

**The Community Hospital
Group, Inc. d/b/a
JFK Medical Center**

Financial Statements and
Supplementary Information

December 31, 2012 and 2011



The Community Hospital Group, Inc. d/b/a JFK Medical Center

Table of Contents

December 31, 2012 and 2011

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Operations	4
Statement of Changes in Net Deficit	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Schedules by Facility: Statement of Operations for 2012	31
Schedules by Facility: Statement of Operations for 2011	32

Independent Auditors' Report

Board of Directors
The Community Hospital Group, Inc. d/b/a JFK Medical Center

Report on the Financial Statements

We have audited the accompanying financial statements of The Community Hospital Group, Inc. d/b/a JFK Medical Center ("JFK Medical Center"), which comprise the balance sheet as of December 31, 2012 and 2011, and the related statements of operations, changes in net deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Community Hospital Group, Inc. d/b/a JFK Medical Center as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, JFK Medical Center adopted new authoritative guidance for the presentation and disclosure of patient service revenue, provision for doubtful collections, and the allowance for doubtful collections in 2012.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on pages 31 and 32 is presented for purposes of additional analysis rather than to present the results of operations of the individual companies and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



Clark, New Jersey
April 29, 2013

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Balance Sheet

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>
Assets			Liabilities and Net Deficit		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 33,754,526	\$ 34,842,410	Current portion of long-term debt	\$ 1,881,481	\$ -
Investments	16,749,981	16,449,218	Current portion of capital lease obligations	2,432,406	1,673,125
Assets whose use is limited	2,800,787	2,203,372	Accounts payable	27,362,087	28,799,222
Accounts receivable, patients (net of estimated allowance for doubtful collections of \$11,000,000 in 2012 and \$9,603,000 in 2011)	57,252,909	50,841,007	Accrued expenses	30,248,741	27,134,662
Inventories of drugs and supplies	6,064,551	6,096,788	Estimated third-party payor settlements	4,102,505	5,096,710
Prepaid expenses and other current assets	9,371,598	4,444,787	Deferred revenue	2,809,416	2,466,048
Note receivable, affiliate	93,000	93,000	Accrued postretirement benefits	392,403	602,389
Due from affiliates	325,885	145,113			
			Total current liabilities	69,229,039	65,772,156
Total current assets	126,413,237	115,115,695			
			Long-Term Debt	117,754,855	119,636,336
Assets Whose Use is Limited	11,265,579	15,851,240	Capital Lease Obligations	3,842,867	4,862,723
			Other Long-Term Liabilities	6,547,211	5,572,455
Interest in Net Assets of			Estimated Third-Party Payor Settlements	17,331,403	11,522,917
John F. Kennedy Medical Center			Accrued Pension Cost	54,451,182	67,347,794
Foundation, Inc.	6,775,847	7,178,506	Accrued Postretirement Benefits	419,050	933,233
Property and Equipment, Net	109,962,060	105,680,185			
Deferred Financing Costs, Net	3,064,745	3,337,250	Total liabilities	269,575,607	275,647,614
Other Assets	3,098,537	3,904,131			
Note Receivable, Affiliate	2,873,343	2,966,343	Net (Deficit) Assets		
Due from Affiliates	699,837	910,180	Unrestricted	(12,198,269)	(27,882,590)
			Temporarily restricted	5,558,221	7,178,506
			Permanently restricted	1,217,626	-
			Total net deficit	(5,422,422)	(20,704,084)
Total assets	<u>\$ 264,153,185</u>	<u>\$ 254,943,530</u>	Total liabilities and net deficit	<u>\$ 264,153,185</u>	<u>\$ 254,943,530</u>

See notes to financial statements

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Statement of Operations

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted Revenues, Gains, and Other Support		
Patient service revenues, net of contractual allowances and discounts	\$ 435,848,801	\$ 431,482,321
Less provision for doubtful collections	<u>(29,677,123)</u>	<u>(31,068,503)</u>
Net patient service revenues	406,171,678	400,413,818
Other revenues	20,961,310	16,073,820
Net assets released from restrictions for use in operations	<u>523,311</u>	<u>101,866</u>
Total unrestricted revenues, gains, and other support	<u>427,656,299</u>	<u>416,589,504</u>
Expenses		
Salaries and wages	205,345,124	197,007,810
Employee benefits	37,029,957	39,715,879
Supplies and expenses	152,759,277	150,475,375
Depreciation and amortization	15,266,644	13,732,473
Interest	<u>5,614,752</u>	<u>6,470,250</u>
Total expenses	<u>416,015,754</u>	<u>407,401,787</u>
Operating income	11,640,545	9,187,717
Postretirement Settlement and Curtailment Changes	-	2,692,503
Recovery of Doubtful Collections on Related Party Receivables	3,018,788	461,942
Investment Income	541,521	507,260
Change in Net Unrealized Gains on Trading Securities	<u>30,236</u>	<u>33,206</u>
Revenues in excess of expenses	15,231,090	12,882,628
Pension/Postretirement Liability Adjustment	1,023,587	322,399
Transfers to Affiliates	(1,748,377)	(2,646,689)
Net Assets Released from Restrictions for Capital Purchases	<u>1,178,021</u>	<u>365,790</u>
Decrease in unrestricted net deficit	<u>\$ 15,684,321</u>	<u>\$ 10,924,128</u>

See notes to financial statements

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Statement of Changes in Net Deficit

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted Net Deficit		
Revenues in excess of expenses	\$ 15,231,090	\$ 12,882,628
Pension/postretirement liability adjustment	1,023,587	322,399
Transfers to affiliates	(1,748,377)	(2,646,689)
Net assets released from restrictions for capital purchases	<u>1,178,021</u>	<u>365,790</u>
Decrease in unrestricted net deficit	<u>15,684,321</u>	<u>10,924,128</u>
Temporarily Restricted Net Assets		
Change in interest in net assets of John F. Kennedy Medical Center Foundation, Inc.	(1,620,285)	1,148,316
Transfers from affiliates	1,701,332	467,656
Net assets released from restrictions for use in operations	(523,311)	(101,866)
Net assets released from restrictions for capital purchases	<u>(1,178,021)</u>	<u>(365,790)</u>
(Decrease) increase in temporarily restricted net assets	<u>(1,620,285)</u>	<u>1,148,316</u>
Permanently Restricted Net Assets		
Change in interest in net assets of John F. Kennedy Medical Center Foundation, Inc.	<u>1,217,626</u>	<u>-</u>
Decrease in net deficit	15,281,662	12,072,444
Net Deficit, Beginning	<u>(20,704,084)</u>	<u>(32,776,528)</u>
Net Deficit, Ending	<u><u>\$ (5,422,422)</u></u>	<u><u>\$ (20,704,084)</u></u>

See notes to financial statements

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Statement of Cash Flows

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Decrease in net deficit	\$ 15,281,662	\$ 12,072,444
Adjustments to reconcile decrease in net deficit to net cash provided by operating activities:		
Depreciation	14,994,139	13,459,968
Amortization	272,505	272,505
Loss on disposal of assets	-	27,197
Transfers to affiliates	47,045	2,179,033
Net realized and unrealized gains on investments	(74,756)	(73,893)
Provision for doubtful collections	29,677,123	31,068,503
Recovery of doubtful collections on related party receivables	(3,018,788)	(461,942)
Pension/postretirement liability adjustment	(1,023,587)	(322,399)
Postretirement settlement and curtailment changes	-	(2,692,503)
Changes in assets and liabilities:		
Accounts receivable, patients	(36,089,025)	(29,513,795)
Inventories of drugs and supplies	32,237	(10,026)
Prepaid expenses and other assets	(4,121,217)	(2,226,476)
Due from/to affiliates	3,172,705	584,338
Accounts payable	(1,437,135)	(453,485)
Accrued expenses	3,114,079	(1,043,784)
Estimated third-party payor settlements	4,814,281	6,154,794
Deferred revenue	343,368	396,176
Accrued pension cost	(11,873,025)	(1,387,752)
Other long-term liabilities	974,756	2,572,455
Accrued postretirement benefits	(724,169)	(8,400,287)
	<u>14,362,198</u>	<u>22,201,071</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(16,481,527)	(13,642,433)
Sales of investments and assets whose use is limited, net of purchases	3,762,239	3,556,572
Change in beneficial interest in net assets of John F. Kennedy Medical Center Foundation, Inc.	(814,967)	(1,148,316)
Repayment on note receivable, affiliate	93,000	93,000
	<u>(13,441,255)</u>	<u>(11,141,177)</u>
Cash Flows from Financing Activities		
Repayments of capital lease obligations	(1,961,782)	(1,591,308)
Transfers to affiliates	(47,045)	(2,179,033)
Proceeds from issuance of other long-term debt	-	3,000,000
	<u>(2,008,827)</u>	<u>(770,341)</u>
(Decrease) increase in cash and cash equivalents	(1,087,884)	10,289,553
Cash and Cash Equivalents, Beginning	<u>34,842,410</u>	<u>24,552,857</u>
Cash and Cash Equivalents, Ending	<u>\$ 33,754,526</u>	<u>\$ 34,842,410</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 5,614,752</u>	<u>\$ 6,470,250</u>
Purchases of property and equipment through capital lease obligations	<u>\$ 1,701,207</u>	<u>\$ 2,842,060</u>

See notes to financial statements

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

1. Organizational Structure and Nature of Operations

The Community Hospital Group, Inc. d/b/a JFK Medical Center (“JFK Medical Center”) is a not-for-profit, controlled entity of JFK Health System, Inc. (the “System”). JFK Medical Center operates two separately licensed healthcare facilities: the Anthony M. Yelencsics Community Hospital (the “Hospital”) and the JFK Johnson Rehabilitation Institute (the “Institute”), located in Edison, New Jersey.

The Hospital is a 399-bed acute care hospital established and operated for the promotion of health and to serve the public rather than private interests. The Hospital provides a wide range of inpatient and outpatient services, including hospice and mental health. The Institute is a 94-bed comprehensive rehabilitation hospital providing inpatient and outpatient care to adults and children disabled by illness or disease, including a specialized pediatric rehabilitation program, a head trauma treatment and therapy program, and clinics specializing in a number of disabling disorders such as muscular dystrophy and spina bifida.

Other controlled entities of the System include: Muhlenberg Regional Medical Center, Inc. (“MRMC”); John F. Kennedy Medical Center Foundation, Inc. (the “Foundation”); Muhlenberg Foundation, Inc.; Lifestyle Institute, Inc.; JFK Healthshare, Inc.; Hartwyck at Oak Tree, Inc. (“Oak Tree”); Hartwyck at JFK, Inc.; Hartwyck West Nursing Home, Inc. and Affiliates; and Atlantic Insurance Exchange, Ltd., a wholly-owned insurance company.

During August 2008, MRMC closed its acute hospital business and JFK Medical Center took over the operations of the emergency room. Also in 2008, Mediplex Surgical Associates, Limited Partnership (“Mediplex”), which is a consolidated entity of JFK Healthshare, Inc., transferred its outpatient services to JFK Medical Center. During 2009, MRMC’s School of Nursing and School of Radiology operations were transferred to JFK Medical Center. During 2010, MRMC sold their homecare division and entered into a joint venture with Meridian Healthcare System. The new entity is JFK Meridian Home Care Services LLC d/b/a JFK @ Home. During 2012, Mediplex transferred fixed assets totaling approximately \$1.5 million to JFK Medical Center which is recorded in transfers to affiliate in the statement of operations.

During 2011, the Medical Center entered into joint venture to provide management services with Edison Imaging Associates, P.A. and to create Edison Imaging at JFK Medical Center, LLC, which is accounted for under the equity method of accounting. The equity balance at December 31, 2012 and 2011 was \$833,326 and \$900,838 and included in other assets.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt investments purchased with an original maturity of three months or less.

Accounts Receivable, Patients

Accounts receivable, patients are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful collections is estimated based upon a periodic review of the accounts receivable aging, payor classifications and application of historical write-off percentages.

JFK Medical Center's allowance for self-pay patients was 99% of self-pay accounts receivable at December 31, 2012 and December 31, 2011. In addition, JFK Medical Center's self-pay account write-offs (net of recoveries) decreased to \$28,500,000 in 2012 from \$32,837,000 in 2011. The decrease was the result of a process change to apply a contractual allowance to compassionate care rates on self-pay accounts prior to write-off. JFK Medical Center has not changed its financial assistance policy in 2012 or 2011.

Net Patient Service Revenue

JFK Medical Center has agreements with third-party payors that provide for payments to JFK Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and contracted amounts. JFK Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, JFK Medical Center recognizes revenues on the basis of its standard rates, discounted in accordance with JFK Medical Center's policy. On the basis of historical experience, a significant portion of JFK Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, JFK Medical Center records a significant provision of bad debts related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for doubtful collections), recognized in 2012 and 2011 from these major payor sources, are as follows:

	Patient Service Revenues (Net of Contractual Allowances and Discounts)			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
December 31, 2012	\$ 120,912,000	\$ 307,993,000	\$ 6,944,000	\$ 435,849,000
December 31, 2011	\$ 125,798,000	\$ 283,088,000	\$ 22,596,000	\$ 431,482,000

Inventories of Drugs and Supplies

Inventories of drugs, medical and surgical supplies, and maintenance supplies are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

Investments and Investment Risk

Investments in debt securities and mutual funds are measured at fair value in the balance sheet. Cash and cash equivalents are carried at cost which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends, and unrealized gains and losses on trading securities) is included in the determination of revenues in excess of expenses unless the income or loss is restricted by donor or law. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

JFK Medical Center's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the balance sheet are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board of Directors (the "Board") for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes, and assets held by a bond trustee under trust indentures. Amounts available to meet current liabilities have been reclassified as current assets in the accompanying balance sheet.

Interest in Net Assets of John F. Kennedy Medical Center Foundation, Inc.

JFK Medical Center and the Foundation are financially interrelated organizations. JFK Medical Center recognizes its rights to the assets held by the Foundation as interest in net assets of John F. Kennedy Medical Center Foundation, Inc. in the accompanying balance sheet unless the Foundation has been granted variance power. JFK Medical Center adjusts that interest for its share of the change in the net assets of the Foundation as a change in temporarily restricted net assets in the accompanying statement of changes in net deficit. Amounts will be distributed to JFK Medical Center when donor restrictions are met.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment are recorded at fair market value at the date of receipt. Depreciation is computed using the straight-line method based on estimated useful lives ranging from 3 to 40 years.

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

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

Deferred Financing Costs

Deferred financing costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the debt using the effective interest method. Amortization amounted to \$272,505 for each of the years ended December 31, 2012 and 2011. Accumulated amortization of deferred financing costs at December 31, 2012 and 2011 totaled \$817,514 and \$545,009, respectively.

Deferred Revenue

Due to the transfer of the School of Nursing and School of Radiology from MRMC to JFK Medical Center during 2009, the deferred revenue balance at December 31, 2012 and 2011 includes \$2,449,022 and \$2,466,048, respectively, related to tuition payments for the Spring 2013 and 2012 semesters.

Revenues in Excess of Expenses

The statement of operations includes the determination of revenues in excess of expenses. Changes in unrestricted net deficit which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include pension and post retirement liability adjustment, permanent transfers of assets to and from subsidiaries for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Advertising Costs

Advertising costs are expensed as incurred. Such costs amounted to approximately \$1,637,000 and \$1,500,000 in 2012 and 2011, respectively.

Income Taxes

JFK Medical Center 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 its exempt income under Section 501(a) of the Code.

JFK Medical Center accounts for uncertainty in income taxes by prescribing 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 has been met. There were no tax uncertainties that met the recognition threshold in 2012 or 2011.

JFK Medical Center's federal tax-exempt organization business income tax returns are no longer subject to examination by the Internal Revenue Service for years before 2009.

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 JFK Medical Center's balance sheet at net realizable value.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

Impairment of Long-Lived Assets

JFK Medical Center reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount of fair value, less costs to sell.

Postretirement Benefits

JFK Medical Center accounts for postretirement benefits on an accrual basis. Postretirement benefits include reimbursement to qualified retirees for a portion of their health and life insurance costs.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by JFK Medical Center has been limited by donors to a specific time period or purpose.

Reclassification

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

New Accounting Pronouncements

Provision for Doubtful Collections

In July 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-07, Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts to amend and expand existing authoritative accounting guidance. The guidance requires the provision for doubtful collections to be reported as a deduction from patient service revenues and includes enhanced disclosures for patient service revenue and the allowance for doubtful collections. JFK Medical Center adopted ASU 2011-07 for the year ended December 31, 2012. JFK Medical Center reported the provision for doubtful collections as a deduction from revenue and included additional disclosure in the notes to the financial statements.

Fair Value Measurement and Disclosure

In May 2011, the FASB issued updated guidance related to fair value measurements and disclosures which includes new and clarified guidance on fair value measurements (highest and best use, equity instruments, managed net portfolio positions, and application of premiums and discounts) and disclosure (quantitative information, valuation processes and sensitivity of unobservable inputs, assets not in highest and best use, and assets not measured at fair value). The adoption of the amended guidance required certain additional disclosures in the notes to JFK Medical Center's financial statements.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

Subsequent Events

JFK Medical Center evaluated subsequent events for recognition or disclosure through April 29, 2013, the date the financial statements were issued.

3. Charity Care

JFK Medical Center provides care to patients who meet the strict charity care criteria of the New Jersey State Department of Health (the "Department") without charge or at amounts less than its established rates. Because JFK Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

In accordance with guidelines established by the Department, JFK Medical Center maintains records to identify and monitor the level of charity care it provides. The estimated costs of providing charity care are based upon the direct and indirect costs identified with the specific charity care services provided. The level of charity care provided by JFK Medical Center amounted to approximately \$23,667,000 in 2012 and \$27,063,000 in 2011.

4. Net Patient Service Revenues

JFK Medical Center has agreements with third-party payors that provide for payments to JFK Medical Center at amounts different from its established rates. A significant portion of JFK Medical Center's net patient service revenues is derived from these third-party payor programs. A summary of the principal payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care and rehabilitation services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. In addition, JFK Medical Center is reimbursed for certain cost reimbursable items at tentative interim rates, with final settlement determined after submission of annual cost reports by JFK Medical Center and audits thereof by the Medicare fiscal intermediary. JFK Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2004.
- **Medicaid:** Inpatient acute care services rendered to Medicaid 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. Inpatient nonacute services are paid at prospectively determined per diem rates. Outpatient services are paid based on a published fee schedule, with final settlement determined after submission of annual cost reports. The Medicaid cost reports have been settled through December 31, 2008.

Revenue received under third-party arrangements is subject to audit and retroactive adjustments. Net patient service revenues include favorable adjustments of approximately \$3,730,000 in 2012 and \$1,411,000 in 2011. The adjustments related to tentative and final settlements of prior year cost reports and other settlements.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

JFK Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to JFK Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and various other prospectively determined rates.

5. Investments and Assets Whose Use is Limited

The composition of investments and assets whose use is limited at December 31, 2012 and 2011 is set forth in the following table:

	<u>2012</u>	<u>2011</u>
Investments:		
Cash and cash equivalents	\$ 915,341	\$ 12,539,644
Mutual funds	3,091,014	905,699
U.S. government obligations	4,768,337	1,044,072
U.S. agency obligations	2,898,289	1,312,632
Corporate bonds	2,895,858	647,171
Municipal bonds	695,944	-
Equities	1,485,198	-
	<u>\$ 16,749,981</u>	<u>\$ 16,449,218</u>
Assets whose use is limited:		
Under bond indenture agreements held by Trustees, Cash and cash equivalents	\$ 13,154,366	\$ 18,054,612
For capital purposes, Cash and cash equivalents	912,000	-
	14,066,366	18,054,612
Total	14,066,366	18,054,612
Less current portion	<u>2,800,787</u>	<u>2,203,372</u>
Noncurrent portion of assets whose use is limited	<u>\$ 11,265,579</u>	<u>\$ 15,851,240</u>

Unrestricted investment income, gains and losses on investments, assets whose use is limited, and cash and cash equivalents are comprised of the following in 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investment income:		
Interest and dividend income	\$ 497,001	\$ 466,573
Realized gains, net	44,520	40,687
	<u>\$ 541,521</u>	<u>\$ 507,260</u>
Total	<u>\$ 541,521</u>	<u>\$ 507,260</u>
Change in net unrealized gains on trading securities	<u>\$ 30,236</u>	<u>\$ 33,206</u>

6. Fair Value Measurements and Financial Instruments

JFK Medical Center measured its investments and assets whose use is limited on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to JFK Medical Center for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

These items were measured with the following inputs:

	Fair Value as of December 31, 2012				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Investments:					
Cash and cash equivalents	\$ 915,341	\$ 915,341	\$ 915,341	\$ -	\$ -
Mutual funds	3,091,014	3,091,014	3,091,014	-	-
U.S. government obligations	4,768,337	4,768,337	4,768,337	-	-
U.S. agency obligations	2,898,289	2,898,289	2,898,289	-	-
Corporate bonds	2,895,858	2,895,858	-	2,895,858	-
Municipal bonds	695,944	695,944	-	695,944	-
Equities	1,485,198	1,485,198	1,485,198	-	-
Assets whose use is limited:					
Cash and cash equivalents	14,066,366	14,066,366	14,066,366	-	-
Total	\$ 30,816,347	\$ 30,816,347	\$ 27,224,545	\$ 3,591,802	\$ -
Disclosed at Fair Value					
Cash and cash equivalents	\$ 33,754,526	\$ 33,754,526	\$ 33,754,526	\$ -	\$ -
Long-term debt	\$ 119,636,336	\$ 136,540,250	\$ -	\$ 136,540,250	\$ -
Fair Value as of December 31, 2011					
Reported at Fair Value					
Investments:					
Cash and cash equivalents	\$ 12,539,644	\$ 12,539,644	\$ 12,539,644	\$ -	\$ -
Mutual funds	905,699	905,699	905,699	-	-
U.S. government obligations	1,044,072	1,044,072	1,044,072	-	-
U.S. agency obligations	1,312,632	1,312,632	1,312,632	-	-
Corporate bonds	647,171	647,171	-	647,171	-
Assets whose use is limited:					
Cash and cash equivalents	18,054,612	18,054,612	18,054,612	-	-
Total	\$ 34,503,830	\$ 34,503,830	\$ 33,856,659	\$ 647,171	\$ -
Disclosed at Fair Value					
Cash and cash equivalents	\$ 34,842,410	\$ 34,842,410	\$ 34,842,410	\$ -	\$ -
Long-term debt	\$ 119,636,336	\$ 130,375,508	\$ -	\$ 130,375,508	\$ -

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

Level 1 and Level 2 investments and assets whose use is limited are valued at fair value based on quoted market prices, or similar assets' quoted market prices.

There are no Level 3 investments as of December 31, 2012 and 2011.

The carrying amounts of cash and cash equivalents approximate fair value at December 31, 2012 and 2011.

Long-term debt fair value is calculated based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

7. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 8,446,399	\$ 8,309,784
Buildings and improvements	164,085,232	154,167,599
Fixed equipment	40,980,253	40,467,147
Equipment	149,290,607	139,606,170
Leasehold improvements	646,022	646,022
Capitalized lease equipment	<u>10,728,581</u>	<u>9,027,373</u>
Total	374,177,094	352,224,095
Less accumulated depreciation and amortization	<u>266,809,407</u>	<u>251,815,268</u>
	107,367,687	100,408,827
Construction in progress	<u>2,594,373</u>	<u>5,271,358</u>
Property and equipment, net	<u>\$ 109,962,060</u>	<u>\$ 105,680,185</u>

Depreciation expense was \$14,994,139 in 2012 and \$13,459,968 in 2011. Accumulated amortization related to the capital lease obligations was \$3,539,297 and \$1,869,150 at December 31, 2012 and 2011, respectively.

JFK Medical Center capitalizes the interest cost on borrowings, net of income earned on certain proceeds from the borrowings, as a component of the cost of the asset acquired or constructed. Accordingly, interest costs of \$413,774 and \$645,593 were capitalized in 2012 and 2011, respectively.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

8. Accrued Expenses

Accrued expenses at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Salaries and wages	\$ 7,435,553	\$ 5,718,656
Severance	1,261,618	1,743,457
Paid time off	11,444,373	10,581,757
Employee benefits	3,945,054	3,825,536
Refunds of overpayments	2,505,538	1,975,852
Interest	2,064,172	2,064,172
Malpractice premiums	301,038	429,073
Payroll taxes	793,774	593,141
Other	497,621	202,930
Total	<u>\$ 30,248,741</u>	<u>\$ 27,134,574</u>

9. Long-Term Debt and Capital Lease Obligations

Long-Term Debt

In June 2009, the New Jersey Health Care Facilities Financing Authority (the "Authority") issued \$152,925,000 to JFK Medical Center, Oak Tree and MRMC (the "Borrowers"), Series 2009 A-1 Bonds ("Series of 2009 A-1 Bonds") under the State of New Jersey Hospital Asset Transformation Program ("HATP"). The Series of 2009 A-1 Bonds include serial bonds of \$5,930,000, maturing through October 1, 2014 with interest at 4.0%, term bonds of \$30,540,000 with interest at 5% due through October 1, 2019, term bonds of \$40,735,000 with interest at 5.25% due through October 1, 2024, and term bonds of \$75,720,000 with interest of 5.75% due through October 1, 2031. Principal payments are not due until October 1, 2013. The Series 2009 A-1 Bonds refinanced various series of bonds issued on behalf of, and other indebtedness of JFK Medical Center, Oak Tree, and MRMC, all in connection with the termination of the provision of hospital acute-care services at MRMC and pursuant to the State's HATP, paying the costs of issuance of the Series 2009 A-1 Bonds and providing funds for various capacity expansion and capital improvement projects at JFK Medical Center.

JFK Medical Center's long-term debt at December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
New Jersey Health Care Facilities Financing Authority Revenue and Refunding Bonds, Series 2009 A-1 Bonds	\$ 119,636,336	\$ 119,636,336
Less current portion	<u>1,881,481</u>	<u>-</u>
Long-term debt, excluding current portion	<u>\$ 117,754,855</u>	<u>\$ 119,636,336</u>

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

Payments of principal and interest on the Series 2009 A-1 Bonds are collateralized by all property and gross receipts of the Borrowers.

JFK Medical Center's scheduled principal repayments for long-term debt are as follows:

Years ending December 31:	
2013	\$ 1,881,481
2014	2,757,679
2015	3,688,640
2016	4,678,276
2017	4,916,883
Thereafter	<u>101,713,377</u>
Total	<u>\$ 119,636,336</u>

Under the terms of the Series 2009 A-1 bond indenture agreement, the Borrowers collectively are required to maintain certain financial ratios and comply with other restrictive covenants as described in the respective agreement. The Borrowers are required to maintain a days cash on hand ratio minimum of 30 days and a days in accounts payable ratio maximum of 90 days. As of December 31, 2012 and 2011, the Borrowers met these ratios.

Capital lease obligations consisted of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Capital lease obligations with interest ranging from 3.60% to 9.08% per annum, final payment due in 2016	\$ 6,275,273	\$ 6,535,848
Less current portion	<u>2,432,406</u>	<u>1,673,125</u>
Long-term portion	<u>\$ 3,842,867</u>	<u>\$ 4,862,723</u>

JFK Medical Center's future minimum lease payments under capital lease obligations are as follows:

Years ending December 31:	
2013	\$ 2,768,347
2014	2,258,506
2015	1,472,851
2016	<u>378,951</u>
Total minimum payments	6,878,655
Less amounts representing interest	<u>603,382</u>
	<u>6,275,273</u>
Less current installments	<u>2,432,406</u>
	<u>\$ 3,842,867</u>

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

10. Pension Plan and Postretirement Healthcare Benefits

Cash Balance Retirement Plan

The System has a defined benefit pension plan covering substantially all JFK Medical Center employees and the employees of other participating subsidiaries. Amounts are allocated by the System to its subsidiaries based upon relative service costs. The System uses a December 31 measurement date for its pension plan. The plan was frozen effective May 2, 2009.

The changes in projected benefit obligations allocated by the System to JFK Medical Center in 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Projected benefit obligation at beginning of year	\$ 218,436,747	\$ 215,522,477
Interest cost	9,504,223	11,058,938
Actuarial loss	10,753,876	525,988
Benefits paid	<u>(8,628,502)</u>	<u>(8,670,656)</u>
Projected benefit obligation at end of year	<u>\$ 230,066,344</u>	<u>\$ 218,436,747</u>
Accumulated benefit obligation	<u>\$ 230,066,344</u>	<u>\$ 218,436,747</u>

The changes in plan assets allocated by the System to JFK Medical Center in 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Fair value of plan assets at beginning of year	\$ 151,088,953	\$ 146,464,531
Actual return on plan assets	22,567,231	3,634,248
Employer contributions	10,587,480	9,660,830
Benefits paid	<u>(8,628,502)</u>	<u>(8,670,656)</u>
Total	<u>\$ 175,615,162</u>	<u>\$ 151,088,953</u>

The following is a summary of the funded status of the plan allocated by the System to JFK Medical Center at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Fair value of plan assets	\$ 175,615,162	\$ 151,088,953
Projected benefit obligation	<u>230,066,344</u>	<u>218,436,747</u>
Funded status of the plan (under funded) – accrued pension cost	<u>\$ (54,451,182)</u>	<u>\$ (67,347,794)</u>

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

The amounts of net periodic pension (credit) cost allocated by the System to JFK Medical Center for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Interest cost	\$ 9,504,223	\$ 11,058,938
Expected return on plan assets	(11,928,491)	(11,533,852)
Amortization of actuarial loss	<u>1,875,036</u>	<u>1,621,108</u>
Net periodic pension (credit) cost	<u>\$ (549,232)</u>	<u>\$ 1,146,194</u>

A net actuarial loss of \$115,136 and \$8,425,592 represents the previously unrecognized components of net periodic pension cost included in unrestricted net assets at December 31, 2012 and 2011, respectively.

A net actuarial loss of \$1,832,808 represents the unrecognized component of net periodic benefit cost included in unrestricted net assets at December 31, 2012 expected to be amortized into net periodic pension cost in 2013.

The actuarial loss of \$10,753,876 is primarily attributed to the decrease in the discount rate.

The contribution to the plan in 2013 is expected to be \$7,437,630.

In 2013, the Plan has met the 80% adjusted funding target attainment percentage, therefore the manner in which benefit payments are made is not restricted.

The weighted-average assumptions used in computing the plan's benefit obligation at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	3.57 %	4.53 %
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used in the measurement of the plan's net periodic pension cost for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	4.53 %	5.34 %
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increase	N/A	N/A

The expected long-term rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall capital markets. The expected long-term rate of return assumption used in computing net periodic pension cost was 8.0%.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

The following table sets forth the actual asset allocation and target asset allocation for plan assets at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>Target Asset Allocation</u>
Asset category:			
Equity securities	52 %	51 %	50 %
Debt securities	34	35	35
Alternative investments – Collective fund	14	14	15

The plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with the System's risk tolerance. This is achieved through the utilization of asset managers and systemic allocation to investment management styles, providing a broad exposure to different segments of the fixed income and equity markets.

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

Years ending December 31:	
2013	10,795,275
2014	9,350,859
2015	9,718,786
2016	12,233,254
2017	11,106,208
2018 - 2021	<u>70,054,527</u>
Total	<u>\$ 123,258,909</u>

The plan's collective fund, an alternative investment, is comprised of limited partnerships that invest primarily in securities that are traded in active markets. Its investment objective is to deliver a 7% rate of return, but with approximately half of the annualized volatility of equities. This approach can generate investment results that achieve higher long-term returns; however, this approach can also produce negative results depending on market conditions.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

The following table sets forth by level, within the fair value hierarchy, the plan assets at fair value as of December 31, 2012:

	Assets at Fair Value as of December 31, 2012		
	Total	Level 1	Level 3
Mutual funds:			
Large cap	\$ 49,800,332	\$ 49,800,332	\$ -
Small cap	10,746,354	10,746,354	-
Equity	30,841,424	30,841,424	-
Emerging markets debt fund	7,003,488	7,003,488	-
High yield bond fund	14,453,020	14,453,020	-
Long duration fund	38,730,398	38,730,398	-
Money market fund	507	507	-
Collective fund	24,039,639	-	24,039,639
Total	\$ 175,615,162	\$ 151,575,523	\$ 24,039,639

The following table sets forth by level, within the fair value hierarchy, the plan assets at fair value as of December 31, 2011:

	Assets at Fair Value as of December 31, 2011		
	Total	Level 1	Level 3
Mutual funds:			
Large cap	\$ 43,878,811	\$ 43,878,811	\$ -
Small cap	9,392,369	9,392,369	-
Equity	23,891,443	23,891,443	-
Emerging markets debt fund	5,855,758	5,855,758	-
High yield bond fund	12,264,532	12,264,532	-
Long duration fund	34,806,170	34,806,170	-
Collective fund	20,999,870	-	20,999,870
Total	\$ 151,088,953	\$ 130,089,083	\$ 20,999,870

The following table summarizes changes in Level 3 instruments measured at fair value on a recurring basis:

	2012	2011
Balance, beginning of year	\$ 20,999,870	\$ 21,271,609
Unrealized gain (loss)	3,039,769	(271,739)
Balance, end of year	<u>\$ 24,039,639</u>	<u>\$ 20,999,870</u>

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

The following is a description of the valuation methodologies used for the plan's assets measured at fair value:

- Mutual funds – Valued at the net asset value (“NAV”) of shares held by the plan at year-end.
- Alternative investments (Collective Fund) are valued by an independent advisor that values the underlying investments of the partnership, which are substantially invested in an active market in which the individual securities are traded.

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

Defined Contribution Pension Plan

On January 1, 2010, the System established the JFK Defined Contribution Pension Plan. All employees are eligible for participation in the plan. JFK Medical Center will contribute a maximum of 2% of employee contributions. Total expense recorded in 2012 and 2011 was \$3,345,951 and \$3,234,882, respectively.

Postretirement Healthcare Benefits

In addition to the System defined benefit pension plan, JFK Medical Center sponsors defined benefit medical and life insurance plans for eligible retirees. To be eligible, a retiring employee must have at least 25 years of service (effective January 1, 2005) and have attained age 60; however, those who were 55 years or older and have at least ten years of service as of December 31, 2004 will remain eligible at age 60 with 15 years of service. No employee hired on or after January 1, 2005 will be eligible for retiree medical coverage. The medical insurance plan requires monthly retiree contributions. As covered, a retiree may also elect to cover his or her spouse on a contributory basis. JFK Medical Center sets these rates on an annual basis. The medical insurance plan contains other cost-sharing features such as deductibles and co-insurance. The life insurance benefit is provided on a noncontributory basis. This benefit is only for full-time employees who are eligible and enroll in the medical plan. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with past personnel practices and procedures. JFK Medical Center's funding policy is on a “pay-as-you-go” basis; the life insurance plan is funded through a group life insurance contract.

In January 2011, the JFK Medical Center approved a five year phase out of the retiree medical program. Beginning in 2012, the subsidy will be reduced each year by \$500 until January 1, 2016 when the medical program will end. This phase out created a reduction of the benefit obligation as of December 31, 2011 of \$7,734,947 for the Plan amendments and a curtailment gain of \$2,676,619.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

The changes in benefit obligations in 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Benefit obligation at beginning of year	\$ 1,535,622	\$ 12,628,412
Service cost	-	29
Interest cost	18,124	34,680
Plan participants' contributions	731,818	764,480
Plan amendments	-	(7,734,947)
Plan curtailments	-	(2,676,619)
Actuarial gain	(487,655)	(395,309)
Benefits paid	<u>(986,456)</u>	<u>(1,085,104)</u>
 Total benefit obligation at end of year	 811,453	 1,535,622
 Less current portion	 <u>(986,456)</u>	 <u>(1,085,104)</u>
 Benefit obligation at end of year, noncurrent	 <u>\$ 811,453</u>	 <u>\$ 1,535,622</u>

The changes in plan assets in 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	254,638	320,624
Plan participants' contributions	731,818	764,480
Benefits paid	<u>(986,456)</u>	<u>(1,085,104)</u>
 Fair value of plan assets at end of year	 <u>\$ -</u>	 <u>\$ -</u>

The amounts of net periodic postretirement benefit credit in 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Interest cost	\$ 18,124	\$ 34,680
Service cost	-	29
Amortization of prior service credit	(1,567,675)	(1,576,435)
Amortization of actuarial loss	89,069	268,323
Curtailment gain recognized	<u>-</u>	<u>(2,692,503)</u>
 Net periodic postretirement benefit credit	 <u>\$ (1,460,482)</u>	 <u>\$ (3,965,906)</u>

A net actuarial gain of \$487,655 represents the previously unrecognized component of net periodic postretirement benefit cost included in unrestricted net assets at December 31, 2012. A net actuarial gain of \$3,071,928 and prior service cost of \$7,734,947 represent the previously unrecognized component of net periodic postretirement benefit cost included in unrestricted net assets at December 31, 2011.

Net actuarial loss of \$10,334 and prior service credit of \$1,567,675 are expected to be recognized in net periodic postretirement benefit cost in 2012.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

The weighted-average assumptions used in determining the actuarial present value of the projected benefit obligation for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	.71 %	1.79 %
Healthcare cost trend rate	N/A	N/A
Year ultimate increase reached	N/A	N/A

Assumed healthcare cost trend rates have a significant effect on the amounts reported for postretirement benefit plans. However, since JFK Medical Center has reached the employer-paid cap on benefits, a one percentage point change in assumed healthcare cost trend rates would not have an effect on the components of net periodic postretirement benefit cost and the postretirement benefit obligations for 2012.

JFK Medical Center expects to contribute \$392,403 to its postretirement benefit plan in 2013.

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

Years ending December 31:		
2013	\$	392,403
2014		272,526
2015		<u>153,494</u>
Total	\$	<u>818,423</u>

11. Professional and General Liability Insurance

The System maintains professional and general liability insurance coverage for all subsidiaries and their employees. The System's insurance coverages are provided under the provisions of two insurance arrangements, as follows:

- **Primary coverage:** Primary coverage is provided by Atlantic Insurance Exchange, Ltd. ("AIE") under the terms of a claims-made insurance policy. This insurance policy has an individual occurrence limit of \$3,000,000 and an annual aggregate limit of \$10,000,000.
- **Excess coverage:** The System has excess liability insurance coverage which insures against losses in excess of the above primary coverage reported during the period of policy coverage. This commercial excess liability insurance policy has an individual occurrence limit of \$30,000,000 and an annual aggregate limit of \$30,000,000.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

AIE was incorporated under the laws of Bermuda on June 24, 1987 and insures the risks of the System and its subsidiaries. AIE charged insurance premiums to JFK Medical Center of approximately \$3,513,000 in 2012 and \$3,169,000 in 2011. The fair value of assets in AIE was approximately \$36,445,000 and \$35,922,000 at December 31, 2012 and 2011, respectively. AIE assets are controlled by the System and are not reflected in the accompanying financial statements. In addition, AIE liabilities include the asserted and unasserted professional and general claims of JFK Medical Center. In addition, JFK Medical Center has recorded a reserve of approximately \$1.7 million for asserted and unasserted professional and general claims which exceed primary coverage which is recorded in other long-term liabilities in the balance sheet as of December 31, 2012 and 2011. Of these claims, approximately \$1.3 million and \$1.2 million is recorded as a receivable under the claims-made excess liability insurance and is recorded within other assets in the balance sheet as of December 31, 2012 and 2011, respectively.

JFK Medical Center believes that it has adequate insurance coverages for all asserted claims and has no knowledge of unasserted claims which would exceed its liabilities at AIE or insurance coverages.

12. Other Long-Term Liabilities

JFK Medical Center has recorded a reserve of approximately \$895,000 and \$902,000 for asserted and unasserted workers compensation claims which exceed primary coverage which is recorded in other long-term liabilities in the balance sheet as of December 31, 2012 and 2011. Of these claims, approximately \$895,000 and \$902,000 is recorded as a receivable under the claims-made excess liability insurance and is recorded within other assets in the balance sheet as of December 31, 2012 and 2011.

In August 2011, JFK Medical Center entered into a line of credit agreement with a minimum withdrawal amount of \$3 million and a maximum of \$27 million. The line of credit is payable in full in August 2014, subject to renewal terms per the line of credit agreement. As of December 31, 2012, JFK Medical Center drew \$3 million on the line of credit, which is included in other long-term liabilities in the balance sheet.

13. Health Insurance Benefits

JFK Medical Center self-insures its employee health insurance coverages. JFK Medical Center accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of its individual and aggregate stop-loss insurance coverages, based upon data provided by the third-party administrator of the program and its historical claims experience. JFK Medical Center recorded a liability of \$3,162,840 and \$3,324,204 at December 31, 2012 and 2011, respectively, related to health insurance. The amount is included in employee benefits in accrued expenses in the accompanying balance sheet.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

14. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for betterments to plant facilities and purchases of equipment or for specific departments or programs and other services.

During 2012 and 2011, net assets were released from donor restrictions by satisfying their restricted purposes in the amount of \$1,701,332 and \$467,656, respectively.

15. Concentrations of Credit Risk

JFK Medical Center grants credit without collateral to its patients, some of whom are insured under third-party payor arrangements, primarily with Medicaid, Medicare, and various commercial insurance companies. The mix of receivables at December 31, 2012 and 2011 from patients and third-party payors is as follows:

	<u>2012</u>	<u>2011</u>
Medicare	26 %	27 %
Medicaid	3	2
Blue Cross	21	23
Aetna	9	9
Other third-party payors	40	38
Patients	<u>1</u>	<u>1</u>
Total	<u>100 %</u>	<u>100 %</u>

JFK Medical Center maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured up to \$250,000.

16. Meaningful Use

Under certain provisions of the American Recovery and Reinvestment Act of 2009, federal incentive payments are available to hospitals, physicians and certain other professionals ("providers") when they adopt certified electronic health record ("EHR") technology or become "meaningful users" of EHRs in ways that demonstrate improved quality, safety and effectiveness of care. Medicare and Medicaid providers can receive their initial incentive payment by adopting implementing or upgrading certified EHR technology, but must demonstrate meaningful use of EHRs in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments. The JFK Medical Center accounts for EHR payments using the grant accounting method, whereby revenue is recognized when JFK Medical Center has reasonable assurance that they have complied with the conditions. As of December 31, 2012 the JFK Medical Center has recorded \$5.3 million in other revenue on the statement of operations, whereby, \$1.3 million has been received from Medicare and Medicaid and \$4 million is recorded as prepaid and other current assets.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

17. Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements; however, the possible future financial effects of this matter on JFK Medical Center, if any, are not presently determinable.

18. Related Party Transactions

At December 31, 2012 and 2011, JFK Medical Center and other affiliates were indebted to each other as follows:

	<u>2012</u>	<u>2011</u>
Due from affiliates:		
John F. Kennedy Medical Center Foundation, Inc.	\$ 326,064	\$ 466,086
Atlantic Insurance Exchange, Ltd.	50,757	125,551
JFK Healthshare, Inc.	476,440	252,388
Muhlenberg Foundation, Inc.	43,565	114,945
Lifestyle Institute, Inc.	41,013	19,563
Hartwyck West Nursing Home, Inc. and Affiliates	87,883	76,760
	<u>1,025,722</u>	<u>1,055,293</u>
Less current portion	<u>325,885</u>	<u>145,113</u>
Noncurrent portion	<u>\$ 699,837</u>	<u>\$ 910,180</u>
	<u>2012</u>	<u>2011</u>
Due to affiliates:		
Hartwyck West Nursing Home, Inc.	\$ -	\$ 138,065
	<u>\$ -</u>	<u>\$ 138,065</u>

Interest is not charged on these balances and there are no formal repayment terms. The amounts due from affiliates are valued at management's estimate of net realizable value; however, because of inherent uncertainties in the affiliates' operating results, it is at least reasonably possible that the estimates used may change within the near term.

On October 1, 2003, Hartwyck at Oak Tree, Inc. signed a \$2,400,000 promissory note with JFK Medical Center. Interest-only payments, at an annual rate of 5.5%, are due on the first day of each month beginning on November 1, 2003. The entire principal amount is due on July 1, 2023. Interest income earned on the promissory note amounted to \$132,000 in 2012 and 2011 and is included in investment income on the statement of operations.

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

JFK Medical Center rents space from Hartwyck at Oak Tree, Inc. for cognitive rehabilitation services. Rental expense amounted to \$372,000 in 2012 and 2011 and is included in purchased services on the statement of operations.

On August 16, 2004, Hartwyck at Oak Tree, Inc. signed a \$1,204,843 promissory note with JFK Medical Center. Interest and principal payments are due on the first day of each month beginning on October 1, 2004, with an annual interest rate of 3.5%. Principal payments are due through July 1, 2023. The balance due from Hartwyck at Oak Tree was \$566,343 and \$659,343 at December 31, 2012 and 2011, respectively. Interest income earned on the promissory note amounted to \$19,822 in 2012 and \$23,077 in 2011 and is included in investment income on the statement of operations.

JFK Medical Center, Inc. rents space from Healthshare, Inc. Rental expense amounts to \$437,438 in 2012 and \$535,691 in 2011 and is included in purchased services on the statements of operations.

The Foundation transferred \$490,589 in 2012 and \$101,866 in 2011 to JFK Medical Center for use in operations. The Foundation also made transfers of restricted funds to JFK Medical Center of \$1,140,357 and \$293,705 for capital purchases in 2012 and 2011, respectively.

During 2012 and 2011, JFK Medical Center paid salaries of \$451,570 and \$444,721, respectively and employee benefits of \$92,572 and \$99,217, respectively, on behalf of JFK Foundation.

During 2012 and 2011, Lifestyle, Inc. made an equity transfer of \$349,000 and \$360,000 to the Institute for use in operations, respectively.

On January 1, 2009, the operations of the School of Nursing and School of Radiology were transferred to JFK Medical Center. During 2008, the Emergency Department operations of MRMC were transferred to JFK Medical Center. JFK pays rental income to MRMC for operations on the MRMC campus which were \$1,696,632 and \$1,965,000 for the years ended December 31, 2012 and 2011, respectively. In addition, JFK Medical Center made equity transfers of \$2,454,441 and \$3,006,689 to MRMC to forgive intercompany balances during 2012 and 2011, respectively.

Reserves are recorded against the receivables of several affiliate entities due to management's belief that collectability was uncertain. The following table summarizes the reserves recorded as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
From JFK Health System	\$ 24,060,178	\$ 26,306,414
From Hartwyck at JFK, Inc.	2,849,540	2,849,540
From Hartwyck at Oak Tree, Inc.	<u>3,366,420</u>	<u>4,138,972</u>
Total	<u>\$ 30,276,138</u>	<u>\$ 33,294,926</u>

The Community Hospital Group, Inc. d/b/a JFK Medical Center

Notes to Financial Statements
December 31, 2012 and 2011

19. Lease Commitments

JFK Medical Center is committed under the terms of operating leases for future minimum rental payments on equipment as follows:

Years ending December 31:		
2013	\$	1,035,780
2014		906,023
2015		59,568
2016		<u>1,227</u>
Total	\$	<u><u>2,002,598</u></u>

Rental expense on operating leases was \$1,214,255 and \$2,654,605 in 2012 and 2011, respectively.

20. Functional Expenses

JFK Medical Center provides healthcare and other related services to its patients. The classification of expenses related to providing these services approximates the following in 2012 and 2011:

	<u>2012</u>	<u>2011</u>
	(In thousands)	
Program services	\$ 381,244	\$ 373,205
General and administrative	<u>34,772</u>	<u>34,197</u>
Total	<u><u>\$ 416,016</u></u>	<u><u>\$ 407,402</u></u>

The Community Hospital Group, Inc. d/b/a JFK Medical Center

 Schedule by Facility, Statement of Operations
 Year Ended December 31, 2012

	Anthony M. Yelencscis Community Hospital	JFK Johnson Rehabilitation Institute	Eliminations	Total
Unrestricted Revenues, Gains, and Other Support				
Patient service revenues, net of contractual allowances and discounts	\$ 374,498,764	\$ 61,350,037	\$ -	\$ 435,848,801
Less provision for doubtful collections	(28,653,534)	(1,023,589)	-	(29,677,123)
Net patient service revenues	345,845,230	60,326,448	-	406,171,678
Other revenues	19,347,075	1,744,231	(129,996)	20,961,310
Net assets released from restrictions for use in operations	392,600	130,711	-	523,311
Total unrestricted revenues, gains, and other support	365,584,905	62,201,390	(129,996)	427,656,299
Expenses				
Salaries and wages	165,812,606	39,532,518	-	205,345,124
Employee benefits	29,935,645	7,094,312	-	37,029,957
Supplies and expenses	141,561,056	11,328,217	(129,996)	152,759,277
Depreciation and amortization	12,460,701	2,805,943	-	15,266,644
Interest	4,904,508	710,244	-	5,614,752
Total expenses	354,674,516	61,471,234	(129,996)	416,015,754
Operating income	10,910,389	730,156	-	11,640,545
Recovery of Doubtful Collections on Related Party Receivable	3,018,788	-	-	3,018,788
Investment Income	541,521	-	-	541,521
Change in Net Unrealized Gains on Trading Securities	30,236	-	-	30,236
Revenues in excess of expenses	14,500,934	730,156	-	15,231,090
Pension/Postretirement Liability Adjustment	706,807	316,780	-	1,023,587
Transfer (to) from Affiliates	(2,046,377)	298,000	-	(1,748,377)
Net Assets Released from Restrictions for Capital Purchases	1,178,021	-	-	1,178,021
Decrease in unrestricted net deficit	<u>\$ 14,339,385</u>	<u>\$ 1,344,936</u>	<u>\$ -</u>	<u>\$ 15,684,321</u>

The Community Hospital Group, Inc. d/b/a JFK Medical Center

 Schedule by Facility, Statement of Operations
 Year Ended December 31, 2011

	Anthony M. Yelencscis Community Hospital	JFK Johnson Rehabilitation Institute	Eliminations	Total
Unrestricted Revenues, Gains, and Other Support				
Net patient service revenues	\$ 370,587,003	\$ 60,895,318	\$ -	\$ 431,482,321
Less provision for doubtful collections	(29,958,198)	(1,110,305)	-	(31,068,503)
Net patient service revenues	340,628,805	59,785,013	-	400,413,818
Other revenues	14,312,194	1,889,006	(127,380)	16,073,820
Net assets released from restrictions for use in operations	99,325	2,541	-	101,866
Total unrestricted revenues, gains, and other support	355,040,324	61,676,560	(127,380)	416,589,504
Expenses				
Salaries and wages	158,802,679	38,205,131	-	197,007,810
Employee benefits	31,824,677	7,891,202	-	39,715,879
Supplies and expenses	139,763,627	10,839,128	(127,380)	150,475,375
Depreciation and amortization	10,930,401	2,802,072	-	13,732,473
Interest	5,760,006	710,244	-	6,470,250
Total expenses	347,081,390	60,447,777	(127,380)	407,401,787
Operating income	7,958,934	1,228,783	-	9,187,717
Pension Settlement/Curtailment Charges	2,692,503	-	-	2,692,503
Recovery of Doubtful Collections on Related Party Receivables	461,942	-	-	461,942
Investment Income	507,260	-	-	507,260
Change in Net Unrealized Gains on Trading Securities	33,206	-	-	33,206
Revenues in excess of expense	11,653,845	1,228,783	-	12,882,628
Pension/Postretirement Liability Adjustment	1,547,208	(1,224,809)	-	322,399
Transfers (to) from Affiliates	(3,006,689)	360,000	-	(2,646,689)
Net Assets Released from Restrictions for Capital Purchases	358,654	7,136	-	365,790
Decrease in unrestricted net deficit	\$ 10,553,018	\$ 371,110	\$ -	\$ 10,924,128