

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

Consolidated Financial Statements and
Supplementary Information

December 31, 2014 and 2013



BAKER TILLY

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JFK Health System, Inc. and Controlled Entities

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December 31, 2014 and 2013

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Baker Tilly Virchow Krause, LLP
100 Walnut Ave, Ste 200
Clark, NJ 07066-1255
tel 732 388 5210
tel 800 267 9405
fax 888 264 9617
bakertilly.com

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, 2014 and 2013, and the related consolidated statements of operations, changes in net assets (deficit), 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, 2014 and 2013, 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
April 29, 2015

JFK Health System, Inc. and Controlled Entities

 Consolidated Balance Sheet
 December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
Assets			Liabilities and Net Assets (Deficit)		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 44,770,920	\$ 46,124,620	Current maturities of long-term debt	\$ 5,729,022	\$ 4,511,879
Funds held for residents	169,773	157,925	Current maturities of capital		
Investments	18,918,675	18,042,883	lease obligations	1,921,245	2,706,607
Assets whose use is limited	3,432,843	3,053,548	Funds held for residents	169,773	157,925
Accounts receivable, patients (net of estimated allowance for doubtful collections of \$15,645,000 in 2014 and \$15,882,000 in 2013)	67,764,228	66,444,767	Accounts payable	38,510,925	37,650,036
Inventories of drugs and supplies	6,940,091	6,639,695	Accrued expenses	42,284,368	37,720,215
Prepaid expenses and other current assets	10,410,360	9,243,953	Estimated third-party payor settlements	9,707,146	8,308,874
			Accrued postretirement benefits	155,651	301,615
			Other current liabilities	3,015,091	5,746,559
Total current assets	152,406,890	149,707,391	Total current liabilities	101,493,221	97,103,710
Investments	5,839,379	5,382,803	Long-Term Debt	155,642,521	161,368,809
Assets Whose Use is Limited	39,069,998	35,749,780	Capital Lease Obligations	3,928,240	4,529,150
Property and Equipment, Net	165,114,802	170,397,659	Estimated Third-Party Payor Settlements	20,551,232	21,369,561
Deferred Financing Costs, Net	3,199,778	3,538,603	Self-Insurance Reserves	27,741,942	32,133,986
Pledges Receivable, Net	627,902	445,682	Accrued Pension Cost	32,249,447	30,749,678
Other Assets	7,204,301	6,504,873	Accrued Postretirement Benefits	-	188,442
Beneficial Interest in Perpetual Trusts	5,262,574	5,112,547	Other Liabilities	12,923,199	8,848,628
			Total liabilities	354,529,802	356,291,964
			Net Assets (Deficit)		
			Unrestricted	2,917,748	(442,968)
			Temporarily restricted	11,631,544	11,531,689
			Permanently restricted	9,646,530	9,458,653
			Total net assets	24,195,822	20,547,374
Total	<u>\$ 378,725,624</u>	<u>\$ 376,839,338</u>	Total	<u>\$ 378,725,624</u>	<u>\$ 376,839,338</u>

See notes to consolidated financial statements

JFK Health System, Inc. and Controlled Entities

Consolidated Statement of Operations

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted Revenues, Gains, and Other Support		
Patient service revenues, net of contractual allowances and discounts	\$ 528,104,562	\$ 493,762,514
Resident fees	7,281,779	7,386,766
Less provision for doubtful collections	<u>21,424,294</u>	<u>21,322,143</u>
Net patient and resident service revenues	513,962,047	479,827,137
Other revenues	21,310,411	19,063,748
Special events	264,745	247,410
Net assets released from restrictions used in operations	427,135	423,647
Contributions	<u>146,548</u>	<u>271,287</u>
Total unrestricted revenues, gains, and other support	<u>536,110,886</u>	<u>499,833,229</u>
Expenses		
Salaries and wages	250,146,185	240,536,652
Employee benefits	41,949,005	45,002,555
Supplies and expenses	203,561,413	188,803,593
Special events - unrestricted	115,774	103,902
Depreciation and amortization	18,177,215	18,545,307
Interest	<u>8,894,040</u>	<u>9,329,988</u>
Total expenses	<u>522,843,632</u>	<u>502,321,997</u>
Operating Income (Loss)	13,267,254	(2,488,768)
Pension Settlement	(5,621,937)	(6,831,853)
Investment Income	1,423,523	1,532,712
Change in Net Unrealized Gains and Losses on Trading Securities	586,306	(1,524,729)
Other Gain (Loss)	<u>834</u>	<u>(41,078)</u>
Revenues in excess of (less than) expenses	9,655,980	(9,353,716)
Pension/Postretirement Liability Adjustment	(7,521,395)	29,073,263
Net Assets Released from Restrictions for Capital Purchases	<u>1,737,580</u>	<u>1,884,880</u>
Increase in unrestricted net assets from continuing operations	3,872,165	21,604,427
Loss from Discontinued Operations	<u>(511,449)</u>	<u>(298,898)</u>
Increase in unrestricted net assets	<u>\$ 3,360,716</u>	<u>\$ 21,305,529</u>

See notes to consolidated financial statements

JFK Health System, Inc. and Controlled Entities

Consolidated Statement of Changes in Net Assets (Deficit)

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted Net Assets (Deficit)		
Revenues in excess of (less than) expenses	\$ 9,655,980	\$ (9,353,716)
Pension/postretirement liability adjustment	(7,521,395)	29,073,263
Net assets released from restrictions for capital purchases	<u>1,737,580</u>	<u>1,884,880</u>
Increase in unrestricted net assets from continuing operations	3,872,165	21,604,427
Loss from discontinued operations	<u>(511,449)</u>	<u>(298,898)</u>
Increase in unrestricted net assets	<u>3,360,716</u>	<u>21,305,529</u>
Temporarily Restricted Net Assets		
Contributions	1,951,375	1,251,369
Investment income	414,239	841,290
Realized and change in unrealized losses on investments	(31,123)	(59,251)
Change in provision for doubtful accounts	(67,921)	(42)
Net assets released from restrictions used in operations	(427,135)	(423,647)
Net asset transfer	(2,000)	(5,300)
Net assets released from restrictions for capital purchases	<u>(1,737,580)</u>	<u>(1,884,880)</u>
Increase (decrease) in temporarily restricted net assets	<u>99,855</u>	<u>(280,461)</u>
Permanently Restricted Net Assets		
Contributions	35,850	10,800
Net asset transfer	2,000	5,300
Change in valuation of beneficial interest in perpetual trusts	<u>150,027</u>	<u>470,333</u>
Increase in permanently restricted net assets	<u>187,877</u>	<u>486,433</u>
Increase in Net Assets	3,648,448	21,511,501
Net Assets (Deficit)		
Beginning of year	<u>20,547,374</u>	<u>(964,127)</u>
End of year	<u>\$ 24,195,822</u>	<u>\$ 20,547,374</u>

See notes to consolidated financial statements

JFK Health System, Inc. and Controlled Entities

Consolidated Statement of Cash Flows

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 3,648,448	\$ 21,511,501
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	17,822,977	18,182,133
Amortization	354,238	363,174
Provision for doubtful collections	21,424,294	21,322,143
Loss on impairment	558,700	295,314
Net realized and change in unrealized (gains) losses on investments	(910,870)	631,437
Change in valuation of beneficial interest in perpetual trusts	(150,027)	(470,333)
Pension/postretirement liability adjustment	7,521,395	(29,073,263)
Pension settlement	5,621,937	6,831,853
Temporarily restricted contributions and investment income	(2,365,614)	(2,092,659)
Changes in assets and liabilities:		
Accounts receivable, patients	(22,743,755)	(20,781,445)
Inventories of drugs and supplies	(300,396)	(361,300)
Prepaid expenses and other assets	(1,697,677)	1,587,603
Accounts payable	860,889	7,894,124
Accrued expenses	4,564,153	2,435,302
Estimated third-party payor settlements	579,943	(3,671,336)
Accrued pension cost	(11,643,563)	(13,923,707)
Self-insurance reserves	(4,392,044)	7,974,809
Accrued postretirement benefits	(334,406)	(558,522)
Other current and long-term liabilities	1,343,103	2,669,067
Net cash provided by operating activities	<u>19,761,725</u>	<u>20,765,895</u>
Cash Flows from Investing Activities		
(Purchase) Sale of investments and assets whose use is limited	(4,121,011)	11,573,280
Purchases of property and equipment	<u>(12,410,247)</u>	<u>(29,208,089)</u>
Net cash used in investing activities	<u>(16,531,258)</u>	<u>(17,634,809)</u>
Cash Flows from Financing Activities		
(Increase) decrease in pledges receivable	(350,378)	47,290
Proceeds from restricted contributions and investment income	2,365,614	2,092,659
Repayment of long-term debt	(4,509,145)	(5,106,683)
Repayment of capital lease obligations	(2,074,845)	(2,805,565)
Payment of deferred financing costs	<u>(15,413)</u>	<u>(12,656)</u>
Net cash used in financing activities	<u>(4,584,167)</u>	<u>(5,784,955)</u>
Decrease in Cash and Cash Equivalents	(1,353,700)	(2,653,869)
Cash and Cash Equivalents, Beginning	<u>46,124,620</u>	<u>48,778,489</u>
Cash and Cash Equivalents, Ending	<u>\$ 44,770,920</u>	<u>\$ 46,124,620</u>
Supplemental Disclosure of Cash Flow Information,		
Interest paid	<u>\$ 8,930,942</u>	<u>\$ 9,359,976</u>
Purchases of property and equipment through capital lease obligations	<u>\$ 688,573</u>	<u>\$ 3,766,049</u>

See notes to consolidated financial statements

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, the investment was \$898,304 and \$911,141, 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 a new 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

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

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% and 89% of self-pay accounts receivable at December 31, 2014 and December 31, 2013, respectively. In addition, JFK Medical Center's self-pay account write-offs (net of recoveries) decreased to \$17,836,312 in 2014 from \$19,314,059 in 2013. The decrease was the result of fewer uninsured patients in 2014 due to the Affordable Care Act. JFK Medical Center has not changed its financial assistance policy in 2014 or 2013.

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

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 2014 and 2013 from these major payor sources, are as follows:

	Patient Service Revenues and Resident Fees (Net of Contractual Allowances and Discounts)			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
December 31, 2014	<u>\$ 186,293,000</u>	<u>\$ 332,330,000</u>	<u>\$ 16,763,000</u>	<u>\$ 535,386,000</u>
December 31, 2013	<u>\$ 179,523,000</u>	<u>\$ 302,538,000</u>	<u>\$ 19,088,000</u>	<u>\$ 501,149,000</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 (less than) 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

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

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

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

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 \$354,238 in 2014 and \$363,174 in 2013. Accumulated amortization of deferred financing costs at December 31, 2014 and 2013 totaled \$2,128,568 and \$1,774,330, 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 (Less Than) Expenses

The consolidated statement of operations includes the determination of revenues in excess of (less than) expenses. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of (less than) 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 \$1,716,000 and \$1,583,000 in 2014 and 2013, respectively.

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

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

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 2016.

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 2011.

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 2014 or 2013.

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 2011.

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

Reclassification

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Subsequent Events

JFK Health System evaluated subsequent events for recognition or disclosure through April 29, 2015, the date the consolidated financial statements were available to be issued.

New Accounting Pronouncement

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, 2017. JFK Health System has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

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 \$16,122,000 in 2014 and \$25,044,000 in 2013.

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, 2014 and 2013 were approximately \$4,420,000 and \$4,338,000, respectively.

JFK Health System, Inc. and Controlled Entities

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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, 2009 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, 2012.

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Revenue received under third-party arrangements is subject to audit and retroactive adjustments. Net patient service revenues include favorable adjustments of approximately \$943,000 and \$1,779,000 in 2014 and 2013, respectively. The adjustments related to tentative and final settlements of prior year cost reports and other settlements.

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, 2014 and 2013 is set forth in the following table:

	<u>2014</u>	<u>2013</u>
Investments:		
Cash and cash equivalents	\$ 1,999,720	\$ 1,954,353
Certificates of deposit	71,122	70,050
U.S. government obligations	5,027,403	4,549,526
U.S. agency obligations	3,225,599	3,537,218
Mutual funds - equities	5,040,407	4,730,683
Mutual funds - fixed income	1,121,875	1,091,667
Mutual funds - other	73,418	222,497
Alternative investment funds	155,933	-
Corporate bonds	3,035,465	2,901,268
Municipal bonds	735,612	719,429
Marketable equity securities	4,271,500	3,648,995
Total	24,758,054	23,425,686
Less current portion	18,918,675	18,042,883
Noncurrent portion	<u>\$ 5,839,379</u>	<u>\$ 5,382,803</u>

JFK Health System, Inc. and Controlled Entities

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	<u>2014</u>	<u>2013</u>
Assets whose use is limited:		
Held by bond trustees under trust indentures,		
Cash and cash equivalents	\$ 3,432,843	\$ 3,053,548
Self-insurance funds:		
Cash and cash equivalents	2,159,401	3,460,386
U.S. government obligations	21,049,736	16,006,075
U.S. government mortgage-backed obligations	7,562,396	8,136,282
Total	30,771,533	27,602,743
Under deferred compensation plans:		
Cash and cash equivalents	29,657	29,950
Mutual funds - equities	2,595,307	2,647,405
Total	2,624,964	2,677,355
Donor restricted:		
Cash and cash equivalents	491,900	657,895
Mutual funds - equities	1,893,726	1,712,748
Mutual funds - fixed income	1,485,325	1,520,521
U.S. government obligations	268,272	268,700
U.S. agency obligations	201,964	209,753
Alternative investment funds	129,799	-
Corporate bonds	213,428	259,381
Marketable equity securities	989,087	840,684
Total	5,673,501	5,469,682
Total assets whose use is limited	42,502,841	38,803,328
Less current portion	3,432,843	3,053,548
Noncurrent portion	<u>\$ 39,069,998</u>	<u>\$ 35,749,780</u>

JFK Health System, Inc. and Controlled Entities

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

	2014		2013	
	Unrestricted	Temporarily Unrestricted	Unrestricted	Temporarily Unrestricted
Investment income:				
Interest and dividend income	\$ 1,290,082	\$ 191,993	\$ 1,230,837	\$ 190,622
Realized gains, net	133,441	222,246	301,875	650,668
Total	<u>\$ 1,423,523</u>	<u>\$ 414,239</u>	<u>\$ 1,532,712</u>	<u>\$ 841,290</u>
Change in net unrealized gains and losses on trading securities	<u>\$ 586,306</u>	<u>\$ (31,123)</u>	<u>\$ (1,524,729)</u>	<u>\$ (59,251)</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

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	Fair Value as of December 31, 2014				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
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
Total	\$ 72,523,469	\$ 72,523,469	\$ 56,092,752	\$ 11,168,143	\$ 5,262,574
Disclosed at Fair Value					
Cash and cash equivalents	\$ 44,770,920	\$ 44,770,920	\$ 44,770,920	\$ -	\$ -
Pledges receivable	\$ 1,143,621	\$ 1,143,621	\$ -	\$ 1,143,621	\$ -
Long-term debt	\$ 161,371,543	\$ 179,450,701	\$ -	\$ 165,074,158	\$ 14,376,543

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

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	Fair Value as of December 31, 2013				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Investments:					
Cash and cash equivalents	\$ 1,954,353	\$ 1,954,353	\$ 1,954,353	\$ -	\$ -
Certificates of deposit	70,050	70,050	-	70,050	-
U.S. government obligations	4,549,526	4,549,526	4,549,526	-	-
U.S. agency obligations	3,537,218	3,537,218	3,537,218	-	-
Mutual funds - equities	4,730,683	4,730,683	4,730,683	-	-
Mutual funds - fixed income	1,091,667	1,091,667	1,091,667	-	-
Mutual funds - other	222,497	222,497	222,497	-	-
Corporate bonds	2,901,268	2,901,268	-	2,901,268	-
Municipal bonds	719,429	719,429	719,429	-	-
Marketable equity securities	3,648,995	3,648,995	3,648,995	-	-
Assets whose use is limited:					
Cash and cash equivalents	7,201,779	7,201,779	7,201,779	-	-
U.S. government obligations	16,274,775	16,274,775	16,274,775	-	-
U.S. government mortgage-backed obligations	8,136,282	8,136,282	-	8,136,282	-
Mutual funds - equities	4,360,153	4,360,153	4,360,153	-	-
Mutual funds - fixed income	1,520,521	1,520,521	1,520,521	-	-
U.S. agency obligations	209,753	209,753	209,753	-	-
Corporate bonds	259,381	259,381	-	259,381	-
Marketable equity securities	840,684	840,684	840,684	-	-
Beneficial interest in perpetual trusts	5,112,547	5,112,547	-	-	5,112,547
Total	\$ 67,341,561	\$ 67,341,561	\$ 50,862,033	\$ 11,366,981	\$ 5,112,547
Disclosed at Fair Value					
Cash and cash equivalents	\$ 46,124,620	\$ 46,124,620	\$ 46,124,620	\$ -	\$ -
Pledges receivable	\$ 793,243	\$ 793,243	\$ -	\$ 793,243	\$ -
Long-term debt	\$ 165,880,688	\$ 177,952,004	\$ -	\$ 162,591,316	\$ 15,360,688

The carrying amounts of cash and cash equivalents approximate fair value at December 31, 2014 and 2013.

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

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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 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 5,112,547	\$ 4,642,214
Investment income from beneficial interest in perpetual trusts	172,789	170,080
Distributions from beneficial interest in perpetual trusts	(172,789)	(170,080)
Valuation gain, net	<u>150,027</u>	<u>470,333</u>
Ending balance	<u>\$ 5,262,574</u>	<u>\$ 5,112,547</u>

Valuation 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
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7. Property and Equipment

Property and equipment at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 17,524,920	\$ 17,420,968
Buildings and improvements	309,297,640	286,626,903
Fixed equipment	43,978,788	43,385,307
Movable equipment	215,303,361	208,466,817
Leasehold improvements	858,287	845,327
Capitalized leases	12,360,823	14,494,630
Construction in progress	<u>2,847,681</u>	<u>20,629,837</u>
Total	602,171,500	591,869,789
Less accumulated depreciation	<u>437,056,698</u>	<u>421,472,130</u>
Property and equipment, net	<u>\$ 165,114,802</u>	<u>\$ 170,397,659</u>

Due to the closure of the acute care facility of MRMC, cumulative impairments of \$14,605,727 and \$14,047,027 are recorded against building and improvements and equipment assets as of December 31, 2014 and 2013, respectively.

8. Pledges Receivable

Capital pledge campaigns have been undertaken to raise funds in connection with construction of the Schools of Nursing, Medical Imaging, and Therapeutic Services at MRMC and construction of an Ambulatory Care Services Building, improvements to the Emergency Department, and supporting the Intensity Modulated Radiation Therapy project (along with other medical technology investments) at JFK Medical Center. Pledges related to these campaigns have been recorded as temporarily restricted contributions.

JFK Health System, Inc. and Controlled Entities

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Pledges receivable are recorded as follows as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Capital campaign pledges before unamortized discount and allowance for uncollectible pledges	\$ 1,260,631	\$ 870,574
Unamortized discount	(23,945)	(11,105)
Subtotal	1,236,686	859,469
Allowance for uncollectible pledges	(93,065)	(66,226)
Net unconditional promises to give	<u>\$ 1,143,621</u>	<u>\$ 793,243</u>
Amounts due in:		
Less than one year	\$ 563,254	\$ 379,428
One to five years	697,377	491,146
Total	<u>\$ 1,260,631</u>	<u>\$ 870,574</u>

The discount rate used was 1.74% at December 31, 2014 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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 10,262,524	\$ 9,241,688
Paid time off	15,034,958	13,777,589
Employee benefits	4,930,830	5,179,015
Other	3,518,399	2,446,675
Malpractice	2,257,334	-
Interest	2,042,151	2,079,053
Refund over payments	2,018,945	2,098,794
Payroll taxes	1,024,690	1,222,855
Severance	397,672	818,656
Occupational/physical therapy services	480,667	441,598
Provider tax assessment	416,198	414,292
Total	<u>\$ 42,384,368</u>	<u>\$ 37,720,215</u>

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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 as JFK Assisted Living 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, 2021. On September 1, 2021, 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, 2014. The mortgage has a maturity date of September 1, 2016. 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, 2016. The interest rate was 2.16% as of December 31, 2014. The mortgage is secured by the Whispering Knoll facility.

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The JFK Health System's long-term debt at December 31, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
New Jersey Health Care Facilities Financing Authority		
Revenue Bonds:		
Series 2009 A-1 Bonds, Obligated Group	\$ 146,995,000	\$ 150,520,000
Series 2001 Bonds, Whispering Knoll	8,664,322	9,323,540
Mortgage notes payable:		
Mortgage payable - Whispering Knoll	2,760,985	2,913,067
Mortgage payable - Hartwyck West	<u>2,951,236</u>	<u>3,124,081</u>
Total	161,371,543	165,880,688
Less current maturities	<u>5,729,022</u>	<u>4,511,879</u>
Long-term debt	<u>\$ 155,642,521</u>	<u>\$ 161,368,809</u>

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

Years Ending December 31	
2015	\$ 5,729,022
2016	12,064,738
2017	7,013,626
2018	7,363,263
2019	7,728,733
Thereafter	<u>121,472,161</u>
Total	<u>\$ 161,371,543</u>

Capital lease obligations consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Capital lease obligations with interest ranging from 3.90% to 9.08% per annum, final payment due in 2016	\$ 5,849,485	\$ 7,235,757
Less current portion	<u>1,921,245</u>	<u>2,706,607</u>
Long-term portion	<u>\$ 3,928,240</u>	<u>\$ 4,529,150</u>

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

Years ending December 31:	
2015	\$ 2,166,581
2016	1,521,588
2017	1,066,758
2018	836,172
2019	756,684
Thereafter	<u>53,534</u>
Total minimum payments	6,401,317
Less amounts representing interest	<u>551,832</u>
	5,849,485
Less current installments	<u>1,921,245</u>
	<u>\$ 3,928,240</u>

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 2014 and 2013, the Pension Plan offered lump sum settlements to certain participants which were accepted which reduced the projected benefit obligation and assets by \$22,686,077 and \$29,867,771, respectively.

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The changes in projected benefit obligations in 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Projected benefit obligation at beginning of year	\$ 235,151,277	\$ 277,188,366
Interest cost	9,940,502	9,369,005
Plan settlements	(22,686,077)	(29,867,771)
Actuarial loss (gain)	19,642,479	(16,226,110)
Benefits paid	(4,865,679)	(5,312,213)
	<u>\$ 237,182,502</u>	<u>\$ 235,151,277</u>
Projected benefit obligation at end of year	<u>\$ 237,182,502</u>	<u>\$ 235,151,277</u>
Accumulated benefit obligation	<u>\$ 237,182,502</u>	<u>\$ 235,151,277</u>

The changes in plan assets in 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets at beginning of year	\$ 205,131,699	\$ 211,584,532
Actual return on plan assets	20,438,442	19,766,151
Employer contributions	7,136,000	8,961,000
Plan settlements	(22,686,077)	(29,867,771)
Benefits paid	(4,865,679)	(5,312,213)
	<u>\$ 205,154,385</u>	<u>\$ 205,131,699</u>
Fair value of plan assets at end of year	<u>\$ 205,154,385</u>	<u>\$ 205,131,699</u>

The following is a summary of the funded status of the plan at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets	\$ 205,154,385	\$ 205,131,699
Projected benefit obligation	<u>237,182,502</u>	<u>235,151,277</u>
Funded status of the plan (under funded)	<u>\$ (32,028,117)</u>	<u>\$ (30,019,578)</u>

The components of net periodic pension cost for 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Interest cost	\$ 9,940,502	\$ 9,369,005
Expected return on plan assets	(14,725,707)	(16,062,035)
Amortization of actuarial loss	1,325,547	2,252,241
Settlement loss recognized	6,677,678	8,114,803
	<u>\$ 3,218,020</u>	<u>\$ 3,674,014</u>
Net periodic pension cost	<u>\$ 3,218,020</u>	<u>\$ 3,674,014</u>

A net actuarial loss (gain) of \$13,929,742 and (\$19,930,225) represents the previously unrecognized components of net periodic pension cost included in unrestricted net assets at December 31, 2014 and 2013, respectively.

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A net actuarial loss of \$8,003,225 represents the unrecognized component of net periodic benefit cost included in unrestricted net assets at December 31, 2014 expected to be amortized into net periodic pension cost in 2015.

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. The actuarial gain of \$16,226,110 in 2013 is primarily attributed to the increase in the discount rate.

During 2014 and 2013, an additional \$221,330 and \$730,100, respectively, was calculated by the actuary and included in accrued pension cost to cover inactive MRMC participants through 2015.

The contribution to the Plan in 2015 is expected to be \$3,761,000.

The weighted-average assumptions used in computing the Plan's benefit obligation at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	3.74 %	4.55 %
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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	4.55 %	3.57 %
Expected long-term rate of return on plan assets	7.60	8.00
Rate of compensation increase	N/A	N/A

The expected long-term rate of return on Plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall capital markets. The expected long-term rate of return assumption used in computing 2014 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, 2014 and 2013:

	<u>2014</u>	<u>Target Asset Allocation</u>	<u>2013</u>	<u>Target Asset Allocation</u>
Asset category:				
Equity securities	38 %	33 %	39 %	33 %
Debt securities	46	52	46	52
Alternative investments - collective fund	16	15	15	15

JFK Health System, Inc. and Controlled Entities

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December 31, 2014 and 2013

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:

2015	\$ 10,662,089
2016	12,555,270
2017	12,147,728
2018	13,834,505
2019	14,639,503
2020 - 2023	78,763,348

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, 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>

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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The following table sets forth by level, within the fair value hierarchy, the Plan assets at fair value as of December 31, 2013:

	Assets at Fair Value as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
Money market	\$ 5,625	\$ 5,625	\$ -	\$ -
Mutual funds:				
Large cap	41,049,194	41,049,194	-	-
Small cap	10,386,795	10,386,795	-	-
Equities	26,810,428	26,810,428	-	-
Emerging markets				
debt fund	4,027,263	4,027,263	-	-
High yield bond fund	10,049,318	10,049,318	-	-
Long duration funds	81,150,009	81,150,009	-	-
Collective fund	31,653,067	-	-	31,653,067
Total	<u>\$ 205,131,699</u>	<u>\$ 173,478,632</u>	<u>\$ -</u>	<u>\$ 31,653,067</u>

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

	2014	2013
Balance, beginning of year	\$ 31,653,067	\$ 28,963,421
Unrealized gain	2,092,306	2,689,646
Balance, end of year	<u>\$ 33,745,373</u>	<u>\$ 31,653,067</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.

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December 31, 2014 and 2013

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 in 2014 and 2013 was approximately \$3,503,000 and \$3,533,000, respectively.

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 \$244,000 and \$242,000 in 2014 and 2013, respectively.

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 \$178,000 in 2014 and \$131,000 in 2013.

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 \$38,000 in 2014 and \$34,000 in 2013.

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

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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. 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 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Benefit obligation at beginning of year	\$ 490,057	\$ 1,048,579
Interest cost	1,241	4,834
Plan participants' contributions	752,389	791,287
Actuarial gain	(239,036)	(379,555)
Benefits paid	<u>(849,000)</u>	<u>(975,088)</u>
Benefit obligation at end of year	<u>\$ 155,651</u>	<u>\$ 490,057</u>

The changes in plan assets in 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	96,611	183,801
Plan participants' contributions	752,389	791,287
Benefits paid	<u>(849,000)</u>	<u>(975,088)</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
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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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets	\$ -	\$ -
Accumulated benefit obligation	155,651	490,057
Funded status of the postretirement plan (under funded)	(155,651)	(490,057)
Accrued postretirement healthcare benefit liability at end of year	(155,651)	(490,057)
Less current portion	(155,651)	(301,615)
Noncurrent portion of accrued postretirement healthcare benefit liability	<u>\$ -</u>	<u>\$ (188,442)</u>

The components of net periodic postretirement benefit credit for 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Interest cost	\$ 1,241	\$ 4,834
Amortization of prior service credit	(1,747,510)	(1,747,510)
Amortization of actuarial loss	(183,015)	(39,851)
Net periodic postretirement benefit credit	<u>\$ (1,929,284)</u>	<u>\$ (1,782,527)</u>

A net actuarial gain of \$239,036 and \$379,555 represent the previously unrecognized component of net periodic postretirement benefit cost included in unrestricted net assets at December 31, 2014 and 2013, respectively.

A net actuarial gain of \$363,323 and a prior service credit of \$1,747,510 are expected to be recognized in net periodic postretirement benefit cost in 2015.

Weighted-average assumptions used in determining the actuarial present value of the projected benefit obligation for 2014 and 2013 were:

	<u>2014</u>	<u>2013</u>
Discount rate - MRMC Plan	.39 %	.42 %
Discount rate - JFK Medical Center Plan	.39	.45
Healthcare cost trend rate	N/A	N/A
Year ultimate increase reached	N/A	N/A

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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 2014.

The JFK Health System expects to contribute \$105,138 to its postretirement benefit plans in 2015. MRMC expects to contribute \$50,513 to its postretirement benefit plan in 2015.

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

Years ending December 31:	
2015	\$ 155,651

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 Health System and controlled entities.

The JFK Health System's liability for the estimated future payments of its asserted and unasserted medical malpractice and general liability claims was approximately \$27,742,000 and \$32,134,000 at December 31, 2014 and 2013, respectively, and 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 \$1,780,000 and \$1,020,000 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, 2014 and 2013, respectively. Of these claims, approximately \$1,080,000 and \$540,000 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, 2014 and 2013, 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.

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

13. Other Liabilities

JFK Medical Center has recorded a reserve of approximately \$1,150,000 and \$1,189,000 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, 2014 and 2013, respectively. Of these claims, approximately \$1,150,000 and \$1,189,000 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, 2014 and 2013, 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. 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, 2014, JFK Medical Center drew \$3 million on the line of credit, which is included in other long-term liabilities in the balance sheet.

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 \$3,062,487 and \$3,811,391 at December 31, 2014 and 2013, respectively, related to health insurance. The amount is included in employee benefits within accrued expenses in the accompanying consolidated balance sheet.

15. Temporarily and Permanently Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Assets held for betterments to plant facilities and purchases of equipment	<u>\$ 11,631,544</u>	<u>\$ 11,531,689</u>

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Notes to Consolidated Financial Statements
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Permanently restricted net assets are related to the following:

	<u>2014</u>	<u>2013</u>
Investments to be held in perpetuity, the income from which is generally available for the JFK Health System operations and programs	\$ 4,383,956	\$ 4,346,106
Beneficial interest in perpetual trusts	<u>5,262,574</u>	<u>5,112,547</u>
Total	<u>\$ 9,646,530</u>	<u>\$ 9,458,653</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.

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Changes in permanently restricted endowment net assets for the years ended December 31, 2014 and 2013 are comprised of the following:

	<u>2014</u>	<u>2013</u>
Endowment net assets, beginning of year	\$ 4,346,106	\$ 4,330,006
Total net asset transfers	2,000	5,300
Total investment return	334,731	298,796
Contributions	<u>35,850</u>	<u>10,800</u>
Total assets restricted by donor for permanently restricted endowment funds	4,718,687	4,644,902
Unrestricted net assets increased for unrealized gains	<u>(334,731)</u>	<u>(298,796)</u>
Endowment net assets, end of year	<u>\$ 4,383,956</u>	<u>\$ 4,346,106</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, 2014 and 2013 from patients and third-party payors is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	25 %	28 %
Medicaid	3	6
Blue Cross	17	16
Aetna	7	8
Other third-party payors	39	33
Patients	<u>9</u>	<u>9</u>
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

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, JFK Medical Center has received \$1.8 million and \$2.9 million, respectively, from Medicare and Medicaid, which is recorded in other revenue on the statement of operations.

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.

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, 2014 and 2013

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	
2015	\$ 2,157,543
2016	1,616,001
2017	1,571,901
2018	988,551
2019	436,854
	<u>18,749</u>
Total	<u>6,789,599</u>

Rental expense on operating leases was \$2,081,029 in 2014 and \$1,742,939 in 2013.

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 2014 and 2013:

	<u>2014</u>	<u>2013</u>
	(in thousands)	
Program services	\$ 461,813	\$ 456,006
General and administrative	60,774	46,056
Fundraising	307	200
Education and scholarship	<u>109</u>	<u>60</u>
Total	<u>\$ 523,003</u>	<u>\$ 502,322</u>

JFK Health System, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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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 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Net patient service revenues	\$ 501,631	\$ 2,064,044
Expenses:		
Supplies and expenses	454,380	2,067,628
Impairment building (See Note 7)	558,700	295,314
Total expenses	<u>1,013,080</u>	<u>2,362,942</u>
Loss from discontinued operations	<u>\$ (511,449)</u>	<u>\$ (298,898)</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.

22. Subsequent Events

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).

On April 2, 2015, JFK Medical Center entered into an agreement with Cerner Corporation to receive licensed software and services related to a new clinical and electronic medical record system. On March 31, 2015, JFK also 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.

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
Assets														
Current Assets														
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 (net of estimated allowance for doubtful collections of \$15,645,000)	-	-	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)	-
Total current assets	474,324	3,592,646	126,686,601	383,262	111,954	138,913	1,960,408	5,266,601	8,766,901	6,142,230	2,713	3,074,571	(4,194,234)	152,406,890
Investments	-	-	-	-	-	-	2,666,586	3,172,793	-	-	-	-	-	5,839,379
Assets Whose Use is Limited	2,585,680	30,771,533	-	2,008,457	-	-	1,622,337	2,081,991	-	-	-	-	-	39,069,998
Property and Equipment, Net	385,025	-	123,201,790	12,314,671	40,821	-	381,833	-	12,341,123	13,501,960	2,850,850	96,729	-	165,114,802
Deferred Financing Costs, Net	-	-	2,529,305	297,064	-	-	-	-	276,014	97,395	-	-	-	3,199,778
Pledges Receivable, Net	-	-	-	-	-	-	627,902	-	-	-	-	-	-	627,902
Other Assets	2,114,262	-	3,536,934	898,304	271,608	-	46,157	-	-	337,036	-	-	-	7,204,301
Beneficial Interest in Net Assets of Affiliate	-	-	6,686,931	10,652,006	-	-	-	-	-	-	-	-	(17,338,937)	-
Note Receivable, Affiliate	-	-	2,789,882	-	-	-	-	-	-	-	-	-	(2,789,882)	-
Beneficial Interest in Perpetual Trusts	-	-	-	2,743,463	-	-	-	2,519,111	-	-	-	-	-	5,262,574
Due from Affiliates	234,230	2,000,000	1,156,686	-	86,945	-	242,948	67,930	4,260	7,350,736	1,434	191,179	(11,336,348)	-
Total	\$ 5,793,521	\$ 36,364,179	\$ 266,588,129	\$ 29,297,227	\$ 511,328	\$ 138,913	\$ 7,548,171	\$ 13,108,426	\$ 21,388,298	\$ 27,429,357	\$ 2,854,997	\$ 3,362,479	\$ (35,659,401)	\$ 378,725,624

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
Liabilities and Net (Deficit) Assets														
Current Liabilities														
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	-	-	-	-	-	27,250	-	-	-	155,851
Other current liabilities	-	-	2,959,514	28,327	-	-	-	-	-	-	-	-	-	3,015,091
Notes payable to affiliates	-	-	-	-	-	-	-	-	51,984	-	-	-	-	-
Due to affiliates	-	335,657	191,178	-	-	66,284	-	-	-	-	-	-	(51,984)	-
													(593,119)	-
Total current liabilities	240,623	5,785,638	86,403,905	2,883,882	3,074	67,507	71,947	17,120	6,273,122	2,717,782	-	1,267,769	(4,239,148)	101,493,221
Long-Term Debt	-	-	111,308,536	16,072,499	-	-	-	-	14,898,965	13,362,521	-	-	-	155,642,521
Capital Lease Obligations	-	-	3,928,240	-	-	-	-	-	-	-	-	-	-	3,928,240
Estimated Third-Party Payor Settlements	-	-	15,273,469	958,225	-	-	-	-	3,480,828	838,710	-	-	-	20,551,232
Self-insurance Reserves	-	27,741,942	-	-	-	-	-	-	-	-	-	-	-	27,741,942
Accrued Pension Cost	-	-	26,583,337	5,666,110	-	-	-	-	-	-	-	-	-	32,249,447
Accrued Postretirement Benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	3,308,669	-	6,787,798	2,488,297	1,399	-	-	-	-	337,036	-	-	-	12,923,199
Note Payable, Affiliate	-	-	-	-	-	-	-	-	2,789,883	-	-	-	(2,789,883)	-
Due to Affiliates	32,035,509	-	-	41,938,173	88,854	-	1,002,442	2,135,686	6,007,721	75,625	2,999,997	-	(86,284,007)	-
Total liabilities	35,584,801	33,527,580	250,285,285	70,007,186	93,327	67,507	1,074,389	2,152,806	33,450,519	17,331,674	2,999,997	1,267,769	(93,313,038)	354,529,802
Net (Deficit) Assets														
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
Total net (deficit) assets	(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
Total	<u>\$ 5,793,521</u>	<u>\$ 36,364,179</u>	<u>\$ 266,588,129</u>	<u>\$ 29,297,227</u>	<u>\$ 511,328</u>	<u>\$ 138,913</u>	<u>\$ 7,548,171</u>	<u>\$ 13,108,426</u>	<u>\$ 21,388,298</u>	<u>\$ 27,429,357</u>	<u>\$ 2,854,997</u>	<u>\$ 3,362,479</u>	<u>\$ (35,659,401)</u>	<u>\$ 378,725,624</u>

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	
Unrestricted Revenues, Gains, and Other Support:															
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	
Expenses															
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	
Gain on Sale of Property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Pension Settlement Charge	-	-	(5,542,473)	(79,464)	-	-	-	-	-	-	-	-	-	(5,621,937)	
(Provision for) Recovery of Doubtful Collections on Related Party Receivables	(40,493)	-	872,633	-	-	-	-	-	-	-	-	-	(832,140)	-	
Investment Income	12,006	638,072	603,961	145,837	-	-	11,884	147,793	1,700	9,735	-	-	(147,465)	1,423,523	
Change in Net Unrealized Gains and Losses on Trading Securities	(6,357)	108,114	456,571	(27,959)	-	-	(5,375)	61,312	-	-	-	-	-	586,306	
Other Gain	-	-	-	-	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	
Pension/Postretirement 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	
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	-	
(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	

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
Unrestricted Net Assets														
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
Temporarily Restricted Net Assets														
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
Permanently Restricted Net Assets														
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
(Decrease) Increase in Net Assets	(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
Net (Deficit) Assets, Beginning	(29,864,179)	(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
Net (Deficit) Assets, Ending	<u>\$ (29,791,280)</u>	<u>\$ 2,836,599</u>	<u>\$ 16,302,844</u>	<u>\$ (40,709,959)</u>	<u>\$ 418,001</u>	<u>\$ 71,406</u>	<u>\$ 6,473,782</u>	<u>\$ 10,955,620</u>	<u>\$ (12,062,221)</u>	<u>\$ 10,097,683</u>	<u>\$ (145,000)</u>	<u>\$ 2,094,710</u>	<u>\$ 57,653,637</u>	<u>\$ 24,195,822</u>

JFK Health System, Inc and Controlled Entities

 Schedule of Consolidating Information, Balance Sheet
 December 31, 2013

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRCM	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Consolidation	
													Eliminations	Consolidated
Assets														
Current Assets														
Cash and cash equivalents	\$ 418,939	\$ -	\$ 34,040,103	\$ 318,284	\$ 85,241	\$ 67,827	\$ 1,675,491	\$ 3,849,665	\$ 1,384,444	\$ 4,219,740	\$ -	\$ 64,886	\$ -	\$ 46,124,620
Funds held for residents	-	-	-	-	-	-	-	-	90,390	67,535	-	-	-	157,925
Investments	-	-	16,888,965	-	-	-	154,446	999,472	-	-	-	-	-	18,042,883
Assets whose use is limited	-	-	3,053,548	-	-	-	-	-	-	-	-	-	-	3,053,548
Accounts receivable, patients (net of estimated allowance for doubtful collections of \$15,882,000)	-	-	57,396,853	-	-	63,728	-	-	7,251,312	1,707,864	-	25,010	-	66,444,767
Inventories of drugs and supplies	-	-	6,379,550	-	-	-	29,116	-	124,911	106,118	-	-	-	6,639,695
Prepaid expenses and other current assets	64,718	4,604,127	8,497,485	151,656	30,826	1,442	400,053	20,525	10,740	-	2,713	65,237	(4,605,569)	9,243,953
Note receivable, affiliate	-	-	93,000	-	-	-	-	-	-	-	-	-	-	(93,000)
Due from affiliates	-	-	314,604	15,479	619	-	-	-	144,829	-	-	-	-	(475,531)
Total current assets	483,657	4,604,127	126,664,108	485,419	116,686	132,997	2,259,106	4,869,662	9,006,626	6,101,257	2,713	155,133	(5,174,100)	149,707,391
Investments	-	-	-	-	-	-	2,467,297	2,915,506	-	-	-	-	-	5,382,803
Assets Whose Use is Limited	2,638,622	27,602,743	-	1,985,740	-	-	1,574,879	1,947,796	-	-	-	-	-	35,749,780
Property and Equipment, Net	466,180	-	126,867,416	12,672,591	43,821	-	377,358	-	13,135,679	13,984,959	2,849,655	-	-	170,397,659
Deferred Financing Costs, Net	-	-	2,794,383	328,197	-	-	-	-	304,942	111,081	-	-	-	3,538,603
Pledges Receivable, Net	-	-	-	-	-	-	445,682	-	-	-	-	-	-	445,682
Other Assets	2,055,750	-	2,689,849	911,141	271,608	-	27,685	-	-	548,840	-	-	-	6,504,873
Beneficial Interest in Net Assets of Affiliate	-	-	6,114,976	10,236,201	-	-	-	-	-	-	-	-	(16,351,177)	-
Note Receivable, Affiliate	-	-	2,800,851	-	-	-	-	-	-	-	-	-	(2,800,851)	-
Beneficial Interest in Perpetual Trusts	-	-	-	2,692,701	-	-	-	2,419,846	-	-	-	-	-	5,112,547
Due From Affiliates	220,371	2,000,000	754,355	-	86,945	-	242,948	35,358	4,260	7,189,448	1,434	-	(10,535,119)	-
Total	\$ 5,864,580	\$ 34,206,870	\$ 268,685,938	\$ 29,311,990	\$ 519,060	\$ 132,997	\$ 7,394,955	\$ 12,188,168	\$ 22,451,507	\$ 27,935,585	\$ 2,853,802	\$ 155,133	\$ (34,861,247)	\$ 376,839,338

JFK Health System, Inc and Controlled Entities

Schedule of Consolidating Information, Balance Sheet
December 31, 2013

	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
Liabilities and Net (Deficit) Assets														
Current Liabilities														
Current maturities of long-term debt	\$ -	\$ -	\$ 2,757,679	\$ 398,198	\$ -	\$ -	\$ -	\$ -	\$ 369,123	\$ 986,879	\$ -	\$ -	\$ -	\$ 4,511,879
Current portion of capital lease obligations	-	-	2,706,607	-	-	-	-	-	-	-	-	-	-	2,706,607
Funds held for residents	-	-	-	-	-	-	-	-	90,390	67,535	-	-	-	157,925
Accounts payable	212,606	-	35,089,262	268,158	1,028	-	47,655	-	1,614,949	357,839	-	58,539	-	37,650,036
Accrued expenses	45,000	3,260,330	33,521,873	73,328	2,700	1,223	40,578	12,623	4,056,093	1,303,565	-	8,471	(4,605,569)	37,720,215
Estimated third-party payor settlements	-	-	4,480,035	2,990,024	-	-	-	-	656,404	182,411	-	-	-	8,308,874
Accrued postretirement benefits	-	-	225,644	75,971	-	-	-	-	-	-	-	-	-	301,615
Other current liabilities	-	-	5,692,527	28,032	-	-	-	-	-	26,000	-	-	-	5,746,559
Notes payable to affiliates	-	-	-	-	-	-	-	-	93,000	-	-	-	(93,000)	-
Due to affiliates	-	412,564	117,460	-	-	60,368	-	-	-	-	-	-	(590,392)	-
Total current liabilities	257,606	3,672,894	84,591,087	3,833,711	3,728	61,591	88,233	12,623	6,879,959	2,924,229	-	67,010	(5,288,961)	97,103,710
Long-term Debt	-	-	114,997,176	16,605,124	-	-	-	-	15,392,700	14,373,809	-	-	-	161,368,809
Estimated Third-party Payor Settlements	-	-	16,930,251	958,225	-	-	-	-	2,826,475	654,610	-	-	-	21,369,561
Capital Lease Obligations	-	-	4,529,150	-	-	-	-	-	-	-	-	-	-	4,529,150
Self-insurance Reserves	-	32,133,986	-	-	-	-	-	-	-	-	-	-	-	32,133,986
Accrued Pension Cost	-	-	24,916,250	5,833,428	-	-	-	-	-	-	-	-	-	30,749,678
Accrued Postretirement Benefits	-	-	127,206	61,236	-	-	-	-	-	-	-	-	-	188,442
Other Liabilities	2,701,526	-	3,558,087	2,038,733	1,442	-	-	-	-	548,840	-	-	-	8,848,628
Note Payable, Affiliate	-	-	-	-	-	-	-	-	2,800,851	-	-	-	(2,800,851)	-
Due to Affiliates	32,569,627	-	-	41,939,485	78,281	-	669,755	1,955,775	5,922,229	1,433	2,998,802	115,629	(86,251,016)	-
Total liabilities	35,528,759	35,806,880	249,649,207	71,269,942	83,451	61,591	757,988	1,968,398	33,822,214	18,502,921	2,998,802	182,639	(94,340,828)	356,291,964
Net (Deficit) Assets														
Unrestricted	(29,664,179)	(1,600,010)	12,921,755	(56,427,662)	435,609	71,406	521,991	(16,431)	(11,370,707)	9,432,664	(145,000)	(27,506)	75,425,102	(442,968)
Temporarily restricted	-	-	4,897,350	6,228,683	-	-	4,897,350	6,015,934	-	-	-	-	(10,507,628)	11,531,689
Permanently restricted	-	-	1,217,626	8,241,027	-	-	1,217,626	4,220,267	-	-	-	-	(5,437,893)	9,458,653
Total net (deficit) assets	(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
Total	\$ 5,864,580	\$ 34,206,870	\$ 268,685,938	\$ 29,311,990	\$ 519,060	\$ 132,997	\$ 7,394,955	\$ 12,188,168	\$ 22,451,507	\$ 27,935,585	\$ 2,853,802	\$ 155,133	\$ (34,861,247)	\$ 376,839,338

JFK Health System, Inc. and Controlled Entities

 Schedule of Consolidating Information, Statement of Operations
 Year Ended December 31, 2013

	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	
Unrestricted Revenues, Gains, and Other Support:															
Patient service revenues, net of contractual allowances and discounts	\$ -	\$ -	\$ 446,136,897	\$ -	\$ 769	\$ 899,471	\$ -	\$ -	\$ 37,825,455	\$ 8,845,675	\$ -	\$ 54,247	\$ -	\$ 493,762,514	
Resident fees	-	-	-	-	-	-	-	-	-	7,386,766	-	-	-	7,386,766	
Less provision for doubtful collections	-	-	19,893,613	-	-	28,082	-	-	1,095,445	305,003	-	-	-	21,322,143	
Net patient and resident service revenues	-	-	426,243,284	-	769	871,389	-	-	36,730,010	15,927,438	-	54,247	-	479,827,137	
Other revenues	-	4,850,818	17,300,936	2,525,932	122,265	(19)	501,068	-	372,000	-	-	-	(6,609,252)	19,063,748	
Special events	-	-	-	-	-	-	247,410	-	-	-	-	-	-	247,410	
Net assets released from restrictions used in operations	-	-	171,471	-	-	-	192,440	59,736	-	-	-	-	-	423,647	
Contributions	-	-	-	-	-	-	10,579	260,708	-	-	-	-	-	271,287	
Total unrestricted revenues, gains, and other support	-	4,850,818	443,715,691	2,525,932	123,034	871,370	951,497	320,444	37,102,010	15,927,438	-	54,247	(6,609,252)	499,833,229	
Expenses															
Salaries and wages	3,502	-	213,489,677	830,353	26,664	59,980	47,561	-	18,508,028	7,524,530	-	46,357	-	240,536,652	
Employee benefits	(3,502)	-	38,361,808	(62,667)	4,856	11,347	8,656	-	4,599,783	2,075,894	-	6,380	-	45,002,555	
Supplies and expenses	164,520	15,007,184	157,587,529	2,469,116	177,744	508,755	654,229	79,574	13,987,999	4,746,476	-	29,016	(6,608,549)	188,803,593	
Special events - unrestricted	-	-	-	-	-	-	103,902	-	-	-	-	-	-	103,902	
Depreciation and amortization	-	-	16,206,337	487,450	14,352	-	-	-	1,156,667	680,501	-	-	-	18,545,307	
Interest	-	-	7,044,144	930,288	-	-	-	-	1,019,844	484,997	-	-	(149,285)	9,329,988	
Total expenses	164,520	15,007,184	432,689,495	4,654,540	223,616	580,082	814,348	79,574	39,272,321	15,512,398	-	81,753	(6,757,834)	502,321,997	
Operating (loss) income	(164,520)	(10,156,366)	11,026,196	(2,128,608)	(100,582)	291,288	137,149	240,870	(2,170,311)	415,040	-	(27,506)	148,582	(2,488,768)	
Gain on Sale of Property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Pension Settlement	-	-	(6,735,287)	(96,566)	-	-	-	-	-	-	-	-	-	(6,831,853)	
Recovery of (Provision for) Doubtful Collections on Related Party Receivables	155,707	-	(633,025)	(24,691)	-	-	-	-	-	-	-	-	502,009	-	
Investment Income	120	716,137	661,364	129,907	-	-	13,522	153,391	4,085	3,471	-	-	(149,285)	1,532,712	
Change in Net Unrealized Gains and Losses on Trading Securities	30,009	(1,366,330)	(246,144)	47,509	-	-	(7,416)	17,643	-	-	-	-	-	(1,524,729)	
Other Loss	-	-	-	-	(41,078)	-	-	-	-	-	-	-	-	(41,078)	
Revenues in excess of (less than) expenses	21,316	(10,806,559)	4,073,104	(2,072,449)	(141,660)	291,288	143,255	411,904	(2,166,226)	418,511	-	(27,506)	501,306	(9,353,716)	
Pension/Postretirement Liability Adjustment	-	-	24,004,308	5,068,955	-	-	-	-	-	-	-	-	-	29,073,263	
Net Assets Released from Restrictions for Capital Purchases	-	-	1,884,880	-	-	-	-	-	-	-	-	-	-	1,884,880	
Distributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transfers (To) From Affiliates	(209,728)	-	(4,842,268)	5,313,268	-	(326,000)	-	-	49,899	226,176	(145,000)	-	(66,347)	-	
(Increase) decrease in unrestricted net deficit from continuing operations	(188,412)	(10,806,559)	25,120,024	8,309,774	(141,660)	(34,712)	143,255	411,904	(2,116,327)	644,687	(145,000)	(27,506)	434,959	21,604,427	
Loss From Discontinued Operations	-	-	-	(298,898)	-	-	-	-	-	-	-	-	-	(298,898)	
(Increase) decrease in unrestricted net deficit	\$ (188,412)	\$ (10,806,559)	\$ 25,120,024	\$ 8,010,876	\$ (141,660)	\$ (34,712)	\$ 143,255	\$ 411,904	\$ (2,116,327)	\$ 644,687	\$ (145,000)	\$ (27,506)	\$ 434,959	\$ 21,305,529	

JFK Health System, Inc. and Controlled Entities

Schedule of Consolidating Information, Changes In Net Assets (Deficit)
Year Ended December 31, 2013

	JFK Health System	Atlantic Insurance Exchange	JFK Medical Center	MRCM	Healthshare	Lifestyle	JFK Foundation	Muhlenberg Foundation	Hartwyck at Oak Tree	Hartwyck West	Hartwyck at JFK	JFK MA	Eliminating and Consolidating Entries	Consolidated Balance
Unrestricted Net Assets														
Revenues in excess of (less than) expenses	\$ 21,316	\$ (10,806,559)	\$ 4,073,104	\$ (2,072,449)	\$ (141,660)	\$ 291,288	\$ 143,255	\$ 411,904	\$ (2,166,226)	\$ 418,511	\$ -	\$ (27,506)	\$ 501,306	\$ (9,353,716)
Transfers (to) from affiliates	(209,728)	-	(4,842,268)	5,313,268	-	(326,000)	-	-	49,899	226,176	(145,000)	-	(66,347)	-
Pension/postretirement liability adjustment	-	-	24,004,308	5,068,955	-	-	-	-	-	-	-	-	-	29,073,263
Distributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributed surplus	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions for capital purchases	-	-	1,884,880	-	-	-	-	-	-	-	-	-	-	1,884,880
(Increase) decrease in unrestricted net deficit from continuing operations	(188,412)	(10,806,559)	25,120,024	8,309,774	(141,660)	(34,712)	143,255	411,904	(2,116,327)	644,687	(145,000)	(27,506)	434,959	21,604,427
Loss from discontinued operations	-	-	-	(298,898)	-	-	-	-	-	-	-	-	-	(298,898)
(Increase) decrease in unrestricted net deficit	(188,412)	(10,806,559)	25,120,024	8,010,876	(141,660)	(34,712)	143,255	411,904	(2,116,327)	644,687	(145,000)	(27,506)	434,959	21,305,529
Temporarily Restricted Net Assets														
Net assets released from restrictions for capital purchases	-	-	(1,884,880)	-	-	-	-	-	-	-	-	-	-	(1,884,880)
Contributions	-	-	-	-	-	-	1,112,656	138,713	-	-	-	-	-	1,251,369
Investment (loss) income	-	-	-	(9,572)	-	-	681,615	169,247	-	-	-	-	-	841,290
Transfers from (to) affiliates	-	-	2,056,351	-	-	-	(2,013,238)	(109,460)	-	-	-	-	66,347	-
Realized and change in unrealized gains on investments	-	-	-	-	-	-	(249,422)	190,171	-	-	-	-	-	(59,251)
Change in provision for doubtful accounts	-	-	-	-	-	-	(42)	-	-	-	-	-	-	(42)
Net assets released from restrictions for use in operations	-	-	(171,471)	-	-	-	(192,440)	(59,736)	-	-	-	-	-	(423,647)
Net asset transfer	-	-	-	-	-	-	-	(5,300)	-	-	-	-	-	(5,300)
Change in beneficial interest in net assets of affiliate	-	-	(660,871)	323,635	-	-	-	-	-	-	-	-	337,236	-
(Decrease) increase in temporarily restricted net assets	-	-	(660,871)	314,063	-	-	(660,871)	323,635	-	-	-	-	403,583	(280,461)
Permanently Restricted Net Assets														
Contributions	-	-	-	-	-	-	-	10,800	-	-	-	-	-	10,800
Change in beneficial interest in net assets of affiliate	-	-	-	234,752	-	-	-	-	-	-	-	-	(234,752)	-
Net asset transfer	-	-	-	-	-	-	-	5,300	-	-	-	-	-	5,300
Change in valuation of beneficial interest trusts	-	-	-	251,681	-	-	-	218,652	-	-	-	-	-	470,333
Increase (decrease) in permanently restricted net assets	-	-	-	486,433	-	-	-	234,752	-	-	-	-	(234,752)	486,433
(Increase) Decrease in Net Deficit	(188,412)	(10,806,559)	24,459,153	8,811,372	(141,660)	(34,712)	(517,616)	970,291	(2,116,327)	644,687	(145,000)	(27,506)	603,790	21,511,501
Net (Deficit) Assets, Beginning	(29,475,767)	9,206,549	(5,422,422)	(50,769,324)	577,269	106,118	7,154,583	9,249,479	(9,254,380)	8,787,977	-	-	58,875,791	(964,127)
Net (Deficit) Assets, Ending	\$ (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