

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

Consolidated Financial Statements and
Supplementary Information

December 31, 2015 and 2014



Candor. Insight. Results.

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

Table of Contents

December 31, 2015 and 2014

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Consolidated Balance Sheet	3
Consolidated Statement of Operations	4
Consolidated Statement of Changes in Net Assets	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Information	
Schedule by Facility, Statement of Operations for 2015	35
Schedule by Facility, Statement of Operations for 2014	36

Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Community Hospital Group, Inc. d/b/a JFK Medical Center ("JFK Medical Center"), which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Community Hospital Group, Inc. d/b/a JFK Medical Center as of December 31, 2015 and 2014, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information presented on pages 35 and 36 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Viechow Krause, LLP

Clark, New Jersey
April 27, 2016

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

Consolidated Balance Sheet
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 34,632,110	\$ 32,530,526	Current portion of long-term debt	\$ 4,678,276	\$ 3,688,640
Investments	17,516,395	17,739,081	Current portion of capital lease obligations	3,811,152	1,921,245
Assets whose use is limited	3,566,012	3,432,843	Accounts payable	41,058,137	35,844,352
Accounts receivable, patients (net of estimated allowance for doubtful collections of \$8,894,212 in 2015 and \$9,384,747 in 2014)	63,828,044	56,351,023	Accrued expenses	38,790,039	34,232,294
Inventories of drugs and supplies	7,051,897	6,719,108	Estimated third-party payor settlements	4,792,563	7,461,544
Prepaid expenses and other current assets	8,386,239	9,383,942	Deferred revenue	2,922,762	2,959,514
Note receivable, affiliate	51,984	51,984	Accrued postretirement benefits	3,666	105,138
Due from affiliates	420,998	478,094	Due to affiliates	370,730	191,178
Total current assets	135,453,679	126,686,601	Total current liabilities	96,427,325	86,403,905
Interest in Net Assets of John F. Kennedy Medical Center Foundation, Inc.	5,861,848	6,686,931	Capital Lease Obligations	12,331,337	3,928,240
Property and Equipment, Net	132,017,624	123,201,790	Long-Term Debt	106,630,260	111,308,536
Other Assets	6,183,109	3,536,934	Other Long-Term Liabilities	9,214,806	6,787,798
Deferred Financing Costs, Net	2,271,568	2,529,305	Estimated Third-Party Payor Settlements	15,855,041	15,273,469
Note Receivable, Affiliate	2,737,898	2,789,882	Accrued Pension Cost	31,873,374	26,583,337
Due from Affiliates	640,844	1,156,686	Accrued Postretirement Benefits	41,070	-
			Total liabilities	272,373,213	250,285,285
			Net Assets		
			Unrestricted	6,931,509	9,615,913
			Temporarily restricted	4,615,222	5,442,305
			Permanently restricted	1,246,626	1,244,626
			Total net assets	12,793,357	16,302,844
Total assets	<u>\$ 285,166,570</u>	<u>\$ 266,588,129</u>	Total liabilities and net assets	<u>\$ 285,166,570</u>	<u>\$ 266,588,129</u>

See notes to consolidated financial statements

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

Consolidated Statement of Operations

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Revenues, Gains, and Other Support		
Patient service revenues, net of contractual allowances and discounts	\$ 494,764,469	\$ 466,098,121
Less provision for doubtful collections	<u>18,148,452</u>	<u>18,725,866</u>
Net patient service revenues	476,616,017	447,372,255
Other revenues	18,031,186	20,448,215
Net assets released from restrictions for use in operations	<u>444,811</u>	<u>77,788</u>
Total unrestricted revenues, gains, and other support	<u>495,092,014</u>	<u>467,898,258</u>
Expenses		
Salaries and wages	230,968,003	221,145,359
Employee benefits	39,487,884	35,402,768
Supplies and expenses	174,218,689	167,404,594
Depreciation and amortization	15,103,921	16,292,184
Interest	<u>6,594,105</u>	<u>6,820,517</u>
Total expenses	<u>466,372,602</u>	<u>447,065,422</u>
Operating income	28,719,412	20,832,836
Pension Settlement Charge	(2,613,483)	(5,542,473)
(Provision for) Recovery of Doubtful Collections on Related Party Receivables	(546,920)	872,633
Investment Income	576,847	603,961
Change in Net Unrealized (Losses) Gains on Trading Securities	<u>(613,265)</u>	<u>456,571</u>
Revenues in excess of expenses	25,522,591	17,223,528
Pension/Postretirement Liability Adjustment	(11,234,056)	(6,406,653)
Transfers to Affiliates	(20,862,161)	(15,837,118)
Net Assets Released from Restrictions for Capital Purchases	<u>3,889,222</u>	<u>1,714,401</u>
Decrease in unrestricted net assets	<u>\$ (2,684,404)</u>	<u>\$ (3,305,842)</u>

See notes to consolidated financial statements

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

Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Net Assets		
Revenues in excess of expenses	\$ 25,522,591	\$ 17,223,528
Pension/postretirement liability adjustment	(11,234,056)	(6,406,653)
Transfers to affiliates	(20,862,161)	(15,837,118)
Net assets released from restrictions for capital purchases	<u>3,889,222</u>	<u>1,714,401</u>
Decrease in unrestricted net assets	<u>(2,684,404)</u>	<u>(3,305,842)</u>
Temporarily Restricted Net Assets		
Transfers from affiliates	4,334,033	1,792,189
Change in interest in net assets of John F. Kennedy Medical Center Foundation, Inc.	(827,083)	544,955
Net assets released from restrictions for use in operations	(444,811)	(77,788)
Net assets released from restrictions for capital purchases	<u>(3,889,222)</u>	<u>(1,714,401)</u>
(Decrease) increase in temporarily restricted net assets	<u>(827,083)</u>	<u>544,955</u>
Permanently Restricted Net Assets		
Change in interest in net assets of John F. Kennedy Medical Center Foundation, Inc.	<u>2,000</u>	<u>27,000</u>
Decrease in net assets	(3,509,487)	(2,733,887)
Net Assets, Beginning	<u>16,302,844</u>	<u>19,036,731</u>
Net Assets, Ending	<u><u>\$ 12,793,357</u></u>	<u><u>\$ 16,302,844</u></u>

See notes to consolidated financial statements

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

Consolidated Statement of Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (3,509,487)	\$ (2,733,887)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	14,846,184	16,027,106
Amortization	257,737	265,078
Transfers to affiliates	16,528,128	14,044,929
Net realized and unrealized losses (gains) on investments	582,687	(532,699)
Provision for doubtful collections	18,148,452	18,725,866
Provision for (recovery of) doubtful collections on related party receivables	546,920	(872,633)
Pension/postretirement liability adjustment	11,234,056	6,406,653
Pension settlement charge	2,613,483	5,542,473
Changes in assets and liabilities:		
Accounts receivable, patients	(25,625,473)	(17,680,036)
Inventories of drugs and supplies	(332,789)	(339,558)
Prepaid expenses and other assets	(1,648,472)	(1,733,542)
Due from/to affiliates	205,570	380,530
Accounts payable	5,213,785	755,090
Accrued expenses	4,557,745	710,421
Estimated third-party payor settlements	(2,087,409)	1,324,727
Deferred revenue	(36,752)	266,987
Accrued pension cost	(8,557,502)	(10,282,039)
Other long-term liabilities	2,427,008	229,711
Accrued postretirement benefits	(60,402)	(247,712)
Net cash provided by operating activities	<u>35,303,469</u>	<u>30,257,465</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(9,302,203)	(11,672,907)
Purchases of investments and assets whose use is limited, net	(493,170)	(696,712)
Change in beneficial interest in net assets of John F. Kennedy Medical Center Foundation, Inc.	825,083	(571,955)
Repayment of note receivable, affiliate	51,984	51,985
Net cash used in investing activities	<u>(8,918,306)</u>	<u>(12,889,589)</u>
Cash Flows from Financing Activities		
Transfers to affiliates	(16,528,128)	(14,044,929)
Repayments of capital lease obligations	(4,066,811)	(2,074,845)
Repayments of long-term debt	(3,688,640)	(2,757,679)
Net cash used in financing activities	<u>(24,283,579)</u>	<u>(18,877,453)</u>
Increase (decrease) in cash and cash equivalents	2,101,584	(1,509,577)
Cash and Cash Equivalents, Beginning	<u>32,530,526</u>	<u>34,040,103</u>
Cash and Cash Equivalents, Ending	<u>\$ 34,632,110</u>	<u>\$ 32,530,526</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 7,142,654</u>	<u>\$ 6,855,767</u>
Purchases of property and equipment through capital lease obligations	<u>\$ 14,359,815</u>	<u>\$ 688,573</u>

See notes to consolidated financial statements

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 three separately licensed healthcare facilities: the Anthony M. Yelencsics Community Hospital (the "Hospital"), the JFK Johnson Rehabilitation Institute (the "Institute") both located in Edison, New Jersey and JFK Ambulatory Care, PA ("Urgent Care") located in Piscataway, New Jersey. JFK Medical Center also established an Accountable Care Organization ("ACO"), JFK Population Health Company, LLC ("JFK Population Health").

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. Urgent Care is an ambulatory care center which provides outpatient services for non-life threatening injuries and illnesses.

The Centers for Medicare & Medicaid Services ("CMS") has established a Medicare Shared Savings Program ("Shared Savings Program") to facilitate coordination and cooperation among providers to improve the quality of care for Medicare Fee-For-Service beneficiaries and reduce unnecessary costs. In December 2013, JFK Population Health was approved by CMS as an ACO to participate in the Shared Savings Program. The Shared Savings Program will reward ACOs that lower their growth in health care costs while meeting performance standards on quality of care and putting patients first.

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. (the "Muhlenberg Foundation"); Lifestyle Institute, Inc.; JFK Healthshare, Inc.; Hartwyck at Oak Tree, Inc. ("Oak Tree"); Hartwyck at JFK, Inc.; Hartwyck West Nursing Home, Inc. and Affiliates; JFK Medical Associates, P.A.; 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.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

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 93% of self-pay accounts receivable at December 31, 2015 and December 31, 2014. In addition, JFK Medical Center's self-pay account write-offs (net of recoveries) decreased to \$17,490,325 in 2015 from \$17,836,312 in 2014. The decrease was the result of fewer uninsured patients in 2015 due to the Affordable Care Act. JFK Medical Center has not changed its financial assistance policy in 2015 or 2014.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 2015 and 2014 from these major payor sources, are as follows:

	Patient Service Revenues (Net of Contractual Allowances and Discounts)			Total
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	
December 31, 2015	\$ 141,627,000	\$ 345,551,000	\$ 7,586,000	\$ 494,764,000
December 31, 2014	\$ 145,266,000	\$ 316,212,000	\$ 4,620,000	\$ 466,098,000

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.

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.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Assets Whose Use is Limited

Assets whose use is limited include 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 or permanently restricted net assets in the accompanying statement of changes in net assets. 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.

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 expense amounted to \$257,737 and \$265,078 for the years ended December 31, 2015 and 2014, respectively. Accumulated amortization of deferred financing costs at December 31, 2015 and 2014 totaled \$1,610,691 and \$1,352,954, respectively.

Deferred Revenue

The deferred revenue balance at December 31, 2015 and 2014 includes \$2,559,273 and \$2,558,797, respectively, related to School of Nursing and School of Radiology tuition payments for the Spring 2015 and 2014 semesters.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Revenues in Excess of Expenses

The statement of operations includes the determination of revenues in excess of expenses. Changes in unrestricted net assets 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 \$2,104,000 and \$1,716,000 in 2015 and 2014, 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 Population Health is a limited liability company and is not a tax-paying entity for federal and state income tax purposes.

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 2015 or 2014.

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 2013.

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.

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 or fair value, less costs to sell.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

Subsequent Events

JFK Medical Center evaluated subsequent events for recognition or disclosure through April 27, 2016, the date the financial statements were issued.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. JFK Medical Center will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2018. JFK Medical Center has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

Personnel Services from Affiliates

In April 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities: Services Received from Personnel of an Affiliate* which is amended guidance relating to the recognition of services provided by an affiliate without charge. The guidance requires that the recipient recognize, in the financial statements, these services measured at cost incurred by the affiliate (or at fair value, if significantly different), and the related equity transfer. The adoption of the amended guidance decreased operating expenses and increased net asset transfers to affiliates by \$729,053 in 2015.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of JFK Medical Center's leasing activities. JFK Medical Center will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. JFK Medical Center has not yet determined the impact of adoption of ASU No. 2016-02 on its financial statements.

Deferred Financing Costs

In April 2015, the FASB issued ASU 2015-03 (Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs). ASU 2015-03 is part of FASB's Simplification Initiative, a FASB initiative to reduce complexity in its accounting standards. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 for all entities. The new authoritative guidance requires entities to report debt issuance costs in their balance sheet as a reduction of its related debt. Entities are also required to report the amortization of debt issuance costs as interest expense in the income statement. JFK Medical Center has determined that these classification changes will not have a significant impact on the financial statements.

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 \$13,607,000 in 2015 and \$16,122,000 in 2014.

JFK Medical Center receives subsidy payments from the State of New Jersey to partially fund charity care and certain other costs. Subsidy payments included in net patient service revenues for the years ended December 31, 2015 and 2014 were approximately \$4,257,000 and \$4,420,000, respectively.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, 2011 with the exception of 2005, which has not been settled.
- **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, 2013.

Revenue received under third-party arrangements is subject to audit and retroactive adjustments. Net patient service revenues include favorable adjustments of approximately \$943,000 in 2014. The adjustments related to final settlements of prior year cost reports and other settlements. There were no such adjustments in 2015.

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.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

5. Investments and Assets Whose Use is Limited

The composition of investments and assets whose use is limited at December 31, 2015 and 2014 is set forth in the following table:

	<u>2015</u>	<u>2014</u>
Investments:		
Cash and cash equivalents	\$ 880,878	\$ 820,126
Mutual funds	3,382,853	3,295,387
U.S. government obligations	4,670,175	4,735,487
U.S. agency obligations	3,257,905	3,050,456
Corporate bonds	2,839,944	2,943,125
Municipal bonds	742,952	735,612
Equities	1,741,688	2,158,888
	<u>17,516,395</u>	<u>17,739,081</u>
Total	<u>\$ 17,516,395</u>	<u>\$ 17,739,081</u>
Assets whose use is limited,		
Under bond indenture agreements held by trustees,		
Cash and cash equivalents	\$ 3,566,012	\$ 3,432,843
	<u>3,566,012</u>	<u>3,432,843</u>
Less current portion	<u>3,566,012</u>	<u>3,432,843</u>
	<u>\$ -</u>	<u>\$ -</u>
Noncurrent portion of assets whose use is limited	<u>\$ -</u>	<u>\$ -</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 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Investment income:		
Interest and dividend income	\$ 546,269	\$ 527,833
Realized gains, net	30,578	76,128
	<u>576,847</u>	<u>603,961</u>
Total	<u>\$ 576,847</u>	<u>\$ 603,961</u>
Change in net unrealized gains (losses) on trading securities	<u>\$ (613,265)</u>	<u>\$ 456,571</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.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 Consolidated Financial Statements

December 31, 2015 and 2014

These items were measured with the following inputs:

	Fair Value as of December 31, 2015				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Investments:					
Cash and cash equivalents	\$ 880,878	\$ 880,878	\$ 880,878	\$ -	\$ -
Mutual funds	3,382,853	3,382,853	3,382,853	-	-
U.S. government obligations	4,670,175	4,670,175	4,670,175	-	-
U.S. agency obligations	3,257,905	3,257,905	3,257,905	-	-
Corporate bonds	2,839,944	2,839,944	-	2,839,944	-
Municipal bonds	742,952	742,952	-	742,952	-
Equities	1,741,688	1,741,688	1,741,688	-	-
Assets whose use is limited,					
Cash and cash equivalents	3,566,012	3,566,012	3,566,012	-	-
Total	\$ 21,082,407	\$ 21,082,407	\$ 17,499,511	\$ 3,582,896	\$ -
Disclosed at Fair Value					
Cash and cash equivalents	\$ 34,632,110	34,632,110	\$ 34,632,110	\$ -	\$ -
Long-term debt	\$ 111,308,536	\$ 121,739,974	\$ -	\$ 121,739,974	\$ -
Fair Value as of December 31, 2014					
Reported at Fair Value					
Investments:					
Cash and cash equivalents	\$ 820,126	\$ 820,126	\$ 820,126	\$ -	\$ -
Mutual funds	3,295,387	3,295,387	3,295,387	-	-
U.S. government obligations	4,735,487	4,735,487	4,735,487	-	-
U.S. agency obligations	3,050,456	3,050,456	3,050,456	-	-
Corporate bonds	2,943,125	2,943,125	-	2,943,125	-
Municipal bonds	735,612	735,612	-	735,612	-
Equities	2,158,888	2,158,888	2,158,888	-	-
Assets whose use is limited,					
Cash and cash equivalents	3,432,843	3,432,843	3,432,843	-	-
Total	\$ 21,171,924	\$ 21,171,924	\$ 17,493,187	\$ 3,678,737	\$ -
Disclosed at Fair Value					
Cash and cash equivalents	\$ 32,530,526	\$ 32,530,526	\$ 32,530,526	\$ -	\$ -
Long-term debt	\$ 114,997,176	\$ 129,087,992	\$ -	\$ 129,087,992	\$ -

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014.

The carrying amounts of cash and cash equivalents approximate fair value at December 31, 2015 and 2014.

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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 8,688,597	\$ 8,677,147
Buildings and improvements	195,130,085	193,383,629
Fixed equipment	41,873,411	41,553,272
Equipment	164,744,476	160,948,533
Leasehold improvements	1,055,758	858,287
Capitalized lease equipment	<u>11,037,281</u>	<u>12,360,823</u>
Total	422,529,608	417,781,691
Less accumulated depreciation and amortization	<u>309,586,881</u>	<u>295,950,107</u>
	112,942,727	121,831,584
Construction in progress	<u>19,074,897</u>	<u>1,370,206</u>
Property and equipment, net	<u>\$ 132,017,624</u>	<u>\$ 123,201,790</u>

Depreciation expense was \$14,846,184 in 2015 and \$16,027,106 in 2014. Accumulated amortization related to the capital lease obligations was \$5,724,757 and \$5,105,017 at December 31, 2015 and 2014, 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. Interest cost capitalized in 2015 amounted to \$489,611. No interest costs were capitalized in 2014.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Construction in progress at December 31, 2015 primarily includes costs related to the clinical and financial system conversion. On March 31, 2015, JFK Medical Center entered into a Master Lease Agreement with Key Equipment Finance for \$14,000,000, in order to finance the system and other planned information technology upgrades. The Master Lease Agreement is a capital lease with a 60 month term. On February 22, 2016, an addendum to the Master Lease Agreement was made effective for additional funding of \$5,000,000 to be paid over 60 months. All expenses incurred for this project are included within construction in progress. The estimated cost to complete the project is \$29,000,000.

8. Accrued Expenses

Accrued expenses at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 11,243,431	\$ 9,805,904
Severance	-	397,672
Paid time off	14,256,257	13,817,328
Employee benefits	4,891,107	4,596,107
Refunds of overpayments	3,066,711	1,860,620
Interest	1,945,934	2,004,872
Malpractice premiums	2,490,634	494,636
Payroll taxes	862,010	787,841
Other	33,955	467,314
Total	<u>\$ 38,790,039</u>	<u>\$ 34,232,294</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 2009 A-1 Bonds") under the State of New Jersey Hospital Asset Transformation Program ("HATP"). The Series 2009 A-1 Bonds include serial bonds of \$5,930,000, which matured 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 due annually beginning 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.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

JFK Medical Center's long-term debt at December 31, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
New Jersey Health Care Facilities Financing Authority Revenue and Refunding Bonds, Series 2009 A-1 Bonds	\$ 111,308,536	\$ 114,997,176
Less current portion	<u>4,678,276</u>	<u>3,688,640</u>
Long-term debt, excluding current portion	<u>\$ 106,630,260</u>	<u>\$ 111,308,536</u>

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:	
2016	\$ 4,678,276
2017	4,916,883
2018	5,171,137
2019	5,437,126
2020	5,722,673
Thereafter	<u>85,382,441</u>
Total	<u>\$ 111,308,536</u>

Capital lease obligations consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Capital lease obligations with interest ranging from 3.45% to 6.83% per annum, final payments due in 2020	\$ 16,142,489	\$ 5,849,485
Less current portion	<u>3,811,152</u>	<u>1,921,245</u>
Long-term portion	<u>\$ 12,331,337</u>	<u>\$ 3,928,240</u>

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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

Years ending December 31:	
2016	\$ 4,484,039
2017	4,310,822
2018	4,069,663
2019	4,028,480
2020	<u>893,815</u>
Total minimum payments	17,786,819
Less amounts representing interest	<u>1,644,330</u>
	16,142,489
Less current installments	<u>3,811,152</u>
	<u>\$ 12,331,337</u>

10. Pension Plan and Postretirement Healthcare Benefits

Cash Balance Retirement Plan

The System has a defined benefit pension plan (the "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 Pension Plan was frozen effective May 2, 2009.

On April 1, 2013, the Pension Plan was certified to permit 100% lump sum distributions. Each year on April 1, the Pension Plan's actuary will certify the funded status. If the Pension Plan's funded status equals or exceeds 80% of the projected benefit obligation, the Pension Plan will be allowed to pay 100% of benefits as a single lump sum. If the Pension Plan's funded status is less than 80%, no single lump sum distributions will be permitted. In 2015 and 2014, the Pension Plan offered lump sum settlements to certain participants which were accepted which reduced the projected benefit obligation and assets by \$7,333,422 and \$18,829,444, respectively.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The changes in projected benefit obligations allocated by the System to JFK Medical Center in 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Projected benefit obligation at beginning of year	\$ 196,861,476	\$ 195,175,560
Interest cost	7,119,135	8,250,617
Actuarial (gain) loss	(3,571,559)	16,303,257
Benefits paid	(4,201,724)	(4,038,514)
Plan settlements	(7,333,422)	(18,829,444)
	<u>\$ 188,873,906</u>	<u>\$ 196,861,476</u>
Projected benefit obligation at end of year	<u>\$ 188,873,906</u>	<u>\$ 196,861,476</u>
Accumulated benefit obligation	<u>\$ 188,873,906</u>	<u>\$ 196,861,476</u>

The changes in plan assets allocated by the System to JFK Medical Center in 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets at beginning of year	\$ 170,278,139	\$ 170,259,310
Actual return on plan assets	(4,217,521)	16,963,907
Employer contributions	2,475,060	5,922,880
Benefits paid	(4,201,724)	(4,038,514)
Plan settlements	(7,333,422)	(18,829,444)
	<u>\$ 157,000,532</u>	<u>\$ 170,278,139</u>
Total	<u>\$ 157,000,532</u>	<u>\$ 170,278,139</u>

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The following is a summary of the funded status of the plan allocated by the System to JFK Medical Center at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets	\$ 157,000,532	\$ 170,278,139
Projected benefit obligation	<u>188,873,906</u>	<u>196,861,476</u>
Funded status of the plan (under funded) - accrued pension cost	<u>\$ (31,873,374)</u>	<u>\$ (26,583,337)</u>

The amounts of net periodic pension cost allocated by the System to JFK Medical Center for 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 7,119,135	\$ 8,250,617
Expected return on plan assets	(12,540,098)	(12,222,337)
Amortization of actuarial loss	1,208,193	1,100,204
Plan settlements	<u>2,613,483</u>	<u>5,542,473</u>
Net periodic pension (credit) cost	<u>\$ (1,599,287)</u>	<u>\$ 2,670,957</u>

A net actuarial loss of \$13,186,061 and \$11,561,686 represent the previously unrecognized components of net periodic pension cost included in unrestricted net assets at December 31, 2015 and 2014, respectively.

A net actuarial loss of \$1,537,252 and \$1,142,098 represents the unrecognized component of net periodic benefit cost included in unrestricted net assets at December 31, 2015 and 2014, respectively, expected to be amortized into net periodic pension cost in 2016 and 2015.

The actuarial gain of \$3,571,559 in 2015 is primarily attributed to the increase in the discount rate. The actuarial loss of \$16,303,257 in 2014 is primarily attributed to the decrease in the discount rate and change in the mortality table.

The contribution to the plan in 2016 is expected to be \$-0-.

The weighted-average assumptions used in computing the plan's benefit obligation at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.10 %	3.74 %
Rate of compensation increase	N/A	N/A

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The weighted-average assumptions used in the measurement of the plan's net periodic pension cost for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	3.74 %	4.55 %
Expected long-term rate of return on plan assets	7.60	7.60
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 2015 net periodic pension cost was 7.6%.

The following table sets forth the actual asset allocation and target asset allocation for plan assets at December 31, 2015 and 2014:

	<u>2015</u>	<u>Target Asset Allocation</u>	<u>2014</u>	<u>Target Asset Allocation</u>
Asset category:				
Equity securities	34 %	34 %	36 %	33 %
Debt securities	51	51	48	52
Alternative investments - collective fund	15	15	16	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:	
2016	\$ 10,855,000
2017	9,661,000
2018	11,428,000
2019	12,601,000
2020	12,277,000
2021 - 2025	<u>70,694,000</u>
Total	<u>\$ 127,516,000</u>

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 following table sets forth by level, within the fair value hierarchy, the plan assets at fair value as of December 31, 2015:

	Assets at Fair Value as of December 31, 2015			
	Total	Level 1	Level 2	Level 3
Money market	\$ 1,892	\$ 1,892	\$ -	\$ -
Mutual funds:				
Large cap	28,304,116	28,304,116	-	-
Small cap	7,871,774	7,871,774	-	-
Equities	12,458,828	12,458,828	-	-
Emerging markets equity fund	4,521,704	4,521,704	-	-
Emerging markets debt fund	3,169,730	3,169,730	-	-
High yield bond fund	6,090,518	6,090,518	-	-
Long duration funds	71,150,389	71,150,389	-	-
Collective fund	23,431,581	-	-	23,431,581
Total	<u>\$ 157,000,532</u>	<u>\$ 133,568,951</u>	<u>\$ -</u>	<u>\$ 23,431,581</u>

The following table sets forth by level, within the fair value hierarchy, the plan assets at fair value as of December 31, 2014:

	Assets at Fair Value as of December 31, 2014			
	Total	Level 1	Level 2	Level 3
Money market	\$ 25,686	\$ 25,686	\$ -	\$ -
Mutual funds:				
Large cap	33,926,084	33,926,084	-	-
Small cap	8,097,047	8,097,047	-	-
Equities	18,658,380	18,658,380	-	-
Emerging markets debt fund	2,903,230	2,903,230	-	-
High yield bond fund	7,518,529	7,518,529	-	-
Long duration funds	71,140,523	71,140,523	-	-
Collective fund	28,008,660	-	-	28,008,660
Total	<u>\$ 170,278,139</u>	<u>\$ 142,269,479</u>	<u>\$ -</u>	<u>\$ 28,008,660</u>

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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

	Fair Value Measurement at Reporting Date Using Significant Unobservable Inputs (Level 3) Collective Fund	
	2015	2014
Balance, beginning of year	\$ 28,008,660	\$ 26,272,046
Unrealized (loss) gain, net	(4,577,079)	1,736,614
Balance, end of year	<u>\$ 23,431,581</u>	<u>\$ 28,008,660</u>

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 2015 and 2014 was \$3,646,322 and \$3,503,209, respectively.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 which also includes life insurance. The retirees with only the life insurance will continue. Beginning in 2012, the subsidy will be reduced each year by only \$500 until January 1, 2016 when the medical program will end.

The changes in benefit obligations in 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Benefit obligation at beginning of year	\$ 105,138	\$ 352,850
Interest cost	139	832
Plan participants' contributions	481,277	667,973
Actuarial gain	(82,583)	(217,213)
Benefits paid	<u>(459,235)</u>	<u>(699,304)</u>
Total benefit obligation at end of year	44,736	105,138
Less current portion	<u>(3,666)</u>	<u>(105,138)</u>
Benefit obligation at end of year, noncurrent	<u>\$ 41,070</u>	<u>\$ -</u>

The changes in plan assets in 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	(22,042)	31,331
Plan participants' contributions	481,277	667,973
Benefits paid	<u>(459,235)</u>	<u>(699,304)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The amounts of net periodic postretirement benefit credit in 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 139	\$ 832
Amortization of prior service credit	(1,567,675)	(1,567,675)
Amortization of actuarial gain	<u>(362,536)</u>	<u>(168,513)</u>
Net periodic postretirement benefit credit	<u>\$ (1,930,072)</u>	<u>\$ (1,735,356)</u>

A net actuarial gain of \$82,583 and \$217,213 represents the previously unrecognized component of net periodic postretirement benefit cost included in unrestricted net assets at December 31, 2015 and 2014, respectively.

Net actuarial gain of \$6,150 and is expected to be recognized in net periodic postretirement benefit cost in 2016.

The weighted-average assumptions used in determining the actuarial present value of the projected benefit obligation for 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	3.66 %	.39 %
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 2015.

JFK Medical Center expects to contribute \$3,666 to its postretirement benefit plan in 2016.

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

Years ending December 31:	
2016	\$ 4,000
2017	4,000
2018	4,000
2019	4,000
2020	4,000
2021 - 2025	18,000

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 \$1,000,000 and an annual aggregate limit of \$3,000,000.
- **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 \$25,000,000 and an annual aggregate limit of \$25,000,000.

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 \$4,856,000 in 2015 and \$5,780,000 in 2014. JFK Medical Center has recorded a reserve of approximately \$4,650,000 and \$1,780,000 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, 2015 and 2014. Of these claims, approximately \$3,890,000 and \$1,080,000 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, 2015 and 2014, respectively. During 2014, JFK Medical Center made a capital contribution of \$5,000,000 to AIE which is recorded within transfers to affiliates in the consolidated statement of operations. No capital contributions were made in 2015.

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 Liabilities

JFK Medical Center has recorded a reserve of approximately \$1,115,000 and \$1,150,000 for asserted and unasserted workers compensation claims which exceed primary coverage which is recorded in other long-term liabilities in the consolidated balance sheet as of December 31, 2015 and 2014, respectively. Of these claims, approximately \$1,115,000 and \$1,150,000 are recorded as receivables under the claims-made excess liability insurance and are recorded within other assets in the balance sheet as of December 31, 2015 and 2014, respectively.

In August 2014, JFK Medical Center renewed a line of credit agreement with a minimum withdrawal amount of \$3 million and a maximum of \$27 million which bears interest at a variable rate. The line of credit is payable in full in August 2017, subject to renewal terms per the line of credit agreement. As of December 31, 2015, JFK Medical Center drew \$3 million on the line of credit, which is included in other long-term liabilities in the balance sheet. The interest rate was 5% as of December 31, 2015.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 \$3,576,785 and \$3,049,265 at December 31, 2015 and 2014, respectively, related to health insurance. The amount is included in employee benefits in accrued expenses in the accompanying balance sheet.

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 2015 and 2014, net assets were released from donor restrictions by satisfying their restricted purposes in the amount of \$4,334,033 and \$1,792,189, 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, 2015 and 2014 from patients and third-party payors is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	30 %	29 %
Medicaid	1	1
Blue Cross	22	20
Aetna	8	8
Other third-party payors	38	41
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.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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, 2015, JFK Medical Center has recorded \$987,000 in other revenue on the consolidated statement of operations and prepaid and other current assets in the consolidated balance sheet.

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.

Commitments and Contingencies – Real Estate Taxes

As a not-for-profit corporation in New Jersey, JFK Medical Center is an organization which has historically qualified for an exemption from real property taxes; however, a number of cities and municipalities in New Jersey have challenged and continue to challenge such exemption. It is possible in the future that JFK Medical Center will be responsible to local authorities for real property taxes, payments in lieu of taxes, or other payments based on a certain assessment. The financial effects of this matter on JFK Medical Center are not presently determinable.

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

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

18. Related Party Transactions

At December 31, 2015 and 2014, JFK Medical Center and other affiliates were indebted to each other as follows:

	<u>2015</u>	<u>2014</u>
Due from affiliates:		
John F. Kennedy Medical Center Foundation, Inc.	\$ 191,411	\$ 934,512
Atlantic Insurance Exchange, Ltd.	225,394	271,448
JFK Healthshare, Inc.	-	88,336
Muhlenberg Foundation, Inc.	449,435	222,176
Lifestyle Institute, Inc.	45,579	66,284
Hartwyck West Nursing Home, Inc. and Affiliates	150,023	52,024
	<u>1,061,842</u>	<u>1,634,780</u>
Total due from affiliates	1,061,842	1,634,780
Less current portion	<u>420,998</u>	<u>478,094</u>
Noncurrent portion	<u>\$ 640,844</u>	<u>\$ 1,156,686</u>
Due to affiliates:		
JFK Medical Associates, P.A.	\$ 368,323	\$ 191,178
JFK Healthshare, Inc.	374	-
Mediplex Surgical Associates	2,033	-
	<u>370,730</u>	<u>191,178</u>
Total due to affiliates	<u>\$ 370,730</u>	<u>\$ 191,178</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 2015 and 2014 and is included in investment income in the consolidated statement of operations.

JFK Medical Center rents space from Hartwyck at Oak Tree, Inc. for cognitive rehabilitation services. Rental expense amounted to \$372,000 in 2015 and 2014 and is included in purchased services in the consolidated 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 \$389,882 and \$441,867 at December 31, 2015 and 2014, respectively. Interest income earned on the promissory note amounted to \$13,646 in 2015 and \$15,465 in 2014 and is included in investment income in the consolidated statement of operations.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The Foundation transferred \$353,093 in 2015 and \$64,402 in 2014 to JFK Medical Center for use in operations. The Foundation also made transfers of restricted funds to JFK Medical Center of \$1,147,804 and \$1,694,401 for capital purchases in 2015 and 2014, respectively.

During 2015, the Muhlenberg Foundation made operating transfers of \$91,718 and capital transfers of \$2,741,418 to JFK Medical Center.

JFK Medical Center made additional equity transfers in 2015 to JFK Foundation for \$1,805,864, JFK Medical Associates, PA for \$366,458 and MRMC Foundation for \$49,614.

During 2015 and 2014, Lifestyle Institute, Inc. made an equity transfer of \$321,208 and \$244,101, respectively to JFK Medical Center for use in operations.

JFK Medical Center made equity transfers of \$6,048,433 and \$4,853,069 to MRMC to forgive intercompany balances during 2015 and 2014, respectively. Equity transfers of \$12,913,000 and \$6,228,150 were made to the System for support of various System programs and initiatives in 2015 and 2014, 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
From JFK Health System	\$ 24,047,969	\$ 23,991,249
From Hartwyck at JFK, Inc.	2,850,735	2,850,735
From Hartwyck at Oak Tree, Inc.	<u>3,520,226</u>	<u>3,030,027</u>
Total	<u>\$ 30,418,930</u>	<u>\$ 29,872,011</u>

19. Lease Commitments

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

Years ending December 31:	
2016	\$ 1,246,795
2017	1,186,954
2018	1,113,637
2019	920,265
2020	256,030
Thereafter	<u>-</u>
Total	<u>\$ 4,723,681</u>

Rental expense on operating leases was \$1,159,157 and \$1,259,744 in 2015 and 2014, respectively.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	(In Thousands)	
Program services	\$ 427,514	\$ 409,920
General and administrative	<u>38,859</u>	<u>37,145</u>
Total	<u>\$ 466,373</u>	<u>\$ 447,065</u>

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

 Schedule by Facility, Statement of Operations
 Year Ended December 31, 2015

	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	\$ 423,452,975	\$ 71,311,494	\$ -	\$ 494,764,469
Less provision for doubtful collections	16,973,328	1,175,124	-	18,148,452
Net patient service revenues	406,479,647	70,136,370	-	476,616,017
Other revenues	16,604,119	1,557,543	(130,476)	18,031,186
Net assets released from restrictions for use in operations	444,811	-	-	444,811
Total unrestricted revenues, gains, and other support	423,528,577	71,693,913	(130,476)	495,092,014
Expenses				
Salaries and wages	185,814,107	45,153,896	-	230,968,003
Employee benefits	31,725,714	7,762,170	-	39,487,884
Supplies and expenses	162,389,766	11,959,399	(130,476)	174,218,689
Depreciation and amortization	12,084,810	3,019,111	-	15,103,921
Interest	5,904,273	689,832	-	6,594,105
Total expenses	397,918,670	68,584,408	(130,476)	466,372,602
Operating income	25,609,907	3,109,505	-	28,719,412
Pension Settlement Charge	(2,143,056)	(470,427)	-	(2,613,483)
Recovery of Doubtful Collections on Related Party Receivable	(546,920)	-	-	(546,920)
Investment Income	576,847	-	-	576,847
Change in Net Unrealized Gains on Trading Securities	(613,265)	-	-	(613,265)
Revenues in excess of expenses	22,883,513	2,639,078	-	25,522,591
Pension/Postretirement Liability Adjustment	(9,548,466)	(1,685,590)	-	(11,234,056)
Transfer (to) from Affiliates	(21,133,319)	271,158	-	(20,862,161)
Net Assets Released from Restrictions for Capital Purchases	3,877,387	11,835	-	3,889,222
(Decrease) increase in unrestricted net assets	\$ (3,920,885)	\$ 1,236,481	\$ -	\$ (2,684,404)

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

 Schedule by Facility, Statement of Operations
 Year Ended December 31, 2014

	Anthony M. Yelencsics Community Hospital	JFK Johnson Rehabilitation Institute	Eliminations	Total
Unrestricted Revenues, Gains, and Other Support				
Net patient service revenues	\$ 398,796,770	\$ 67,301,351	\$ -	\$ 466,098,121
Less provision for doubtful collections	17,594,600	1,131,266	-	18,725,866
Net patient service revenues	381,202,170	66,170,085	-	447,372,255
Other revenues	18,391,610	2,187,081	(130,476)	20,448,215
Net assets released from restrictions for use in operations	77,788	-	-	77,788
Total unrestricted revenues, gains, and other support	399,671,568	68,357,166	(130,476)	467,898,258
Expenses				
Salaries and wages	178,201,248	42,944,111	-	221,145,359
Employee benefits	28,382,006	7,020,762	-	35,402,768
Supplies and expenses	155,930,691	11,604,379	(130,476)	167,404,594
Depreciation and amortization	12,811,216	3,480,968	-	16,292,184
Interest	6,110,273	710,244	-	6,820,517
Total expenses	381,435,434	65,760,464	(130,476)	447,065,422
Operating income	18,236,134	2,596,702	-	20,832,836
Pension Settlement Charge	(4,544,828)	(997,645)	-	(5,542,473)
Provision for Doubtful Collections on Related Party Receivables	872,633	-	-	872,633
Investment Income	603,961	-	-	603,961
Change in Net Unrealized Gains on Trading Securities	456,571	-	-	456,571
Revenues in excess of expenses	15,624,471	1,599,057	-	17,223,528
Pension/Postretirement Liability Adjustment	(5,521,231)	(885,422)	-	(6,406,653)
Transfers (to) from Affiliates	(16,081,219)	244,101	-	(15,837,118)
Net Assets Released from Restrictions for Capital Purchases	1,700,495	13,906	-	1,714,401
(Decrease) increase in unrestricted net deficit	\$ (4,277,484)	\$ 971,642	\$ -	\$ (3,305,842)