of Charges</td>
</tr>
<tr>
<td>AmeriChoice</td>
<td>Per Diem</td>
<td>% of Charges</td>
</tr>
<tr>
<td>AmeriGroup</td>
<td>DRG</td>
<td>% of Charges</td>
</tr>
<tr>
<td>AmeriHealth</td>
<td>DRG</td>
<td>Fee Schedule</td>
</tr>
<tr>
<td>Beech Street</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>CIGNA</td>
<td>DRG</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Consumer Health Network</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Coventry Health Care</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Devon Health Services, Inc.</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>First Health</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>First Managed Care Option</td>
<td>Per Diem</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Great-West Healthcare</td>
<td>DRG</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Horizon Blue Cross of NJ</td>
<td>DRG</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Horizon NJ Health</td>
<td>Per Diem</td>
<td>Fee Schedule</td>
</tr>
<tr>
<td>Intergroup Services, Inc.</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>JerseyMed</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Magnacare</td>
<td>Per Diem</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Multiplan</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>New Jersey Manufacturers</td>
<td>Per Diem</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Organized Healthcare Strategies</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>Oxford Health Plans</td>
<td>DRG</td>
<td>Fee Schedule</td>
</tr>
<tr>
<td>Private Healthcare Systems</td>
<td>% of Charges</td>
<td>% of Charges</td>
</tr>
<tr>
<td>QualCare</td>
<td>Per Diem</td>
<td>% of Charges</td>
</tr>
<tr>
<td>United Healthcare</td>
<td>DRG</td>
<td>Fee Schedule</td>
</tr>
</tbody>
</table>

The three largest managed care payers at Inspira are Aetna, Horizon Blue Cross and AmeriHealth. These three payers represented 11.24%, 23.67% and 7.69% respectively of the managed care gross revenue and 4.91%, 10.35% and 3.36% respectively, of the total gross revenue at Inspira in 2016. As they relate to total volume, these three represented 3.05%, 7.16% and 2.25% respectively, of the total Inspira patient days in 2016. The Horizon contract was renegotiated in the second quarter of 2017, with an expiration of April 30, 2018, and the AmeriHealth contract is expected to be renegotiated in the third quarter of 2017. The current Aetna contract expires February 28, 2018. Historically, Inspira has been successful in negotiating new contracts prior to the actual termination of any contract.

### INSURANCE

The Network maintains an insurance program that provides the following insurance coverages for the benefit of IMC and IMC Woodbury and the Network’s other subsidiaries. A property (real and personal) loss policy is maintained for all risks, with coverage at the replacement value. The Network also maintains an automobile liability policy with limits of $1,000,000 per accident as well as a worker’s compensation policy at statutory limits and an employer’s liability policy with limits of $500,000 per accident and in the aggregate. General liability coverage for bodily injury and property damage with limits of $1,000,000 per occurrence and $1,000,000 aggregate is also maintained.

The Network maintains hospital professional liability coverage with limits of $1,000,000 per occurrence and $3,000,000 aggregate. In addition, medical and professional liability for IMC, IMC Woodbury and other network employed physicians with limits of $1,000,000 per claim and $3,000,000 in the aggregate are maintained. These primary layers for general and hospital and employed physician, professional liability
coverage are provided through a Network Captive Insurance Program. In addition and in excess to these coverages, and to the automobile coverage, additional liability policies are in place with total limits of $35,000,000.

Directors and Officers Liability policy is also maintained with limits of $10,000,000 at the primary layer and $10,000,000 in excess. A fiduciary liability policy with limits of $5,000,000 and a crime policy with limits of $3,000,000 are maintained.

Cyber liability coverage is maintained through primary and secondary levels to the $30,000,000 limit.

Employed Lawyers, Billing Errors and Omissions, Environmental, and Underground Storage Tank policies complete the insurance portfolio.

FUNDRAISING

Inspira Health Network Foundation Cumberland/Salem, Inc. (the “CS Foundation”)

The CS Foundation was created in 2000, and is the not-for-profit philanthropic affiliate of the Network and its three acute care hospitals and other affiliates. The CS Foundation is a non profit, tax-exempt foundation. Its mission is to encourage community giving to support the Network and its facilities and its mission is to provide the highest quality health care in the communities it serves. IMC is the sole member of the CS Foundation. The CS Foundation is governed by a volunteer Board of Trustees.

In 2015, the CS Foundation collected funds related to IMC of $953,337. In addition, during the past two years, its special events have netted more than $962,658. The CS Foundation runs the IMC Annual Golf Outing.

Inspira Health Network Foundation Gloucester County, Inc. (the “GC Foundation”)

Created in 1996, the GC Foundation is the philanthropic affiliate of IMC Woodbury. The GC Foundation is a non-profit, tax-exempt organization, with a mission to support the needs of IMC Woodbury and the community it serves. IMC Woodbury is the sole member of the GC Foundation.

In 2016, the GC County Foundation initiated the process of conducting a capital campaign for the replacement hospital by requesting proposals from qualified firms to conduct a feasibility study. GSI was selected to perform the study, which took place throughout the fall of 2016. The quiet phase of the campaign began in February 2017.

Principal Activities of the Inspira Foundations

Strategic Planning: Coordinating with the Network’s plans and funding needs, developing objectives for fund size and growth, developing “renewable” guidelines (uses of capital and income), and developing fund-raising targets.

Fund-Raising: Soliciting financial support, researching contributor opportunities, providing contributor financial planning services, managing and coordinating fund-raising programs and events, and coordinating plans and activities with auxiliaries.

Management of Funds: Developing and administering investment policies, complying with conditions and restrictions of directed gifts, and providing transitional support of existing Foundations’ assets.

Disbursement of Funds: Making financial commitments to the Network. Review funding requests of the Network, and coordinate with the Network’s financial management for funding.
**Relationship Management and Promotion of Health System:** Recognizing contributors individually and collectively, providing the community with a linkage to the Network, coordinating with the Network’s marketing plans and developing with the community a sense of ownership in the Network.

**EDUCATIONAL AFFILIATIONS**

The Network works closely with Cumberland County College, Cumberland County Technical Education Center, Salem County College, Helene Fuld School of Nursing, University of Delaware and Gloucester County College, Rutgers University, Neumann University, Rowan University, and Jefferson University in the training of nursing students. Inspira also has over an hundred affiliation agreements for students in the advance practice of nursing as well as students in other medically related technical fields such as radiology, physical medical and rehab, dialysis, laboratory and respiratory therapy. The Network is also accredited to provide continuing medical education credit and continuing nursing education credits.

**ACCREDITATION, LICENSURE, MEMBERSHIPS**

The Network’s most recent accreditation from the DNV-GL was in June 2015 for IMC Woodbury and December 2015 for IMC Vineland/Elmer. Both accreditations were successful. IMC and IMC Woodbury are licensed by the New Jersey State Department of Health and Senior Services and accredited by The College of American Pathologists. Inspira holds memberships in the American Hospital Association, the New Jersey Hospital Association, Voluntary Hospitals of New Jersey and New Jersey Business and Industry Association. Inspira is also a member of the Southern New Jersey Perinatal Cooperative, Southern New Jersey Chamber of Commerce and South Jersey Ethics Association.

Inspira maintains relationships with local health care community providers including the Cumberland County Health Department, CompleteCare (FQHC), the Cumberland County Guidance Center and Newpoint for Behavioral Health Crisis Services.

**VOLUNTEER SERVICES**

**Auxiliary**

The Network’s Auxiliaries provide IMC and IMC Woodbury with financial support for various philanthropic activities that support the mission of the organization.

**Inspira Auxiliary Cumberland County**

The Inspira Auxiliary Cumberland County totals thirty-seven members and orchestrates programs and events; executes large-scale community events and staff campus gift shops. Fund raising is a major emphasis and this organization has raised over $65,000 per year for IMC Vineland.

**Inspira Auxiliary Elmer**

The Inspira Auxiliary Elmer membership totals eleven and raises more than $20,000 each year through small community events and campus vendor sales. This organization’s fundraising is to support the efforts of IMC Elmer.

**Inspira Auxiliary Gloucester County**

The IMC Woodbury Auxiliary contributed over $150,000 to IMC Woodbury in 2016. The IMC Woodbury Auxiliary consists of over forty individuals who generously donate their time to support the hospital through various fund raising activities. The IMC Woodbury Auxiliary runs the annual IMC Woodbury Golf Outing.
Volunteers

In 2016, 1,009 volunteers donated 99,727 hours to the entire Inspira Health Network and over 30,000 hours each at both IMC-Vineland and IMC-Woodbury and approximately 10,000 hours at IMC-Elmer. These volunteers provide many services including delivering mail, transporting patients, providing information desk and hospitality staff coverage and many other diverse tasks. These volunteers contribute an equivalent of forty-four full-time positions.

LITIGATION

There is no action, suit, proceeding or investigation pending, or to the best of its knowledge threatened, against IMC or IMC Woodbury except (a) litigation and proceedings involving claims for professional liability in which the probable recoveries and the estimated costs and expenses of defense, will be entirely within the limits of the Network’s insurance coverage and (b) litigation and proceedings other than those described in (a) that if adversely determined, would not materially and adversely affect the financial condition or results of operations of IMC or IMC Woodbury, the transaction contemplated by this Official Statement or the validity of the Series 2017A Bonds.

Earlier this year, the Borough of Elmer filed an appeal in the Tax Court of New Jersey challenging IMC’s property tax exemption for the years 2015 and 2016. In addition, the City of Vineland filed an appeal in the Tax Court of New Jersey asserting a similar challenge for the year 2017. The Borough of Elmer has appraised the value of IMC’s property as $22,738,900 and $415,800 for two lots, respectively, and the City of Vineland has appraised the value of IMC’s property as $106,582,700. While state legislation was introduced in April, 2017 to delay municipalities in the State from taking action against hospitals challenging such property tax exemptions until an appointed tax force reviews the issue and provides recommendations, no such legislation has been enacted to date and the aforementioned challenges remain active. While the outcomes of these pending tax appeals could adversely affect the financial condition of the Obligated Group by requiring payment of state property taxes, Inspira does not believe such outcomes would have a material impact upon the Obligated Group’s ability to satisfy its obligations relating to the Series 2017A Bonds.
APPENDIX B

Consolidated Financial Statements and Supplementary Consolidating Information of Inspira Health Network Inc. as of and for the Years Ended December 31, 2016 and 2015
Inspira Health Network, Inc.

Table of Contents
December 31, 2016 and 2015

<table>
<thead>
<tr>
<th>Independent Auditors’ Report</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSOLIDATED FINANCIAL STATEMENTS</td>
<td></td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>3</td>
</tr>
<tr>
<td>Statement of Operations and Changes in Net Assets</td>
<td>5</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>7</td>
</tr>
<tr>
<td>Notes to Financial Statements</td>
<td>8</td>
</tr>
</tbody>
</table>

Supplementary Information

Consolidating Schedules for 2016:

| Consolidating Schedule, Balance Sheet, including Balance Sheet for the Inspira Health Network Obligated Group | 35 |

Consolidating Schedules for 2015:

| Consolidating Schedule, Balance Sheet | 37 |
| Consolidating Schedule, Statement of Operations and Changes in Net Assets | 38 |
Independent Auditors’ Report

Board of Directors
Inspira Health Network, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Inspira Health Network, Inc. (the “Network”), which comprise the consolidated balance sheet as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inspira Health Network, Inc. as of December 31, 2016 and 2015, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information presented on pages 35 through 38 is presented for the purposes of additional analysis rather than to present the financial position, results of operations and changes in net assets of the individual entities and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
April 5, 2017
### Inspira Health Network, Inc.
Consolidated Balance Sheet
December 31, 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$191,516,000</td>
<td>$160,636,000</td>
</tr>
<tr>
<td>Assets limited as to use - externally designated</td>
<td>7,436,000</td>
<td>5,297,000</td>
</tr>
<tr>
<td>Patient accounts receivable, net</td>
<td>72,904,000</td>
<td>76,943,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>6,224,000</td>
<td>5,763,000</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>19,017,000</td>
<td>19,132,000</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>297,097,000</td>
<td>267,771,000</td>
</tr>
<tr>
<td><strong>Assets Limited as to Use</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internally designated by Board of Directors</td>
<td>504,919,000</td>
<td>463,463,000</td>
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<tr>
<td>Externally designated by donor</td>
<td>1,123,000</td>
<td>1,196,000</td>
</tr>
<tr>
<td>Externally designated under bond indenture agreements</td>
<td>-</td>
<td>9,552,000</td>
</tr>
<tr>
<td>Under interest rate swap agreements</td>
<td>9,150,000</td>
<td>10,087,000</td>
</tr>
<tr>
<td><strong>515,192,000</strong></td>
<td><strong>484,298,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Property and Equipment, Net</strong></td>
<td>364,920,000</td>
<td>339,865,000</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>1,164,000</td>
<td>1,257,000</td>
</tr>
<tr>
<td>Investment in unconsolidated affiliates</td>
<td>15,343,000</td>
<td>2,627,000</td>
</tr>
<tr>
<td>Insurance recoveries receivable</td>
<td>4,419,000</td>
<td>9,111,000</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,889,000</td>
<td>4,690,000</td>
</tr>
<tr>
<td><strong>24,815,000</strong></td>
<td><strong>17,685,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Beneficial Interest in Perpetual and Temporary Trusts</strong></td>
<td>9,177,000</td>
<td>8,950,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$1,211,201,000</td>
<td>$1,118,569,000</td>
</tr>
</tbody>
</table>

*See notes to consolidated financial statements*
### Liabilities and Net Assets

#### Current Liabilities
- Accounts payable and accrued expenses: $88,630,000 / $79,826,000
- Accrued salaries and payroll taxes: 14,005,000 / 17,459,000
- Accrued vacation and other employee benefits: 17,800,000 / 17,547,000
- Accrued interest payable: 4,859,000 / 4,373,000
- Estimated settlements due to third-party payors: 52,474,000 / 49,020,000
- Current installments of long-term debt: 7,058,000 / 8,600,000

Total current liabilities: 184,826,000 / 176,825,000

#### Accrued Retirement Benefits
- 6,866,000 / 11,963,000

#### Interest Rate Swap Agreements
- 9,150,000 / 10,087,000

#### Other Long-Term Liabilities
- 59,894,000 / 57,483,000

#### Long-Term Debt
- 210,004,000 / 225,347,000

Total liabilities: 470,740,000 / 481,705,000

#### Net Assets
- Unrestricted: 727,821,000 / 625,204,000
- Temporarily restricted: 5,670,000 / 4,872,000
- Permanently restricted: 6,970,000 / 6,788,000

Total net assets: 740,461,000 / 636,864,000

Total liabilities and net assets: $1,211,201,000 / $1,118,569,000

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See notes to consolidated financial statements
### Inspira Health Network, Inc.

#### Consolidated Statement of Operations and Changes in Net Assets

December 31, 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net patient service revenue</td>
<td>$713,553,000</td>
<td>$672,361,000</td>
</tr>
<tr>
<td>Other</td>
<td>30,242,000</td>
<td>28,357,000</td>
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<tr>
<td><strong>Total revenue</strong></td>
<td>743,795,000</td>
<td>700,718,000</td>
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<tr>
<td>Expenses:</td>
<td></td>
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<tr>
<td>Salaries and wages</td>
<td>298,532,000</td>
<td>287,561,000</td>
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<tr>
<td>Employee benefits</td>
<td>92,682,000</td>
<td>86,232,000</td>
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<tr>
<td>Physician fees</td>
<td>29,245,000</td>
<td>31,589,000</td>
</tr>
<tr>
<td>Supplies and other expenses</td>
<td>204,193,000</td>
<td>205,381,000</td>
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<tr>
<td>Interest</td>
<td>8,801,000</td>
<td>9,818,000</td>
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<tr>
<td>Depreciation and amortization</td>
<td>40,919,000</td>
<td>39,969,000</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>674,372,000</td>
<td>660,550,000</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>69,423,000</td>
<td>40,168,000</td>
</tr>
<tr>
<td><strong>Nonoperating Gains, Net</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>9,629,000</td>
<td>8,174,000</td>
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<tr>
<td>Change in value of interest rate swap agreements</td>
<td>937,000</td>
<td>217,000</td>
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<tr>
<td>Net realized gains on sale of investments</td>
<td>1,184,000</td>
<td>5,411,000</td>
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<tr>
<td>Gain on sale of property and equipment</td>
<td>8,057,000</td>
<td>1,176,000</td>
</tr>
<tr>
<td><strong>Excess of revenue and gains over expenses</strong></td>
<td>89,230,000</td>
<td>55,146,000</td>
</tr>
</tbody>
</table>

*See notes to consolidated financial statements*
## Inspiria Health Network, Inc.

### Consolidated Statement of Operations and Changes in Net Assets
December 31, 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted Net Assets (continued)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenue and gains over expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(from previous page)</td>
<td>$ 89,230,000</td>
<td>$ 55,146,000</td>
</tr>
<tr>
<td>Other changes in unrestricted net assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(215,000)</td>
<td>147,000</td>
</tr>
<tr>
<td>Pension liability adjustment</td>
<td>586,000</td>
<td>(357,000)</td>
</tr>
<tr>
<td>Change in unrealized gains and losses on investments</td>
<td>13,003,000</td>
<td>(15,826,000)</td>
</tr>
<tr>
<td>Net assets released from restriction for property and equipment</td>
<td>13,000</td>
<td>268,000</td>
</tr>
<tr>
<td>Increase in unrestricted net assets</td>
<td>102,617,000</td>
<td>39,378,000</td>
</tr>
</tbody>
</table>

| **Temporarily Restricted Net Assets** |           |           |
| Contributions                     | 300,000   | 243,000   |
| Change in beneficial interest in temporary trust | 51,000 | (101,000) |
| Net assets released from restriction | (32,000) | (272,000) |
| Other                            | 479,000   | (124,000) |
| Increase (decrease) in temporarily restricted net assets | 798,000 | (254,000) |

| **Permanently Restricted Net Assets** |           |           |
| Contributions                     | 6,000     | 17,000    |
| Change in beneficial interest in perpetual trusts | 176,000 | (479,000) |
| Increase (decrease) in permanently restricted net assets | 182,000 | (462,000) |
| Increase in net assets            | 103,597,000 | 38,662,000 |

### Net Assets, Beginning of Year

|                                | 636,864,000 | 598,202,000 |

### Net Assets, End of Year

|                                | $ 740,461,000 | $ 636,864,000 |

See notes to consolidated financial statements
Operating Activities
Increase in net assets $103,597,000 $38,662,000

provided by operating activities:
(Income) loss from unconsolidated affiliates (5,036,000) 475,000
Depreciation and amortization 40,919,000 39,969,000
Amortization of bond premium 1,308,000 -
Pension liability adjustment (586,000) 357,000
Gain on sale of property and equipment (8,057,000) (1,176,000)
Net realized and unrealized (gains) losses on investments (14,187,000) 10,415,000
Change in beneficial interest in perpetual and temporary trusts (227,000) 580,000
Change in value of interest rate swap agreements (937,000) (217,000)
Restricted contributions (306,000) (260,000)

Changes in certain assets and liabilities:
Patient accounts receivable 4,039,000 334,000
Supplies (461,000) (150,000)
Prepaid expenses and other current assets 115,000 (2,730,000)
Insurance recoveries receivable 4,692,000 20,556,000
Accounts payable, accrued expenses and other liabilities (2,783,000) (23,954,000)
Accrued interest payable 486,000 (26,000)
Estimated settlements due to third-party payors 9,740,000 12,928,000

Net cash provided by operating activities 132,316,000 95,763,000

Investing Activities
Additions to property and equipment, net (65,269,000) (34,488,000)
Proceeds from sale of property and equipment 4,570,000 2,573,000
Increase in assets limited as to use (18,846,000) (19,320,000)
Investments in unconsolidated affiliates, net of distributions (7,680,000) (846,000)
Increase in pledges receivable and other assets 894,000 391,000

Net cash used in investing activities (86,331,000) (51,690,000)

Financing Activities
Restricted contributions 306,000 260,000
Payment of financing costs (558,000) -
Payments of long-term debt (215,351,000) (9,864,000)
Proceeds from issuance of long-term debt, net 200,498,000 -

Net cash used in financing activities (15,105,000) (9,604,000)

Increase in cash and cash equivalents 30,880,000 34,469,000

Cash and Cash Equivalents, Beginning of Year 160,636,000 126,167,000

Cash and Cash Equivalents, End of Year $191,516,000 $160,636,000

Supplemental Disclosures of Cash Flow Information
Cash paid for interest $8,315,000 $9,710,000

See notes to consolidated financial statements 7
1. Organization

Inspira Health Network, Inc. d/b/a Inspira Health Network (the “Network”) is a tax-exempt health care organization. The Network functions as the parent corporation for the following entities, which are related by common membership and/or ownership.

Inspira Medical Centers, Inc. (“IMC”) is a tax-exempt health care organization. IMC consists of two acute care hospitals, Inspira Medical Center Vineland (“Vineland”) in Cumberland County, New Jersey and Inspira Medical Center Elmer (“Elmer”) in Salem County, New Jersey and two health centers, the Inspira Health Center Bridgeton, which provides inpatient and outpatient psychiatric services, select outpatient services including a satellite emergency department, and administrative services and the Inspira Health Center Vineland, which provides select outpatient services.

IMC also functions as the sole corporate member of Inspira Health Network Foundation Cumberland/Salem, Inc. (“FDNCS”) which is a tax-exempt organization that supports IMC and the Network and its affiliates.

Inspira Health Management Corporation (“IHMC”) is a for-profit corporation, which engages in activities to enhance and support the mission of the Network and its affiliates, such as the operations of the Center for Health and Fitness, management services organization and building management. Additionally, IHMC is the general partner in Bridgeton Physician Office Center, L.P. (“BPOC”), which owns and leases a medical office building in Bridgeton, New Jersey. The building is used for physicians’ offices. The limited partner of BPOC is the Network.

Inspira Health Network Medical Group, P.C. (“IMG”) is a for-profit professional corporation, which engages in activities to enhance and support the mission of the Network and its affiliates, such as the operations of physician practices in Cumberland, Salem, and Gloucester Counties.

Inspira HomeCare & HospiceCare, Inc. (“HCHC”) is a not-for-profit corporation, which has the following programs: certified home health agency as a direct provider of skilled nursing, therapy services and home health aides for residents of Salem and Cumberland counties; hospice care to southern New Jersey residents. HCHC is the parent organization of Inspira Help Services, Inc. (“HELP”), a for-profit corporation, which provides nontraditional services for a healthcare company to the community.

Inspira Health Network LIFE, Inc. (“LIFE”) is a not-for-profit corporation which engages in activities to enhance and support the mission of the Network and its affiliates, such as the operation of the Program of All-Inclusive Care for the Elderly in Cumberland County.

Juno Assurance, LTD (“Juno”) is a freestanding corporation through which the Network insures a portion of its professional liability and general liability risk through the single parent captive insurance company.

Inspira Health Network Urgent Care, P.C. (“Urgent Care”), incorporated in the state of New Jersey, provides a wide range of medical services for minor or non-life-threatening conditions.

Oak & Main Surgicenter, LLC (“Oak & Main”) is an ambulatory surgery center located in Vineland, New Jersey. In May 2011, IMC initially acquired 81% of the outstanding ownership interest of Oak & Main, and then acquired another 4% of interest in August 2011.
Inspira Medical Center Woodbury, Inc. (“Woodbury”), located in Woodbury, New Jersey, is a tax-exempt acute-care hospital providing a complete range of inpatient and outpatient services.

Inspira Health Network Foundation Gloucester County, Inc. (“FDNG”) is a tax exempt organization, established to raise funds for the Network and other similar organizations.

Red Bank Development Corporation (“Red Bank”), a for-profit subsidiary, and its wholly-owned subsidiary, Woodbury Home Care Services, Inc. and its controlled affiliate, Gloucester County Surgery Center, LLC, provide various healthcare-related services.

Inspira Health Connections PC (“IHC”), Tri-County Cardiovascular Services PC (“TCCS”), and Inspira Management Services LLC (“IMS”) (collectively, “Tri-County”) are organizations established in 2012 to coordinate physician, cardiology, and management services between Woodbury and its affiliated physicians.

Inspira Health Partners, LLC. (“IHP”) is a physician hospital organization. IMC owns 51% of IHP. IHP’s mission is to establish a clinically integrated physician-hospital enterprise which is designed to achieve improvement in healthcare quality, efficiency and cost.

Inspira Care Connect, LLC (“ICC”) is a Medicare Shared Savings Program. ICC’s mission is to establish a group of coordinated healthcare providers which agree to be accountable for the quality, cost and overall care for an assigned group of Medicare beneficiaries.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Network and the related entities under control or ownership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid debt instruments with original maturities of three months or less, except for amounts included within assets limited as to use.
Receivables for Patient Care

Patient accounts receivable for which the Network receives payment under cost reimbursement, prospective payment formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Network. Patient accounts receivable are reported net of provisions based on management’s assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. For receivables associated with services provided to patients who have third-party coverage (which includes both patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Network analyzes contractually due amounts and provides an allowance for doubtful accounts, if necessary. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against net patient service revenue.

The Network has not changed its financial assistance policy in 2016 or 2015.

Supplies

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

Assets Limited as to Use

Assets limited as to use by Board of Directors are resources that have been designated by the Board for specific purposes. Assets limited as to use under bond indenture agreements are held by a trustee for the payment of current debt service.

Assets limited as to use under the interest rate swap agreements are Woodbury funds to collateralize the liability of the interest rate swaps in an account held by Morgan Stanley. This is a requirement which began in 2009 because the insurer, Ambac, had their credit rating fall below A3 by Moody’s.

Assets limited as to use by donor include assets set aside for specific donor purposes or endowment and assets set aside under a regulatory agreement to provide for specified payments to designated individuals. Assets limited as to use by donor are restricted for permanent investment. Amounts required to meet current liabilities of the Network have been classified as current assets in the consolidated balance sheet.

Investments and Investment Income

All investments with readily determinable fair values are measured at fair value in the consolidated balance sheet. The fair value of debt and equity securities is based upon quoted market prices.
Investment income from assets limited as to use under bond indenture agreements is included in other revenue. Interest income from cash and cash equivalents and assets limited as to use under bond indenture agreements was $3,392,000 and $2,613,000 for the years ended December 31, 2016 and 2015, respectively. Investment income and realized gains and losses on assets limited as to use by Board of Directors are recorded as nonoperating gains, net. Unless unrealized losses are deemed to be other-than-temporary declines in market value, unrealized gains and losses on assets limited as to use are excluded from the excess of revenue and gains over expenses since the underlying investments represent other-than-trading securities. Realized gains and losses for all investments are determined by the average cost method.

**Property and Equipment**

Property and equipment is recorded at cost. Donated assets are recorded at their market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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

The Network continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Network uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset, or determines the fair market value of the long-lived asset in measuring whether the long-lived asset is recoverable. No revision to the remaining useful lives or write-down of long-lived assets was recorded in 2016 and 2015.

**Pledges Receivable**

Unconditional promises to give, under the capital campaigns for Vineland and Elmer, are recorded as temporarily restricted net assets. The contributions are expected to be collected through 2028. Pledges receivable are recorded at the net present value of estimated future cash flows net of an allowance for uncollectible pledges. The present value discounts on those amounts are computed using an interest rate that a market participant would demand. At December 31, 2016, cash collections from the pledges are expected to be $113,000 in less than a year, $452,000 in one to five years, and $599,000 in more than five years.
Deferred Financing Costs

Due to the Financial Accounting Standards Board’s (“FASB”) issuance of Accounting Standards Update (“ASU”) No. 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, the Network changed its method of presenting deferred financing costs. Prior to the issuance of ASU No. 2015-03, the Network presented deferred financing costs as an asset in its consolidated balance sheet. As required by ASU No. 2015-03, the Network now presents deferred financing costs as a direct reduction of its long-term debt. The effect of the required retrospective application of this change in presentation was to decrease the Network’s deferred financing costs and long-term debt by $1,750,000 as of December 31, 2015. In addition, amortization expense of deferred financing costs was reclassified to interest expense in accordance with ASU No. 2015-03 which resulted in a decrease in depreciation and amortization expense and an increase in interest expense of $134,000 in 2015.

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized under the interest method over the remaining term of the related indebtedness.

Goodwill

Goodwill represents the excess of the amount paid to acquire the business operations over the fair value of the net assets acquired.

Goodwill is evaluated on an annual basis for impairment. The Network evaluates the qualitative factors of the business operations acquired. If the Network determines that it is more likely than not (50 percent likelihood) that the fair value of the operations is less than its carrying value, then it performs the two-step goodwill impairment test as required by authoritative guidance. The Network determined, based on these qualitative factors, that it was more likely than not that the fair value of the operations exceeded its carrying value. Therefore, the Network did not perform the two-step goodwill impairment test as of December 31, 2016 and 2015.

Beneficial Interest in Perpetual and Temporary Trusts

The Network has recorded its portion of the fair value of these trusts. Certain trusts are perpetual in nature, and the original corpus cannot be expended. These trusts are reported as permanently restricted net assets.

One trust is temporary in nature and can be released to the Network after a sequence of events takes place. This trust has been reported as a temporarily restricted net asset.
Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as other revenue for operating activities and other changes in unrestricted net assets for property and equipment.

Classification of Net Assets

The Network separately accounts for and reports donor-restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Network and an outside party other than the donor or grantor.

Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time frame or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The Network follows the requirements of the Uniform Prudent Management of Institutional Funds Act as they relate to its permanently restricted contributions and net assets.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Network’s consolidated balance sheet at net realizable value.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including an estimate for retroactive adjustments that may occur as a result of future audits, reviews and investigations.
The Network has agreements with third-party payors, including commercial insurance carriers and health maintenance organizations, which provide for payments to the Network at amounts different from its established rates. Payments arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem and case rate payments. For uninsured patients that do not qualify for charity care, the Network recognizes revenues on the basis of its standard rates, discounted in accordance with the Network’s policy. On the basis of historical experience, a significant portion of the Network’s uninsured patients will be unable to pay for the services provided. Thus, the Network records a significant provision related to uninsured patients in the period the services are provided. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Patient service revenues, net of contractual allowances and discounts, recognized in 2016 and 2015 from these major payors sources, are as follows:

<table>
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<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Third-Party</td>
<td>Third-Party</td>
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<tr>
<td></td>
<td>Government</td>
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<tr>
<td>Payors</td>
<td>Payors</td>
<td>Payors</td>
</tr>
<tr>
<td>Patient service revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(net of contractual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>allowances and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>discounts)</td>
<td>$ 371,753,000</td>
<td>$ 340,200,000</td>
</tr>
<tr>
<td></td>
<td>$ 343,605,000</td>
<td>$ 327,069,000</td>
</tr>
</tbody>
</table>
Performance Indicator

The consolidated statement of operations and changes in net assets includes the excess of revenue and gains over expenses as the performance indicator. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Other transactions, including investment income, realized gains and losses on the sale of investments, and other-than-temporary declines in the market value of investments, are reported as nonoperating gains and losses. Changes in unrestricted net assets that are excluded from the excess of revenue and gains over expenses, include the change in unrealized gains and losses on investments, to the extent losses are considered temporary, permanent transfers of assets to and from affiliates, assets released from restriction for property and equipment, and certain pension liability adjustments.

Income Taxes

The Network, IMC, Woodbury, FDNG, FDNCS, HCHC, LIFE, TCCS, and IHC are Section 501(c)(3) organizations exempt from federal income taxes under Section 501(a) of the Internal Revenue Code. The Network, IMC, Woodbury, FDNG, FDNCS, and HCHC also are exempt from state income taxes. IHMC, HELP, Red Bank, Juno, and IMG are for-profit corporations subject to federal and state income taxes; however, income tax expense is not significant to the Network’s consolidated financial statements.

Urgent Care has elected to be taxed as an S Corporation for federal and state purposes. Accordingly, no provision has been made for federal or state income taxes.

Oak & Main, IMS, IHP, and ICC are treated as if they were partnerships for federal and state income tax purposes. Therefore, income earned is passed through to its members and, as such, no income taxes have been incurred or accrued.

The Network accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2016 or 2015.

The Network’s federal returns for fiscal years after 2012 remain subject to examination by the Internal Revenue Service.

Reclassifications

Certain reclassifications have been made to 2015 balances previously reported in order to conform to the 2016 presentation.
3. New Accounting Pronouncements

Revenue Recognition

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the Revenue Recognition Requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Network will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017. The Network has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

Lease Accounting

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Network’s leasing activities. The Network will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. The Network has not yet determined the impact of adoption of ASU No. 2016-02 on its consolidated financial statements.

Financial Statements

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU No. 2016-14 is to be applied retroactively with transition provisions. The Network has not yet determined the impact of adoption of ASU No. 2016-14 on its consolidated financial statements.
Financial Instruments

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820)*. ASU No. 2015-07 was issued to address diversity in practice related to how certain investments measured at net asset value with redemption dates in the future are categorized within the fair value hierarchy. Under ASU No. 2015-07, investments for which fair value is measured using the net asset value per share as a practical expedient are no longer required to be categorized within the fair value hierarchy. It also removes certain disclosure requirements for investments eligible to be measured using the net asset value per share practical expedient; however, it does not remove such disclosures for investments for which the entity has elected to measure fair value using that practical expedient. The Network retrospectively adopted this guidance for the year ending December 31, 2016. ASU No. 2015-07 did not have a material impact on the Network’s consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. ASU No. 2016-01 was issued to enhance the reporting model for financial instruments in financial statements. The provisions of ASU No. 2016-01 requires marketable equity securities to be reported at fair value with changes in fair value recognized within the performance indicator, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. The Network will be required to prospectively adopt the guidance in ASU No. 2016-01 for years beginning after December 15, 2017. The Network has not yet determined the impact of adoption of ASU No. 2016-01 on its consolidated financial statements.

4. Charity Care

Certain entities within the Network have a patient acceptance policy, which is based on its mission statement and its charitable purposes. Accordingly, these entities accept all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain financial criteria established by the State of New Jersey and the Network’s policy. The Network’s charity care policy includes additional financial criteria which were established with the intent of expanding the availability of financial assistance. Because the Network does not believe that accounts which qualify for charity care are likely to be collected, they are not reported as net patient service revenue. The unreimbursed costs for services and supplies furnished to patients eligible for such charity care are based on cost to charge ratios and costs incurred and are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of New Jersey’s criteria</td>
<td>$ 3,549,000</td>
<td>$ 1,799,000</td>
</tr>
<tr>
<td>Network’s additional criteria</td>
<td>10,996,000</td>
<td>13,371,000</td>
</tr>
<tr>
<td>Total</td>
<td>$ 14,545,000</td>
<td>$ 15,170,000</td>
</tr>
</tbody>
</table>
The Network also sponsors certain other charitable programs, which provide substantial benefit to the broader community. Such programs include services to needy and elderly populations that require special support, as well as health promotion and education for the general community welfare. In addition, all other uncollectible amounts resulting from the patients’ inability to pay are recorded as a reduction to net patient service revenue, consistent with the Network’s charity care policy.

5. State Subsidies

The New Jersey Health Care Reform Act of 1992 established the Health Care Subsidy Fund (“HCSF”) to provide a mechanism and funding source to compensate certain entities for charity care. The Network received $3,695,000 and $4,968,000 in 2016 and 2015, respectively, for charity care that is included in net patient service revenue.

The New Jersey Department of Human Services, Medicaid Program, has established a Hospital Relief and Special Subsidy Fund (“HRSSF”) to provide statewide funding to certain hospitals based on their levels of uncompensated care and other services. The Network received $7,895,000 and $7,220,000 in 2016 and 2015, respectively, from the HRSSF. These amounts are included in net patient service revenue.

The allocations to the Network from HCSF and HRSSF are subject to change from year to year based on available state budget amounts and allocation methodologies. A proportionate amount is in place through June 30, 2017; however, such amounts are subject to change.

6. Net Patient Service Revenue

Inpatient acute care services for Medicare and Medicaid program beneficiaries and outpatient service for Medicare beneficiaries are paid primarily at prospectively determined rates per discharge or outpatient service. Outpatient services for Medicaid beneficiaries, certain defined costs and disproportional share payments are paid based on reimbursement methodologies, subject to certain limitations. In addition, certain Medicare and Medicaid beneficiaries may opt for coverage through approved managed care organizations. As such, payment to the Network for these Medicaid and Medicare beneficiaries is based upon negotiated rates with these managed care organizations.

The Network is reimbursed for costs reimbursable and other items at a tentative rate with final settlements determined after submission of annual cost reports by the Network and audits thereof by the programs’ fiscal intermediaries. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. Woodbury’s Medicare cost reports have not been final settled by the fiscal intermediaries for the 2007 through 2012 and 2014 through 2016 cost report years, and Woodbury’s Medicaid cost report years have not been audited by the fiscal intermediaries for the 2007 through 2016 cost report years. Although the 2013 Woodbury cost report has been settled by the Medicare fiscal intermediary, the Medicare disproportionate share calculations for the 2013 fiscal year is still currently in an open status and a potential Medicare repayment exists. IMC’s cost reports have not been final settled by the fiscal intermediaries for the 2013 through 2016 cost report years. Although the prior period IMC cost reports have been settled by the Medicare fiscal intermediary, the Medicare disproportionate share calculations for fiscal years 2008 through 2012 are still currently in an open status and a potential Medicare repayment exists. These amounts have been reserved in the Network’s consolidated financial statements in the event of a repayment.
In the opinion of management, adequate provision has been made for any adjustment, which may result from the final settlement of these reports or appeal items. Differences between the estimated adjustments and the amounts settled are recorded in the year of settlement. Net settlements and adjustments of prior-year cost reports and appeal items resulted in an increase to the Network’s net patient service revenue of $3,190,000 for the year ended December 31, 2016, and a decrease in net patient service revenue of $2,741,000 for the year ended December 31, 2015.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Network believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations that could have a material adverse effect on its consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

The Network has also entered into agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Network under these agreements includes prospectively determined per diem and case rates and discounts from established charges. Some agreements have retrospective audit clauses, allowing the payor to review and adjust claims subsequent to initial payment. Changes in estimates resulting from such adjustments are recorded when estimable.

7. Fair Value Measurements and Other Financial Instruments

Fair Value Measurements

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

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

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

Level 3 - Significant unobservable inputs.
The following tables present financial instruments measured at fair value at December 31, 2016 and 2015, by caption on the balance sheet:

<table>
<thead>
<tr>
<th>Reported at Fair Value</th>
<th>December 31, 2016</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>Total</td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>191,516,000</td>
<td>191,516,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Assets limited as to use:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internally designated by Board of Directors:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>18,143,000</td>
<td>18,077,000</td>
<td>66,000</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds - equities</td>
<td>158,277,000</td>
<td>158,277,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds - fixed income</td>
<td>112,629,000</td>
<td>112,629,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate and government bonds</td>
<td>57,239,000</td>
<td>-</td>
<td>57,239,000</td>
<td>-</td>
</tr>
<tr>
<td>Government securities</td>
<td>15,845,000</td>
<td>-</td>
<td>15,845,000</td>
<td>-</td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>19,414,000</td>
<td>19,405,000</td>
<td>9,000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>381,547,000</td>
<td>308,388,000</td>
<td>73,159,000</td>
<td>-</td>
</tr>
<tr>
<td>Externally designated under bond indenture agreements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>7,436,000</td>
<td>7,436,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Externally designated under interest rate swap agreement, Cash and cash equivalents</td>
<td>9,150,000</td>
<td>9,150,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Externally designated by donor:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>826,000</td>
<td>826,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>115,000</td>
<td>112,000</td>
<td>3,000</td>
<td>-</td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>182,000</td>
<td>182,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1,123,000</td>
<td>1,120,000</td>
<td>3,000</td>
<td>-</td>
</tr>
<tr>
<td>Total assets limited as to use</td>
<td>399,256,000</td>
<td>326,094,000</td>
<td>73,162,000</td>
<td>-</td>
</tr>
<tr>
<td>Beneficial interest in trusts</td>
<td>9,177,000</td>
<td>-</td>
<td>9,177,000</td>
<td>-</td>
</tr>
<tr>
<td>Total assets in the fair value hierarchy</td>
<td>599,949,000</td>
<td>517,610,000</td>
<td>82,339,000</td>
<td>-</td>
</tr>
<tr>
<td>Assets measured at net asset value (a)</td>
<td>123,372,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets at fair value</td>
<td>723,321,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swap agreements</td>
<td>9,150,000</td>
<td>$</td>
<td>-</td>
<td>$</td>
</tr>
<tr>
<td>Disclosed at Fair Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>1,164,000</td>
<td>$</td>
<td>-</td>
<td>$</td>
</tr>
<tr>
<td>Bonds payable (carrying value of $177,765,000)</td>
<td>187,940,000</td>
<td>$</td>
<td>$ 187,940,000</td>
<td>-</td>
</tr>
<tr>
<td>Notes payable</td>
<td>18,215,000</td>
<td>$</td>
<td>-</td>
<td>$</td>
</tr>
<tr>
<td>December 31, 2015</td>
<td>Total</td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
</tr>
<tr>
<td>-----------------</td>
<td>-------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$160,636,000</td>
<td>$160,636,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets limited as to use:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internally designated by Board of Directors:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>8,517,000</td>
<td>8,451,000</td>
<td>66,000</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds - equities</td>
<td>144,231,000</td>
<td>144,231,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds - fixed income</td>
<td>108,970,000</td>
<td>108,970,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate and government bonds</td>
<td>57,330,000</td>
<td>-</td>
<td>57,330,000</td>
<td>-</td>
</tr>
<tr>
<td>Government securities</td>
<td>11,356,000</td>
<td>-</td>
<td>11,356,000</td>
<td>-</td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>22,405,000</td>
<td>22,396,000</td>
<td>9,000</td>
<td>-</td>
</tr>
<tr>
<td>Internally designated by Board of Directors:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>8,517,000</td>
<td>8,451,000</td>
<td>66,000</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds - equities</td>
<td>144,231,000</td>
<td>144,231,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds - fixed income</td>
<td>108,970,000</td>
<td>108,970,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate and government bonds</td>
<td>57,330,000</td>
<td>-</td>
<td>57,330,000</td>
<td>-</td>
</tr>
<tr>
<td>Government securities</td>
<td>11,356,000</td>
<td>-</td>
<td>11,356,000</td>
<td>-</td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>22,405,000</td>
<td>22,396,000</td>
<td>9,000</td>
<td>-</td>
</tr>
<tr>
<td>352,809,000</td>
<td>284,048,000</td>
<td>68,761,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Externally designated under bond indenture agreements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>14,849,000</td>
<td>14,849,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Less assets required for current liabilities</td>
<td>5,297,000</td>
<td>5,297,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Externally designated under interest rate swap agreement, Cash and cash equivalents</td>
<td>9,552,000</td>
<td>9,552,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Externally designated by donor:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>855,000</td>
<td>855,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>162,000</td>
<td>159,000</td>
<td>3,000</td>
<td>-</td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>179,000</td>
<td>179,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1,196,000</td>
<td>1,193,000</td>
<td>3,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total assets limited as to use</td>
<td>378,941,000</td>
<td>310,177,000</td>
<td>68,764,000</td>
<td>-</td>
</tr>
<tr>
<td>Beneficial interest in trusts</td>
<td>8,950,000</td>
<td>-</td>
<td>8,950,000</td>
<td>-</td>
</tr>
<tr>
<td>Total assets in the fair value hierarchy</td>
<td>548,527,000</td>
<td>$470,813,000</td>
<td>$77,714,000</td>
<td>-</td>
</tr>
<tr>
<td>Assets measured at net asset value (a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets at fair value</td>
<td>$659,181,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swap agreements</td>
<td>$10,087,000</td>
<td>-</td>
<td>-</td>
<td>$10,087,000</td>
</tr>
<tr>
<td>Disclosed at Fair Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>$1,257,000</td>
<td>-</td>
<td>-</td>
<td>$1,257,000</td>
</tr>
<tr>
<td>Bonds payable (carrying value of $197,267,000)</td>
<td>$207,374,000</td>
<td>-</td>
<td>$207,374,000</td>
<td>-</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$36,202,000</td>
<td>-</td>
<td>-</td>
<td>$36,202,000</td>
</tr>
</tbody>
</table>
(a) In accordance with ASU No. 2015-07, certain investments that are measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheet.

Valuation Methodologies

Government securities, corporate and government bonds and marketable equity securities are stated at fair value, which are the amounts reported in the consolidated balance sheets in assets limited as to use, based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

Mutual funds are valued at the net asset value (“NAV”) of shares held by the Network at year-end.

The beneficial interest in perpetual trusts is valued at fair value which takes into consideration the underlying investments and the Network’s interest in the trusts. This approximates the present value of the future distributions expected to be received.

The fair value of the Network's interest rate swaps is estimated based on a model utilizing current interest rates and other factors that would be considered Level 3 inputs in the fair value hierarchy.

Pledges receivable are valued based on the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation for uncollectible pledges.

Long-term debt is valued based on current rates offered for similar issues with similar security terms and maturities, or estimated using a discount rate that a market participant would demand.

Investments that have been excluded from the fair value hierarchy consist of commingled funds and limited partnerships that are valued based on the NAV of the underlying investments (basis for trade) of the funds held at the end of the year.

Commingled funds consist of the Network’s investment in the Wellington Trust Company, NA, CTF Research Equity Portfolio (“Wellington Fund”) and the Champlain Small Cap Fund, LLC (“Champlain Fund”). The Wellington Fund’s objective is long-term total returns in excess of the S&P 500 Index. The Wellington Fund is managed on a total return basis, and not with an objective of achieving or avoiding any particular tax consequences. At December 31, 2016 and 2015, 76% and 80%, respectively, of the Network’s commingled funds were held in the Wellington Fund. The Champlain Fund’s investment objective is capital appreciation. In order to achieve this objective, the Champlain Fund invests mainly in common stocks of small capitalization companies. The Champlain Fund attempts to identify investments that have strong long-term fundamentals, potential for superior capital appreciation and attractive valuation. At December 31, 2016 and 2015, 19% and 17%, respectively, of the Network’s commingled funds were held in the Champlain Fund.
### 8. Property and Equipment

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Depreciable Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 21,804,000</td>
<td>$ 17,726,000</td>
<td></td>
</tr>
<tr>
<td>Land improvements</td>
<td>6,737,000</td>
<td>6,668,000</td>
<td>5-25 years</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>3,539,000</td>
<td>2,206,000</td>
<td>10-15 years</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>410,692,000</td>
<td>408,315,000</td>
<td>10-40 years</td>
</tr>
<tr>
<td>Fixed equipment</td>
<td>64,120,000</td>
<td>59,597,000</td>
<td>10-20 years</td>
</tr>
<tr>
<td>Major movable equipment</td>
<td>311,491,000</td>
<td>292,070,000</td>
<td>5-20 years</td>
</tr>
<tr>
<td></td>
<td>818,383,000</td>
<td>786,582,000</td>
<td></td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>488,600,000</td>
<td>450,461,000</td>
<td></td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>329,783,000</td>
<td>336,121,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>35,137,000</td>
<td>3,744,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>$ 364,920,000</strong></td>
<td><strong>$ 339,865,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

The Network has begun the process of replacing Woodbury’s acute care facilities, with a new acute care hospital campus in a nearby area of Gloucester County which will cost approximately $320,000,000. The Certificate of Need for the replacement hospital was approved by the New Jersey Department of Health on March 12, 2017 which is followed by a 45-day appeal period. At December 31, 2016, the Network had commitments outstanding of approximately $210,000,000 related to the construction of the replacement hospital. The Network plans to fund the replacement hospital with a combination of debt and equity proceeds with the debt financing anticipated to occur in the second quarter of 2017.

Depreciation on property and equipment for the years ended December 31, 2016 and 2015 amounted to $40,409,000 and $39,904,000, respectively.
9. Long-Term Debt

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Jersey Health Care Facilities Financing Authority (&quot;NJHCFFA&quot;) Refunding Bonds Inspira Health Obligated Group Issue, Series 2016A (&quot;Series 2016A Bonds&quot;), principal/sinking fund payments range from $4,415,000 to $7,720,000, maturing on July 1 of each year through 2046 with interest rates ranging from 2.0% to 5.0% due January 1st and July 1st of each year. Amount includes net original issue premium of $22,279,000.</td>
<td>$ 200,044,000</td>
<td>$ -</td>
</tr>
<tr>
<td>New Jersey Health Care Facilities Financing Authority (&quot;NJHCFFA&quot;) Revenue Bonds South Jersey Hospital Issue, Series 2006 Revenue Bonds (&quot;Series 2006 Bonds&quot;). Amount includes net original issue premium of $1,940,000. Bonds were repaid during 2016.</td>
<td>-</td>
<td>139,397,000</td>
</tr>
<tr>
<td>NJHCFFA - Variable Rate Demand Revenue Refunding Bonds (&quot;Series 2008 Bonds&quot;). Bonds were repaid during 2016.</td>
<td>-</td>
<td>48,825,000</td>
</tr>
<tr>
<td>NJHCFFA - Note Payable (&quot;2011 Note Payable&quot;). Note payable was repaid during 2016.</td>
<td>-</td>
<td>17,115,000</td>
</tr>
<tr>
<td>Term Loan with a bank for available borrowings up to $14,296,000, with an interest rate of 1.25% at December 31, 2016 adjustable every 30 days based on LIBOR. Interest is payable monthly and principal is due in full in August 2017. The Network has investments which are classified as assets limited as to use by Board of Directors that are held in a separate account, which meet the collateral requirement of approximately $20,000,000.</td>
<td>14,278,000</td>
<td>14,278,000</td>
</tr>
<tr>
<td>NJHCFFA Variable Rate Composite Program - South Jersey Hospital, Inc. Project, Series 2004 A-4 (&quot;Series 2004 Bonds&quot;). Bonds were repaid during 2016.</td>
<td>-</td>
<td>10,985,000</td>
</tr>
<tr>
<td>NJHCFFA 2009 Capital Asset Financing Program - Note Payable (&quot;2009 Note Payable&quot;). Note payable was repaid during 2016.</td>
<td>-</td>
<td>402,000</td>
</tr>
<tr>
<td>Other long-term obligations, collateralized by purchased property and equipment.</td>
<td>4,241,000</td>
<td>4,695,000</td>
</tr>
<tr>
<td></td>
<td>218,563,000</td>
<td>235,697,000</td>
</tr>
<tr>
<td>Less: Current maturities of long-term debt</td>
<td>(7,058,000)</td>
<td>(8,600,000)</td>
</tr>
<tr>
<td>Less: Deferred financing costs</td>
<td>(583,000)</td>
<td>(1,750,000)</td>
</tr>
<tr>
<td>Less: Underwriters’ discount</td>
<td>(918,000)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$ 210,004,000</td>
<td>$ 225,347,000</td>
</tr>
</tbody>
</table>
Series 2016A Refunding Bonds

In June 2016, the New Jersey Health Care Financing Authority (“NJHCFFA”) issued, on behalf of IMC and IMCW, its $177,765,000 aggregate principal amount of Refunding Bonds, Inspira Health Obligated Group Issue (Series 2016A) (the “Series 2016A Bonds”). Total proceeds of $201,352,000 (including a net original issue premium of $23,587,000) were used by IMC and IMCW to (i) refinance all of the outstanding NJHCFFA Series 2004 Bonds, Series 2006 Bonds, and Series 2008 Bonds (“Refunded Bonds”), (ii) refinance the 2011 Note Payable and (iii) pay for the costs of issuance of the Series 2016A Bonds. The Network recognized a net gain on extinguishment of debt of $195,000 as a result of the 2016 debt refinancing which is included in depreciation and amortization expense in the accompanying consolidated statement of operations and changes in net assets.

The Series 2016A Bonds were issued under a Master Trust Indenture (“MTI”), dated June 1, 2016. As such, the obligations issued pursuant to the MTI are joint and several obligations of the Obligated Group, which currently consists of IMC and IMCW and does not include any other affiliates of the Network. All property and equipment, and gross receipts of the Obligated Group are pledged to secure payment of interest and principal. The MTI and loan agreement between NJHCFFA and IMC and IMCW require the Obligated Group to comply with financial covenants, including the requirement that the Obligated Group generate funds available for debt service (as defined) equivalent to at least 110% of maximum annual debt service.

The Series 2016A Bonds consist of $120,015,000 of serial bonds that mature in 2036, and $26,570,000 and $31,180,000 of term bonds that mature in 2041 and 2046, respectively.

Other Long-Term Obligations

During 2011, IMC entered into a loan agreement with the City of Vineland’s Urban Enterprise Zone Authority (“UEZ”) for a total of $4,000,000. This loan is secured by a bank letter of credit and guaranteed by the Network. The term of the loan is 20 years with interest-only payments for the first 36 months through July 2013, and principal and interest payments of $27,000 per month beginning in August 2013. The interest rate on this loan is 5% during the interest-only period and 4% thereafter. The outstanding obligation was $3,398,000 and $3,582,000 at December 31, 2016 and 2015, respectively, and is included in long-term debt in the consolidated balance sheet.

Red Bank has financing agreements for certain equipment, which are collateralized under the agreements. Payments under the financing agreements are payable in monthly installments through the term of the respective agreement. The outstanding balance was $539,000 and $825,000 at December 31, 2016 and 2015, respectively.

The Network also leases certain equipment under capital lease agreements at various interest rates. The outstanding balance under these lease obligations was $304,000 and $288,000 at December 31, 2016 and 2015, respectively.
Future Principal Payments

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

<table>
<thead>
<tr>
<th>Series</th>
<th>2016A Bonds</th>
<th>Other Long-Term Obligations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$ 6,580,000</td>
<td>$ 478,000</td>
<td>$ 7,058,000</td>
</tr>
<tr>
<td>2018</td>
<td>6,785,000</td>
<td>258,000</td>
<td>7,043,000</td>
</tr>
<tr>
<td>2019</td>
<td>7,000,000</td>
<td>268,000</td>
<td>7,268,000</td>
</tr>
<tr>
<td>2020</td>
<td>7,255,000</td>
<td>278,000</td>
<td>7,533,000</td>
</tr>
<tr>
<td>2021</td>
<td>6,420,000</td>
<td>226,000</td>
<td>6,646,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>143,725,000</td>
<td>17,011,000</td>
<td>160,736,000</td>
</tr>
</tbody>
</table>

$ 177,765,000 $ 18,519,000 $ 196,284,000

10. Derivative Financial Instruments

Woodbury has two interest rate swap agreements with Morgan Stanley ("Morgan Stanley Swaps I and II") which had been entered into to manage its risk relating to the changes in cash flow associated with its variable rate bonds. These interest rate swaps allowed Woodbury to effectively swap the variable rate interest on the variable rate bonds to a fixed interest rate (Tranche I of 3.459% and Tranche II of 3.76%). The interest rate swaps require Woodbury to exchange quarterly the net difference between the fixed rate and variable rate interest amounts calculated by reference to the notional amounts, which are consistent with the amount of the Tranches outstanding. The fair value of the Morgan Stanley Swaps I and II represented a liability of $9,196,000 and $10,558,000 at December 31, 2016 and 2015, respectively, and is included in total liabilities in the consolidated balance sheet.

Woodbury has another interest rate swap agreement with Morgan Stanley ("Morgan Stanley Swap III") which was entered into to reduce Woodbury’s overall interest expense. Under this interest rate swap, Woodbury receives payments from Morgan Stanley in the amount of 67% of the 5-year LIBOR. In exchange, Woodbury will pay 67% of the 1-month LIBOR. The fair value of the Morgan Stanley Swap III represented an asset of $46,000 and $471,000, at December 31, 2016 and 2015, respectively, and is included in total liabilities in the consolidated balance sheet.

The net expense related to net cash settlements was $1,495,000 and $1,504,000 for the years ended December 31, 2016 and 2015, respectively, and is included in interest expense in the consolidated statement of operations and changes in net assets.
11. Retirement Benefits

Defined Contribution Pension Plans

The Network, through IMC, sponsors a noncontributory defined contribution pension plan (the “Plan”). Effective July 1, 2014, IMC froze the Plan and ceased contributions and accruing benefits for non-union employees as of December 31, 2013. The Plan previously covered substantially all of its employees. These non-union employees now participate in IMC’s defined contribution plan. Contributions and cost are determined based on a target benefit formula and totaled $1,147,000 and $3,205,000 for the years ended December 31, 2016 and 2015, respectively. Participants vest based on a graduated timeline with 100% after six years of service. Forfeitures are used to reduce future contributions.

IMC, Community Services and Woodbury sponsor defined contribution plans that are available to substantially all of its employees, should they elect to participate. The plans match a portion of an employee’s contribution to a tax-sheltered annuity. The amount of expense related to the plans was $11,212,000 and $8,071,000 for the years ended December 31, 2016 and 2015, respectively.

The Network has a Supplemental Executive Retirement Plan (“SERP Plan”) that covers a group of management and physician employees designated by the Board of Directors. The contributions to the plan are determined annually. The Network recorded expenses of $1,233,000 and $1,248,000 associated with the SERP Plan for the years ended December 31, 2016 and 2015, respectively.

Defined Benefit Pension Plan

Woodbury has a noncontributory defined benefit pension plan (the “Plan”) covering all full-time employees who meet prescribed eligibility requirements. The Plan uses a December 31 measurement date. Effective January 1, 2010, the Plan was amended to eliminate service benefit accruals for Plan years after 2009 and to no longer permit new participants into the Plan. The Board of Trustees of Woodbury approved this action of freezing the Plan.
The following table summarizes information about the Plan at December 31, 2016 and 2015:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in benefit obligation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected benefit obligation at beginning of year</td>
<td>$57,546,000</td>
<td>$62,089,000</td>
</tr>
<tr>
<td>Interest cost</td>
<td>2,186,000</td>
<td>2,204,000</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>383,000</td>
<td>(2,533,000)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(4,148,000)</td>
<td>(4,214,000)</td>
</tr>
<tr>
<td>Projected benefit obligation at end of year</td>
<td>$55,967,000</td>
<td>$57,546,000</td>
</tr>
</tbody>
</table>

| Change in plan assets:         |             |             |
| Fair value of the plan assets at beginning of year | $50,700,000 | $53,379,000 |
| Actual return on plan assets   | 3,950,000   | 250,000     |
| Contributions                  | 2,500,000   | 1,881,000   |
| Benefits and administrative expenses paid | (4,833,000) | (4,810,000) |
| Fair value of the plan assets at end of year | 52,317,000  | 50,700,000  |
| Funded status                  | $ (3,650,000) | $ (6,846,000) |

| Accumulated benefit obligation | $55,967,000 | $57,546,000 |

| Amounts recognized in the balance sheet consist of, |             |             |
| Noncurrent liability                      | $3,650,000  | $6,846,000  |

| Amounts recognized in unrestricted net assets consist of, |             |             |
| Actuarial loss                                      | $26,943,000 | $27,529,000 |
Components of net periodic pension income:

<table>
<thead>
<tr>
<th>Component</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost</td>
<td>$2,186,000</td>
<td>$2,204,000</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(4,052,000)</td>
<td>(4,308,000)</td>
</tr>
<tr>
<td>Recognized actuarial loss</td>
<td>670,000</td>
<td>622,000</td>
</tr>
<tr>
<td>Recognized loss due to settlements</td>
<td>1,087,000</td>
<td>1,142,000</td>
</tr>
<tr>
<td><strong>Net periodic pension income</strong></td>
<td>(109,000)</td>
<td>(340,000)</td>
</tr>
</tbody>
</table>

Amounts recognized as changes in unrestricted net assets consist of:

<table>
<thead>
<tr>
<th>Component</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial (gain) loss</td>
<td>(586,000)</td>
<td>357,000</td>
</tr>
<tr>
<td><strong>Total recognized in net periodic pension income and changes in unrestricted net assets</strong></td>
<td>$ (695,000)</td>
<td>$ 17,000</td>
</tr>
</tbody>
</table>

During 2016 and 2015, lump sum benefit payments to Plan beneficiaries totaled $2,258,000 and $2,388,000, respectively, and are included in 2016 benefits paid. Since the lump sum payments/settlements exceeded the 2016 and 2015 interest costs of $2,186,000 and $2,204,000, respectively, Woodbury was required to recognize a loss of $1,087,000 and $1,142,000 which is included in 2016 and 2015 net periodic pension income, respectively.

The estimated net actuarial loss that is expected to be amortized from other changes in unrestricted net assets into net periodic pension cost for the year ending December 31, 2017, is $679,000.

**Assumptions**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average assumptions used to determine pension obligation, Discount rate</td>
<td>3.77 %</td>
<td>3.97 %</td>
</tr>
</tbody>
</table>

Weighted average assumptions used to determine net periodic pension income:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>3.97 %</td>
<td>3.65 %</td>
</tr>
<tr>
<td>Expected return on the plan assets</td>
<td>8.20 %</td>
<td>8.20 %</td>
</tr>
</tbody>
</table>

**Plan Assets**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Asset Allocation</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>40 %</td>
<td>25 %</td>
<td>37 %</td>
</tr>
<tr>
<td>Debt securities</td>
<td>45 %</td>
<td>62 %</td>
<td>50 %</td>
</tr>
<tr>
<td>Alternative investments</td>
<td>15 %</td>
<td>12 %</td>
<td>13 %</td>
</tr>
<tr>
<td>Other (cash equivalents)</td>
<td>-</td>
<td>1 %</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100 %</td>
<td>100 %</td>
<td></td>
</tr>
</tbody>
</table>
The expected long-term rate of return for the Plan’s total assets is based on the expected return of each of the above categories, weighted based on the target allocation for each class. Equity securities and alternative investments are expected to return 10% to 11% over the long-term, while debt securities are expected to return between 4% and 6%. The Investment Committee expects that the Plan’s asset manager will provide a modest (0.5% to 1.0% per annum) premium to the respective market benchmark indices.

The investment policy, as established by the Investment Committee, is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The asset allocation and the investment policy are reviewed on a semiannual basis, to determine if the policy should be changed.

Expected contributions to the Plan in 2016 are $1,500,000.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$3,822,000</td>
</tr>
<tr>
<td>2018</td>
<td>4,535,000</td>
</tr>
<tr>
<td>2019</td>
<td>4,233,000</td>
</tr>
<tr>
<td>2020</td>
<td>4,077,000</td>
</tr>
<tr>
<td>2021</td>
<td>4,081,000</td>
</tr>
<tr>
<td>2022-2026</td>
<td>19,285,000</td>
</tr>
</tbody>
</table>

The following fair value hierarchy table presents information about each major category of the Plan’s financial assets measured at fair value, on the Market approach valuation technique, on a recurring basis as of December 31, 2016 and 2015:

<table>
<thead>
<tr>
<th>December 31, 2016</th>
<th>Total Fair Value</th>
<th>Level 1</th>
<th>Level 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$500,000</td>
<td>$500,000</td>
<td>-</td>
</tr>
<tr>
<td>Government bonds</td>
<td>5,960,000</td>
<td>-</td>
<td>5,960,000</td>
</tr>
<tr>
<td>Mutual funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed income</td>
<td>26,444,000</td>
<td>26,444,000</td>
<td>-</td>
</tr>
<tr>
<td>Equity</td>
<td>13,162,000</td>
<td>13,162,000</td>
<td>-</td>
</tr>
<tr>
<td>Collective and private equity funds</td>
<td>6,251,000</td>
<td>-</td>
<td>6,251,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$52,317,000</td>
<td>$40,106,000</td>
<td>$12,211,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2015</th>
<th>Total Fair Value</th>
<th>Level 1</th>
<th>Level 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government bonds</td>
<td>4,692,000</td>
<td>-</td>
<td>4,692,000</td>
</tr>
<tr>
<td>Mutual funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed income</td>
<td>20,902,000</td>
<td>20,902,000</td>
<td>-</td>
</tr>
<tr>
<td>Equity</td>
<td>18,584,000</td>
<td>18,584,000</td>
<td>-</td>
</tr>
<tr>
<td>Collective and private equity funds</td>
<td>6,522,000</td>
<td>-</td>
<td>6,522,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$50,700,000</td>
<td>$39,486,000</td>
<td>$11,214,000</td>
</tr>
</tbody>
</table>
12. Commitments and Contingencies

Malpractice Litigation and Estimated Malpractice Cost

The Network currently maintains claims-made malpractice insurance coverage and occurrence-based reinsurance for excess coverage and has estimated losses for liabilities relating to unasserted malpractice claims incurred but not reported to its malpractice insurance company. This estimate for unreported incidents and losses is based on actuarial estimates which use its own past experience and industry experience data and the unpaid deductibles on open claims. Additionally, under the provisions of the Network’s insurance program, the Network was responsible for deductibles up to $150,000 per claim and $750,000 in the annual aggregate for 2005, 2004, and 2003; for 2002 the deductibles were $100,000 per claim and $500,000 in the annual aggregate. The Network records actuarial estimates for this deductible component of its medical malpractice and comprehensive general liability insurance programs. Effective November 1, 2010, the Network’s primary malpractice insurance coverage is being provided through Juno, its wholly-owned captive insurance company. The total amount recorded for malpractice insurance program liabilities is $23,119,000 and $26,893,000 at December 31, 2016 and 2015, respectively, and is included in other liabilities in the consolidated balance sheet. The Network has recorded a receivable and related claim liability, for anticipated insurance recoveries of $4,419,000 and $9,111,000 at December 31, 2016 and 2015, respectively.

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Network’s consolidated balance sheet at net realizable value.

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

Estimated Third-Party Settlement Reserves

The Network currently maintains estimated third party settlement reserves related to governmental and non-governmental audits. The Network’s reserves totaled $88,325,000 and $78,585,000 at December 31, 2016 and 2015, respectively, of which $35,851,000 and $29,565,000 are included in other long-term liabilities in the consolidated balance sheet as of December 31, 2016 and 2015, respectively.
13. Investments in Unconsolidated Affiliates

Sprague Dialysis, LLC

Sprague Dialysis, LLC (“Sprague”) is a partnership that was established in December 2016 between IMC and an independent healthcare provider to provide outpatient dialysis treatments in New Jersey. IMC acquired a 30% interest in Sprague. In conjunction with the formation of Sprague, the Kidney Center of Vineland (“KCV”) and the Kidney Center of Millville (“KCM”) also acquired a 30% interest in Sprague which they transferred to IMC upon closing of the transaction. Under the Contribution and Purchase Agreement (“IMC Contribution and Purchase Agreement”) that IMC entered into related to the formation of Sprague, IMC contributed assets associated with its Kidney Center at Bridgeton (“Bridgeton Center”) and recognized a gain on sale of Bridgeton Assets of $8,057,000 which is included in nonoperating income in the accompanying consolidated statement of operations and changes in net assets. IMC’s investment in Sprague is recorded under the equity method of accounting and totaled $9,208,000 at December 31, 2016.

The Kidney Center of Vineland

KCV is a partnership organized to provide outpatient dialysis treatments in Vineland, New Jersey. IMC owned 50% of KCV and had guaranteed 50% of a KCV bank loan that was paid off in 2013. Income from KCV of $4,761,000 and $621,000 for the years ended December 31, 2016 and 2015, respectively, is recorded as other revenue in the consolidated statements of operations and changes in net assets. During 2016 and 2015, IMC received distributions of earnings, net of IMC contributions, in the amount of $4,771,000 and $399,000, respectively. In conjunction with the IMC Contribution and Purchase Agreement discussed above, KCV entered into a separate Contribution and Purchase agreement related to the formation of Sprague and contributed assets associated with its Kidney Center at Vineland (“Vineland Center”). KCV recognized a gain on sale of Vineland Center assets of approximately $8,000,000 and acquired a 30% interest in Sprague, which it transferred to IMC upon closing of the transaction. IMC’s investment in KCV is recorded under the equity method of accounting and totaled $1,203,000 and $1,213,000 at December 31, 2016 and 2015, respectively.

The Kidney Center of Millville

KCM is a partnership which began operations in 2010 and is organized to provide outpatient dialysis treatments in Millville, New Jersey. IMC owned 50% of KCM and has guaranteed 50% of KCM bank loans. The bank loan was paid off as a result of the formation of Sprague. During 2010, IMC made an initial capital contribution to KCM of $291,000. Income from KCM of $1,236,000 and $15,000 for the years ended December 31, 2016 and 2015, respectively, is recorded as other revenue in the consolidated statements of operations and changes in net assets. During 2016 and 2015, IMC received distributions of earnings, net of IMC contributions in the amount of $1,418,000 and $11,000, respectively. In conjunction with the IMC Contribution and Purchase Agreement discussed above, KCM entered into a separate Contribution and Purchase agreement related to the formation of Sprague and contributed assets associated with its Kidney Center at Millville (“Millville Center”). KCM recognized a gain on sale of Millville Center assets of approximately $2,400,000 and acquired a 30% interest in Sprague, which it transferred to IMC upon closing of the transaction. IMC’s investment in KCM is recorded under the equity method of accounting and totaled $(252,000) and $(70,000) at December 31, 2016 and 2015, respectively.
The Cooper Bone & Joint at Inspira Woodbury, P.C.

During 2014, Woodbury and an independent health system formed the Cooper Bone & Joint at Inspira Woodbury, P.C. ("CBJ"). CBJ is a partnership organized to provide orthopedic services to the community. Woodbury owns 50% of CBJ. Woodbury made an initial investment in CBJ of $1,371,000 in 2015 and an additional investment of $1,014,000 in 2016. The losses from CBJ of $1,247,000 and $1,111,000 for the years ended December 31, 2016 and 2015, respectively, and are included in other revenue in the consolidated statement of operations and changes in net assets. Woodbury’s investment in CBJ is recorded under the equity method of accounting and totaled $378,000 and $611,000 at December 31, 2016 and 2015, respectively.

Tri-County Home and Hospice Care, LLC

During 2016, HCHC, IMC and an independent healthcare provider formed Tri-County Home and Hospice Care, LLC ("Tri-County"). Tri-County is a partnership organized to own and operate home health care and hospice agencies in Gloucester, Salem and Cumberland counties. HCHC and IMC own 27% and 8%, respectively, of Tri-County. HCHC and IMC made initial investments in Tri-County of $3,080,000 and $913,000, respectively. HCHC and IMC recorded income from Tri-County of $221,000 and $65,000, respectively, for the year ended December 31, 2016, which is included in other revenue in the consolidated statement of operations and changes in net assets. HCHC and IMC’s investments in Tri-County are recorded under the equity method of accounting and totaled $3,301,000 and $978,000 for HCHC and IMC, respectively, at December 31, 2016.

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

14. Concentrations of Credit Risk

The Network grants credit without collateral to its patients who are insured under third-party payor agreements. The composition of accounts receivable from payors is as follows:

<table>
<thead>
<tr>
<th>Payor</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare and Medicaid</td>
<td>55 %</td>
<td>54 %</td>
</tr>
<tr>
<td>Commercial insurance</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Self-pay</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100 %</td>
<td>100 %</td>
</tr>
</tbody>
</table>

The Network invests its operating cash and cash equivalents with several local banks on a short-term basis. The amounts on deposit exceed the federal insurance deposit limits. In addition, cash and cash equivalents related to assets limited as to use by Board of Directors are invested in certain mutual funds which invest in highly liquid U.S. Government and agency obligations.
15. Functional Expenses

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care services</td>
<td>$ 606,946,000</td>
<td>$ 594,513,000</td>
</tr>
<tr>
<td>General and administrative services</td>
<td>$ 67,426,000</td>
<td>$ 66,037,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 674,372,000</strong></td>
<td><strong>$ 660,550,000</strong></td>
</tr>
</tbody>
</table>

16. Events Subsequent to December 31, 2016

Subsequent events have been evaluated through April 5, 2017, which is the date the consolidated financial statements were issued.
Inspira Health Network, Inc.
Consolidating Schedule, Balance Sheet
December 31, 2016
(in thousands)
Inspira
Inspira
Medical
Center
Woodbury,
Inc.

Inspira
Medical
Centers,
Inc.

Inspira
Health
Network
Foundation
Cumberland/
Salem, Inc.

Inspira
Health
Network,
Inc.

Obligated Group
Eliminations
Combined

Inspira
Health
Network
Urgent
Care, P.C.

Oak and
Main
Surgicenter,
LLC

Inspira
Health
Network
Medical
Group,
P.C.

Inspira
Health
Management
Corporation

Inspira
Health
Network
LIFE,
Inc.

Inspira
HomeCare &
HospiceCare,
Inc.

Inspira
Deptford
Healthpark,
LLC

Health
Network
Foundation
Gloucester
County,
Inc.

Juno

Red Bank
Development
Corporation

Inspira
Care
Connect,
LLC

Combined
Tri-County

Inspira
Health
Partners,
LLC

Consolidation
Eliminations
Consolidated

Assets
Current Assets
Cash
Assets limited as to use –
externally designated
Patient accounts receivable, ne
Supplies
Prepaid expenses and other current asset
Due from affiliated organizations

$ 162,356

Total current assets
Assets Limited as to Use
Internally designated by Board of Director
Externally designated by dono
Externally designated unde
bond indenture agreements
Under interest rate swap agreement

-

$ 4,008

5,699
46,857
4,646
14,704
74,381

$

4,296
1,737
21,010
1,246
4,983
9,102

$

(39,242)

$

166,652
7,436
67,867
5,892
19,687
44,241

$

908
182
74

$

379
53
586

$

1,690
1,319
191
10

$

378
122
41
65

$

3,900
733
271

$

5,279
1,803
2,383
23

$

2,377
70
-

$

4,000
1,571
31
-

$

-

1,609
-

$

623
42
-

$

361
222
332
18
-

$

891
1,610
1,492

$

-

$

70
2
179

$

(7,635)
(46,941)

$

191,516
7,436
72,904
6,224
19,017
-

308,643

42,374

(39,242)

311,775

1,164

1,018

3,210

606

4,904

9,488

2,447

5,602

-

5,617

665

933

3,993

-

251

(54,576)

297,097

293,668
-

106,976
-

-

400,644
-

39,887
-

21,117
435

-

-

-

-

-

-

-

42,360
-

911
688

-

-

-

-

-

504,919
1,123

-

9,150

-

9,150

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

9,150

293,668

116,126

-

409,794

39,887

21,552

-

-

-

-

-

-

-

42,360

1,599

-

-

-

-

-

515,192

Investments in Subsidiaries

-

-

-

-

27,140

-

-

-

-

-

-

-

-

-

-

-

-

-

-

(27,140)

-

Investments in Partnerships

-

-

-

-

15

-

-

-

-

-

-

-

-

-

-

-

-

-

-

(15)

220,287

124,888

-

345,175

4,180

887

6,243

188

1,968

1,369

-

551

4,078

-

2

158

121

-

-

10,910
13,827
1,511

378
3,413
3,739

-

11,288
17,240
5,250

-

1,164
-

-

-

-

394

3,301
-

-

-

-

-

721
-

-

-

-

33
(12,821)
(1,755)

1,164
15,343
4,419
3,889

26,248

7,530

-

33,778

-

1,164

-

-

-

394

3,301

-

-

-

-

721

-

-

-

(14,543)

24,815

4,416

3,845

-

8,261

-

740

-

-

-

-

-

-

-

-

176

-

-

-

-

-

9,177

Property and Equipment, Net
Other Assets
Pledges receivable, ne
Investment in unconsolidated affiliate
Insurance recoveries receivable
Other assets

Beneficial Interest in Perpetual
and Temporary Trusts
Beneficial Interest in Inspira Health
NetworkFoundation
Cumberland/Salem, Inc.
Total assets

1,195

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

364,920

-

1,195

-

-

$ 854,457

$

294,763

$

(39,242)

$ 1,109,978

$

72,386

$

25,361

$

9,453

$

794

$

6,872

$

11,251

$

5,748

$

6,153

$

4,078

$ 47,977

$

2,442

$

1,812

$

4,114

$

-

$

251

$

(97,469)

(1,195)
$

1,211,201

-

$

$

22,088
-

$

-

$

$

955
-

$

179
-

$

1,086
132

$

173
-

$

242
-

$

4,384
742

$

109
-

$

4,325
-

$

-

$ 6,761
-

$

42
-

$

646
-

$

410
140

$

-

$

70
-

$

(7,635)
-

$

88,630
14,005

-

-

Liabilities and Net Assets
Current Liabilities
Accounts payable and accrued expense
Accrued salaries and payroll taxe
Accrued vacation and
other employee benefits
Accrued interest payable
Due to affiliated organizations
Estimated settlements due to
third-party payors
Current installments of long-term deb
Total current liabilities
Due to Affiliated Organizations
Accrued Retirement Benefits
Interest Rate Swap Agreements
Other Long-Term Liabilities
Long-Term Debt

54,795
12,991
17,746
3,494
-

54
1,365
39,242

(39,242)

76,883
12,991
17,800
4,859
-

3,321

-

-

-

-

-

3,137

9,696

153

143

1,312

525

306

(18,593)

17,800
4,859
-

34,991
5,339

15,445
1,489

-

50,436
6,828

-

-

-

657
-

127

941
-

8
-

432
-

-

-

-

228

-

-

-

(125)

52,474
7,058

129,356

79,683

(39,242)

169,797

4,276

179

1,218

830

369

6,067

3,254

14,453

-

6,761

195

1,017

1,862

525

376

(26,353)

184,826

483

-

-

483

-

639

9,578

228

5,095

8,247

-

-

4,078

-

-

-

-

-

-

(28,348)

3,216

3,650

-

6,866

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

6,866

-

9,150

-

9,150

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

-

9,150

44,101

15,793

-

59,894

-

-

-

-

-

-

-

-

-

12,821

-

-

-

-

-

(12,821)

59,894

150,452

44,967

-

195,419

14,278

-

-

-

239

-

-

-

-

-

-

1,698

-

-

-

(1,630)

210,004

327,608

153,243

(39,242)

441,609

18,554

818

10,796

1,058

5,703

14,314

3,254

14,453

4,078

19,582

195

2,715

1,862

525

376

(69,152)

470,740

520,950
3,491
2,408

137,671
4
3,845

-

658,621
3,495
6,253

53,832
-

21,555
2,447
541

(1,343)
-

(264)
-

1,169
-

(3,063)
-

2,494
-

(8,300)
-

-

28,395
-

1,002
1,069
176

(903)
-

2,252
-

(525)
-

(125)
-

(26,976)
(1,341)
-

727,821
5,670
6,970

Total net assets

526,849

141,520

-

668,369

53,832

24,543

(1,343)

(264)

1,169

(3,063)

2,494

(8,300)

-

28,395

2,247

(903)

2,252

(525)

(125)

(28,317)

740,461

Total liabilities
and net assets

$ 854,457

(39,242)

$ 1,109,978

4,078

$ 47,977

Total liabilities
Net Assets
Unrestricted
Temporarily restricted
Permanently restricted

$

294,763

$

$

72,386

$

25,361

$

9,453

$

794

$

6,872

$

11,251

35

$

5,748

$

6,153

$

$

2,442

$

1,812

$

4,114

$

-

$

251

$

(97,469)

$

1,211,201


## Unrestricted Net Assets

### Revenue

<table>
<thead>
<tr>
<th>Description</th>
<th>Revenue</th>
<th>Other</th>
<th>Gain</th>
<th>Other</th>
<th>Net Assets Released</th>
<th>Operating Income (Loss)</th>
<th>Other Changes in Unrestricted Net Assets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>472,737</td>
<td>201,058</td>
<td>(626)</td>
<td>10,612</td>
<td>3,909</td>
<td>933</td>
<td>102,617</td>
</tr>
<tr>
<td>Physician fees</td>
<td>21,318</td>
<td>6,230</td>
<td></td>
<td></td>
<td></td>
<td>29,245</td>
<td></td>
</tr>
<tr>
<td>Supplies and other expenses</td>
<td>125,746</td>
<td>54,878</td>
<td>(626)</td>
<td>179,998</td>
<td>204,193</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>27,025</td>
<td>11,976</td>
<td></td>
<td>39,001</td>
<td>40,919</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td>411,279</td>
<td>184,076</td>
<td>(626)</td>
<td>594,729</td>
<td>674,372</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>61,458</td>
<td>16,982</td>
<td></td>
<td>78,440</td>
<td>69,423</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>6,049</td>
<td>(108)</td>
<td></td>
<td>5,941</td>
<td>9,629</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in value of interest rate swap agreements</td>
<td>-</td>
<td>937</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on sale of property and equipment</td>
<td>8,057</td>
<td>-</td>
<td></td>
<td></td>
<td>8,057</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess (deficiency) of revenue and gains over expenses</td>
<td>79,874</td>
<td>17,770</td>
<td></td>
<td>93,644</td>
<td>102,617</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other changes in unrestricted net assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(15,741)</td>
<td>3,066</td>
<td></td>
<td>12,675</td>
<td>102,617</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension liability adjustment</td>
<td>-</td>
<td>586</td>
<td></td>
<td>586</td>
<td>586</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in unrealized gains and losses on investments</td>
<td>8,786</td>
<td>3,106</td>
<td></td>
<td>11,872</td>
<td>13,603</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets released from restriction for property and equipment</td>
<td>51</td>
<td>(105)</td>
<td></td>
<td>395</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in unrestricted net assets</td>
<td>88,992</td>
<td>18,366</td>
<td></td>
<td>103,358</td>
<td>120,617</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Temporarily Restricted Net Assets

| Description                                    | 668,369   | 53,832 | 607  | 28,395 | 2,247              | 134                    | 766                                      |
| Contributions                                  | 45        | 11     | 205  |        |                    |                        |                                          |
| Change in beneficial interest in temporary trust | -        | 45     |      |        |                    |                        |                                          |
| Other                                          | (12)      | (112)  |      | 150    |                    |                        |                                          |

### Permanently Restricted Net Assets

| Description                                    | 28,317   | 525    | 28,317| 525     | 125                | 134                     | 178                                      |
| Contributions                                  | 55        | 64     | 112   |        |                    |                        |                                          |
| Change in beneficial interest in perpetual trusts | -        |        |       |        |                    |                        |                                          |
| Other                                          | 55        | 64     | 112   |        |                    |                        |                                          |

### Net Assets (Deficit), Beginning of Year

| Description                                    | 740,461   |        |      |        |                    |                        |                                          |

### Net Assets (Deficit), End of Year

| Description                                    | 526,849   | 414,020|      |        |                    |                        |                                          |

### Notes
- The above table includes details of net assets released from restriction for property and equipment, gain on sale of property and equipment, and other changes in unrestricted net assets.
- The table also shows changes in cash and cash equivalents, net change in unrestricted net assets, and net change in temporarily restricted net assets.
- The report includes detailed financial information for the Inspira Health Network, Inc. for the year ended December 31, 2016.
### Consolidating Schedule, Balance Sheet
December 31, 2015 (in thousands)

| Assets | Consolidated Totals | Reconciling/Eliminating Entries | Totals Before Eliminating | Reconciling/ Eliminating Entries | Totals After Eliminating | Inspira Health | Inspira Medical Clinics | Inspira Health Network | Inspira Health Network Cumberland/Salem, Inc. | Inspira Health Management Corporation | Inspira Health Network Medical Group P.C. | Inspira Medical Care & HospiceCare, Inc. | Inspira Health Network LPC, Inc. | Inspira Health Network Woodbury, Inc. | Inspira Health Network Gloucester County, Inc. | Reimbursed Development Corporation | Combined Total | Inspira Care Connect, LLC | Inspira Care Partners, LLC |
|--------|---------------------|---------------------------------|---------------------------|---------------------------------|---------------------------|-----------------|------------------------|----------------------|-----------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------|-----------------|-----------------|
| Cash   | $1,630,836          | $-                             | $1,630,836                | $223                            | $144,660                 | $1,486          | $337                   | $3,286               | $2,242                      | $89                            | $4,826                          | $457                            | $456                            | $578                | -               | $177            |
| Notes receivable, net | 78,257          | -                             | 78,257                    | -                               | -                         | -               | -                      | -                   | -                           | -                               | -                               | -                               | -                               | -                   | -               | -               |
| Supplies | 5,763            | -                             | 5,763                      | 4,277                           | -                         | -               | -                      | -                   | -                           | -                               | -                               | -                               | -                               | -                   | -               | -               |
| Prepaid expenses and other current assets | 19,112          | (15,812)                       | 3,298                      | 241                             | 15,009                    | 31               | 22                     | 41                   | 503                         | 3,237                          | -                               | 35                 | 29               | 52,598            | 7               | -               | 756             |
| Due from affiliated organizations | 467,720          | 61,720                         | 406,000                    | 448                             | 2,516                     | 453               | 6,786                  | 6,682                | 4,327                       | 5,417                          | 42,226                          | 463                | 1,207             | 1,467            | -               | 140             |
| **Total assets** | $1,118,569          | (104,272)                    | $1,222,841                | $59,044                         | $800,165                 | $24,011         | $3,865                | $35,937          | $267,198                      | $2,070                          | $2,346                          | $1,810                          | -                               | 190               | -               | -               |

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$79,826</td>
<td>(10,143)</td>
<td>$69,683</td>
<td>$1,209</td>
<td>$30,793</td>
<td>$136</td>
<td>977</td>
<td>105</td>
<td>308</td>
<td>2,273</td>
<td>1,046</td>
<td>2,063</td>
<td>$10,141</td>
<td>$17,985</td>
<td>$28</td>
<td>$597</td>
</tr>
<tr>
<td>Accrued salaries and payroll taxes</td>
<td>17,400</td>
<td>-</td>
<td>17,400</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accrued vacation and other employee benefits</td>
<td>17,347</td>
<td>-</td>
<td>17,347</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>4,372</td>
<td>-</td>
<td>4,372</td>
<td>4,372</td>
<td>-</td>
<td>-</td>
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<td>-</td>
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</tr>
<tr>
<td>Due to affiliated organizations</td>
<td>4,930</td>
<td>(4,531)</td>
<td>400</td>
<td>4,930</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>517</td>
<td>8,057</td>
<td>33,264</td>
<td>39</td>
<td>124</td>
<td>154</td>
</tr>
<tr>
<td>Estimated settlements due to third-party payors</td>
<td>49,952</td>
<td>-</td>
<td>49,952</td>
<td>34,843</td>
<td>15,109</td>
<td>531</td>
<td>-</td>
<td>-</td>
<td>926</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Current installments of long-term debt</td>
<td>5,895</td>
<td>(299)</td>
<td>5,596</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>517</td>
<td>6,057</td>
<td>33,264</td>
<td>39</td>
<td>124</td>
<td>154</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$114,569</td>
<td>(194,272)</td>
<td>$229,041</td>
<td>$24,011</td>
<td>$2,016</td>
<td>1,214</td>
<td>712</td>
<td>15,109</td>
<td>12,177</td>
<td>10,141</td>
<td>68,039</td>
<td>67</td>
<td>1,269</td>
<td>446</td>
<td>124</td>
<td></td>
</tr>
</tbody>
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</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>$1,118,569</td>
<td>(104,272)</td>
<td>$1,222,841</td>
<td>$59,044</td>
<td>$800,165</td>
<td>$24,011</td>
<td>$3,865</td>
<td>$35,937</td>
<td>$267,198</td>
<td>$2,070</td>
<td>$2,346</td>
<td>$1,810</td>
<td>-</td>
<td>190</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$114,569</td>
<td>(194,272)</td>
<td>$229,041</td>
<td>$24,011</td>
<td>$2,016</td>
<td>1,214</td>
<td>712</td>
<td>12,177</td>
<td>10,141</td>
<td>68,039</td>
<td>67</td>
<td>1,269</td>
<td>446</td>
<td>124</td>
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</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$825,204</td>
<td>(17,001)</td>
<td>$808,203</td>
<td>$34,995</td>
<td>$853,204</td>
<td>$24,011</td>
<td>$3,865</td>
<td>$35,937</td>
<td>$267,198</td>
<td>$2,070</td>
<td>$2,346</td>
<td>$1,810</td>
<td>-</td>
<td>190</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>6,127</td>
<td>(1,475)</td>
<td>4,652</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>6,760</td>
<td>-</td>
<td>6,760</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$838,984</td>
<td>(16,475)</td>
<td>$822,509</td>
<td>$34,995</td>
<td>$853,204</td>
<td>$24,011</td>
<td>$3,865</td>
<td>$35,937</td>
<td>$267,198</td>
<td>$2,070</td>
<td>$2,346</td>
<td>$1,810</td>
<td>-</td>
<td>190</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
## Consolidated Schedule of Operations and Changes in Net Assets

**Year Ended December 31, 2015**

(Numbers in thousands)

### Unrestricted Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Consolidated</th>
<th>Reclassifying/ Eliminating</th>
<th>Totals Before Reclassifying</th>
<th>Inspira Health Network, Inc.</th>
<th>Inspira Medical Centers, Inc.</th>
<th>Inspira Medical Network Foundation, Charged Sales, Inc.</th>
<th>Inspira Health Network, Urgent Care, F.O.</th>
<th>Oak &amp; Main, Management Corporation</th>
<th>Inspira Health Network Group F.O.</th>
<th>Inspira HomeCare &amp; HospiceCare Network</th>
<th>Inspira Health Network Life F.O.</th>
<th>Inspira Medical Center, Woodbury, NJ</th>
<th>Network Foundation Gloucester County, NJ</th>
<th>Red Bank Development Corporation</th>
<th>Combined Total</th>
<th>Inspira Care Connect, LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>672,361</td>
<td>(216)</td>
<td>672,577</td>
<td>$ 430,863</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>28,257</td>
<td>(13,673)</td>
<td>40,930</td>
<td>18,888</td>
<td>19,570</td>
<td>1,820</td>
<td>20</td>
<td>4,230</td>
<td>4,210</td>
<td>185</td>
<td>2,308</td>
<td>1,043</td>
<td>418</td>
<td>628</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>700,718</td>
<td>(13,287)</td>
<td>714,005</td>
<td>1,888</td>
<td>446,253</td>
<td>1,820</td>
<td>20</td>
<td>4,220</td>
<td>4,210</td>
<td>185</td>
<td>2,308</td>
<td>1,043</td>
<td>418</td>
<td>628</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td>$ 5,356</td>
<td>(38)</td>
<td>5,394</td>
<td>813</td>
<td>52,006</td>
<td>2,040</td>
<td>81</td>
<td>181</td>
<td>195</td>
<td>5,388</td>
<td>4,886</td>
<td>1,043</td>
<td>418</td>
<td>628</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Temporarily Restricted Net Assets

| Description                        | Consolidated | Reclassifying/ Eliminating | Totals Before Reclassifying | Inspira Health Network, Inc. | Inspira Medical Centers, Inc. | Inspira Medical Network Foundation, Charged Sales, Inc. | Inspira Health Network, Urgent Care, F.O. | Oak & Main, Management Corporation | Inspira Health Network Group F.O. | Inspira HomeCare & HospiceCare Network | Inspira Health Network Life F.O. | Inspira Medical Center, Woodbury, NJ | Network Foundation Gloucester County, NJ | Red Bank Development Corporation | Combined Total | Inspira Care Connect, LLC |
|-----------------------------------|--------------|-----------------------------|-----------------------------|-------------------------------|-----------------------------|----------------------------------------------------------|------------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|-------------------------------|                                 |                                        |                                |                |                |
| **Contributions**                  |              |                             |                             |                               |                             |                                                          |                                         |                                     |                                   |                                     |                               |                                 |                                        |                                |                |                |
| Total                              | 243          |                             | 243                         | 101                           | 101                         |                                                          |                                         |                                     |                                   |                                     |                               |                                 |                                        |                                |                |                |
| **Change in beneficial interest in temporary trust** | (101) | (101)                      | 101                         | 101                           | 101                         |                                                          |                                         |                                     |                                   |                                     |                               |                                 |                                        |                                |                |                |
| **Net assets released from restriction** | (224) | (224)                      | (224)                       | (224)                         | (224)                      |                                                          |                                         |                                     |                                   |                                     |                               |                                 |                                        |                                |                |                |
| **Increase (decrease) in temporarily restricted net assets** | 36,078 | (1,872)                    | 35,206                      | 5,065                         | 30,814                      | 10,540                                                   | 4,700                               | (2,303)                            | 3,555                             | (2,272)                                | (2,914)                      | 301                              | (9,608)                                         |                                |                |                |

### Permanently Restricted Net Assets

| Description                        | Consolidated | Reclassifying/ Eliminating | Totals Before Reclassifying | Inspira Health Network, Inc. | Inspira Medical Centers, Inc. | Inspira Medical Network Foundation, Charged Sales, Inc. | Inspira Health Network, Urgent Care, F.O. | Oak & Main, Management Corporation | Inspira Health Network Group F.O. | Inspira HomeCare & HospiceCare Network | Inspira Health Network Life F.O. | Inspira Medical Center, Woodbury, NJ | Network Foundation Gloucester County, NJ | Red Bank Development Corporation | Combined Total | Inspira Care Connect, LLC |
|-----------------------------------|--------------|-----------------------------|-----------------------------|-------------------------------|-----------------------------|----------------------------------------------------------|------------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|-------------------------------|                                 |                                        |                                |                |                |
| **Contributions**                  |              |                             |                             |                               |                             |                                                          |                                         |                                     |                                   |                                     |                               |                                 |                                        |                                |                |                |
| Total                              | 17           |                             | 17                          | 17                            | 17                          |                                                          |                                         |                                     |                                   |                                     |                               |                                 |                                        |                                |                |                |
| **Change in beneficial interest in perpetual trusts** | (478) | (478)                      | (478)                       | (478)                         | (478)                      |                                                          |                                         |                                     |                                   |                                     |                               |                                 |                                        |                                |                |                |
| **Increase (decrease) in permanently restricted net assets** | (462) | 222                        | (244)                       | (244)                         | (244)                      |                                                          |                                         |                                     |                                   |                                     |                               |                                 |                                        |                                |                |                |

### Net Assets (Deficit), Beginning of Year

598,202 | (12,647) | 610,849 | 38,268 | 421,222 | 23,917 | (413) | (816) | (873) | (861) | 2,871 | (3,349) | 8,278 | 128,376 | 1,351 | (1,047) | (378) |

### Net Assets (Deficit), End of Year

626,864 | (18,476) | 655,340 | 38,705 | 457,064 | 23,658 | (1,086) | (482) | 1,471 | (1,739) | 2,951 | (8,262) | (13,881) | 123,186 | 2,003 | (723) | 1,970 | (124) |
APPENDIX C

Definitions and Summaries of
Certain Provisions of the Loan Agreement, the Resolutions and the Master Indenture
APPENDIX C

DEFINITIONS AND SUMMARIES OF CERTAIN PROVISIONS OF THE
THE LOAN AGREEMENT, THE RESOLUTIONS AND THE MASTER INDENTURE

Brief descriptions of the Loan Agreement, the Resolutions and the Master Indenture are included hereafter in this Appendix C. Such descriptions do not purport to be comprehensive or definitive; all references herein to the Series 2017A Note, the Loan Agreement, the Resolutions and the Master Indenture are qualified in their entirety by reference to each such document, copies of which are available for review prior to the issuance and delivery of the Series 2017A Bonds at the offices of the Underwriter and thereafter at the offices of the Master Trustee. Capitalized terms used herein and not otherwise defined have the meaning given to such terms in this Official Statement, the Loan Agreement, the Resolutions or the Master Indenture, respectively.

DEFINITIONS OF CERTAIN TERMS

The following is a summary of the definitions of certain terms used in the Loan Agreement, the Resolutions and the Master Indenture.

“Accounts Receivable” means, with respect to one or more Members of the Obligated Group, accounts receivable as determined in accordance with GAAP.

“Acquisition Contract” means the contract or contracts between the Borrower and the counterparty(ies) thereto for the acquisition of the equipment to be acquired as part of the Project or any discrete portion thereof.

“Act” means the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, c.29 (N.J.S.A. 26:2I-1 et seq.), as the same may be amended from time to time.

“Additional Bonds” means Bonds, other than the Series 2017A Bonds, issued by the Authority pursuant to the Resolutions.

“Ancillary Obligation” means any Obligation expressly identified as an Ancillary Obligation in such Obligation, a Supplemental Indenture or an Officer’s Certificate delivered to the Master Trustee, as being entered into in order to evidence or secure financial obligations of a Member in an agreement that is ancillary to any direct Indebtedness, such as a reimbursement agreement, liquidity agreement, standby bond purchase agreement, bond insurance or credit enhancement agreement, continuing covenants agreement, bondholder agreement, rate maintenance agreement or similar agreement, unless and until and to the extent any such agreement constitutes a direct obligation of a Member to repay money borrowed, credit extended or the equivalent thereof, at which time such Obligation shall be deemed a Debt Obligation.

“Annual Administrative Fee” means the annual fee for the general administrative services of the Authority with respect to the Series 2017A Bonds. The Annual Administrative Fee shall be subject to change at the discretion of the Authority.

“Assets” means, with respect to one or more members of the Obligated Group, total assets as determined in accordance with GAAP.

“Audited Financial Statements” means the audited consolidated and consolidating financial statements of the Members of the Obligated Group prepared in accordance with GAAP, which provide a breakout of the revenues and expenses and a balance sheet for each Member of the Obligated Group sufficient to evaluate compliance with the various financial covenants contained in the Loan Agreement.
and the Master Indenture, in reasonable detail and audited by an independent firm of certified public accountants.

“Authority” means the New Jersey Health Care Facilities Financing Authority, a public body corporate and politic and a political subdivision of the State of New Jersey.

“Authorized Officer” means (i) in the case of the Authority, the Chairman, Vice-Chairman, Secretary, Assistant Secretary, Treasurer, Assistant Treasurer or Executive Director or Deputy Executive Director and when used with reference to any act or document also means any other person authorized by the by-laws or any resolution of the Authority to perform such act or execute such document, (ii) in the case of the Borrower, any person designated as an Authorized Officer of the Borrower by a certificate of the Borrower executed by the Borrower and filed with the Trustee and the Authority, or authorized by the by-laws or any resolution of the Borrower to perform any act or execute any document, and (iii) in the case of the Trustee, the President, any Vice-President, any Corporate Trust Officer, or any Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to the by-laws or any resolution of the governing body of the Trustee.

“Balloon Indebtedness” means Indebtedness twenty-five percent (25%) or more of the original principal amount of which matures in the same twelve (12) month period, unless such principal amount is required to be repaid by mandatory sinking fund redemption prior to its maturity date or other similar contractual arrangement governing the amortization of such Indebtedness.

“Board” means, when used in connection with any Obligated Issuer, its board of directors, board of trustees, board of governors or other board or group of individuals in which all of the powers of such Obligated Issuer for the management of its corporate assets are vested.

“Bond Counsel” means a nationally recognized firm of attorneys having experience in the field of municipal finance that is satisfactory to an Authorized Officer of the Authority.

“Bondholder” or “Holder of Bonds” or “Holder” means the registered holder of any Bond issued pursuant to the Resolutions.

“Bond Index” means, at the option of the Obligated Group Representative as set forth in an Officer’s Certificate, either (i) the 30-year Revenue Bond Index published most recently by The Bond Buyer, or a comparable index if such Revenue Bond Index is not so published, (ii) the SIFMA Index, or (iii) such other interest rate or interest index as may be certified in writing to the Master Trustee as appropriate to the situation by the Obligated Group Representative.

“Bond Purchase Contract” means the bond purchase contract for the Series 2017A Bonds executed by an Authorized Officer of the Authority and the Underwriter on the date of sale of the Series 2017A Bonds.

“Bonds” means the Series 2017A Bonds, together with any Additional Bonds.

“Bond Year” means a period of twelve (12) consecutive months beginning on July 1 in any calendar year and ending on June 30 of the succeeding calendar year; provided, however, that the first Bond Year for the Series 2017A Bonds shall commence on the date of initial issuance and delivery of the Series 2017A Bonds and end on the next succeeding June 30, and provided further that, when used in the context of the Rebate Amount imposed under Section 148(f) of the Code, “Bond Year” shall have the meaning set forth in the regulations under the Code.
“Book Value” means, with respect to Property of any Obligated Issuer, the value of such Property included in the Obligated Issuer’s most recent Audited Financial Statements under the heading “net property, plant and equipment”, or any similar heading included in such financial statements.

“Borrower” means, collectively, the Institutions and their respective successors and assigns.

“Capital Addition” means any addition, improvement or extraordinary repair to or replacement of any Property of an Obligated Issuer, whether real, personal or mixed, the cost of which is properly capitalized under GAAP.

“Capitalized Interest” means amounts irrevocably deposited in escrow to pay interest on Long Term Indebtedness or Related Bonds and interest earned on amounts irrevocably deposited in escrow to the extent such interest earned is required to be applied to pay interest on Long Term Indebtedness or Related Bonds.

“Capitalized Interest Fund” means the fund, if any, so designated and established pursuant to the Certificate and under the heading entitled “SUMMARY OF THE RESOLUTIONS – Establishment of Funds and Accounts” herein.

“Capitalized Lease” means any lease of real or personal property which, in accordance with GAAP, is required to be capitalized on the balance sheet of the lessee; provided, however, that no lease between a Member of the Obligated Group and another Member of the Obligated Group shall be considered a Capitalized Lease.

“Certificate” means a certificate executed by an Authorized Officer of the Authority simultaneously with the execution of the Bond Purchase Contract and which is deemed to be a part of the Series Resolution.

“Change in Use” means a change in use of a Financed Facility whereby the resulting use would result in the Series 2017A Bonds meeting the “private business use test” set forth in Section 141(b) of the Code, as modified by Treasury Regulation 1.145-2(b) to apply to “qualified 501(c)(3) bonds” (as such term is defined in Section 145(a) of the Code) which, in the opinion of Bond Counsel would, unless a remedial action has been taken, cause the interest on the Series 2017A Bonds to be includable in gross income for Federal income tax purposes or to constitute a tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals pursuant to Section 55 of the Code.

“Closing Date” means the date of issuance and delivery of the Series 2017A Bonds.


“Completion Indebtedness” means any Indebtedness incurred for the purpose of financing the completion of constructing or equipping facilities for the construction or equipping of which some Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformity with the documents pursuant to which such Indebtedness was originally incurred, including funding debt service reserve funds related thereto.

“Computation Date” means the “computation date” referenced in Treasury Regulation Section 1.148-1 et seq.
“Construction Contract” means the contract or contracts between the Borrower (or any affiliate of the Borrower on behalf of the Borrower) and the counterparty(ies) thereto relating to the construction of the Project or any discrete portion thereof.

“Construction Fund” means the fund by that name created and established under and pursuant to the Resolutions.

“Consultant” means an Independent consulting firm which is appointed by the Obligated Group Representative for the purpose of passing on questions relating to the financial affairs, management or operations of one or more Obligated Issuers or the entire Obligated Group and has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature; provided that any Person so appointed is not unsatisfactory to the Master Trustee and, if appointed with respect to the financial affairs, management or operations of the Borrower, is acceptable to an Authorized Officer of the Authority and otherwise satisfies the requirements of a Consultant set forth in the Master Indenture. If any Consultant’s certificate or report is required to be given with respect to matters partly within and partly without the expertise of any Consultant, such Consultant may rely upon the report or opinion of another Consultant possessing the necessary expertise.

“Contractor” means the general contractor(s) and construction manager(s) for the Project.

“Costs of Issuance Fund” means the fund so designated and established for the Series 2017A Bonds pursuant to the Resolutions.

“Costs of the Project” means costs incurred or estimated to be incurred by the Borrower or the Authority which are reasonable and necessary for carrying out all works and undertakings and providing all necessary equipment for the acquisition, construction, development and completion of the Project (or any repair or replacement thereof), exclusive of the amount of any federal, State or local financial assistance received by the Borrower for the payments of such costs, including, without limiting the generality of the foregoing, interest on the Series 2017A Bonds prior to, during and for a reasonable period after the acquisition, construction, development and completion of the Project; start-up costs and costs of operation and maintenance during the construction period and for a reasonable additional period thereafter; the cost of necessary studies, surveys, plans and specifications, architectural, engineering, legal or other special services; the cost of the acquisition of land, buildings and improvements thereon (including payments for the relocation of Persons, if any, displaced by such acquisition), site preparation and development, construction, reconstruction, equipment, including fixtures; the cost of demolition and removal and articles of personal property required; the reasonable cost of financing incurred by the Borrower or the Authority in the course of the acquisition, construction, development and completion of the Project; the fees imposed upon the Borrower by the State Commissioner of Health or the Authority or any governmental authority having jurisdiction over the Borrower; other fees charged and necessary expenses incurred in connection with the initial occupancy of the Project; the cost of such other items as may be reasonable and necessary for the acquisition, construction, development and completion of the Project; and all other expenses in connection with the Project, including costs incurred pursuant to Sections 13, 29 and 34 of the Act.

“Counsel” means an attorney-at-law or law firm (which may include counsel to the Master Trustee or counsel to an Obligated Issuer) not unsatisfactory to the Master Trustee.

“Credit Facility” means an unconditional irrevocable letter of credit, a line of credit which is revocable only upon the insolvency of the Obligated Issuer for whose account the line is established, a binding long term loan commitment, and a guaranty or an indemnity or surety insurance policy or bond or other similar extension of credit which is issued (i) for the purpose of providing a source of funds for the payment of all or a portion of an Obligated Issuer’s payment obligations under any Balloon Indebtedness
or any Indebtedness subject to tender, and (ii) by a bank, trust company, savings and loan association or other institutional lender, insurance company or surety company not unsatisfactory to the Master Trustee.

“Cushion Ratio” means, as of the date of calculation (for the applicable 12-month period), the ratio of cash and marketable securities of all Members of the Obligated Group, including Board-designated funds and plant and equipment funds, but excluding funds restricted by the donor or funds limited as to their use or used as collateral in connection with debt instruments and/or Derivative Agreements, to the Maximum Annual Debt Service Requirements on outstanding Indebtedness for the current or any succeeding Fiscal Year, less any amount held in a debt service fund for such purpose derived from the proceeds of any related debt. All securities shall be valued at fair market value for purposes of this definition.

“Days Cash on Hand” means: (a) cash, marketable securities, internally and Board-designated funds (but excluding donor restricted gifts, grants, bequests, donations or contributions and any income therefrom and funds held by the Trustee for the payment of the principal of and interest on the Series 2017A Bonds or the Master Trustee or any other trustee for the payment of the principal of and interest on any Obligations) of all Members of the Obligated Group as of the most recent month for which Unaudited Financial Statements are available, divided by (b) the amount resulting from dividing (i) operating expenses less non-cash expenses (including, but not limited to, depreciation, amortization and provision for bad debt), as determined in accordance with GAAP, as of the most recent Fiscal Year for which Audited Financial Statements are available by (ii) the number of days in the then current Fiscal Year. All securities shall be valued at fair market value for purposes of this definition.

“Days Cash on Hand Requirement” means an amount equal to at least sixty (60) Days Cash on Hand.

“Debt Obligation” means any Obligation (other than an Obligation expressly identified as an Ancillary Obligation or a Derivative Obligation) issued to secure or evidence any Indebtedness, including, but not limited, to a Guaranty authorized to be issued by a Member pursuant to the Master Indenture that has been authenticated by the Master Trustee pursuant to the Master Indenture.

“Debt Service Coverage Ratio” means the ratio for the applicable Fiscal Year of Funds Available for Debt Service to the Maximum Annual Debt Service Requirements on all Long Term Indebtedness.

“Debt Service Fund” means the fund so designated and established for the Series 2017A Bonds pursuant to the Resolutions.

“Debt Service Requirements” means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption or mandatory prepayment) and interest on outstanding Long Term Indebtedness of the Obligated Group; provided that: (a) interest shall be excluded from the determination of the Debt Service Requirements to the extent that Capitalized Interest is available to pay such interest; (b) principal of Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal; (c) in the case of any Guaranty, the principal of (and premium, if any) and interest and other debt service charges on the debt that is Guaranteed for the period of time for which Debt Service Requirements are calculated shall be included in the calculation of Debt Service Requirements as provided in subsection (5) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Calculating Debt Service Requirements for Certain Indebtedness” herein; (d) to the extent that interest on any Indebtedness is the subject of or related to any Derivative Obligation, the Obligated Group
Representative, at its option, may determine from time to time whether or not to treat such interest payments due on Indebtedness as being equal to the net amounts paid and received by the Obligated Group pursuant to such Derivative Obligation; (e) to the extent that interest on any Indebtedness is the subject of or related to any rate maintenance agreement or other similar agreement, the Obligated Group Representative, at its option, may determine from time to time whether or not to treat such interest payments due on Indebtedness as being equal to the net amount paid and received by the Obligated Group pursuant to such rate maintenance agreement or other similar agreement; (f) in any case where Long Term Indebtedness has been incurred to acquire, improve, renovate, equip or construct capital improvements, the Debt Service Requirement with respect to such Long Term Indebtedness shall not be taken into account in the calculation of the Debt Service Requirement until the first full Fiscal Year commencing after the occupation or utilization of such capital improvements or when such capital improvements could reasonably be occupied or utilized; (g) with respect to any Credit Facility securing or enhancing any Indebtedness, any principal and interest relating to, or due or payable under, any such facility shall not be included in the calculation of the Debt Service Requirement so long as such facility has not been drawn upon or, if drawn upon, the provider of such facility has been fully reimbursed for such drawing; and (h) to the extent that any Indebtedness constitutes Variable Rate Indebtedness, Demand Indebtedness, Interim Indebtedness, Balloon Indebtedness or Discount Indebtedness, the principal of (and premium, if any) and interest and other debt service charges on such Indebtedness shall be calculated as provided herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Calculating Debt Service Requirements for Certain Indebtedness”.

“Demand Indebtedness” means Indebtedness which is payable upon demand of the holder or owner thereof or may be tendered by and at the option of the holder or owner thereof for payment prior to the stated maturity date thereof.

“Derivative Agreement” means any type of contract, agreement or arrangement that (i) the Borrower or the Obligated Group determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment risk or to protect against any type of financial risk or uncertainty, and (ii) does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof, including, without limitation, (a) any Swap Agreement, (b) any other contract or agreement known as, referred to or which performs the function of, an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, (c) any other contract or agreement providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices (including a basis swap), (d) any other contract or agreement to exchange cash flows or payments or series of payments, and (e) any other type of contract or agreement called, or designed to perform the function of, interest rate floors, collars or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk.

“Derivative Obligation” means any Obligation expressly identified as a Derivative Obligation in such Obligation, a Supplemental Indenture or an Officer’s Certificate delivered to the Master Trustee, issued by a Member of the Obligated Group in order to evidence and secure the payment obligations of such Member under any Derivative Agreement.

“Derivative Policy” means a policy adopted by the Borrower or the Obligated Group that governs the procedures by which the Borrower or the Obligated Group reviews, authorizes and enters into Derivative Agreements.

“Discount Indebtedness” means Indebtedness sold to the original purchaser thereof (other than any underwriter or other similar intermediary) at a discount from the par amount of such Indebtedness.

“DTC” means The Depository Trust Company and its successors and assigns.
“EMMA” means the MSRB’s Electronic Municipal Market Access system, or any other electronic municipal securities information access system designated by the MSRB for purposes of the Rule and approved by the SEC from time to time.

“Escrow Securities” means (i) with respect to any Obligation which secures a series of Related Bonds, the securities permitted to be used to refund or advance refund such series of Related Bonds under the Related Bond Resolution, or (ii) with respect to any other Obligation, those securities identified as such in the Supplemental Indenture pursuant to which such Obligations were issued.

“Event of Default” means, with respect to the Loan Agreement, any event of default as defined herein under the heading “SUMMARY OF THE LOAN AGREEMENT – Events of Default”, with respect to the Resolutions, any event of default as defined herein under the heading entitled “SUMMARY OF THE RESOLUTIONS – Events of Default and Remedies of Bondholders”, and with respect to the Master Indenture, any event of default as defined herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Events of Defaults”.

“Existing Swap Agreements” means the ISDA Master Agreement, dated as of September 1, 2010, including the Schedule and the Credit Support Annex thereto, each dated as of September 1, 2010, and three (3) Novation Confirmations thereunder each dated September 2, 2010, between Morgan Stanley Capital Services LLC (as successor to Morgan Stanley Capital Services, Inc.) and IMC Woodbury (as successor to Underwood-Memorial Hospital).

“Existing Woodbury Facility” means IMC’s Woodbury’s existing hospital and medical center facility located in Woodbury, New Jersey.

“Financed Facility” or “Financed Facilities” means any facility or facilities that have been financed or refinanced with the proceeds of the Series 2017A Bonds.

“Financial Consultant” means a financial consultant acceptable to an Authorized Officer of the Authority.

“Fiscal Year” means the fiscal year of the Borrower, which initially is the period that commences on each January 1 and ends each December 31.

“Fitch” means Fitch Ratings and its successors and assigns.

“Funds Available for Debt Service” means in any Fiscal Year, the sum of the following for any one or more Members of the Obligated Group or, as the context requires, the entire Obligated Group: (i) the Members of the Obligated Group’s Net Income for such Fiscal Year; (ii) all interest expense of the Members of the Obligated Group for such Fiscal Year with respect to the interest requirements on all Long Term Indebtedness then Outstanding; (iii) amounts available from the proceeds of Long Term Indebtedness to pay the interest due on such Indebtedness during such Fiscal Year, but only to the extent such interest is not a current expense of a Member of the Obligated Group; (iv) all depreciation expense and amortization of financing charges, and (v) other non-cash expenses deducted from the Operating Revenues in determining Net Income for such Fiscal Year, all as determined in accordance with GAAP. In the event that the Fiscal Year of any Member of the Obligated Group ends on a date other than the last day of any Fiscal Year under consideration, the Funds Available for Debt Service for such Fiscal Year will include the amounts for such Member of the Obligated Group for its most recent Fiscal Year.

“GAAP” means generally accepted accounting principles in the United States of America in effect from time to time in.
“General Resolution” means the General Health Care Facilities Registered Bond Resolution, adopted by the Authority on October 29, 1992, as amended and supplemented.

“Government Obligations” means direct obligations of, or obligations the timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America.

“Gross Receipts” means all revenues, rents, profits, receipts, benefits, royalties, and income of an Obligated Issuer and any other moneys received by or on behalf of an Obligated Issuer, including, without limitation, (i) an Obligated Issuer’s rights to receive such revenues, rents, profits, receipts, benefits, royalties, and income of such Obligated Issuer and any other moneys under agreements with insurance companies, Medicare, Medicaid, governmental units and prepaid health organizations, including health care insurance receivables and rights to Medicare and Medicaid loss recapture under applicable regulations to the extent not prohibited by applicable law, rules or regulations; (ii) gifts, grants, bequests, donations, contributions and pledges; (iii) insurance proceeds or any award, or payment in lieu of an award, resulting from condemnation proceedings; and (iv) all proceeds from the sale or other transfer of any goods, inventory and other tangible and intangible property, and all rights to receive the foregoing, whether now owned or hereafter acquired and regardless of whether generated in the form of Accounts, Accounts Receivable, contract rights, Chattel Paper, Documents, General Intangibles, Instruments, Investment Property, proceeds of insurance and all proceeds of the foregoing; excluding, however, gifts, grants, bequests, donations, contributions and pledges, and the income and gains derived therefrom, which are specifically restricted or designated by the donor or grantor to a particular purpose which is inconsistent with its use for payments required under the Master Indenture or on any Obligations or Indebtedness.

“Guaranty” or “Guaranties” means any obligation issued under the Master Indenture by an Obligated Issuer, under the terms of which the Obligated Group guarantees in any manner, whether directly or indirectly, any Indebtedness of any Person other than a Member of the Obligated Group.

“Hazardous Substance” means and includes: (a) any “hazardous substance,” “pollutant” or “contaminant” as defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. Section 9601 et seq. or the New Jersey Spill Compensation and Control Act, N.J.S.A. 58:10-23.11b(k) et seq., or the regulations promulgated thereunder; (b) any hazardous waste as that term is defined in applicable state or local law; (c) any substance containing petroleum, as that term is defined in Section 9001(8) of the Resource Conservation and Recovery Act, as amended, 42 U.S.C. Section 6991(8) or in 40 C.F.R. Section 280.1; or (d) any other substance for which any governmental entity with jurisdiction over the Borrower or the Health Care Facilities requires special handling in its generation, handling, use, collection, storage, treatment or disposal.

“Health Care Facilities” means the land described in the Loan Agreement, together with all buildings, fixtures, facilities and equipment, now or hereafter to be erected, constructed or situated thereon, and all rights, powers, easements, licenses and rights of way, and all interests in property, real, personal or mixed, now owned or hereafter acquired by the Borrower or the Obligated Group and appurtenant to such land, subject to certain Permitted Encumbrances.

“Holder” or “Holder of an Obligation” means any registered owner of any Obligation and such registered owner’s successors and assigns.

“Indebtedness” means any obligation of a Member of the Obligated Group for the payment of money to any Person other than a Member of the Obligated Group, including, without limitation (i) indebtedness for money borrowed, (ii) purchase money obligations, (iii) Capitalized Leases, (iv) reimbursement obligations provided, however, that reimbursement obligations supporting Credit Facilities shall not constitute Indebtedness until such time as a reimbursement payment becomes due and payable under the agreement entered into in connection with such reimbursement obligations, and (v)
guarantees of any such obligation of a third party, provided that Indebtedness shall not include Indebtedness of one Member to another Member of the Obligated Group, any Guaranty by any Member of Indebtedness of any other Member of the Obligated Group, the joint and several liability of any Member on Indebtedness issued by another Member of the Obligated Group, any Derivative Obligation, any Ancillary Obligation, any trade payables, current salaries, current pension contributions, insurance premiums and similar obligations incurred, or any obligation to repay moneys deposited by patients or others with a Member of the Obligated Group as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

“Independent” means, with respect to any Person, one which is not and does not have a partner, director, officer, member or substantial stockholder who is a member of the Board of any Obligated Issuer, or an officer or employee of an Obligated Issuer; provided that the fact that a Person is retained regularly by or transacts business with an Obligated Issuer shall not, in and of itself, cause such Person to be deemed an employee of the Obligated Issuer for the purposes of the Loan Agreement or the Master Indenture.

“Institution” or “Institutions” means, collectively, Inspira Medical Centers, Inc., a nonprofit corporation, duly incorporated and existing under the laws of the State of New Jersey, and Inspira Medical Center Woodbury, Inc., a nonprofit corporation, duly incorporated and existing under the laws of the State of New Jersey.

“Insurance Consultant” means an Independent firm of insurance agents, brokers or consultants which is appointed by the Obligated Group Representative for the purpose of reviewing and recommending insurance coverages for the facilities and operations of one or more Obligated Issuers or of the entire Obligated Group, and has a favorable reputation for skill and experience in performing such services in respect of facilities and operations of a comparable size and nature; provided that any Person so appointed is not unsatisfactory to the Master Trustee and, if appointed with respect to the insurance coverages of the Borrower, is not unsatisfactory to an Authorized Officer of the Authority.

“Insurance Rating Agency” means A.M. Best Company, or its successor, or such other rating service that customarily provides ratings for insurance companies or coverage and is acceptable to an Authorized Officer of the Authority.

“Interest Account” means the account so designated within the Debt Service Fund for the Series 2017A Bonds established pursuant to the Resolutions.

“Interest Payment Date” means any payment date of an installment of interest on the Series 2017A Bonds pursuant to the Resolutions.

“Interim Indebtedness” means Indebtedness on which no principal is payable until maturity (as in the case of a construction loan or other temporary loan).

“Investment Securities” means and includes the following:

(a) Government Obligations;

(b) Government Obligations which have been stripped of their unmatured interest coupons, interest coupons which have been stripped from Government Obligations, or receipts or certificates evidencing payments from such Government Obligations or stripped interest coupons;

(c) bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or such other like governmental or government-sponsored agencies which may be
hereafter created: Federal Financing Bank; Federal Home Loan Bank System; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Resolution Funding Corporation or the Government National Mortgage Association;

(d) negotiable and non-negotiable certificates of deposit which are issued by banks, trust companies or savings and loan associations;

(e) repurchase agreements for Government Obligations which are entered into with banks, trust companies or dealers in government bonds which report to, trade with and are recognized as primary dealers by a Federal Reserve Bank;

(f) investment agreements with banks or trust companies (including the Master Trustee or the trustee under any Related Bond Resolution);

(g) obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, and such obligation is rated in any of the two highest rating categories by any two Rating Agencies; and

(h) shares of an open-end, diversified investment company (including any company that is affiliated with the Master Trustee and otherwise satisfies the requirements of this clause (h)) which is registered under the Investment Company Act of 1940, as amended, and which (i) invests its assets exclusively in Government Obligations having a final maturity date of less than one year from their date of purchase; (ii) seeks to maintain a constant net asset value per share; and (iii) has aggregate net assets of not less than $10,000,000 on the date of purchase of such shares; provided that, at the time of purchase, such shares are rated in either of the two highest rating categories by any two Rating Agencies.

“LIBOR” means the offered quotation to leading banks in the London interbank market for one-month United States Dollar deposits as defined by the ICE Benchmark Administration Limited (“ICE”) or such other entity assuming the responsibility of ICE in calculating the London Inter-Bank Offered Rate.

“Lien” means any mortgage of, security interest in, lien, charge or encumbrance on or pledge of Property, which is not real property.

“Long Term Indebtedness” means any Indebtedness other than Short Term Indebtedness.

“Maximum Annual Debt Service Requirements” means the greatest Debt Service Requirements in the then current or any future Fiscal Year.

“Member” means each Obligated Issuer under the Master Indenture.

“Members of the Obligated Group” means, collectively, all of the Obligated Issuers under the Master Indenture. As of the date of issuance of the Series 2017A Bonds, the Institutions are the only Members of the Obligated Group.

“Merger” means (i) the disposition or transfer of all or substantially all of the assets, common stock or membership interests of a Member of the Obligated Group to another Person, (ii) the consolidation of a Member of the Obligated Group with another Person, (iii) the merger of a Member of the Obligated Group into another Person, and which, in each such case, such other Person is not a Member of the Obligated Group.

“Monitoring Rights” shall have the meaning given to such term under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Triggering Events” herein.
“Moody’s” means Moody’s Investors Services and its successors and assigns.

“MSRB” means the Municipal Securities Rulemaking Board and its successors and assigns.

“Net Income” means, for any Fiscal Year, the total of all revenues, gains and other support less all Operating Expenses and losses. In calculating Net Income, there shall be excluded: all extraordinary gains and losses; any item classified as the cumulative effect of a change in accounting principles; gains and losses resulting from the sale of capital assets; proceeds of insurance policies (excluding business interruption), condemnation awards, gifts, donations, grants, pledges, devises, legacies, bequests and contributions to the extent that they may be restricted as to their use by their terms and such amounts are unavailable for the payment of Debt Service Requirements or Operating Expenses; unrealized gains and losses from investments; asset impairment losses; pension settlement losses; changes in the funded status of defined benefit plans; losses on the early extinguishment of debt (including any termination payments made pursuant to any Derivative Agreements related to or integrated with the Indebtedness being extinguished); Non-Operating Asset transfers as permitted by the Master Indenture; net termination payments or receipts required under any Swap Agreement; unrealized gains and losses with respect to any Derivative Agreement, and any gains or losses attributable to transactions between any Member of the Obligated Group and any other Member of the Obligated Group.

“New Project Items” shall have the meaning given to such term as described in subsection (b) under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Amendment of Project” herein.

“Non-Operating Assets” means any Property or interests in Property of an Obligated Issuer (whether tangible or intangible) other than Operating Assets.

“Non-Recourse Indebtedness” means any Indebtedness, including, but not limited to, Capitalized Leases, incurred to finance the purchase or improvement of Property which Indebtedness is secured exclusively by a lien on or pledge of such Property or the revenues or net revenues produced by such Property or both, the liability for which is effectively limited to such Property or revenues subject to such lien with no recourse, directly or indirectly, to any other Property or revenues of any Member of the Obligated Group.

“Obligated Group” means, collectively, all Obligated Issuers.

“Obligated Group Representative” means, initially, IMC, and, thereafter, any Obligated Issuer as the then incumbent Members of the Obligated Group shall designate as the Obligated Group Representative, as evidenced by an Officer’s Certificate delivered to the Master Trustee.

“Obligated Issuer” means (i) the Institutions or any other Person which has become an Obligated Issuer in accordance with the provisions of the Master Indenture and has not withdrawn from the Obligated Group pursuant to the provisions of the Master Indenture, whether or not such Person has issued any Obligations under the Master Indenture, and (ii) when used in respect of any particular Obligation or other Indebtedness, means the issuer of such Obligation or Indebtedness.

“Obligations” means all Debt Obligations, Derivative Obligations and Ancillary Obligations issued by any Member of the Obligated Group under and pursuant to the Master Indenture which have been authenticated by the Master Trustee pursuant to the Master Indenture.

“Officer’s Certificate” means a certificate signed by the Chairman, Vice Chairman, President, any Vice President or Chief Financial Officer of one or more Members of the Obligated Group. When an Officer’s Certificate is required to set forth matters relating to all Members of the Obligated Group, such Officer’s Certificate shall be signed by the Chairman, Vice Chairman, President, any Vice President or Chief Financial Officer of each Obligated Issuer; provided that the Obligated Group may designate one or
more officers to undertake primary responsibility for the supervision of specified matters for all Members of the Obligated Group and to sign Officer’s Certificates relating to such matters on behalf of the Obligated Group, in which event any Officer’s Certificate relating to such matters shall be signed by such officer or officers; and further provided that the Obligated Issuers can designate the Obligated Group Representative to deliver such Officer’s Certificate on behalf of all of the Obligated Issuers.

“Official Statement” means the Official Statement of the Authority relating to the Series 2017A Bonds to be utilized in connection with the offering and sale of the Series 2017A Bonds.

“Operating Assets” means any property used in the business of an Obligated Issuer (whether tangible or intangible) and any service or department from which an Obligated Issuer derives revenues; provided, however, that Operating Assets shall not be deemed to include any unimproved real property or any Unrestricted Liquid Assets.

“Operating Data” means the financial, statistical and operating data of the Obligated Group of the type included in the sections of Appendix A to the Official Statement entitled “Patient Utilization”, “Financial Information”, “Management’s Discussion of Financial Performance”, “Outstanding Indebtedness” and “Payor Mix”.

“Operating Expenses” means, for any period, the aggregate of all expenses calculated under GAAP, including without limitation any taxes, incurred in connection with the operations of a Member of the Obligated Group or, as the context requires, of the entire Obligated Group, during such period, minus or before (or adding back) interest on Long Term Indebtedness, depreciation, amortization, and payments on Obligations to the extent such payments are treated as an expense; provided that no calculation of Operating Expenses shall take into account: (a) any unrealized loss resulting from changes in the value of investments, including, but not limited to, any unrealized other-than-temporary impairment loss that is recognized in accordance with GAAP, (b) extraordinary or nonrecurring expenses or losses (including without limitation any losses on the sale or other disposition of assets or facilities not in the ordinary course of business), (c) any losses on the extinguishment of Indebtedness (including any termination payments made on Derivative Agreements related to or integrated with the Indebtedness being extinguished), (d) any losses resulting from discontinued operations or any reappraisal, revaluation or write-down of any asset, facility or good-will, and any loss or expense resulting from adjustments to prior periods, (e) any unrealized losses on or related to, including marking to market, any Derivative Agreements, (f) any accounting reserves or losses or expenses or other items that would be considered by the Obligated Group Representative to be non-cash items of the Members or Members of the Obligated Group involved, and (g) any losses or expenses attributable to transactions between any Member of the Obligated Group and any other Member of the Obligated Group.

“Operating Revenues” means, for any Fiscal Year, all operating revenues of any one or more Members of the Obligated Group for such period or, as the context requires, of the entire Obligated Group, before deduction of Operating Expenses, but after deduction of (a) bad debt allowance and adjustments, (b) contractual allowances and adjustments with third party payors, (c) allowances and adjustments for free or reduced charge services and (d) allowances for discounts for prompt payment by payors. In the event that the fiscal year of any Member of the Obligated Group ends on a date other than the last day of any Fiscal Year under consideration, the Operating Revenues of such Member of the Obligated Group for its most recent completed fiscal year shall be deemed to be its Operating Revenues for such Fiscal Year.

“Original Project Items” shall have the meaning given to such term as described in subsection (b) under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Amendment of Project” herein.
“Outstanding” means, with respect to the Master Indenture, in the case of any Obligations, any Indebtedness or any Related Bonds, all Obligations, all Indebtedness or all Related Bonds, as the case may be, except:

(a) Obligations, Indebtedness or Related Bonds canceled after purchase in the open market or after payment at or prepayment or redemption prior to maturity;

(b) Obligations, Indebtedness or Related Bonds for the payment or redemption of which cash or non-callable Escrow Securities, or a combination thereof, have been deposited with the Master Trustee, the lender or a trustee or fiduciary for such lender, or the Related Bond Trustee, as applicable (whether upon or prior to their maturity or redemption date thereof) in an amount that is sufficient to pay the amounts due thereon; provided that if such Obligations, Indebtedness or Related Bonds are to be prepaid or redeemed prior to their maturity, notice of prepayment or redemption has been given or irrevocable arrangements satisfactory to the Master Trustee, the lender or a trustee or fiduciary for such lender, or the Related Bond Trustee, as applicable, have been made therefor, or waiver of such notice by the Person entitled to such notice has been provided;

(c) Obligations, Indebtedness or Related Bonds in lieu of which other instruments or securities have been authenticated and delivered; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Master Indenture, any relevant loan document relating to Indebtedness, or any Related Bond Indenture, as applicable, Obligations, Indebtedness or Related Bonds held or owned by a Member of the Obligated Group.

Notwithstanding the foregoing, any Obligation or other Indebtedness securing Related Bonds shall be deemed Outstanding only if such Related Bonds are Outstanding.

“Penalty Amount” means an amount equal to the product of one and one-half percent (1.5%) multiplied by the unspent proceeds (as such term is defined in the Code) of the Series 2017A Bonds determined on a semi-annual basis in accordance with subclause (v) of Section 148(f)(4)(C)(vii) of the Code.

“Permitted Encumbrances” means those encumbrances enumerated herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Restrictions as to Creation of Liens and Encumbrances”.

“Permitted Indebtedness” means any Indebtedness permitted to be incurred by an Obligated Issuer in accordance with the provisions described herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Permitted Indebtedness”.

“Person” means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, or a government or an agency or political subdivision thereof.

“Planning Act” means the State’s Health Care Facilities Planning Act, P.L. 1971, c. 136 (N.J.S.A. 26H-1 et seq.), as the same may be amended from time to time and any regulations promulgated thereunder.

“Pledged Property” means all right, title and interest of each Obligated Issuer in and to (i) the Revenue Fund, including all moneys, investment income and investments therein, and (ii) the Gross Receipts, including all moneys, investment income and investments thereon, all of which shall be held by the Master Trustee in trust for the equal and ratable benefit and security of all Holders of Obligations.
issued under the Master Indenture, without preference, priority or distinction (except as otherwise specifically provided in the Master Indenture) of any one Obligation over any other Obligation.


“Prevailing Wage Provisions” means the provisions of the Prevailing Wage Act, the provisions of the Prevailing Wage Regulations and the resolutions, rules and regulations of the Authority, as adopted, amended and supplemented from time to time, requiring that workers engaged in Construction Contracts with a value greater than $2,000 be paid a wage rate not less than the Prevailing Wage Rate, and that the Borrower and all Contractors file such certificates, reports and records and do other prescribed acts as are necessary to demonstrate or assure compliance.

“Prevailing Wage Rate” means the prevailing wage rate established by the Commissioner of the New Jersey Department of Labor and Industry from time to time in accordance with the provisions of N.J.S.A. 34:11-56.30 for the localities in which the Financed Facilities are located.

“Prevailing Wage Regulations” means the regulations set forth in N.J.A.C. 8:95-1.1 et seq., as amended from time to time.

“Principal Account” means the account so designated within the Debt Service Fund for the Series 2017A Bonds established pursuant to the Resolutions.

“Project” means the planning, development, acquisition, construction, equipping, expansion, furnishing and/or renovation of one or more of the following capital projects and facilities:

(A) a new five (5) story, approximately 460,000 square foot acute care hospital and medical center facility to be located at 700 Mullica Hill Road in Mullica Hill, New Jersey, which will serve as a replacement for the Existing Woodbury Facility;

(B) at the Existing Woodbury Facility, the establishment of a Radiation Oncology program, including, without limitation, the construction of a linear accelerator vault;

(C) at IMC’s medical center located in Vineland, New Jersey, the expansion of the Emergency Department, including the construction of eleven (11) new patient treatment rooms for seniors and the repositioning of the current waiting room area, and the construction of two additional floors containing approximately 60,000 square feet of additional space over the Outpatient Building, with one floor housing a 36-bed inpatient unit and the other floor to be a shell floor; and

(D) all infrastructure improvements, relocations and modifications and all other work, materials, equipment and appurtenances necessary therefor or related to all of the projects described in clauses (A) through (C) above.

“Property” means any and all right, title and interest of a Person in and to all property, whether real or personal, tangible or intangible, and wherever situated.

“Qualified Insurance Rating” means a rating that is at least “investment grade” or “secure” as defined by A.M. Best Company, or such similar rating as defined by any other Insurance Rating Agency.

“Rating Agency” means any of Fitch, Moody’s or S&P, and any successors thereto or, upon the discontinuance of any of the foregoing, such other nationally recognized rating service or services as shall be determined by the Obligated Group Representative.
“Rebate Amount” means, with respect to the Series 2017A Bonds, the amount required to be rebated to the United States pursuant to Section 148(f)(2) of the Code.

“Rebate Fund” means the fund so designated and established for the Series 2017A Bonds pursuant to the Resolutions.

“Redemption Fund” means the fund so designated and established for the Series 2017A Bonds pursuant to the Resolutions.

“Redemption Price” means the principal amount of each Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolutions.

“Regulatory Body” or “Regulatory Bodies” means any federal, state or local government, department, agency, authority or instrumentality and any other public or private organization, including accrediting bodies, having regulatory jurisdiction and authority over any Obligated Issuer or the facilities or operations of any Obligated Issuer.

“Related Bond Resolution” means any bond resolution, indenture or other comparable instrument pursuant to which a series of Related Bonds are issued.

“Related Bonds” means the revenue bonds issued by any state of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof pursuant to a single Related Bond Resolution, the proceeds of which are loaned or otherwise made available to (i) an Obligated Issuer in consideration of the execution, authentication and delivery of an Obligation or Obligations to such governmental issuer, or (ii) any person other than an Obligated Issuer in consideration of issuance to such governmental issuer (A) by such person of any indebtedness or other obligation of such person, and (B) by the Obligated Issuer of a Guaranty issued under the Master Indenture in respect of such indebtedness or other obligation.

“Related Bond Trustee” means any trustee under any Related Bond Resolution and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Resolution, the issuer of the series of Related Bonds.

“Related Financing Documents” means, collectively, any Related Bond Resolution and Related Loan Documents.

“Related Loan Document” means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are loaned to, advanced to or made available to or for the benefit of any Member of the Obligated Group (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Member of the Obligated Group).

“Required Ratios” means a Debt Service Coverage Ratio of at least 1.25 and a Cushion Ratio of at least 1.25.

“Resolutions” means, collectively, the General Resolution and the Series Resolution.

“Restricted Property” shall have the meaning given to such term in the Master Indenture.

“Revenue Fund” means the fund so designated and established pursuant to the Master Indenture.
“Revenues” means (i) all amounts received from payments under the Series 2017A Note, and (ii) interest income on all funds and accounts established under the Resolutions other than the Rebate Fund.

“Rule” means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended and supplemented or interpreted by the SEC.


“SEC” means the United States Securities and Exchange Commission.

“Securities Act of 1933” means the federal Securities Act of 1933, as amended, and any successor thereto.

“Series Resolution” means the Series Resolution adopted by the Authority on April 27, 2017, authorizing the issuance of the Series 2017A Bonds, as amended by the First Supplement to the Series Resolution adopted by the Authority on June 22, 2017.


“Series 2017A Loan” means the loan of the proceeds of the Series 2017A Bonds made by the Authority to the Borrower pursuant to the Loan Agreement.

“Series 2017A Note” means the Obligated Group Promissory Note, Series 2017A, of the Institutions, dated the date of issuance of the Series 2017A Bonds, executed by the Institutions under and pursuant to the Master Indenture evidencing the Loan made by the Authority to the Institutions pursuant to the Loan Agreement.


“Series 2017B Construction Fund” means the Construction Fund created and established under the Series 2017B Trust Agreement.

“Series 2017B Trust Agreement” means the Trust Agreement, dated as of August 1, 2017, by and between the Authority and U.S. Bank National Association, as Bond Trustee, relating to the Series 2017B Bonds.

“Short-Term Indebtedness” means (a) any obligation for the repayment of moneys borrowed from a Person other than a Member of the Obligated Group which matures not later than 365 consecutive days after it is incurred, or (b) any obligation for the repayment of borrowed moneys which is payable upon demand at the option of the holder within 365 consecutive days after it is incurred, unless it is incurred as Long Term Indebtedness pursuant to the Master Indenture and included in calculations of Debt Service Requirements pursuant to the Master Indenture.

“SIFMA” means the Securities Industry and Financial Markets Association, any successor thereto, or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Obligated Group Representative.

“SIFMA Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations (the SIFMA Municipal Swap Index), as produced by Municipal Market Data and published or made available by SIFMA, or any person acting in
cooperation with or under the sponsorship of SIFMA and acceptable to the Obligated Group Representative, and effective from such date.

“Sinking Fund Account” means the account so designated and established within the Debt Service Fund for the Series 2017A Bonds pursuant to the Resolutions.

“Sinking Fund Installments” means the amounts of money required to redeem the Series 2017A Bonds, in the amounts, at the times and in the manner set forth in the Certificate.

“State” means the State of New Jersey.

“Subordinated Indebtedness” means all obligations incurred or assumed, the payment of which is by its terms specifically subordinated to payments on all Obligations, or the principal of and interest on which would not be paid (whether by the terms of such obligation or by agreement of the obligee) when the Obligations are in default or while bankruptcy, insolvency, receivership or other similar proceedings are instituted and implemented.

“Substitution Transaction” shall have the meaning given to such term in subsection (a) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Substitution of Obligations and Documents” herein.

“Substitution Transaction Test” shall have the meaning given to such term in subsection (b) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Substitution of Obligations and Documents” herein.

“Successor Corporation” means the surviving, resulting or transforee entity as a result of a Merger.

“Supplemental Indenture” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

“Supplemental Resolution” means any resolution of the Authority amending or supplementing the General Resolution, any Series Resolution, or any Supplemental Resolution, adopted and becoming effective in accordance with the terms of the General Resolution.

“Swap Agreement” means (i) the Existing Swap Agreements, and (ii) any other agreement between one or more Members of the Obligated Group and a counterparty under which one or more Members of the Obligated Group agrees to pay the counterparty an amount calculated at an agreed-upon rate or index based upon a notional amount and the counterparty agrees to pay one or more Members of the Obligated Group for a specified period of time an agreed-upon rate or index based upon such notional amount or pursuant to which one or more Members of the Obligated Group purchases a cap or collar on any interest rate to be paid by one or more Members of the Obligated Group on any Indebtedness.

“Triggering Event” means when used in reference to the Loan Agreement, any event described herein under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Triggering Events”.


“Unaudited Financial Statements” means financial statements of the Obligated Group for the applicable period prepared in accordance with GAAP (except with respect to footnote disclosure) at the time in effect, which provide a breakout of the revenues and expenses and a balance sheet for each
Member of the Obligated Group sufficient to evaluate compliance with the various financial covenants contained in the Loan Agreement and the Master Indenture.

“Underwriter” means J.P. Morgan Securities LLC, on behalf of itself and the other underwriters set forth in the Bond Purchase Contract.

“Unrestricted Liquid Assets” means the sum of: cash, marketable securities, investments (including, without limitation, alternative investments), internally or Board-designated funds (but excluding donor restricted gifts, grants, bequests, donations or contributions and any income therefrom and funds held by the trustee under a Related Bond Resolution for principal and interest payments on any Related Bonds) as determined in accordance with GAAP. All investments (other than alternative investments) and securities shall be valued at fair market value for the purposes of this definition; alternative investments shall be valued at fair value.

“Variable Rate Indebtedness” means any Long-Term Indebtedness which bears interest at a rate which varies periodically or is modified from time to time prior to the final maturity of such Indebtedness.
SUMMARY OF THE LOAN AGREEMENT

The following is a brief summary of certain provisions of the Loan Agreement.

Pursuant to the Loan Agreement, the Authority agrees to lend to the Borrower, and the Borrower agrees to borrow from the Authority, the proceeds of the Series 2017A Bonds to be used, together with a portion of the proceeds of the Series 2017B Bonds and other available moneys, to (i) finance and/or reimburse the Borrower for the Costs of the Project, and (ii) pay all or a portion of the costs incidental to the issuance and sale of the Series 2017A Bonds.

The Institution, to evidence and secure the Series 2017A Loan and the obligation to pay such other amounts as may be required under the Loan Agreement, shall, on behalf of all Members of the Obligated Group, including itself, execute and deliver the Series 2017A Note in accordance with, and which will be subject to and secured under, the provisions of the Master Indenture. The Series 2017A Note will be issued in a principal amount equal to the aggregate principal amount of the Series 2017A Bonds and will provide for payments of principal, premium, if any, and interest thereon sufficient to permit the Authority to make payments of principal or Redemption Price and interest on the Series 2017A Bonds when due. The proceeds of the Series 2017A Loan will be deposited in the funds and accounts as provided in the Resolutions and will be applied by the Trustee for the purposes as therein set forth.

Representations and Warranties

The Institution represents and warrants that:

(a) It is a nonprofit corporation duly formed and validly existing under the laws of the State of New Jersey, with full power and legal right to enter into the Loan Agreement, the Master Indenture and the Series 2017A Note, and to perform its obligations thereunder.

(b) The Loan Agreement, the Master Indenture and the Series 2017A Note have been duly authorized by all necessary corporate action, and do not and will not violate or conflict with the Institution’s certificate of incorporation or any statute, order, governmental rule or regulation, or agreement, instrument or other document by which the Institution or its properties are bound. The Loan Agreement, the Master Indenture and the Series 2017A Note constitute legal, valid and binding obligations of the Institution, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency or other similar laws or equitable principles affecting generally the enforcement of creditors’ rights.

(c) The Institution is and will remain in full compliance with all terms and conditions of the Act.

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending or threatened, wherein an unfavorable decision, ruling or finding would: (1) except as otherwise set forth in the Official Statement, result in any material adverse change in the financial condition, properties or operations of the Institution; (2) materially adversely affect the transactions contemplated by the Loan Agreement; or (3) adversely affect the validity or enforceability of the Series 2017A Bonds, the Resolutions, the Loan Agreement, the Series 2017A Note, the Master Indenture or any other documents related to the Series 2017A Bonds or the Project.

(e) Neither the execution and delivery of the Loan Agreement or the fulfillment of or compliance with the terms and conditions contained therein is prevented, limited by, conflicts with or results in a breach of, the terms, conditions or provisions of (1) the Institution’s organizational documents or its by-laws, (2) any law, rule, regulation, or order of any court or governmental agency, or (3) any agreement, instrument or evidence of indebtedness to which the Institution is bound, or constitutes a
default under any of the foregoing, except for such breaches which would not, individually or in aggregate, have a material adverse effect on the business or operations of the Institution.

(f) All statements, representations and warranties made by the Institution in connection with the issuance of the Series 2017A Bonds and the Project or the Loan Agreement or in any other document, agreement, certificate or instrument delivered or to be delivered by the Institution under any of the foregoing shall be true, correct and complete in all material respects at the time they were made and on and as of the date of issuance and delivery of the Series 2017A Bonds, and no information has been or will be omitted which would make any of the foregoing misleading or incomplete. It is understood by the Institution that all such statements, representations and warranties shall be deemed to have been relied upon by the Authority as a material inducement to enter into the Loan Agreement and to issue the Series 2017A Bonds.

(g) There has been no material adverse change in the financial condition or operation of the Institution or the Obligated Group that is not reflected in the most recent financial statements submitted by the Institution to the Authority.

(Loan Agreement, Section 2.1)

**Benefit of Bondholders**

The Loan Agreement is executed in part to induce the purchase by others of the Series 2017A Bonds, and, accordingly, all covenants, agreements and representations on the part of the Borrower and the Authority, as set forth in the Loan Agreement, are thereby declared to be for the benefit of the holders from time to time of the Series 2017A Bonds and the right, title and interest of the Authority in and to the Loan Agreement will be assigned to the Trustee, subject to the reservation of certain rights by the Authority as set forth in the Assignment.

(Loan Agreement, Section 3.2)

**Tax Exempt Status of the Series 2017A Bonds**

(a) The Borrower covenants that it shall not (i) take any action, (ii) permit any action within its control to be taken, or (iii) omit to take any and all affirmative actions which would result in the loss of the exclusion of the interest on any of the Series 2017A Bonds from gross income for purposes of federal income taxation as that status is governed by Section 103(a) of the Code. Without limiting the generality of the foregoing, the Borrower will not make, or direct the Trustee to make, any use of the proceeds of the Series 2017A Bonds, directly or indirectly, in a manner which would cause the Series 2017A Bonds to be “arbitrage bonds” under the Code and the regulations applicable to obligations issued on the date of issuance of the Series 2017A Bonds.

(b) The Borrower represents and warrants that at all times while the Series 2017A Bonds are Outstanding, the Series 2017A Bonds shall constitute “qualified 501(c)(3) bonds” as defined in Section 145 of the Code. Without limiting the generality of the foregoing, the Borrower represents and warrants that no more than five percent (5%) of the net proceeds of the Series 2017A Bonds shall be used in any trade or business carried on by (i) a Person which is not an organization described in Section 501(c)(3) of the Code, or (ii) by a Person which is an organization described in Section 501(c)(3) of the Code, in a trade or business which constitutes an unrelated trade or business with respect to such Person, as defined in Section 513(a) of the Code.

(Loan Agreement, Section 3.4)
Rebate Covenant

(a) (i) Subject to the provisions of paragraph (h) of this section, within fifteen (15) days after each Computation Date, the Borrower shall engage a firm of financial consultants (the “Financial Consultant”), which may be a firm of certified public accountants, to calculate the Rebate Amount in respect of the Series 2017A Bonds under Section 148(f) of the Code. The Financial Consultant must be experienced in calculations of the Rebate Amount and must be acceptable to an Authorized Officer of the Authority.

(ii) Within forty-five (45) days after each Computation Date, the Borrower shall give the Trustee a written summary of a calculation, prepared by the Financial Consultant, of the Rebate Amount as of the Computation Date, together with funds, or instructions to transfer funds, sufficient to increase the amount in the Rebate Fund to the Rebate Amount. The Borrower shall give the Authority copies of the summary and the funds transmittal or transfer instructions.

(iii) At least fifteen (15) days prior to the due date of any Rebate Amount or Penalty Amount, the Borrower shall give the Trustee written instructions as to the amount, date, and manner of payments which the Trustee is to make from the Rebate Fund to the Federal government to comply with the requirements of Section 148(f) of the Code, including payments of installments of at least ninety percent (90%) of the Rebate Amount within sixty (60) days after each Computation Date (other than the final Computation Date), payment of all the Rebate Amount within sixty (60) days after retirement of the last obligation of the Series 2017A Bonds, and payment of the Penalty Amount by the dates falling ninety (90) days after each six (6) month period. The Borrower shall give the Authority a copy of the instructions.

(b) The amounts in the Rebate Fund shall be applied at the times and in the amounts required under the Code solely for the purpose of paying the United States of America in accordance with Section 148(f) of the Code.

(c) With respect to the Series 2017A Bonds, the Borrower covenants and agrees that it will comply with the requirements of the Code relating to the investment restrictions on the proceeds of the Series 2017A Bonds and the calculation of the amount rebatable or payable as a penalty to the United States of America and payment thereof under the Code.

(d) An Authorized Officer of the Authority shall have the right at any time and in his or her sole and absolute discretion to obtain from the Borrower and the Trustee the information necessary to determine the amount to be paid to the United States. Additionally, an Authorized Officer of the Authority and the Trustee may (i) review or cause to be reviewed any determination of the amount to be paid to the United States made by or on behalf of the Borrower, and (ii) make or retain a Financial Consultant to make the determination of the amount to be paid to the United States. The Borrower hereby agrees to be bound by any such review or determination, to pay the costs of such review, including, without limitation, the reasonable fees and expenses of counsel or a Financial Consultant retained by an Authorized Officer of the Authority or the Trustee, and to pay to the Trustee any additional amounts for deposit in the Rebate Fund required as the result of any such review or determination.

(e) Notwithstanding any provision of this section or of the Resolutions to the contrary, the Borrower shall be liable, and shall indemnify and hold the Authority and the Trustee harmless against any liability (including, without limitation, any attorney’s fees), for payments due to the United States pursuant to Section 148(f) of the Code. Further, the Borrower specifically agrees that neither the Authority nor the Trustee shall be held liable, or in any way responsible, for any mistake or error in the filing of the payment or the determination of the amount due to the United States or for any consequences resulting from any such mistake or error.
(f) The Authority and the Borrower recognize that the provisions of this section are intended to comply with Section 148 of the Code and the regulations thereunder and if as a result of a change in such section of the Code or the regulations thereunder or in the interpretation thereof, a change in this section shall be permitted as necessary to assure continued compliance with Section 148 of the Code and the regulations thereunder, then with written notice to the Trustee, an Authorized Officer of the Authority and the Borrower shall be empowered to amend this section and the Authority may require, by written notice to the Borrower and the Trustee, the Borrower to amend, and the Borrower hereby agrees to consent to, comply with and be bound by any such amendment to this section to the extent necessary or desirable to assure compliance with the provisions of Section 148 of the Code and the regulations thereunder; provided that either the Authority or the Trustee shall require, prior to any such amendment becoming effective, at the sole cost and expense of the Borrower, a written opinion of Bond Counsel satisfactory to an Authorized Officer of the Authority to the effect that either (i) such amendment is required to maintain the exclusion from gross income under Section 103 of the Code of interest paid and payable on the Series 2017A Bonds, or (ii) such amendment shall not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid or payable on the Series 2017A Bonds.

(g) Notwithstanding anything in the Loan Agreement or in the Resolutions to the contrary, the obligations of the Borrower under the provisions of this section shall survive the payment, redemption or defeasance of the Series 2017A Bonds until the expiration of all statutes of limitations applicable to the Authority with respect to the Series 2017A Bonds and Section 148 of the Code.

(h) Notwithstanding anything in the Loan Agreement or in the Resolutions to the contrary, if at any time after the issuance of the Series 2017A Bonds, the Borrower shall deliver to the Authority and the Trustee (i) a certificate of an Authorized Officer of the Borrower stating that the Series 2017A Bonds qualify for an exception to the requirements of Section 148(f) of the Code or that all of the gross proceeds of the Series 2017A Bonds subject to Section 148(f) of the Code have been expended and no Rebate Amount is due, and setting forth the factual basis upon which the Series 2017A Bonds qualify for such exception or otherwise satisfy the requirements of Section 148(f) of the Code, and (ii) a written opinion of Bond Counsel satisfactory to the Authority to the effect that the Series 2017A Bonds qualify for such exception to, or otherwise satisfy, the requirements of Section 148(f) of the Code, then the Borrower shall have no obligation to retain a Financial Consultant to calculate the Rebate Amount or to otherwise comply with the provisions of this section. Notwithstanding the provisions of the foregoing sentence, if, at any time after the delivery of such certificate of an Authorized Officer of the Borrower and such written opinion of Bond Counsel, there shall be delivered to the Authority, the Borrower and the Trustee a written opinion of Bond Counsel to the effect that compliance with the requirements of Section 148(f) of the Code and the provisions of this section (either in its present form or as this section may hereafter be amended in accordance with paragraph (f) of this section) is required in order to maintain the exclusion from gross income under Section 103 of the Code of interest paid and payable on the Series 2017A Bonds, then the Borrower shall be obligated to thereafter comply with the provisions of this section.

(Loan Agreement, Section 3.5)

Secondary Market Disclosure

(a) As soon as practicable, but in no event later than one hundred and fifty (150) days after the end of each Fiscal Year, the Borrower covenants that it will file, or cause to be filed, with the MSRB, in the manner set forth in subsection (j) of this section, Audited Financial Statements for such Fiscal Year prepared in accordance with GAAP at the time in effect, if then available. In the event that Audited Financial Statements are not available, the Borrower covenants that it will file, or cause to be filed, or cause to be filed, with the MSRB, in the manner set forth in subsection (j) of this section, within one hundred and fifty (150) days after the end of any Fiscal Year Unaudited Financial Statements for such Fiscal Year prepared in accordance with GAAP at the time in effect, and that it will file Audited Financial Statements when available.
(b) As soon as practicable, but in no event later than one hundred and fifty (150) days after the end of each Fiscal Year, the Borrower covenants to file, or cause to be filed, to the extent not contained in the Audited Financial Statements or Unaudited Financial Statements, an update of the Operating Data with the MSRB in the manner set forth in subsection (j) of this section.

(c) As soon as practicable, but in no event later than forty-five (45) days after the end of each fiscal quarter, the Borrower covenants to file, or cause to be filed, with the MSRB, Unaudited Financial Statements and Operating Data relating to such fiscal quarter.

(d) For as long as any Series 2017A Bonds are Outstanding, the Borrower covenants to file, or cause to be filed, with the MSRB, in a timely manner, but in no event in excess of ten (10) business days after the occurrence of any such event, notice of the occurrence of any of the following events with respect to the Series 2017A Bonds:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2017A Bonds, or other material events affecting the tax status of the Series 2017A Bonds;

(vii) Modifications to rights of holders of the Series 2017A Bonds, if material;

(viii) Series 2017A Bond calls, if material, and tender offers;

(ix) Defeasances of the Series 2017A Bonds;

(x) Release, substitution or sale of property securing repayment of the Series 2017A Bonds, if material;

(xi) Rating changes relating to the Series 2017A Bonds;

(xii) Bankruptcy, insolvency, receivership or similar event of the Borrower;

(xiii) The consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional Trustee for the Series 2017A Bonds or the change of name of the Trustee for the Series 2017A Bonds, if material.

The Borrower also covenants to file, or cause to be filed, notice in a timely manner with the MSRB of any change in the Fiscal Year of the Borrower.
(e) The Borrower will provide, or cause to be provided, the information described in subsections (a), (b) and (c) above regarding each other Obligated Issuer and any other entity which shall become an “obligated person” with respect to the Series 2017A Bonds under the Rule, to the extent required by the Rule.

(f) In a timely manner, the Borrower shall give to the Trustee and the Authority and file, or cause to be filed, with the MSRB, written notice of any failure by the Borrower to provide any information required pursuant to subsections (a) or (b) above (or similar information required by subsection (e) above) within the time limit specified therein.

(g) The Borrower shall send to the Authority and the Trustee:

(1) copies of any information filed with the MSRB pursuant to subsections (a), (b), (c), (d) or (e) above; and

(2) concurrently with the delivery of any information required pursuant to subsections (a), (b), (c), (d) or (e) above, a certificate signed by an Authorized Officer of the Borrower that it has filed, or caused to be filed, such information with the MSRB.

(h) The Borrower agrees that the provisions of this section shall be for the benefit of the Authority and the Holders and beneficial owners of the Series 2017A Bonds, and may be enforced by the Authority, the Trustee or any Holder or beneficial owner of the Series 2017A Bonds in an action against the Borrower for specific performance. The failure by the Borrower to perform its obligations under this section shall not constitute an Event of Default under the Loan Agreement, and, except for an action for specific performance as aforesaid, the Authority, the Holders and beneficial owners of the Series 2017A Bonds shall have no right to enforce this section.

(i) This section may be amended to the extent required or permitted by the Rule, or in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Borrower, or the type of business conducted by it; provided that: (i) the undertaking set forth in this section, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Series 2017A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (ii) such amendment either (x) does not materially impair the interests of Bondholders, or (y) is approved by the Holders of a majority in aggregate principal amount of the Series 2017A Bonds. In the event of any such amendment, the Borrower shall include in the Operating Data next filed pursuant to subsection (b) above an explanation, in narrative form, of the reasons for the amendment and the impact of the change in the Operating Data.

(j) Any notice, documents or other information required to be filed, or cause to be filed, by the Borrower with the MSRB in accordance with this section shall be filed with EMMA in electronic or such other format as the Rule may require or permit and shall be accompanied by such identifying information as shall be prescribed by the MSRB or as may otherwise be required by the Rule.

(Loan Agreement, Section 3.6)

Completion of the Project; Enforcement of Contracts

With respect to the Project and the financing and construction thereof, the Borrower represents, warrants and agrees that:

(a) The Borrower shall proceed to complete or cause the completion of the construction portion of the Project with all reasonable dispatch, all in accordance with the plans and
specifications therefor, which plans and specifications, to the extent required, have been or will be approved by the New Jersey State Department of Community Affairs, a copy of which approval has been delivered to the Authority prior to any disbursements from the Construction Fund.

(b) The Borrower covenants that the construction, acquisition and utilization of the Project will comply with all laws and other requirements of Federal, state and local governmental bodies having jurisdiction regarding the Project.

(c) The Borrower shall faithfully perform, or cause to be performed, all agreements to be performed under each Construction Contract or Acquisition Contract.

(d) The Borrower agrees that the sums requisitioned from the Construction Fund will be used only for the Costs of the Project, or to reimburse the Borrower for payments made by it for such Costs, and will not be used for any other purpose. The Borrower agrees that, upon request of an Authorized Officer of the Authority, it shall supply to the Authority such documentation as will enable the Authority to determine that the proceeds of the Series 2017A Bonds will be, or have been, applied solely to Costs of the Project. Once all amounts on deposit in the Construction Fund and the Series 2017B Construction Fund have been requisitioned to pay Costs of the Project, any remaining Costs of the Project incurred through completion of the Project shall be paid by the Borrower from its own available funds and the Authority shall have no obligation or responsibility to pay any such remaining Costs of the Project or to lend any additional funds to the Borrower or otherwise make funds available for the payment of such remaining Costs of the Project. Within thirty (30) calendar days after each payment by the Borrower of any remaining Costs of the Project in accordance with the preceding sentence, the Borrower shall supply to the Authority copies of each invoice so paid by the Borrower and appropriate documentation reflecting evidence of the payment thereof by the Borrower.

(e) The Borrower acknowledges and agrees that the provisions of the Prevailing Wage Act and the Prevailing Wage Regulations will apply to the construction of the Project. The Borrower agrees to comply with the provisions of the Prevailing Wage Act to the extent applicable.

(f) Completion of the Project shall be evidenced by the delivery by the Borrower of an Officer’s Certificate to the Authority and the Trustee to the effect that the Project, as described herein, has been completed and stating the date of completion. The Trustee shall be entitled to conclusively rely upon any Officer’s Certificate delivered to it in accordance with the preceding sentence.

(g) Notwithstanding anything to the contrary herein, an Authorized Officer of the Authority shall not approve the requisition of funds from the Construction Fund unless and until the Borrower has delivered an Officer’s Certificate to the Authority and the Trustee stating that all governmental approvals necessary to complete and operate the Project have been obtained.

(h) The Borrower qualifies as a “health care organization” as such term is defined in the Act and the Project qualifies as an authorized “project” as such term is defined in the Act.

(Loan Agreement, Section 4.1)

**Surety Bonds**

The Borrower agrees to require the Contractor with respect to the construction portion of the Project to provide performance bond coverage (or alternative coverage) in form satisfactory to an Authorized Officer of the Authority for (a) performance of each Construction Contract, including coverage for defects developing within one year after acquisition and acceptance of such portions of the Project, and (b) payment for labor and materials. The surety bond or bonds shall be executed by a surety company satisfactory to an Authorized Officer of the Authority and qualified to do business in New
Jersey and shall in each case be in an amount not less than one hundred percent (100%) of the applicable Construction Contract price, provided that the one year maintenance portion of the surety bond or bonds may be limited to ten percent (10%) of the applicable Construction Contract price. Copies of such surety bond or bonds (or alternative coverage) shall be delivered to the Authority prior to any disbursement of moneys in the Construction Fund for such purpose.

(Loan Agreement, Section 4.2)

**Builder’s Risk, Liability and Workers’ Compensation Insurance**

(a) During any period of construction of the Project, the Borrower will maintain or cause to be maintained with respect to the construction portion of the Project:

(i) builder’s risk (or equivalent coverage) insurance upon any work done or materials furnished under each Construction Contract except excavations, foundations and any other structures not customarily covered by such insurance;

(ii) worker’s compensation insurance covering all employees of the Contractor and all other contractors and subcontractors in amounts required by law; and

(iii) public liability and property damage insurance provided by the Contractor, covering the Contractor and its employees, including contractual liability endorsements in amounts of not less than $1,000,000 for injuries to any one person (with an aggregate limitation for any one accident of not less than $2,000,000) and $500,000 for property damage (with an aggregate property damage limitation of not less than $500,000).

(b) The policies of insurance required by paragraph (a) of this section shall be issued by responsible companies qualified to do business in the State and acceptable to an Authorized Officer of the Authority and, in the case of policies required by subparagraphs (a)(i) and (a)(iii) of this section, shall name the Borrower, the Authority and the Trustee as insureds, shall name the Authority and the Trustee as loss payees, and shall, in the case of policies required by subparagraph (a)(i) of this section, be written in completed value form for one hundred percent (100%) of the insurable value of each Construction Contract.

(c) Each policy of insurance required by this section, or a copy thereof or insurance certificate in respect thereof, shall be deposited with the Trustee and the Authority not later than the date of delivery of the Series 2017A Bonds.

(Loan Agreement, Section 4.3)

**Amendment of Project**

(a) The Authority agrees that the construction and acquisition portions of the Project as described in the definition of “Project” may be amended upon written request of the Borrower and the approval of an Authorized Officer of the Authority to increase or decrease the scope thereof by the addition or deletion of any authorized portion of such portions of the Project or to make other appropriate changes; provided, however, that prior to such approval (i) there shall first have been obtained (A) any Certificate of Need (or an amendment to an existing Certificate of Need) as may be required by the Planning Act; any and all approvals from the appropriate State agencies, if so required, all amendments, updates or other modifications to all insurance policies described herein under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Builder’s Risk, Liability and Workers’ Compensation Insurance” which may be necessary so that such policies apply to, and provide coverage for, the Project.
as so amended, and (B) an opinion of Bond Counsel to the effect that such amendment of the Project will not adversely affect the exclusion of interest on the Series 2017A Bonds from gross income for Federal income tax purposes or cause interest on the Series 2017A Bonds to be treated as an item of tax preference under Section 57 of the Code, and (ii) any moneys required to finance the Costs of the Project related to such amendments in excess of the moneys available or to be available in the Construction Fund, as determined by an Authorized Officer of the Authority, shall be delivered to the Trustee for deposit in the Construction Fund. Notwithstanding the foregoing, the Authority agrees that the Borrower shall have the right to approve change orders without prior approval of an Authorized Officer of the Authority, provided that such change orders do not increase or decrease the scope of the Project, or increase the amounts payable under any Construction Contract.

(b) In addition, in the case of the acquisition of any equipment as described in the definition of “Project”, new equipment may be substituted (the “New Project Items”) for equipment originally anticipated (the “Original Project Items”) and become included in the definition of “Project”; provided, however, that no such substitution shall be made unless the Authority and the Trustee shall have received (i) a certificate signed by an Authorized Officer of the Borrower to the effect that (A) the Borrower intends to substitute New Project Items pursuant to this Loan Agreement, (B) the Costs of the Project attributable to the New Project Items will be at least equal to the Costs of the Project attributable to the substituted items, (C) the New Project Items can be financed under the Act, (D) the New Project Items will comply with the provisions of the Planning Act, if applicable, and (E) the substitution of New Project Items will not cause the Borrower to violate the tax representations set forth herein, and (ii) a schedule setting forth the New Project Items. Notwithstanding the foregoing, the Authority agrees that the Borrower shall have the right to (i) approve change orders without prior approval of an Authorized Officer of the Authority, provided that such changes orders do not increase or decrease the scope of the Project or (ii) substitute New Project Items in an amount that exceeds the costs of the Original Project Items, in which case the Borrower shall deposit the excess amount required to acquire New Project Items in the Construction Fund.

(Loan Agreement, Section 4.4)

Payments

The sums payable under the Loan Agreement shall be as described in the Series 2017A Note and shall be paid in the manner set forth therein. In the event the Borrower fails to make any payment in full in respect of the Debt Service Requirements on the Series 2017A Bonds, within thirteen (13) days of its due date, the Borrower shall pay directly to the Authority a late charge of five percent (5%) of the amount overdue.

(Loan Agreement, Sections 5.3 and 5.4)

Obligations Unconditional

The obligations of the Borrower to make payments required as described herein under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Payments” and all other payments required under the Loan Agreement shall be absolute and unconditional without defense or right of set-off. Except as may be expressly provided in the Loan Agreement or in the Resolutions, such payments shall not be decreased, abated, postponed or delayed for any reason whatsoever, including, without limitation, any acts or circumstances that may constitute failure of consideration, the taking of any part of the Health Care Facilities, commercial frustration of purpose, failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of, or connected with the Loan Agreement, or failure of any patient or occupant of the Health Care Facilities to pay the fees, rentals or other charges, and irrespective of whether or not any such patient or occupant receives either partial or total reimbursement as a credit against such payment, it being the intention of the
parties that the payments required of the Borrower under the Loan Agreement will be paid in full when due without any delay or diminution whatsoever.

(Loan Agreement, Section 5.5)

Redemption of Series 2017A Bonds

(a) At the written request of the Borrower delivered to the Authority and the Trustee not less than forty-five (45) nor more than sixty (60) days prior to any date on which any Series 2017A Bonds will be subject to optional or extraordinary redemption as provided in the Resolutions, an Authorized Officer of the Authority shall direct the Trustee in the manner prescribed in the Resolutions to call for optional or extraordinary redemption such principal amount of such Series 2017A Bonds as the Borrower may request. The Borrower shall deliver to the Trustee for deposit in the Redemption Fund, not later than the redemption date, an amount equal to the total Redemption Price of all Series 2017A Bonds so called for redemption on such date. Any Series 2017A Bonds so redeemed shall be credited as the prepayment of an equal principal amount of the Series 2017A Loan.

(b) The Authority and the Borrower agree that, if at any time the moneys on deposit in the Debt Service Fund and the Redemption Fund are at least equal to the sum of: (1) the aggregate principal amount of the Series 2017A Bonds then Outstanding plus any redemption premium necessary to be paid to redeem the Series 2017A Bonds pursuant to optional redemption on the next date that the Series 2017A Bonds are subject to such redemption; (2) accrued interest thereon to the redemption date; and (3) all sums due to the Authority or the Trustee under the Resolutions or the Loan Agreement, all in accordance with the provisions of the Series 2017A Bonds, the Resolutions and the Loan Agreement, upon the written request of the Borrower delivered to the Authority not less than thirty (30) nor more than sixty (60) days prior to any date on which a notice of the optional redemption of the Series 2017A Bonds is required by the Resolutions to be sent to the Holders of the Series 2017A Bonds, an Authorized Officer of the Authority shall provide written notice to the Trustee of the Authority’s election to redeem all of the Series 2017A Bonds then Outstanding.

(c) The Borrower may at any time request the Authority to effect the payment of the Series 2017A Bonds or any maturity thereof, provided that the Borrower shall provide the Authority with the moneys sufficient to effect such payment by depositing such moneys with the Trustee.

(d) Whenever the Series 2017A Bonds are subject to extraordinary redemption pursuant to the Resolutions and the provisions of the Loan Agreement, an Authorized Officer of the Authority is authorized to direct the Trustee to call the same for redemption as provided in the Resolutions. Whenever any Series 2017A Bond is subject to mandatory redemption pursuant to the Resolutions, the Borrower will cooperate with the Authority and the Trustee in effecting such redemption. In the event of any mandatory, optional or extraordinary redemption of the Series 2017A Bonds, the Borrower will pay or cause to be paid to the Trustee an amount equal to the applicable Redemption Price as a prepayment of that portion of the loan payment corresponding to the Series 2017A Bonds to be redeemed together with interest accrued to the date of redemption and will also pay all fees and expenses of the Authority and the Trustee arising with respect to such redemption or otherwise due and owing under the Loan Agreement or the Resolutions at such times and in such amounts as are required to effect the mandatory, optional or extraordinary redemption of the Series 2017A Bonds under the terms of the Resolutions.

(e) If a Change in Use occurs while any Series 2017A Bonds are Outstanding and no other remedial action is taken as permitted by the Code, the Borrower agrees that it will deposit moneys with the Trustee in such manner to effect the payment of all or any maturity or portion thereof at the next optional redemption call date so as to comply with the provisions of the Code. The amounts to be so deposited shall be sufficient to pay the principal of and interest on the Series 2017A Bonds required to be
paid no later than the first date on which such Series 2017A Bonds may be called under the applicable optional redemption provisions.

(f) The Authority agrees that the Borrower shall have the right to make voluntary payments in any amount to the Trustee for deposit in the Redemption Fund; provided that such voluntary payments shall not be construed as requiring a redemption of the Series 2017A Bonds except as permitted or required by the Resolutions or other provisions of the Loan Agreement.

(g) As permitted by the Resolutions, the Borrower shall have the right to purchase and deliver the Series 2017A Bonds to the Trustee as a credit against the mandatory redemption of sinking fund installments for the Series 2017A Bonds. Any Series 2017A Bonds so delivered shall be credited against the mandatory redemption of sinking fund installments on the dates and in the amounts provided in the Resolutions.

(Loan Agreement, Section 5.6)

**Tax Exempt Status of the Borrower**

(a) The Borrower affirmatively represents and warrants that: (i) it is an organization described in Section 501(c)(3) of the Code (or corresponding provisions of prior law), which is exempt from federal income taxes under Section 501(a) of the Code and which is not a “private foundation,” as such term is defined under Section 509(a) of the Code; (ii) it has received a letter or letters (or it is included in a group letter or letters) from the Internal Revenue Service to that effect; (iii) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or letters; (iv) such status has not been adversely modified, limited or revoked; and (v) the facts and circumstances which form the basis of such status as represented to the Internal Revenue Service continue substantially to exist.

(b) The Borrower agrees that: (i) it shall not perform any acts nor enter into any agreements which shall cause any revocation or adverse modification of such federal income tax status; and (ii) agrees that it will not take any action or permit any action to be taken on its behalf, or cause or permit any circumstances within its control to arise or continue, if such action or circumstance would cause the interest paid by the Authority on the Series 2017A Bonds to be subject to federal income tax in the hands of the holders thereof.

(c) The Borrower agrees that neither it, nor any Member of the Obligated Group or any other Person related to the Borrower within the meaning of Treasury Regulation 1.150-1(b), pursuant to an arrangement, formal or informal, shall purchase the Series 2017A Bonds.

(Loan Agreement, Section 6.5)

**Insurance Requirements**

(a) In addition to the requirements of the Resolutions and the Master Indenture, the Borrower agrees that it shall maintain or cause to be maintained with financially sound and reputable insurers, qualified to do business and in good standing in the State, insurance of the following kinds and in the following amounts:

(i) At all times fire, extended coverage, vandalism, and malicious mischief insurance with such other deductible provisions as are usual for similar facilities, on the plant, structure, machinery, equipment and apparatus comprising the Health Care Facilities. The foregoing insurance shall be maintained so long as any of the Series 2017A Bonds are Outstanding and shall be in an amount not less than eighty percent (80%) of the replacement
value of such facilities, exclusive of excavations and foundations. So far as the same may be
reasonably procurable, any such policy shall provide that the insurance company shall give at
least thirty (30) days’ notice in writing to the Trustee, the Master Trustee and the Authority of the
cancellation of such policy. In any event, each such policy shall be in an amount sufficient to
prevent the Borrower from becoming a coinurer under the applicable terms of such policy;

(ii) At all times, workers’ compensation insurance, disability insurance, and each
other form of insurance which the Borrower is required by law to provide, covering loss resulting
from injury, sickness, disability or death of employees;

(iii) At all times, insurance protecting the Authority, the Trustee and the Borrower
against loss or losses from liabilities imposed by law or assumed in any written contract and
arising from the death or bodily injury or damage to the property of others caused by accident or
occurrence (including a contractual liability endorsement);

(iv) At all times, medical liability, malpractice and other hospital operation liability
insurance in sufficient amounts and layers to protect the Authority and the Borrower against
claims arising from the professional services performed by the Borrower;

(v) Fidelity insurance in such amounts and under such terms as shall be determined
by an Authorized Officer of the Authority with due regard to the Borrower’s funds and accounts;

(vi) Boiler and machinery coverage (direct damage and use and occupancy) on a
replacement cost basis, unless waived by an Authorized Officer of the Authority;

(vii) At all times, trustees’ and officers’ liability and vehicle liability insurance
coverage; and

(viii) Business interruption and special equipment insurance in such minimum amounts
as shall be determined by the Borrower and its Independent Insurance Consultant with due regard
to the Borrower’s outstanding debt obligations.

(b) All policies and certificates of insurance required by this section shall be open to
inspection by the Authority and the Trustee at all reasonable times. Certificates of insurance describing
such policies shall be furnished by the Borrower to the Authority and to the Trustee at or prior to the
delivery of the Series 2017A Bonds and annually upon renewal of each policy. Within two hundred
twenty-five (225) days after the end of each Fiscal Year, the Borrower shall furnish to the Authority and
the Trustee: (i) an insurance reporting form describing such policies as evidenced by insurance
certificates; (ii) a certificate signed by the Chief Financial Officer of the Borrower stating that such
insurance meets all the requirements of the Resolutions, all the requirements described herein under the
heading entitled “SUMMARY OF THE LOAN AGREEMENT – Builder’s Risk, Liability and Workers’
Compensation Insurance” and this section, and (iii) a certification addressed to the Borrower, the Trustee
and the Authority by a nationally recognized Independent Insurance Consultant that the types and
amounts of coverage provided are customary and reasonable for institutions of similar type and size,
taking into account the service mix provided by the Borrower. The Borrower will provide additional
proof of insurance coverage, at any time, upon reasonable request by an Authorized Officer of the
Authority or the Trustee.

(c) If any change shall be made in such insurance as to either amount or type of coverage, a
description and notice of such change shall be immediately furnished to the Authority and to the Trustee
by the Borrower. In the event that the Borrower fails to maintain any insurance required by the terms of
the Loan Agreement, the Authority may, upon such notice to the Borrower as is reasonable under the
circumstances, procure and maintain such insurance at the expense of the Borrower.

C-30
(d) Upon a written request of the Borrower, an Authorized Officer of the Authority may, without the need to obtain the consent of the Trustee, permit modifications of or substitutions for the types of insurance required to be maintained by this section or by the Resolutions, including permission for the Borrower to be covered by self-insurance or to have a captive insurance company program in whole or in part for any such coverage, all upon such terms and conditions as the Authority may require. In making its decision to permit such modifications or substitutions, the Authorized Officer of the Authority shall consider the potential risk to the Borrower and the Authority, the availability of insurance, the terms upon which insurance is available, the cost of available insurance and the effect of such terms and such rates upon the Borrower’s costs and charges for its service. In making any such determinations, an Authorized Officer of the Authority may request and rely upon reports provided by the Borrower’s retained professionals. In addition, the Borrower will provide (i) an actuarial study prepared by a licensed independent actuary, (ii) a legal opinion that there will be no material adverse effect for reimbursement under Medicare and Medicaid programs or any governmental programs providing similar benefits or establishing rates and charges for health care services, (iii) a detailed structure of the self insurance or captive insurance program including the oversight committee and all service providers, including legal firms and accountants, (iv) a list of employed physicians covered under the program (self insurance and captive insurance program approval will be limited to employed physicians only), (v) a list of incidents to be reported to Borrower’s current insurer prior to the effective date of self insurance or captive insurance program, (vi) insurance trust agreements or captive insurance program licenses issued by the appropriate corporate or governmental body, and (vii) a list of excess insurance carriers and reinsurance providers. The Borrower shall pay any fees charged by such actuary and other professionals and any expenses incurred by the Authority. The Borrower shall give written notice to the Trustee of any modifications or substitutions made pursuant to this paragraph, and shall indicate in such notice the effective date of such modifications or substitutions. The Authority’s decision to permit the modifications or substitutions aforesaid shall be in the Authority’s sole and absolute discretion.

(e) In the event that the Borrower self-insures or insures through a captive insurance company, the Borrower shall provide to the Authority, at the time of commencement of such coverage and annually thereafter (no later than the anniversary date of commencement of such coverage), either:

(A) a Qualified Insurance Rating from an Insurance Rating Agency and a copy of the rating report relating thereto; or

(B) the following items:

(i) a certification addressed directly to the Borrower, the Trustee and the Authority from a licensed independent actuary specializing in the type of insurance being provided and not unacceptable to an Authorized Officer of the Authority, that based upon an actuarial study, the total discounted held reserves plus capital and surplus in the self insurance or captive insurance program, limited to those funds that cannot be drawn upon by the Borrower for use in operations or otherwise unrelated to payment of claims, are at least equal to the discounted 75th percent confidence level (that expected total unpaid losses will not exceed the total indicated funding level for such coverage) and identifying the assumptions relied upon by the actuary in its determination, which assumptions shall not be unacceptable to an Authorized Officer of the Authority;

(ii) an opinion of counsel addressed directly to the Borrower, the Trustee and the Authority to the effect that the self-insurance or captive insurance program is in compliance with the laws and regulations of the state and/or country of its domicile and is not in contravention of any laws or regulations of the State (the form of which opinion shall not be unacceptable to an Authorized Officer of the Authority); and

(iii) evidence (which shall also be delivered to the Trustee) that the self-insurance or captive insurance program has been audited by a nationally recognized Independent
firm of public accountants and has received an unqualified opinion (the form of which opinion shall not be unacceptable to an Authorized Officer of the Authority) from such firm of public accountants.

(f) In the event that the Borrower is not able to comply with the requirements of paragraph (e) of this section and an Authorized Officer of the Authority has not waived such noncompliance, the Borrower shall procure, within ninety (90) days of the anniversary date referred to in paragraph (e) of this section or by such later date as shall be approved in writing by an Authorized Officer of the Authority, insurance policies complying with the requirements of paragraph (a) of this section.

(g) Notwithstanding anything set forth in the Loan Agreement to the contrary, the provisions of this section may be amended or supplemented by the Authority in its sole and absolute discretion and without the consent of any Bondholder, the Trustee or the Borrower in order that such provisions shall be consistent with the Authority’s policies then in effect.

(h) The Trustee shall have no obligation to review or determine the adequacy of any insurance required by this section.

(Loan Agreement, Section 6.11)

Environmental Representations and Covenants

(a) The Borrower represents and warrants that:

(1) except as disclosed in the Schedule attached to the Loan Agreement, and except with respect to violations and claims of violations which have been corrected or otherwise resolved to the satisfaction of the governmental agency or agencies having jurisdiction prior to the date of the Loan Agreement, it has been and continues to be in compliance with all laws, rules and regulations applicable to the Health Care Facilities governing protection of the public health and the environment and that no notice has been given to the Borrower by any governmental authority or any Person claiming any violation of, or requiring compliance with, any federal, State or local statute, ordinance, regulation or other requirement of law, or demanding remediation of or payment or contribution for any environmental contamination or any damages attributable thereto;

(2) except as disclosed in the Schedule attached to the Loan Agreement, no administrative order, consent order, lien, superlien or agreement, litigation or settlement or, to the best of its knowledge, investigation (other than an investigation by the Borrower itself) with respect to any Hazardous Substance of any kind located on, about or under all or any portion of the Health Care Facilities or that is attributable to the Borrower at any location or in any jurisdiction, exists, is pending, or to the best knowledge of the Borrower, is proposed, threatened or anticipated;

(3) except for (i) Regulated Medical Waste, as that term is defined in N.J.A.C. 7:26-3A.6, (ii) those materials and wastes described in subsection (b)(2) below, and (iii) to the best of its knowledge, after due inquiry, as otherwise disclosed in the Schedule attached to the Loan Agreement, no Hazardous Substance, including, but not limited to, asbestos, PCBs and urea-formaldehyde, has been treated, stored, disposed of or deposited on, in or under the Health Care Facilities, and no underground storage tanks for the storage of Hazardous Substances are or were located at the Health Care Facilities;

(4) except as otherwise disclosed in the Schedule attached to the Loan Agreement, to the best of its knowledge, after due inquiry, there is no actual or threatened release of any
Hazardous Substance or any other environmental condition in, on or from the Health Care Facilities or any of its other properties that may: (i) restrict the development or any use of the Health Care Facilities; (ii) increase the cost of operating or maintaining the Health Care Facilities; (iii) present any risk to any persons or things at, on or off of the Health Care Facilities; or (iv) diminish or impair the value or marketability of the Health Care Facilities;

(5) to the best of its knowledge, but without inquiry, there is no actual or threatened release of any Hazardous Substance or any other environmental condition regulated by the New Jersey Department of Environmental Protection or the federal Environmental Protection Agency in, on or from any property other than the Health Care Facilities that may: (i) restrict the development or any use of the Health Care Facilities; (ii) increase the cost of operating or maintaining the Health Care Facilities; (iii) present any risk of harm or damage to persons or things at or on the Health Care Facilities; or (iv) diminish or impair the value or marketability of the Health Care Facilities;

(6) as to all real or personal property, including the Health Care Facilities, owned and/or occupied by the Borrower located in the State, it has complied with and will comply with the provisions of the Industrial Site Recovery Act, N.J.S.A. 13:1K-6 et seq. or successor statute to the extent applicable to any such property; and

(7) except as otherwise disclosed in the Schedule attached to the Loan Agreement, to the best of its knowledge, after due inquiry, none of its underground storage tanks or their associated piping have released any of their contents or present any threat of release other than the risk of possible further release inherent in any underground storage tank.

(b) The Borrower covenants that it:

(1) will not treat, discharge, spill, dispense, dispose of or otherwise release any Hazardous Substance or any waste of any kind in, on or under the Health Care Facilities and will not cause, suffer, allow or permit any other Person to do so except in compliance with applicable law; it being expressly understood that, without limiting the generality of the foregoing, the Borrower may generate, dispose of and treat Regulated Medical Waste, so long as such disposal and treatment is performed in accordance with all applicable laws, rules and regulations;

(2) except for Regulated Medical Waste, will not use, generate, hold or store any Hazardous Substance or any waste of any kind except that: (i) construction materials, office equipment, other office furnishings, cleaning solutions and other maintenance materials that are or contain Hazardous Substances may be used, held or stored at the Health Care Facilities, provided that such use, holding or storage is incident to and reasonably necessary for the construction, operation, or maintenance of the Health Care Facilities as a health care facility and is in accordance with applicable laws except that no asbestos, asbestos containing materials or PCBs shall be brought into the Health Care Facilities; (ii) reasonable quantities of Hazardous Substances may be used, stored, or held at the Health Care Facilities if such activity is incident to the Borrower’s customary use of such substances at the Health Care Facilities, provided such substances are properly packaged, labeled, stored, held and used in a safe manner in accordance with all applicable law; and (iii) reasonable quantities of municipal waste may be generated by the Borrower at or on the Health Care Facilities and such waste may be stored temporarily at the Health Care Facilities, provided such activity is performed in compliance with all applicable law and provided all such waste is removed within a reasonable time after it is generated;

(3) will not generate, use, hold or store any Hazardous Substance that is permitted under subparagraph (2) above, in a manner so as to create an undue risk of its release at or on the Health Care Facilities;
(4) will provide written notice to the Authority and the Trustee within one week of the Borrower’s knowledge of any and all discharges, spills, disposals or other releases at or on the Health Care Facilities of any Hazardous Substances that are not completely cleaned up and removed within one business day of release except with respect to those which are not prohibited by subsection (b)(2);

(5) will give prior written notice to the Authority of the installation of any additional tanks for the storage of Hazardous Substances at the Health Care Facilities, whether under or above ground, which notice shall include copies of all governmental permits and approvals necessary for such installation, will comply with all applicable laws and regulations concerning the installation of any type of additional storage tanks at the Health Care Facilities, whether under or aboveground, and will notify the Authority and the Trustee in writing of the presence of any contamination that is discovered during or following the removal of any storage tanks;

(6) will perform promptly and in compliance with all applicable statutory and regulatory requirements, any corrective action measures required by any governmental authority having jurisdiction over any underground storage tanks located at or on the Health Care Facilities; and

(7) will, within five (5) days of Borrower’s receipt, notify the Authority and the Trustee in writing of any notice of violation of any law regulating Hazardous Substances issued by any governmental agency with respect to the Borrower or the Health Care Facilities, or any notice of the filing by any governmental agency of any administrative, civil, or criminal action against, or investigation of, the Borrower or the Health Care Facilities arising out of any alleged violation by Borrower of any law regulating Hazardous Substances, including therewith a copy of the notice of violation, filing or investigation as to which such notification is being given.

(c) The Borrower may cure a breach of subsection (b) above, resulting from the discharge, spill, disposal or other release of any Hazardous Substance or waste of any kind, if the Borrower:

(1) promptly takes all measures necessary required by those regulatory authorities having jurisdiction to contain and remove any and all onsite discharges, spills, disposals or other releases of any Hazardous Substance or waste of any kind and remedies and mitigates any and all threats to health, property and the environment in a manner consistent with all applicable law to the extent required by those regulatory authorities having jurisdiction; and

(2) provides the Authority, within thirty (30) days after demand from the Authority, with a bond, letter of credit, or similar financial assurance evidencing to an Authorized Officer of the Authority’s satisfaction that the necessary funds are available to pay the costs of removing, treating and disposing of Hazardous Substances or material contaminated by such Hazardous Substances to the extent required by those regulatory authorities having jurisdiction and discharging any assessments that are or are likely to be imposed on the Health Care Facilities as a result thereof.

(d) For purposes of determining whether an Event of Default has occurred under the Loan Agreement, if the Borrower shall fail to comply with the covenants contained in subsections (b)(4), (b)(5) or (b)(7) of this section requiring the giving of notice within a specified time period to the Authority and/or the Trustee, the Borrower shall be considered to have corrected such failure if, following notification from the Authority and within the time period specified by the Authority in such notification, or such longer period as the Authority may allow, the Borrower shall provide to the Authority and the Trustee, as appropriate, the information required to have been included in such notice together with such explanations as an Authorized Officer of the Authority may request regarding such failure, which explanations shall be satisfactory to an Authorized Officer of the Authority, in its sole discretion.
The Borrower agrees to use its best efforts to include in any contracts and agreements of any kind entered into or renewed after the date of execution and delivery of the Loan Agreement for the occupancy of or the performance of any activities on the Health Care Facilities the same limitations on the activities of such other contracting party as are placed on the Borrower by subsection (b) above.

The Borrower agrees that the Authority and the Trustee and their authorized representatives may, but are not obligated to, enter and inspect and assess the Health Care Facilities at reasonable times and upon reasonable notice to determine the Borrower’s compliance with the above conditions.

The Borrower shall defend, indemnify and hold the Authority and the Trustee harmless from and against any and all past, present and future liability, loss, damage, costs and expense suffered, incurred or threatened as a result of any default under this section or as a result of a notice, complaint, claim, demand, suit, order, judgment, or any other legal requirement, including without limitation of the generality of the foregoing, court costs, attorneys’ and consultants’ fees, environmental cleanup costs, natural resources damages, fines, penalties and damages to persons, personal property, real property and business enterprises, arising out of or relating to the environmental condition of the Health Care Facilities, the existence of any environmental hazard at or on the Health Care Facilities or any release or threat of release of any Hazardous Substance of any kind in, at, on, under or from the Health Care Facilities at any time, regardless of whether caused by or within the control of the Authority or the Trustee.

The indemnification provisions of this section shall survive payment and satisfaction or termination of the Loan Agreement and the Series 2017A Bonds, and the resignation or removal of any entity serving as Trustee.

(Loan Agreement, Section 6.12)

**Required Ratios**

(a) For so long as an acute care hospital is a Member of the Obligated Group, the Borrower agrees, on behalf of itself and any other Member of the Obligated Group, that the Obligated Group will maintain the Required Ratios. The Required Ratios will be tested at the end of each fiscal quarter on the basis of the preceding 12-month period, based on the Obligated Group’s Unaudited Financial Statements.

(b) If the Debt Service Coverage Ratio is less than 1.25 or the Cushion Ratio is less than 1.25 when tested as provided in paragraph (a) of this section, then the Borrower shall, on behalf of itself and any other Member of the Obligated Group, within seventy-five (75) days of the end of such fiscal quarter and, in any event, not more than twenty (20) days following notice from an Authorized Officer of the Authority to do so, (i) prepare a scope of work for a Consultant in form and content acceptable to an Authorized Officer of the Authority, (ii) retain a Consultant acceptable to an Authorized Officer of the Authority, and (iii) require such Consultant, within fifteen (15) days of its appointment, to commence work on a report to be delivered to the Obligated Group and the Authority recommending changes with respect to the operation and management of the Obligated Group’s facilities which such Consultant advises should be implemented.

(c) For so long as the Obligated Group is not in compliance with the Required Ratios, the Borrower shall, on behalf of itself and any other Member of the Obligated Group, deliver to the Authority a certified copy of a resolution adopted by the Board of the Borrower accepting such report on behalf of itself and any other Member of the Obligated Group and a report setting forth in reasonable detail the steps, if any, the Obligated Group proposes to take to implement the recommendations of such Consultant, and (B) quarterly reports showing the progress made by the Obligated Group in achieving compliance with the Required Ratios and, if applicable, implementing the recommendations of the
Consultant; or (ii) a certified copy of a resolution adopted by the Board of the Borrower accepting such report and establishing the reason(s) why such recommendation of such Consultant will not be complied with.

(d) If the Borrower shall fail to maintain the Required Ratios as required by paragraph (a) of this section, the Borrower shall nonetheless be considered to be in compliance with this section so long as the Obligated Group has satisfied the requirements of paragraphs (b) and (c) of this section to the reasonable satisfaction of an Authorized Officer of the Authority. If the Borrower shall also fail to satisfy the requirements of paragraphs (b) and (c) of this section to the reasonable satisfaction of an Authorized Officer of the Authority, the Authority shall be entitled to notify the members of the Board of the Borrower of such noncompliance, at the addresses specified in the list provided pursuant to paragraph (e) under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Financial and Other Reports” herein, and to enforce the provisions of this section by specific performance. In no event, however, shall failure to satisfy the provisions of this section constitute an Event of Default under the Loan Agreement nor a default in the performance of a covenant within the meaning of the Resolutions, it being understood that the sole remedies for noncompliance shall be the right of the Authority to seek specific performance and/or to notify Board members as aforesaid, and the remedies available to the Authority as described under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Triggering Events” herein.

(Loan Agreement, Section 6.14)

Financial and Other Reports

(a) The Borrower shall within forty-five (45) days after the end of each quarter during its Fiscal Year, or monthly if requested, respectively, by the Authority or the Trustee, deliver to the Authority and the Trustee:

(i) Unaudited Financial Statements of the Borrower, including balance sheet, revenues and expenses and statement of cash flows of the Obligated Group, together with a comparison to the prior year, in reasonable detail;

(ii) a certificate signed by the Chief Financial Officer of the Borrower stating that the Unaudited Financial Statements have been prepared in accordance with GAAP on substantially the same basis as the Obligated Group’s Audited Financial Statements;

(iii) a report on the utilization of the Obligated Group in such detail as the Authority may require, including (A) number of beds in service, admissions or discharges, number of observation cases, patient days and average length of stay and occupancy, all in such reasonable detail as an Authorized Officer of the Authority may request, and (B) same-day surgery and outpatient and emergency room visits;

(iv) a certificate signed by the Chief Financial Officer of the Borrower calculating the Required Ratios set forth under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Required Ratios” herein;

(v) a certificate signed by the Chief Financial Officer of the Borrower stating that no Event of Default has occurred and is continuing under the Loan Agreement;

(vi) if the Obligated Group is not in compliance with the Required Ratios and if requested by the Authority (A) a statement of projected cash flows of the Obligated Group covering such period as an Authorized Officer of the Authority may request, and (B) at the end of such period, a statement comparing actual results to such projections;
(vii) a report calculating, as to each Derivative Agreement in existence as of the end of such quarter, the “marked-to-market” value of the Derivative Agreement calculated in the manner provided in such Derivative Agreement; and

(viii) a report setting forth any changes in, updates to or other modifications of, the Derivative Policy.

(b) The Borrower shall deliver to the Authority and the Trustee, as soon as available, but in no event later than one hundred-fifty (150) days of the end of each Fiscal Year:

(i) an annual unaudited report on the utilization of the Obligated Group, for such Fiscal Year in such detail as the Authority may require, including (A) number of beds in service, admissions or discharges, number of observation cases, patient days and average length of stay and occupancy, all in such reasonable detail as an Authorized Officer of the Authority may request, and (B) same-day surgery and outpatient and emergency room visits;

(ii) Audited Financial Statements for the preceding Fiscal Year. Concurrently with the delivery of such Audited Financial Statements, the Borrower shall deliver or cause to be delivered:

(A) to the Authority, a letter from an independent firm of certified public accountants, stating that (1) such firm understands and agrees that the Borrower plans to provide the Authority with a copy of the Audited Financial Statements and any report issued in connection therewith, (2) such firm further understands that the Authority intends to rely upon the Audited Financial Statements and any report issued in connection therewith, and that the Borrower intended for the Authority to so rely, and (3) such firm knew that the Authority intended to rely upon such Audited Financial Statements;

(B) to the Authority and the Trustee, a certificate signed by the Chief Financial Officer of the Borrower that, after a review of the provisions of the Loan Agreement, no event has occurred which, with the giving of notice or the passage of time, would constitute an Event of Default under the Loan Agreement; and

(C) to the Authority and the Trustee, a computation as of the end of the preceding Fiscal Year, performed by the Chief Financial Officer of the Borrower, of the Obligated Group’s compliance with the Required Ratios.

(c) The Borrower shall also furnish to the Authority and the Trustee, upon receipt thereof by the Borrower:

(i) copies of any management letter or report which addresses any material weaknesses disclosed during any annual or interim audit submitted to the Borrower by its accountants and a copy of any written response of the Borrower to any such letter or report; and

(ii) evidence of the continued licensure by the New Jersey State Department of Health of any Members of the Obligated Group that are acute care hospitals.

(d) Copies of the reports required by paragraph (b) above shall be sent by the Borrower to each Rating Agency, if any, which has assigned a rating to the Series 2017A Bonds and shall also be filed with the Trustee in sufficient quantity to permit the Trustee to retain at least one copy for inspection by Series 2017A Bondholders. Copies of such reports required by paragraph (b) above shall be mailed at the expense of the Borrower to any Series 2017A Bondholder who files a written request therefor.
(e) The Borrower shall, within thirty (30) days after each annual meeting of the Board of the Borrower, deliver to the Authority a list of the names and addresses of all members of the Board of the Borrower, and shall promptly notify the Authority (but, in any event, no later than thirty (30) days after the change occurs) of any changes thereto and of any changes to its Chief Executive Officer, President, any Chief Operating Officer of its divisions or its Chief Financial Officer, as applicable.

(f) Prior to or simultaneously with the issuance and delivery of the Series 2017A Bonds, the Borrower shall deliver to the Authority (i) a listing of all Derivative Agreements of the Obligated Group which are outstanding as of the date of issuance and delivery of the Series 2017A Bonds and the “marked-to-market” value of each such Derivative Agreement as of the end of the most recent Fiscal Year quarter of the Borrower, calculated in the manner provided in such Derivative Agreement, and (ii) a copy of the Derivative Policy, if any.

(g) Each report filed pursuant to paragraphs (a) and (b) of this section must include a certification signed by the Chief Executive Officer and the Chief Financial Officer of the Borrower that:

(i) they have reviewed the report being filed;

(ii) based on their knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading with respect to the period contained in such report; and

(iii) based on their knowledge, the financial statements and other financial information included in the report, fairly present in all material respects, the financial condition of the Obligated Group, as of, and for the periods presented in the report.

(h) The Trustee shall have no obligation or duty to review any financial statements (audited or otherwise) or other materials filed with it and shall not be deemed to have notice of the content of such financial statements or materials or a default based on such content and shall have no obligation or duty to verify the accuracy of such financial statements or materials.

(Loan Agreement, Section 6.15)

Restrictions on Transfers of Cash and Marketable Securities

The Borrower hereby agrees that neither it nor any other Member of the Obligated Group will donate, give or transfer, without adequate consideration, any of its cash or marketable securities outside of the Obligated Group unless the Authority and the Trustee are provided with an Officer’s Certificate showing that such transfer shall not reduce the number of Days Cash On Hand of the Obligated Group below the lesser of (i) one hundred (100) Days Cash on Hand, or (ii) the then current Standard & Poor’s Financial Services LLC’s “U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Ratio by Rating Level” for Days Cash on Hand for “BBB” rated hospitals, in each case with the number of Days Cash On Hand of the Obligated Group being determined as of the close of business on the day preceding such transfer or donation assuming such transfer or donation occurred on such day. If there is no longer maintained a Standard & Poor’s Financial Services LLC’s “U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Ratio by Rating Level” for Days Cash on Hand, the Authority reserves the right to substitute a similar benchmark in order to effectuate the intent of this section. Nothing contained in this section shall be construed as limiting the ability of the Borrower to invest and reinvest cash or marketable securities or to make transfers in arm’s length transactions in the ordinary course of business.

(Loan Agreement, Section 6.16)
Triggering Events

(a) For purposes of this section, a “Triggering Event” shall mean (i) the failure of the Obligated Group to maintain the Required Ratios for two (2) or more consecutive quarterly testing periods (it being understood that failure by the Borrower to provide a certificate evidencing satisfaction by the Obligated Group of the Required Ratios for any quarterly testing date within the time required by subsection (a) as set forth herein under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Financial and Other Reports” shall be conclusively deemed for purposes of this section to constitute a failure to satisfy the Required Ratios as of such quarterly testing date), and (ii) the failure of the Obligated Group to maintain the Days Cash on Hand Requirement as of the last day of the second quarterly reporting period identified in clause (i) above (it being understood that failure by the Borrower to provide a certificate evidencing satisfaction by the Obligated Group of maintaining the Days Cash on Hand Requirement shall be conclusively deemed for purposes of this section to constitute a failure to satisfy the Days Cash on Hand Requirement as of such required date).

(b) Upon the occurrence of a Triggering Event, then, in addition to any other remedies and rights available under the Loan Agreement or under any other document as a result thereof, the Borrower shall (i) permit up to two (2) representatives of the Authority designated in writing from time to time by an Authorized Officer of the Authority (the “Representatives”) to attend all portions (other than (1) portions exclusively devoted to Privileged Matters, as such term is hereinafter defined, and (2) portions exclusively devoted to Excluded Matters, as such term is hereinafter defined) of every meeting of the Board of the Borrower and of each and every committee thereof, (ii) provide to the Authority and each of the Representatives at least forty-eight (48) hours’ advance notice of each such meeting and of any action taken or purported to be taken by members of the Board of the Borrower (or any committee thereof) in lieu of a meeting, and (iii) provide to the Authority and each of the Representatives copies of all information and reports (other than information and reports dealing exclusively with Privileged Matters and/or Excluded Matters) distributed to, or otherwise made available to, voting members of the Board of the Borrower (or any committee thereof). All information and reports dealing with other Sensitive Matters, as such term is hereinafter defined, may be made available to the Representatives for review at a time convenient to the Representatives and must be retained by the Borrower. For purposes of this paragraph (b), the term “Privileged Matters” shall mean only those communications between members of the Board of the Borrower and an attorney (with no other persons present) given solely for the purpose of obtaining legal advice relating to actual or threatened litigation against, or otherwise affecting, the Borrower such that said communication is entitled to attorney-client privilege; provided, that in no event shall “Privileged Matters” include matters relating to general operations, business strategy, financial condition or scope of services. For purposes of this paragraph (b), the term “Excluded Matters” shall mean only those matters consisting exclusively of (i) physician disciplinary issues and/or physician ethical issues, and (ii) protected health information within the meaning of the Health Insurance Portability and Accountability Act of 1996, as amended (HIPAA). For purposes of this paragraph (b), the term “Sensitive Matters” shall mean only those documents that contain strategically sensitive information which the Borrower believes must remain confidential. In the event the Representatives are not permitted to attend any portion of a meeting or are not provided with any information or reports on the grounds that same involves Privileged Matters, the Borrower shall, (x) within forty-eight hours following the holding of such meeting or the withholding of such information or reports, as applicable, provide to the Authority and each of the Representatives a written statement asserting such grounds and describing, in reasonable detail but without disclosing matters subject to the attorney-client privilege, the nature thereof, and (y) within thirty (30) days following the termination or abandonment of any related litigation, a full report as to such meeting and/or full copies of any previously-withheld information or reports. In the event the Representatives are not permitted to attend any portion of a meeting or are not provided with information or reports on the grounds that the same involves Excluded Matters, the Borrower shall, within forty-eight hours following the holding of the meeting or the withholding of such information or reports, as applicable, provide to the Authority and each of the Representatives a written statement asserting such
grounds. The rights of the Authority described in this paragraph (b) are collectively referred to as the “Monitoring Rights”.

(c) The Monitoring Rights shall arise upon the occurrence of any Triggering Event. Once having arisen, the Monitoring Rights shall thereafter remain continuously in effect until the earlier to occur of (x) the passage of twelve consecutive months during which there has continuously existed (A) no Event of Default under the Loan Agreement and no “Event of Default” under the Master Indenture, (B) maintenance of the Required Ratios (as evidenced by the delivery by the Borrower of four consecutive quarterly compliance certificates, each within the times required as set forth herein under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Financial and Other Reports”), and (C) maintenance of at least the Days Cash on Hand Requirement (as evidenced by the delivery by the Borrower of four consecutive quarterly compliance certificates, each within the times required as set forth herein under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Financial and Other Reports”), or (y) such time as no Series 2017A Bonds remain Outstanding under the Resolutions.

The provisions of this section shall be in addition to all other requirements of the Loan Agreement and the Master Indenture. Failure to comply with any of the provisions of this section shall constitute an Event of Default under the Loan Agreement, and compliance by the Borrower with the recommendations contained in any Consultant’s report shall not absolve noncompliance with the provisions of this section or any other provisions of the Loan Agreement or the Master Indenture. In addition to any other remedies provided under the Loan Agreement, the Master Indenture or otherwise, (i) the provisions of this section may be enforced by the Authority in an action for specific performance against the Borrower, and (ii) if the Borrower shall fail to comply with the requirements of this section, the Authority shall be entitled to notify members of the Board of the Borrower of such noncompliance at the addresses specified in the list(s) provided pursuant to subsection (e) under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Financial and Other Reports” herein. The rights and remedies provided for under this section shall not be assigned by the Authority to the Trustee, and may be enforced only by the Authority (and not by the Trustee or any Holder of the Series 2017A Bonds). Unless otherwise directed by resolution of the Authority, any Authorized Officer of the Authority may, in his sole discretion, upon request from the Borrower, waive from time to time any of the rights and remedies provided in this section, but any such waiver shall be in writing, shall be limited to the facts and circumstances so stated, and shall be without prejudice to any other rights and remedies the Authority may have (or may subsequently have) under this section or otherwise.

(Loan Agreement, Section 6.17)

Derivative Agreements

The Borrower covenants and agrees that, except for the Existing Swap Agreements, it will only enter into a Derivative Agreement upon compliance with the following:

(a) Except as otherwise provided in paragraph (e) of this section, the Derivative Agreement shall be entered into only for the purpose of hedging interest rate risk or managing interest rate costs with respect to Indebtedness, whether then outstanding or expected to be issued or incurred for a defined project;

(b) The Derivative Agreement shall not contain any leverage element or multiplier greater than 1.0x unless there is a matching hedge arrangement which effectively offsets the exposure from any such element or component, or unless such leverage is necessary solely to match one index against another to meet market conditions (e.g. 150% of SIFMA in exchange for 100% of LIBOR due to the market relationship of SIFMA to LIBOR in a taxable transaction);
(c) At the time the Derivative Agreement is signed, the counterparty or its guarantor must have at least one rating for its long term debt obligations in one of the two highest rating categories (without regard to numerical or other qualifiers) of a Rating Agency;

(d) The Borrower must provide, within 15 calendar days of the execution of the Derivative Agreement, to the Master Trustee, the Trustee and the Authority, a copy of the Derivative Agreement, a copy of the Internal Revenue Service Identification Certification relating to such Derivative Agreement, if any, and an Officer’s Certificate stating that, at the time of the execution of the Derivative Agreement (i) no Event of Default has occurred or is continuing or will occur by reason of the execution of the Derivative Agreement, and (ii) no event has occurred and is continuing or will occur by reason of the execution of the Derivative Agreement which, with the passage of time or the giving of notice, or both, would constitute an Event of Default;

(e) The Borrower may enter into a Derivative Agreement which does not comply with the provisions of paragraph (a) of this section only if the Borrower at the time of execution of the Derivative Agreement complies with the provisions of paragraphs (b), (c) and (d) of this section and the Borrower either (1) is itself rated in one of the top three rating categories (without regard to numerical or other qualifiers) of a Rating Agency, or (2) is rated at least “investment grade” by a Rating Agency and provides to the Authority, the Trustee and the Master Trustee an Officer’s Certificate that indicates that (i) the Debt Service Coverage Ratio for the most recent Fiscal Year of the Obligated Group was at least 1.50 to 1, and (ii) as of the date of execution of the Derivative Agreement, the Obligated Group has at least seventy-five (75) Days Cash on Hand;

(f) The Borrower shall not enter into any Derivative Agreement relating to the Series 2017A Bonds or any other outstanding tax-exempt Authority bonds or obligations issued for the benefit of the Borrower unless the Borrower, at the sole cost and expense of the Borrower, has delivered to the Authority a written Opinion of Bond Counsel satisfactory to an Authorized Officer of the Authority to the effect that entering into such Derivative Agreement will not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid or payable on the Series 2017A Bonds or such other Authority bonds or obligations;

(g) The Borrower may secure its obligations arising under a Derivative Agreement as follows:

(1) By a lien which is subordinate and junior in all respects to the lien and security interest securing the Series 2017A Note under the Master Indenture;

(2) By a lien for the equal and ratable benefit of all of the holders of Obligations, provided that, at the time of the execution of the Derivative Agreement, the Borrower provides an Officer’s Certificate to the Master Trustee, the Trustee and the Authority to the effect that the Borrower either (1) is itself rated in one of the top three rating categories (without regard to numerical or other qualifiers) of a Rating Agency, and the Debt Service Coverage Ratio for the most recent Fiscal Year of the Obligated Group was at least 1.50 to 1, or (2) is rated at least “investment grade” by a Rating Agency and (i) the Debt Service Coverage Ratio for the most recent Fiscal Year of the Obligated Group was at least 1.50 to 1, and (ii) as of the date of execution of the Derivative Agreement, the Obligated Group has at least seventy-five (75) Days Cash on Hand; or

(3) The Borrower may agree to collateralize its obligations under the Derivative Agreement if, at the time of execution, the Borrower provides to the Master Trustee, the Trustee and the Authority, an Officer’s Certificate to the effect that the Borrower has made provisions in the Derivative Agreement that the Borrower can only be required to provide collateral if, at the
time any such deposit would be required, the Days Cash on Hand of the Obligated Group would not be less than sixty (60) days, assuming the collateral deposit has been made; and

(h) Notwithstanding anything set forth in the Loan Agreement to the contrary, the provisions of this section may be amended and supplemented by the Authority in its sole and absolute discretion and without the need to obtain the consent of any Holders of the Series 2017A Bonds, the Master Trustee, the Trustee or the Borrower in order that such provisions shall be consistent with the Authority’s policies then in effect applicable to Derivative Agreements.

(Loan Agreement, Section 6.18)

Events of Default

(a) Each of the following will constitute an “Event of Default” under the Loan Agreement:

(1) If payment of any amount due in respect of the Debt Service Requirements on the Series 2017A Bonds, as required by the Series 2017A Note, is not received by the Trustee when due, whether or not the Borrower has received a statement of the amount due;

(2) If payment of any other amount due under the Loan Agreement is not made within thirty (30) days after the mailing of a statement by the Authority to the Borrower as to the amount due;

(3) If the Borrower shall:

(a) admit in writing its inability to pay its debts as they become due; or

(b) file a petition to be adjudicated a voluntary bankrupt in bankruptcy or a petition to otherwise take advantage of any State or Federal bankruptcy or insolvency law; or

(c) make an assignment for the benefit of its creditors or seek a composition with its creditors; or

(d) consent to the appointment of a receiver for itself.

(4) If the Borrower shall, upon an involuntary petition under any section or chapter of the Federal bankruptcy laws filed against it, have an order for relief filed against it, or if a court of competent jurisdiction shall enter an order or decree appointing a trustee or receiver (interim or permanent) or appointing the Borrower a debtor-in-possession, with or without the consent of the Borrower, or approving a petition filed against it seeking reorganization or an arrangement under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof, and such adjudication, order or decree is not dismissed or vacated within a period of sixty (60) days from the date thereof;

(5) If a final judgment for the payment of money in excess of $1,000,000, which judgment is not covered by the proceeds of insurance, shall be rendered against the Borrower, and at any time after forty-five (45) days from the entry thereof (i) such judgment shall not have been discharged, or (ii) the Borrower shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and have caused, within such forty-five (45) days, the execution of or levy under such judgment, order, decree or process of the enforcement thereof to have been stayed pending determination of such appeal;
If (i) the Borrower defaults in the due and punctual performance of any other covenant in the Loan Agreement (other than as may be specifically excluded as an Event of Default therein), (ii) the Authority delivers to the Borrower written notice of such failure stating that if such failure is not corrected within a specified period, which shall not be less than thirty (30) days, an Event of Default shall exist under the Loan Agreement, (iii) the Borrower does not correct such failure within such time period, or such longer period as the Authority may allow, and (iv) such notice is not withdrawn in writing by the Authority;

If an Event of Default, or an act which with the passage of time or giving of notice would constitute an Event of Default, occurs under any of the contracts of the Members of the Obligated Group with third party payors (subject to the applicable notice and cure provisions of such contracts) accounting for ten percent (10%) or more of the Gross Receipts of the Obligated Group derived from operations during the preceding Fiscal Year or if any of the Health Care Facilities shall suffer suspension or termination of any license to operate, the absence of which license would have any material adverse financial effect or other material adverse effect on the Borrower or its status as a “health care organization” for purposes of the Act or the exclusion from gross income under Section 103 of the Code of the interest paid and payable on the Series 2017A Bonds;

If any representation or warranty made by the Borrower pursuant to or in connection with the Loan Agreement or any report, certificate, financial statement, application, or other instrument or document furnished by the Borrower shall prove to be false or misleading in any material respect when made; or

If any Event of Default (as defined in the Master Indenture) occurs and is continuing under the Master Indenture.

If any Event of Default described in subparagraphs (1), (2) or (9) of subsection (a) above shall have occurred and if no acceleration of the amounts payable under the Loan Agreement shall have been declared as set forth herein under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Acceleration and Annulment Thereof; Opportunity to Cure Default”, and all amounts then due and payable under the Loan Agreement are paid by the Borrower and the Borrower also performs all other things in respect of which it may have been in default under the Loan Agreement and pays any reasonable charges of the Authority, the Trustee and the Holders of the Series 2017A Bonds, including reasonable attorneys’ fees, then, and in every such case, such Event of Default shall be deemed to have been cured and the parties to the Loan Agreement shall be restored to their former respective positions; but no such curing of an Event of Default shall extend to or affect or constitute a waiver of any subsequent Event of Default or impair any right or remedy consequent thereon.

(Loan Agreement, Section 7.1)

Acceleration and Annulment Thereof; Opportunity to Cure Default

If an Event of Default occurs under the Loan Agreement, the Authority or the Trustee may, upon written notice to the Borrower, declare all amounts payable during the term of the Loan Agreement in respect of the unpaid principal balance of the Series 2017A Loan, together with all interest accrued and all other amounts then payable to the Authority or the Trustee, to be immediately due and payable; and upon such declaration the said principal amount shall become due and payable immediately, anything in the Resolutions, the Series 2017A Bonds or the Loan Agreement to the contrary notwithstanding. Notwithstanding the foregoing, neither the Authority nor the Trustee shall accelerate the Series 2017A Loan pursuant to this paragraph (a) unless the Master Trustee accelerates the Series 2017A Note pursuant to the Master Indenture.
(b) If, after such declaration set forth in paragraph (a) of this section, all amounts which were due and payable prior to such declaration are paid by the Borrower and the Borrower has performed all other things in respect of which it may have been in default under the Loan Agreement and pays the reasonable fees, charges and other expenses of the Authority, the Trustee and the Holders of the Series 2017A Bonds, including reasonable attorneys’ fees, then, and in every such case, the Authority may, by written notice to the Borrower and the Trustee, and shall, at the direction of the Holders of at least twenty-five percent (25%) in principal amount of the Outstanding Series 2017A Bonds, subject to the provisions of Section 8.02 of the General Resolution, annul such declaration and its consequence; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

(Loan Agreement, Section 7.2)

Remedies

Upon or after the occurrence of any Event of Default, the Authority or the Trustee may, and at the direction of the Holders of at least twenty-five percent (25%) in principal amount of the Outstanding Series 2017A Bonds, shall, exercise any one or more of the remedies available to it under the terms of the Loan Agreement, any other agreement now or hereafter existing, at law, or in equity, by statute separately or concurrently and as often as required to enforce the obligations of the Borrower under the Loan Agreement. In addition to the other remedies provided in the Loan Agreement, the Authority shall be entitled to the restraint by injunction of the violation, or attempted or threatened violation by the Borrower of any of the covenants, conditions or provisions of the Loan Agreement, and to a decree compelling specific performance of any such covenants, conditions or provisions. Notwithstanding the foregoing, neither the Authority nor the Trustee shall exercise any remedies under the Loan Agreement which are inconsistent with any remedies taken by the Master Trustee following the occurrence of an Event of Default under the Master Indenture.

In case of any proceeding of the Authority wherein appointment of a receiver may be permissible, the Authority, as a matter of right and immediately upon the commencement of each proceeding, upon written notice to the Borrower, shall be entitled to appointment of a receiver of the Health Care Facilities and the other facilities of the Obligated Group and of the revenues therefrom, with such powers as the court making such appointment can confer. Upon demand, the Borrower shall pay to the Authority and the Trustee all expenses, including receiver’s fees, costs and agents’ compensation, incurred pursuant to the provisions of this section, and all such expenses shall be secured by the Loan Agreement.

(Loan Agreement, Section 7.3)

Immunity of Authority and Trustee

The Borrower will protect, exonerate, defend, indemnify and save the Authority and the Trustee and their respective members, directors, officers, employees, agents and attorneys harmless as set forth in the Loan Agreement.

(Loan Agreement, Section 8.1)

Immunity of Incorporators, Members, Officers and Members of Board

No recourse under or upon any obligation, covenant or agreement of the Loan Agreement, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, member, employee, officer or member of the Board of any Obligated Issuer, past, present or future, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that the Loan Agreement constitutes solely corporate obligations,
and that no personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, members, employees, officers or members of the Board of any Obligated Issuer because of the creation of the indebtedness authorized by the Loan Agreement, or under or by reason of the obligations, covenants or agreements contained in the Loan Agreement or in any obligations implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, member, officer or member of the Board of any Obligated Issuer, as such, by reason of the obligations, covenants or agreements contained in the Loan Agreement or in any obligations implied therefrom are expressly waived and released as a condition of, and as consideration for, the execution of the Loan Agreement.

(Loan Agreement, Section 8.2)

Amendments

Notwithstanding anything in the Loan Agreement or the Resolutions to the contrary, and except as otherwise provided in subsection (g) under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Insurance Requirements”, and subsection (h) under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Derivative Agreements” herein, if the rights of the Holders of the Series 2017A Bonds are not adversely affected, the Loan Agreement may be amended at any time by the parties thereto (subject to the provisions of the Resolutions), but no such amendment may modify the rights or obligations of the Trustee without the written consent of the Trustee.

(Loan Agreement, Section 8.3)
SUMMARY OF THE RESOLUTIONS

The following is a brief summary of certain provisions of the Resolutions pertaining to the Series 2017A Bonds.

Purpose

The General Resolution authorizes bonds of the Authority to be issued for one or more projects or refunding of indebtedness for one or more borrowers in one or more series, each series to be authorized by a separate series resolution.

(General Resolution, Sections 2.01 and 2.02)

The Series Resolution, among other things, authorizes the issuance of the Series 2017A Bonds for the purposes of making a loan to the Institution to provide funds which will be sufficient to (a) together with a portion of the proceeds of the Series 2017B Bonds and other available moneys of the Institution, pay the Costs of the Project, (b) pay capitalized interest on the Series 2017A Bonds in the amounts and for the period of time after the issuance of the Series 2017A Bonds as shall be set forth in a certificate signed by an Authorized Officer of the Authority and dated the Closing Date, if necessary, and (c) pay all or a portion of the costs incidental to the issuance and sale of the Series 2017A Bonds, including making deposits to certain funds created under the Resolutions.

(Series Resolution, Section 2.1)

Establishment of Funds and Accounts

The following funds and separate accounts within funds will be established in connection with the Series 2017A Bonds and will be held, maintained and applied by the Trustee:

- Capitalized Interest Fund (if a Capitalized Interest Fund is established pursuant to the Certificate);
- Construction Fund;
- Costs of Issuance Fund;
- Debt Service Fund;
- Interest Account;
- Principal Account; and
- Sinking Fund Account;
- Rebate Fund; and
- Redemption Fund.

All of the foregoing funds, except the Rebate Fund, are specifically pledged as security for the Series 2017A Bonds, are to be held by the Trustee in trust for the sole benefit of the Holders of the Series 2017A Bonds, and are not subject to attachment or any other lien by any other creditor in the event of bankruptcy, nor shall these funds be used for general operations of the Borrower in the event of bankruptcy.

(General Resolution, Section 5.01; Series Resolution, Section 3.1)

Application of Proceeds of Series 2017A Bonds and Other Moneys

The proceeds of the Series 2017A Bonds shall be applied to making the deposits into the funds as described below, provided that the origin of moneys as provided below, may be changed or supplemented by written direction of an Authorized Officer of the Authority delivered to the Trustee at the closing for
the Series 2017A Bonds, as long as the requirements of such funds, as provided under the Series Resolution, are fully met at the closing for the Series 2017A Bonds:

(1) from the proceeds of the Series 2017A Bonds, the amounts anticipated to be necessary to pay a portion of the Costs of the Project, as set forth in a certificate signed by an Authorized Officer of the Authority and dated the Closing Date, shall be deposited in the Construction Fund;

(2) from the proceeds of the Series 2017A Bonds, the amount, if any, necessary to pay interest on the Series 2017A Bonds in the amounts and for the period of time after the issuance of the Series 2017A Bonds as shall be set forth in in a certificate signed by an Authorized Officer of the Authority and dated the Closing Date, shall be deposited in the Capitalized Interest Fund; and;

(3) from the proceeds of the Series 2017A Bonds (which may, at the direction of an Authorized Officer of the Authority, be paid by the Underwriter directly to the applicable payee), the amount set forth in a certificate signed by an Authorized Officer of the Authority and dated the Closing Date and required to pay costs of issuance of the Series 2017A Bonds, shall be deposited in the Costs of Issuance Fund.

(Series Resolution, Section 3.2)

Application of Moneys in the Costs of Issuance Fund, the Construction Fund, the Debt Service Fund, the Capitalized Interest Fund and the Redemption Fund

(a) Moneys deposited in the Costs of Issuance Fund shall be applied, at the written direction of an Authorized Officer of the Authority, to the payment of Costs of Issuance of the Series 2017A Bonds; provided, however, that moneys in the Costs of Issuance Fund represented by proceeds of the Series 2017A Bonds that are applied to pay expenses described in Section 147(g) of the Code shall not exceed two percent (2%) of the proceeds of the Series 2017A Bonds. Moneys in the Costs of Issuance Fund shall be used to pay such expenses in the same manner as provided in Section 5.03 of the General Resolution for payments from the Construction Fund. Any balance remaining in the Costs of Issuance Fund after six (6) months following the date of issuance of the Series 2017A Bonds and not needed to pay Costs of Issuance of the Series 2017A Bonds shall be transferred to the Construction Fund. Notwithstanding any provisions of the General Resolution to the contrary, interest earnings on amounts on deposit in the Costs of Issuance Fund shall be credited to and remain in the Costs of Issuance Fund. The provisions of subparagraph (a) of this section shall be in lieu of the provisions of Section 5.03(a) of the General Resolution with respect to the Series 2017A Bonds only.

(b) Moneys deposited in the Construction Fund shall be applied to the payment of the Costs of the Project in the manner set forth in the General Resolution. In the event that the Project is amended as permitted under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Amendment of Project” herein, moneys held in the Construction Fund may thereafter be applied toward the payment of Costs of the Project, as so amended; provided, however, that no moneys shall be disbursed from the Construction Fund for such purpose, until the Borrower shall have provided evidence acceptable to an Authorized Officer of the Authority and the Trustee of its compliance with the requirements of subsection (a) under the heading entitled “SUMMARY OF THE LOAN AGREEMENT – Amendment of Project” herein. Notwithstanding any provisions of the General Resolution to the contrary, interest earnings on amounts on deposit in the Construction Fund shall be credited to and remain in the Construction Fund. Upon completion of the Project and delivery to the Authority of the certificate relating to such completion more fully described below in this subparagraph (b) of this section signed by an Authorized Officer of the Borrower, the balance of the moneys remaining in the Construction Fund and not needed for the foregoing purposes shall be transferred to the Principal Account, Interest Account or Sinking Fund
Account, by the Trustee, as directed by an Authorized Officer of the Authority (upon the written direction of the Borrower) for application to payment of the maturing principal or Sinking Fund Installment or the interest, as the case may be, next becoming due on the Series 2017A Bonds.

Completion of the Project shall be determined by a certificate signed by an Authorized Officer of the Borrower stating that the Project has been completed and stating the amount of Costs of the Project, if any, remaining to be paid from the Construction Fund. The provisions of this subparagraph (b) of this section shall be in lieu of the provisions of Section 5.03(g) of the General Resolution with respect to the Series 2017A Bonds only.

(c) Moneys deposited in the Debt Service Fund shall be applied as set forth in Section 5.05 of the General Resolution.

(d) Moneys deposited in the Capitalized Interest Fund shall be applied to the payment of capitalized interest on the Series 2017A Bonds.

(e) At any time prior to giving notice of redemption as set forth in the Series Resolution and in Article III of the General Resolution, the Trustee shall, upon written direction of an Authorized Officer of the Authority upon written request of the Borrower, apply such amounts on deposit in the Redemption Fund to the purchase of Series 2017A Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Series 2017A Bonds.

(Series Resolution, Section 3.3)

Allocation of Revenues

(a) The Trustee shall determine and shall notify the Borrower at least semiannually of the amounts due and payable under the Loan Agreement as evidenced by the Series 2017A Note while giving effect to any credits determined in accordance with subparagraph (b) or (c) below. A copy of each such notice sent by the Trustee to the Borrower shall be sent to the Authority.

(b) All Revenues received by the Trustee pursuant to the Loan Agreement shall be promptly deposited as follows and in the following order of priority:

FIRST: to the Interest Account (i) on the first business day of each month commencing with the calendar month next succeeding the calendar month during which the Closing Date occurs and ending with the calendar month next preceding the calendar month during which the first Interest Payment Date occurs, an amount equal to the interest coming due on the Outstanding Series 2017A Bonds (if any) on the initial Interest Payment Date divided by the number of full calendar months in the period beginning on the first day of the calendar month next succeeding the calendar month during which the Closing Date occurs and ending with the last day of the calendar month next preceding the calendar month during which the first Interest Payment Date occurs, and (ii) on the first business day of each month commencing with the calendar month during which the initial Interest Payment Date occurs, an amount equal to one-sixth (1/6th) of the interest coming due on the Outstanding Series 2017A Bonds on the next succeeding January 1 and July 1, as the case may be; and

SECOND: to the Principal Account or Sinking Fund Account, as the case may be, (i) on the first business day of each month, commencing with the calendar month next succeeding the calendar month during which the Closing Date occurs and ending with June 30, 2017, an amount equal to the principal amount of Series 2017A Bonds maturing, or the Sinking Fund
Installment becoming due, if any, as the case may be, on July 1, 2017 divided by the number of full calendar months in the period beginning on the first day of the calendar month next succeeding the calendar month during which the Closing Date occurs and ending with June 30, 2017, and (ii) on the first business day of each month, commencing July 1, 2017, an amount equal to one-twelfth (1/12th) of the principal amount of Series 2017A Bonds maturing, or the Sinking Fund Installment becoming due, if any, as the case may be, on the next succeeding July 1; and

THIRD: to the Authority, on February 1 and August 1 in each Bond Year, commencing on the February 1 or August 1 next succeeding the Closing Date, one-half (1/2) of the Annual Administrative Fee for the next succeeding six (6) month period or portion thereof; and

FOURTH: to the Principal Account or Sinking Fund Account, as the case may be, any moneys remaining after making the foregoing payments.

(c) For the purposes of determining credits against payments required to be made for deposit into any account or fund established under the Resolutions, the Trustee shall determine the value of the Interest Account as of January 1 or July 1 in each Bond Year, and the value of the Principal Account and Sinking Fund Account as of July 1 in each Bond Year, after taking account of any payments and transfers to be made on the basis of the December 31 or January 1 balance, or the June 30 or July 1 balance, in accordance with the Resolutions. Funds and accounts shall be valued by the Trustee at the lower of cost or market. Except as provided in subsection (d) of this section relating to capitalized interest on the Series 2017A Bonds, credits shall be made by prorating the amount remaining in each such account or fund on each such January 1 or July 1 against the amount required to be deposited into such account or fund in each month over the next succeeding period, six (6) months in the case of the Interest Account, and twelve (12) months in the cases of the Principal Account and Sinking Fund Account, or in such other manner as shall be agreed upon between an Authorized Officer of the Authority and the Borrower, notice of which agreement shall be given to the Trustee.

(d) For the purpose of the payment required by the paragraph entitled “FIRST” contained in subsection (b) of this section, a credit shall be given in an amount equal to the money on deposit in the Capitalized Interest Fund, if any, representing capitalized interest on the Series 2017A Bonds.

(Series Resolution, Section 3.4)

Application of Moneys in Funds

Application of Moneys in the Debt Service Fund. The Trustee shall on each Interest Payment Date pay or cause to be paid out of the Interest Account the interest due on the Series 2017A Bonds. The Trustee may also pay any amounts required for the payment of accrued interest upon any redemption or purchase of the Series 2017A Bonds. The Trustee shall on each principal maturity date or Sinking Fund Installment payment date, as the case may be, pay or cause to be paid out of the Principal Account or the Sinking Fund Account, as the case may be, the principal amount or Sinking Fund Installment, as the case may be, due on the Series 2017A Bonds.

(General Resolution, Section 5.05)

Application of Moneys in the Redemption Fund. If the Trustee at any time shall compute the value of the Debt Service Reserve Fund to be less than the Debt Service Reserve Fund Requirement, the Trustee shall transfer from the Redemption Fund (other than moneys required to pay the Redemption Price of any Series 2017A Bonds theretofore called for redemption and moneys required for the purchase of Series 2017A Bonds theretofore contracted to be purchased) to such Debt Service Reserve Fund the
amount, to the extent available, necessary to make the amount on deposit therein equal to the Debt Service Reserve Fund Requirement.

Moneys in the Redemption Fund shall be applied by the Trustee to the purchase of Series 2017A Bonds at purchase prices not exceeding the Redemption Price applicable on the next Interest Payment Date on which such Series 2017A Bonds are redeemable, plus accrued interest due, in such manner as the Authority may direct. If, seventy-five (75) days prior to any Interest Payment Date on which Series 2017A Bonds are subject to redemption, moneys in excess of Fifty Thousand ($50,000) Dollars shall then remain in the Redemption Fund available for redemption, the Trustee shall, subject to the provisions of the preceding paragraph, apply such moneys to the redemption of Series 2017A Bonds.

(General Resolution, Section 5.07)

Investments of Moneys

For the Series 2017A Bonds only, moneys in any of the funds and accounts established pursuant to the Resolutions may be invested by the Trustee only in the following (the “Investment Obligations”):

(1) Obligations of or guaranteed by the State of New Jersey or the United States of America (including obligations which have been stripped of their unmatured interest coupons, and interest coupons which have been stripped from such obligations).

(2) Obligations issued or guaranteed by any instrumentality or agency of the United States of America, whether now existing or hereafter organized.

(3) Obligations issued or guaranteed by any State of the United States or the District of Columbia, so long as such obligations are rated at the time of purchase in either of the highest two credit rating categories by each nationally recognized securities rating agency which has issued a rating of the Series 2017A Bonds.

(4) Repurchase agreements with any banking institution (including the Trustee) fully secured by obligations of the kind specified in (1), (2) or (3) above, provided that the Trustee has a perfected first security interest in such obligations, that the Trustee or an agent (as acknowledged by such agent in writing) has possession of the obligations or the Trustee or such agent is deemed the owner or secured party of such obligations pursuant to book entry system maintained by a Federal Reserve Bank, and that the seller of such obligations represents that such obligations are free and clear of claims by third parties.

(5) Interest-bearing deposits in any bank or trust company (which may include the Trustee), provided that all such deposits shall, to the extent not insured, be secured by a pledge of obligations of the kind specified in (1), (2) or (3) above.

(6) Units of participation in the New Jersey Cash Management Fund, or any similar common trust fund which is established pursuant to law as a legal depository of public moneys and for which the New Jersey State Treasurer is custodian.

(7) Shares of an open-end, diversified investment company which is registered under the Investment Company Act of 1940, as amended, and which (i) invests its assets exclusively in obligations of or guaranteed by the United States of America or any instrumentality or agency thereof having in each instance a final maturity date of less than one year from their date of purchase; (ii) seeks to maintain a constant net asset value per share; and (iii) has aggregate net assets of not less than $50,000,000 on the date of purchase of such shares; provided that, only moneys in any account in the Debt Service Fund and not more than ten percent (10%) of the amount originally deposited in the Construction Fund may be invested in such Investment Obligations described in this paragraph 7.
(8) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with direct obligations of the Department of the Treasury of the United States of America).

(9) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

(10) Obligations of any federal agencies which obligations represent the full faith and credit of the United States of America whether now existing or hereafter organized and including but not limited to:

-- Export-Import Bank
-- Farm Credit Financial Assistance Corporation
-- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
-- General Services Administration
-- U.S. Maritime Administration
-- Small Business Administration
-- Government National Mortgage Association (GNMA)
-- U.S. Department of Housing & Urban Development (PHA’s)
-- Federal Housing Administration; and
-- Federal Financing Bank.

(11) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

-- Senior debt obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation so long as such organizations are rated “AAA” by S&P or “Aaa” by Moody’s;
-- Obligations of the Resolution Funding Corporation (REFCORP);
-- Senior debt obligations of the Federal Home Loan Bank System; and
-- Senior debt obligations of other government sponsored agencies.

(12) Interest bearing deposits, federal funds and banker’s acceptances with any bank or trust company which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s. In the event the bank or trust company does not have a rating as indicated, then the deposits shall be secured by a pledge of obligations rated A2/A or better.

(13) (i) Debt obligations (other than Commercial Paper) issued by any corporation or trust domiciled in the United States of America which are rated at the time of purchase in one of the three highest credit rating categories by S&P or Moody’s, and (ii) Commercial Paper which is rated at the time of purchase in the single highest credit rating category by S&P or Moody’s. Not more than ten percent (10%) of the amount originally deposited in the applicable fund or account may be invested in such Investment Obligations described in this paragraph 13.

(14) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P (which may include funds for which the Trustee or any affiliate of the Trustee is the financial advisor).
(15) Obligations issued or guaranteed by any municipality or other subdivision of any state of the United States of America with a rating of A2/A or higher from Moody’s, S&P or Fitch.

(16) Pre-refunded municipal obligations defined as follows: bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) Which are rated, based on an irrevocable escrow account or fund (the “Escrow”), in the highest rating category of S&P and Moody’s or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an Escrow consisting only of cash or obligations described in paragraph A above, which Escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which Escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in irrevocable instructions referred to above, as appropriate.

(17) Investment Agreements with providers rated in one of the three highest credit rating categories by S&P or Moody’s.

(18) Collateralized Guaranteed investment contracts (GIC’s), forward supply agreements, par put agreements, debt service reserve hedge agreements, forward purchase agreements, rolling T-bill agreements, forward float agreements or forward purchase agreements wherein purchases or sales of Investment Obligations are to be made over time, to the extent approved by an Authorized Officer of the Authority.

Amounts relating to the Series 2017A Bonds in the funds and accounts established under the Resolutions shall be invested only in Investment Obligations and only as follows:

(i) moneys in the Interest Account, Principal Account or Sinking Fund Account only in Investment Obligations maturing or redeemable at the option of the holder in such amounts and on such dates as may be necessary to provide moneys to make the payments from such accounts;

(ii) moneys in the Redemption Fund only in Investment Obligations maturing or redeemable at the option of the holder not later than the next succeeding Interest Payment Date on which the Series 2017A Bonds are subject to redemption; and

(iii) moneys in the Construction Fund, the Capitalized Interest Fund and the Costs of Issuance Fund only in Investment Obligations maturing or redeemable at the option of the holder, not later than the date on which such moneys are reasonably expected to be needed for the purpose of paying Costs of the Project, interest on the Series 2017A Bonds or Costs of Issuance, respectively.

(General Resolution, Section 5.08; Series Resolution, Section 6.1)
Additional Bonds and Other Obligations

In addition to the Series 2017A Bonds, the Authority may issue Additional Bonds pursuant to a series resolution to make capital additions or repairs to the property or to refund one or more Series of Outstanding Bonds, which Additional Bonds shall be secured on a parity with the Series 2017A Bonds.

(General Resolution, Section 2.04)

Refunding Bonds may be issued to refund any one or more series of Outstanding Bonds in accordance with the General Resolution and a series resolution authorizing such refunding bonds.

(General Resolution, Section 2.03)

So long as any of the Series 2017A Bonds are outstanding, the Authority will not issue any other bonds, notes or other evidences of indebtedness, secured by the revenues or other moneys, securities or funds required to be held or set aside or applied by the Authority or the Trustee, ranking prior to or on a parity with the lien and pledge created by the Resolutions. No Series of Additional Bonds secured by an equal charge and lien on and payable from (a) the Revenues (as defined in the General Resolution), and (b) all of the Authority’s right, title and interest in the Series 2017A Note shall be issued by the Authority unless the Borrower has entered into an additional applicable security agreement or a supplement to the Loan Agreement in which it agrees that such Additional Bonds will be secured on a parity basis with the Series 2017A Bonds and any other outstanding Additional Bonds.

(General Resolution, Section 6.10; Series Resolution, Section 4.1)

Particular Covenants of the Authority

Covenant as to Revenues. The Authority covenants to fix the amounts payable by the Borrower under the Loan Agreement such that the Revenues shall be sufficient at all times: (i) to pay the principal of or the Sinking Fund Installments and interest on the Series 2017A Bonds as the same respectively become due and payable; and (ii) to make all payments required by the Resolutions.

(General Resolution, Section 6.03)

Enforcement of Duties and Obligations of the Borrower. The Authority shall take all legally available action to cause the Borrower to fully perform all duties and acts and to fully comply with the covenants of the Borrower required by the Loan Agreement.

(General Resolution, Section 6.04)

Insurance. The Authority shall in the Loan Agreement require the Borrower to procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, the following insurance:

(a) At all times, fire, extended coverage, vandalism, and malicious mischief insurance with such other deductible provisions as are usual for similar facilities, on the plant, structure, machinery, equipment and apparatus comprising the property or part thereof. The foregoing insurance shall be maintained so long as any of the obligations of the Authority issued with respect to the property are outstanding and shall be in an amount not less than eighty percent (80%) of the replacement value thereof, exclusive of excavations and foundations;
(b) At all times, workers compensation insurance, disability insurance, and each other form of insurance which the Borrower is required by law to provide, covering loss resulting from injury, sickness, disability or death of employees;

(c) At all times, insurance protecting the Authority and the Borrower against loss or losses from liabilities imposed by law or assumed in any written contract and arising from the death or bodily injury of persons or damage to the property of others caused by accident or occurrence (including contractual liability endorsement);

(d) At all times, medical liability, malpractice and other hospital operation liability insurance to the extent reasonably obtainable protecting the Authority and the Borrower against claims arising from the professional services performed by the Borrower;

(e) Fidelity insurance in such amounts and under such terms as shall be determined by the Authority with due regard to the Borrower’s funds and accounts;

(f) Boiler and machinery coverages (direct damage and use and occupancy) on a replacement cost basis, unless waived by the Authority;

(g) At all times, trustees’ and officers’ liability and vehicle liability insurance coverage; and

(h) Business interruption and special equipment insurance in such minimum amounts as shall be determined by the Borrower and its Insurance Consultant with due regard to the Borrower’s outstanding debt obligations.

(General Resolution, Section 6.08)

Modifications or Substitution of Insurance. Upon a written request of the Borrower, and without the consent of the Bondholders, the Authority may permit modification of, or substitutions for the insurance coverage described above, including permission for the Borrower to be self-insured or to have a captive insurance company program in whole or in part for any such coverage, all upon such terms and conditions as the Authority may require. The Authority shall not permit the Borrower to make any modifications or substitutions for any part of the foregoing requirements unless (i) the Authority has received a written evaluation with respect to such self-insurance or captive insurance company programs from a nationally recognized independent insurance or actuarial consultant or hospital consultant, and (ii) adequate reserves for such programs are deposited and maintained with an independent corporate trustee in the amounts, if any, required by the report referred to in clause (i) above, unless the Authority shall receive a report from such consultant described in clause (i) above to the effect that such deposits are not necessary. The Borrower shall pay any fees charged by such consultant and any expenses incurred by the Authority. The Authority shall give written notice to the Borrower and to the Trustee of any modifications or substitutions permitted to be made pursuant to the General Resolution, and shall indicate in such notice the effective date of such modifications or substitutions. The Authority’s decision to permit the modifications or substitutions aforesaid shall be in the Authority’s sole and absolute discretion.

(General Resolution, Section 6.08)

Accounts and Audits. The Authority shall keep proper books of records and accounts (separate from all other records and accounts) for the Series 2017A Bonds, which may be kept on behalf of the Authority by the Trustee, in which complete and correct entries shall be made of its transactions relating to the Series 2017A Bonds and the Resolutions, which books and accounts shall be subject to the inspection of the Trustee or any Bondholder.

(General Resolution, Section 6.09)
Amendments and Supplements of the Resolutions

The Authority may adopt at any time or from time to time a Supplemental Resolution for one or more of the following purposes: (i) to add additional covenants of the Authority or to surrender any right, power or privilege reserved to or conferred upon the Authority under the Resolutions, (ii) to cure any ambiguity or to cure, correct or supplement any defective provision of the Resolutions in such manner as shall not be inconsistent with the Resolutions and shall not impair the security for the Series 2017A Bonds or adversely affect the Bondholders, (iii) to make such other amendment or supplement to the Resolutions as the Authority may deem advisable and as shall not impair the security for the Series 2017A Bonds or adversely affect the Bondholders; and (iv) to confirm, as further assurance, any pledge under and the subjection to any lien or pledge created or to be created by the Resolutions of the Revenues derived pursuant to the Loan Agreement.

The Authority may also adopt, subject to the conditions or restrictions contained in the Resolutions, at any time or from time to time a Supplemental Resolution supplementing or modifying the Resolutions or any Supplemental Resolution or any of the provisions of the Bonds. However, no such Supplemental Resolution shall be effective until after the filing with the Trustee of a copy of such Supplemental Resolution certified by an Authorized Officer of the Authority and unless such Supplemental Resolution is consented to by or on behalf of the Bondholders affected thereby in accordance with the provisions of the General Resolution. Any such modification shall require the consent of the Holders obtained as provided in the General Resolution of at least a majority in principal amount of all Outstanding Bonds affected thereby.

Notwithstanding the foregoing, no such modification changing any terms of redemption of the Series 2017A Bonds, due date of principal of, Sinking Fund Installment or interest on the Series 2017A Bonds or making any reduction in the principal or Redemption Price of or interest on any Series 2017A Bond shall be made without the consent of the affected Bondholder.

No Supplemental Resolution shall be adopted by the Authority, except with the consent of the Holders of all outstanding Bonds affected, reducing the percentage of consent of Bondholders of a Series of Bonds required for any modification of the Resolutions.

No Supplemental Resolution shall modify any of the rights or obligations of the Trustee without its written consent.

(General Resolution, Sections 10.01, 10.02, 10.04 and 11.03)

Events of Default and Remedies of Bondholders

Events of Default set forth in the General Resolution include, among other things: default in the payment of the principal (including the payment of any Sinking Fund Installment) or Redemption Price of or interest on any Series 2017A Bond when the same shall become due and payable; default in payment of moneys due under the Loan Agreement; and default in the due and punctual performance of the other covenants contained in the Series 2017A Bonds, in the Resolutions or the Loan Agreement and continuance of such default for a period of thirty (30) days after written notice shall have been given to the Borrower and the Authority by the Trustee.

(General Resolution, Section 8.01)

Upon the occurrence of any Event of Default, the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Series 2017A Bonds shall, declare the principal, together with the interest accrued thereon, of all of the
Outstanding Series 2017A Bonds to be due and payable immediately upon the expiration of thirty (30) days from the giving of written notice of acceleration to the Authority.

If after acceleration and prior to entry of final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default, the Trustee shall have received all arrears of interest and all other defaults are remedied, the Trustee may, with the consent of the holders of not less than twenty-five percent (25%) in principal amount of Series 2017A Bonds Outstanding, annul such declaration.

(General Resolution, Section 8.02)

Upon the occurrence and continuance of any event of default, the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Series 2017A Bonds shall (upon receiving indemnity to its satisfaction), proceed to protect and enforce its rights and any and all rights of the Holders of the Series 2017A Bonds by suits, actions or special proceedings in equity or at law.

(General Resolution, Section 8.04)

If at any time the moneys held by the Trustee under the Resolutions for the payment of the interest or principal then due on the Series 2017A Bonds are insufficient for such purpose, the moneys in the Interest Account, Principal Account, Sinking Fund Account, Debt Service Reserve Fund, if funded, and Redemption Fund (other than moneys required to pay the Redemption Price of any Series 2017A Bonds theretofore called for redemption and moneys required for the purchase of such Series 2017A Bonds theretofore contracted to be purchased) and shall be applied as follows:

FIRST: To the payment of the costs of the Trustee, including counsel fees, any disbursements of the Trustee with interest thereon and its reasonable compensation.

SECOND: To the payment of the interest on the Series 2017A Bonds then due, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, without any discrimination or preference.

THIRD: To the payment of the unpaid principal of any of the Series 2017A Bonds which shall have become due (other than Series 2017A Bonds called for redemption or contracted to be purchased for the payment of which moneys are held pursuant to the provisions of the Resolutions) and, if the amount available shall not be sufficient to pay such principal in full, then to the payment ratably, according to the amounts of principal due, without any discrimination or preference.

(General Resolution, Section 8.11)

No Holder of the Series 2017A Bonds shall have any right to pursue any remedy under the General Resolution unless (a) the Trustee shall have been given written notice of an Event of Default, (b) the Holders of at least twenty-five percent (25%) in principal amount of the Outstanding Series 2017A Bonds shall have requested the Trustee, in writing, to exercise the powers granted in the General Resolution or to pursue such remedy in its or their name or names, (c) the Trustee shall have been offered indemnity satisfactory to it against costs, expenses and liabilities, and (d) the Trustee shall have refused or failed to comply with such request within a reasonable time.

(General Resolution, Section 8.07)
Defeasance

In addition to providing for defeasance of the Resolutions by a deposit of the full amount in cash to pay the principal or Redemption Price of and interest on the Series 2017A Bonds, the Authority has reserved the right in the General Resolution to make a deposit in whole or in part of non-callable obligations, the timely payment of the principal of and interest on which is unconditionally guaranteed by the United States of America, and/or such other obligations as may be authorized for such purpose in the Series Resolution, the principal of and interest on which when due will be sufficient, without reinvestment, to pay such full amount to which the Holders would be entitled by way of principal or Redemption Price of and interest thereon to the date of such maturity or redemption, upon complying with the other conditions of the General Resolution.

(General Resolution, Section 12.01)
SUMMARY OF THE MASTER INDENTURE

The following is a brief summary of certain provisions of the Master Indenture.

Accounting Principles

Where, for the purposes of the Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to the Master Indenture, the character or amount of any asset or liability, or item of revenue, expense, gain or loss is required to be determined, or any consolidation, combination or other accounting computation is required to be made, the determination or computation shall be made (including the assignment to each accounting term used in the Master Indenture for which a meaning is assigned by GAAP), except as otherwise expressly provided in the Master Indenture, in accordance with GAAP in effect on the date such determination or computation is made; provided that, the Obligated Group Representative may, in its discretion, deliver an Officer’s Certificate to the Master Trustee describing why application of then-current GAAP to the accounting for any particular asset, liability, or item of revenue, expense, gain or loss (including the assignment of a meaning to any relevant accounting term) is inconsistent with the purpose to be served by the determination or computation to be made, as intended by Members of the Obligated Group on the date of the Master Indenture and, in that event, the determination or computation shall be made, by applying GAAP as in effect on the date of the Master Indenture to determine the character or amount the particular asset, liability, or item of revenue, expense, gain or loss (including the assignment of a meaning to any relevant accounting term); provided that, intercompany balances and liabilities among the Members of the Obligated Group shall be disregarded and that the other express requirements of the Master Indenture concerning any determination or computation shall prevail if inconsistent with GAAP.

(Master Indenture, Section 1.4)

Calculating Debt Service Requirements for Certain Indebtedness

Notwithstanding anything in the Master Indenture to the contrary, the Debt Service Requirements in any Fiscal Year on Variable Rate Indebtedness, Demand Indebtedness, Interim Indebtedness, Balloon Indebtedness, Discount Indebtedness and Guaranties shall be determined in accordance with the following provisions:

(1) **Variable Rate Indebtedness.** With respect to Long-Term Indebtedness which is variable rate indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that (i) with respect to new variable rate indebtedness (and the incurrence thereof) the interest on which is not includable in gross income of the holders thereof for Federal income tax purposes, the interest rate for such Indebtedness shall be, for the first twelve month period, deemed to be equal to the average of the actual rates for the most recent twelve month period of the SIFMA Index or similar such index, and (ii) with respect to new variable rate indebtedness (and the incurrence thereof) the interest on which is includable in gross income of the holders thereof for Federal income tax purposes, the interest rate for such Indebtedness shall be, for the first twelve month period, deemed to be equal to the average of the actual rates for the most recent twelve month period of one-month LIBOR or similar such index.

(2) **Demand Indebtedness.** For the purposes of determining the Debt Service Requirements in any Fiscal Year on Demand Indebtedness which is payable from moneys provided under a Credit Facility, the Debt Service Requirements shall be deemed to be the amount which would be payable under such Credit Facility to reimburse the party which has provided such Credit Facility. For
the purposes of determining the Debt Service Requirements in any Fiscal Year on any other Demand Indebtedness, the Debt Service Requirements shall be calculated (a) assuming none of such Demand Indebtedness is tendered, (b) during the period commencing on the date of issuance through the first date when the holder has the right or option to tender such Demand Indebtedness for payment prior to the stated maturity date (the “Put Date”), using the actual debt service payable on such Demand Indebtedness, including, where such Demand Indebtedness bears interest at a variable rate, using the interest on such Demand Indebtedness determined pursuant to paragraph (1) above, and (c) after the Put Date, assuming level debt service over the period commencing on the Put Date and ending on the date that is thirty (30) years after the date of issuance of such Demand Indebtedness and using an interest rate equal to the average of the Bond Index for the three weeks prior to the date of issuance of such Demand Indebtedness.

(3) **Interim and Balloon Indebtedness.** For the purposes of determining the Debt Service Requirements in any Fiscal Year on Interim Indebtedness or Balloon Indebtedness which is payable from moneys provided under a Credit Facility, the Debt Service Requirements shall be deemed to be the amount which would be payable under such Credit Facility to reimburse the party which has provided such Credit Facility. For the purposes of determining the Debt Service Requirements in any Fiscal Year on any other Interim Indebtedness or Balloon Indebtedness, the Debt Service Requirement shall be calculated assuming level debt service over a thirty (30) year term from the date of issuance at an interest rate equal to the average of the Bond Index for the three weeks prior to the date on which the Indebtedness is incurred; provided, however, that for the period commencing on the date of issuance through the maturity date of such Indebtedness, the interest on such Indebtedness shall be calculated using the actual interest payable on such Indebtedness or, where such Indebtedness bears interest at a variable rate, the interest determined pursuant to paragraph (1) above.

(4) **Discount Indebtedness.** For purposes of determining the Debt Service Requirements in any Fiscal Year on any Discount Indebtedness, the amount of principal represented by such Discount Indebtedness shall, at the election of the Obligated Group Representative, be deemed to be the accreted value of such Discount Indebtedness computed on the basis of a constant yield to maturity.

(5) **Guaranties.** The Debt Service Requirements on Indebtedness which is a Guaranty shall be calculated by multiplying the Debt Service Requirements of the obligation guaranteed by an Obligated Issuer (using the same methodology as described in paragraphs (1), (2) and (3) above, as applicable) by a percentage equal to twenty percent (20%); provided however, that the percentage shall be one hundred percent (100%) in the event that payment under any other Guaranty was made in the two (2) Fiscal Years immediately preceding the date such calculation is being made.

(Master Indenture, Section 1.5)

**Appointment of Obligated Group Representative**

Each Obligated Issuer, by becoming a Member of the Obligated Group, irrevocably appoints the Obligated Group Representative as its agent and true and lawful attorney in fact and grants to the Obligated Group Representative full and exclusive power to (a) authorize, negotiate and determine the terms of, and execute and deliver, Obligations and Supplemental Indentures authorizing the issuance of Obligations or series of Obligations; (b) as applicable, negotiate and determine the terms of, approve, execute, deliver, perform, amend, waive provisions of, grant consents related to, extend and terminate: loan agreements, bond indentures, bond purchase agreements related to liquidity or insurance, disclosures, and all such other agreements and instruments as are reasonably related to entering into and managing the specific transactions represented by such Supplemental Indentures; (c) negotiate and determine the terms of, approve, execute, deliver, perform, amend, waive provisions of, grant consents related to, extend and terminate certificates and other undertakings as are reasonably necessary or appropriate to entering into and managing the specific transactions represented by such Supplemental Indentures and/or Obligations; and (d) manage, oversee, direct, authorize, control, and implement (i) all Outstanding Indebtedness and
financial relationships related in any manner to such Indebtedness, including, but not limited to: credit support and liquidity facilities; (ii) any Derivative Agreement; (iii) related insurance products and policies; (iv) debt management policy setting and determinations such as the mix of fixed and variable debt and similar determinations; (v) allocation, calculations, accounting for, collections from Members of the Obligated Group, and payment of debt service, discounts, premiums, costs of issuance and other costs and fees related to Indebtedness, including termination, amendment and similar fees; (vi) planning, authorization and implementation of conversions, refunding, defeasances and other debt management or modification activities; (vii) all waivers, consents or amendments to any document or agreement, directly or indirectly, related to one or more of the Obligations, the Master Indenture and any Supplemental Indenture, including, but not limited to, any of the types of documents or agreements mentioned in subsections (b) and (c) above and this subsection (d); and (viii) direction of agents and control, direction and management of third party relationships (such as trustees, paying agents, registrars, issuing authorities, underwriters, remarketing agents, swap counterparties, financial and other advisors, and counsel) related to Indebtedness or the issuance of Obligations. Each document authorized to be executed by the Obligated Group Representative pursuant to this section may be executed solely by the Obligated Group Representative on behalf of the Obligated Group, and each Member of the Obligated Group covenants and agrees that such execution shall be binding on such Member as if it had executed such document on its own accord. The authority granted in this section shall be and remain irrevocable until and unless any Member of the Obligated Group Member withdraws from the Obligated Group in accordance with the provisions of the Master Indenture. Notwithstanding the foregoing and for the avoidance of doubt, the provisions of this section may be amended in accordance with the terms of the Master Indenture.

(Master Indenture, Section 1.6)

Issuance of Obligations

Other than the Obligated Group Representative, no authorization or approval of any Member of the Obligated Group is required under the Master Indenture for the issuance of Obligations. No Obligations may be issued under the Master Indenture unless (i) such Obligation is executed by the Obligated Group Representative; or (ii) with the written consent of the Obligated Group Representative, such Obligation is executed by any other Member of the Obligated Group. The total amount of Obligations, the number of Obligations and the series of Obligations that may be created under the Master Indenture is not limited and shall be as set forth in the Supplemental Indenture providing for the issuance thereof. Each series of Obligations shall be issued pursuant to a Supplemental Indenture. Each series of Obligations shall be designated so as to differentiate the Obligations of such series from the Obligations of any other series. Unless provided to the contrary in a Supplemental Indenture, Obligations shall be issued as fully registered Obligations.

(Master Indenture, Section 2.1)

Obligations Created Under the Master Indenture; Security

The Master Indenture and the Obligations created thereunder are the joint and several general obligations of each Obligated Issuer. To secure the performance of their respective obligations under the Master Indenture, including, without limitation, their obligation to pay the principal of, premium, if any, and interest on all Obligations, the Obligated Issuers, by acceptance of the provisions under the Master Indenture, hereby sell, assign, transfer, set over and pledge unto the Master Trustee and grant a security interest to the Master Trustee in all of their respective right, title, and interest in and to the Gross Receipts and all moneys, securities and investments held in the Revenue Fund. All such security shall be held in trust for the equal and ratable benefit and security of the Holders from time to time of all Obligations issued and Outstanding under the Master Indenture, without preference or priority of any one Obligation over any other Obligation except as otherwise expressly provided in the Master Indenture, but the
existence of such security interest shall not prevent the expenditure, deposit or commingling of the Gross Receipts by the Obligated Issuers so long as all required payments under the Master Indenture are made when due. If any required payment under the Master Indenture is not made when due, any Gross Receipts subject to the security interest created thereunder which are then on hand and not yet commingled with other funds of the Obligated Issuers and not yet deposited in a bank account of the Obligated Issuers shall not be commingled or deposited but shall immediately, or upon receipt, be transferred to the Revenue Fund to the extent required to make the amount on deposit in the Revenue Fund at least equal to the requirements of the Revenue Fund, and/or used to make any other required payment under the Master Indenture.

(Master Indenture, Section 3.1)

**Revenue Fund**

(a) There is hereby established a Revenue Fund, the amounts in which are to be held for the benefit of the Holders of Obligations. On the first day of the month next preceding the month in which a payment is due on an Obligation, there shall be deposited into the Revenue Fund the amount, if any, required so that the balance therein equals the amount so due on each such Obligation.

(b) Amounts shall be paid out of the Revenue Fund to pay the principal of, interest and redemption premium, when due, on the Obligations.

(c) Notwithstanding the foregoing, to the extent that payments due with respect to Obligations issued in connection with Related Bonds have been paid to the trustee for such Related Bonds on the date required in paragraph (a) above, there shall be credited against the amount required to be deposited pursuant to paragraph (a) above the amount paid to the trustee for the Related Bonds.

(d) If any required payment under the Master Indenture is not made when due, any Gross Receipts subject to the security interest created under the Master Indenture which are then on hand and not yet commingled with other funds of the Obligated Issuers and not yet deposited in a bank account of the Obligated Issuers, and any such Gross Receipts thereafter received, shall not be commingled or deposited but shall immediately, or upon receipt, be transferred to the Revenue Fund to the extent required to make the amount on deposit in the Revenue Fund at least equal to the requirements of the Revenue Fund, and/or used to make any other required payment under the Master Indenture.

(Master Indenture, Section 3.2)

**Covenants as to Corporate Existence, Maintenance of Properties, Etc.**

Except as otherwise permitted under the Master Indenture, each Obligated Issuer shall:

(a) preserve its corporate existence and all its rights and licenses to the extent necessary or desirable in the operation of its business affairs and be qualified to do business in each jurisdiction where its ownership of property or the conduct of its business requires such qualification, except where a failure to maintain a right, license or qualification would not have a material adverse effect on the Obligated Group; provided, however, that nothing in the Master Indenture shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or, in the judgment of its Board, useful in the conduct of its business;

(b) at all times cause its business to be carried on and conducted in an efficient manner and its properties to be maintained, preserved and kept in reasonably good repair, working order and condition and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that it need not comply with this paragraph (b) if and to the extent that its Board shall have determined in good
faith, evidenced by a resolution of the Board, that such compliance is not in the best interests of the Obligated Group or such Obligated Issuer, and provided further that nothing contained in the Master Indenture shall be construed (A) to prevent it from ceasing to operate any portion of its properties, if in the judgment of its Board it is advisable not to operate the same for the time being, or if it intends to sell or otherwise dispose of the same as permitted under the Master Indenture and within a reasonable time endeavors to effect such sale or other disposition, or (B) to obligate it to retain, preserve, repair, renew or replace any property, leases, rights, privileges or licenses no longer used or, in the judgment of its Board, useful in the conduct of its business;

(c) conduct its affairs and carry on its business and operations in such manner as to comply in all material respects with any and all applicable laws of the United States and the several states thereof and duly observe and conform in all material respects to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its properties; provided, nevertheless, that nothing in the Master Indenture shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof shall be contested in good faith;

(d) promptly pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or any of its properties; provided, however, that it shall have the right to contest in good faith by appropriate proceedings any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof, provided that, if by nonpayment of any such sums, the pledge and security interest of the Master Indenture will be impaired or any material property of the Obligated Issuer will be subject to imminent loss or forfeiture, then such sums shall be paid immediately;

(e) promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable (exclusive of Outstanding Obligations whose validity, amount or collectability is being contested in good faith by appropriate proceedings, provided that, if by non-payment of any such sums, the pledge and security interest of the Master Indenture will be impaired or any material property of the Obligated Issuer will be subject to imminent loss or forfeiture, then such sums shall be paid immediately);

(f) at all times comply with all terms, covenants and provisions contained in any lien or security interest at such time existing upon the Pledged Property or any Restricted Property or any part thereof or securing any of its Indebtedness and pay, or cause to be paid, or to be renewed, refunded or extended, or to be taken up, by it, all of its Indebtedness secured by such lien or security interest upon the Pledged Property or any Restricted Property, as and when the same shall become due and payable;

(g) procure and maintain or cause to be maintained all licenses, permits, approvals, certifications and accreditations issued by any Regulatory Bodies which are material to the maintenance of its properties, conduct of its operations and performance of its obligations under the Master Indenture; and

(h) take no action or suffer any action to be taken by others which will adversely affect any applicable exemption from federal income taxation of the interest on any bonds issued pursuant to and secured by the Related Financing Documents for any Obligations or other Indebtedness incurred or permitted to be incurred under the Master Indenture.

(Master Indenture, Section 4.3)
Insurance

Each Obligated Issuer or the Obligated Group, as a whole, will (i) maintain, or cause to be maintained, insurance covering such risks and in such amounts as, in its judgment, is adequate to protect it and its properties and operations, (ii) cause such coverages to be reviewed and reported on as to adequacy and acceptability of the insurance carrier by an Insurance Consultant, such reports to be issued annually on each August 15th, and (iii) upon receipt of each report of the Insurance Consultant, deliver the same to the Master Trustee and obtain or cause to be obtained such additional, alternative or increased coverages as may be recommended therein by the Insurance Consultant. Moreover, the Obligated Group will provide additional proof of insurance coverage, at any time, upon the reasonable request, in writing, of the Master Trustee. Such coverages shall be obtained and maintained through commercial insurance carriers or captive insurance companies acceptable to the Insurance Consultant or through self-insurance plans which are approved as to adequacy by the Insurance Consultant at the time of their implementation and thereafter reviewed as to adequacy and reported on by the Insurance Consultant at the times and for the purposes described above. Notwithstanding the foregoing, each Obligated Issuer shall obtain and maintain or cause to be obtained and maintained such insurance coverages as may be required under the applicable provisions of any Related Financing Documents. Each Obligated Issuer shall name the Master Trustee as (i) an additional insured under any general liability policy maintained by such Obligated Issuer, and (ii) as loss payee under any casualty policy maintained by such Obligated Issuer.

(Master Indenture, Section 4.4)

Damage, Destruction or Condemnation

Each Obligated Issuer agrees to notify the Master Trustee in writing immediately in the case of damage to, destruction of, or condemnation of its Property or any portion thereof when there is damage to or destruction of such Property resulting from fire or other casualty, or condemnation or similar taking with respect to such Property, and the Book Value of the Property so affected is greater than 3% of the Book Value of the Obligated Group’s Property. In such event the Obligated Issuer agrees that it will either (a) forthwith repair, reconstruct, improve and restore the Property to substantially the same or an improved condition or utility value as existed prior to such event, or (b) elect to have the net proceeds or award payable as a result of such event applied to the redemption of Obligations.

(Master Indenture, Section 4.5)

Restrictions as to Creation of Liens and Encumbrances

No Member of the Obligated Group will create or suffer to be created or exist upon its Restricted Property or its Gross Receipts any mortgage or Lien, other than Permitted Encumbrances, unless there is provision made, in each instance and by the instrument creating the mortgage or Lien, to secure all Obligations equally and ratably with the Indebtedness secured by such mortgage or Lien. For the purposes of the Master Indenture, Permitted Encumbrances shall consist of the following:

(a) liens on the Restricted Property other than those permitted elsewhere in this Section, provided that, after giving effect thereto, the aggregate Book Value of the Restricted Property subject to such lien, when added to the Book Value of the Restricted Property already subject to a lien or liens previously incurred pursuant to this clause (a), does not exceed the lesser of (i) five percent (5%) of the Book Value of the Restricted Property, or (ii) five percent (5%) of the Operating Revenues of the Obligated Group for the immediately preceding Fiscal Year;

(b) liens arising by reason of good faith deposits by any Obligated Issuer in connection with tenders, leases of real estate or tangible personal property constituting Restricted Property, bids or contracts (other than contracts for the payment of money), deposits by any Obligated Issuer to secure...
public or statutory obligations, or to secure or in lieu of, surety, performance, labor, materials, bid, stay, appeal or other similar bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(c) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Issuer to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for institutions participating in such arrangements;

(d) any judgment lien against any Obligated Issuer so long as (1) the finality of such judgment is being contested in good faith and execution thereon is stayed, or (2) in the absence of such a contest and stay, neither the pledge and security interest of the Master Indenture nor any material Property of the Obligated Issuer will be materially impaired or subject to material loss of forfeiture;

(e) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Restricted Property, to (1) terminate such right, power, franchise, grant, license or permit without cause, provided that the exercise of such right would not materially impair the use of such Restricted Property for its intended purpose or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of such Restricted Property;

(f) any liens on any Restricted Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges, and any liens of mechanics, material men and laborers for work or services performed or materials furnished in connection with such Restricted Property, and landlord's liens (1) which are not due and payable or are not delinquent, (2) the amount or validity of which are being contested in good faith and on which execution is stayed or (3) the existence of which will not materially impair the pledge and security interest of the Master Indenture or subject any Restricted Property of an Obligated Issuer to material loss or forfeiture;

(g) any lease which, in the judgment of the Obligated Issuer whose Restricted Property is subject thereto, is reasonably necessary or appropriate for or incidental to the proper and economical operation of such Restricted Property, taking into account the nature and terms of the lease and the nature and purposes of the Restricted Property subject thereto;

(h) easements, rights-of-way, restrictions, servitudes, and/or licenses, covenants running with the land and other minor defects, encumbrances, and irregularities in the title to any Restricted Property which do not materially impair the use of such Restricted Property for its intended purpose or materially and adversely affect the value thereof;

(i) rights reserved to or vested in any municipality or public authority to control or regulate any Restricted Property or the use thereof, or to use such Restricted Property in any manner, which rights do not materially impair the use of such Restricted Property for its intended purposes or materially and adversely affect the value thereof;

(j) any Lien or mortgage granted to secure Permitted Indebtedness and incurred in accordance with the provisions of the Master Indenture; and

(k) any Lien, mortgage or security interest described on an exhibit attached to the Master Indenture which existed on the date of the Master Indenture; provided that no Lien or security interest so described may be extended or renewed (which terms shall not apply to the filing of any continuation
statements under the UCC) or modified to spread to any Restricted Property or revenues not subject to such Lien or security interest, or to any Indebtedness not secured by such Lien, mortgage or security interest, on the date of the Master Indenture, except to the extent that such Lien or security interest, as so extended, renewed or modified, could have been granted or created under any provision of the Master Indenture.

(l) encumbrances arising from grants, loans and/or guarantees of the United States of America pursuant to 42 U.S.C. §291 et seq. (the “Hill-Burton Act”) and/or 42 U.S.C. §300 et seq. and other encumbrances arising from grants or loans from, or guarantees of indebtedness by, federal, state and local governments or agencies thereof certified in an Officer’s Certificate to be similar in nature to the encumbrances described in the first part of this clause;

(m) Lien on or security interests in moneys deposited by patients or others with an Obligated Issuer as security for or as prepayment for the cost of patient care;

(n) Lien or security interests granted to another Obligated Issuer to secure the payment of money to such other Obligated Issuer;

(o) any mortgage, Lien, assignment, security interest, assignment of rents or encumbrance granted or given by an Obligated Issuer to secure all Obligations on a parity basis;

(p) any Lien on Property received by an Obligated Issuer through gifts, grants or bequests, such Lien being due to restrictions imposed at the time of the making thereof on such gifts, grants or bequests on such Property or the income therefrom;

(q) any Lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof and Lien on or in property given, bequeathed or devised by the owner thereof existing at the time of such gift, bequest or devise, provided that (i) such Lien attaches solely to the Property which is the subject of such gift, bequest or devise, and (ii) the Indebtedness secured by such Lien is not assumed by the Obligated Group;

(r) any Lien or security interests on Property of a Person becoming a member of the Obligated Group pursuant to and as set forth herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Additional Obligated Issuers”, or of a Person into or with which a Member of the Obligated Group shall merge or consolidate pursuant to and as set forth herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Consolidation or Mergers”, or of a Person that will otherwise have its Assets acquired by a Member of the Obligated Group pursuant to and as set forth herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Consolidation or Mergers”, if an Officer’s Certificate is delivered to the Master Trustee certifying that (i) the Lien and any Indebtedness secured thereby were created and incurred by a Person other than any Member of the Obligated Group prior to the transactions contemplated by the Master Indenture and described herein under the headings entitled “SUMMARY OF THE MASTER INDENTURE – Additional Obligated Issuers” or “SUMMARY OF THE MASTER INDENTURE – Consolidation or Mergers”; (ii) the Lien was created prior to the decision of any Member of the Obligated Group to enter into the transaction contemplated by the Master Indenture and described herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Consolidation or Mergers”; and was not created for the purpose of enabling any then current or proposed Member of the Obligated Group to avoid the limitations under the Master Indenture as to the creation of Liens or to avoid the limitations under the Master Indenture as to the creation of Liens or encumbrances on property of any Member of the Obligated Group, and (iii) the Lien attaches solely to the originally encumbered Property of the Person entering the Obligated Group, or merging or consolidating with a Member of the Obligated Group, or being acquired by a Member of the Obligated Group, and such Lien does not by its terms extend, automatically or otherwise, to any other Property of any Member of the Obligated Group;
(s) operating leases or ground leases under which any Obligated Issuer is the lessor, or any license or other use agreement made with respect to Restricted Property where revenues generated inure to the benefit of an Obligated Issuer;

(t) any Lien on money (or the investment made with such money) held in any depreciation reserve, debt service reserve fund, construction, debt service or similar fund and granted by an Obligated Issuer to secure payment of Indebtedness (including any commitment indebtedness, whether or not then drawn upon); and any Lien on money (or the investment made with such money) held in any escrow or similar fund to defease Indebtedness;

(u) such minor defects and irregularities of title as normally exist with respect to property similar in character to the Restricted Property, and which do not materially adversely affect the value of or materially impair the Restricted Property;

(v) any Lien or encumbrance created or incurred in the ordinary course of business which does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts or Capitalized Leases individually or in the aggregate, and which does not materially impair the value or the utility of the Property subject to such Lien or encumbrance;

(w) any Lien securing any Derivative Obligation that is related to Permitted Indebtedness (including any obligation arising upon the termination of any such Derivative Obligation), or that may be required from time to time to satisfy any collateralization requirements relating to any Derivative Obligation; and

(x) any Lien with respect to after acquired Restricted Property which Lien either secures the purchase price of such Restricted Property or is a Lien to which such Restricted Property is subject at the time of its acquisition.

(Master Indenture, Section 4.6)

Consolidation or Mergers

(a) Any Member of the Obligated Group may consolidate with, merge into, or transfer all or substantially all of its assets, common stock or membership interest to, another Member of the Obligated Group.

(b) Except as set forth above, each Obligated Issuer agrees that it will not engage in a Merger unless:

(1) the Successor Corporation is a corporation organized and existing under the laws of the United States of America or a state thereof and is a Person which (i) is qualified to do business in each jurisdiction in which the Obligated Issuer was previously qualified to do business, and (ii) assumes all of the obligations of the Obligated Issuer under the Master Indenture; and

(2) the Master Trustee receives an opinion of Bond Counsel to the effect that such Merger, whether or not contemplated on the original date of delivery of any Related Bonds secured by Obligations, would not adversely affect any applicable exclusion from gross income for Federal or New Jersey income tax purposes of the interest on any Related Bonds secured by Obligations or cause the interest on any such Related Bonds to be treated as an item of tax preference under Section 57 of the Code; and
(3) the Master Trustee receives an Officer’s Certificate to the effect that, immediately after the completion of such Merger, (i) the Obligated Group (assuming the addition of the Successor Corporation into the Obligated Group) could incur one dollar ($1.00) of additional Long Term Indebtedness as described in subsection (c) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Permitted Indebtedness” herein, and (ii) the combined unrestricted fund balance of the Obligated Group immediately after the addition of the Successor Corporation will be at least equal to 100% of the combined unrestricted fund balance of the Obligated Group immediately prior to the addition of the Successor Corporation; and

(4) the Master Trustee receives (i) a certificate of need (or other approval) if so required for the Merger or (ii) an Officer’s Certificate to the effect that no such certificate of need (or other approval) is required; and

(5) the Master Trustee receives an Officer’s Certificate to the effect that no Event of Default has occurred and is continuing or will have occurred after such Merger, and no event has occurred and is continuing or will have occurred after such Merger which, with the passage of time or giving of notice, would constitute an Event of Default.

(c) In case of any such Merger and upon such assumption by the Successor Corporation, the Successor Corporation shall succeed to and be substituted for the predecessor, with the same effect as if it had been named in the Master Indenture as an Obligated Issuer.

(Master Indenture, Section 4.7)

Permitted Indebtedness

(a) Restrictions as to Permitted Indebtedness. Each Obligated Issuer covenants that it will not incur any additional Indebtedness, except as permitted in this section. Indebtedness may be incurred as provided in this section and secured as provided herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Securing Permitted Indebtedness”.

(b) Indebtedness Without Meeting Debt Service Coverage Ratio Test. Any Obligated Issuer may incur additional Indebtedness for any lawful purpose if the aggregate principal amount of such additional Indebtedness for which the Obligated Group has not provided an Officer’s Certificate as set forth in paragraph (c) below does not exceed fifteen percent (15%) of the Operating Revenues of the Obligated Group for the Fiscal Year immediately preceding the Fiscal Year in which such Indebtedness is to be incurred.

(c) Indebtedness With Meeting Debt Service Coverage Ratio Test. Any Obligated Issuer may incur additional Indebtedness for any lawful purpose upon delivery to the Master Trustee of an Officer’s Certificate to the effect that (i) the Debt Service Coverage Ratio of the Obligated Group for the Fiscal Year immediately preceding the Fiscal Year in which such Indebtedness is to be incurred was at least 1.20, assuming for the purposes of the calculation the proposed Indebtedness was already outstanding (but not included in the calculation of forecasted revenues) or (ii) the Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year immediately preceding the Fiscal Year in which such additional Indebtedness is to be incurred was at least 1.20 and the Debt Service Coverage Ratio of the Obligated Group is forecasted to be at least 1.20 by a Consultant or at least 1.30 as set forth in an Officer’s Certificate for the Fiscal Year succeeding the Fiscal Year in which (1) the additional Indebtedness is to be incurred, or (2) the completion of the project financed with the proceeds of such additional Indebtedness is to occur, whichever is later (including in the calculation of such Debt Service Coverage Ratio in subparagraph (ii) above forecasted revenues and the Debt Service Requirements for the Indebtedness being included).
(d) **Refunding Indebtedness.** Any Obligated Issuer may incur additional Indebtedness for purposes of refunding existing Indebtedness upon delivery to the Master Trustee of an Officer’s Certificate to the effect that, after the incurrence of such refunding Indebtedness, Maximum Annual Debt Service Requirements do not increase by more than ten percent (10%).

(e) **Completion Indebtedness.** In lieu of complying with the requirements of paragraphs (b) or (c) of this section, an Obligated Issuer may also incur Completion Indebtedness to finance the completion of the acquisition, construction, renovation or equipping of any Capital Addition with respect to which Indebtedness has theretofore been incurred, upon delivery to the Master Trustee of (1) an Officer’s Certificate (i) to the effect that the net proceeds of such proposed Completion Indebtedness is needed for the completion of the construction or equipping of the facilities as originally contemplated; (ii) to the effect that the original Indebtedness for the facilities as originally contemplated when incurred was believed to be sufficient for the projected costs; (iii) describing the reasons why such Completion Indebtedness is necessary; and (iv) certifying that the principal amount of such Completion Indebtedness will not exceed ten percent (10%) of the initial aggregate principal amount of all Indebtedness previously incurred to finance the costs of the acquisition, construction, renovation or equipping of such Capital Addition; and (2) a Certificate of an Architect that there will be sufficient proceeds after incurring such Completion Indebtedness to complete such acquisition, construction, renovation or equipping of such Capital Addition.

(f) **Non-Recourse Indebtedness.** Any Obligated Issuer may incur Non-Recourse Indebtedness without the need to comply with the requirements of paragraphs (b) or (c) of this section; provided, however, that the aggregate principal amount of Non-Recourse Indebtedness of the Obligated Group incurred pursuant to this paragraph (f) shall not exceed twenty percent (20%) of the Operating Revenues of the Obligated Group for the immediately preceding Fiscal Year.

(g) **Short Term Indebtedness.** In addition to Long Term Indebtedness incurred pursuant to any other paragraph of this section, an Obligated Issuer may incur Short Term Indebtedness, provided that such Short Term Indebtedness shall not exceed twenty percent (20%) of the Operating Revenues of the Obligated Group for the immediately preceding Fiscal Year, and provided further that the Obligated Group shall reduce the amount of its outstanding Short Term Indebtedness to an amount not greater than five (5%) percent of Operating Revenues of the Obligated Group for at least twenty (20) consecutive days during each Fiscal Year. Notwithstanding the above, an Obligated Issuer may incur Short Term Indebtedness in an amount up to twenty-five percent (25%) of Operating Revenues of the Obligated Group for the immediately preceding Fiscal Year upon delivery to the Master Trustee of a Certificate of a Consultant and an Officer’s Certificate setting forth (i) the recommended time period for such increase in such Short Term Indebtedness, (ii) the recommended amount of such Short Term Indebtedness for such period and (iii) identifying the legal, statutory, regulatory or administrative reasons why such Short Term Indebtedness must be increased to such level.

(h) **Subordinated Indebtedness.** Any Obligated Issuer may incur Subordinated Indebtedness without limitation.

(Master Indenture, Section 4.10)
Securing Permitted Indebtedness

(a) Permitted Indebtedness Secured under Master Indenture. Permitted Indebtedness may be secured under the Master Indenture as evidenced by the issuance of an Obligation. Such security will be for the equal and ratable benefit of all the Holders of Obligations.

(b) Securing other Permitted Indebtedness. Any Indebtedness permitted to be incurred as set forth herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Permitted Indebtedness” (other than Short Term Indebtedness) may be secured only as permitted below:

(1) by purchase money security interests; or

(2) by a Lien or mortgage on all or any portion of the Property of the Obligated Group which does not constitute Restricted Property; or

(3) by a Lien or mortgage on the Restricted Property which satisfies the requirements of clause (a) set forth herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Restrictions as to Creation of Liens and Encumbrances.”

(c) Short Term Indebtedness. Short Term Indebtedness incurred as set forth herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Permitted Indebtedness” may be secured by a Lien on or security interest in Accounts Receivable up to 25% of the total amount of Accounts Receivable outstanding for the Obligated Group on the date of incurrence of such Indebtedness, as set forth in an Officer’s Certificate delivered to the Master Trustee.

(Master Indenture, Section 4.11)

Disposition of Assets

(a) Certain Permitted Dispositions. Nothing contained in the Master Indenture shall preclude an Obligated Issuer from disposing of (i) Property in the ordinary course of business, (ii) any machinery, fixtures, apparatus, furniture or other movable property comprising part of the Obligated Issuer’s Operating Assets, or any materials used in connection therewith, which are or are reasonably expected to become in the succeeding 24 month period, inadequate, unsuitable, obsolete, worn out, undesirable or unnecessary, and the disposition of which does not or will not, in the reasonable judgment of the Obligated Issuer, impair the structure, soundness, efficiency or economic value of the remaining Operating Assets or the operations of the Obligated Group, (iii) investments and securities sold in arms-length transactions, (iv) Property other than Pledged Property for which an Obligated Issuer receives Fair Market Value therefor, or Pledged Property not in excess of five (5%) percent of the property, plant and equipment of the Obligated Group, (v) Property to another Member of the Obligated Group, (vi) Property in connection with a true sale-leaseback transaction under the Code or pursuant to a lease or license granted in connection with the proper and economical use of such Property; provided that such sale-leaseback transaction does not adversely affect operations of the Obligated Group, and (vii) Property received as a gift with restricted use.

(b) Transfer of Non-Operating Assets, Including Cash and Cash Equivalents. Each Obligated Issuer may sell, lease, donate, exchange or otherwise dispose of Non-Operating Assets, including cash and cash equivalents, to a Member of the Obligated Group without limitation. Each Obligated Issuer may sell, lease, donate, exchange or otherwise dispose of Non-Operating Assets, including cash and cash equivalents, to a Person not a Member of the Obligated Group provided that (1) the Fair Market Value of such Non-Operating Assets transferred in any Fiscal Year does not exceed in the aggregate $1,000,000, or (2) (A) the Obligated Group delivers to the Master Trustee an Officer’s
Certificate to the effect that (i) the Debt Service Coverage Ratio for the Fiscal Year immediately preceding the Fiscal Year in which the transfer is to be made is at least equal to 1.20, or (ii) if the transfer had occurred during the Fiscal Year immediately preceding the Fiscal Year in which such transfer is to be made, the Debt Service Coverage Ratio for such prior Fiscal Year would not be less than 1.10 and would be not less than eighty percent (80%) of the actual Debt Service Coverage Ratio for such prior Fiscal Year, or if the Debt Service Coverage Ratio would not be at least eighty percent (80%) of the actual Debt Service Coverage Ratio, then the Debt Service Coverage Ratio would be equal to at least 1.20, and (B) immediately after such transfer, the Obligated Group could incur one dollar ($1.00) of additional Long Term Indebtedness as set forth in subsection (c) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Permitted Indebtedness” herein; or (3) such transfer is made by the Obligated Issuer as a loan with a reasonable expectation of repayment and the Obligated Issuer receives from such transferee a promissory note containing commercially reasonable terms, including a reasonable interest rate.

(c) Transfer of Operating Assets. Each Obligated Issuer may transfer Operating Assets to a Member of the Obligated Group without limitation. Subject to the provisions of the following sentence, each Obligated Issuer may at any time and from time to time transfer Operating Assets to a Person other than a Member of the Obligated Group provided that the Obligated Group received equivalent Fair Market Value for such Operating Assets or such transfer is in the ordinary course of business. Notwithstanding the provisions of the preceding sentence, each Obligated Issuer agrees that it will not sell, lease or otherwise dispose of Operating Assets to a Person other than a Member of the Obligated Group in excess of five (5%) percent in the aggregate of the Fair Market Value of the property, plant and equipment of the Obligated Group in any Fiscal Year for less than Fair Market Value unless the Obligated Issuer provides to the Master Trustee the items specified in (1) and (2) below:

(1) An Officer’s Certificate stating that (A) immediately after such transfer, the Obligated Group could incur one dollar ($1.00) of additional Long Term Indebtedness in accordance with the requirements of subsection (c) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Permitted Indebtedness” herein, (B) such transfer will not adversely affect the operations of the Obligated Issuer’s remaining Operating Assets or any licensure or other material approvals obtained from any Regulatory Body with respect to such operations, and (C) that no Event of Default has occurred and is continuing, or will have occurred by reason of such transfer, and no event has occurred, and is continuing or will have occurred by reason of such transfer which, with the passage of time or giving of notice, would constitute an Event of Default; and

(2) An opinion of Bond Counsel to the effect that the proposed transfer of the transferred assets will not adversely affect any applicable exemption of the Obligated Issuer from Federal income taxes or (to the extent applicable) any applicable exclusion of interest on any Related Bonds secured by Obligations from gross income for Federal income tax purposes and will not cause the interest on such Related Bonds to be treated as an item of tax preference under Section 57 of the Code.

Notwithstanding anything set forth in this section to the contrary, no Obligated Issuer that is exempt from federal income taxation under Section 501(a) of the Code by virtue of being an organization described in Section 501(c)(3) of the Code (a “Tax Exempt Transferor”) shall sell, lease, transfer or otherwise dispose of Property, Operating Assets or Non-Operating Assets to a Member of the Obligated Group that is not an organization described in Section 501(c)(3) of the Code (a “Non-Tax Exempt Transferee”), if Fair Market Value is not being paid by the Non-Tax Exempt Transferee to the Tax Exempt Transferor for such Property, Operating Assets, or Non-Operating Assets sold, leased, transferred or otherwise disposed of, unless such Obligated Issuer provides to the Master Trustee an opinion of counsel to the effect that the proposed sale, lease, transfer or disposition for less than Fair Market Value will not adversely affect the tax-exempt status of the Tax Exempt Transferor.
Debt Service Coverage Ratio

(a) The Obligated Group shall maintain a Debt Service Coverage Ratio at least equal 1.10 during each Fiscal Year and shall not issue any Indebtedness or undertake any other transaction which would cause the Debt Service Coverage Ratio to be less than 1.10. The Obligated Group Representative shall calculate the Debt Service Coverage Ratio after the conclusion of each Fiscal Year based upon the Audited Financial Statements of the Obligated Group for such Fiscal Year. If any calculation of the Debt Service Coverage Ratio reveals that the Debt Service Coverage Ratio is less than 1.10, but equal to or greater than 1.00, the Obligated Group shall retain a Consultant within thirty (30) days thereafter as required herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Retention of Consultant” to prepare and deliver the report and make the recommendations regarding the operation and management of any or all Obligated Issuers more fully described herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Retention of Consultant”.

(b) Notwithstanding any provision of the Master Indenture to the contrary, including the provisions of paragraph (a) of this section, if in any Fiscal Year the Debt Service Coverage Ratio is less than 1.10, the Obligated Group Representative shall not be required to retain a Consultant to prepare and deliver the report and make the recommendations regarding the operation and management of any or all Obligated Issuers more fully described herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Retention of Consultant” if: (i) there is filed with the Master Trustee a written report of a Consultant which contains an opinion of such Consultant to the effect that applicable laws or regulations have prevented the Obligated Group from generating Funds Available for Debt Service during such Fiscal Year in an amount sufficient to produce a Debt Service Coverage of 1.10 or higher; (ii) the report of such Consultant indicates that the fees and rates charged by the Members of the Obligated Group are such that, in the opinion of the Consultant, the Members of the Obligated Group have generated the maximum amount of Net Income reasonably practicable given such laws or regulations or other legal obligations; and (iii) the Debt Service Coverage Ratio was at least 1.00 for such Fiscal Year. The Obligated Group Representative shall not be required to cause the Consultant’s report referred to in clauses (i) and (ii) of the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group Representative provides to the Master Trustee an Officer’s Certificate or an opinion of Counsel to the effect that the applicable laws and regulations underlying the Consultant’s report delivered in respect of the previous Fiscal Year have not changed in any material way.

(c) So long as the Obligated Group has complied by the provisions of paragraphs (a) and (b) of this section and the Obligated Group is following the recommendations, if any, of the Consultant set forth in the report prepared and delivered by the Consultant pursuant to and as set forth herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Retention of Consultant”, notwithstanding any provision of the Master Indenture to the contrary, no failure of the Obligated Group to maintain a Debt Service Coverage Ratio of at least 1.10 shall constitute an Event of Default for purposes of the Master Indenture unless the Debt Service Coverage Ratio is less than 1.00 as of the end of any Fiscal Year.

(Master Indenture, Section 4.13)
Retention of Consultant

The Obligated Group shall retain a Consultant when required by the terms and provisions of the Master Indenture, including as and when required herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Debt Service Coverage Ratio”. Any Consultant retained by the Obligated Group in accordance with this section, as well as the scope of the services of such Consultant, shall not be unacceptable to the Master Trustee. If the Obligated Group fails to hire such a Consultant as required by the provisions of this section, the Master Trustee may retain the Consultant and the fees and expenses of the Consultant retained by the Master Trustee shall be paid by the Obligated Group. If a Consultant is retained pursuant to the provisions described herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Debt Service Coverage Ratio”, such Consultant shall promptly (but in no event more than sixty (60) days after such appointment) deliver to each Member of the Obligated Group and the Master Trustee a report setting forth in detail the reasons for the Obligated Group's noncompliance with the requirements described herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Debt Service Coverage Ratio”, and making recommendations with respect to the operation and management of any or all Obligated Issuers which in such Consultant's judgment will enable the Obligated Group to comply with such requirements at the earliest practicable time (unless such Consultant reasonably concludes that noncompliance with such requirements is principally due to factors wholly outside the control of any Obligated Issuer). Any reports produced by a Consultant shall be provided to the Master Trustee within thirty (30) days of completion. Within thirty (30) days of receipt of a Consultant’s report, each Obligated Issuer whose operations and management are the subject of recommendations made in such report shall deliver to the Master Trustee the following:

1. a certified copy of a resolution adopted by the Obligated Issuer’s Board accepting such report and agreeing to implement the recommendations (if any) of the Consultant to the extent that implementing such recommendations does not require the Obligated Issuer to take an action that is prohibited by any applicable law or governmental regulation; and

2. a report setting forth in reasonable detail the actions which the Obligated Issuer proposes to take in order to implement the recommendations of the Consultant and achieve compliance with the requirements described herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Debt Service Coverage Ratio”.

Each such Obligated Issuer shall also deliver to the Master Trustee such periodic reports, not less often than quarterly, as the Master Trustee may reasonably request, showing the progress made by the Obligated Issuer in implementing the recommendations set forth in the Consultant’s report.

(Master Indenture, Section 4.14)

Entry Into Derivative Agreements

Except for the Existing Swap Agreements, no Member of the Obligated Group may enter into any Derivative Agreement, including any Swap Agreement, unless the following conditions are satisfied: (i) the Derivative Agreement is entered into as a hedge to existing Indebtedness of, or assets held by, the Obligated Group at the time of the execution of the Derivative Agreement, (ii) the Derivative Agreement does not contain any leverage element or multiplier component unless there is a matching hedge or arrangement which effectively off-sets the exposure from any such element or component, and (iii) the counterparty to the Derivative Agreement or its guarantor must possess at least one rating for its long term debt obligations in one of the three highest rating categories of any Rating Agency. The payment obligations of any Member of the Obligated Group under any Derivative Agreement entered into in compliance with the provisions of the preceding sentence may be evidenced and secured by a Derivative Obligation issued by the Obligated Group in accordance with terms and provisions of the Master Indenture.

(Master Indenture, Section 4.15)
Events of Default

(a) “Event of Default”, as used in the Master Indenture, shall mean any of the following events, whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body:

(1) failure to make any payment of principal, redemption price or interest when due under the terms of any Obligation; or

(2) failure to observe or perform any covenant or agreement contained in the Master Indenture or any Supplemental Indenture, other than a failure to make a payment referred to in paragraph (a)(1) of this section, for a period of thirty (30) days after written notice of such failure, requiring the same to be remedied, shall have been given by the Master Trustee to the Members of the Obligated Group, the giving of which notice shall be at the discretion of the Master Trustee unless the Master Trustee is requested in writing to do so by the Holders of at least twenty-five percent (25%) in aggregate principal amount of all Outstanding Debt Obligations in which event such notice shall be given; provided, however, that if such observance or performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied within such thirty (30) day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the defaulting Obligated Issuer shall commence such observance or performance within such thirty (30) day period and shall diligently and continuously prosecute the same to completion; or

(3) a default in the payment of any other Indebtedness, whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default, as defined in any Related Financing Documents under which any such Indebtedness may be issued, secured or evidenced, shall occur, which default in payment or event of default shall result in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided, however, that such default or event of default shall not constitute an Event of Default if (i) within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the Indebtedness under the laws governing such proceeding, the members of the Obligated Group in good faith commence proceedings to contest the existence or payment of such Indebtedness, and sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness, or (ii) the outstanding principal amount of the Indebtedness so in default does not exceed two percent (2%) of the Operating Revenues of the Members of the Obligated Group for the most recent Fiscal Year;

(4) if a decree or order by a court having jurisdiction shall have been entered adjudging any Obligated Issuer as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of any Obligated Issuer under the United States Bankruptcy Code or any other similar applicable federal or state law, or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Obligated Issuer or of its property, or for the winding up or liquidation of its affairs, shall have been entered, and in any such case such decree or order shall have remained in force undischarged and unstayed for a period of ninety (90) days; or

(5) if any Obligated Issuer shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the United States Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in
bankruptcy or insolvency of it or of its property, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by any Obligated Issuer in furtherance of any of the aforesaid purposes pursuant to a resolution of its Board.

(b) Upon the occurrence of an Event of Default, and subject to being indemnified to its satisfaction, then and in each and every case, the Master Trustee may and, if requested by the Holders of at least twenty-five percent (25%) in aggregate principal amount of all Debt Obligations then Outstanding, the Master Trustee shall, by notice in writing to the Members of the Obligated Group and to Holders of Obligations, declare the principal of all (but not less than all) Outstanding Obligations to be due and payable immediately, and upon such declaration the same shall become and shall be immediately due and payable, anything in the Master Indenture or in such Outstanding Obligations contained to the contrary notwithstanding. Upon the declaration of such acceleration, the Holders of a majority in aggregate principal amount of all Debt Obligations then Outstanding may direct the Master Trustee to take such remedial action as such Holders deem necessary. This provision, however, is subject to the condition that if, at any time after the principal of all Outstanding Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided: (i) the members of the Obligated Group shall deposit with the Master Trustee a sum sufficient to pay (A) all matured installments of interest upon all Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest, to the extent permitted by law and on such principal and premium, if any, at the respective rates borne by such Obligations to the date of such deposit) and any other amounts required to be paid pursuant to such Obligations, and (B) the expenses and fees of the Master Trustee; and (ii) any and all Events of Default under the Master Indenture, other than the non-payment of principal of, premium, if any, and accrued interest on Outstanding Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case, the Master Trustee may and, if requested by the Holders of a majority in aggregate principal amount of all Debt Obligations then Outstanding, shall waive all Events of Default and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default.

(Master Indenture, Section 5.1)

Suit for Moneys Due

In case any Obligated Issuer shall fail forthwith to pay the amounts due pursuant to the Master Indenture upon such demand, the Master Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against each Obligated Issuer and collect in the manner provided by law out of the property of each Obligated Issuer, wherever situated, the moneys adjudged or decreed to be payable. The Master Trustee, upon the bringing of any action or proceeding at law or in equity under this section, as a matter of right, without notice and without giving bond to any Member of the Obligated Group, shall, to the extent permitted by law, have a receiver appointed over all of the property of the Obligated Group pending such action or proceeding, with such powers as the court making such appointment shall confer.

(Master Indenture, Section 5.3)

Suit by Master Trustee

All rights of action and rights to assert claims under any Obligation may be enforced by the Master Trustee without the possession of such Obligation in any trial or other proceedings instituted by
the Master Trustee. In any proceedings brought by the Master Trustee (and also any proceedings involving the interpretation of any provision of the Master Indenture to which the Master Trustee shall be a party) the Master Trustee shall be held to represent all the Holders of Obligations, and it shall not be necessary to make any Holders of Obligations parties to such proceedings.

(Master Indenture, Section 5.5)

Application of Moneys Collected

Any amounts collected by the Master Trustee pursuant to the Master Indenture and all moneys on deposit in the Revenue Fund shall be applied, for the equal and ratably benefit of the Holders of Obligations, in the order following, at the date or dates fixed by the Master Trustee for the distribution of such moneys, upon presentation of such Obligations, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

(a) to the payment of costs and expenses of collection, including reasonable fees of counsel and reasonable compensation to the Master Trustee (subject to the other provisions of the Master Indenture regarding compensation and expenses of the Master Trustee); and

(b) whether or not the principal of and any other amounts owing under Outstanding Debt Obligations shall have become or have been declared due and payable:

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due or overdue on any Obligations and, if the amount available shall not be sufficient to pay in full any installment or installments then due or overdue, then to the payment thereof ratably, according to the amounts then due or overdue, without any discrimination or preference;

SECOND: To the payment to the Persons entitled thereto of the unpaid principal installments then due or overdue, whether at maturity or by call for redemption or acceleration, on any Obligations and, if the amounts available shall not be sufficient to pay in full all principal installments then due or overdue, then to the payment thereof ratably, according to the amounts of principal installments then due or overdue, without any discrimination or preference; and

THIRD: To the payment to the Persons entitled thereto of any additional amounts due and payable under any and all Obligations, including but not limited to, any payments under Derivative Obligations or Ancillary Obligations, in the order of the due dates of such amounts, and if the moneys available therefor shall not be sufficient to pay in full any such additional amounts due on the same date, then to the payment thereof ratably, according to the amounts due thereon, without any discrimination or preference; provided that for the purpose of determining the amount of unpaid principal and interest in respect of any such Obligation, there shall be deducted the amount, if any, which has been realized by the Holder by exercise of its rights as a secured party with respect to any fund established pursuant to any Related Financing Documents for such Obligation (other than amounts consisting of payments of principal and interest previously made and credited against the payments due under such Obligation) as of the date of payment by the Master Trustee pursuant to this subsection (b) all as certified to the Master Trustee by the Holder; and

(c) to the payment of the remainder, if any, to the Members of the Obligated Group, their successors or assigns, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

(Master Indenture, Section 5.6)
Actions by Holders

(a) No Holder of an Obligation shall have any right by virtue of or by availing of any provision of the Master Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture or for the appointment of receiver or trustee, or any other remedy thereunder, unless the Holders of not less than twenty-five percent (25%) in aggregate principal amount of all Debt Obligations then Outstanding shall have made written request upon the Master Trustee to institute such action, suit or proceeding in its own name as Master Trustee thereunder and shall have offered to the Master Trustee such indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Master Trustee, for thirty (30) days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit, or proceeding and no direction inconsistent with such written request shall have been given to the Master Trustee as described herein under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Direction of Proceedings by Holders”; it being understood and intended and being expressly covenanted by each and every Holder of an Obligation and the Master Trustee, that no one or more Holders of Obligations shall have any right in any manner whatever by virtue of or by availing of any provision of the Master Indenture to affect, disturb or prejudice the rights of any other Holder of an Obligation or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under the Master Indenture, except in the manner provided in the Master Indenture and for the equal, ratable and common benefit of all Holders of Obligations. For the protection and enforcement of the provisions of this section, each and every Holder of an Obligation and the Master Trustee shall be entitled to such relief as can be given either at law or in equity.

(b) The Holder of an Obligation instituting a suit, action or proceeding in compliance with the provisions of this section shall be entitled in such suit, action or proceeding to such amounts as shall be sufficient to cover the costs and expenses of collection, including, to the extent permitted by applicable law, a reasonable compensation to its attorneys.

(c) Notwithstanding any other provision of the Master Indenture, the right of a Holder of an Obligation to receive payment of the principal of and interest on any Obligation and any other amounts payable thereunder, on or after the respective due dates expressed in such Obligation, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

(d) Notwithstanding any provision under the Master Indenture to the contrary, upon the occurrence of an Event of Default thereunder and the giving of notice of such Event of Default to the Holders of Outstanding Obligations, any moneys collected through the exercise of rights and remedies of any Holder against any Obligated Issuer pursuant to any Related Financing Documents for an Obligation (other than rights and remedies with respect to any funds and accounts established under such Related Financing Documents) shall be paid over to the Master Trustee or, with the consent of the Holder, collected directly by the Master Trustee.

(Master Indenture, Section 5.7)

Direction of Proceedings by Holders

The Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred on the Master Trustee; provided, however, that, subject to certain provisions of the Master Indenture, the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee, being advised by Counsel, determines that the action so directed may not lawfully be taken, or if the Master Trustee in good faith shall, by a responsible officer or officers of the Master Trustee, determine that the proceedings
so directed may be illegal or may subject it to personal liability, and provided further that nothing in the Master Indenture shall impair the right of the Master Trustee in its discretion to take any action deemed proper by the Master Trustee and which is not inconsistent with such direction by the Holders.

(Master Indenture, Section 5.8)

**Supplemental Indentures without Consent of Holders of Outstanding Obligations**

(a) The Master Indenture may be amended or supplemented without the consent of the Holders of Outstanding Obligations for one or more of the following purposes:

(1) to provide for the issuance of any Obligations under the Master Indenture;

(2) to evidence the succession of another Person to any Obligated Issuer, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of any Obligated Issuer pursuant to the Master Indenture;

(3) to add further covenants, restrictions, security or conditions for the protection of the Holders of Obligations issued under the Master Indenture, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of Default permitting the enforcement of all or any of the several remedies provided in the Master Indenture; provided, however, that in respect of any such additional covenant, restriction or condition, such Supplemental Indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Master Trustee upon such default;

(4) to cure any ambiguity or to correct or supplement any provision contained in the Master Indenture or in any Supplemental Indenture which may be defective or inconsistent with any other provision contained in the Master Indenture or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under the Master Indenture or any Supplemental Indenture as shall not be inconsistent with the Master Indenture or any Supplemental Indenture and shall not impair the security of the Master Indenture or adversely affect the interests of the Holders of any particular Obligations or series of Obligations issued under the Master Indenture;

(5) to modify or supplement the Master Indenture in such manner as may be necessary or appropriate to qualify the Master Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute hereafter enacted;

(6) to provide for the establishment of additional funds and accounts under the Master Indenture and for the proper administration of and transfers of moneys between any such funds and accounts, provided that, except as otherwise provided in the Master Indenture, all such funds and accounts shall be established for the equal and ratable benefit of the Holders of all Outstanding Obligations;

(7) to permit the issuance of Obligations not evidenced by physical certificates;

(8) to permit the Master Trustee to comply with any duties imposed upon it by law;

(9) to achieve compliance of the Master Indenture with any applicable federal securities or tax law; and
(10) to reflect the addition of a Member to, or the withdrawal of a Member from the Obligated Group.

(11) to reflect the release of any Property from the Lien created by the Master Indenture on the Pledged Property to the extent such release is permitted by the terms of the Master Indenture;

(12) to modify or supplement the description of the Restricted Property contained on an exhibit attached to the Master Indenture in order to add items of Property to such description or delete items of Property from such description; provided, however, that no items of Property shall be deleted from such description, unless there shall have been delivered to the Master Trustee an Officer’s Certificate demonstrating that, if the items of Property to be deleted from such description were being transferred by the applicable Obligated Issuer that is the owner of such Property, the requirements set forth in subsection (b) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Disposition of Assets” herein would be satisfied by the Obligated Group in connection with such transfer;

(13) to modify, eliminate or add to the provisions of the Master Indenture if the Master Trustee shall have received (i) written confirmation from each Rating Agency that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Obligations or Related Bonds, as the case may be, or a report, opinion or certification of a Consultant to the effect that such change is consistent with then current industry standards, and (ii) an Officer’s Certificate to the effect that, in the judgment of the Obligated Group Representative, such change is necessary to permit any Member of the Obligated Group to affiliate or merge with, on acceptable terms, one or more corporations that provide health care services and such modification is in the best interests of the Holders of the Outstanding Obligations; and

(14) to make any other change that does not materially adversely affect the rights or interests of the Holders of any of the Outstanding Obligations and does not materially adversely affect the rights or interests of the holders of any Related Bonds, including without limitation any modification, amendment or supplement to the Master Indenture or any Supplemental Indenture in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Resolution from federal income taxation under applicable provisions of the Code.

(b) The Master Trustee is hereby authorized to join in the execution of any such Supplemental Indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, mortgage, pledge or assignment of any property thereunder, but the Master Trustee shall not be obligated to enter into any such Supplemental Indenture that affects the Master Trustee’s rights, duties or immunities under the Master Indenture.

(c) Any Supplemental Indenture authorized by the provisions of this section shall be executed by each Obligated Issuer (or the Obligated Group Representative, if empowered) and by the Master Trustee.

(Master Indenture, Section 7.1)

Modification of Indenture with Consent of Holders

(a) With the consent of the Holders of a majority in aggregate principal amount of all Debt Obligations then Outstanding, the Master Indenture may be amended or supplemented for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of any Supplemental Indenture or of modifying in any manner the rights of the Holders of
Obligations; provided, however, (i) no amendment shall be made which adversely affects Obligations without the consent of the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding so affected, and (ii) without the consent of the Holders of all Obligations then Outstanding which would be adversely affected thereby, no such Supplemental Indenture shall (A) effect a change in the times, amounts or currency of payment of the principal of and premium, if any, or interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, (B) reduce the aforesaid aggregate principal amount or other amount or percentage of Obligations, the Holders of which are required to consent to any such Supplemental Indenture, or (C) permit the preference or priority of any Obligation over any other Obligation.

(b) Upon the filing with the Master Trustee of evidence of the consent of Holders as aforesaid, the Master Trustee shall join in the execution of such Supplemental Indenture unless such Supplemental Indenture affects the Master Trustee’s own rights, duties or immunities under the Master Indenture, in which case the Master Trustee may in its discretion, but shall not be obligated, to enter into such Supplemental Indenture. Any such Supplemental Indenture shall be executed by the Master Trustee and by each Obligated Issuer (or the Obligated Group Representative, if empowered).

(c) It shall not be necessary for the consent of the Holders under this section to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(Master Indenture, Section 7.2)

Additional Obligated Issuers

(a) If at any time the then existing Obligated Issuers and any other Person shall determine that such other Person should become an Obligated Issuer under the Master Indenture, the then existing Obligated Issuers and such other Person shall execute and deliver to the Master Trustee the agreement of such new Obligated Issuer: (i) to become an Obligated Issuer under the Master Indenture and thereby subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Issuer, including the performance and observance of all covenants and obligations of an Obligated Issuer under the Master Indenture, (ii) to be jointly and severally liable for the timely payment of all amounts due and payable under the terms of all Obligations then or thereafter Outstanding under the Master Indenture, whenever issued, and (iii) to enter into an undertaking related to such Obligated Issuer to provide financial, operating and material event disclosure to the extent required by such rule or otherwise if the new Obligated Issuer shall be an “obligated person” with respect to any Related Bonds under SEC Rule 15c2-12.

(b) Each instrument executed and delivered to the Master Trustee in accordance with paragraph (a) above shall be accompanied by an opinion of Counsel to the effect that each such instrument has been duly authorized, executed and delivered by each existing Obligated Issuer and by such new Obligated Issuer and constitutes a valid and binding obligation enforceable in accordance with its terms, except as limited by applicable fraudulent conveyance statutes (the potential effects of which shall be set forth in reasonable detail), bankruptcy laws, insolvency laws and other laws and equitable principles affecting creditors’ rights generally.

(c) It shall be a condition precedent to the addition of any Person as an Obligated Issuer that the Master Trustee receive (i) an opinion of Bond Counsel to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest paid on any Related Bonds which were previously issued pursuant to and are secured by the Related Financing Documents for any Obligations or other Outstanding Indebtedness previously incurred under the Master Indenture or any similar Outstanding Indebtedness previously incurred by the new Obligated Issuer, from gross income of the holders of any such Related Bonds for Federal income taxation purposes or cause the interest on such
Related Bonds to be treated as an item of tax preference under Section 57 of the Code, and (ii) an opinion of Counsel to the effect that such addition of such Person as an Obligated Issuer under the Master Indenture does not result in an Event of Default under the Master Indenture, and (iii) an Officer’s Certificate delivered to the Master Trustee to the effect that:

1. (A) the Debt Service Coverage Ratio of the Obligated Group (calculated assuming the inclusion of such Person into the Obligated Group) for the Fiscal Year immediately preceding the Fiscal Year in which such Person is proposed to be added as an Obligated Issuer was at least 1.20, or (B) the Debt Service Coverage Ratio of the Obligated Group (calculated assuming the inclusion of such Person into the Obligated Group) for the two most recent Fiscal Years immediately preceding the Fiscal Year in which such Person is proposed to be added as an Obligated Issuer was in each such preceding Fiscal Year at least 1.10, and the Debt Service Coverage Ratio of the Obligated Group (calculated assuming the inclusion of such Person into the Obligated Group) is forecasted by a Consultant to be at least 1.20 for each of the two complete Fiscal Years succeeding the Fiscal Year in which such Person is proposed to be added as an Obligated Issuer; and

2. the combined unrestricted fund balance of the Obligated Group immediately after the addition of the new Obligated Issuer will be at least equal to 90% of the combined unrestricted fund balance of the Obligated Group immediately prior to the addition of such new Obligated Issuer.

(Master Indenture, Section 8.1)

Satisfaction and Discharge of Master Indenture

(a) If the Master Trustee receives: (i) an amount which is (A) in the form of (1) cash, (2) Government Obligations, or (3) obligations described in subparagraph (b) or (c) of the definition of Investment Securities, and (B) in a principal amount sufficient, together with the interest thereon and any funds on deposit under the Master Indenture and available for such purpose, to provide for the payment of the principal of and premium, if any, and interest on all Outstanding Obligations to and including the maturity date or prior redemption or prepayment date thereof; and (ii) irrevocable instructions from the Obligated Group to redeem all Obligations to be redeemed prior to maturity and to notify the Holders of each such redemption; then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group, and at the cost and expense of the Members of the Obligated Group, shall execute all such instruments acknowledging satisfaction of and discharging the Master Indenture as may be requested by the Members of Obligated Group. Each Obligated Issuer hereby agrees to reimburse the Master Trustee for any reasonable costs or expenses therefor and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture.

(b) In like manner, the Obligated Issuer of any particular Obligation may provide for the payment thereof (or of a portion thereof) at or prior to maturity and the Obligation (or portion thereof) so provided for shall thereupon cease to be Outstanding under the Master Indenture. Funds provided for such payment shall be held for the sole benefit of the Holder of the Obligation to be paid and applied solely to the payment of such Obligation. No Obligation securing any Related Bond, Obligation or other indebtedness shall be deemed defeased until the Related Bond, Obligation or other indebtedness is deemed defeased in accordance with the appropriate Related Financing Document.

(c) In lieu of the foregoing, the Obligated Issuer of any particular Obligation may deliver to the Holder thereof the amount required under the Related Financing Documents to provide for the payment of the principal, premium, if any, and interest due or to become due in respect of such Obligation.
and such Obligation shall, upon surrender to the Master Trustee for cancellation, no longer be deemed Outstanding under the Master Indenture.

(d) Upon the defeasance of any of the Obligations pursuant to an advance refunding, the Master Trustee shall be entitled to receive and rely upon a verification report and an opinion of Counsel.

(Master Indenture, Section 9.1)

Release of Obligated Issuers

Any Obligated Issuer, with the written consent of the Obligated Group Representative, may withdraw from the Obligated Group and be released from its obligations under the Master Indenture if, immediately upon the withdrawal of the Obligated Issuer, no Event of Default shall exist under the Master Indenture or under the terms of any Supplemental Indenture then in effect, and the Obligated Group delivers to the Master Trustee an Officer’s Certificate to the effect that:

(1) the Debt Service Coverage Ratio (calculated assuming the exclusion of such Person from the Obligated Group) for the two most recent Fiscal Years immediately preceding the Fiscal Year in which such Person is proposed to be removed as an Obligated Issuer is, in each such preceding Fiscal Year, greater than 1.10; or

(2) the Debt Service Coverage Ratio (calculated assuming the exclusion of such Person from the Obligated Group) for the next two succeeding Fiscal Years immediately subsequent to the Fiscal Year in which such Person is proposed to be removed as an Obligated Issuer is forecasted to be at least equal to 1.20; and

(3) in either case, the combined unrestricted fund balance of the Obligated Group immediately after the removal of the Obligated Issuer will be at least equal to 80% of the combined unrestricted fund balance of the Obligated Group immediately prior to the removal of such Obligated Issuer.

Upon compliance with the foregoing, the Master Trustee shall execute and deliver such instruments as may be necessary or appropriate to effectuate or evidence the release of the Obligated Issuer from its obligations under the Master Indenture. Thereafter, such Obligated Issuer shall not be bound by or entitled to any benefits under the Master Indenture.

Notwithstanding the foregoing, the Institutions shall not be permitted to withdraw from the Obligated Group so long as any Obligations remain Outstanding under the Master Indenture.

(Master Indenture, Section 9.2)

Substitution of Obligations and Documents

(a) Notwithstanding anything in the Master Indenture to the contrary, the Obligated Group and the Master Trustee, may, without the consent of any of the Holders of any Obligations or any Related Bonds, but only (i) with the prior written consent of the credit enhancers, if any, of the Related Bonds of the affected series of Related Bonds, and (ii) upon receipt by the Master Trustee of an Officer’s Certificate demonstrating satisfaction of the Substitution Transaction Test (as defined in paragraph (b) below), enter into one or more supplements, amendments, restatements, replacements or substitutions to the Master Indenture, to modify, amend, restate, supplement, replace, substitute, change or remove any covenant, agreement, term or provision of the Master Indenture, in whole or in part, including, but not limited to, an amendment, restatement or substitution of the Master Indenture, in whole to relate to all Related Bonds, or in part to relate to a portion of the Related Bonds, including, but not limited to, a series
or subseries of the Related Bonds secured by payment obligations of the health care facilities on whose behalf the allocable portion of the proceeds of the Related Bonds were utilized, or an affiliate of such health care facilities, in order to effect (i) the affiliation of the Obligated Group or any Member of the Obligated Group with another entity or entities in order to create a new or modified credit group or structure or in order to provide for the inclusion of the Obligated Group or any Member of the Obligated Group in another obligated group, combined group or other unified credit group or structure, (ii) the release or discharge of any collateral securing the Related Bonds, including, but not limited to, the release or discharge of (A) any or all Obligations, in whole or in part, issued pursuant to the Master Indenture to secure the Related Bonds and (B) the Obligated Group or any Member of the Obligated Group from any or all liability (whether direct or indirect) with respect to the Related Bonds or a portion thereof, any Related Loan Document, any Related Bond Resolution, the Obligations or the Master Indenture or any portion of any thereof, in consideration for the issuance of a note or notes to secure the Related Bonds or portion of the Related Bonds that are to become an obligation of the new affiliated entities or the new obligated group, combined group or other unified credit group, which note or notes would constitute obligations of the new affiliated entities or the members of the new obligated group, combined group or other unified credit group, and (iii) the replacement of all or a portion of the financial and operating covenants and related definitions set forth in the Master Indenture with those of the new affiliated entities or the new obligated group, combined group or other unified credit group, set forth in the new agreement or master indenture (such transaction is referred to collectively herein as the “Substitution Transaction”).

(b) The Substitution Transaction Test shall mean, and be satisfied if, the Obligated Group Representative delivers to the Master Trustee either:

(A) An Officer’s Certificate demonstrating that, upon consummation of the Substitution Transaction, and after giving effect to the Substitution Transaction, (i) each Rating Agency that has provided a long-term rating on the publicly sold Related Bonds provides written confirmation to the effect that the long-term ratings by each such Rating Agency on such Related Bonds will be no less than “A2” or “A” or its equivalent; and (ii) the new obligated group could incur one dollar ($1.00) of additional Long Term Indebtedness in accordance with subsection (c) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Permitted Indebtedness” herein; or

(B) In the event that the Obligated Group cannot satisfy the requirements of paragraph (b)(A) above, an Officer’s Certificate demonstrating that, upon consummation of the Substitution Transaction, and after giving effect of such Substitution Transaction, (i) each Rating Agency that has provided a long-term rating on the publicly sold Related Bonds provides written confirmation to the effect that the long-term ratings by each such Rating Agency on such Related Bonds will be no less than the then-current rating on such Related Bonds immediately prior to the implementation of the Substitution Transaction, or the then-current rating will not be decreased or withdrawn (a rating decrease shall include instances where the rating category level remains unchanged but the rating modifier (such as “+” or “-”) is decreased as a result of the implementation of the Substitution Transaction, but a rating decrease shall not include instances where the outlook alone is decreased); (ii) the new obligated group could incur one dollar ($1.00) of additional Long Term Indebtedness in accordance with subsection (c) under the heading entitled “SUMMARY OF THE MASTER INDENTURE – Permitted Indebtedness” herein; and (iii) the new master indenture contains a pledge of a revenue fund and the gross receipts substantially similar to the pledge of the Revenue Fund and the Gross Receipts established under the Master Trust Indenture.

(c) Upon the implementation of the Substitution Transaction pursuant to paragraph (a) above, and concurrently therewith, the Master Trustee shall, as may be directed in writing by the Obligated Group Representative, at the option of the Obligated Group Representative, release and discharge the pledge of and security interest in the Revenue Fund and the Gross Receipts or
any portions thereof, and file or record or allow to be filed or recorded any termination statements that may be applicable thereto.

(d) If all amounts due or to become due on the Related Bonds have not been fully paid to the holders thereof, at or prior to the implementation of the Substitution Transaction there shall also be delivered to the Master Trustee: (i) an opinion of nationally recognized bond counsel to the effect that, under existing law, the implementation of the Substitution Transaction and the execution of the amendments, supplements, restatements, replacements or substitutions contemplated in this section, in and of themselves, would not adversely affect the validity of the Related Bonds or the exclusion from federal income taxation of interest payable on the Related Bonds, and (ii) an opinion of counsel to the new affiliated entities or the new obligated group, combined group or other unified credit group to the effect that (1) the note or notes or other obligations of the new affiliated entities or the new obligated group, combined group or other unified credit group to be delivered to secure the Related Bonds constitute legal, valid and binding obligations of the new affiliated entities or the new obligated group, combined group or other unified credit group enforceable in accordance with their terms, except to the extent that the enforceability of such note or notes or other obligations may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar laws or enactment affecting the enforcement of creditors’ rights, and (2) the issuance of the note or notes or other obligations will not cause the Related Bonds or such note or notes or other obligations to become subject to the registration requirements pursuant to the Securities Act of 1933, as amended.

(Master Indenture, Section 9.5)

Rights of Holders of Ancillary Obligations and Derivative Obligations

Notwithstanding any provision of the Master Indenture to the contrary, the Holders of any Ancillary Obligations or Derivative Obligations shall not be entitled to exercise any rights or provide any consents pursuant to the Master Indenture, including, without limitation, Article Five of the Master Indenture, and any Supplemental Indenture. Any Ancillary Obligations or Derivative Obligations shall be deemed to be Outstanding under the Master Indenture solely to allow the Holders of such Ancillary Obligations or Derivative Obligations to receive payments under the Master Indenture and the applicable Supplemental Indenture.

(Master Indenture, Section 11.1)
APPENDIX D

Form of Bond Counsel Opinion
Upon issuance of the Series 2017A Bonds, Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel, anticipates rendering its final opinion in substantially the following form:

August ___, 2017

New Jersey Health Care Facilities
Financing Authority
Station Plaza, Building #4
22 South Clinton Avenue
Trenton, New Jersey 08609-1212

Ladies and Gentlemen:

We have acted as Bond Counsel to the New Jersey Health Care Facilities Financing Authority (the “Authority”), a public body corporate and politic constituting a political subdivision of the State of New Jersey (the “State”), in connection with the issuance on the date hereof by the Authority of $_____________ aggregate principal amount of its Revenue Bonds, Inspira Health Obligated Group Issue, Series 2017A (the “Series 2017A Bonds”). The Series 2017A Bonds are dated the date hereof, mature on the dates and in the principal amounts and bear interest from their date at the respective rates and payable on the dates and contain such other terms and conditions as are set forth in the Resolutions. The Series 2017A Bonds are subject to redemption prior to maturity on the terms and conditions set forth in the Resolutions. The Series 2017A Bonds are being issued under and pursuant to: (i) the laws of the State, including particularly, the New Jersey Health Care Facilities Financing Authority Law, constituting Chapter 29 of the Laws of New Jersey of 1972, as amended and supplemented (the “Act”), and (ii) the Authority’s General Health Care Facilities Registered Bond Resolution adopted October 29, 1992 (the “General Resolution”), and a Series Resolution adopted by the Authority on April 27, 2017 in accordance with the terms of the General Resolution, as amended by the First Supplement to the Series Resolution adopted by the Authority on June 22, 2017 in accordance with the terms of the General Resolution (the “Series Resolution”, and together with the General Resolution, the “Resolutions”). U.S. Bank National Association (the “Trustee”) has been appointed as Trustee, Bond Registrar and Paying Agent for the Series 2017A Bonds pursuant to the Resolutions. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Resolutions.

The Series 2017A Bonds are dated the date hereof, mature on the dates and in the principal amounts and bear interest from their date at the respective rates and payable on the dates and contain such other terms and conditions as are set forth in the Resolutions. The Series 2017A Bonds are subject to redemption prior to maturity on the terms and conditions set forth in the Resolutions. The Series 2017A Bonds are being issued in fully registered form, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company (“DTC”). So long as DTC or its nominee is the registered owner of the Series 2017A Bonds, payments of the principal and Redemption Price of and interest on the Series 2017A Bonds will be made by the Trustee, as paying agent, directly to Cede & Co., as nominee for DTC. Disbursement of such payments to the beneficial owners of the Series 2017A Bonds is the responsibility of the DTC participants.
The Series 2017A Bonds are being issued by the Authority for the purpose of providing funds which will be lent by the Authority to Inspira Medical Centers, Inc., a nonprofit corporation incorporated and existing under the laws of the State ("IMC"), and Inspira Medical Center Woodbury, Inc., a nonprofit corporation incorporated and existing under the laws of the State ("IMC Woodbury" and, collectively with IMC, the "Institutions"), and used to (A) together with a portion of the proceeds of the Authority’s Revenue Bonds, Inspira Health Obligated Group Issue, Series 2017B, and other available moneys of the Institutions, finance and/or reimburse the Institutions for the costs of the planning, development, construction, expansion, renovation, furnishing and/or equipping of (i) a new acute care hospital and medical center facility to be located in Mullica Hill, New Jersey, which will serve as a replacement for IMC Woodbury’s existing hospital and medical center facility located in Woodbury, New Jersey (the “Existing Woodbury Facility”), (ii) at the Existing Woodbury Facility, the establishment of a Radiation Oncology program, including, without limitation, the construction of a linear accelerator vault, and (iii) at IMC’s medical center located in Vineland, New Jersey, the expansion of the Emergency Department, and (B) pay all or a portion of the costs of the issuance and sale of the Series 2017A Bonds.

On the date hereof, the Authority is loaning the proceeds of the Series 2017A Bonds to the Institutions pursuant to the terms and provisions of a Loan Agreement, dated as of August 1, 2017 (the “Loan Agreement”), by and among the Authority and the Institutions.

As security for its obligation to pay the principal and Redemption Price of and interest on the Series 2017A Bonds when due, pursuant to the Resolutions, the Authority has assigned, among other things, all of its right, title and interest (subject to the reservation of certain rights by the Authority) in the Loan Agreement to the Trustee for the benefit of the Holders of the Series 2017A Bonds pursuant to an Assignment, dated as of August 1, 2017 (the “Assignment”), from the Authority to the Trustee. Pursuant to the Resolutions, the principal and Redemption Price of and interest on the Series 2017A Bonds are payable from the Revenues, including all payments received by the Trustee pursuant to the Loan Agreement, and the amounts on deposit in the funds and accounts (other than the Rebate Fund) created and established under the Resolutions.

To evidence its obligations under the Loan Agreement, the Institutions have issued and delivered their Obligated Group Promissory Note, Series 2017A, in the principal amount of $______________ (the “Series 2017A Note”) to the Authority which, in turn, has assigned its rights (subject to the reservation of certain rights by the Authority) in the Series 2017A Note to the Trustee. The Series 2017A Note is issued under and pursuant to, and secured by, a Master Trust Indenture, dated as of June 1, 2016 (the “Master Trust Indenture”), by and among the Institutions and TD Bank, National Association, as master trustee (the “Master Trustee”), as supplemented by a Third Supplemental Indenture, dated as of August 1, 2017 (the “Third Supplemental Indenture”), by and among the Institutions and the Master Trustee. The Master Trust Indenture, as amended and supplemented, including as supplemented by the Third Supplemental Indenture, is hereinafter collectively referred to as the “Master Indenture”.

To secure the payment obligations of the Institutions and any future member of the Obligated Group pursuant to the Master Indenture, including, without limitation, the payment
obligations of the Institutions with respect to the Series 2017A Note and any other Obligations (as defined in the Master Indenture) issued pursuant to the Master Indenture, the Institutions have sold, assigned, set over, pledged and granted a security interest to the Master Trustee in all of their right, title and interest in and to the Revenue Fund established pursuant to the Master Indenture, including all moneys and investments therein and investment income thereon, and their Gross Receipts (as defined in the Master Indenture). Pursuant to the Master Indenture, each member of the Obligated Group is jointly and severally liable for the performance of all obligations of the Institutions and each additional Obligated Issuer under the Master Indenture, including, without limitation, all payment obligations with respect to the Series 2017A Note and any other Obligations. As of the date hereof, the Institutions are the only members of the Obligated Group.

In rendering this opinion, we have examined, among other things: (a) a certified copy of the Resolutions; (b) original counterparts or certified copies of the Loan Agreement, the Assignment, the Series 2017A Note, the Preliminary Official Statement of the Authority, dated July __, 2017, relating to the Series 2017A Bonds (the “Preliminary Official Statement”), the Official Statement of the Authority, dated August __, 2017, relating to the Series 2017A Bonds (the “Official Statement”), and the Bond Purchase Contract, dated August __, 2017, between the Authority and the underwriters of the Series 2017A Bonds named therein and approved by the Institutions; (c) the opinion of Giordano, Halleran & Ciesla, P.C., counsel to the Institutions, dated the date hereof, upon which we have relied as to the matters set forth therein; and (d) such matters of law, including, without limitation, the Act and the Internal Revenue Code of 1986, as amended (the “Code”), and such other opinions, agreements, proceedings, certificates, records, approvals, resolutions and documents as to various matters with respect to the issuance of the Series 2017A Bonds as we have deemed necessary.

We have assumed the due authorization, execution and delivery by, and enforceability against, all parties, other than the Authority, of the documents and other instruments which we have examined. We have relied upon the genuineness, accuracy and completeness of the documents and other instruments that we have examined.

Based on the foregoing and subject to the further assumptions and qualifications set forth below, we are of the opinion that:

1. The Authority is a public body corporate and politic constituting a political subdivision of the State, is validly existing under the Act, and had and has full power and authority under the Act to adopt the Resolutions, to enter into and perform its obligations under the Loan Agreement and the Assignment and to issue and to sell the Series 2017A Bonds.

2. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect on the date hereof and the covenants and agreements of the Authority contained in the Resolutions are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms. The Resolutions create a valid pledge of the Revenues and the amounts on deposit in the funds and accounts (other than the Rebate Fund) created and established under the Resolutions.

D-3
3. The Loan Agreement and the Assignment have been duly authorized, executed and delivered by the Authority and the covenants and agreements of the Authority contained therein are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

4. All right, title and interest of the Authority (subject to the reservation of certain rights by the Authority) in and to the Loan Agreement and the Series 2017A Note has been validly assigned by the Authority to the Trustee for the benefit of the Holders of the Series 2017A Bonds.

5. The issuance and sale of the Series 2017A Bonds have been duly authorized by the Authority and the Series 2017A Bonds are valid and binding special and limited obligations of the Authority enforceable in accordance with their terms. The Series 2017A Bonds are entitled to the benefit and security of the Resolutions, the Loan Agreement and the Series 2017A Note to the extent provided for therein.

6. The Code establishes certain requirements which must be met at the time of, and on a continuing basis subsequent to, the issuance of the Series 2017A Bonds in order for the interest on the Series 2017A Bonds to be and remain excluded from gross income for Federal income tax purposes under Section 103 of the Code. Noncompliance with such requirements could cause the interest on the Series 2017A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Series 2017A Bonds. The Authority and the Institutions have each covenanted to comply with the provisions of the Code applicable to the Series 2017A Bonds and not to take any action or fail to take any action that would cause the interest on the Series 2017A Bonds to lose the exclusion from gross income for Federal income tax purposes under Section 103 of the Code.

Under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance by the Authority and the Institutions with their covenants described above, interest on the Series 2017A Bonds is not includable in gross income for Federal income tax purposes pursuant to Section 103 of the Code and is not treated as a preference item under Section 57 of the Code for purposes of calculating the Federal alternative minimum tax imposed on individuals and corporations; such interest on the Series 2017A Bonds is, however, included in the adjusted current earnings of a corporation for purposes of the Federal alternative minimum tax imposed on corporations.

We are also of the opinion that the difference between the stated principal amount of the Series 2017A Bonds maturing on July 1, _____, July 1, _____ and July 1, ____ (collectively, the “Discount Series 2017A Bonds”) and their initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers), at which price a substantial amount of the Discount Series 2017A Bonds was sold, constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Discount Series 2017A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Series 2017A Bond and the basis of each Discount Series 2017A Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.
Under Section 171(a)(2) of the Code, no deduction is allowed for the amortizable bond premium (determined in accordance with Section 171(b) of the Code) on the Series 2017A Bonds that are initially offered and sold at a premium. Under Section 1016(a)(5) of the Code, however, an adjustment must be made to the purchaser’s basis in such Series 2017A Bonds to the extent of any amortizable bond premium that is disallowable as a deduction under Section 171(a)(2) of the Code.

7. Under existing laws of the State, interest on the Series 2017A Bonds and any gain realized on the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act, as amended.

The foregoing opinions are qualified to the extent that the enforceability of the Resolutions, the Loan Agreement, the Assignment and the Series 2017A Bonds may be limited by (i) bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent transfer, fraudulent conveyance, and other similar laws (and court decisions with respect thereto) now or hereafter in effect and affecting the rights and remedies of creditors generally or providing for the relief of debtors; (ii) the refusal or discretion of a particular court or other adjudicative body to grant (a) equitable remedies, including, without limitation, the remedy of specific performance or injunctive relief, or (b) a particular remedy sought by any party under the Resolutions, the Loan Agreement, the Assignment or the Series 2017A Bonds as opposed to another remedy provided for therein or another remedy available at law or in equity; and (iii) general principles of equity (regardless of whether such remedies are sought in a proceeding in equity or at law).

Except as stated above, we express no opinion as to any Federal, state, local or foreign tax consequences of the ownership or disposition of the Series 2017A Bonds.

We express no opinion as to the effect, if any, on the tax status of the interest paid or to be paid on the Series 2017A Bonds as a result of any action hereafter taken or not taken in reliance upon an opinion of other counsel.

This opinion is rendered on the basis of the laws of the United States of America and the State of New Jersey as enacted and construed on the date hereof. We express no opinion as to any matter not set forth in the numbered paragraphs herein, including, without limitation, with respect to the accuracy or completeness of the Preliminary Official Statement or the Official Statement and make no representation that we have independently verified the contents thereof.

Very truly yours,

WILENTZ, GOLDMAN & SPITZER, P.A.