Meridian Hospitals Corporation

Financial Statements
December 31, 2015 and 2014

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Independent Auditor's Report

To the Board of Trustees
Meridian Hospitals Corporation

We have audited the accompanying financial statements of Meridian Hospitals Corporation (the "Corporation"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations and of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 our 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, we consider internal control relevant to the Corporation'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 Corporation'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 financial statements referred to above present fairly, in all material respects, the financial position of the Meridian Hospitals Corporation at December 31, 2015 and 2014, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 31, 2016

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Meridian Hospitals Corporation
Balance Sheets
December 31, 2015 and 2014

(in thousands)	**2015**	**2014**
Assets		
Current assets		
Cash and cash equivalents	$ 300,344	$ 240,177
Assets limited as to use and short-term investments	379,477	264,821
Patient accounts receivable, less allowance for uncollectible accounts of $49,358 in 2015 and $49,516 in 2014	140,160	127,811
Due from affiliates, net	4,162	5,305
Other current assets	43,045	38,108
Total current assets	867,188	676,222
Assets limited as to use and investments, noncurrent portion		
Under Board of Trustee designation and investments	501,020	439,843
Under bond indenture agreements	1,016	-
Total assets limited as to use and investments, noncurrent portion	502,036	439,843
Property, plant and equipment, net	773,658	748,167
Other assets	72,629	70,052
Interest in net assets balance of foundations	73,021	67,607
Due from affiliates	8,591	8,745
Total assets	$ 2,297,123	$ 2,010,636
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	$ 20,458	$ 16,440
Accounts payable and accrued expenses	169,002	151,916
Estimated amounts due to third party payors	33,142	33,763
Due to affiliates, net	3,936	3,081
Other current liabilities	55,022	44,659
Total current liabilities	281,560	249,859
Long-term debt and capital lease obligations, less current maturities	627,034	519,578
Accrued pension liability	65,599	56,066
Other liabilities	242,950	240,863
Total liabilities	1,217,143	1,066,366
Net assets		
Unrestricted	1,006,932	876,636
Temporarily restricted	51,311	45,807
Permanently restricted	21,737	21,827
Total net assets	1,079,980	944,270
Total liabilities and net assets	$ 2,297,123	$ 2,010,636

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

Meridian Hospitals Corporation
Statements of Operations
Years Ended December 31, 2015 and 2014

(in thousands)	2015	2014
Unrestricted revenues, gains and other support		
Patient service revenue, net of contractual allowances and discounts	$ 1,556,443	$ 1,412,204
Provision for bad debts	59,543	70,594
Net patient service revenue, less provision for bad debts	1,496,900	1,341,610
Other revenue	52,762	54,521
Net assets released from restriction used for operating activities	1,682	2,858
Total operating revenues	1,551,344	1,398,989
Expenses		
Salaries, wages and contracted labor	559,486	520,527
Physician salaries and fees	37,065	40,628
Employee benefits	134,697	126,003
Supplies	282,386	262,501
Other expenses	284,868	246,822
Depreciation and amortization	61,947	60,342
Interest	29,750	33,613
Total operating expenses	1,390,199	1,290,436
Income from operations	161,145	108,553
Nonoperating revenues (losses)		
Investment income	8,421	19,224
Unrealized gain (loss) on derivative instruments	3,523	(27,675)
Excess of revenue over expenses	173,089	100,102
Change in net unrealized (loss) gain on other than trading securities	(4,232)	341
Net assets released from restriction for capital acquisition	8,682	9,132
Increase in unrestricted net assets before other adjustments	177,539	109,575
Equity transfers to affiliates, net	(36,492)	(8,484)
Other changes in pension related adjustments	(10,751)	(31,743)
Other changes in unrestricted net assets	-	4,251
Increase in unrestricted net assets	$ 130,296	$ 73,599

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

Meridian Hospitals Corporation
Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Balances at December 31, 2013	$ 803,037	$ 50,144	$ 21,447	$ 874,628
Excess of revenues over expenses	100,102	-	-	100,102
Change in net unrealized gain on other than trading securities	341	-	-	341
Increase in interest in affiliated fund raising organizations	-	7,653	380	8,033
Net assets released from restriction for capital acquisition	9,132	(9,132)	-	-
Net assets released from restriction used for operating activities	-	(2,858)	-	(2,858)
Equity transfers to affiliates, net	(8,484)	-	-	(8,484)
Other changes in pension related adjustments	(31,743)	-	-	(31,743)
Other changes in unrestricted net assets	4,251	-	-	4,251
Increase in net assets	73,599	(4,337)	380	69,642
Balances at December 31, 2014	876,636	45,807	21,827	944,270
Excess of revenues over expenses	173,089	-	-	173,089
Change in net unrealized loss on other than trading securities	(4,232)	-	-	(4,232)
Increase (decrease) in interest in affiliated fund raising organizations	-	15,868	(90)	15,778
Net assets released from restriction for capital acquisition	8,682	(8,682)	-	-
Net assets released from restriction used for operating activities	-	(1,682)	-	(1,682)
Equity transfers to affiliates, net	(36,492)	-	-	(36,492)
Other changes in pension related adjustments	(10,751)	-	-	(10,751)
Increase in net assets	130,296	5,504	(90)	135,710
Balances at December 31, 2015	$ 1,006,932	$ 51,311	$ 21,737	$ 1,079,980

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

Meridian Hospitals Corporation
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(in thousands)	**2015**	**2014**
Cash flows from operating activities		
Change in net assets	$ 135,710	$ 69,642
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Gain on disposal of assets	(26)	(48)
Provision for bad debts	59,543	70,594
Depreciation and amortization	61,940	60,336
Amortization of original issue premium	(1,725)	(1,832)
Change in net realized and unrealized gains on investments	(283)	(15,410)
Unrealized (gain) loss on derivative instruments	(3,523)	27,675
Unrealized loss on trading securities	4,145	1,615
Restricted contributions for capital acquisitions	(8,682)	(9,132)
Other changes in pension related adjustments	10,751	31,743
Equity transfers to affiliates, net	36,492	8,484
Changes in assets and liabilities		
Increase in net patient accounts receivable	(71,892)	(80,659)
(Increase) decrease in other assets	(11,136)	878
Increase in accounts payable and accrued expenses	17,086	14,102
Increase in estimated amounts due to third party payors	305	15,366
Increase in other liabilities	10,798	83
Net cash provided by operating activities	239,503	193,437
Cash flows from investing activities		
Purchases of property, plant and equipment	(83,148)	(89,149)
Proceeds from sale of property and equipment	36	50
Sale of investment securities	356,775	363,943
Purchase of investment securities	(538,111)	(398,793)
Net cash used in investing activities	(264,448)	(123,949)
Cash flows from financing activities		
Principal payments on long-term debt and capital lease obligations	(16,801)	(16,885)
Proceeds from borrowings	130,000	-
Restricted contributions for capital acquisitions	8,682	9,132
Payments of financing costs	(277)	(15)
Equity transfers to affiliates, net	(36,492)	(8,484)
Net cash provided (used) in financing activities	85,112	(16,252)
Increase in cash and cash equivalents	60,167	53,236
Cash and cash equivalents		
Beginning of year	240,177	186,941
End of year	$ 300,344	$ 240,177
Supplemental information		
Cash paid for interest	$ 30,039	$ 34,150
Change in construction and retainage payable	3,886	(6,067)

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

(in thousands)

1. Organization

Meridian Health System, Inc. ("MH"), a not-for-profit corporation, is the parent organization and sole member of Meridian Hospitals Corporation. MH is also the parent corporation or has equity interest in various other New Jersey health care organizations which provide a comprehensive range of services including long-term nursing care, home care, ambulatory care, ambulance services and other health related services.

Meridian Hospitals Corporation ("Corporation") is a not-for-profit corporation that operates an acute care hospital system which provides primary and tertiary care services to the residents of the Monmouth and Ocean County regions of New Jersey. The Corporation was established for the promotion of health and to serve the public rather than private interest. To further this purpose, the Corporation also provides various programs for medical training, research, education and conducts activities established to improve the health of the community.

The Corporation was formed on January 1, 1997 and currently operates five hospital divisions. Jersey Shore University Medical Center ("JSUMC") operates a major teaching, acute care hospital, the K. Hovnanian Children's Hospital and regional trauma center located in Neptune, New Jersey. Ocean Medical Center ("OMC") operates an acute care hospital located in Brick, New Jersey and the OMC Care Center, a satellite emergency department in Point Pleasant, New Jersey. Riverview Medical Center ("RMC") operates an acute care hospital and a comprehensive rehabilitation unit located in Red Bank, New Jersey. Southern Ocean Medical Center ("SOMC") operates an acute care hospital located in Manahawkin, New Jersey. Bayshore Community Hospital ("BCH") operates an acute care hospital located in Holmdel, New Jersey.

In May 2015, MH signed a definitive agreement with Hackensack University Health Network to merge both parent organizations; creating one integrated healthcare delivery system known as Hackensack Meridian Health, to better meet the needs of many New Jersey communities. The merger will become effective upon the receipt of regulatory approvals, which is expected to be completed during 2016.

On January 1, 2016, Raritan Bay Medical Center ("RBMC") a not-for-profit acute care hospital with locations in Perth Amboy, New Jersey and Old Bridge, New Jersey, became a subsidiary of the Corporation, with the Corporation as RBMC's parent organization and sole corporate member. Prior to the acquisition, Raritan Bay Health Services Corporation was the sole corporate member of RBMC.

(in thousands)

2. Summary of Significant Accounting Policies

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include the collectability of accounts receivable, third party settlement accounts, useful lives for depreciation of fixed assets, long-term asset impairment, investment valuation, insurance, pension and other employee benefit cost, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. Actual results may differ from those estimates.

Income Taxes

The Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income. The Corporation is also exempt from state income taxes. Per the requirement to assess for tax uncertainty, management has determined that it does not have any significant uncertain tax positions required to be accrued or reported.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with original maturity of three months or less. Cash and cash equivalents exclude assets limited as to use by board designation or under trust agreements.

At December 31, 2015 and 2014, the cash and cash equivalents in major financial institutions exceed the Federal Depository Insurance Limits. Management believes the credit risk related to these deposits is minimal.

Assets Limited as to Use and Investments

Assets limited as to use principally consist of cash and investments held by trustees under the various indenture agreements and funds set aside by the MH's Board of Trustees over which the Board retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use and investments are recorded at fair value as described below.

Investment income on investments held under bond indenture agreements is included in other operating revenue. Investment income or losses on all other investments, including realized gains and losses on investments, interest, dividends, changes in values on trading securities, and related investment management fees are included in nonoperating revenues (losses). Unrealized gains and losses on investments other than trading securities are excluded from the excess of revenues over expenses.

(in thousands)

Fair Value Measurements

Fair Value Accounting establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. Fair value requires an organization to determine the unit of account, the mechanism of hypothetical transfer, and the appropriate markets for the asset or liability being measured.

The guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. As a basis for comparing assumptions, accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair values as follows:

Level 1 Financial instruments for which quoted market prices are available in active markets. Level 1 assets consist of Money Market Funds, Equity Securities, some Mutual Funds, and U.S. Treasury Notes/Bills securities as they are traded in an active market with sufficient volume and frequency of transactions.

Level 2 Financial instruments for which there are inputs, other than the quoted prices in active markets, that are observable either directly or indirectly. Level 2 assets consist of certain Money Market Funds, Government Backed Securities, Corporate Bonds and Mutual Funds. These investments can also be valued by the investment portfolio managers utilizing a portfolio system, which relies on one of the largest pricing services and is used by many mutual funds. If the pricing service does not have a price, the Bloomberg submitted price is used. The Corporation reviews the results of these valuations in assessing its fair value of investments.

Level 3 Financial instruments for which there are unobservable inputs, in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

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

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

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

(in thousands)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions the market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors.

The following is a description of the methods and assumptions used to estimate fair value. There have been no changes in valuation methods and assumptions used at December 31, 2015 and 2014.

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

- Mutual Funds and Money Market Funds - Fair value estimates for mutual funds are based on net asset values (NAVs) calculated by the funds' independent administrators which are calculated daily. Redemptions from each of the funds can be made daily on the latest reported NAV.

- Real Estate Fund - Value is derived by applying ownership percentage to the value of the fund as determined by the fund's management at year-end. The investments of the real estate fund consist primarily of securities with quoted market prices.

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

- Common/Collective Trust - Valued based on a net unit value. The net unit value of the trust is derived from the value of the underlying securities as determined by the trust at year-end. The investments of the common/collective trust consist primarily of securities with quoted market prices.

- Interest-bearing Cash Equivalents - Consist primarily of U.S. Government debt securities with maturities less than three months from year-end. These investments are valued on the basis of the quoted market prices at year-end. If quoted market prices are not available for the investments, these investments are valued based on yields currently available on comparable securities or issuers with similar credit ratings.

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

The Corporation has elected to record the alternative investments at cost. Alternative investments include the Private Equity Fund and the Commodities Fund. The Defined Benefit Cash Balance plan records these investments at fair value as follows:

(in thousands)

- Private Equity Fund - Value for investments is derived by applying ownership percentage to the value of the fund as determined by the fund's management at year-end. The investments of the private equity fund consist primarily of investments in limited partnerships. These investments are fair valued at their net asset value as reported by their underlying investment manager. In the event that the partnership is unable to obtain the value of any portfolio investment from the applicable investment manager, the fair value of such portfolio investment shall be determined by the general partner.

- Commodities Fund - Valued on year-end NAV of the respective classes of shares, which are determined monthly, or at the date of any subscription to or redemption from the fund. The NAV is equal to the excess value of the fund's assets over the sum of its liabilities. Substantially all of the assets of the fund are invested in shares of a Master Fund. The value of the fund's assets and liabilities are determined in accordance with accounting principles acceptable in the United States. Futures and forward contracts are valued based upon the settlement price on the exchanges where they are traded, and where there is no settlement price, value will be based upon the last trade price. If the fund invests in a commingled entity, the value of the fund's investment will be the value provided by the manager of the entity, unless the investment manager determines such value is not reasonable, in which case the investment manager shall determine the value of the investment.

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

The agreements underlying participation in some of these investments may limit the Corporation's ability to liquidate its interests in such investments for a period of time. While the Corporation has not been informed of any redemption restrictions, some of the more significant restrictions contained in the Board Designated investments and the Pension Plan investments are:

- The TAP Fund generally permits a shareholder to redeem all or any portion of its shares upon five business days. However, distributions may be limited in amount or temporarily suspended in circumstances described in the fund agreement. Shares not redeemed from the fund remain at risk to fund performance until the effective date of the redemption.

- The Corporation may not redeem any interest in the Portfolio Advisors Private Equity Fund V without the consent of the general partner. As a result, at December 31, 2015 and 2014, the Corporation had Board Designated investments of $3,304 and $3,857, respectively, which are restricted from redemption under this lock-up provision. At December 31, 2015 and 2014, the Corporation had Pension Plan investments of $6,176 and $6,871, respectively, which are restricted from redemption under this lock-up provision.

Impairment of Investments
Investments are reviewed for impairment whenever events or changes in circumstances indicate that the fair value of investments below cost will be considered other than temporary. There were no such losses reported for the years ended December 31, 2015 and 2014.

(in thousands)

Inventories
Inventories, primarily supplies, are included in other current assets and are stated at lower of cost or market.

Other Assets
Included in other assets are various Corporation investments in health-related ventures. Investments are accounted for on the cost or equity method depending upon the Corporation's ownership interest and the degree of control exercised.

Financial Instruments
The Corporation has entered into interest rate swap agreements to manage its exposure to fluctuations in interest rates (interest rate risk) and lower cost of capital. These swap agreements involve the exchange of fixed and variable rate interest payments between the Corporation and counterparties based on common notional principal amounts and maturity dates that correspond to the Corporation's outstanding long-term debt.

The Corporation recognizes all derivatives (interest rate swap agreements) at fair value within other liabilities on the balance sheets. Changes in fair value of these instruments are reported in the statement of operations as discussed in Note 8.

Property, Plant and Equipment
The Corporation's property, plant and equipment are stated at cost less accumulated depreciation. The Corporation determines depreciation using the straight-line method, over the estimated useful life of each class of depreciable asset. Estimated lives range from 3 to 15 years for equipment and up to 40 years for buildings.

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

Gifts of long-lived assets such as property, plant and equipment are determined at their fair value at the date of the gift and reported as an increase to unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets
Long-lived assets are reviewed for impairment whenever events or change in circumstances indicate that the carrying amount may not be recoverable. If the sum for the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. There were no impairment losses recorded for the years ended December 31, 2015 and 2014.

(in thousands)

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain various capital financings. Deferred financing costs are amortized using the effective interest method or the straight-line method when not materially different over the term of the related debt. Deferred financing costs totaled $4,206 and $4,336, net of accumulated amortization of $2,494 and $2,087 at December 31, 2015 and 2014, respectively. These amounts are reported within other assets in the accompanying balance sheets.

Professional Liability Insurance

The Corporation's policy is to accrue an estimate of the ultimate cost of malpractice and workers compensation claims under insurance policies. This accrued liability is included in other liabilities in the accompanying balance sheets. The Corporation also records an estimate for insurance recoveries associated with these claims. This amount is included in other assets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those funds whose use is limited by donors to a specified time period and/or purpose. Temporary restricted net assets are available for the funding of health care services and capital acquisitions. Temporarily restricted net assets at December 31, 2015 and 2014 were $51,311 and $45,807, respectively. Permanently restricted net assets have been restricted by donors to be held in perpetuity and the income from permanently restricted net assets is expendable to support various health care services. Permanently restricted net assets at December 31, 2015 and 2014 were $21,737 and $21,827, respectively. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as the cost basis. The gifts are reported as 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 statement of operations as net assets released from restrictions. The Corporation's policy is to exclude net assets released from restrictions for capital acquisitions from excess revenue over expenses within the statement of operations. Net assets released from restrictions for noncapital purposes are included within operating income. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

The Corporation adopted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This law governs management and spending of donor-restricted endowment funds and permanently restricted gifts. Disclosure requirements under this act have been adopted by the Corporation.

(in thousands)

Included in unrestricted net assets are board designated endowment funds of $27,248 and $29,204 at December 31, 2015 and 2014, respectively.

Performance Indicator

The statements of operations include excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include changes in net unrealized gains and losses on other than trading securities, net assets released from restriction for capital acquisition, equity transfers of assets to and from affiliates, pension related adjustments, and other changes in unrestricted net assets.

The Corporation differentiates its operating activities through the use of income from operations as an intermediate measure of operations. For the purposes of display, certain investment income and other transactions, which management does not consider being components of the Corporation's operating activities, are excluded from the income from operations and reported as nonoperating revenues (losses) in the statements of operations.

Net Patient Service Revenue

Net patient service revenue is accounted for on the accrual basis in the period in which the service is provided. These amounts are net of appropriate allowances to give recognition to differences between the Corporation's charges and reimbursement rates from third party payors. The Corporation is reimbursed from third party payors under various methodologies based on the level of care provided. Certain net revenues received are subject to audit and retroactive adjustment for which amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

- Medicare – Inpatient acute care services and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services and related capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of the annual cost report and audits thereof by the Medicare fiscal intermediary. The classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Corporation. Medicare net patient service revenue represents 37% and 35% of the total net patient service revenue in 2015 and 2014, respectively. The Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary for BCH through December 31, 2013, for JSUMC, OMC, RMC and SOMC through December 31, 2012 with the exception of 2011 for OMC and RMC, 2010 for RMC and 2005 for JSUMC, OMC, and RMC which has not been finalized by the fiscal intermediary.

(in thousands)

- Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are reimbursed under a prospective methodology which is based on the former Chapter 83 reimbursement system. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule. Medicaid net patient service revenue represents 2% and 3% of the total net patient service revenue in 2015 and 2014, respectively. The Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary for JSUMC, OMC, BCH and SOMC through December 31, 2012 and for RMC through December 31, 2013.

- The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per patient day or procedure and discounts from established charges. Net patient service revenue from these payors represents 57% and 58% of the total net patient service revenue in 2015 and 2014, respectively.

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

Functional Expenses
The Corporation provides general health care services and programs. Expenses related to providing these services for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Health care services	$ 1,141,091	$ 1,072,667
General and administrative	249,108	217,769
	$ 1,390,199	$ 1,290,436

Recent Accounting Pronouncements
In April 2015, the Financial Accounting Standards Board issued a standard on Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2015. The Corporation is evaluating the impact this will have on the financial statements beginning in fiscal year 2016.

In May 2015, the FASB issued guidance about Fair Value Measurement and Disclosure for Investments in Certain Entities That Calculate NAV per Share (or Its Equivalent). This guidance requires entities to present that use NAV as a practical expedient for valuation purposes separately from other investments categorized in the fair value hierarchy as described in the “Fair Value Measurements” section of Note1. The standard is effective for fiscal years beginning after December 15, 2016. The Corporation is evaluating the impact this will have on the financial statements beginning in fiscal year 2017.

(in thousands)

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The Corporation is evaluating the impact this will have on the financial statements beginning in fiscal year 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expire before the earliest comparative period presented. A full retrospective transition approach is not permitted. This guidance will be effective for the Corporation beginning in fiscal year 2019 with early application permitted. The Corporation is currently assessing the impact this will have on the financial statements.

3. Charity Care

The Corporation provides care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services without charge or at amounts less than its established rates. The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished. The Corporation receives partial reimbursement for the uncompensated care it provides (Note 4). Of the Corporation's total operating expenses reported for 2015 and 2014, estimated costs of $18,579 and $25,627 for 2015 and 2014, respectively, are attributable to providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total operating expenses divided by gross patient service revenue.

(in thousands)

4. Patient Service Revenue and Related Adjustments

The Corporation records gross patient service revenue on an accrual basis at established rates, with contractual and other allowances added to or deducted from such amounts to determine net patient service revenue. The Corporation maintains policies and records to identify and monitor these contractual allowances and its level of charity care. These records include the amount of deductions from gross revenue due to qualified services provided under the State's charity care guidelines. In 2015 and 2014, the Corporation recorded $5,994 and $9,577, respectively, in net patient service revenue related to changes in estimates to amounts due to third party payors.

The components of net patient service revenue are as follows:

	2015	2014
Gross charges	$ 8,217,993	$ 7,334,214
Contractual and other allowances	(6,680,380)	(5,944,229)
Provision for bad debts	(59,543)	(70,594)
Change in estimate of prior years' net patient service revenue	5,994	9,577
Charity care subsidy	9,602	9,060
Hospital relief subsidy	3,234	3,582
	$ 1,496,900	$ 1,341,610

Collectability of Accounts Receivables

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. The Corporation has implemented a monthly standardized approach to estimate and review the collectability of receivables based on the payor classification and the period from which the receivables have been outstanding. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. In addition, the Corporation assesses the current state of its billing functions in order to identify any known collection or reimbursement issues and assess the impact, if any, on reserve estimates. The Corporation believes that the collectability of its receivables is directly linked to the quality of its billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services it provides. Revisions in reserve for doubtful accounts estimates are recorded as an adjustment to bad debt expense.

(in thousands)

5. Assets Limited as to Use and Investments

The following table provides a summary of the Corporation's assets limited as to use and investments that are measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at December 31, 2015
Under bond indenture agreements held by Trustee			
Cash and cash equivalents	$ 16,967	$ -	$ 16,967
Total under bond indenture agreements held by trustee	$ 16,967	$ -	$ 16,967
Under Board of Trustee designation and investments other than trading securities			
Cash and cash equivalents	$ 11,402	$ 1,156	$ 12,558
Mutual funds - equity	20,310	270,837	291,147
Corporate debt securities	-	13,468	13,468
Muncipal debt securities	-	7,429	7,429
U.S. government obligations	272,914	66,734	339,648
	$ 304,626	$ 359,624	664,250
Alternative investments			8,425
Certificate of deposits			13,034
Accrued interest			1,036
Total under board of trustee designation and investments other than trading securities			$ 686,745
Under Board of Trustees designation and investments - trading securities			
Cash and cash equivalents	$ -	$ 3,772	$ 3,772
U.S. government obligations	17,635	9,560	27,195
Corporate debt securities	-	116,021	116,021
Corporate equity securities	27,173	2,810	29,983
	$ 44,808	$ 132,163	176,971
Accrued interest			806
Total under board of trustee designation and investments - trading securities			177,777
Restricted cash			24
Total assets limited as to use			881,513
Less: Current portion			379,477
Assets limited as to use and investment noncurrent portion			$ 502,036

Meridian Hospitals Corporation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

(in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at December 31, 2014
Under bond indenture agreements held by Trustee			
Cash and cash equivalents	$ 11,749	$ -	$ 11,749
Total under bond indenture agreements held by trustee	$ 11,749	$ -	$ 11,749
Under Board of Trustee designation and investments other than trading securities			
Cash and cash equivalents	$ 557	$ 1,282	$ 1,839
Mutual funds - equity	20,921	223,604	244,525
Corporate debt securities	-	9,852	9,852
Muncipal debt securities	-	6,453	6,453
U.S. government obligations	172,248	69,204	241,452
	$ 193,726	$ 310,395	504,121
Alternative investments			20,093
Certificate of deposits			15,783
Accrued interest			433
Total under board of trustee designation and investments other than trading securities			$ 540,430
Under Board of Trustees designation and investments - trading securities			
Cash and cash equivalents	$ -	$ 16,257	$ 16,257
U.S. government obligations	10,346	9,887	20,233
Corporate debt securities	-	89,472	89,472
Corporate equity securities	23,176	2,723	25,899
	$ 33,522	$ 118,339	151,861
Accrued interest			600
Total under board of trustee designation and investments - trading securities			152,461
Restricted cash			24
Total assets limited as to use			704,664
Less: Current portion			264,821
Assets limited as to use and investment noncurrent portion			$ 439,843

(in thousands)

There were no investments in 2015 or 2014 with unobservable inputs that cannot be corroborated by observable market data and therefore classified as Level 3.

There were no transfers between Levels 1 and 2 during 2015 and 2014.

At December 31, 2015 and 2014, the Corporation's remaining outstanding funding commitments to alternative investments were $2,192.

Assets under bond indenture agreements held by trustees are maintained in the following accounts:

	2015	2014
Debt service fund, principal	$ 7,124	$ 7,217
Debt service fund, interest	4,224	4,532
Construction fund	5,619	-
Total assets under bond indenture agreements	$ 16,967	$ 11,749

Investment income consists of the following:

	2015	2014
Interest income	$ 9,423	$ 6,961
Realized gains and losses	4,515	15,429
Net change in unrealized gains and losses	(4,145)	(1,615)
Investment management fees	(1,476)	(1,602)
Other gains and losses	104	51
	$ 8,421	$ 19,224

6. Property, Plant and Equipment

Property, plant and equipment including assets held under capital lease obligations consist of the following:

	2015	2014
Land	$ 32,199	$ 17,094
Land improvements	13,372	13,181
Buildings and fixed equipment	1,064,167	1,046,487
Major movable equipment	558,429	527,441
Construction-in-progress	63,556	41,862
	1,731,723	1,646,065
Accumulated depreciation and amortization	(958,065)	(897,898)
Property, plant and equipment, net	$ 773,658	$ 748,167

(in thousands)

7. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consist of the following:

	2015	2014
$130,000 New Jersey Health Care Facilities Financing Authority ("NJHCFFA") Meridian Health System Obligated Group Issue, Series 2015 A Revenue Bonds, maturing on November 1, 2045. The interest on the bonds is payable monthly at an annual rate of 2.5% through November 1, 2030. Principal is payable monthly beginning December 2015. The bonds were directly placed.	$ 129,639	$ -
$29,525 NJHCFFA Meridian Health System Obligated Group Issue, Series 2013A Refunding Bonds, in varying maturities through July 1, 2032 at annual interest rates varying between 2.0% and 5.0%. Interest is payable each January 1 and July 1 and principal is payable each July 1 beginning in 2013. The bonds were collateralized by a lien and a security interest on the gross receipts of the Obligated Group.	24,900	26,200
$34,839 NJHCFFA Meridian Health System Obligated Group Issue, Series 2012A maturing on July 1, 2033. The interest on the bonds is payable monthly and the rate is determined monthly based upon market rates. Principal is payable each July 1 beginning in 2013. The bonds were directly placed. As of December 31, 2015, the interest rate on the bonds was 0.73%.	33,533	33,969
$47,705 NJHCFFA Meridian Health System Obligated Group Issue, Series 2012B maturing on July 1, 2038. The interest on the bonds is payable monthly and the rate is determined monthly based upon market rates. Principal is payable each July 1 beginning in 2013. The bonds were directly placed. As of December 31, 2015, the interest rate on the bonds was 0.86%.	46,130	46,630
$47,705 NJHCFFA Meridian Health System Obligated Group Issue, Series 2012C maturing on July 1, 2038. The interest on the bonds is payable monthly and the rate is determined monthly based upon market rates. Principal is payable each July 1 beginning in 2013. The bonds were directly placed. As of December 31, 2015, the interest rate on the bonds was 0.87%.	46,130	46,630

(in thousands)

	2015	2014
$193,583 NJHCFFA Meridian Health System Obligated Group Issue, Series 2011 Refunding Bonds, in varying maturities through July 1, 2027 at annual interest rates varying between 2.0% and 5.0%. Interest is payable each January 1 and July 1 and principal is payable each July 1 beginning in 2012. The bonds are collateralized by a lien and a security interest on the gross receipts of the Obligated Group.	147,574	158,928
$145,125 NJHCFFA Meridian Health System Obligated Group Issue, Series 2007 Revenue Bonds, maturing on July 1, 2038 at an annual interest rate of 5.0%. Interest is payable each January 1 and July 1 and principal is payable each July 1 beginning in 2010. The Series 2007 bonds are insured by Assured Guaranty Corporation. The bonds are collateralized by a pledge on all forms of gross receipts.	137,825	139,375
$18,390 NJHCFFA Southern Ocean County Hospital issue, Series 2006 Revenue Bonds, maturing on July 1, 2036. The interest on the bonds is payable monthly and the interest rate is determined weekly based upon market rates with a 12% per annum maximum. The principal payments are due July 1. The bonds are backed by a letter of credit expiring in November 2017. As of December 31, 2015, the interest rate on the bonds was 0.01%.	15,745	16,090
$52,252 NJHCFFA Meridian Health System Obligated Group Issue, Series 2003 Revenue Bonds, maturing on July 1, 2033. The interest on the bonds is payable monthly and the interest rate is determined weekly based on market rates with a 12% per annum maximum. The bonds are collateralized by a letter of credit expiring in November 2017. As of December 31, 2015, the interest rate on the bonds was 0.01%.	52,252	52,252
Commercial mortgage with a variable interest rate equal to the LIBOR rate for each period plus 1%. Principal and interest are paid monthly.	-	217
Capital lease obligation with an interest rate of 7.2%. This obligation is collateralized by equipment financed through the related lease.	1,474	1,713
Total long-term debt and capital lease obligations	635,202	522,004
Original issue premium	12,290	14,014
Current portion	(20,458)	(16,440)
Long-term debt and capital lease obligations, net of current portion	$ 627,034	$ 519,578

(in thousands)

The Corporation and its affiliate, Meridian Nursing and Rehabilitation, Inc., are defined as the "Obligated Group" under the terms of the Master Trust Indenture related to the NJHCFFA Revenue Bonds. The agreements contain provisions whereby certain financial ratios are to be maintained and permit additional borrowings subject to the maintenance of specific financial ratios. At December 31, 2015 and 2014, the Obligated Group was in compliance with these financial ratio requirements.

In November 2015, the Corporation completed a direct placement transaction of new debt in the amount of $130,000. These funds reimbursed the Corporation for construction costs related to certain renovation and expansion projects and the purchase of new equipment.

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

	Long-Term Debt	Capital Lease Obligations	Total
2016	$ 20,203	$ 350	$ 20,553
2017	157,184	350	157,534
2018	72,137	350	72,487
2019	19,951	349	20,300
2020	15,462	349	15,811
Thereafter	348,791	-	348,791
	633,728	1,748	635,476
Amounts representing interest on capital lease obligations	-	(274)	(274)
Original issue premium	12,290	-	12,290
Current portion	(20,203)	(255)	(20,458)
Long-term portion	$ 625,815	$ 1,219	$ 627,034

The Corporation estimates the fair value of its NJHCFFA revenue bonds through quoted market prices after taking into account its related risk of nonperformance as determined by a third party valuation specialist. At December 31, 2015, the carrying amount and the fair value of the Corporation's NJHCFFA revenue bonds were approximately $633,728 and $664,700, respectively. At December 31, 2014, the carrying amount and the fair value of the Corporation's NJHCFFA revenue bonds were approximately $520,073 and $554,524, respectively. The Corporation classified its debt as Level 2 under the fair value measurements.

(in thousands)

8. Interest Rate Swap Agreements

The Corporation currently has five forward starting pay fixed interest swap agreements which were entered into to mitigate variable rate exposure and take advantage of low interest rates. Under the terms of these agreements, the Corporation is paying fixed rates ranging from 3.33% to 3.88% in exchange for variable rate payments equal to either 67% or 68% of the one month LIBOR rate. The notional amount on these swap agreements are also tied to the outstanding principal on the underlying bond series.

At December 31, 2015 and 2014, the fair value of the Corporation's derivative instruments were in a liability position of $70,132 and $73,655, respectively and included in other liabilities on the balance sheets. The fair values of the Corporation's derivative instruments are classified as Level 2 financial instruments and reflect a risk of nonperformance adjustment of approximately $7,600 and $5,100, respectively. The total gain (loss) recognized on these derivatives for the years ended December 31, 2015 and 2014 were $3,523 and ($27,675), respectively, which were included within nonoperating revenues (losses) on the statements of operations.

9. Operating Leases

The Corporation leases various buildings from Meridian Health Realty Corporation, a subsidiary of MH, under leases that are renewable annually. Rent expense under these leases was $9,425 and $8,551 for the years ended December 31, 2015 and 2014, respectively. The Corporation utilizes various types of equipment and space under separate operating leases. The related expenses for the years ended December 31, 2015 and 2014 were approximately $4,786 and $5,744, respectively. The following is a schedule of the future minimum payments for the remaining years required under operating leases currently in effect:

2016	$	4,836
2017		3,671
2018		2,436
2019		2,338
2020		2,347
Thereafter		23,551
	$	39,179

10. Line of Credit

The Corporation renewed its line of credit for $15,000 with a maturity date of September 30, 2016. As of December 31, 2015, the Corporation had letters of credit totaling $10,350 outstanding against this line as collateral for certain insurance policies, therefore, $4,650 was available for cash demands. The line is evidenced by a promissory note payable to the order of one of the Corporation’s primary banks. Additionally, BCH has letters of credit totaling $1,450 outstanding as collateral for certain high deductible insurance policies.

11. Pension Plans, Postretirement Health Care and Postemployment Benefits

The Corporation currently provides retirement benefits for employees through a defined benefit cash balance plan and two 403(b) savings plans. In addition, the Corporation provides certain

(in thousands)

postretirement and postemployment benefits. The postretirement and postemployment benefit plans provide health care benefits and life insurance coverage to a limited group of employees. Current employees are not eligible for participation in these plans. As of December 31, 2015 and 2014, liabilities totaling $1,285 were included in other liabilities related to estimated benefits payable under the postretirement and postemployment plans. Benefits under the postretirement and postemployment benefit plans are paid as incurred.

On December 31, 2009, the defined benefit cash balance plan and existing 403(b) plan were effectively frozen. Any employee eligible to participate in either of these plans on December 31, 2009 will continue to accrue benefits under these plans until retirement. All new employees joining the Corporation after this date will be eligible to participate in a new defined contribution plan.

Defined Benefit Cash Balance Plan
The defined benefit cash balance plan was created on January 1, 1998 through the conversion and merger of predecessor defined benefit plans. Benefits calculated based upon the predecessor plans were frozen as of December 31, 1997. Beginning January 1, 1998 benefits are based upon contributions to participants' accounts at a percentage of the employee's salary.

The Corporation's funding policy provides that payments to the pension plan shall at least be equal to the minimum funding requirement of the Employee Retirement Income Security Act of 1974 ("ERISA") plus additional amounts, which may be approved by the Corporation from time to time. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The plan assets consist mainly of cash, mutual funds, fixed income and equities.

The following table sets forth the funded status of the cash balance pension plan as of December 31, 2015 and 2014.

	2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	$ 422,078	$ 366,080
Service cost	18,162	16,561
Interest cost	16,538	17,469
Actuarial (gain) loss	(18,386)	38,302
Benefits paid	(22,448)	(16,334)
Net benefit obligation at end of year	415,944	422,078
Change in plan assets		
Fair value of plan assets at beginning of year	370,591	337,271
Actual return on plan assets	(9,403)	32,987
Employer contributions	13,333	16,667
Benefits paid	(22,448)	(16,334)
Fair value of plan assets at end of year	352,073	370,591
Funded status at end of year	$ (63,871)	$ (51,487)
Accumulated benefit obligation	$ 380,419	$ 383,549

(in thousands)

	2015	2014
Amounts recognized in the statements of financial position consist of		
Noncurrent liability	$ (63,871)	$ (51,487)
Amounts recognized in unrestricted net assets consist of		
Net loss	$ (94,681)	$ (82,716)
Prior service cost	(428)	(893)
	$ (95,109)	$ (83,609)

	2015	2014
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.34 %	3.97 %
Rate of compensation increase	4.50 %	4.50 %

	2015	2014
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	3.97 %	4.80 %
Expected return on plan assets	7.00 %	7.25 %
Rate of compensation increase	4.50 %	4.50 %

The net periodic pension cost includes the following components:

	2015	2014
Service cost	$ 18,162	$ 16,561
Interest cost	16,538	17,469
Expected return on assets	(25,093)	(23,753)
Amortization of		
Prior service cost	465	465
Actuarial loss	4,146	2,197
Net periodic benefit cost	$ 14,218	$ 12,939

(in thousands)

	2015	2014
Other changes in benefits and plan assets (unrestricted net assets)		
Current year actuarial loss	$ 16,110	$ 29,067
Recognition of actuarial loss	(4,146)	(2,197)
Recognition of prior service cost	(465)	(465)
Total other changes in benefits and plan assets	$ 11,499	$ 26,405
Total net periodic benefit cost and other changes in benefits and plan assets	$ 25,717	$ 39,344

Expected amortization of net loss and expected amortization of net prior service cost during fiscal year ending December 31, 2016 are $5,675 and $428, respectively.

Investment Policy
MH's Pension and Investment Subcommittee is responsible for the formulation and implementation of the investment policy for the assets of the Plan, and the ongoing supervision of the investment process.

The investment policy relates to the composite of the portfolios managed by the investment managers recommended by the investment advisors to the Subcommittee from time-to-time. The Subcommittee recommendations are forwarded to the Finance Committee and the Board of Trustees of MH for approval. The Subcommittee has constructed guidelines for the investment managers which collectively serve to enact the investment policy for the Plan. Compliance with these guidelines is monitored on an ongoing basis by MH's investment advisors.

Return objectives are outlined by the investment policy and provide a means to evaluate the performance of each individual asset class and the total portfolio. The investment performance is evaluated against the investment objectives on a current quarter, year to date, three-year and five-year basis.

The Corporation, in consultation with investment advisors, has selected a long term rate of return on plan assets of 7%. The rate was determined based upon review of the capital markets' risks and returns. The key determinants for equities are corporate earnings growth, dividend yield, and changes in valuation levels. The fixed income projected return is based on the current yield curve, with an adjustment for assumed changes in interest rates. Private equity risk and returns are modeled to earn a long term performance premium over public equities. Commodities returns are forecasted by aggregating three projected components of returns: spot return from a basket of commodities, roll return from managing commodities future contracts and the expected return of collateral represented by cash equivalents. The real estate return forecast method is the sum of the current cash yield, anticipated growth in cash returns and the effect of a potential change in valuation levels.

The capital market assumptions are reviewed on an ongoing basis to ensure that the process for deriving assumptions remains current.

(in thousands)

The Corporation's asset investment strategy for the Plan focuses on maintaining a diversified portfolio designated to maximize returns while minimizing volatility and risk. The assets are viewed as having a long time horizon with moderate liquidity needs. Therefore, the investment strategy favors a higher commitment to equity securities. Periodically, management completes an asset-liability study for the Plan to determine the optimal asset mix and adjusts investment allocations as needed. The current asset allocation range and targets with actual allocation ranges at December 31, 2015 and 2014 are as follows:

	Allocation Range	Target Allocation	Percentage of Plan Assets at 2015	Percentage of Plan Assets at 2014
Investment categories				
Large-capitalization US equities	12-32%	22 %	26 %	25 %
Small-capitalization US equities	3-9%	6 %	6 %	6 %
International equities	7-17%	12 %	11 %	11 %
Global equity	5-15%	10 %	13 %	14 %
Fixed income	30-50%	40 %	39 %	39 %
Alternative investments	5-15%	10 %	5 %	5 %

Fair Value Measurements

The following tables set forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2015 and 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Inputs Unobservable (Level 3)	Balance at December 31, 2015
Corporate equity securities	$ 30,860	$ 3,094	$ -	$ 33,954
Mutual funds - equity	-	102,837	-	102,837
Mutual funds - fixed income	-	46,542	-	46,542
Common/collective trust	-	157,307	-	157,307
Alternative investments	-	-	8,962	8,962
Short term fixed income fund	-	2,471	-	2,471
Total assets at fair value	$ 30,860	$ 312,251	$ 8,962	$ 352,073

(in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Inputs Unobservable (Level 3)	Balance at December 31, 2014
Corporate equity securities	$ 29,707	$ 3,032	$ -	$ 32,739
Mutual funds - equity	-	103,893	-	103,893
Mutual funds - fixed income	-	48,520	-	48,520
Common/collective trust	-	163,747	-	163,747
Alternative investments	-	-	18,796	18,796
Short term fixed income fund	-	2,896	-	2,896
Total assets at fair value	$ 29,707	$ 322,088	$ 18,796	$ 370,591

There were no transfers between Level 1 and Level 2 during 2015 and 2014.

At December 31, 2015 and 2014, the Corporation's remaining outstanding funding commitments to alternative investments were $2,924.

The table below sets forth a summary of the changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2015 and 2014:

	Private Equity Funds	Real Estate Funds	Commodities Funds	Total
Balances at December 31, 2013	$ 6,835	$ 6,407	$ 4,573	$ 17,815
Realized gains	878	317	-	1,195
Unrealized gains (losses) relating to instruments still held at the reporting date	475	985	(809)	651
Purchases	-	7,485	-	7,485
Sales	-	(7,033)	-	(7,033)
Distributions	(1,317)	-	-	(1,317)
Balances at December 31, 2014	6,871	8,161	3,764	18,796
Realized gains	1,046	-	-	1,046
Unrealized losses relating to instruments still held at the reporting date	(299)	-	(977)	(1,276)
Purchases	-	-	-	-
Transfers from Level 3 to Level 2	-	(8,161)	-	(8,161)
Distributions	(1,443)	-	-	(1,443)
Balances at December 31, 2015	$ 6,175	$ -	$ 2,787	$ 8,962

Contributions

The Corporation expects to contribute $19,000 to its pension plan in 2016.

(in thousands)

Estimated Future Benefit Payments

The following benefit payments, which reflect future service as appropriate, are expected to be paid:

2016	$	25,878
2017		27,972
2018		28,052
2019		29,141
2020		31,352
2021–2025		169,054

403(b) Plans

The Corporation sponsors two 403(b) savings plans. The Meridian 403(b) Savings Plan for Cash Balance Participants was adopted January 1, 1998. An employee of THE CORPORATION is eligible for participation in the 403(b) if the employee was hired prior to January 1, 2010, after attaining the age of 21 and completion of one year of eligible service. Matching contributions will be received after 15 months of eligible service. The second 403(b) plan is the Meridian 403(b) Savings Plan. An employee is eligible to participate in this plan if the employee was hired on or after January 1, 2010. All eligible employees who are scheduled to work 20 hours or more per week will be eligible to make elective deferrals beginning on the date of hire. Employer matching contributions will begin after attaining the age of 21 and completion of one year of service. Employees will be eligible to receive employer nonelective contributions equal to 3% of compensation immediately. Total employer contributions for 2015 and 2014 for both plans were $13,806 and $11,887, respectively.

BCH Pension Plan

BCH was the sponsor of a noncontributory defined benefit pension plan (the “BCH Plan”) covering substantially all of BCH’s employees. Benefits are based on salary and years of service. As of April 30, 1999, BCH has frozen the Plan to new participants and no benefits will accrue for future services.

The Corporation recognizes in its balance sheet a liability for the BCH Plan’s underfunded status, measures the Plan’s assets and obligations as of the end of the fiscal year, and recognizes the periodic change in the funded status of the BCH Plan as a component of changes in unrestricted net assets in the year in which the change occurs. The benefit obligations were $23,745 and $31,043 as of December 31, 2015 and 2014, respectively. The fair values of the plan assets were $22,017 and $26,464 resulting in the plan being underfunded by $1,728 and $4,579, as of December 31, 2015 and 2014, respectively. The statements of operations reflect net periodic pension costs of $102 and $502 during 2015 and 2014, respectively.

(in thousands)

The following assumptions were used in determining the benefit obligations and net periodic benefit costs:

	December 31,	
	2015	**2014**
Weighted-average assumptions used to determine benefit obligations		
Discount rate	4.58 %	4.22 %
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	4.22 %	4.94 %
Expected long-term rate of return on plan assets	7.25 %	7.25 %

To develop the expected long-term rate of return on assets assumption, the Corporation considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.25% expected long-term rate of return on assets. The Plan's asset allocation as of December 31, 2015 was 44% domestic equities, 12% international equities, 41% fixed income and 3% alternative investments, which fall within the permissible asset class ranges outlined in the investment policy. When market conditions are such that the value of the equity portion of the portfolio exceeds its permissible range, investment managers are instructed, under the direction of the Pension and Investment Subcommittee and with the assistance of the investment advisors, to rebalance the portfolios as appropriate.

The Corporation's funding policy provides that payments to the BCH Plan shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 plus additional amounts which may be approved by the Corporation from time to time. The Corporation expects to contribute approximately $2,000 to the BCH Plan in 2016.

12. Transactions With Affiliated Organizations

The Corporation records transactions with affiliated organizations in the normal course of its operations. The affiliated organizations with significant balances include the following entities:

- Meridian Health Realty Corporation and Subsidiaries ("Realty") was organized to acquire, construct, finance operate and own or lease property for the benefit of MH and its affiliated organizations.

- Meridian Practice Institute, Inc. serves as the management organization for the faculty practice and other physician practice development strategies.

- Meridian Accountable Care Organization is a partnership among the Corporation's hospitals, partner companies, and over 800 physicians, whose mission includes the promotion of evidence-based medicine, the advocacy of patient engagement, and the development of an infrastructure for network providers to internally report on quality and cost metrics.

(in thousands)

- Meridian Health Foundation, Inc. is the sole member of the local foundations listed in the table below, which have been established to solicit and invest funds for the benefit of the Corporation and any other not-for-profit organization as directed by MH.

- Meridian Health Management, Inc. ("MHM") is a for–profit company whose primary purposes include providing physician practice management services; development and operation of ambulatory surgery centers; recruitment of physicians; and other support services.

- Meridian Health Ventures, Inc. is a for-profit company providing support services to MH and is the sole member of MHM.

- SOCH Properties 1, LLC owns and operates property for the benefit of SOMC and its affiliated organizations.

Amounts due from (to) affiliated organizations consist of the following:

	2015	2014
Current receivable (liabilities)		
Meridian Health Realty Corporation and Subsidiaries	$ (3,852)	$ (3,058)
Meridian Practice Institute, Inc.	1,071	3,656
Meridian Accountable Care Organization	3,021	1,202
Other affiliates	(14)	424
Current receivable (liabilities)	$ 226	$ 2,224
Interest in net asset balances		
Meridian Health Foundation, Inc.	$ 4,970	$ 4,539
Jersey Shore University Medical Center Foundation, Inc.	26,655	27,246
Riverview Medical Center Foundation, Inc.	26,800	17,672
Ocean Medical Center Foundation, Inc.	11,085	12,525
Southern Ocean Medical Center Foundation, Inc.	1,208	3,213
Bayshore Community Hospital Foundation, Inc.	2,303	2,412
Interest in net assets balance of foundations	$ 73,021	$ 67,607
Due from affiliates		
Meridian Health Management, Inc.	$ 6,622	$ 6,622
Meridian Health Ventures, Inc.	1,304	1,383
SOCH Properties 1, LLC	665	740
Long-term receivable	$ 8,591	$ 8,745

MH maintains a risk financing program (the "Program") for its facilities via a wholly owned Bermuda corporation, Coastal Medical Insurance Ltd. ("Coastal") that was formed in 1998. The Program provides funding for various risks including Hospital Professional Liability ("HPL"), General Liability ("GL"), Directors and Officers, Property and Workers' Compensation ("WC"). For 2015 and 2014, the Program provided funding for HPL risks of $1,000 per occurrence subject to an overall aggregate exposure of $3,000 each entity and GL risks of $1,000 per occurrence and in the aggregate each entity. Both policies are written on a claims-made basis. The WC policy is written on an occurrence basis, and provides funding for the deductible portion of MH's WC exposure, or $500 per occurrence. The Corporation has recorded an estimated insurance receivable of $59,988

(in thousands)

and $56,392 included in other assets in the combined balance sheet as of December 31, 2015 and 2014, respectively. The Corporation has recorded undiscounted HPL, GL and WC loss reserves totaling $62,228 and $58,625 and an undiscounted professional liability tail reserve of $12,910 and $12,761 included in other liabilities in the balance sheet as of December 31, 2015 and 2014, respectively.

During 2015, the Corporation made a $38,704 equity transfer to MH. In addition, the Corporation received a $116 equity transfer from Meridian Health Foundation and a $2,095 equity transfer from Realty.

During 2014, the Corporation made an $8,484 equity transfer to MH.

13. Concentrations of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. Concentrations of gross accounts receivable from patients and third party payors were as follows:

	December 31,	
	2015	**2014**
Medicare and Medicaid	42 %	43 %
Managed Care/HMO	34	33
Other third party payors	14	12
Self-pay patients	10	12
	100 %	100 %

14. Commitments and Contingencies

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

15. Subsequent Events

The Corporation expects to complete a direct placement bond issuance in the amount of $129,600 during March 2016. The proceeds from this transaction will be used to refinance the outstanding principal on the Series 2012A, Series 2012B and Series 2012C bond issuances.

The Corporation performed an evaluation of subsequent events through March 31, 2016, which is the date the financial statements were issued. The Corporation has determined that all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles, are included in the financial statements.