

**JFK Health System, Inc. and  
Controlled Entities**

Consolidated Financial Statements and  
Supplementary Information

December 31, 2015 and 2014



**BAKER TILLY**

Candor. Insight. Results.

# JFK Health System, Inc. and Controlled Entities

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December 31, 2015 and 2014

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## **Independent Auditors' Report**

Board of Directors  
JFK Health System, Inc. and Controlled Entities

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of JFK Health System, Inc. and controlled entities (collectively, the "JFK Health System"), 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 JFK Health System, Inc. and controlled entities as of December 31, 2015 and 2014, and the results of their operations and their 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 40 to 47 is presented for purposes of additional analysis rather than to present the financial position and 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 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Baker Tilly Viechow Krause, LLP*

Clark, New Jersey  
June 9, 2016

**JFK Health System, Inc. and Controlled Entities**

 Consolidated Balance Sheet  
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 47,984,456	\$ 44,770,920	Current maturities of long-term debt	\$ 7,018,527	\$ 5,729,022
Funds held for residents	147,047	169,773	Current maturities of capital lease obligations	3,811,152	1,921,245
Investments	18,350,526	18,918,675	Funds held for residents	147,047	169,773
Assets whose use is limited	3,566,012	3,432,843	Accounts payable	44,089,931	38,510,925
Accounts receivable, patients (net of estimated allowance for doubtful collections of \$15,659,568 in 2015 and \$15,645,499 in 2014)	74,789,969	67,764,228	Accrued expenses	43,847,862	42,284,368
Inventories of drugs and supplies	7,283,215	6,940,091	Estimated third-party payor settlements	7,168,018	9,707,146
Prepaid expenses and other current assets	9,575,055	10,410,360	Accrued postretirement benefits	43,077	155,651
			Other current liabilities	2,995,126	3,015,091
Total current assets	161,696,280	152,406,890	Total current liabilities	109,120,740	101,493,221
<b>Investments</b>	3,916,344	5,839,379	<b>Long-Term Debt</b>	148,625,356	155,642,521
<b>Assets Whose Use is Limited</b>	34,409,732	39,069,998	<b>Capital Lease Obligations</b>	12,331,337	3,928,240
<b>Property and Equipment, Net</b>	176,016,190	165,114,802	<b>Estimated Third-Party Payor Settlements</b>	20,932,261	20,551,232
<b>Deferred Financing Costs, Net</b>	2,864,744	3,199,778	<b>Self-Insurance Reserves</b>	26,158,121	27,741,942
<b>Pledges Receivable, Net</b>	357,117	627,902	<b>Accrued Pension Cost</b>	38,927,621	32,249,447
<b>Other Assets</b>	9,999,381	7,204,301	<b>Accrued Postretirement Benefits</b>	355,508	-
<b>Beneficial Interest in Perpetual Trusts</b>	5,023,693	5,262,574	<b>Other Liabilities</b>	15,726,307	12,923,199
			Total liabilities	372,177,251	354,529,802
			<b>Net Assets</b>		
			Unrestricted	4,513,372	2,917,748
			Temporarily restricted	9,500,418	11,631,544
			Permanently restricted	8,092,440	9,646,530
			Total net assets	22,106,230	24,195,822
Total	<u>\$ 394,283,481</u>	<u>\$ 378,725,624</u>	Total	<u>\$ 394,283,481</u>	<u>\$ 378,725,624</u>

See notes to consolidated financial statements

**JFK Health System, Inc. and Controlled Entities**

Consolidated Statement of Operations

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Unrestricted Revenues, Gains, and Other Support</b>		
Patient service revenues, net of contractual allowances and discounts	\$ 570,554,759	\$ 528,104,562
Resident fees	7,465,187	7,281,779
Less provision for doubtful collections	<u>21,000,246</u>	<u>21,424,294</u>
Net patient and resident service revenues	557,019,700	513,962,047
Other revenues	19,453,097	21,310,411
Special events	263,055	264,745
Net assets released from restrictions used in operations	896,274	427,135
Contributions	<u>166,124</u>	<u>146,548</u>
Total unrestricted revenues, gains, and other support	<u>577,798,250</u>	<u>536,110,886</u>
<b>Expenses</b>		
Salaries and wages	264,811,851	250,146,185
Employee benefits	46,945,738	41,949,005
Supplies and expenses	226,282,851	203,561,413
Special events - unrestricted	147,760	115,774
Depreciation and amortization	17,063,135	18,177,215
Interest	<u>8,662,311</u>	<u>8,894,040</u>
Total expenses	<u>563,913,646</u>	<u>522,843,632</u>
Operating income	13,884,604	13,267,254
<b>Pension Settlement</b>	(2,650,953)	(5,621,937)
<b>Investment Income</b>	1,651,305	1,423,523
<b>Net Unrealized (Losses) Gains on Trading Securities</b>	(1,397,675)	586,306
<b>Other Gains</b>	<u>135,236</u>	<u>834</u>
Revenues in excess of expenses	11,622,517	9,655,980
<b>Pension/Postretirement Liability Adjustment</b>	(13,664,838)	(7,521,395)
<b>Net Assets Released from Restrictions for Capital Purchases</b>	<u>3,960,986</u>	<u>1,737,580</u>
Increase in unrestricted net assets from continuing operations	1,918,665	3,872,165
<b>Loss from Discontinued Operations</b>	<u>(323,041)</u>	<u>(511,449)</u>
Increase in unrestricted net assets	<u>\$ 1,595,624</u>	<u>\$ 3,360,716</u>

See notes to consolidated financial statements

## JFK Health System, Inc. and Controlled Entities

Consolidated Statement of Changes in Net Assets  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Unrestricted Net Assets</b>		
Revenues in excess of expenses	\$ 11,622,517	\$ 9,655,980
Pension/postretirement liability adjustment	(13,664,838)	(7,521,395)
Net assets released from restrictions for capital purchases	<u>3,960,986</u>	<u>1,737,580</u>
Increase in unrestricted net assets from continuing operations	1,918,665	3,872,165
Loss from discontinued operations	<u>(323,041)</u>	<u>(511,449)</u>
Increase in unrestricted net assets	<u>1,595,624</u>	<u>3,360,716</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	1,564,979	1,951,375
Investment income	236,320	414,239
Realized and unrealized losses on investments	(394,935)	(31,123)
Provision for doubtful accounts	(7,289)	(67,921)
Net assets released from restrictions used in operations	(896,274)	(427,135)
Net asset transfer	1,327,059	(2,000)
Net assets released from restrictions for capital purchases	<u>(3,960,986)</u>	<u>(1,737,580)</u>
(Decrease) increase in temporarily restricted net assets	<u>(2,131,126)</u>	<u>99,855</u>
<b>Permanently Restricted Net Assets</b>		
Contributions	11,850	35,850
Net asset transfer	(1,327,059)	2,000
Change in valuation of beneficial interest in perpetual trusts	<u>(238,881)</u>	<u>150,027</u>
(Decrease) increase in permanently restricted net assets	<u>(1,554,090)</u>	<u>187,877</u>
<b>(Decrease) Increase in Net Assets</b>	<b>(2,089,592)</b>	<b>3,648,448</b>
<b>Net Assets</b>		
Beginning of year	<u>24,195,822</u>	<u>20,547,374</u>
End of year	<u>\$ 22,106,230</u>	<u>\$ 24,195,822</u>

See notes to consolidated financial statements

**JFK Health System, Inc. and Controlled Entities**

## Consolidated Statement of Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (2,089,592)	\$ 3,648,448
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	16,728,101	17,822,977
Amortization	335,034	354,238
Provision for doubtful collections	21,000,246	21,424,294
Loss on impairment	356,242	558,700
Net realized and unrealized losses (gains) on investments	1,523,574	(910,870)
Net gain on sale of property	(167,479)	-
Change in valuation of beneficial interest in perpetual trusts	238,881	(150,027)
Pension settlement	2,650,953	5,621,937
Pension/postretirement liability adjustment	13,664,838	7,521,395
Temporarily restricted contributions and investment income	(1,801,299)	(2,365,614)
Changes in assets and liabilities:		
Accounts receivable, patients	(28,025,987)	(22,743,755)
Inventories of drugs and supplies	(343,124)	(300,396)
Prepaid expenses and other assets	(1,996,217)	(1,697,677)
Accounts payable	5,579,006	860,889
Accrued expenses	1,563,494	4,564,153
Estimated third-party payor settlements	(2,158,099)	579,943
Accrued pension cost	(9,637,617)	(11,643,563)
Self-insurance reserves	(1,583,821)	(4,392,044)
Accrued postretirement benefits	242,934	(334,406)
Other current and long-term liabilities	2,783,143	1,343,103
Net cash provided by operating activities	<u>18,863,211</u>	<u>19,761,725</u>
<b>Cash Flows from Investing Activities</b>		
Sale (purchase) of investments and assets whose use is limited	5,494,707	(4,121,011)
Purchases of property and equipment	<u>(13,458,437)</u>	<u>(12,410,247)</u>
Net cash used in investing activities	<u>(7,963,730)</u>	<u>(16,531,258)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from restricted contributions and investment income	1,801,299	2,365,614
Decrease (increase) in pledges receivable	307,227	(350,378)
Repayment of long-term debt	(5,727,660)	(4,509,145)
Repayment of capital lease obligations	(4,066,811)	(2,074,845)
Payment of financing costs	-	(15,413)
Net cash used in financing activities	<u>(7,685,945)</u>	<u>(4,584,167)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	3,213,536	(1,353,700)
<b>Cash and Cash Equivalents, Beginning</b>	<u>44,770,920</u>	<u>46,124,620</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 47,984,456</u>	<u>\$ 44,770,920</u>
<b>Supplemental Disclosure of Cash Flow Information,</b>		
Interest paid	<u>\$ 8,723,207</u>	<u>\$ 8,930,942</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



# **JFK Health System, Inc. and Controlled Entities**

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

## **1. Organizational Structure and Nature of Operations**

The JFK Health System, Inc. (the "JFK Health System") is the parent company of the Community Hospital Group, Inc. d/b/a JFK Medical Center ("JFK Medical Center"); Muhlenberg Regional Medical Center, Inc. ("MRMC"); John F. Kennedy Medical Center Foundation, Inc. ("JFK Foundation"); Muhlenberg Foundation, Inc. ("Muhlenberg Foundation"); Lifestyle Institute, Inc. ("Lifestyle"); JFK Healthshare, Inc. ("Healthshare"); Hartwyck at JFK, Inc.; Hartwyck West Nursing Home, Inc. and affiliates ("Hartwyck West"); Hartwyck at Oak Tree, Inc. ("Oak Tree"); JFK Population Health Company, LLC ("JFK Population Health"); JFK Medical Associates, P.A. ("JFK MA"); and Atlantic Insurance Exchange, Ltd. ("AIE"), a wholly-owned insurance company.

Hartwyck West operates Hartwyck at Cedar Brook ("Cedar Brook"), JFK Assisted Living, Inc. d/b/a Whispering Knoll ("Whispering Knoll"), and JFK Hartwyck Management and Consulting, Inc. ("Consulting"). Healthshare is the general partner in Mediplex Surgical Center Associates, Limited Partnership ("Mediplex").

On February 21, 2008, the JFK Health System Board of Directors voted to immediately authorize the filing of a certificate of need ("CON") application to close MRMC. The CON application was approved on July 29, 2008 and MRMC was closed on August 13, 2008. The JFK Health System will provide the opportunity for MRMC to continue its remaining operations.

On December 31, 2010, MRMC formed a joint venture with Meridian Healthcare to establish the new organization, JFK Meridian Home Care Services LLC d/b/a JFK at Home. JFK at Home is a Home Health Care provider. MRMC has 50% ownership in the joint venture which is accounted for on the equity method of accounting. As of December 31, 2015 and 2014, the investment was \$958,486 and \$898,304, respectively, and included in other assets on the consolidated balance sheet.

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 Accountable Care Organization ("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. JFK Population Health is an ACO created by JFK Medical Center.

On March 6, 2013, a Certificate of Incorporation was filed for JFK MA to establish an organization for the acquisition of physician practices. JFK MA is a wholly-owned subsidiary of JFK Health System.

The JFK Health System and its controlled entities provide health care services ranging from acute care hospital services to rehabilitation, skilled nursing, sub-acute, and long-term care services in New Jersey and the New York metropolitan area, in addition to other activities for the benefit and support of the JFK Health System.

# **JFK Health System, Inc. and Controlled Entities**

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

## **2. Summary of Significant Accounting Policies**

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the JFK Health System, JFK Medical Center, MRMC, JFK Foundation, Muhlenberg Foundation, Lifestyle, Healthshare, Hartwyck at JFK, Inc., Hartwyck West, Oak Tree, JFK MA, JFK Population Health and AIE. All significant intercompany balances and transactions have been eliminated.

### **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, excluding investments and assets whose use is limited.

### **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.

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

### Net Patient Service Revenues

The JFK Health System has agreements with third-party payors that provide for payments 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 Health System 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 Health System recognizes revenues on the basis of its standard rates, discounted in accordance with JFK Health System's policy. On the basis of historical experience, a significant portion of JFK Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, JFK Health System records a significant provision of bad debts related to uninsured patients in the period the services are provided. Patient service revenues and resident fees, 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:

	<b>Patient Service Revenues and Resident Fees (Net of Contractual Allowances and Discounts)</b>			
	<b>Third-Party Government Payors</b>	<b>Third-Party Commercial Payors</b>	<b>Self-Pay</b>	<b>Total</b>
December 31, 2015	<u>\$ 195,926,000</u>	<u>\$ 363,017,000</u>	<u>\$ 19,077,000</u>	<u>\$ 578,020,000</u>
December 31, 2014	<u>\$ 190,732,000</u>	<u>\$ 327,694,000</u>	<u>\$ 16,960,000</u>	<u>\$ 535,386,000</u>

### 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 equity securities with readily determinable fair values and all investments in debt and equity securities and mutual funds are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized and unrealized gains and losses on trading securities, interest, dividends, and capital gains distributions) 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.

The JFK Health System's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated 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 consolidated balance sheet could change materially in the near term.

## **JFK Health System, Inc. and Controlled Entities**

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### **Assets Whose Use is Limited**

Assets whose use is limited include assets held by bond trustees under trust indentures; assets set aside under deferred compensation plans; assets set aside as required for self-insurance programs; and assets restricted by donors. Amounts available to meet current liabilities have been reclassified as current assets in the accompanying consolidated balance sheet.

### **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.

### **Impairment of Long-Lived Assets**

The JFK Health System 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.

### **Beneficial Interest in Perpetual Trusts**

Under perpetual trust agreements, MRMC and Muhlenberg Foundation have recorded the asset and have recognized permanently restricted contribution revenue at the fair market value of their beneficial interest in the trust assets. Income earned on the trust assets is recorded as investment income in the accompanying consolidated statement of operations, unless otherwise restricted by the donor. Subsequent changes in fair values are recorded as a change in valuation of beneficial interest in perpetual trusts in permanently restricted net assets.

Pursuant to the terms of the instruments creating such perpetual trusts, MRMC and Muhlenberg Foundation had no legal right to direct the application of the assets and even though these assets are reported in the accompanying balance sheet, they are subject to the jurisdiction of the court. Based on a court action in 2015, it was determined that MRMC will retain its interest in the perpetual trusts. Income earned will be restricted for original donor intent or repurposed for relocation of various services operated by MRMC affiliates to the MRMC campus and the renovation thereof (the "Project"), and to offset costs incurred by MRMC's affiliates providing health care services in the MRMC service area.

## **JFK Health System, Inc. and Controlled Entities**

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### **Deferred Financing Costs**

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 \$335,034 in 2015 and \$354,238 in 2014. Accumulated amortization of deferred financing costs at December 31, 2015 and 2014 totaled \$12,463,602 and \$12,128,568, respectively.

### **Pledges Receivable**

Pledges receivable are primarily unsecured and are receivable from individuals and businesses located in central New Jersey. Pledges receivable and revenue are recorded at fair value, which was estimated as the present value of estimated cash flows on the date the unconditional promise to give is made.

### **Revenues in Excess of Expenses**

The consolidated 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/postretirement liability adjustment, permanent transfers of assets to and from subsidiaries for other than goods and services, loss from discontinued operations, 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 in 2015 and \$1,716,000 in 2014.

### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

## **JFK Health System, Inc. and Controlled Entities**

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Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

### **Income Taxes**

The JFK Health System, JFK Medical Center, MRMC, JFK Foundation, Muhlenberg Foundation, Lifestyle, Hartwyck at JFK, Hartwyck West Nursing Home, Inc., Whispering Knoll, JFK MA and Oak Tree are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on their exempt income under Section 501(a) of the Internal Revenue Code. JFK Population Health is a limited liability company and is not a tax-paying entity for federal and state income tax purposes.

AIE has received an undertaking from the Bermuda government that, in the event of income or capital gains taxes being imposed, AIE will be exempted from such taxes until the year 2035.

Consulting, Healthshare and Mediplex are organizations subject to federal and state income taxes and are no longer subject to examination by the Internal Revenue Service for years before 2013.

The JFK Health System 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.

The JFK Health System'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 Health System's consolidated balance sheet at net realizable value.

### **Postretirement Benefits**

The JFK Health System 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 and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the JFK Health System have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the JFK Health System in perpetuity. Transfers are made based upon the occurrence of certain events or the determination that a transfer is needed to reflect the donors' intent for the contribution.

## **JFK Health System, Inc. and Controlled Entities**

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Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

### **Reclassifications**

Certain 2014 amounts were reclassified to conform to the 2015 presentation.

### **Subsequent Events**

JFK Health System evaluated subsequent events for recognition or disclosure through June 9, 2016, the date the consolidated financial statements were available to be 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 Health System will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2018. JFK Health System has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

#### **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 Health System’s leasing activities. JFK Health System will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. JFK Health System 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 Health System has determined that these classification changes will not have a significant impact on the financial statements.

## JFK Health System, Inc. and Controlled Entities

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### 3. Charity Care

The JFK Health System 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 the JFK Health System 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, the JFK Health System 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 the JFK Health System amounted to approximately \$13,607,000 in 2015 and \$16,122,000 in 2014.

JFK Health System 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.

### 4. Net Patient Service Revenues

The JFK Health System has agreements with third-party payors that provide for payments to the JFK Health System at amounts different from its established rates. A significant portion of the JFK Health System's net patient service revenues are derived from these third-party payor programs. A summary of the principal payment arrangements with major third-party payors is as 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. Skilled nursing services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day and services to Medicare Part B beneficiaries at the lesser of a published fee schedule or actual charges, subject to an annual limitation. Defined medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology subject to various limitations. Reimbursements for cost reimbursable items are received at tentative interim rates, with final settlement determined after submission of annual cost reports by the JFK Health System and audits thereof by the Medicare fiscal intermediary. The JFK Health System'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 and skilled nursing 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.



## JFK Health System, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 tentative and final settlements of prior year cost reports and other settlements. There were no such adjustments in 2015.

The JFK Health System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the JFK Health System 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, 2015 and 2014 is set forth in the following table:

	<u>2015</u>	<u>2014</u>
Investments:		
Cash and cash equivalents	\$ 1,715,008	\$ 1,999,720
Certificates of deposit	72,134	71,122
U.S. government obligations	4,723,060	5,027,403
U.S. agency obligations	3,326,942	3,225,599
Mutual funds - equities	4,460,143	5,040,407
Mutual funds - fixed income	689,341	1,121,875
Mutual funds - other	26,898	73,418
Alternative investment funds	161,959	155,933
Corporate bonds	2,912,259	3,035,465
Municipal bonds	742,952	735,612
Marketable equity securities	3,436,174	4,271,500
Total	22,266,870	24,758,054
Less current portion	18,350,526	18,918,675
Noncurrent portion	<u>\$ 3,916,344</u>	<u>\$ 5,839,379</u>

## JFK Health System, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets whose use is limited:		
Held by bond trustees under trust indentures,		
Cash and cash equivalents	\$ 3,566,012	\$ 3,432,843
Self-insurance funds:		
Cash and cash equivalents	6,007,804	2,159,401
U.S. government obligations	13,777,547	21,049,736
U.S. government mortgage-backed obligations	6,306,799	7,562,396
Total	26,092,150	30,771,533
Under deferred compensation plans:		
Cash and cash equivalents	29,367	29,657
Mutual funds - equities	2,934,459	2,595,307
Total	2,963,826	2,624,964
Donor restricted:		
Cash and cash equivalents	838,886	491,900
Mutual funds - equities	1,573,762	1,893,726
Mutual funds - fixed income	1,158,644	1,485,325
U.S. government obligations	212,197	268,272
U.S. agency obligations	154,867	201,964
Alternative investment funds	135,056	129,799
Corporate bonds	204,847	213,428
Marketable equity securities	1,075,497	989,087
Total	5,353,756	5,673,501
Total assets whose use is limited	37,975,744	42,502,841
Less current portion	3,566,012	3,432,843
Noncurrent portion	<u>\$ 34,409,732</u>	<u>\$ 39,069,998</u>

## JFK Health System, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Investment income, gains and losses on investments, assets whose use is limited, and cash and cash equivalents are comprised of the following:

	2015		2014	
	Unrestricted	Temporarily Unrestricted	Unrestricted	Temporarily Unrestricted
Investment income:				
Interest and dividend income	\$ 1,461,341	\$ 157,248	\$ 1,290,082	\$ 191,993
Realized gains, net	189,964	79,072	133,441	222,246
Total	<u>\$ 1,651,305</u>	<u>\$ 236,320</u>	<u>\$ 1,423,523</u>	<u>\$ 414,239</u>
Change in net unrealized gains and losses on trading securities	<u>\$ (1,397,675)</u>	<u>\$ (394,935)</u>	<u>\$ 586,306</u>	<u>\$ (31,123)</u>

## 6. Fair Value Measurements

The JFK Health System 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 the JFK Health System 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.

# JFK Health System, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

	Fair Value as of December 31, 2015				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>					
Investments:					
Cash and cash equivalents	\$ 1,715,008	\$ 1,715,008	\$ 1,715,008	\$ -	\$ -
Certificates of deposit	72,134	72,134	-	72,134	-
U.S. government obligations	4,723,060	4,723,060	4,723,060	-	-
U.S. agency obligations	3,326,942	3,326,942	3,326,942	-	-
Mutual funds - equities	4,460,143	4,460,143	4,460,143	-	-
Mutual funds - fixed income	689,341	689,341	689,341	-	-
Mutual funds - other	26,898	26,898	26,898	-	-
Alternative investment funds	161,959	161,959	-	161,959	-
Corporate bonds	2,912,259	2,912,259	-	2,912,259	-
Municipal bonds	742,952	742,952	742,952	-	-
Marketable equity securities	3,436,174	3,436,174	3,436,174	-	-
Assets whose use is limited:					
Cash and cash equivalents	10,442,069	10,442,069	10,442,069	-	-
U.S. government obligations	13,989,744	13,989,744	13,989,744	-	-
U.S. government mortgage-backed obligations	6,306,799	6,306,799	-	6,306,799	-
Mutual funds - equities	4,508,221	4,508,221	4,508,221	-	-
Mutual funds - fixed income	1,158,644	1,158,644	1,158,644	-	-
U.S. agency obligations	154,867	154,867	154,867	-	-
Alternative investment funds	135,056	135,056	-	135,056	-
Corporate bonds	204,847	204,847	-	204,847	-
Marketable equity securities	1,075,497	1,075,497	1,075,497	-	-
Beneficial interest in perpetual trusts	5,023,693	5,023,693	-	-	5,023,693
<b>Total</b>	<b>\$ 65,266,307</b>	<b>\$ 65,266,307</b>	<b>\$ 50,449,560</b>	<b>\$ 9,793,054</b>	<b>\$ 5,023,693</b>
<b>Disclosed at Fair Value</b>					
Cash and cash equivalents	\$ 47,984,456	\$ 47,984,456	\$ 47,984,456	\$ -	\$ -
Pledges receivable	\$ 836,394	\$ 836,394	\$ -	\$ 836,394	\$ -
Long-term debt	\$ 155,643,883	\$ 169,031,856	\$ -	\$ 155,667,973	\$ 13,363,883

# JFK Health System, Inc. and Controlled Entities

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

	Fair Value as of December 31, 2014				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>					
Investments:					
Cash and cash equivalents	\$ 1,999,720	\$ 1,999,720	\$ 1,999,720	\$ -	\$ -
Certificates of deposit	71,122	71,122	-	71,122	-
U.S. government obligations	5,027,403	5,027,403	5,027,403	-	-
U.S. agency obligations	3,225,599	3,225,599	3,225,599	-	-
Mutual funds - equities	5,040,407	5,040,407	5,040,407	-	-
Mutual funds - fixed income	1,121,875	1,121,875	1,121,875	-	-
Mutual funds - other	73,418	73,418	73,418	-	-
Alternative investment funds	155,933	155,933	-	155,933	-
Corporate bonds	3,035,465	3,035,465	-	3,035,465	-
Municipal bonds	735,612	735,612	735,612	-	-
Marketable equity securities	4,271,500	4,271,500	4,271,500	-	-
Assets whose use is limited:					
Cash and cash equivalents	6,113,801	6,113,801	6,113,801	-	-
U.S. government obligations	21,318,008	21,318,008	21,318,008	-	-
U.S. government mortgage-backed obligations	7,562,396	7,562,396	-	7,562,396	-
Mutual funds - equities	4,489,033	4,489,033	4,489,033	-	-
Mutual funds - fixed income	1,485,325	1,485,325	1,485,325	-	-
U.S. agency obligations	201,964	201,964	201,964	-	-
Alternative investment funds	129,799	129,799	-	129,799	-
Corporate bonds	213,428	213,428	-	213,428	-
Marketable equity securities	989,087	989,087	989,087	-	-
Beneficial interest in perpetual trusts	5,262,574	5,262,574	-	-	5,262,574
<b>Total</b>	<b><u>\$ 72,523,469</u></b>	<b><u>\$ 72,523,469</u></b>	<b><u>\$ 56,092,752</u></b>	<b><u>\$ 11,168,143</u></b>	<b><u>\$ 5,262,574</u></b>
<b>Disclosed at Fair Value</b>					
Cash and cash equivalents	<u>\$ 44,770,920</u>	<u>\$ 44,770,920</u>	<u>\$ 44,770,920</u>	<u>\$ -</u>	<u>\$ -</u>
Pledges receivable	<u>\$ 1,143,621</u>	<u>\$ 1,143,621</u>	<u>\$ -</u>	<u>\$ 1,143,621</u>	<u>\$ -</u>
Long-term debt	<u>\$ 161,371,543</u>	<u>\$ 179,450,701</u>	<u>\$ -</u>	<u>\$ 165,074,158</u>	<u>\$ 14,376,543</u>

## JFK Health System, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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

Investments and assets whose use is limited are stated at fair value, which are the amounts reported in the consolidated balance sheet, based on quoted market prices, if available, or estimated using quoted market prices of similar securities. Beneficial interest in perpetual trusts is valued using discounted cash flow methodologies.

The fair value of pledges receivable is based on the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation of uncollectible pledges.

Long-term debt is valued based on current rates offered for similar issues with similar security terms and maturities, or estimated using a discount rate that a market participant would demand.

Level 3 investments are valued using discounted cash flow methodologies. Beneficial interest in perpetual trusts contain eleven trusts established in which MRMC receives between 2.5% and 100% of the annual income and gains and losses. These trusts are discounted using an average interest rate of 2.9%. Two of the trusts were established in which Muhlenberg Foundation receives between 25% and 100% of the annual income and gains and losses and are discounted using an average interest rate of 2.9%.

Changes to the beneficial interest in perpetual trusts in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 5,262,574	\$ 5,112,547
Investment income from beneficial interest in perpetual trusts	260,564	172,789
Distributions from beneficial interest in perpetual trusts	(260,564)	(172,789)
Valuation (loss) gain, net	<u>(238,881)</u>	<u>150,027</u>
Ending balance	<u>\$ 5,023,693</u>	<u>\$ 5,262,574</u>

Valuation (loss) gain is reported as changes in permanently restricted net assets within the statement of changes in net assets.

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

### 7. Property and Equipment

Property and equipment at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 17,665,110	\$ 17,524,920
Buildings and improvements	313,928,193	309,297,640
Fixed equipment	44,711,751	43,978,788
Movable equipment	220,196,483	215,303,361
Leasehold improvements	1,055,758	858,287
Capitalized leases	11,037,281	12,360,823
Construction in progress	<u>20,540,610</u>	<u>2,847,681</u>
Total	629,135,186	602,171,500
Less accumulated depreciation	<u>453,118,996</u>	<u>437,056,698</u>
Property and equipment, net	<u>\$ 176,016,190</u>	<u>\$ 165,114,802</u>

Due to the closure of the acute care facility of MRMC, cumulative impairments of \$14,961,969 and \$14,605,727 are recorded against building and improvements and equipment assets as of 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.

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. Pledges Receivable

Capital pledge campaigns have been undertaken to raise funds for the purpose of constructing an Emergency Department Building. Pledges related to these campaigns have been recorded as temporarily restricted contributions.

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

Pledges receivable are recorded as follows as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Capital campaign pledges before unamortized discount and allowance for uncollectible pledges	\$ 918,068	\$ 1,260,631
Unamortized discount	<u>(10,752)</u>	<u>(23,945)</u>
Subtotal	907,316	1,236,686
Allowance for uncollectible pledges	<u>(70,922)</u>	<u>(93,065)</u>
Net unconditional promises to give	<u>\$ 836,394</u>	<u>\$ 1,143,621</u>
Amounts due in:		
Less than one year	\$ 523,319	\$ 563,254
One to five years	<u>394,749</u>	<u>697,377</u>
Total	<u>\$ 918,068</u>	<u>\$ 1,260,631</u>

The discount rate used was 1.78% at December 31, 2015 for new pledges. The discount rates used on old pledges remains consistent with the rates assigned during the year the pledge was made. Current portion of pledges receivable net of allowance for uncollectible pledges is included in prepaid expenses and other current assets.

### 9. Accrued Expenses

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

	<u>2015</u>	<u>2014</u>
Paid time off	\$ 15,616,267	\$ 15,034,958
Salaries and wages	11,766,391	10,262,524
Employee benefits	5,272,157	4,930,830
Refund over payments	3,295,391	2,018,945
Malpractice	2,257,334	2,257,334
Interest	1,981,255	2,042,151
Other	1,435,373	3,518,399
Payroll taxes	1,318,846	1,024,690
Occupational/physical therapy services	511,917	480,667
Provider tax assessment	392,931	416,198
Severance	<u>-</u>	<u>297,672</u>
Total	<u>\$ 43,847,862</u>	<u>\$ 42,284,368</u>



## **JFK Health System, Inc. and Controlled Entities**

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### **10. Long-Term Debt and Capital Lease Obligations**

#### **Series 2009 A-1 Bonds, Obligated Group**

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, 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 began 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, Hartwyck at 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.

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

#### **Series 2001 Bonds, Whispering Knoll and Hartwyck West**

In September 2001, the Authority issued \$15,260,000 of Revenue Bonds to Whispering Knoll and Hartwyck West Nursing Home, Series 2001 ("Series 2001 Bonds"). The Series 2001 Bonds are payable in monthly installments of \$79,993, including interest at 3.3% through September 1, 2019. On September 1, 2019, the interest rate will be reset to a fixed rate equal to the then-in-effect weekly average yield on United States Treasury Bonds. The Series 2001 Bonds mature on January 1, 2026. The proceeds of the Series 2001 Bonds were used to refinance a construction loan and other costs associated with the existing debt with the Authority and pay for issuance costs.

Payments of principal and interest on the Series 2001 Bonds are collateralized by a pledge of revenues and property of Whispering Knoll, guaranteed by Hartwyck West, and are insured by Old Republic National Title Insurance Company.

#### **Mortgage Notes Payable**

In August 2008, Hartwyck West entered into a mortgage with a bank for \$5,680,000 which bears interest at a variable rate through August 13, 2013. The interest rate was 3.25% as of December 31, 2015. The mortgage has a maturity date of September 1, 2019. The mortgage is secured by the Cedar Brook facility.

In August 2008, Whispering Knoll entered into a mortgage with a bank for \$3,500,000 which bears interest at a variable rate and has a maturity date of September 1, 2019. The interest rate was 2.24% as of December 31, 2015. The mortgage is secured by the Whispering Knoll facility.

## JFK Health System, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The JFK Health System'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 Bonds:		
Series 2009 A-1 Bonds, Obligated Group	\$ 142,280,000	\$ 146,995,000
Series 2001 Bonds, Whispering Knoll	7,982,602	8,664,322
Mortgage notes payable:		
Mortgage payable - Whispering Knoll	2,603,117	2,760,985
Mortgage payable - Hartwyck West	2,778,164	2,951,236
Total	<u>155,643,883</u>	<u>161,371,543</u>
Less current maturities	<u>7,018,527</u>	<u>5,729,022</u>
Long-term debt	<u>\$ 148,625,356</u>	<u>\$ 155,642,521</u>

The JFK Health System's scheduled principal repayments for long-term debt are as follows:

Years Ending December 31	
2016	\$ 7,018,527
2017	7,348,387
2018	7,701,349
2019	11,965,441
2020	8,059,437
Thereafter	<u>113,550,742</u>
Total	<u>\$ 155,643,883</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 payment 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>

## JFK Health System, Inc. and Controlled Entities

### 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	893,815
	<hr/>
Total minimum payments	17,786,819
Less amounts representing interest	1,644,330
	<hr/>
	16,142,489
Less current installments	3,811,152
	<hr/>
	\$ 12,331,337
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## 11. Pension Plans and Postretirement Healthcare Benefits

### Cash Balance Retirement Plan - The JFK Health System Health System

The JFK Health 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 JFK Health System to its subsidiaries based upon relative service costs. The JFK Health System uses a December 31 measurement date for the 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 \$8,835,448 and \$22,686,077, respectively.

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Projected benefit obligation at beginning of year	\$ 237,182,502	\$ 235,151,277
Interest cost	8,577,270	9,940,502
Plan settlements	(8,835,448)	(22,686,077)
Actuarial (gain) loss	(4,303,083)	19,642,479
Benefits paid	(5,062,318)	(4,865,679)
	<u>\$ 227,558,923</u>	<u>\$ 237,182,502</u>
Projected benefit obligation at end of year	<u>\$ 227,558,923</u>	<u>\$ 237,182,502</u>
Accumulated benefit obligation	<u>\$ 227,558,923</u>	<u>\$ 237,182,502</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	\$ 205,154,385	\$ 205,131,699
Actual return on plan assets	(5,081,352)	20,438,442
Employer contributions	2,982,000	7,136,000
Plan settlements	(8,835,448)	(22,686,077)
Benefits paid	(5,062,318)	(4,865,679)
	<u>\$ 189,157,267</u>	<u>\$ 205,154,385</u>
Fair value of plan assets at end of year	<u>\$ 189,157,267</u>	<u>\$ 205,154,385</u>

The following is a summary of the funded status of the plan at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets	\$ 189,157,267	\$ 205,154,385
Projected benefit obligation	<u>227,558,923</u>	<u>237,182,502</u>
Funded status of the plan (under funded)	<u>\$ (38,401,656)</u>	<u>\$ (32,028,117)</u>

The components of net periodic pension (credit) cost for 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 8,577,270	\$ 9,940,502
Expected return on plan assets	(15,108,552)	(14,725,707)
Amortization of actuarial loss	1,455,654	1,325,547
Settlement loss recognized	3,148,775	6,677,678
	<u>\$ (1,926,853)</u>	<u>\$ 3,218,020</u>
Net periodic pension (credit) cost	<u>\$ (1,926,853)</u>	<u>\$ 3,218,020</u>

A net actuarial loss of \$15,886,821 and \$13,929,742 represents the previously unrecognized components of net periodic pension cost included in unrestricted net assets at December 31, 2015 and 2014, respectively.

## JFK Health System, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

A net actuarial loss of \$1,852,111 represents the unrecognized component of net periodic benefit cost included in unrestricted net assets at December 31, 2015 expected to be amortized into net periodic pension cost in 2016.

The actuarial gain of \$4,303,083 in 2015 is primarily attributed to the increase in the discount rate. The actuarial loss of \$19,642,479 in 2014 is primarily attributed to the decrease in the discount rate and change in the mortality table.

During 2015 and 2014, an additional \$525,965 and \$221,330, respectively, was calculated by the actuary and included in accrued pension cost to cover inactive MRMC participants through 2016.

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 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 %	38 %	33 %
Debt securities	51	51	46	52
Alternative investments - collective fund	15	15	16	15

## JFK Health System, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The Plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with The JFK Health 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	\$ 13,078,000
2017	11,640,000
2018	13,769,000
2019	15,182,000
2020	14,792,000
2021 - 2025	85,173,000

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	\$ 2,280	\$ 2,280	\$ -	\$ -
Mutual funds:				
Large cap	34,101,345	34,101,345	-	-
Small cap	9,484,065	9,484,065	-	-
Equities	15,010,635	15,010,635	-	-
Emerging markets debt fund	3,818,952	3,818,952	-	-
Emerging markets equity fund	5,447,836	5,447,836	-	-
High yield bond fund	7,337,974	7,337,974	-	-
Long duration funds	85,723,360	85,723,360	-	-
Collective fund	28,230,820	-	-	28,230,820
Total	<u>\$ 189,157,267</u>	<u>\$ 160,926,447</u>	<u>\$ -</u>	<u>\$ 28,230,820</u>

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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	\$ 30,948	\$ 30,948	\$ -	\$ -
Mutual funds:				
Large cap	40,874,800	40,874,800	-	-
Small cap	9,755,478	9,755,478	-	-
Equities	22,479,976	22,479,976	-	-
Emerging markets debt fund	3,497,868	3,497,868	-	-
High yield bond fund	9,058,469	9,058,469	-	-
Long duration funds	85,711,473	85,711,473	-	-
Collective fund	33,745,373	-	-	33,745,373
Total	<u>\$ 205,154,385</u>	<u>\$ 171,409,012</u>	<u>\$ -</u>	<u>\$ 33,745,373</u>

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

	2015	2014
Balance, beginning of year	\$ 33,745,373	\$ 31,653,067
Unrealized (loss) gain	(5,514,553)	2,092,306
Balance, end of year	<u>\$ 28,230,820</u>	<u>\$ 33,745,373</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.
- Collective fund (alternative investments) - 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 the JFK Health System 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.

## **JFK Health System, Inc. and Controlled Entities**

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Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

### **Defined Contribution Pension Plan**

On January 1, 2010, the JFK Health System established the JFK Defined Contribution Pension Plan. All employees are eligible for participation in the plan. JFK Health System will contribute a maximum of 2% of employee contributions. Total expense recorded was approximately \$3,646,000 in 2015 and \$3,503,000 in 2014.

### **Tax Deferred Annuity Program - Oak Tree and Hartwyck West**

Eligible employees of Oak Tree and Hartwyck West may participate in the Hartwyck Nursing Home Tax Deferred Annuity Program (the "Hartwyck Plan") pursuant to Section 403(b) of the Internal Revenue Code. The Hartwyck Plan is a noncontributory, defined contribution program covering substantially all employees. Effective November 15, 2006, a new plan was established which provided the same level of benefits as prior years, and the old plan was frozen to new participants. The new plan includes an employer contribution of 2% to a maximum of \$500 per employee. Pension expense was approximately \$240,000 in 2015 and \$244,000 in 2014.

### **Union Plan - Hartwyck at Edison Estates**

Eligible union employees of Hartwyck at Edison Estates may participate in a noncontributory, defined contribution plan. This union plan is funded based on contributions made in accordance with the plan document. Pension expense was approximately \$195,000 in 2015 and \$178,000 in 2014.

### **Union Plan - Hartwyck at Cedar Brook**

Eligible union employees of Hartwyck at Cedar Brook may participate in a noncontributory, defined contribution plan. Funding is based on contributions made in accordance with the plan document. Pension expense was approximately \$39,000 in 2015 and \$38,000 in 2014.

### **Postretirement Healthcare Benefits**

In addition to the JFK Health System's defined benefit pension plan, the JFK Health System sponsors two defined benefit medical and life insurance plans for eligible retirees.

**JFK Medical Center** - 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 years 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 elect to cover his or her spouse on a contributory basis. The JFK Health System 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. The 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. The JFK Health System's funding policy is on a "pay-as-you-go" basis; the life insurance plan is funded through a group life insurance contract.



## JFK Health System, Inc. and Controlled Entities

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

**MRMC** - To be eligible, a retiring employee must have at least 10 years of service and have attained age 55. Coverage under the life insurance benefit plan is provided on a noncontributory basis, and the medical insurance plan is partially contributory. The JFK Health System's funding policy is on a "pay-as-you-go" basis; the life insurance plan is funded through individual life insurance contracts. Both coverages terminate at age 65, when a Medicare supplemental program is provided on a fully contributory basis.

In January 2011, the JFK Health System 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 \$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	\$ 155,651	\$ 490,057
Interest cost	225	1,241
Plan participants' contributions	550,614	752,389
Actuarial loss (gain)	265,960	(239,036)
Benefits paid	<u>(573,865)</u>	<u>(849,000)</u>
Benefit obligation at end of year	<u>\$ 398,585</u>	<u>\$ 155,651</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	23,251	96,611
Plan participants' contributions	550,614	752,389
Benefits paid	<u>(573,865)</u>	<u>(849,000)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

The following is a summary of the funded status and amounts recognized in the JFK Health System's consolidated financial statements as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets	\$ -	\$ -
Accumulated benefit obligation	398,585	155,651
Funded status of the postretirement plan (under funded)	(398,585)	(155,651)
Accrued postretirement healthcare benefit liability at end of year	(398,585)	(155,651)
Less current portion	(43,077)	(155,651)
Noncurrent portion of accrued postretirement healthcare benefit liability	<u>\$ (355,508)</u>	<u>\$ -</u>

The components of net periodic postretirement benefit credit for 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 225	\$ 1,241
Amortization of prior service credit	(1,747,513)	(1,747,510)
Amortization of actuarial loss	(392,224)	(183,015)
Net periodic postretirement benefit credit	<u>\$ (2,139,512)</u>	<u>\$ (1,929,284)</u>

A net actuarial gain of \$431,125 and \$239,036 represent the previously unrecognized component of net periodic postretirement benefit cost included in unrestricted net assets at December 31, 2015 and 2014, respectively.

A net actuarial gain of \$53,137 is expected to be recognized in net periodic postretirement benefit cost in 2016.

Weighted-average assumptions used in determining the actuarial present value of the projected benefit obligation for 2015 and 2014 were:

	<u>2015</u>	<u>2014</u>
Discount rate - MRMC Plan	3.66 %	.39 %
Discount rate - JFK Medical Center Plan	3.66	.39
Healthcare cost trend rate	N/A	N/A
Year ultimate increase reached	N/A	N/A

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements  
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Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement benefit plans. However, since the JFK Health System 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.

The JFK Health System expects to contribute \$3,666 to its postretirement benefit plans in 2016. MRMC expects to contribute \$39,411 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	\$	45,000
2017		44,000
2018		43,000
2019		41,000
2020		39,000
Thereafter		154,000

### 12. Professional and General Liability Insurance

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

- **Primary coverage:** Primary coverage is provided by AIE. Professional liability is under the terms of a claims-made insurance policy. General liability is under the terms of an occurrence based policy. Both policies have an individual claim limit of \$1,000,000 and an annual aggregate limit of \$3,000,000.
- **Excess coverage:** The JFK Health System has excess liability insurance coverage which insures against losses in excess of the above primary coverage reported during the period of policy coverage. Those commercial excess liability insurance policies have 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 JFK Health System and controlled entities.

## **JFK Health System, Inc. and Controlled Entities**

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### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The JFK Health System's liability for the estimated future payments of its asserted and unasserted medical malpractice and general liability claims was approximately \$26,158,000 and \$27,742,000 at December 31, 2015 and 2014, respectively, and is included in self-insurance reserves in the consolidated balance sheet. The liability was discounted using a rate of 3%. In addition, 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, respectively. 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 long-term assets in the balance sheet as of December 31, 2015 and 2014, respectively. Otherwise, the JFK Health System believes that it has adequate insurance coverages for all asserted claims and has no knowledge of unasserted claims which would exceed insurance coverages.

### **13. 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 is recorded as a receivable under the claims-made excess liability insurance and is recorded within other long-term assets in the consolidated 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.

### **14. Health Insurance Benefits**

JFK Medical Center and MRMC self-insure their employee health insurance coverages. JFK Medical Center and MRMC accrue the estimated costs of incurred and reported and incurred but not reported claims, after consideration of their individual and aggregate stop-loss insurance coverages, based upon data provided by the third-party administrator of the programs and their historical claims experience. JFK Medical Center and MRMC recorded liabilities of \$3,585,285 and \$3,062,487 at December 31, 2015 and 2014, respectively, related to health insurance. The amount is included in employee benefits within accrued expenses in the accompanying consolidated balance sheet.

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### 15. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are related to, or restricted for, the following:

	<u>2015</u>	<u>2014</u>
Assets held for betterments to plant facilities and purchases of equipment	\$ 9,500,418	\$ 11,631,544

Permanently restricted net assets are related to the following:

	<u>2015</u>	<u>2014</u>
Investments to be held in perpetuity, the income from which is generally available for the JFK Health System operations and programs	\$ 3,068,747	\$ 4,383,956
Beneficial interest in perpetual trusts	5,023,693	5,262,574
Total	<u>\$ 8,092,440</u>	<u>\$ 9,646,530</u>

### Endowment Funds

The JFK Health System's endowment funds consist of five funds established for a variety of purposes. The endowments include only donor-restricted endowment funds at the current time. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The JFK Health System has interpreted relevant New Jersey state law governing the net asset classification of endowment funds as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the JFK Health System classifies as permanently restricted net assets (a) the original value of gifts donated as permanent endowments; (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Interest income earned on the endowment funds or market losses in excess of original value of the gift are recorded in either unrestricted or temporarily restricted net assets, depending upon the donor designation.

The endowment fund is invested consistent with an investment policy statement that is monitored by the JFK Health System's Board of Trustees. The investment policy employed is meant to achieve long-term growth while providing modest investment income which would be available for current funding. Funds in the trust are primarily invested in cash and cash equivalents, certificates of deposit, U.S. government obligations, mutual funds, corporate bonds and equities and, in total, strives for a forty/sixty split between fixed income securities and equities.

In 2015, based on a court action, it was determined that temporarily and permanently restricted net assets donated for specific purposes, which can no longer be honored following the closure of the MRMC acute care facility, could be repurposed for the Project (Note 2).

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

Changes in permanently restricted endowment net assets for the years ended December 31, 2015 and 2014 are comprised of the following:

	<u>2015</u>	<u>2014</u>
Endowment net assets, beginning of year	\$ 4,383,956	\$ 4,346,106
Net assets repurposed for the Project	(1,328,059)	-
Total net asset transfers	2,000	2,000
Total investment return	-	334,731
Contributions	10,850	35,850
Total assets restricted by donor for permanently restricted endowment funds	3,068,747	4,718,687
Unrestricted net assets increased for unrealized gains	-	(334,731)
Endowment net assets, end of year	<u>\$ 3,068,747</u>	<u>\$ 4,383,956</u>

### 16. Concentrations of Credit Risk

The JFK Health System 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	26 %	25 %
Medicaid	3	3
Blue Cross	19	17
Aetna	7	7
Other third-party payors	36	39
Patients	9	9
Total	<u>100 %</u>	<u>100 %</u>

The JFK Health System 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.

## **JFK Health System, Inc. and Controlled Entities**

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Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

### **17. 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 Health System accounts for EHR payments using the grant accounting method, whereby revenue is recognized when JFK Health System has reasonable assurance that they have complied with the conditions. As of December 31, 2015 and 2014, 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.

### **18. Contingencies**

#### **Asbestos**

MRMC’s building, which was constructed prior to the passage of the Clean Air Act, contains encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe fashion prior to the demolition and renovation of the building. At this time, MRMC does not have plans to renovate this building; and, therefore, a liability for such asbestos removal cannot be reasonably estimated and there is no liability recognized in the accompanying consolidated financial statements.

#### **Real Estate Taxes**

As a not-for-profit corporation in New Jersey, JFK Health System 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 Health System 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 Health System are not presently determinable.

#### **Other**

The health care 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 health care 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 consolidated financial statements; however, the possible future financial effects of this matter on the JFK Health System, if any, are not presently determinable.

## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### 19. Lease Commitments

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

Years Ending December 31	
2016	\$ 3,780,815
2017	3,484,722
2018	2,923,360
2019	1,671,480
2020	279,275
Thereafter	<u>-</u>
Total	<u>12,139,652</u>

Rental expense on operating leases was \$3,100,691 in 2015 and \$2,081,029 in 2014.

### 20. Functional Expenses

The JFK Health System provides health care 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	\$ 484,244	\$ 461,813
General and administrative	79,191	60,615
Fundraising	347	307
Education and scholarship	<u>132</u>	<u>109</u>
Total	<u>\$ 563,914</u>	<u>\$ 522,844</u>



## JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### 21. Discontinued Operations

On August 13, 2008, the acute care hospital operation of MRMC was closed as noted in Note 1. The following represents revenues and costs associated with the operation of the hospital that closed and were classified and presented in discontinued operations for 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Net patient service revenues	\$ 33,735	\$ 501,631
Expenses:		
Supplies and expenses	534	454,380
Impairment building (See Note 7)	<u>356,242</u>	<u>558,700</u>
Total expenses	<u>356,776</u>	<u>1,013,080</u>
Loss from discontinued operations	<u>\$ (323,041)</u>	<u>\$ (511,449)</u>

Accounts payable, accrued expenses, and other liabilities accrued associated with discontinued operations will be satisfied through remaining assets and support from the JFK Health System.

**JFK Health System, Inc and Controlled Entities**

 Schedule of Consolidating Information, Balance Sheet  
 December 31, 2015

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRMC	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Consolidation	
													Eliminations	Consolidated
<b>Assets</b>														
<b>Current Assets</b>														
Cash and cash equivalents	\$ 338,300	\$ -	\$ 34,632,110	\$ 196,292	\$ 170,308	\$ 95,860	\$ 1,122,901	\$ 4,473,042	\$ 2,204,073	\$ 3,930,045	\$ -	\$ 821,525	\$ -	\$ 47,984,456
Funds held for residents	-	-	-	-	-	-	-	-	77,867	69,180	-	-	-	147,047
Investments	-	-	17,516,395	-	-	-	596,783	237,348	-	-	-	-	-	18,350,526
Assets whose use is limited	-	-	3,566,012	-	-	-	-	-	-	-	-	-	-	3,566,012
Accounts receivable, patients	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventories of drugs and supplies	-	-	7,051,897	-	-	-	33,448	-	149,277	48,593	-	-	-	7,283,215
Prepaid expenses and other current assets	27,592	5,955,659	8,386,239	62,592	1,467	1,366	543,060	17,293	12,514	19,764	2,713	501,821	(5,957,025)	9,575,055
Note receivable, affiliate	-	-	51,984	-	-	-	-	-	-	-	-	-	-	(51,984)
Due from affiliates	-	-	420,998	986	2,407	-	-	-	144,995	-	-	-	-	(569,386)
Total current assets	365,892	5,955,659	71,625,635	259,870	174,182	97,226	2,296,192	4,727,683	2,588,726	4,067,582	2,713	1,323,346	(6,578,395)	86,906,311
Investments	-	-	-	-	-	-	2,281,140	1,635,204	-	-	-	-	-	3,916,344
Assets Whose Use is Limited	2,925,064	26,092,150	-	1,963,976	-	-	1,596,673	1,831,869	-	-	-	-	-	34,409,732
Property and Equipment, Net	318,462	-	132,017,624	15,448,253	-	-	377,358	-	11,588,962	13,123,430	2,850,850	291,251	-	176,016,190
Deferred Financing Costs, Net	-	-	2,271,568	266,793	-	-	-	-	247,907	78,476	-	-	-	2,864,744
Pledges Receivable, Net	-	-	-	-	-	-	357,117	-	-	-	-	-	-	357,117
Other Assets	2,278,256	-	6,183,109	958,486	271,608	-	52,232	-	-	255,690	-	-	-	9,999,381
Beneficial Interest in Net Assets of Affiliate	-	-	5,861,848	7,835,409	-	-	-	-	-	-	-	-	(13,697,257)	-
Note Receivable, Affiliate	-	-	2,737,898	-	-	-	-	-	-	-	-	-	(2,737,898)	-
Beneficial Interest in Perpetual Trusts	-	-	-	2,608,502	-	-	-	2,415,191	-	-	-	-	-	5,023,693
Due from Affiliates	258,461	2,000,000	640,844	-	86,945	-	242,948	101,697	4,260	7,895,976	1,433	368,323	(11,600,887)	-
Total	\$ 6,146,135	\$ 34,047,809	\$ 221,338,526	\$ 29,341,289	\$ 532,735	\$ 97,226	\$ 7,203,860	\$ 10,711,644	\$ 14,429,855	\$ 25,421,154	\$ 2,854,996	\$ 1,982,920	\$ (34,614,437)	\$ 319,493,512

**JFK Health System, Inc and Controlled Entities**

Schedule of Consolidating Information, Balance Sheet  
December 31, 2015

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRMC	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Consolidation	
													Eliminations	Consolidated
<b>Liabilities and Net (Deficit) Assets</b>														
<b>Current Liabilities</b>														
Current maturities of long-term debt	\$ -	\$ -	\$ 4,678,276	\$ 675,524	\$ -	\$ -	\$ -	\$ -	\$ 626,200	\$ 1,038,527	\$ -	\$ -	\$ -	\$ 7,018,527
Current maturities of capital lease obligations	-	-	3,811,152	-	-	-	-	-	-	-	-	-	-	3,811,152
Funds held for residents	-	-	-	-	-	-	-	-	77,867	69,180	-	-	-	147,047
Accounts payable	253,161	-	41,058,137	172,581	-	-	85,634	-	1,989,028	517,339	-	14,051	-	44,089,931
Accrued expenses	45,000	3,453,921	38,790,039	49,686	3,650	1,223	17,004	17,500	3,817,526	1,152,360	-	2,456,978	(5,957,025)	43,847,862
Estimated third-party payor settlements	-	-	4,792,563	1,940,730	-	-	-	-	270,988	163,737	-	-	-	7,168,018
Accrued postretirement benefits	-	-	3,666	39,411	-	-	-	-	-	-	-	-	-	43,077
Other current liabilities	-	-	2,922,762	21,314	-	-	-	-	-	51,050	-	-	-	2,995,126
Notes payable to affiliates	-	-	-	-	-	-	-	-	51,984	-	-	-	-	-
Due to affiliates	-	324,228	370,730	-	-	45,581	-	-	-	-	-	-	(740,539)	-
Total current liabilities	298,161	3,778,149	96,427,325	2,899,246	3,650	46,804	102,638	17,500	6,833,593	2,992,193	-	2,471,029	(6,749,548)	109,120,740
<b>Long-Term Debt</b>	-	-	106,630,260	15,396,975	-	-	-	-	14,272,765	12,325,356	-	-	-	148,625,356
<b>Capital Lease Obligations</b>	-	-	12,331,337	-	-	-	-	-	-	-	-	-	-	12,331,337
<b>Estimated Third-Party Payor Settlements</b>	-	-	15,855,041	958,225	-	-	-	-	3,289,547	829,448	-	-	-	20,932,261
<b>Self-insurance Reserves</b>	-	26,158,121	-	-	-	-	-	-	-	-	-	-	-	26,158,121
<b>Accrued Pension Cost</b>	-	-	31,873,374	7,054,247	-	-	-	-	-	-	-	-	-	38,927,621
<b>Accrued Postretirement Benefits</b>	-	-	41,070	314,438	-	-	-	-	-	-	-	-	-	355,508
<b>Other Liabilities</b>	3,758,905	-	9,214,806	2,495,540	1,366	-	-	-	-	255,690	-	-	-	15,726,307
<b>Note Payable, Affiliate</b>	-	-	-	-	-	-	-	-	2,737,898	-	-	-	(2,737,898)	-
<b>Due to Affiliates</b>	32,079,274	-	-	41,938,173	-	-	293,108	2,363,828	7,132,212	151,456	2,999,996	-	(86,958,047)	-
Total liabilities	36,136,340	29,936,270	272,373,213	71,056,844	5,016	46,804	395,746	2,381,328	34,266,015	16,554,143	2,999,996	2,471,029	(96,445,493)	372,177,251
<b>Net (Deficit) Assets</b>														
Unrestricted	(29,990,205)	4,111,539	6,931,509	(53,681,773)	527,719	71,406	946,066	494,907	(12,488,696)	10,786,501	(145,000)	1,185,878	75,763,521	4,513,372
Temporarily restricted	-	-	4,615,222	5,120,114	-	-	4,615,222	3,598,097	-	-	-	-	(8,448,237)	9,500,418
Permanently restricted	-	-	1,246,626	6,846,104	-	-	1,246,626	4,237,312	-	-	-	-	(5,484,228)	8,092,440
Total net (deficit) assets	(29,990,205)	4,111,539	12,793,357	(41,715,555)	527,719	71,406	6,807,914	8,330,316	(12,488,696)	10,786,501	(145,000)	1,185,878	61,831,056	22,106,230
<b>Total</b>	<u>\$ 6,146,135</u>	<u>\$ 34,047,809</u>	<u>\$ 285,166,570</u>	<u>\$ 29,341,289</u>	<u>\$ 532,735</u>	<u>\$ 118,210</u>	<u>\$ 7,203,660</u>	<u>\$ 10,711,644</u>	<u>\$ 21,777,319</u>	<u>\$ 27,340,644</u>	<u>\$ 2,854,996</u>	<u>\$ 3,656,907</u>	<u>\$ (34,614,437)</u>	<u>\$ 394,283,481</u>

**JFK Health System, Inc. and Controlled Entities**  
Schedule of Consolidating Information, Statement of Operations  
Year Ended December 31, 2015

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRMC	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Consolidation		
													Eliminations	Consolidated	
<b>Unrestricted Revenues, Gains, and Other Support:</b>															
Patient service revenues, net of contractual allowances and discounts	\$ -	\$ -	\$ 494,764,469	\$ -	\$ 520	\$ 746,432	\$ -	\$ -	\$ 42,923,322	\$ 9,571,374	\$ -	\$ 22,548,642	\$ -	\$ 570,554,759	
Resident fees	-	-	-	-	-	-	-	-	-	7,465,187	-	-	-	7,465,187	
Less provision for doubtful collections	-	-	18,148,452	-	-	-	-	-	1,603,507	273,331	-	974,956	-	21,000,246	
Net patient and resident service revenues	-	-	476,616,017	-	520	746,432	-	-	41,319,815	16,763,230	-	21,573,686	-	557,019,700	
Other revenues	-	5,505,517	18,031,186	657,692	24,426	(33)	485,561	-	376,364	23,200	-	340,097	(5,990,913)	19,453,097	
Special events	-	-	-	-	-	-	263,055	-	-	-	-	-	-	263,055	
Net assets released from restrictions used in operations	-	-	444,811	-	-	-	319,745	131,718	-	-	-	-	-	896,274	
Contributions	-	-	-	-	-	-	23,163	142,961	-	-	-	-	-	166,124	
Total unrestricted revenues, gains, and other support	-	5,505,517	495,092,014	657,692	24,946	746,399	1,091,524	274,679	41,696,179	16,786,430	-	21,913,783	(5,990,913)	577,798,250	
<b>Expenses</b>															
Salaries and wages	-	-	230,968,003	376,090	-	51,818	657,584	-	19,874,363	7,817,262	-	5,066,731	-	264,811,851	
Employee benefits	-	-	39,487,884	(204,070)	-	8,916	128,401	-	4,947,745	2,173,786	-	403,076	-	46,945,738	
Supplies and expenses	-	4,446,603	174,218,689	1,238,523	48,964	364,457	803,873	156,155	15,354,214	5,083,633	-	30,513,847	(5,946,107)	226,282,851	
Special events - unrestricted	-	-	-	-	-	-	147,760	-	-	-	-	-	-	147,760	
Depreciation and amortization	-	-	15,103,921	55,202	1,500	-	-	-	1,092,477	691,607	-	118,428	-	17,063,135	
Interest	-	-	6,594,105	801,955	-	-	-	-	981,503	430,394	-	-	(145,646)	8,662,311	
Total expenses	-	4,446,603	466,372,602	2,267,700	50,464	425,191	1,737,618	156,155	42,250,302	16,196,682	-	36,102,082	(6,091,753)	563,913,646	
Operating (loss) income	-	1,058,914	28,719,412	(1,610,008)	(25,518)	321,208	(646,094)	118,524	(554,123)	589,748	-	(14,188,299)	100,840	13,884,604	
<b>Pension Settlement Charge</b>	-	-	(2,613,483)	(37,470)	-	-	-	-	-	-	-	-	-	(2,650,953)	
<b>Provision for Doubtful Collections on Related Party Receivables</b>	(33,625)	-	(546,920)	-	-	-	-	-	-	-	-	-	580,545	-	
<b>Investment Income (Loss)</b>	138	736,060	576,847	335,954	-	-	(1,910)	135,358	9,601	4,903	-	-	(145,646)	1,651,305	
<b>Net Unrealized (Losses) Gains on Trading Securities</b>	(71,271)	(520,034)	(613,265)	(82,267)	-	-	1,365	(112,203)	-	-	-	-	-	(1,397,675)	
<b>Other Gains</b>	-	-	-	-	135,236	-	-	-	-	-	-	-	-	135,236	
Revenues (less than) in excess of expenses	(104,758)	1,274,940	25,522,591	(1,393,791)	109,718	321,208	(646,639)	141,679	(544,522)	594,651	-	(14,188,299)	535,739	11,622,517	
<b>Pension/Postretirement Liability Adjustment</b>	-	-	(11,234,056)	(2,430,782)	-	-	-	-	-	-	-	-	-	(13,664,838)	
<b>Net Assets Released from Restrictions for Capital Purchases</b>	-	-	3,889,222	71,764	-	-	-	-	-	-	-	-	-	3,960,986	
<b>Transfers (To) From Affiliates</b>	(94,167)	-	(20,862,161)	6,048,433	-	(321,208)	1,805,854	49,614	118,047	94,167	-	13,279,467	(118,046)	-	
(Decrease) increase in unrestricted net assets from continuing operations	(198,925)	1,274,940	(2,684,404)	2,295,624	109,718	-	1,159,215	191,293	(426,475)	688,818	-	(908,832)	417,693	1,918,665	
<b>Loss From Discontinued Operations</b>	-	-	-	(323,041)	-	-	-	-	-	-	-	-	-	(323,041)	
(Decrease) increase in unrestricted net assets	\$ (198,925)	\$ 1,274,940	\$ (2,684,404)	\$ 1,972,583	\$ 109,718	\$ -	\$ 1,159,215	\$ 191,293	\$ (426,475)	\$ 688,818	\$ -	\$ (908,832)	\$ 417,693	\$ 1,595,624	

**JFK Health System, Inc. and Controlled Entities**

 Schedule of Consolidating Information, Changes in Net Assets (Deficit)  
 Year Ended December 31, 2015

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRMC	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck at Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Eliminating and Consolidating Entries	Consolidated Balance
<b>Unrestricted Net Assets</b>														
Revenues (less than) in excess of expenses	\$ (104,758)	\$ 1,274,940	\$ 25,522,591	\$ (1,393,791)	\$ 109,718	\$ 321,208	\$ (646,639)	\$ 141,679	\$ (544,522)	\$ 594,651	\$ -	\$ (14,188,299)	\$ 535,739	\$ 11,622,517
Transfers (to) from affiliates	(94,167)	-	(20,862,161)	6,048,433	-	(321,208)	1,805,854	49,614	118,047	94,167	-	13,279,467	(118,046)	-
Minimum pension liability adjustment	-	-	(11,234,056)	(2,430,782)	-	-	-	-	-	-	-	-	-	(13,664,838)
Net assets released from restrictions for capital purchases	-	-	3,889,222	71,764	-	-	-	-	-	-	-	-	-	3,960,986
(Decrease) increase in unrestricted net assets from continuing operations	(198,925)	1,274,940	(2,684,404)	2,295,624	109,718	-	1,159,215	191,293	(426,475)	688,818	-	(908,832)	417,693	1,918,665
Loss from discontinued operations	-	-	-	(323,041)	-	-	-	-	-	-	-	-	-	(323,041)
(Decrease) increase in unrestricted net assets	(198,925)	1,274,940	(2,684,404)	1,972,583	109,718	-	1,159,215	191,293	(426,475)	688,818	-	(908,832)	417,693	1,595,624
<b>Temporarily Restricted Net Assets</b>														
Contributions	-	-	-	-	-	-	1,219,578	345,401	-	-	-	-	-	1,564,979
Investment income	-	-	-	(26,621)	-	-	4,615	258,326	-	-	-	-	-	236,320
Transfers from (to) affiliates	-	-	4,334,033	71,764	-	-	(1,652,710)	(2,871,133)	-	-	-	-	118,046	-
Realized and change in unrealized gains on investments	-	-	-	-	-	-	(70,532)	(324,403)	-	-	-	-	-	(394,935)
Transfer from permanently restricted net assets	-	-	-	1,328,059	-	-	(1,000)	-	-	-	-	-	-	1,327,059
Change in provision for doubtful accounts	-	-	-	-	-	-	(7,289)	-	-	-	-	-	-	(7,289)
Net assets released from restrictions for use in operations	-	-	(444,811)	-	-	-	(319,745)	(131,718)	-	-	-	-	-	(896,274)
Net assets released from restrictions for capital purchases	-	-	(3,889,222)	(71,764)	-	-	-	-	-	-	-	-	-	(3,960,986)
Change in beneficial interest in net assets of affiliate	-	-	(827,083)	(2,723,817)	-	-	-	-	-	-	-	-	3,550,900	-
Increase (decrease) in temporarily restricted net assets	-	-	(827,083)	(1,422,379)	-	-	(827,083)	(2,723,527)	-	-	-	-	3,668,946	(2,131,126)
<b>Permanently Restricted Net Assets</b>														
Contributions	-	-	-	-	-	-	1,000	10,850	-	-	-	-	-	11,850
Change in beneficial interest in net assets of affiliate	-	-	2,000	(92,780)	-	-	-	-	-	-	-	-	90,780	-
Transfer to temporarily restricted net assets	-	-	-	(1,328,059)	-	-	1,000	-	-	-	-	-	-	(1,327,059)
Change in valuation of beneficial interest trusts	-	-	-	(134,961)	-	-	-	(103,920)	-	-	-	-	-	(238,881)
Increase (decrease) in permanently restricted net assets	-	-	2,000	(1,555,800)	-	-	2,000	(93,070)	-	-	-	-	90,780	(1,554,090)
<b>(Decrease) Increase in Net Assets</b>	(198,925)	1,274,940	(3,509,487)	(1,005,596)	109,718	-	334,132	(2,625,304)	(426,475)	688,818	-	(908,832)	4,177,419	(2,089,592)
<b>Net (Deficit) Assets, Beginning</b>	(29,791,280)	2,836,599	16,302,844	(40,709,959)	418,001	71,406	6,473,782	10,955,620	(12,062,221)	10,097,683	(145,000)	2,094,710	57,653,637	24,195,822
<b>Net (Deficit) Assets, Ending</b>	\$ (29,990,205)	\$ 4,111,539	\$ 12,793,357	\$ (41,715,555)	\$ 527,719	\$ 71,406	\$ 6,807,914	\$ 8,330,316	\$ (12,488,696)	\$ 10,786,501	\$ (145,000)	\$ 1,185,878	\$ 61,831,056	\$ 22,106,230

**JFK Health System, Inc and Controlled Entities**

Schedule of Consolidating Information, Balance Sheet  
December 31, 2014

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRMC	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Consolidation	
													Eliminations	Consolidated
<b>Assets</b>														
<b>Current Assets</b>														
Cash and cash equivalents	\$ 400,145	\$ -	\$ 32,530,526	\$ 339,134	\$ 79,370	\$ 84,865	\$ 1,210,488	\$ 4,233,056	\$ 1,455,859	\$ 4,169,934	\$ -	\$ 267,543	\$ -	\$ 44,770,920
Funds held for residents	-	-	-	-	-	-	-	-	93,402	76,371	-	-	-	169,773
Investments	-	-	17,739,081	-	-	-	172,124	1,007,470	-	-	-	-	-	18,918,675
Assets whose use is limited	-	-	3,432,843	-	-	-	-	-	-	-	-	-	-	3,432,843
Accounts receivable, patients	-	-	56,351,023	-	-	52,649	-	-	6,990,537	1,820,828	-	2,549,191	-	67,764,228
Inventories of drugs and supplies	-	-	6,719,108	-	-	-	30,140	-	148,371	42,472	-	-	-	6,940,091
Prepaid expenses and other current assets	74,179	3,592,646	9,383,942	42,956	32,067	1,399	547,656	26,075	10,310	32,625	2,713	257,837	(3,594,045)	10,410,360
Note receivable, affiliate	-	-	51,984	-	-	-	-	-	-	-	-	-	-	(51,984)
Due from affiliates	-	-	478,094	1,172	517	-	-	-	68,422	-	-	-	-	(548,205)
<b>Total current assets</b>	<b>474,324</b>	<b>3,592,646</b>	<b>126,686,601</b>	<b>383,262</b>	<b>111,954</b>	<b>138,913</b>	<b>1,960,408</b>	<b>5,266,601</b>	<b>8,766,901</b>	<b>6,142,230</b>	<b>2,713</b>	<b>3,074,571</b>	<b>(4,194,234)</b>	<b>152,406,890</b>
<b>Investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,666,586</b>	<b>3,172,793</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,839,379</b>
<b>Assets Whose Use is Limited</b>	<b>2,585,680</b>	<b>30,771,533</b>	<b>-</b>	<b>2,008,457</b>	<b>-</b>	<b>-</b>	<b>1,622,337</b>	<b>2,081,991</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,069,998</b>
<b>Property and Equipment, Net</b>	<b>385,025</b>	<b>-</b>	<b>123,201,790</b>	<b>12,314,671</b>	<b>40,821</b>	<b>-</b>	<b>381,833</b>	<b>-</b>	<b>12,341,123</b>	<b>13,501,960</b>	<b>2,850,850</b>	<b>96,729</b>	<b>-</b>	<b>165,114,802</b>
<b>Deferred Financing Costs, Net</b>	<b>-</b>	<b>-</b>	<b>2,529,305</b>	<b>297,064</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>276,014</b>	<b>97,395</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,199,778</b>
<b>Pledges Receivable, Net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>627,902</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>627,902</b>
<b>Other Assets</b>	<b>2,114,262</b>	<b>-</b>	<b>3,536,934</b>	<b>898,304</b>	<b>271,608</b>	<b>-</b>	<b>46,157</b>	<b>-</b>	<b>-</b>	<b>337,036</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,204,301</b>
<b>Beneficial Interest in Net Assets of Affiliate</b>	<b>-</b>	<b>-</b>	<b>6,686,931</b>	<b>10,652,006</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,338,937)</b>	<b>-</b>
<b>Note Receivable, Affiliate</b>	<b>-</b>	<b>-</b>	<b>2,789,882</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,789,882)</b>	<b>-</b>
<b>Beneficial Interest in Perpetual Trusts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,743,463</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,519,111</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,262,574</b>
<b>Due from Affiliates</b>	<b>234,230</b>	<b>2,000,000</b>	<b>1,156,686</b>	<b>-</b>	<b>86,945</b>	<b>-</b>	<b>242,948</b>	<b>67,930</b>	<b>4,260</b>	<b>7,350,736</b>	<b>1,434</b>	<b>191,179</b>	<b>(11,336,348)</b>	<b>-</b>
<b>Total</b>	<b>\$ 5,793,521</b>	<b>\$ 36,364,179</b>	<b>\$ 266,588,129</b>	<b>\$ 29,297,227</b>	<b>\$ 511,328</b>	<b>\$ 138,913</b>	<b>\$ 7,548,171</b>	<b>\$ 13,108,426</b>	<b>\$ 21,388,298</b>	<b>\$ 27,429,357</b>	<b>\$ 2,854,997</b>	<b>\$ 3,362,479</b>	<b>\$ (35,659,401)</b>	<b>\$ 378,725,624</b>

**JFK Health System, Inc and Controlled Entities**

Schedule of Consolidating Information, Balance Sheet  
December 31, 2014

Liabilities and Net (Deficit) Assets	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRMC	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Consolidation		
													Eliminations	Consolidated	
<b>Current Liabilities</b>															
Current maturities of long-term debt	\$ -	\$ -	\$ 3,688,640	\$ 532,625	\$ -	\$ -	\$ -	\$ -	\$ 493,735	\$ 1,014,022	\$ -	\$ -	\$ -	\$ -	\$ 5,729,022
Current maturities of capital lease obligations	-	-	1,921,245	-	-	-	-	-	-	-	-	-	-	-	1,921,245
Funds held for residents	-	-	-	-	-	-	-	-	93,402	76,371	-	-	-	-	169,773
Accounts payable	195,623	-	35,844,352	251,357	-	-	29,400	124	1,740,247	431,193	-	18,629	-	-	38,510,925
Accrued expenses	45,000	5,449,981	34,232,294	80,330	3,074	1,223	42,547	16,996	3,664,428	1,093,400	-	1,249,140	(3,594,045)	-	42,284,368
Estimated third-party payor settlements	-	-	7,461,544	1,940,730	-	-	-	-	229,326	75,546	-	-	-	-	9,707,146
Accrued postretirement benefits	-	-	105,138	50,513	-	-	-	-	-	-	-	-	-	-	155,651
Other current liabilities	-	-	2,959,514	28,327	-	-	-	-	-	27,250	-	-	-	-	3,015,091
Notes payable to affiliates	-	-	-	-	-	-	-	-	51,984	-	-	-	-	(51,984)	-
Due to affiliates	-	335,657	191,178	-	-	66,284	-	-	-	-	-	-	-	(593,119)	-
<b>Total current liabilities</b>	<b>240,623</b>	<b>5,785,638</b>	<b>86,403,905</b>	<b>2,883,882</b>	<b>3,074</b>	<b>67,507</b>	<b>71,947</b>	<b>17,120</b>	<b>6,273,122</b>	<b>2,717,782</b>	<b>-</b>	<b>1,267,769</b>	<b>(4,239,148)</b>	<b>-</b>	<b>101,493,221</b>
<b>Long-Term Debt</b>	<b>-</b>	<b>-</b>	<b>111,308,536</b>	<b>16,072,499</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,898,965</b>	<b>13,362,521</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155,642,521</b>
<b>Capital Lease Obligations</b>	<b>-</b>	<b>-</b>	<b>3,928,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,928,240</b>
<b>Estimated Third-Party Payor Settlements</b>	<b>-</b>	<b>-</b>	<b>15,273,469</b>	<b>958,225</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,480,828</b>	<b>838,710</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,551,232</b>
<b>Self-insurance Reserves</b>	<b>-</b>	<b>27,741,942</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,741,942</b>
<b>Accrued Pension Cost</b>	<b>-</b>	<b>-</b>	<b>26,583,337</b>	<b>5,666,110</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,249,447</b>
<b>Accrued Postretirement Benefits</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Liabilities</b>	<b>3,308,669</b>	<b>-</b>	<b>6,787,798</b>	<b>2,488,297</b>	<b>1,399</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>337,036</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,923,199</b>
<b>Note Payable, Affiliate</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,789,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,789,883)</b>	<b>-</b>	<b>-</b>
<b>Due to Affiliates</b>	<b>32,035,509</b>	<b>-</b>	<b>-</b>	<b>41,938,173</b>	<b>88,854</b>	<b>-</b>	<b>1,002,442</b>	<b>2,135,686</b>	<b>6,007,721</b>	<b>75,625</b>	<b>2,999,997</b>	<b>-</b>	<b>(86,284,007)</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>35,584,801</b>	<b>33,527,580</b>	<b>250,285,285</b>	<b>70,007,186</b>	<b>93,327</b>	<b>67,507</b>	<b>1,074,389</b>	<b>2,152,806</b>	<b>33,450,519</b>	<b>17,331,674</b>	<b>2,999,997</b>	<b>1,267,769</b>	<b>(93,313,038)</b>	<b>-</b>	<b>354,529,802</b>
<b>Net (Deficit) Assets</b>															
Unrestricted	(29,791,280)	2,836,599	9,615,913	(55,654,356)	418,001	71,406	(213,149)	303,614	(12,062,221)	10,097,683	(145,000)	2,094,710	75,345,828	2,917,748	
Temporarily restricted	-	-	5,442,305	6,542,493	-	-	5,442,305	6,321,624	-	-	-	-	(12,117,183)	11,631,544	
Permanently restricted	-	-	1,244,626	8,401,904	-	-	1,244,626	4,330,382	-	-	-	-	(5,575,008)	9,646,530	
<b>Total net (deficit) assets</b>	<b>(29,791,280)</b>	<b>2,836,599</b>	<b>16,302,844</b>	<b>(40,709,959)</b>	<b>418,001</b>	<b>71,406</b>	<b>6,473,782</b>	<b>10,955,620</b>	<b>(12,062,221)</b>	<b>10,097,683</b>	<b>(145,000)</b>	<b>2,094,710</b>	<b>57,653,637</b>	<b>24,195,822</b>	
<b>Total</b>	<b>\$ 5,793,521</b>	<b>\$ 36,364,179</b>	<b>\$ 266,588,129</b>	<b>\$ 29,297,227</b>	<b>\$ 511,328</b>	<b>\$ 138,913</b>	<b>\$ 7,548,171</b>	<b>\$ 13,108,426</b>	<b>\$ 21,388,298</b>	<b>\$ 27,429,357</b>	<b>\$ 2,854,997</b>	<b>\$ 3,362,479</b>	<b>\$ (35,659,401)</b>	<b>\$ 378,725,624</b>	

**JFK Health System, Inc. and Controlled Entities**

 Schedule of Consolidating Information, Statement of Operations  
 Year Ended December 31, 2014

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRMC	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Consolidation		
													Eliminations	Consolidated	
<b>Unrestricted Revenues, Gains, and Other Support:</b>															
Patient service revenues, net of contractual allowances and discounts	\$ -	\$ -	\$ 466,098,121	\$ -	\$ (132)	\$ 726,002	\$ -	\$ -	\$ 42,192,506	\$ 9,206,245	\$ -	\$ 9,881,820	\$ -	\$ 528,104,562	
Resident fees	-	-	-	-	-	-	-	-	-	7,281,779	-	-	-	7,281,779	
Less provision for doubtful collections	-	-	18,725,866	-	-	-	-	-	1,828,444	312,399	-	557,585	-	21,424,294	
Net patient and resident service revenues	-	-	447,372,255	-	(132)	726,002	-	-	40,364,062	16,175,625	-	9,324,235	-	513,962,047	
Other revenues	-	5,986,284	20,448,215	675,812	1,357	(43)	451,060	-	401,854	11,801	-	55,751	(6,721,680)	21,310,411	
Special events	-	-	-	-	-	-	264,745	-	-	-	-	-	-	264,745	
Net assets released from restrictions used in operations	-	-	77,788	-	-	-	240,529	108,818	-	-	-	-	-	427,135	
Contributions	-	-	-	-	-	-	11,518	135,030	-	-	-	-	-	146,548	
Total unrestricted revenues, gains, and other support	-	5,986,284	467,898,258	675,812	1,225	725,959	967,852	243,848	40,765,916	16,187,426	-	9,379,986	(6,721,680)	536,110,886	
<b>Expenses</b>															
Salaries and wages	-	-	221,145,359	392,604	-	56,243	46,804	-	19,503,188	7,664,279	-	1,337,708	-	250,146,185	
Employee benefits	-	-	35,402,768	(163,905)	-	10,791	8,659	-	4,560,054	1,970,661	-	159,977	-	41,949,005	
Supplies and expenses	-	7,295,861	167,404,594	2,143,102	16,667	414,824	762,264	132,908	15,269,781	4,848,813	-	11,988,235	(6,715,636)	203,561,413	
Special events - unrestricted	-	-	-	-	-	-	115,774	-	-	-	-	-	-	115,774	
Depreciation and amortization	-	-	16,292,184	51,673	3,000	-	-	-	1,142,581	687,777	-	-	-	18,177,215	
Interest	-	-	6,820,517	767,503	-	-	-	-	1,000,616	452,869	-	-	(147,465)	8,894,040	
Total expenses	-	7,295,861	447,065,422	3,190,977	19,667	481,858	933,501	132,908	41,476,220	15,624,399	-	13,485,920	(6,863,101)	522,843,632	
Operating (loss) income	-	(1,309,577)	20,832,836	(2,515,165)	(18,442)	244,101	34,351	110,940	(710,304)	563,027	-	(4,105,934)	141,421	13,267,254	
<b>Pension Settlement Charge</b>	-	-	(5,542,473)	(79,464)	-	-	-	-	-	-	-	-	-	(5,621,937)	
<b>(Provision for) Recovery of Doubtful Collections on Related Party Receivables</b>	(40,493)	-	872,633	-	-	-	-	-	-	-	-	-	(832,140)	-	
<b>Investment Income</b>	12,006	638,072	603,961	145,837	-	-	11,884	147,793	1,700	9,735	-	-	(147,465)	1,423,523	
<b>Net Unrealized (Losses) Gains on Trading Securities</b>	(6,357)	108,114	456,571	(27,959)	-	-	(5,375)	61,312	-	-	-	-	-	586,306	
<b>Other Gains</b>	-	-	-	-	834	-	-	-	-	-	-	-	-	834	
Revenues (less than) in excess of expenses	(34,844)	(563,391)	17,223,528	(2,476,751)	(17,608)	244,101	40,860	320,045	(708,604)	572,762	-	(4,105,934)	(838,184)	9,655,980	
<b>Pension/Postretirement Liability Adjustment</b>	-	-	(6,406,653)	(1,114,742)	-	-	-	-	-	-	-	-	-	(7,521,395)	
<b>Net Assets Released from Restrictions for Capital Purchases</b>	-	-	1,714,401	23,179	-	-	-	-	-	-	-	-	-	1,737,580	
<b>Contributed Surplus</b>	-	5,000,000	-	-	-	-	-	-	-	-	-	-	(5,000,000)	-	
<b>Transfers (to) from Affiliates</b>	(92,257)	-	(15,837,118)	4,853,069	-	(244,101)	(776,000)	-	17,090	92,257	-	6,228,150	5,758,910	-	
(Decrease) increase in unrestricted net assets from continuing operations	(127,101)	4,436,609	(3,305,842)	1,284,755	(17,608)	-	(735,140)	320,045	(691,514)	665,019	-	2,122,216	(79,274)	3,872,165	
<b>Loss From Discontinued Operations</b>	-	-	-	(511,449)	-	-	-	-	-	-	-	-	-	(511,449)	
(Decrease) increase in unrestricted net assets	\$ (127,101)	\$ 4,436,609	\$ (3,305,842)	\$ 773,306	\$ (17,608)	\$ -	\$ (735,140)	\$ 320,045	\$ (691,514)	\$ 665,019	\$ -	\$ 2,122,216	\$ (79,274)	\$ 3,360,716	



**JFK Health System, Inc. and Controlled Entities**

 Schedule of Consolidating Information, Changes in Net Assets (Deficit)  
 Year Ended December 31, 2014

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MPMC	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck at Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Eliminating and Consolidating Entries	Consolidated Balance
<b>Unrestricted Net Assets</b>														
Revenues (less than) in excess of expenses	\$ (34,844)	\$ (563,391)	\$ 17,223,528	\$ (2,476,751)	\$ (17,608)	\$ 244,101	\$ 40,860	\$ 320,045	\$ (708,604)	\$ 572,762	\$ -	\$ (4,105,934)	\$ (838,184)	\$ 9,655,980
Contributed surplus	-	5,000,000	-	-	-	-	-	-	-	-	-	-	(5,000,000)	-
Transfers (to) from affiliates	(92,257)	-	(15,837,118)	4,853,069	-	(244,101)	(776,000)	-	17,090	92,257	-	6,228,150	5,758,910	-
Minimum pension liability adjustment	-	-	(6,406,653)	(1,114,742)	-	-	-	-	-	-	-	-	-	(7,521,395)
Net assets released from restrictions for capital purchases	-	-	1,714,401	23,179	-	-	-	-	-	-	-	-	-	1,737,580
(Decrease) increase in unrestricted net assets from continuing operations	(127,101)	4,436,609	(3,305,842)	1,284,755	(17,608)	-	(735,140)	320,045	(691,514)	665,019	-	2,122,216	(79,274)	3,872,165
Loss from discontinued operations	-	-	-	(511,449)	-	-	-	-	-	-	-	-	-	(511,449)
(Decrease) increase in unrestricted net assets	(127,101)	4,436,609	(3,305,842)	773,306	(17,608)	-	(735,140)	320,045	(691,514)	665,019	-	2,122,216	(79,274)	3,360,716
<b>Temporarily Restricted Net Assets</b>														
Net assets released from restrictions for capital purchases	-	-	(1,714,401)	(23,179)	-	-	-	-	-	-	-	-	-	(1,737,580)
Contributions	-	-	-	-	-	-	1,773,868	177,507	-	-	-	-	-	1,951,375
Investment income	-	-	-	8,120	-	-	222,069	184,050	-	-	-	-	-	414,239
Transfers from (to) affiliates	-	-	1,792,189	23,179	-	-	(1,032,465)	(23,993)	-	-	-	-	(758,910)	-
Realized and change in unrealized gains on investments	-	-	-	-	-	-	(108,067)	76,944	-	-	-	-	-	(31,123)
Change in provision for doubtful accounts	-	-	-	-	-	-	(67,921)	-	-	-	-	-	-	(67,921)
Net assets released from restrictions for use in operations	-	-	(77,788)	-	-	-	(240,529)	(108,818)	-	-	-	-	-	(427,135)
Net asset transfer	-	-	-	-	-	-	(2,000)	-	-	-	-	-	-	(2,000)
Change in beneficial interest in net assets of affiliate	-	-	544,955	305,690	-	-	-	-	-	-	-	-	(850,645)	-
Increase (decrease) in temporarily restricted net assets	-	-	544,955	313,810	-	-	544,955	305,690	-	-	-	-	(1,609,555)	99,855
<b>Permanently Restricted Net Assets</b>														
Contributions	-	-	-	-	-	-	25,000	10,850	-	-	-	-	-	35,850
Change in beneficial interest in net assets of affiliate	-	-	27,000	110,115	-	-	-	-	-	-	-	-	(137,115)	-
Net asset transfer	-	-	-	-	-	-	2,000	-	-	-	-	-	-	2,000
Change in valuation of beneficial interest trusts	-	-	-	50,762	-	-	-	99,265	-	-	-	-	-	150,027
Increase (decrease) in permanently restricted net assets	-	-	27,000	160,877	-	-	27,000	110,115	-	-	-	-	(137,115)	187,877
<b>(Decrease) Increase in Net Assets</b>	(127,101)	4,436,609	(2,733,887)	1,247,993	(17,608)	-	(163,185)	735,850	(691,514)	665,019	-	2,122,216	(1,825,944)	3,648,448
<b>Net (Deficit) Assets, Beginning</b>	(29,664,179)	(1,600,010)	19,036,731	(41,957,952)	435,609	71,406	6,636,967	10,219,770	(11,370,707)	9,432,664	(145,000)	(27,506)	59,479,581	20,547,374
<b>Net (Deficit) Assets, Ending</b>	\$ (29,791,280)	\$ 2,836,599	\$ 16,302,844	\$ (40,709,959)	\$ 418,001	\$ 71,406	\$ 6,473,782	\$ 10,955,620	\$ (12,062,221)	\$ 10,097,683	\$ (145,000)	\$ 2,094,710	\$ 57,653,637	\$ 24,195,822