

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Saint Peter's Healthcare System, Inc.
Years Ended December 31, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Saint Peter’s Healthcare System, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2014 and 2013

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Report of Independent Auditors

The Board of Trustees
Saint Peter's Healthcare System, Inc.

We have audited the accompanying consolidated financial statements of Saint Peter's Healthcare System, Inc., which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Risk Assurance Company of Saint Peter's University Hospital (RAC), a wholly-owned subsidiary, which statements reflect total assets of \$25,734,000 and \$29,254,000 as of December 31, 2014 and 2013, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for RAC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Peter's Healthcare System, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets and Obligated Group combining balance sheet and Obligated Group combining statement of operations and changes in net assets as of and for the year ended December 31, 2014 are presented for purposes of additional analysis and are 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 audits 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. In our opinion, based on our audits and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

April 23, 2015

Saint Peter's Healthcare System, Inc.

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,526	\$ 2,280
Patient accounts receivable, less allowances for doubtful accounts of \$18,456 in 2014 and \$17,478 in 2013	58,154	48,088
Assets whose use is limited, current portion	20,488	16,088
Supplies	5,477	5,493
Estimated third-party payor settlements, current portion	1,108	4,626
Other current assets	13,458	13,164
Total current assets	112,211	89,739
Assets whose use is limited, less current portion	111,764	124,749
Deferred financing costs, net of accumulated amortization of \$3,529 in 2014 and \$3,327 in 2013	2,373	2,575
Property, plant, equipment and construction, net	195,326	194,310
Estimated third-party payor settlements, less current portion	5,196	1,862
Investments in joint ventures and other assets	6,043	5,590
	\$ 432,913	\$ 418,825
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 9,121	\$ 10,539
Accounts payable	26,637	16,772
Accrued expenses and other liabilities	33,522	33,396
Accrued interest	4,548	4,652
Estimated third-party payor settlements, current portion	2,381	5,590
Total current liabilities	76,209	70,949
Long-term debt, less current portion	165,522	165,755
Estimated third-party payor settlements, less current portion	4,403	2,567
Accrued pension liability	114,820	55,967
Accrued medical malpractice and other liabilities	21,551	19,551
Total liabilities	382,505	314,789
Commitments and contingencies		
Net assets:		
Unrestricted	42,274	94,770
Temporarily restricted	7,784	8,926
Permanently restricted	350	340
Total net assets	50,408	104,036
	\$ 432,913	\$ 418,825

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended December 31	
	2014	2013
Revenue, gains and other support:		
Net patient service revenue	\$ 416,212	\$ 406,565
Provision for bad debts	(11,812)	(13,771)
Net patient service revenue less provision for bad debts	404,400	392,794
Other operating revenue, net	26,980	26,030
Net assets released from restriction for operations	982	1,393
Total revenue, gains and other support	432,362	420,217
Expenses:		
Salaries and wages	208,013	206,450
Resident and physician fees	11,557	8,431
Employee benefits	48,880	50,801
Supplies and other	127,596	129,430
Interest	10,112	10,035
Depreciation and amortization	21,803	19,765
Total expenses	427,961	424,912
Income (loss) from operations	4,401	(4,695)
Severance costs	(673)	-
Equity in net earnings of joint ventures	1,221	1,319
Excess (deficiency) of revenue over expenses	4,949	(3,376)
Net change in unrealized gains and losses on investments	1,166	1,462
Change in pension liability to be recognized in future periods	(62,199)	39,443
Donated equipment and other	3,588	1,063
(Decrease) increase in unrestricted net assets	(52,496)	38,592

Continued on next page.

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Year Ended December 31	
	2014	2013
(Decrease) increase in unrestricted net assets	\$ (52,496)	\$ 38,592
Temporarily restricted:		
Restricted gifts and contributions and other	3,428	2,459
Net assets released from restriction – operations and equipment	(4,570)	(2,456)
(Decrease) increase in temporarily restricted net assets	(1,142)	3
Permanently restricted net assets:		
Restricted gifts and contributions	10	7
(Decrease) increase in net assets	(53,628)	38,602
Net assets at beginning of year	104,036	65,434
Net assets at end of year	\$ 50,408	\$ 104,036

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2014	2013
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (53,628)	\$ 38,602
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	21,803	19,765
Net change in unrealized gains and losses on investments	(1,166)	(1,469)
Equity in net earnings of joint ventures	(1,222)	(1,319)
Donated equipment	(3,588)	(1,063)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(10,066)	5,229
Supplies and other assets	(1,359)	3,555
Accounts payable, accrued expenses and other liabilities	11,887	(8,674)
Estimated third-party payor settlements, net	(1,189)	(3,339)
Accrued pension liability	58,853	(41,165)
Net cash provided by operating activities	20,325	10,122
Cash flows from investing activities		
Proceeds from sale of interest in joint venture	677	-
Cash received from joint ventures	1,173	1,220
Net sales (purchases) of assets whose use is limited	9,751	17,405
Purchases of property, plant, equipment and construction, net	(16,692)	(20,648)
Net cash used in investing activities	(5,091)	(2,023)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	4,340	-
Draw on line of credit	4,500	8,900
Payments on long-term debt and capital lease obligations	(12,828)	(16,081)
Net cash used in financing activities	(3,988)	(7,181)
Net increase in cash and cash equivalents	11,246	918
Cash and cash equivalents, beginning of year	2,280	1,362
Cash and cash equivalents, end of year	\$ 13,526	\$ 2,280
Supplemental disclosure of noncash investing and financing activities and cash flow information		
Assets acquired under capitalized lease obligations	\$ 2,295	\$ 1,402
Cash paid for interest, net of amounts capitalized	\$ 10,216	\$ 10,123

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements

December 31, 2014
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies

Saint Peter's Healthcare System, Inc. (the System) is a nonprofit corporation. The Diocese of Metuchen of the State of New Jersey (the Diocese) is the sponsor of the System and, as provided in the System's bylaws, certain powers are reserved to the Bishop of the Diocese. The System's consolidated financial statements include the following entities: Saint Peter's University Hospital (the Hospital), an acute care 478 licensed bed teaching hospital located in New Brunswick, New Jersey, Saint Peter's Health & Management Services Corporation (Management Services), Saint Peter's Foundation (the Foundation), Margaret McLaughlin McCarrick Care Center (the Care Center), Saint Peter's Properties Corporation (Properties), Risk Assurance Company of Saint Peter's University Hospital (RAC), Saint Peter's Solar Energy Solutions, Inc. (Solar Energy Solutions), Sports Physical Therapy Institute of New Brunswick, Inc. (Sports Physical Therapy), Saint Peter's Faculty Foundation PC (SPFF), Gianna Physician Practice of New York, P.C. (Gianna NY PC), Saint Peter's Healthcare System Physician Associates, P.C. (Physician Associates PC), The National Gianna Center for Women's Health and Fertility, Inc. (National Gianna) and Park Avenue Collections Corporation (Park Avenue) (Park Avenue had no operations during 2014 or 2013). All intercompany balances and transactions have been eliminated in consolidation. Although these entities have been consolidated for financial statement reporting purposes, there may be limitations on the use of an entity's funds by another member of the group resulting from the charitable nature of some of the entities or other factors.

Other unconsolidated entities, for which the System records its interest or investment, include CARES Surgicenter, LLC (CARES), New Brunswick Cardiac Cath Lab, LLC (Cardiac Cath), New Brunswick CK Leasing, LLC (Cyber Knife joint venture) and New Brunswick Affiliated Hospitals (NBAH). During 2013, the System invested in Sovereign Oncology of New Brunswick, LLC (Sovereign Oncology). Sovereign Oncology had no operations in 2013 or 2014. The System accounts for its investments in CARES, Cardiac Cath and Sovereign Oncology on the equity method of accounting (see Note 5), because the System does not control the operations of the investees. The System accounts for its investment in Cyber Knife joint venture and NBAH, a not-for-profit corporation specializing in imaging and blood collection, on the cost basis of accounting. The investment in NBAH is fully reserved.

A summary of the significant accounting policies follows:

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, such as

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

estimated uncollectibles for accounts receivable for services to patients, estimated settlements with third-party payors, medical malpractice insurance liabilities and pension benefit liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents: The System considers all highly-liquid investments with a maturity of three months or less at date of purchase, other than amounts held in the assets whose use is limited investment portfolio, to be cash equivalents. The carrying amount of cash and cash equivalents reported in the consolidated balance sheets approximates fair value.

Receivables for Patient Care: Patient accounts receivable for which the System receives payment under cost reimbursement, prospective payment formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the System.

The amount of the allowance for doubtful accounts is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

Assets Whose Use is Limited: Assets whose use is limited represent assets whose use is restricted for specific purposes through internal designation, by donors or under terms of bond indenture agreements or trust agreements, as well as investments held by RAC (see Note 4). Assets whose use is limited primarily are recorded at fair value as determined by reference to quoted market prices.

All assets whose use is limited investments are classified as other than trading securities. Unrealized gains and losses on assets whose use is limited, except for those unrealized losses which are deemed to be other than temporary impairments, are excluded from the excess (deficiency) of revenue over expenses in the accompanying consolidated statements of

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

operations and changes in net assets. Investment income and realized gains and losses on unrestricted net assets are recorded as other operating revenue. Investment income derived from temporarily restricted investments is also recorded as other operating revenue unless the income or gain or loss is restricted by donor or law.

Supplies: Supplies are carried at the lower of cost or market determined using the first-in, first-out method, or market method. Supplies are used in the provision of patient care and are not held for sale.

Deferred Financing Costs: Deferred financing costs were incurred to obtain financing for various construction and renovation projects. Amortization of these costs is provided on the effective interest method extending over the remaining term of the applicable indebtedness.

Property, Plant, Equipment and Construction: Property, plant, equipment and construction that were purchased by the System are carried at cost. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. Donated assets are recorded at fair market value at the date of donation. Annual provisions for depreciation and amortization of property, plant and equipment are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the term of the related lease for equipment held under capital lease obligations.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of: The 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 in 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.

Classification of Net Assets: The System separately accounts for and reports donor restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted. Temporarily restricted net assets are those whose use is temporarily limited by the donor.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The System follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it relates to its permanently restricted contributions and net assets, as enacted by the State of New Jersey in 2009. The System annually expends the income distributed from the related assets according to donor stipulations.

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations (see Note 3).

Excess (Deficiency) of Revenue Over Expenses: The consolidated statements of operations and changes in net assets include excess (deficiency) of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenue over expenses include the net change in unrealized gains and losses on investments, unless the unrealized losses are deemed to be other than temporary, donated equipment and other, and the change in pension liability to be recognized in future periods. Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported within income (loss) from operations.

Income Taxes: The System parent entity, the Hospital, the Care Center, Management Services, Sports Physical Therapy, SPFF, the Foundation and National Gianna are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Properties is a not-for-profit corporation as described in Section 501(c)(2) of the Code and is also exempt from federal income taxes pursuant to Section 501(a) of the Code. These entities are also exempt from state and local taxes. RAC is not subject to taxes on income or gains under the Cayman Islands tax concessions law.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Solar Energy Solutions, Gianna NY PC, Physician Associates PC and Park Avenue are for-profit entities and, as such, are subject to federal, state and local income taxes. Gianna NY PC and Physician Associates PC are in the process of filing for tax exemption. The provision for income taxes is not material to the System's consolidated results of operations and is included in supplies and other expenses in the consolidated statements of operations and changes in net assets. Solar Energy Solutions has federal and state net operating loss carryforwards of approximately \$8,200 and \$6,900 at December 31, 2014 which begin to expire in 2023 and 2015, respectively.

Related Party Transactions: The entities comprising the System provide various inter-entity services to their affiliated entities and the System parent company. The services consist of certain financial planning, information systems and telecommunications, general accounting, and other services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon method which reflects the approximate level of usage by each entity. Such inter-entity charges and all intercompany balances between the entities comprising the System eliminate in consolidation.

At December 31, 2014 and 2013, the System has a secured loan with a related party which totals approximately \$446 and \$431, respectively, with quarterly payments at an interest rate of 3.5% maturing in October 2026. This loan was replaced with a substitute note effective January 1, 2015 which allows for a loan discharge over a three-year period.

The System has entered into an agreement to become a major academic and clinical affiliate of Rutgers University through its Rutgers Biomedical and Health Sciences division. The agreement became effective July 1, 2014.

Reclassifications: Certain reclassifications have been made to the 2013 amounts previously reported in order to conform with the current year presentation. These reclassifications have no impact on the net assets previously reported.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The provisions of ASU 2014-09 are effective for the System for annual reporting periods beginning after December 15, 2016. Early application is not permitted. The System has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

2. Charity Care and Community Benefits

The System provides care to patients who meet certain criteria defined by the New Jersey Department of Health (DOH) without charge or at amounts less than established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System's records identify and monitor the level of charity care it provides and include the amount of charges forgone for services and supplies furnished. DOH allows retroactive application for charity care up to two years from the date of service.

In accordance with its mission and philosophy, the System commits substantial resources to sponsor a broad range of services to both the indigent as well as the broader community. Community benefits provided to the indigent include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of: traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community.

Community benefits provided to the broader community include the costs of providing services to other populations who may not qualify as indigent but may need special services and support. This type of community benefit includes the costs of: services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professional such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

2. Charity Care and Community Benefits (continued)

A summary of the estimated cost of community benefits provided to both the indigent and the broader community follows:

	Year Ended December 31	
	2014	2013
Community benefits provided to the indigent:		
Charity care provided	\$ 18,444	\$ 23,259
Unpaid cost of public programs, Medicaid and other indigent care programs	9,744	6,923
Community benefits provided to the broader community:		
Non-billed services for the community	4,796	5,637
Education and research provided for the community	6,739	5,670
Estimated cost of community benefits	\$ 39,723	\$ 41,489

The costs of charity care and other community benefit activities are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Hospital's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

The estimated cost of community benefit was 8.3% and 8.8% of total Hospital operating expenses in 2014 and 2013, respectively.

The System receives payments from the New Jersey Health Care Subsidy Funds for charity care and such amounts totaled approximately \$6,204 and \$5,911 for the years ended December 31, 2014 and 2013, respectively.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

3. Net Patient Service Revenue

Accounts Receivable and Net Patient Service Revenue

The System recognizes accounts receivable and patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered (see description of third-party payor payment programs below). For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of discounted rates under the System's self-pay patient policy. Under the policy for self-pay patients, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which would be billed to a commercially insured patient. The impact of this policy on the consolidated financial statements is lower net patient service revenue, as the discount is considered a revenue allowance, and a lower provision for bad debt.

Patient service revenue for the years ended December 31, 2014 and 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

	<u>2014</u>	<u>2013</u>
Third-party payors	\$ 407,043	\$ 395,692
Self-pay	9,169	10,873
Total payors	<u>\$ 416,212</u>	<u>\$ 406,565</u>

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the patients responsibility and the System considers these amounts in its determination of the provision for bad debts based on collection experience.

Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that some patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is reported in the allowance for doubtful accounts.

The System's allowances for doubtful accounts totaled \$18,456 and \$17,478 at December 31, 2014 and 2013, respectively. The allowance for doubtful accounts for self-pay patients was approximately 96% of self-pay accounts receivable as of December 31, 2014 and 2013. Overall, the total of self-pay discounts and write-offs did not change significantly for the years ended December 31, 2014 and 2013. The System has not experienced significant changes in write-off trends and has not changed its charity care policy in the years ended December 31, 2014 and 2013.

Third-Party Payment Programs

The System has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of the System have been audited and settled for years through 2008, except for 2005, at December 31, 2014.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The System is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of the System for years through 2010 have been audited and settled.

Other Third Party Payors: The System also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

The System has provided for certain amounts which are expected to be repaid in relation to a Medicare supplemental payment referred to as disproportionate share, under which the System is paid additional funds based on the number of Medicaid and similar patients it serves. The disproportionate share formula and the requirements for inclusion of certain types of patient days are extremely complex. The underlying data for the formula has been subject to state-wide evaluations by the national and regional administrators of the federal Medicare and New Jersey Medicaid programs in recent years. In 2009, amounts related to cost report years 2001 through 2004 were settled by Medicare. Beginning in August 2010, certain data related to cost report years 2005 through 2007 was required to be resubmitted by hospitals state-wide. As part of this resubmission process in 2010, the System reviewed and revised the applicable data to be in conformity with management's interpretation of the disproportionate share formula requirements. Data for open cost report years outstanding at December 31, 2014, and the impact on the estimated disproportionate share calculations from any resulting data revisions, are reviewed regularly by management of the System. In 2014, Medicare settled the cost report for year 2008. The System believes that adequate provision has been made for this issue; however, the resubmitted data and subsequent years' information may be subject to review in the future by the national and regional administrators of the Medicare and Medicaid programs.

The System has appealed certain items in audited cost reports. The outcome of these appeals is uncertain and, therefore, potential revenue associated with these appeals is not included within the accompanying consolidated statements of operations and changes in net assets.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Revenue from Medicare, Medicaid and their corresponding managed care programs accounted for approximately 34% and 32% of the System's net patient service revenue for the years ended December 31, 2014 and 2013, respectively. There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the System.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on the accompanying consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

State and Other Funding

The New Jersey Health Care Subsidy Funds were established for various purposes including the distribution of charity care payments to hospitals statewide. The following state and other funding amounts have been included in the System's net patient service revenue:

	Year Ended December 31	
	2014	2013
State:		
Delivery System Reform Incentive Payments	\$ 3,828	\$ –
Hospital Relief	–	4,599
Charity Care (<i>Note 2</i>)	6,204	5,911
Graduate Medical Education	3,020	2,854
Federal:		
Graduate Medical Education	2,548	2,885
	\$ 15,600	\$ 16,249

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Effective January 1, 2014, the State of New Jersey replaced the Hospital Relief Subsidy Fund with a new payment mechanism referred to as the Delivery System Reform Incentive Payment Pool (the Pool). The Pool is available to certain hospitals that are able to establish performance improvement activities in one of eight specified clinical improvement areas. Amounts received from the Pool are subject to the satisfaction of certain performance criteria.

The System expects to receive approximately \$3,240 in Charity Care subsidies for distributions scheduled through June 30, 2015. Charity Care subsidies subsequent to June 30, 2015 are presently unknown.

In addition to direct Graduate Medical Education funding received from the federal and state Medicare and Medicaid programs, the System also receives indirect pass-through funding for medical education.

4. Assets Whose Use is Limited

Assets whose use is limited, at fair value, are maintained for the following purposes (see Note 12 for the composition by asset type):

	December 31	
	2014	2013
Assets held as designated by Board of Trustees of the Care Center	\$ 14,951	\$ 15,694
Assets held as designated by Board of Trustees of the Hospital	68,117	68,185
Assets held as designated by donors	4,645	8,083
Assets held under bond indenture	22,531	22,438
Assets held by RAC (<i>Note 10</i>)	22,008	26,437
Total assets whose use is limited	132,252	140,837
Less current portion	20,488	16,088
Noncurrent portion	\$ 111,764	\$ 124,749

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

4. Assets Whose Use is Limited (continued)

Assets held by a trustee under bond indenture agreements are maintained for the following purposes:

	December 31	
	2014	2013
Debt service interest fund	\$ 4,555	\$ 4,655
Debt service principal fund	2,168	2,059
Debt service reserve fund	15,808	15,724
	\$ 22,531	\$ 22,438

Investment income, included in other operating revenue, consists of the following:

	Year Ended December 31	
	2014	2013
Interest and dividend income	\$ 3,170	\$ 3,246
Realized gains and losses	(193)	767
Total investment income reported in other operating revenue (Note 15)	\$ 2,977	\$ 4,013

The System's gross unrealized losses and fair value of individual securities, aggregated by investment category, which have been in a continuous unrealized loss position less than 12 months and greater than 12 months at December 31, 2014 are as follows:

	December 31, 2014					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government obligations (21 securities)	\$ 5,046	\$ (33)	\$ 1,268	\$ (41)	\$ 6,314	\$ (74)
Corporate bonds/fixed income (186 securities)	15,131	(177)	11,929	(233)	27,060	(410)
Mortgage and asset-backed securities (27 securities)	9,970	(120)	8,662	(493)	18,632	(613)
Mutual funds – equities (667 securities)	16,389	(260)	441	(78)	16,830	(338)
Total	\$ 46,536	\$ (590)	\$ 22,300	\$ (845)	\$ 68,836	\$ (1,435)

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

4. Assets Whose Use is Limited (continued)

The System's gross unrealized losses and fair value of individual securities, aggregated by investment category, which have been in a continuous unrealized loss position less than 12 months and greater than 12 months at December 31, 2013 are as follows:

	December 31, 2013					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government obligations (8 securities)	\$ 2,154	\$ (22)	\$ 516	\$ (14)	\$ 2,670	\$ (36)
Corporate bonds/fixed income (134 securities)	16,646	(403)	5,035	(271)	21,681	(674)
Mortgage and asset-backed securities (100 securities)	13,604	(267)	12,717	(581)	26,321	(848)
Mutual funds – equities (103 securities)	2,664	(130)	12,281	(2,199)	14,945	(2,329)
Total	<u>\$ 35,068</u>	<u>\$ (822)</u>	<u>\$ 30,549</u>	<u>\$ (3,065)</u>	<u>\$ 65,617</u>	<u>\$ (3,887)</u>

At December 31, 2014 and 2013, management determined that the unrealized losses were temporary based on the extent and length of time the securities' fair value was below cost.

5. Other Assets

Included within investment in joint ventures and other assets in the accompanying consolidated balance sheets is an investment of \$564 and \$1,229 at December 31, 2014 and 2013, respectively, in CARES. CARES leases and operates an ambulatory surgery center located in a building owned by the Hospital. In 2014 and 2013, the System collected distributions of \$358 and \$762, respectively, and recorded gains of \$370 and \$755, respectively, which represents the System's share of gains accumulated by CARES. Additionally, during 2013, the System reduced its ownership interest in CARES by \$54. In January 2014, the System sold 25% of its equity interest in CARES for a fair market value of \$677. The amount is payable over 5 years at an interest rate of 3% per annum plus LIBOR.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

5. Other Assets (continued)

The following is a condensed summary of financial information of CARES as of December 31, 2014 and 2013:

	December 31	
	2014	2013
Total assets	\$ 3,214	\$ 3,491
Total liabilities	1,376	1,029
Total equity	1,838	2,462

Also included within investments in joint ventures and other assets in the accompanying consolidated balance sheets is an investment of \$1,036 and \$999 at December 31, 2014 and 2013, respectively, in Cardiac Cath. Cardiac Cath leases a portion of the CARES building to operate a low-risk outpatient cardiac catheterization laboratory. In 2014 and 2013, the System collected distributions of \$815 and \$458 and recorded gains of \$852 and \$564, respectively, which represents the System's share of gains accumulated by Cardiac Cath.

The following is a condensed summary of financial information of Cardiac Cath as of December 31, 2014 and 2013:

	December 31	
	2014	2013
Total assets	\$ 1,769	\$ 1,682
Total liabilities	46	30
Total equity	1,723	1,652

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

6. Property, Plant, Equipment and Construction

Property, plant, equipment and construction consist of the following:

	December 31	
	2014	2013
Land	\$ 10,137	\$ 10,137
Buildings, building service equipment and improvements	300,752	290,172
Fixed equipment	10,381	10,343
Major movable equipment	228,752	216,916
	550,022	527,568
Less accumulated depreciation and amortization	358,289	336,730
	191,733	190,838
Construction in progress	3,593	3,472
	\$ 195,326	\$ 194,310

The System capitalized \$266 of interest costs, net of earnings, during 2013 (none in 2014). During 2014, the System recorded \$2,295 of equipment acquired through capitalized lease obligations.

Depreciation expense was \$21,559 and \$19,515 in 2014 and 2013, respectively. Useful lives of depreciable assets range from 3 to 40 years.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt and Line of Credit

Long-term debt consists of the following:

	December 31	
	2014	2013
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2011 Revenue and Refunding Bonds, which bear interest at rates between 5.00% and 6.25% due in varying maturities from July 1, 2015 through July 1, 2035. (a)	\$ 93,910	\$ 97,486
NJHCFFA Series 2007 Revenue Bonds, which bear interest at rates between 5.25% and 5.75% due in varying maturities from July 1, 2015 through July 1, 2037. (a)	63,851	64,404
Line of credit and other (b)	9,324	7,722
Mortgages payable with interest between 5.00% and 6.00% payable in monthly installments of principal and interest through December 1, 2031.	4,545	5,163
Capital lease obligations, with interest rates ranging from 1.95% to 6.00% and payments through 2021	3,748	2,296
	175,378	177,071
Less unamortized original issue discount	735	777
Less current portion	9,121	10,539
	\$ 165,522	\$ 165,755

(a) In August 2011, the Hospital and the Care Center, collectively the Saint Peter's University Hospital Obligated Group (the Obligated Group), closed on the Series 2011 Revenue and Refunding Bonds (the Series 2011 Bonds) in the amount of \$100,640 issued by the NJHCFFA on behalf of the Obligated Group. The proceeds of the Series 2011 Bonds were used for (i) the current refunding of all of the outstanding Series F Revenue Bonds, Series 2000A Revenue Bonds, and Series 2000B Bonds; (ii) the payment or reimbursement of the costs of certain capital expenditures relating to the renovation of portions of the Hospital's facilities and the acquisition and installation of various equipment to be used by the Hospital at its facilities (approximately \$5,500); (iii) the funding of the Debt Service Reserve Fund relating to the Series 2011 Bonds; and (iv) the payment of the costs of issuance of the Series 2011 Bonds.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt and Line of Credit (continued)

In December 2007, the Obligated Group closed on the Series 2007 Revenue Bonds (the Series 2007 Bonds) with the NJHCFFA in the amount of \$65,175, the proceeds of which were used to (i) refund a portion of the outstanding principal amount of the St. Peter's Medical Center Issue, Series F; (ii) pay or reimburse the costs of the construction and renovation of certain portions of the Hospital's facilities and the acquisition of various capital equipment; (iii) pay capitalized interest on a portion of the Series 2007 Bonds; (iv) fund the Debt Service Reserve Fund related to the Series 2007 Bonds; and (v) pay or reimburse the costs of issuance of the Series 2007 Bonds.

The Series 2011 and Series 2007 Bonds were issued in the name of the Obligated Group. Each of the Series 2011 and Series 2007 Bonds is collateralized by a pledge of the revenue of the Obligated Group and the assets held under bond indenture pursuant to the Master Trust Indenture (the Indenture). Under the terms of the Indenture, the Obligated Group is required to maintain a Debt Service Reserve Fund in an amount equal to one year's principal and interest for the Series 2011 and Series 2007. At December 31, 2014 and 2013, the Obligated Group was in compliance with this requirement.

Under the terms of the Indenture and other agreements with the NJHCFFA, the Obligated Group is required to maintain certain financial ratios and be in compliance with other restrictive covenants as described in the respective agreements. At December 31, 2014 and 2013, the Obligated Group was in compliance with such financial covenants.

- (b) At December 31, 2013, the System had a \$5,000 line of credit with a bank, which carried interest at LIBOR plus 2% with an unused fee of 50 basis points. The line of credit expired on June 30, 2014 and was not renewed. The System obtained a new \$10,000 line of credit with a bank in April 2015. During 2014 and 2013, the System had total draws of \$4,500 and \$8,901, respectively, of which \$6,619 and \$6,782 had been repaid at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, \$0 and \$2,119, respectively, remained outstanding. At December 31, 2014 and 2013, the System has a loan to a utility company totaling \$5,048 and \$5,603, respectively, related to amounts borrowed for the installation of solar panels by Solar Energy Solutions. The loan is being repaid by tax credits that are purchased by the utility company. The tax credits are created when solar energy is produced.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt and Line of Credit (continued)

Scheduled principal payments on long-term debt and capital lease obligations, net of interest, for the next five years and thereafter are as follows:

	Series 2011 and 2007 Bonds	Line of Credit and Other	Mortgage Payable	Capital Lease Obligations	Total
2015	\$ 4,335	\$ 927	\$ 2,845	\$ 1,014	\$ 9,121
2016	4,560	721	347	520	6,148
2017	4,785	459	367	535	6,146
2018	5,030	427	320	390	6,167
2019	5,280	396	198	254	6,128
Thereafter	133,771	6,394	468	1,035	141,668
	<u>\$ 157,761</u>	<u>\$ 9,324</u>	<u>\$ 4,545</u>	<u>\$ 3,748</u>	<u>\$ 175,378</u>

8. Retirement Plans

The System sponsors a noncontributory defined benefit retirement plan (the Plan) covering all eligible employees of affiliated organizations of the System. Plan benefits are based on years of service and employee compensation as defined in the Plan document of affiliated organizations of the System.

The Plan was amended such that effective July 1, 2010 any employee hired after June 30, 2010 is not eligible to participate in the Plan. Additionally, active participation in the Plan is frozen for any employee who terminated employment before July 1, 2010 and is rehired after such date and active participation in the Plan is frozen for any employee who terminated employment on or after July 1, 2010 unless he/she is rehired before the first anniversary of their termination. The System maintains a defined contribution plan for employees hired as of and subsequent to July 1, 2010. All existing eligible employees as of June 30, 2010 will remain as participants in the defined benefit plan and participate in the defined contribution plan. In February 2012, the System announced to participants of the Plan a Plan freeze effective December 31, 2012.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

8. Retirement Plans (continued)

The defined contribution plan established in 2011 provides for annual contributions for eligible employees of between 1% and 3% of pay based on the employee's years of service. Eligible employees begin to accrue benefits six months from their date of hire. The System funds the defined contribution expense on a current basis. Such expense was approximately \$9,209 and \$9,754 in 2014 and 2013, respectively. Additionally, a defined contribution plan was established in 2014 for Physician Associates PC eligible employees with contribution expense of approximately \$109 in 2014.

The System recognizes in its consolidated balance sheets an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measures the defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the System's fiscal year, and recognizes changes in the funded status of a defined benefit postretirement plan in changes in unrestricted net assets in the year in which the changes occur. Amounts that are recognized as a component of changes in unrestricted net assets will be subsequently recognized as net periodic pension cost in future periods.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

8. Retirement Plans (continued)

The underfunded status of the Plan as recognized in the System's consolidated balance sheets is as follows:

	December 31	
	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 222,843	\$ 250,564
Interest cost	11,403	10,663
Benefits paid	(6,890)	(6,370)
Actuarial loss (gain)	53,199	(32,014)
Benefit obligation at end of year	280,555	222,843
Change in plan assets:		
Fair value of plan assets at beginning of year	166,876	153,432
Actual return on plan assets	3,394	17,472
Employer contributions	3,000	3,000
Benefits paid	(6,890)	(6,370)
Administrative expenses and other	(645)	(658)
Fair value of plan assets at end of year	165,735	166,876
Accrued pension liability	\$ (114,820)	\$ (55,967)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets are as follows:

	December 31	
	2014	2013
Projected benefit obligation	\$ 280,555	\$ 222,843
Accumulated benefit obligation	280,555	222,843
Fair value of plan assets	165,735	166,876

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

8. Retirement Plans (continued)

Unrecognized actuarial loss included in other changes in unrestricted net assets at December 31, 2014 and 2013 is (\$91,730) and (\$29,531), respectively, of which \$2,352 is expected to be recognized in net periodic pension cost during the year ending December 31, 2015. The change in the pension liability to be recognized in future periods as reported in the accompanying consolidated statements of operations and changes in net assets totaled \$62,199 in 2014 and represents the change in these amounts from December 31, 2013 to 2014.

The following table provides the components of net periodic pension cost:

	Year Ended December 31	
	2014	2013
Interest cost	\$ 11,403	\$ 10,663
Expected return on plan assets	(12,314)	(11,372)
Recognized actuarial loss and administrative expenses	565	1,987
Net periodic pension (credit) cost	\$ (346)	\$ 1,278

The following assumptions were used in determining the benefit obligations and net periodic pension costs:

	December 31	
	2014	2013
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.28%	5.19%
Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31:		
Discount rate	5.19%	4.30%
Expected long-term rate of return on plan assets	7.50	7.50

The actuarial loss of \$53,199 in 2014 primarily relates to changes in assumptions for the discount rate (approximately \$36,400) and mortality table and mortality projection scale (\$16,400) used to measure the benefit obligation at December 31, 2014.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

8. Retirement Plans (continued)

To develop the expected long-term rate of return on assets assumption, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.50% expected long-term rate of return on assets assumption at December 31, 2014 and 2013.

The Plan's investment policy is designed to achieve return on assets to match or exceed the actuarial required rate of return. The asset allocation guidelines and permissible ranges by asset category are as follows:

Asset Category	Target	Permissible Range
Equities	38%	33-45%
Fixed income	15	13-17
Global asset allocation	12	9-15
Equity alternatives	12	9-15
Fixed income alternatives	23	21-25

The Plan's asset allocations by asset category are as follows:

	December 31	
	2014	2013
Equity funds	37%	44%
Equity and fixed alternative investments	36	32
Fixed income mutual fund	15	12
Global allocation	12	12
	100%	100%

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

8. Retirement Plans (continued)

Assets invested in the Plan are carried at fair value. Debt and equity securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments (nontraditional, not readily marketable holdings) include hedge funds. Alternative investment interests generally are structured such that the Plan holds a limited partnership interest or an interest in an investment management company. The Plan's ownership structure does not provide for control over the related investees and the Plan's financial risk is limited to the carrying amount reported for each investee. Fair value for alternative investments is determined by the Plan for each investment using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value.

Refer to Note 12 for the composition at fair value of the defined benefit pension plan assets at December 31, 2014 and 2013.

The System received a favorable ruling from the Internal Revenue Service (IRS) dated August 14, 2013 to operate the Plan as a church plan, which exempts the System from the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and its funding requirements. In 2013, the System was sued by participants claiming the Plan did not qualify as a church plan. Management believes the Plan qualifies as a church plan and is aggressively defending the suit.

The accrued pension liability reported in the accompanying consolidated financial statements of \$114,820 and \$55,967 at December 31, 2014 and 2013, respectively, is actuarially determined in accordance with the accounting requirements for reporting in the financial statements of the plan sponsor.

During 2014 and 2013, the System contributed \$3,000 to the Plan. The System plans to contribute \$3,000 to the Plan in 2015.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

8. Retirement Plans (continued)

The following benefit payments under the Plan are expected to be paid:

2015	\$ 8,330
2016	8,892
2017	9,667
2018	10,365
2019	11,105
2020 – 2024	66,597

9. Leases and Other Commitments and Contingencies

At December 31, 2014, minimum payments due under noncancelable operating leases with initial or remaining terms of more than one year total approximately \$4,801.

Rent expense under operating leases amounted to approximately \$3,557 and \$2,450 in 2014 and 2013, respectively, and is reported within supplies and other expense in the accompanying consolidated statements of operations and changes in net assets.

Various lawsuits and claims arising in the normal course of operations are pending or are on appeal against the System. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from the System's actions will not have a material adverse effect on the System's consolidated financial position or results of operations.

10. Medical Malpractice and General Liability Claims

As part of a structured and comprehensive risk management program, the System funds its risk of professional and general liability loss through RAC, a wholly-owned captive insurance company domiciled in the Cayman Islands.

RAC began accepting risk on January 1, 2004 and provides professional and general liability insurance protection for all entities within the System, including the Hospital, the Care Center, employed physicians and surgeons, the paramedical staff and all affiliated corporations and

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

10. Medical Malpractice and General Liability Claims (continued)

divisions. Professional liability insurance is written as claims-made coverage while general liability is written on an occurrence basis. Prior to 2004, the Hospital purchased first-dollar primary and excess liability coverage in the commercial insurance market.

Currently, RAC issues policies with a maximum retention of \$2,000 for each medical incident or occurrence. RAC further retains, under a first excess or buffer policy, another \$2,000 for each medical incident with a \$2,000 aggregate retention.

In addition, RAC issues an excess liability policy which provides separate limits towers of \$45,000 each. The first tower applies to professional liability claims; the second, to claims for all other liability. These excess limits are 100% reinsured by companies rated A or A+ by A.M. Best & Company.

The System has made, and will continue to make, adjustments to the structure, limits and retentions of the captive program, as circumstances warrant.

Reserves for loss and loss adjustment expense are set based on management's best estimate of liability and damages. At December 31, 2014 and 2013, undiscounted reserve amounts were \$10,771 and \$9,725, respectively, and are included within accrued medical malpractice and other liabilities in the accompanying consolidated balance sheets. These reserves are estimates of the ultimate value of loss and loss adjustment expenses for all claims made during respective policy years, and are subject to changes in amounts of settlements, verdicts, frequency of claims or other economic or legal factors. These undiscounted reserves are not offset by estimates of reinsurance claims. While management believes the reserves for losses and loss adjustment expenses are adequate, it also recognizes the variability inherent in the data used in estimating these liabilities and that the ultimate value of losses and loss adjustment expense may vary significantly from the estimated amounts included in the accompanying consolidated financial statements. These estimates are continually reviewed and are adjusted, as necessary. Estimated receivables for reinsurance recoveries recorded by RAC total \$2,797 and \$2,817, at December 31, 2014 and 2013, respectively, and are included within other current assets in the accompanying consolidated balance sheets.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

10. Medical Malpractice and General Liability Claims (continued)

In relation to claims insured through RAC, the Hospital recorded an estimated insurance recovery receivable and medical malpractice claim liability at December 31, 2014 and 2013 equal to RAC's liability estimates. Such amounts are recorded within other assets and accrued medical malpractice and other liabilities within the consolidated balance sheets and eliminate in consolidation.

The System has estimated its liability for losses due to claims from medical incidents that have occurred subsequent to 2004 but have not yet been reported to be approximately \$1,889 and \$1,983 at December 31, 2014 and 2013, respectively, with such estimated liability discounted at a rate of 4% based on expected timing of future payments. These amounts are included within other liabilities in the accompanying consolidated balance sheets.

During 2014 and 2013, the Hospital received premium reduction credits from RAC totaling \$8,000 and \$7,000, respectively, that resulted from favorable loss experience. The premium reduction credits were recorded by the Hospital within other operating revenue, in the consolidated statements of operations and changes in net assets, and eliminate in consolidation.

11. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Concentration of gross accounts receivable from patients and third-party payers are as follows:

	December 31	
	2014	2013
Medicare and Medicaid	18%	20%
Blue Cross	21	21
Patients	7	8
Commercial	4	3
Managed care	44	42
Other third-party payors	6	6
	100%	100%

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

12. Fair Value Measurements

The System utilizes various methods of calculating the fair value of its financial assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the System's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated). The fair value hierarchy is comprised of three levels based on the source of inputs as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

12. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value, excluding assets invested in the System's defined benefit plan, as of December 31, 2014 and 2013, by caption on the consolidated balance sheets based upon the fair value hierarchy defined above:

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 13,526	\$ —	\$ —	\$ 13,526
Assets whose use is limited:				
Cash and cash equivalents	17,630	—	—	17,630
Fixed income:				
U.S. Treasury bills	—	5,693	—	5,693
Asset backed securities	—	15,532	—	15,532
Corporate bonds	—	21,601	—	21,601
Mortgage backed securities	—	26,320	—	26,320
Mutual funds:				
Fixed income	4,515	—	—	4,515
Domestic	6,286	—	—	6,286
International	325	—	—	325
Global allocation	6,233	—	—	6,233
Real estate	168	—	—	168
Commodities	122	—	—	122
Other	5,819	—	—	5,819
Assets held by RAC:				
Cash and cash equivalents	2,122	—	—	2,122
Fixed asset fund	—	9,898	—	9,898
Domestic equities	—	8,816	—	8,816
Public REITs	—	1,172	—	1,172
Total assets whose use is limited	<u>43,220</u>	<u>89,032</u>	<u>—</u>	<u>132,252</u>
Total assets at fair value	<u>\$ 56,746</u>	<u>\$ 89,032</u>	<u>\$ —</u>	<u>\$ 145,778</u>

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

12. Fair Value Measurements (continued)

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,280	\$ –	\$ –	\$ 2,280
Assets whose use is limited:				
Cash and cash equivalents	10,085	–	–	10,085
Fixed income:				
U.S. Treasury bills	–	4,597	–	4,597
Asset backed securities	–	16,758	–	16,758
Corporate bonds	–	21,442	–	21,442
Mortgage backed securities	–	28,177	–	28,177
Mutual funds:				
Fixed income	5,113	–	–	5,113
Domestic	9,240	–	–	9,240
International	867	–	–	867
Global allocation	11,736	–	–	11,736
Real estate	175	–	–	175
Commodities	73	–	–	73
Other	6,137	–	–	6,137
Assets held by RAC:				
Cash and cash equivalents	1,890	–	–	1,890
Fixed asset fund	–	14,262	–	14,262
Domestic equities	–	8,895	–	8,895
Public REITs	–	1,390	–	1,390
Total assets whose use is limited	45,316	95,521	–	140,837
Total assets at fair value	\$ 47,596	\$ 95,521	\$ –	\$ 143,117

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

12. Fair Value Measurements (continued)

The following table presents the financial instruments of the defined benefit plan (see Note 8) as of December 31, 2014 and 2013, by the valuation hierarchy defined above:

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,664	\$ –	\$ –	\$ 2,664
Equity funds:				
Domestic	38,787	–	–	38,787
International	22,409	–	–	22,409
Equity alternatives	19,392	18,452	–	37,844
Commodities	39,660	–	–	39,660
Fixed income mutual fund	24,371	–	–	24,371
Total	\$ 147,283	\$ 18,452	\$ –	\$ 165,735

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 638	\$ –	\$ –	\$ 638
Equity funds:				
Domestic	45,834	–	–	45,834
International	26,258	–	–	26,258
Equity alternatives	–	–	34,973	34,973
Commodities	38,405	–	–	38,405
Fixed income mutual fund	20,768	–	–	20,768
Total	\$ 131,903	\$ –	\$ 34,973	\$ 166,876

Fair value for Level 1 assets is based upon quoted market prices. Level 2 assets consist of certain fixed income securities for which the fair value at each year end is estimated based on quoted prices and other valuation considerations (e.g., credit quality and prevailing interest rates).

Level 3 financial instruments represent the Plan's investment in fund of funds and are valued as described in Note 8. Financial information used to evaluate the alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee and estimates that require varying degrees of judgment. The alternative investments may indirectly expose the Plan to securities lending, short

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

12. Fair Value Measurements (continued)

sales of securities, and trading in futures and forwards contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which capital may be divested only at specified times. At December 31, 2014 and 2013 there were no commitments or liquidity restrictions.

The following table is a rollforward of amounts for financial instruments related to the defined benefit pension plan classified by the System within Level 3 of the valuation hierarchy as defined above:

	2014	2013
Fair value at beginning of year	\$ 34,973	\$ 32,689
Sales	(34,973)	–
Realized and unrealized gains and losses	–	2,284
Fair value at end of year	\$ –	\$ 34,973

The System uses primarily quoted market prices and other valuation considerations in estimating fair value of its bonds payable. The fair value of other long-term debt is based upon discounted cash flow analyses. The fair value of the System's long-term debt, excluding capital lease obligations, at December 31, 2014 and 2013 is approximately \$169,200 and \$160,300, respectively. Fair value of bonds payable is classified as Level 1 of the valuation hierarchy, while the fair value of other debt is classified as Level 2.

13. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are available for the following purposes:

	December 31	
	2014	2013
Health care programs	\$ 1,337	\$ 3,676
Children's fund	1,891	2,276
Health education	1,250	749
Purchase of equipment	3,656	2,565
	\$ 8,134	\$ 9,266

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

14. Functional Expenses

Operating expenses, including costs related to clinical system interruption, by function related to the provision of health care services are as follows:

	Year Ended December 31	
	2014	2013
Program expenses	\$ 284,832	\$ 284,572
General and administrative expenses	143,129	140,340
	\$ 427,961	\$ 424,912

15. Other Operating Revenue

Other operating revenue consists of the following:

	Year Ended December 31	
	2014	2013
Grant revenue	\$ 2,179	\$ 2,336
Rental income	1,849	1,751
Electronic health records	1,624	4,301
Investment income (Note 4)	2,977	4,013
Legal settlement	3,530	-
Retail pharmacy cost sharing	1,290	-
Nursing services	1,633	1,610
Food services	1,965	1,707
Physician services	2,830	2,455
Other	7,103	7,857
	\$ 26,980	\$ 26,030

The System entered into a settlement agreement with its software provider in 2014 for \$3,530.

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

15. Other Operating Revenue (continued)

health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The System uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the System is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling \$145 (Medicaid) and \$1,479 (Medicare) for the year ended December 31, 2014 and \$2,127 (Medicaid) and \$2,174 (Medicare) for the year ended December 31, 2013, is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the System's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

16. Subsequent Events

Subsequent events have been evaluated through April 23, 2015, which is the date the financial statements were issued. Except as disclosed in Note 7, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Supplementary Information

Saint Peter's Healthcare System, Inc.

Consolidating Balance Sheet

December 31, 2014

(In Thousands)

	Saint Peter's University Hospital and Subsidiaries					Saint Peter's Health & Management Services Corporation								Saint Peter's Healthcare System, Inc.	Saint Peter's Foundation	National Gianna Center	Physician Associates PC	Consolidating and Eliminating Entries	Saint Peter's Healthcare System Consolidated Total
	Saint Peter's University Hospital	Saint Peter's Faculty Foundation PC	RAC	Consolidating and Eliminating Entries	Saint Peter's University Hospital & Subs Consolidated Total	McCarrick Care Center	Saint Peter's Properties Corp.	Saint Peter's Solar Energy Solutions, Inc.	Saint Peter's Health & Management Services Corp.	Sports Physical Therapy	Gianna Physician Practice NY	Consolidating and Eliminating Entries	Saint Peter's Health & Management Services Consolidated Total						
Assets																			
Current assets:																			
Cash and cash equivalents	\$ 10,531	\$ 1	\$ -	\$ -	\$ 10,532	\$ 843	\$ 185	\$ 7	\$ -	\$ -	\$ 19	\$ -	\$ 1,054	\$ 411	\$ 469	\$ 685	\$ 375	\$ -	\$ 13,526
Patient accounts receivable, net	56,574	-	-	-	56,574	1,580	-	-	-	-	-	-	1,580	-	-	-	-	-	58,154
Assets whose use is limited, current portion	13,884	-	-	-	13,884	1,959	-	-	-	-	-	-	1,959	-	4,645	-	-	-	20,488
Supplies	5,477	-	-	-	5,477	-	-	-	-	-	-	-	-	-	-	-	-	-	5,477
Estimated third-party payor settlements, current portion	1,108	-	-	-	1,108	-	-	-	-	-	-	-	-	-	-	-	-	-	1,108
Due from related parties, current portion	17,855	-	929	(930)	17,854	-	7	5	-	-	149	(10)	151	22,335	-	5	1,545	(41,890)	-
Other current assets	6,360	-	2,797	-	9,157	21	2	-	130	3	7	-	163	1,611	1,249	47	1,231	-	13,458
Total current assets	111,789	1	3,726	(930)	114,586	4,403	194	12	130	3	175	(10)	4,907	24,357	6,363	737	3,151	(41,890)	112,211
Assets whose use is limited, less current portion	76,400	-	22,008	-	98,408	13,356	-	-	-	-	-	-	13,356	-	-	-	-	-	111,764
Deferred financing costs, net of accumulated amortization	2,373	-	-	-	2,373	-	-	-	-	-	-	-	-	-	-	-	-	-	2,373
Property, plant, equipment and construction, net	183,880	-	-	-	183,880	243	1,690	9,077	-	-	-	-	11,010	-	1	-	435	-	195,326
Estimated third-party payor settlements less current portion	5,196	-	-	-	5,196	-	-	-	-	-	-	-	-	-	-	-	-	-	5,196
Beneficial interest in Foundation	8,498	-	-	-	8,498	-	-	-	-	-	-	-	-	-	-	-	-	(8,498)	-
Due from related parties, less current portion	2,081	-	-	-	2,081	-	-	-	-	-	-	-	-	-	-	-	-	(2,081)	-
Investments in joint ventures and other assets	18,408	-	-	(16,659)	1,749	-	-	-	2,522	-	-	-	2,522	-	2,272	-	-	(500)	6,043
	\$ 408,625	\$ 1	\$ 25,734	\$ (17,589)	\$ 416,771	\$ 18,002	\$ 1,884	\$ 9,089	\$ 2,652	\$ 3	\$ 175	\$ (10)	\$ 31,795	\$ 24,357	\$ 8,636	\$ 737	\$ 3,586	\$ (52,969)	\$ 432,913

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Saint Peter's Healthcare System, Inc.

Consolidating Balance Sheet (continued)

December 31, 2014
(In Thousands)

	Saint Peter's University Hospital and Subsidiaries					Saint Peter's Health & Management Services Corporation								Saint Peter's Healthcare System, Inc.	Saint Peter's Foundation	National Gianna Center	Physician Associates PC	Consolidating and Eliminating Entries	Saint Peter's Healthcare System Consolidated Total
	Saint Peter's University Hospital	Saint Peter's Faculty Foundation PC	RAC	Consolidating and Eliminating Entries	Saint Peter's University Hospital & Subs Consolidated Total	McCarrick Care Center	Saint Peter's Properties Corp.	Saint Peter's Solar Energy Solutions, Inc.	Saint Peter's Health & Management Services Corp.	Sports Physical Therapy	Gianna Physician Practice NY	Consolidating and Eliminating Entries	Saint Peter's Health & Management Services Consolidated Total						
Liabilities and net assets																			
Current liabilities:																			
Current portion of long-term debt	\$ 9,038	\$ -	\$ -	\$ -	\$ 9,038	\$ 83	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,121	
Accounts payable	22,144	-	66	-	22,210	384	-	-	-	9	-	393	-	-	-	1,461	-	26,637	
Accrued expenses and other liabilities	29,618	1	-	(929)	28,690	1,158	13	(2)	-	78	48	1,292	-	-	-	934	(6)	33,522	
Accrued interest	4,475	-	-	-	4,475	73	-	-	-	-	-	73	-	-	-	-	-	4,548	
Estimated third-party payor settlements, current portion	2,381	-	-	-	2,381	-	-	-	-	-	-	-	-	-	-	-	-	2,381	
Due to related parties	22,431	-	-	(1)	22,430	135	6	2,174	629	101	1,851	4,889	-	-	-	16,414	(60,925)	-	
Total current liabilities	90,087	1	66	(930)	89,224	1,833	19	2,172	629	188	1,899	6,730	-	-	-	18,809	(60,931)	76,209	
Long-term debt, less current portion	158,293	-	-	-	158,293	2,321	-	4,908	-	-	-	7,229	-	-	-	-	-	165,522	
Estimated third-party payor settlements, less current portion	4,403	-	-	-	4,403	-	-	-	-	-	-	-	-	-	-	-	-	4,403	
Accrued pension liability	112,549	-	-	-	112,549	1	-	-	-	-	-	1	-	-	-	-	-	114,820	
Accrued medical malpractice and other liabilities	21,527	-	10,771	(10,759)	21,539	-	-	-	-	-	-	-	-	-	-	-	12	21,551	
Total liabilities	386,859	1	10,837	(11,689)	386,008	4,155	19	7,080	629	188	1,899	13,960	-	-	-	18,809	(60,919)	382,505	
Net assets:																			
Unrestricted	12,468	-	14,897	(5,900)	21,465	13,847	1,865	2,009	2,023	(185)	(1,724)	17,835	-	-	1,653	95	(15,223)	16,449	42,274
Temporarily restricted	9,198	-	-	-	9,198	-	-	-	-	-	-	-	-	-	6,745	240	-	(8,399)	7,784
Permanently restricted	100	-	-	-	100	-	-	-	-	-	-	-	-	-	100	250	-	(100)	350
Total net assets	21,766	-	14,897	(5,900)	30,763	13,847	1,865	2,009	2,023	(185)	(1,724)	17,835	-	-	8,498	585	(15,223)	7,950	50,408
	\$ 408,625	\$ 1	\$ 25,734	\$ (17,589)	\$ 416,771	\$ 18,002	\$ 1,884	\$ 9,089	\$ 2,652	\$ 3	\$ 175	\$ 31,795	\$ -	\$ -	\$ 8,636	\$ 737	\$ (15,223)	\$ (52,969)	\$ 432,913

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Saint Peter's Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended December 31, 2014
(In Thousands)

	Saint Peter's University Hospital and Subsidiaries					Saint Peter's Health & Management Services Corporation							Saint Peter's Healthcare System, Inc.	Saint Peter's Foundation	National Gianna Center	Physician Associates PC	Consolidating and Eliminating Entries	Saint Peter's Healthcare System Consolidated Total	
	Saint Peter's University Hospital	Saint Peter's Faculty Foundation PC	RAC	Consolidating and Eliminating Entries	Saint Peter's University Hospital & Subs Consolidated Total	McCarrick Care Center	Saint Peter's Properties Corp.	Saint Peter's Solar Energy Solutions, Inc.	Saint Peter's Health & Management Services Corp.	Sports Physical Therapy	Gianna Physician Practice NY	Consolidating and Eliminating Entries							Saint Peter's Health & Management Services Consolidated Total
Revenue, gains and other support:																			
Net patient service revenue	\$ 393,390	\$ -	\$ -	\$ -	\$ 393,390	\$ 12,125	\$ -	\$ -	\$ -	\$ -	\$ 151	\$ -	\$ 12,276	\$ -	\$ -	\$ -	\$ 10,546	\$ -	\$ 416,212
Provision for bad debts	(11,486)	-	-	-	(11,486)	(314)	-	-	-	-	-	-	(314)	-	-	-	(12)	-	(11,812)
Net patient service revenue less provision for bad debts	381,904	-	-	-	381,904	11,811	-	-	-	-	151	-	11,962	-	-	-	10,534	-	404,400
Other operating revenue, net	29,266	-	4,955	(11,953)	22,268	1,425	108	983	23	-	90	(62)	2,567	37,277	1,663	221	246	(37,262)	26,980
Net assets released from restriction	186	-	-	-	186	-	-	-	-	-	-	-	-	-	4,282	102	-	(3,588)	982
Total revenue, gains and other support	411,356	-	4,955	(11,953)	404,358	13,236	108	983	23	-	241	(62)	14,529	37,277	5,945	323	10,780	(40,850)	432,362
Expenses:																			
Salaries and wages	191,640	-	-	-	191,640	6,703	3	-	-	-	393	-	7,099	19,134	41	30	9,204	(19,135)	208,013
Resident and physician fees	8,014	-	-	-	8,014	25	-	-	-	-	-	-	25	3	-	-	3,515	-	11,557
Employee benefits	44,820	-	-	-	44,820	2,311	1	-	-	-	83	-	2,395	4,067	9	-	1,656	(4,067)	48,880
Supplies and other	127,852	-	1,768	(3,953)	125,667	4,150	27	111	-	-	187	(62)	4,413	14,073	5,134	220	4,908	(26,819)	127,596
Interest	9,335	-	-	-	9,335	148	-	629	-	-	-	-	777	-	-	-	-	-	10,112
Depreciation and amortization	21,108	-	-	-	21,108	147	44	401	-	-	9	-	601	-	-	-	94	-	21,803
Total expenses	402,769	-	1,768	(3,953)	400,584	13,484	75	1,141	-	-	672	(62)	15,310	37,277	5,184	250	19,377	(50,021)	427,961
Income (loss) from operations	8,587	-	3,187	(8,000)	3,774	(248)	33	(158)	23	-	(431)	-	(781)	-	761	73	(8,597)	9,171	4,401
Severance costs	(673)	-	-	-	(673)	-	-	-	-	-	-	-	-	-	-	-	-	-	(673)
RAC premium reduction credit	-	-	(8,000)	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity transfer from (to) affiliate	215	-	-	-	215	-	(215)	-	(1,321)	-	-	-	(1,536)	-	-	-	-	1,321	-
Equity in net earnings of joint ventures	1,321	-	-	-	1,321	-	-	-	1,221	-	-	-	1,221	-	-	-	-	(1,321)	1,221
Excess (deficiency) of revenue over expenses	9,450	-	(4,813)	-	4,637	(248)	(182)	(158)	(77)	-	(431)	-	(1,096)	-	761	73	(8,597)	9,171	4,949
Net change in unrealized gains and losses on investments	2,449	-	229	-	2,678	(758)	-	-	-	-	-	-	(758)	-	(754)	-	-	-	1,166
Change in pension liability to be recognized in future periods	(62,199)	-	-	-	(62,199)	-	-	-	-	-	-	-	-	-	-	-	-	-	(62,199)
Donated equipment and other	3,588	-	-	-	3,588	-	-	-	-	-	-	-	-	-	-	-	-	-	3,588
(Decrease) increase in unrestricted net assets	(46,712)	-	(4,584)	-	(51,296)	(1,006)	(182)	(158)	(77)	-	(431)	-	(1,854)	-	7	73	(8,597)	9,171	(52,496)
Temporarily restricted:																			
Restricted gifts and contributions and other	232	-	-	-	232	-	-	-	-	-	-	-	-	-	3,243	96	-	(143)	3,428
Transfer of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(39)	39	-	-	-
Net change in beneficial interest in Foundation	(1,313)	-	-	-	(1,313)	-	-	-	-	-	-	-	-	-	-	-	-	1,313	-
Net assets released from restriction	(186)	-	-	-	(186)	-	-	-	-	-	-	-	-	-	(4,282)	(102)	-	-	(4,570)
(Decrease) increase in temporarily restricted net assets	(1,267)	-	-	-	(1,267)	-	-	-	-	-	-	-	-	-	(1,078)	33	-	1,170	(1,142)
Permanently restricted:																			
Restricted gifts and contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10	-	-	-	10
Transfer of net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(250)	250	-	-	-
Increase in permanently restricted net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(240)	250	-	-	10
Increase (decrease) in net assets	\$ (47,979)	\$ -	\$ (4,584)	\$ -	\$ (52,563)	\$ (1,006)	\$ (182)	\$ (158)	\$ (77)	\$ -	\$ (431)	\$ -	\$ (1,854)	\$ -	\$ (1,311)	\$ 356	\$ (8,597)	\$ 10,341	\$ (53,628)

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

^A Amounts include inter-entity activity between the Hospital and Physician Associates PC which eliminates in consolidation.

Saint Peter's University Hospital Obligated Group

Combining Balance Sheet

December 31, 2014

(In Thousands)

	Saint Peter's University Hospital	McCarrick Care Center	Consolidating and Eliminating Entries	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 10,531	\$ 843	\$ —	\$ 11,374
Patient accounts receivable, net	56,574	1,580	—	58,154
Assets whose use is limited, current portion	13,884	1,959	—	15,843
Supplies	5,477	—	—	5,477
Estimated third-party payor settlements, current portion	1,108	—	—	1,108
Due from related parties, current portion	17,855	—	(14)	17,841
Other current assets	6,360	21	—	6,381
Total current assets	111,789	4,403	(14)	116,178
Assets whose use is limited, less current portion	76,400	13,356	—	89,756
Deferred financing costs, net of accumulated amortization	2,373	—	—	2,373
Property, plant, equipment and construction, net	183,880	243	—	184,123
Estimated third-party payor settlements less current portion	5,196	—	—	5,196
Beneficial interest in Foundation	8,498	—	—	8,498
Due from related parties, less current portion	2,081	—	—	2,081
Investments in joint ventures and other assets	18,408	—	—	18,408
	\$ 408,625	\$ 18,002	\$ (14)	\$ 426,613

Note: The Saint Peter's University Hospital Obligated Group combining balance sheet excludes the subsidiaries of Saint Peter's University Hospital (Saint Peter's Faculty Foundation PC and Risk Assurance Company of Saint Peter's University Hospital), which are not members of the Obligated Group pursuant to the Master Trust Indenture.

Saint Peter's University Hospital Obligated Group

Combining Balance Sheet (continued)

December 31, 2014

(In Thousands)

	Saint Peter's University Hospital	McCarrick Care Center	Consolidating and Eliminating Entries	Total
Liabilities and net assets				
Current liabilities:				
Current portion of long-term debt	\$ 9,038	\$ 83	\$ –	\$ 9,121
Accounts payable	22,144	384	–	22,528
Accrued expenses and other liabilities	29,618	1,158	–	30,776
Accrued interest	4,475	73	–	4,548
Estimated third-party payor settlements, current portion	2,381	–	–	2,381
Due to related parties	22,431	135	(26)	22,540
Total current liabilities	90,087	1,833	(26)	91,894
Long-term debt, less current portion	158,293	2,321	–	160,614
Estimated third-party payor settlements, less current portion	4,403	–	–	4,403
Accrued pension liability	112,549	1	–	112,550
Other liabilities	21,527	–	12	21,539
Total liabilities	386,859	4,155	(14)	391,000
Net assets:				
Unrestricted	12,468	13,847	–	26,315
Temporarily restricted	9,198	–	–	9,198
Permanently restricted	100	–	–	100
Total net assets	21,766	13,847	–	35,613
	\$ 408,625	\$ 18,002	\$ (14)	\$ 426,613

Note: The Saint Peter's University Hospital Obligated Group combining balance sheet excludes the subsidiaries of Saint Peter's University Hospital (Saint Peter's Faculty Foundation PC and Risk Assurance Company of Saint Peter's University Hospital), which are not members of the Obligated Group pursuant to the Master Trust Indenture.

Saint Peter's University Hospital Obligated Group
Combining Statement of Operations and Changes in Net Assets

Year Ended December 31, 2014
(In Thousands)

	Saint Peter's University Hospital	McCarrick Care Center	Consolidating and Eliminating Entries	Total
Revenue, gains and other support:				
Net patient service revenue	\$ 393,390	\$ 12,125	\$ –	\$ 405,515
Provision for bad debts	(11,486)	(314)	–	(11,800)
Net patient service revenue less provision for bad debts	381,904	11,811	–	393,715
Other operating revenue, net	29,266	1,425	–	30,691
Net assets released from restriction	186	–	–	186
Total revenue, gains and other support	411,356	13,236	–	424,592
Expenses:				
Salaries and wages	191,640	6,703	–	198,343
Resident and physician fees	8,014	25	–	8,039
Employee benefits	44,820	2,311	–	47,131
Supplies and other	127,852	4,150	–	132,002
Interest	9,335	148	–	9,483
Depreciation and amortization	21,108	147	–	21,255
Total expenses	402,769	13,484	–	416,253
Income (loss) from operations	8,587	(248)	–	8,339
Severance costs	(673)	–	–	(673)
Equity transfer from affiliate	215	–	–	215
Equity in net earnings of joint ventures	1,321	–	–	1,321
Excess (deficiency) of revenue over expenses	9,450	(248)	–	9,202
Net change in unrealized gains and losses on investments	2,449	(758)	–	1,691
Change in pension liability to be recognized in future periods	(62,199)	–	–	(62,199)
Donated equipment and other	3,588	–	–	3,588
Decrease in unrestricted net assets	(46,712)	(1,006)	–	(47,718)
Temporarily restricted:				
Restricted gifts and contributions and other	232	–	–	232
Net change in beneficial interest in Foundation	(1,313)	–	–	(1,313)
Net assets released from restriction	(186)	–	–	(186)
Decrease in temporarily restricted net assets	(1,267)	–	–	(1,267)
Decrease in net assets	(47,979)	(1,006)	–	(48,985)
Net assets at beginning of year	69,745	14,853	–	84,598
Net assets at end of year	\$ 21,766	\$ 13,847	\$ –	\$ 35,613

Note: The Saint Peter's University Hospital Obligated Group combining statement of operations excludes the subsidiaries of Saint Peter's University Hospital (Saint Peter's Faculty Foundation PC and Risk Assurance Company of Saint Peter's University Hospital), which are not members of the Obligated Group pursuant to the Master Trust Indenture.

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