Muhlenberg Regional Medical Center, Inc.

Financial Statements

December 31, 2015 and 2014

BAKER TILLY

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December 31, 2015 and 2014

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Independent Auditors' Report

Board of Directors
Muhlenberg Regional Medical Center, Inc.

We have audited the accompanying financial statements of Muhlenberg Regional Medical Center, Inc. ("MRMC"), which comprise the balance sheet as of December 31, 2015 and 2014, and the related statements of operations, changes in net deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muhlenberg Regional Medical Center, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Clark, New Jersey
April 27, 2016

Muhlenberg Regional Medical Center, Inc.

Balance Sheet
December 31, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 196,292	$ 339,134
Prepaid expenses and other current assets	62,592	42,956
Due from affiliates	986	1,172
Total current assets	259,870	383,262
Assets Whose Use is Limited	1,963,976	2,008,457
Interest in Net Assets of Muhlenberg Foundation, Inc.	7,835,409	10,652,006
Property and Equipment, Net	15,448,253	12,314,671
Deferred Financing Costs, Net	266,793	297,064
Other Assets	958,486	898,304
Beneficial Interest in Perpetual Trusts	2,608,502	2,743,463
Total assets	$ 29,341,289	$ 29,297,227

	2015	2014
Liabilities and Net Deficit		
Current Liabilities		
Current installment of long-term debt	$ 675,524	$ 532,625
Accounts payable	172,581	251,357
Accrued expenses	49,686	80,330
Estimated third-party payor settlements	1,940,730	1,940,730
Accrued postretirement benefits	39,411	50,513
Other current liabilities	21,314	28,327
Total current liabilities	2,899,246	2,883,882
Long-Term Debt	15,396,975	16,072,499
Estimated Third-Party Payor Settlements	958,225	958,225
Accrued Pension Cost	7,054,247	5,666,110
Other Liabilities	2,495,540	2,488,297
Accrued Postretirement Benefits	314,438	-
Due to Affiliates	41,938,173	41,938,173
Total liabilities	71,056,844	70,007,186
Net Deficit		
Unrestricted	(53,681,773)	(55,654,356)
Temporarily restricted	5,120,114	6,542,493
Permanently restricted	6,846,104	8,401,904
Total net deficit	(41,715,555)	(40,709,959)
Total liabilities and net deficit	$ 29,341,289	$ 29,297,227

See notes to financial statements

Muhlenberg Regional Medical Center, Inc.

Statement of Operations
Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Other revenue	$ 657,692	$ 675,812
Expenses		
Salaries and wages and employee benefits	172,020	228,699
Supplies and expenses	1,238,523	2,143,102
Depreciation and amortization	55,202	51,673
Interest	801,955	767,503
Total expenses	2,267,700	3,190,977
Operating loss	(1,610,008)	(2,515,165)
Pension Settlement	(37,470)	(79,464)
Investment Income	335,954	145,837
Change in Net Unrealized Losses on Trading Securities	(82,267)	(27,959)
Revenues less than expenses	(1,393,791)	(2,476,751)
Pension Liability Adjustment	(2,430,782)	(1,114,742)
Transfer from Affiliate	6,048,433	4,853,069
Net Assets Released from Restrictions for Capital Purchases	71,764	23,179
Decrease in Unrestricted Net Deficit from Continuing Operations	2,295,624	1,284,755
Loss from Discontinued Operations	(323,041)	(511,449)
Decrease in unrestricted net deficit	$ 1,972,583	$ 773,306

See notes to financial statements

Muhlenberg Regional Medical Center, Inc.

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

	2015	2014
Unrestricted Net Deficits		
Revenues less than expenses	$ (1,393,791)	$ (2,476,751)
Pension liability adjustment	(2,430,782)	(1,114,742)
Transfer from affiliate	6,048,433	4,853,069
Net assets released from restrictions for capital purchases	71,764	23,179
Decrease in unrestricted net deficit from continuing operations	2,295,624	1,284,755
Loss from discontinued operations	(323,041)	(511,449)
Decrease in unrestricted net deficit	1,972,583	773,306
Temporarily Restricted Net Assets		
Change in interest in net assets of Muhlenberg Foundation, Inc.	(2,723,817)	305,690
Transfer from permanently restricted net assets	1,328,059	-
Transfer from affiliate	71,764	23,179
Investment (loss) gain	(26,621)	8,120
Net assets released from restrictions for capital purchases	(71,764)	(23,179)
(Decrease) increase in temporarily restricted net assets	(1,422,379)	313,810
Permanently Restricted Net Assets		
Transfer to temporarily restricted net assets	(1,328,059)	-
Change in interest in net assets of Muhlenberg Foundation, Inc.	(92,780)	110,115
Change in valuation of beneficial interest in perpetual trusts	(134,961)	50,762
(Decrease) increase in permanently restricted net assets	(1,555,800)	160,877
(Increase) decrease in net deficit	(1,005,596)	1,247,993
Net Deficit		
Beginning of year	(40,709,959)	(41,957,952)
End of year	$ (41,715,555)	$ (40,709,959)

See notes to financial statements

Muhlenberg Regional Medical Center, Inc.

Statement of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
(Increase) decrease in net deficit	$ (1,005,596)	$ 1,247,993
Adjustments to reconcile (increase) decrease in net deficit to net cash provided by operating activities:		
Depreciation	24,931	20,540
Amortization	30,271	31,133
Loss on impairment	356,242	558,700
Transfers from affiliates	(6,120,197)	(4,876,248)
Change in valuation of beneficial interest in perpetual trusts	134,961	(50,762)
Net realized and unrealized losses (gains)	66,224	(39,460)
Pension liability adjustment	2,430,782	1,114,742
Pension settlement	37,470	79,464
Change in assets and liabilities:		
Prepaid expenses and other current assets	(19,636)	108,700
Other assets	(60,182)	12,837
Due from/to affiliates	6,048,619	4,866,064
Accounts payable	(78,776)	(16,801)
Accrued expenses	(30,644)	7,002
Other current liabilities	(7,013)	295
Estimated third-party payor settlements	-	(1,049,294)
Accrued pension cost	(1,080,115)	(1,361,524)
Other liabilities	7,243	449,564
Accrued postretirement benefits	303,336	(86,694)
Net cash provided by operating activities	1,037,920	1,016,251
Cash Flows from Investing Activities		
Purchase of property and equipment	(3,514,755)	(221,320)
(Purchase) sale of assets whose use is limited	(21,743)	16,743
Change in interest in net assets of Muhlenberg Foundation, Inc.	2,816,597	(415,805)
Net cash used in investing activities	(719,901)	(620,382)
Cash Flows from Financing Activities		
Repayment of long-term debt	(532,625)	(398,198)
Transfers from affiliates	71,764	23,179
Net cash used in financing activities	(460,861)	(375,019)
(Decrease) increase in cash and cash equivalents	(142,842)	20,850
Cash and Cash Equivalents, Beginning	339,134	318,284
Cash and Cash Equivalents, Ending	$ 196,292	$ 339,134
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 801,955	$ 767,503
Transfer from affiliates in the form of forgiveness of related liabilities	$ 6,048,433	$ 4,853,069

See notes to financial statements

1. Organizational Structure and Nature of Operations

Muhlenberg Regional Medical Center, Inc. (“MRMC”) is a not-for-profit, controlled entity of JFK Health System, Inc. (“JFK Health System”). MRMC was a 355-bed acute care medical center located in Plainfield, New Jersey. MRMC was established and is operated for the promotion of health. 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 (See Note 17). In August 2008, the acute hospital at MRMC was closed and only the School of Nursing and School of Radiology and a few small outpatient services remained opened under MRMC through December 31, 2008. The Emergency Room operation was transferred to the Community Hospital Group, Inc. d/b/a JFK Medical Center ("JFK Medical Center") during 2008, and then the School of Nursing and School of Radiology were transferred to JFK Medical Center during 2009.

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 was included in other assets on the balance sheet.

Other controlled entities of JFK Health System include: The Community Hospital Group, Inc. d/b/a JFK Medical Center (“JFK Medical Center”); John F. Kennedy Medical Center Foundation, Inc.; Muhlenberg Foundation, Inc. (the “Foundation”); Lifestyle Institute, Inc.; JFK Healthshare, Inc.; Hartwyck at JFK, Inc.; Hartwyck West Nursing Home, Inc. and affiliates; Hartwyck at Oak Tree, Inc.(“Oak Tree”); JFK Population Health Company, LLC; JFK Medical Associates, P.A.; and Atlantic Insurance Exchange, Ltd., a wholly-owned insurance company.

Basis of Reporting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of MRMC as a going concern. In August 2008, the acute hospital at MRMC was closed and through December 31, 2009 all operations were transferred to JFK Medical Center except for the Home Health Department which was sold in 2010. As shown in the accompanying financial statements, MRMC’s revenues less than expenses were approximately ($1,394,000) and ($2,477,000) during 2015 and 2014, respectively. Its working capital deficiency was approximately $2,640,000 at December 31, 2015. As of December 31, 2015, MRMC had $16 million owed in long-term debt and approximately $42 million owed to affiliates with only $2.2 million in cash and assets whose use is limited.

In July 2009, JFK Health System issued $152,925,000 to the obligated group including JFK Medical Center, MRMC and Oak Tree, Series 2009 A-1 Bonds (“Series 2009 A-1 Bonds”) under the State of New Jersey Hospital Asset Transformation Program (“HATP”) which refinanced the MRMC bonds. The Series 2009 A-1 Bonds were issued in connection with the termination of then acute care services at MRMC and to provide funds for various capacity expansion and capital improvement projects for JFK Health System in connection with the MRMC acute hospital closing. Principal payments of $675,524 are due October 1, 2016 and are included in current installment of long-term debt.

On April 1, 2009, JFK Health System Board of Directors approved an amendment to freeze the JFK Health System Cash Balance Retirement Plan effective May 3, 2009. No additional employees will be eligible to become a participant of the Plan after that date. Service credits of participants were also frozen as of May 3, 2009, but participants of the Plan will continue to earn interest credits.

During 2011, MRMC approved phasing out the medical post-retirement benefits.

JFK Health System will provide the opportunity for MRMC to continue its remaining operations as a going concern through funding all obligations and cash flow requirements. The financial statements do not include any adjustments that might be necessary if MRMC is unable to continue as a going concern.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt investments purchased with an original maturity of three months or less, excluding assets whose use is limited.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside under deferred compensation plans and assets restricted by donor and consists of cash and cash equivalents, mutual funds, and marketable equity securities and are carried at fair value.

Interest in Net Assets of Muhlenberg Foundation, Inc.

MRMC and the Foundation are financially interrelated organizations. MRMC recognizes its rights to the assets held by the Foundation as interest in net assets of Muhlenberg Foundation, Inc. in the accompanying balance sheet unless the Foundation has been granted variance power. MRMC adjusts that interest for its share of the change in the net assets of the Foundation as a change in temporarily or permanently restricted net assets, depending upon type of donor restriction, in the accompanying statement of changes in net assets. Amounts will be distributed to MRMC when donor restrictions are met.

Beneficial Interest in Perpetual Trusts

Under perpetual trust arrangements, MRMC has recorded the asset and has recognized permanently restricted contribution revenue at the fair value of MRMC's beneficial interest in the trust assets. Income earned on the trust assets and distributed to MRMC is recorded as investment income in the accompanying 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 have 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 another location on the MRMC campus and the renovation thereof (the "Project").

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

MRMC 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.

Deferred Financing Costs

Deferred financing costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the debt using an effective interest method. Amortization amounted to $30,271 and $31,133 in 2015 and 2014, respectively. Accumulated amortization of deferred financing costs at December 31, 2015 and 2014 totaled $221,180 and $190,909, respectively.

Revenues Less Than Expenses

The statement of operations includes the determination of revenues less than expenses. Changes in unrestricted net deficit which are excluded from the determination of revenues less than expenses, consistent with industry practice, include, pension 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).

Other Revenues

Other revenues consists of gains on investment in joint venture recorded under the equity method of accounting.

Functional Expenses

MRMC expenses are related to maintenance of the campus and continued operations. During 2015 and 2014, the functional classification of expenses are general and administrative.

Income Taxes

MRMC is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its exempt income under Section 501(a) of the Code.

MRMC 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 and 2014.

MRMC's federal Tax Exempt Organization Business Income Tax Returns are no longer subject to examination by the Internal Revenue Service for years before 2013.

Fair Value of Financial Instruments

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

Assets whose use is limited are stated at fair value, which are the amounts reported in the balance sheet, based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

Beneficial interest in perpetual trust are valued using discounted cash flow methodologies.

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by MRMC has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by MRMC in perpetuity.

Subsequent Events

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

Recent Accounting Pronouncement

Deferred Financing Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. MRMC has determined that these classification changes will not have a significant impact on the financial statements.

3. Net Patient Service Revenue Audits

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

- Medicare: Prior to August 2008, inpatient acute care services and outpatient services rendered to Medicare program beneficiaries were paid at prospectively determined rates. These rates varied according to patient classification systems that were based on clinical, diagnostic, and other factors. In addition, MRMC was reimbursed for certain cost reimbursable items at tentative interim rates, with final settlement determined after submission of annual cost reports by MRMC and audits thereof by the Medicare fiscal intermediary. MRMC's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2008, with the exception of December 31, 2005, which has been filed but not finalized.

- Medicaid: Prior to August 2008, inpatient acute care services rendered to Medicaid program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. Inpatient nonacute services were paid at prospectively determined per diem rates. Outpatient services were paid based on a published fee schedule, with final settlement determined after submission of annual cost reports. The Medicaid cost reports have been settled through December 31, 2008.

Revenue received under third-party arrangements continues to be subject to audit and retroactive adjustment. During 2014, there was a favorable adjustment to prior years' estimates of approximately $449,000. This adjustment is related to final settlement of a prior year cost report and is recorded within net patient service revenues of discontinued operations. There was no such adjustment in 2015.

4. Assets Whose Use Is Limited

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

	2015	2014
Under deferred compensation plans:		
Cash and cash equivalents	$ 29,367	$ 29,657
Mutual funds - equities	9,395	9,627
Total under deferred compensation plans	38,762	39,284
Donor restricted:		
Cash and cash equivalents	224,463	211,494
Mutual funds - fixed income	982,691	1,013,035
Mutual funds - equities	379,589	359,171
Marketable equity securities	338,471	385,473
Total donor restricted	1,925,214	1,969,173
Noncurrent portion of assets whose use is limited	$ 1,963,976	$ 2,008,457

Unrestricted investment income, gains and losses for assets whose use is limited, and cash and cash equivalents are comprised of the following in 2015 and 2014:

	2015	2014
Investment income:		
Interest and dividend income	$ 319,911	$ 78,418
Realized gains, net	16,043	67,419
Total	$ 335,954	$ 145,837
Change in net unrealized gains and losses on trading securities	$ (82,267)	$ (27,959)

5. Fair Value Measurements

MRMC measured its 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 MRMC for identical assets. These generally provide the most reliable evidence.

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.

	Fair Value as of December 31, 2015				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Assets whose use is limited:					
Cash and cash equivalents	$ 253,830	$ 253,830	$ 253,830	$ -	$ -
Mutual funds - equities	388,984	388,984	388,984	-	-
Mutual funds - fixed income	982,691	982,691	982,691	-	-
Marketable equity securities	338,471	338,471	338,471	-	-
Beneficial interest in perpetual trusts	2,608,502	2,608,502	-	-	2,608,502
Total	$ 4,572,478	$ 4,572,478	$ 1,963,976	$ -	$ 2,608,502
Disclosed at Fair Value					
Cash and cash equivalents	$ 196,292	$ 196,292	$ 196,292	$ -	$ -
Long-term debt	$ 16,072,499	$ 17,578,756	$ -	$ 17,578,756	$ -

	Fair Value as of December 31, 2014				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Assets whose use is limited:					
Cash and cash equivalents	$ 241,151	$ 241,151	$ 241,151	$ -	$ -
Mutual funds - equities	368,798	368,798	368,798	-	-
Mutual funds - fixed income	1,013,035	1,013,035	1,013,035	-	-
Marketable equity securities	385,473	385,473	385,473	-	-
Beneficial interest in perpetual trusts	2,743,463	2,743,463	-	-	2,743,463
Total	$ 4,751,920	$ 4,751,920	$ 2,008,457	$ -	$ 2,743,463
Disclosed at Fair Value					
Cash and cash equivalents	$ 339,134	$ 339,134	$ 339,134	$ -	$ -
Long-term debt	$ 16,605,124	$ 18,653,380	$ -	$ 18,653,380	$ -

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

	2015	2014
Balance, beginning of year	$ 2,743,463	$ 2,692,701
Investment income from beneficial interest in perpetual trusts	115,405	104,734
Distributions from beneficial interest in perpetual trusts	(115,405)	(104,734)
Valuation (loss) gain	(134,961)	50,762
Balance, end of year	$ 2,608,502	$ 2,743,463

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

Level 3 instruments are valued using discounted cash flow methodologies based on the underlying securities. Beneficial interest in perpetual trusts are eleven trusts established in which MRMC receives between 2.5% and 100% of the annual income and gains and losses are discounted using an average interest rate of 2.9%.

6. Property and Equipment

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

	2015	2014
Land and land improvements	$ 1,495,729	$ 1,366,989
Buildings and improvements	64,315,909	61,640,959
Fixed equipment	441,768	66,694
Equipment	43,178,172	42,551,177
Total	109,431,578	105,625,819
Less accumulated depreciation	93,983,325	93,330,258
	15,448,253	12,295,561
Construction in progress	-	19,110
Property and equipment, net	$ 15,448,253	$ 12,314,671

Due to the closure of the acute care facility of MRMC, cumulative impairments of $14,961,969 and $14,605,727 were recorded against building and improvements and equipment assets as of December 31, 2015 and 2014, respectively.

7. Accrued Expenses

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

	2015	2014
Other	$ 41,186	$ 59,353
Employee benefits	8,500	13,222
Refunds of overpayments	-	7,755
Total	$ 49,686	$ 80,330

8. Long-Term Debt

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 the obligated group consisting of 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 are due annually beginning October 1, 2013. The Series 2009 A-1 Bonds refinanced various series of bonds issued on behalf of, and other indebtedness of JFK Medical Center, 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 and providing funds for various capacity expansion and capital improvement projects at JFK Medical Center.

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

	2015	2014
New Jersey Health Care Facilities Financing Authority Revenue and Refunding Bonds, Series 2009 A-1 Bonds, Obligated Group	$ 16,072,499	$ 16,605,124
Less current installments	675,524	532,625
Long-term debt, excluding current installments	$ 15,396,975	$ 16,072,499

MRMC's scheduled principal repayments for long-term debt are as follows:

Years ending December 31:	
2016	$ 675,524
2017	709,978
2018	746,691
2019	785,099
2020	826,331
Thereafter	12,328,876
Total	$ 16,072,499

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

9. Pension Plan and Postretirement Healthcare Benefits

Cash Balance Retirement Plan

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 $1,502,026 and 3,856,633, respectively.

The changes in projected benefit obligations allocated by JFK Health System to MRMC in 2015 and 2014 are as follows:

	2015	2014
Projected benefit obligation at beginning of year	$ 40,321,026	$ 39,975,718
Interest cost	1,458,136	1,689,885
Actuarial (gain) loss	(731,524)	3,339,221
Benefits paid	(860,594)	(827,165)
Plan settlements	(1,502,026)	(3,856,633)
Projected benefit obligation at end of year	$ 38,685,018	$ 40,321,026
Accumulated benefit obligation	$ 38,685,018	$ 40,321,026

The changes in plan assets allocated by JFK Health System to MRMC in 2015 and 2014 are as follows:

	2015	2014
Fair value of plan assets at beginning of year	$ 34,876,246	$ 34,872,390
Actual return on plan assets	(863,830)	3,474,534
Employer contributions	506,940	1,213,120
Benefits paid	(860,594)	(827,165)
Plan settlements	(1,502,026)	(3,856,633)
Fair value of plan assets at end of year	$ 32,156,736	$ 34,876,246

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

	2015	2014
Fair value of plan assets	$ 32,156,736	$ 34,876,246
Projected benefit obligation	38,685,018	40,321,026
Funded status of the plan (under funded)	$ (6,528,282)	$ (5,444,780)

The amounts of net periodic pension cost (credit) allocated by JFK Health System to MRMC for 2015 and 2014 are as follows:

	2015	2014
Interest cost	$ 1,458,136	$ 1,689,885
Expected return on plan assets	(2,568,454)	(2,503,370)
Amortization of actuarial loss	247,461	225,343
Settlement loss	535,292	1,135,205
Net periodic pension (credit) cost	$ (327,565)	$ 547,063

A net actuarial loss of $2,700,760 represents the previously unrecognized component of net periodic pension cost included in unrestricted net assets at December 31, 2015. A net actuarial loss of $2,368,056 represents the previously unrecognized component of net periodic pension cost included in unrestricted net assets at December 31, 2014.

A net actuarial loss of $314,859 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 following table provides the amounts recognized in the balance sheet at December 31, 2015 and 2014:

	2015	2014
Accrued pension cost		
Noncurrent	$ 6,528,282	$ 5,444,780
Net amount recognized	$ 6,528,282	$ 5,444,780

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

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:

	2015	2014
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:

	2015	2014
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:

	2015	Target Asset Allocation	2014	Target Asset Allocation
Asset category:				
Equity securities	34 %	34 %	38 %	38 %
Debt securities	51	51	46	47
Alternative investments - collective fund	15	15	16	15

The plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with JFK Health System' 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	$ 2,223,000
2017	1,979,000
2018	2,341,000
2019	2,581,000
2020	2,515,000
2021 - 2024	14,479,000

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	$ 388	$ 388	$ -	$ -
Mutual funds:				
Large cap	5,797,229	5,797,229	-	-
Small cap	1,612,291	1,612,291	-	-
Emerging markets equity fund	926,132	926,132	-	-
Equities	2,551,808	2,551,808		
Emerging markets debt fund	649,222	649,222	-	-
High yield bond fund	1,247,456	1,247,456	-	-
Long duration funds	14,572,971	14,572,971	-	-
Collective fund	4,799,239	-	-	4,799,239
Total	$ 32,156,736	$ 27,357,497	$ -	$ 4,799,239

	Assets at Fair Value as of December 31, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Money market	$ 5,261	$ 5,261	$ -	$ -
Mutual funds:				
Large cap	6,948,716	6,948,716	-	-
Small cap	1,658,431	1,658,431	-	-
Equities	3,821,596	3,821,596	-	-
Emerging markets debt fund	594,638	594,638	-	-
High yield bond fund	1,531,728	1,531,728	-	-
Long duration funds	14,579,163	14,579,163	-	-
Collective fund	5,736,713	-	-	5,736,713
Total	$ 34,876,246	$ 29,139,533	$ -	$ 5,736,713

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

	Collective Fund	
	2015	**2014**
Balance, beginning of year	$ 5,736,713	$ 5,381,021
Unrealized (loss) gain	(937,474)	355,692
Balance, end of year	$ 4,799,239	$ 5,736,713

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 funds (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 MRMC 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.

Postretirement Benefits

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

	2015	2014
Benefit obligation at beginning of year	$ 50,513	$ 137,207
Interest cost	87	409
Plan participants' contributions	69,337	84,416
Actuarial loss (gain)	348,542	(21,823)
Benefits paid	(114,630)	(149,696)
Benefit obligation at end of year	$ 353,849	$ 50,513

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

	2015	2014
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	45,293	65,280
Plan participants' contributions	69,337	84,416
Benefits paid	(114,630)	(149,696)
Fair value of plan assets at end of year	$ -	$ -

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

	2015	2014
Fair value of plan assets	$ -	$ -
Accumulated benefit obligation	353,849	50,513
Funded status of the postretirement plan (underfunded)	(353,849)	(50,513)
Accrued postretirement healthcare benefit liability at end of year	(353,849)	(50,513)
Less current portion	(39,411)	(50,513)
Noncurrent portion of accrued postretirement healthcare benefit liability	$ (314,438)	$ -

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

	2015	2014
Interest cost	$ 87	$ 409
Amortization of prior service credit	(179,838)	(179,835)
Unrecognized net gain	(29,688)	(14,502)
Net periodic postretirement benefit credit	$ (209,439)	$ (193,928)

A net actuarial gain of $348,542 and $21,823 represents the previously unrecognized components of net periodic postretirement benefit cost included in unrestricted net assets at December 31, 2015 and 2014, respectively.

A net actuarial loss of $46,987 is expected to be recognized in net periodic postretirement benefit cost in 2016.

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

	2015	2014
Discount rate	3.50 %	.39 %
Healthcare cost trend rate	N/A	N/A
Year ultimate increase reached	N/A	N/A

Assumed healthcare cost trend rates have a significant effect on the amounts reported for postretirement benefit plans. However, since MRMC 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.

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	$	39,000
2017		38,000
2018		37,000
2019		35,000
2020		33,000
Thereafter		136,000

10. Professional and General Liability Insurance

AIE was incorporated under the laws of Bermuda on June 24, 1987 and insures the risks of JFK Health System and its subsidiaries. During 2015 and 2014, there were no AIE premiums charged to MRMC as a result of the tail coverage that was purchased and expensed in 2010.

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

11. Health Insurance Benefits

MRMC self-insures its employee health insurance coverages. MRMC accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of its individual and aggregate stop-loss insurance coverages, based upon data provided by the third-party administrator of the program and its historical claims experience. MRMC recorded a liability of $8,500 and $13,222 at December 31, 2015 and 2014, respectively, related to health insurance. The amount is included in employee benefits in accrued expenses in the accompanying balance sheet.

12. Deferred Compensation Plans

MRMC has certain deferred compensation and supplemental income plans for key employees. The actuarially determined costs of such plans are accrued. The plans' accumulated benefit obligations amounted to $38,761 and $39,284 at December 31, 2015 and 2014, respectively. MRMC funds the entire amount of accumulated benefit obligations which is included in assets whose use is limited in the accompanying balance sheet. No benefit payments were made during 2015 and 2014.

13. Temporarily and Permanently Restricted Net Assets

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

	2015	2014
Assets held for betterments to plant facilities and purchases of equipment	$ 1,522,307	$ 220,869
Interest in temporarily restricted net assets of Muhlenberg Foundation, Inc.	3,597,807	6,321,624
Total	$ 5,120,114	$ 6,542,493

Permanently restricted net assets are related to the following:

	2015	2014
Investments to be held in perpetuity, the income from which is generally available for MRMC operations and programs	$ -	$ 1,328,059
Interest in permanently restricted net assets of Muhlenberg Foundation, Inc.	4,237,602	4,330,382
Beneficial interest in perpetual trust	2,608,502	2,743,463
Total	$ 6,846,104	$ 8,401,904

Endowment Funds

MRMC's endowment funds consisted of one fund established to support the operations of MRMC. The endowment includes 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.

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).

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

	2015	2014
Endowment net assets, beginning of year	$ 1,328,059	$ 1,328,059
Net assets repurposed for the Project	(1,328,059)	-
Total investment return	-	334,731
Total assets restricted by donor for permanently restricted endowment funds	-	1,662,790
Unrestricted net assets increased for unrealized gains	-	(334,731)
Endowment net assets, end of year	-	1,328,059

14. Concentrations of Credit Risk

MRMC 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.

15. Contingencies

Reopening of Cost Reports

In October 2006, MRMC received a letter from Riverbend, the previous New Jersey's Medicare fiscal intermediary, indicating their intention to reopen previously final settled Medicare cost reports for 2001 through 2003. Riverbend cited that the calculations for Disproportionate Share Hospital ("DSH") reimbursement for these years may have contained errors in the number of Medicaid eligible days, which is a critical component of the DSH calculation. For these years, Riverbend received information on Medicaid eligible days from the New Jersey Medicaid Agency, The Division of Medical Assistance and Health Services. During 2009, CMS decided not to reopen cost reports for the fiscal years 2001 to 2003. The balances for these years were moved to the 2005 and 2006 cost report years.

Utilizing Medicaid eligible days based on the final settled Medicare cost report for 2004, MRMC estimated a potential overpayment of DSH reimbursement for the 2005 cost report year of approximately $1,665,000. This amount is included in estimated third-party payor settlements in the accompanying balance sheet.

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 financial statements.

Other

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

16. Related Party Transactions

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

	2015	2014
Due from affiliates:		
Atlantic Insurance Exchange, Ltd.	$ -	$ 1,172
Muhlenberg Foundation, Inc.	986	-
Total due from affiliates	986	1,172
Less current portion	986	1,172
Noncurrent portion	$ -	$ -
Due to affiliates, noncurrent:		
JFK Health System Health System, Inc.	$ 41,938,173	$ 41,938,173

The affiliates periodically advance funds for working capital purposes. Interest is not charged on these balances and there are no formal repayment terms.

During years ended December 31, 2015 and 2014, JFK Medical Center transferred $6,048,433 and $4,853,069, respectively, to MRMC to forgive intercompany balances.

17. Discontinued Operations

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

	2015	2014
Net Patient Service Revenues	$ 33,735	$ 501,631
Expenses:		
Supplies and expenses	534	454,380
Impairment building (See Note 6)	356,242	558,700
Total expenses	356,776	1,013,080
Loss from Discontinued Operations	$ (323,041)	$ (511,449)

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