

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Saint Peter's Healthcare System, Inc.  
Years Ended December 31, 2015 and 2014  
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, 2015 and 2014

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Ernst & Young LLP  
99 Wood Avenue South  
Metropark  
P.O. Box 751  
Iselin, NJ 08830-0471

Tel: +1 732 516 4200  
Fax: +1 732 516 4429  
ey.com

## Report of Independent Auditors

The Board of Governors  
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, 2015 and 2014, 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 \$28,508,000 and \$25,734,000 as of December 31, 2015 and 2014, 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, 2015 and 2014, 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, 2015, 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 28, 2016

Saint Peter's Healthcare System, Inc.

Consolidated Balance Sheets  
(In Thousands)

|   | December 31 |            |
|---|-------------|------------|
|   | 2015        | 2014       |
| <b>Assets</b>   |             |            |
| Current assets:   |             |            |
| Cash and cash equivalents   | \$ 15,315   | \$ 13,526  |
| Patient accounts receivable, less allowances for doubtful accounts<br>of \$19,144 and \$18,456 in 2015 and 2014, respectively | 57,428      | 58,154     |
| Assets whose use is limited, current portion  | 93,294      | 94,436     |
| Supplies  | 6,275       | 5,477      |
| Estimated third-party payor settlements, current portion  | 2,206       | 1,108      |
| Other current assets  | 13,616      | 13,458     |
| Total current assets  | 188,134     | 186,159    |
| Assets whose use is limited, less current portion   | 42,298      | 37,816     |
| Deferred financing costs, net of accumulated amortization<br>of \$3,726 and \$3,529 in 2015 and 2014, respectively            | 2,176       | 2,373      |
| Property, plant, equipment, and construction, net   | 194,602     | 195,326    |
| Estimated third-party payor settlements, less current portion   | 1,771       | 5,196      |
| Investments in joint ventures and other assets  | 6,177       | 6,043      |
|   | \$ 435,158  | \$ 432,913 |
| <b>Liabilities and net assets</b>   |             |            |
| Current liabilities:  |             |            |
| Current portion of long-term debt   | \$ 10,197   | \$ 9,121   |
| Accounts payable  | 27,356      | 26,637     |
| Accrued expenses and other liabilities  | 34,306      | 33,522     |
| Accrued interest  | 4,440       | 4,548      |
| Estimated third-party payor settlements, current portion  | 5,649       | 2,381      |
| Total current liabilities   | 81,948      | 76,209     |
| Long-term debt, less current portion  | 163,743     | 165,522    |
| Estimated third-party payor settlements, less current portion   | 970         | 4,403      |
| Accrued pension liability   | 112,290     | 114,820    |
| Other liabilities   | 21,247      | 21,551     |
| Total liabilities   | 380,198     | 382,505    |
| Commitments and contingencies   |             |            |
| Net assets:   |             |            |
| Unrestricted  | 47,052      | 42,274     |
| Temporarily restricted  | 7,558       | 7,784      |
| Permanently restricted  | 350         | 350        |
| Total net assets  | 54,960      | 50,408     |
|   | \$ 435,158  | \$ 432,913 |

See accompanying notes.

Saint Peter's Healthcare System, Inc.

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

|   | <b>Year Ended December 31</b> |             |
|---|-------------------------------|-------------|
|   | <b>2015</b>                   | <b>2014</b> |
| Revenue, gains, and other support:  |                               |             |
| Net patient service revenue   | \$ 421,405                    | \$ 404,087  |
| Provision for bad debts   | (11,165)                      | (11,498)    |
| Net patient service revenue less provision for bad debts                      | 410,240                       | 392,589     |
| Other operating revenue, net  | 26,801                        | 25,559      |
| Net assets released from restriction  | 3,092                         | 982         |
| Total revenue, gains, and other support                                       | 440,133                       | 419,130     |
| Expenses:   |                               |             |
| Salaries and wages  | 210,029                       | 201,892     |
| Resident and physician fees   | 14,877                        | 11,532      |
| Employee benefits   | 52,234                        | 46,693      |
| Supplies and other  | 126,223                       | 123,931     |
| Interest  | 9,843                         | 9,964       |
| Depreciation and amortization   | 23,267                        | 21,656      |
| Total expenses  | 436,473                       | 415,668     |
| Income from operations  | 3,660                         | 3,462       |
| Severance costs   | (68)                          | (673)       |
| Gain on disposal of asset   | 150                           | -           |
| Equity in net earnings of joint ventures                                      | 837                           | 1,221       |
| Pharmacy school pledge  | (982)                         | -           |
| Excess of revenue over expenses   | 3,597                         | 4,010       |
| Net change in unrealized gains and losses on investments                      | (2,171)                       | 1,924       |
| Change in pension liability to be recognized in future periods                | 1,848                         | (62,199)    |
| Donated equipment and other   | 2,352                         | 3,588       |
| Increase (decrease) in unrestricted net assets before discontinued operations | 5,626                         | (52,677)    |
| (Loss) gain from discontinued operations                                      | (848)                         | 181         |
| Increase (decrease) in unrestricted net assets                                | 4,778                         | (52,496)    |

*Continued on next page.*

Saint Peter's Healthcare System, Inc.

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

|  | <b>Year Ended December 31</b> |             |
|--|-------------------------------|-------------|
|  | <b>2015</b>                   | <b>2014</b> |
| Increase (decrease) in unrestricted net assets | \$ 4,778                      | \$ (52,496) |
| Temporarily restricted:                        |                               |             |
| Restricted gifts and contributions             | 2,866                         | 3,428       |
| Net assets released from restriction           | (3,092)                       | (4,570)     |
| Decrease in temporarily restricted net assets  | (226)                         | (1,142)     |
| Permanently restricted net assets:             |                               |             |
| Restricted gifts and contributions             | -                             | 10          |
| Increase (decrease) in net assets              | 4,552                         | (53,628)    |
| Net assets at beginning of year                | 50,408                        | 104,036     |
| Net assets at end of year                      | \$ 54,960                     | \$ 50,408   |

*See accompanying notes.*

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Cash Flows  
(In Thousands)

|  | <b>Year Ended December 31</b> |             |
|--|-------------------------------|-------------|
|  | <b>2015</b>                   | <b>2014</b> |
| <b>Operating activities</b>  |                               |             |
| Increase (decrease) in net assets  | \$ 4,552                      | \$ (53,628) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: |                               |             |
| Depreciation and amortization  | 23,267                        | 21,803      |
| Net change in unrealized gains and losses on investments   | 2,171                         | (1,166)     |
| Equity in net earnings of joint ventures   | (837)                         | (1,222)     |
| Donated equipment  | (2,352)                       | (3,588)     |
| Changes in operating assets and liabilities:   |                               |             |
| Patient accounts receivable, net   | 726                           | (10,066)    |
| Supplies and other assets  | (1,066)                       | (1,359)     |
| Accounts payable, accrued expenses, and other liabilities  | 1,091                         | 11,887      |
| Estimated third-party payor settlements, net   | 2,162                         | (1,189)     |
| Accrued pension liability  | (2,530)                       | 58,853      |
| Net cash provided by operating activities  | 27,184                        | 20,325      |
| <b>Investing activities</b>  |                               |             |
| Proceeds from sale of interest in joint venture  | -                             | 677         |
| Cash received from joint ventures  | 813                           | 1,173       |
| Net (purchases) sales of assets whose use is limited   | (5,511)                       | 9,751       |
| Purchases of property, plant, equipment, and construction, net   | (19,494)                      | (16,692)    |
| Net cash used in investing activities  | (24,192)                      | (5,091)     |
| <b>Financing activities</b>  |                               |             |
| Proceeds from issuance of long-term debt   | 7,403                         | 4,340       |
| Draw on line of credit   | -                             | 4,500       |
| Payments on long-term debt and capital lease obligations   | (8,606)                       | (12,828)    |
| Net cash used in financing activities  | (1,203)                       | (3,988)     |
| Net increase in cash and cash equivalents  | 1,789                         | 11,246      |
| Cash and cash equivalents, beginning of year   | 13,526                        | 2,280       |
| Cash and cash equivalents, end of year   | \$ 15,315                     | \$ 13,526   |
| <b>Supplemental disclosure of non-cash investing and financing activities and cash flow information</b>  |                               |             |
| Assets acquired under capitalized lease obligations  | \$ 457                        | \$ 2,295    |
| Cash paid for interest, net of amounts capitalized   | \$ 9,951                      | \$ 10,216   |

See accompanying notes.



# Saint Peter's Healthcare System, Inc.

## Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2015

### **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); Saint Peter's Advanced Care, P.C. (Advanced Care); Saint Peter's Specialty Physicians, P.C. (Specialty Physicians); and Park Avenue Collections Corporation (Park Avenue) (Park Avenue had no operations during 2015 or 2014). 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.

On February 1, 2016, the System sold certain assets and the operations of the Care Center to an unrelated entity for approximately \$12,000.

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 \$500 in Sovereign Oncology of New Brunswick, LLC (a radiation oncology joint venture). The radiation oncology joint venture had no operations in 2014 and commenced operations in September 2015. The System accounts for its investments in CARES and Cardiac Cath 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 and the radiation oncology joint ventures 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.

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

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 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 on 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. Board designated assets are available for current use subject to approval by the Board of Trustees.

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

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 of revenue over expenses on the accompanying consolidated statements of 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.

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

*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.

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 of Revenue Over Expenses:* The consolidated statements of operations and changes in net assets include excess of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess 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, the change in pension liability to be recognized in future periods, and the (loss) gain from discontinued operations. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported within income from operations.

*Discontinued Operations:* During November 2015, the Board of Trustees, with no disapproval from the Vatican, approved the sale of the Care Center to an unrelated entity. The sale was approved by the New Jersey Attorney General in December 2015 and finalized on February 1, 2016. A gain from sale will be realized in 2016 of approximately \$12,000 less approximately \$1,200 held temporarily as an escrow reserve. This transaction met the criteria

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

to be reported as a discontinued operation initially in 2015. The System reported the (loss) gain from the operations of the discontinued entity of \$(848) and \$181 for the years ended December 31, 2015 and 2014, respectively, on the accompanying consolidated statements of operations and changes in net assets.

*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.

Solar Energy Solutions, Gianna NY PC, Physician Associates PC, Advanced Care, Specialty Physicians, 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 on the consolidated statements of operations and changes in net assets. Solar Energy Solutions has federal and state net operating loss carryforwards of approximately \$8,600 and \$7,600 and \$8,200 and \$6,900 at December 31, 2015 and 2014, respectively, which begin to expire in 2023 for federal purposes and began expiring in 2015 for state purposes.

*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.

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

At December 31, 2014, the System had a secured loan with a related party which totaled approximately \$446. This loan was replaced with a substitute note effective January 1, 2015, which allows for a loan discharge over a three-year period and had a remaining balance of \$303 at December 31, 2015.

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 2014 amounts previously reported in order to conform with the current year presentation. Reclassifications on the consolidated statements of operations and changes in net assets relate to discontinued operations. These reclassifications have no impact on net assets previously reported.

*Recent Accounting Pronouncements:* In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should 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 (ASC) 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contract with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the System for annual reporting periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. The System has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern*, that will require management of public and non-public companies to evaluate and disclose where there is substantial doubt about an entity's ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016, and for annual periods thereafter. Early application is permitted.

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the corresponding debt liability rather than as an asset. This change will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The recognition and measurement guidance for debt issuance costs is not affected. The provisions of ASU 2015-03 are effective for the System for annual reporting periods beginning after December 15, 2015, with retrospective application to all periods presented. Early application is permitted. The System has not yet adopted ASU 2015-03. Adoption of ASU 2015-03 would result in the reclassification of deferred financing costs of approximately \$2,200 to long-term debt in the accompanying consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software*. ASU 2015-05 requires the System to determine whether an arrangement contains a software license element. If so, the related fees paid are accounted for as an internal-use software intangible asset under ASC 350-40, *Internal-Use Software*. If not, the arrangement is accounted for as a service contract. The provisions of ASU 2015-05 are effective for the System for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. An entity adopting ASU 2015-05 may apply it either prospectively to new arrangements or retrospectively. The System has not completed the process of evaluating the impact of ASU 2015-05 on its consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by ASC 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. Early application is permitted. The System has not completed the process of evaluating the impact of ASU 2015-07 on its consolidated financial statements.

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 will require business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicality exception. The practicality exception is available for equity investments without a readily determinable fair value, for which measurement would be based on cost less impairment and adjusted for observable price changes. Subsequent to the adoption of ASU 2016-01, the System will no longer be able to recognize unrealized holding gains and losses on equity securities currently classified as other-than-trading outside of the performance indicator. This ASU does not impact the accounting for investments in debt securities. The guidance is effective for annual periods beginning after December 15, 2018. Early adoption is permitted for annual periods beginning after December 15, 2017. The System has not completed the process of evaluating the impact of ASU 2016-01 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require a lessee to report most leases on its balance sheet but recognize expenses on its income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for the System for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2016-02 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.



Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Charity Care and Community Benefits (continued)**

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 professionals 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.

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

|  | <b>Year Ended December 31</b> |             |
|--|-------------------------------|-------------|
|  | <b>2015</b>                   | <b>2014</b> |
| Community benefits provided to the indigent:                               |                               |             |
| Charity care provided  | \$ 16,870                     | \$ 18,444   |
| Unpaid cost of public programs, Medicaid, and other indigent care programs | 9,932                         | 9,744       |
| Community benefits provided to the broader community:                      |                               |             |
| Non-billed services for the community                                      | 4,695                         | 4,796       |
| Education and research provided for the community                          | 6,588                         | 6,739       |
| Estimated cost of community benefits                                       | \$ 38,085                     | \$ 39,723   |

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Charity Care and Community Benefits (continued)**

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 7.5% and 8.3% of total Hospital operating expenses in 2015 and 2014, respectively.

The System receives payments from the New Jersey Health Care Subsidy Funds for charity care, and such amounts totaled approximately \$6,642 and \$6,204 for the years ended December 31, 2015 and 2014, respectively.

#### **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.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**3. Net Patient Service Revenue (continued)**

Patient service revenue for the years ended December 31, 2015 and 2014, 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>2015</u>       | <u>2014</u>       |
|--------------------|-------------------|-------------------|
| Third-party payors | \$ 415,551        | \$ 397,579        |
| Self-pay           | 5,854             | 6,508             |
| Total payors       | <u>\$ 421,405</u> | <u>\$ 404,087</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.

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.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**3. Net Patient Service Revenue (continued)**

The System's allowances for doubtful accounts totaled \$19,144 and \$18,456 at December 31, 2015 and 2014, respectively. The allowance for doubtful accounts for self-pay patients was approximately 96% of self-pay accounts receivable as of December 31, 2015 and 2014. Overall, the total of self-pay discounts and write-offs did not change significantly for the years ended December 31, 2015 and 2014. 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, 2015 or 2014.

*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 2010, except for 2005, at December 31, 2015.

*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 2012 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.

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **3. Net Patient Service Revenue (continued)**

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 statewide 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 statewide. 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, 2015, and the impact on the estimated disproportionate share calculations from any resulting data revisions, are reviewed regularly by management of the System. 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. In 2014, Medicare settled the cost report for fiscal year 2008. In 2015, Medicare settled the cost reports for fiscal years 2009 and 2010.

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.

Revenue from Medicare, Medicaid and their corresponding managed care programs accounted for approximately 33% and 34% of the System's net patient service revenue for the years ended December 31, 2015 and 2014, 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.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**3. Net Patient Service Revenue (continued)**

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. Non-compliance 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. 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 following state and other funding amounts have been included in the System's net patient service revenue:

|   | <b>Year Ended December 31</b> |             |
|---|-------------------------------|-------------|
|   | <b>2015</b>                   | <b>2014</b> |
| State:                                    |                               |             |
| Delivery System Reform Incentive Payments | \$ 4,075                      | \$ 3,828    |
| Charity Care ( <i>Note 2</i> )            | 6,642                         | 6,204       |
| Graduate Medical Education                | 3,493                         | 3,020       |
| Federal:                                  |                               |             |
| Graduate Medical Education                | 2,647                         | 2,548       |
|   | \$ 16,857                     | \$ 15,600   |

The System expects to receive approximately \$3,402 in Charity Care subsidies for distributions scheduled through June 30, 2016. Charity Care subsidies subsequent to June 30, 2016 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.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**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):

|   | <b>December 31</b> |             |
|---|--------------------|-------------|
|   | <b>2015</b>        | <b>2014</b> |
| Assets held as designated by Board of Trustees of the Care Center | \$ 13,441          | \$ 14,951   |
| Assets held as designated by Board of Trustees of the Hospital    | 68,533             | 68,117      |
| Assets held as designated by donors                               | 4,610              | 4,645       |
| Assets held under bond indenture                                  | 22,481             | 22,531      |
| Assets held by RAC (Note 10)                                      | 26,527             | 22,008      |
| Total assets whose use is limited                                 | 135,592            | 132,252     |
| Less current portion  | 93,294             | 94,436      |
| Non-current portion   | \$ 42,298          | \$ 37,816   |

Subsequent to the sale of the Care Center on February 1, 2016, assets designated by the Board of Trustees of the Care Center and any Care Center allocated assets held under bond indenture will be transferred to the Hospital.

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

|                             | <b>December 31</b> |             |
|-----------------------------|--------------------|-------------|
|                             | <b>2015</b>        | <b>2014</b> |
| Debt service interest fund  | \$ 4,436           | \$ 4,555    |
| Debt service principal fund | 2,274              | 2,168       |
| Debt service reserve fund   | 15,771             | 15,808      |
|                             | \$ 22,481          | \$ 22,531   |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**4. Assets Whose Use is Limited (continued)**

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

|   | <b>Year Ended December 31</b> |             |
|---|-------------------------------|-------------|
|   | <b>2015</b>                   | <b>2014</b> |
| Interest and dividend income  | \$ 2,303                      | \$ 1,830    |
| Realized gains and losses   | 205                           | (193)       |
| Total investment income reported in other operating revenue (Note 15) | \$ 2,508                      | \$ 1,637    |

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, 2015 and 2014, are as follows:

|  | Less than 12 Months |                   | 12 Months or Longer |                   | Total      |                   |
|--|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>December 31, 2015</b>                                 |                     |                   |                     |                   |            |                   |
| U.S. government obligations<br>(35 securities)           | \$ 9,247            | \$ (44)           | \$ 4,040            | \$ (16)           | \$ 13,287  | \$ (60)           |
| Corporate bonds/fixed income<br>(130 securities)         | 13,947              | (112)             | 9,763               | (361)             | 23,710     | (473)             |
| Mortgage and asset-backed securities<br>(145 securities) | 12,500              | (126)             | 12,407              | (641)             | 24,907     | (767)             |
| Mutual funds – equities<br>(33 securities)               | 17,729              | (899)             | 8,104               | (652)             | 25,833     | (1,551)           |
| Total  | \$ 53,423           | \$ (1,181)        | \$ 34,314           | \$ (1,670)        | \$ 87,737  | \$ (2,851)        |
| <b>December 31, 2014</b>                                 |                     |                   |                     |                   |            |                   |
| U.S. government obligations<br>(21 securities)           | \$ 5,046            | \$ (33)           | \$ 1,268            | \$ (41)           | \$ 6,314   | \$ (74)           |
| Corporate bonds/fixed income<br>(186 securities)         | 15,131              | (177)             | 11,929              | (233)             | 27,060     | (410)             |
| Mortgage and asset-backed securities<br>(27 securities)  | 9,970               | (120)             | 8,662               | (493)             | 18,632     | (613)             |
| Mutual funds – equities<br>(667 securities)              | 16,389              | (260)             | 441                 | (78)              | 16,830     | (338)             |
| Total  | \$ 46,536           | \$ (590)          | \$ 22,300           | \$ (845)          | \$ 68,836  | \$ (1,435)        |

At December 31, 2015 and 2014, management determined that the unrealized losses were temporary based on the extent and length of time the securities' fair value was below cost.



Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**5. Other Assets**

Included within investment in joint ventures and other assets on the accompanying consolidated balance sheets is an investment of \$579 and \$564 at December 31, 2015 and 2014, respectively, in CARES. CARES leases and operates an ambulatory surgery center located in a building owned by the Hospital. In 2015 and 2014, the System collected distributions of \$304 and \$358, respectively, and recorded gains of \$319 and \$370, respectively, which represents the System's share of gains accumulated by CARES. 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 five years at an interest rate of 3% per annum plus London Interbank Offered Rate with a balance of \$421 at December 31, 2015.

The following is a condensed summary of financial information of CARES:

|                   | <b>December 31</b> |             |
|-------------------|--------------------|-------------|
|                   | <b>2015</b>        | <b>2014</b> |
| Total assets      | \$ 3,091           | \$ 3,214    |
| Total liabilities | 1,178              | 1,376       |
| Total equity      | 1,913              | 1,838       |

Also included within investments in joint ventures and other assets on the accompanying consolidated balance sheets is an investment of \$1,045 and \$1,036 at December 31, 2015 and 2014, respectively, in Cardiac Cath. Cardiac Cath leases a portion of the CARES building to operate a low-risk outpatient cardiac catheterization laboratory. In 2015 and 2014, the System collected distributions of \$509 and \$815 and recorded gains of \$518 and \$852, 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:

|                   | <b>December 31</b> |             |
|-------------------|--------------------|-------------|
|                   | <b>2015</b>        | <b>2014</b> |
| Total assets      | \$ 1,774           | \$ 1,769    |
| Total liabilities | 36                 | 46          |
| Total equity      | 1,738              | 1,723       |

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:

|   | <b>December 31</b> |             |
|---|--------------------|-------------|
|   | <b>2015</b>        | <b>2014</b> |
| Land  | \$ 10,167          | \$ 10,137   |
| Buildings, building service equipment, and improvements | 308,419            | 300,752     |
| Fixed equipment   | 10,544             | 10,381      |
| Major movable equipment                                 | 231,924            | 228,752     |
|   | 561,054            | 550,022     |
| Less accumulated depreciation and amortization          | 376,588            | 358,289     |
|   | 184,466            | 191,733     |
| Construction-in-progress                                | 10,136             | 3,593       |
|   | \$ 194,602         | \$ 195,326  |

The System capitalized \$317 of interest costs, net of earnings, for the year ended December 31, 2015. There was no interest costs capitalized for the year ended December 31, 2014.

Depreciation expense was \$23,027 and \$21,559 in 2015 and 2014, 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:

|  | <b>December 31</b> |             |
|--|--------------------|-------------|
|  | <b>2015</b>        | <b>2014</b> |
| 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 commencing July 1, 2015 through July 1, 2035 (a) | <b>\$ 90,370</b>   | \$ 93,910   |
| NJHCFFA Series 2007 Revenue Bonds, which bear interest at rates between 5.25% and 5.75% due in varying maturities commencing July 1, 2015 through July 1, 2037 (a)   | <b>63,055</b>      | 63,851      |
| Line of credit and other (b)   | <b>14,175</b>      | 9,324       |
| Mortgages payable with interest between 5.00% and 6.00% payable in monthly installments of principal and interest through December 1, 2031   | <b>3,878</b>       | 4,545       |
| Capital lease obligations, with interest rates ranging from 1.95% to 6.00% and payments through 2021   | <b>3,154</b>       | 3,748       |
|  | <b>174,632</b>     | 175,378     |
| Less unamortized original issue discount   | <b>692</b>         | 735         |
| Less current portion   | <b>10,197</b>      | 9,121       |
|  | <b>\$ 163,743</b>  | \$ 165,522  |

(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, 2015 and 2014, 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, 2015 and 2014, the Obligated Group was in compliance with such financial covenants.

Subsequent to February 1, 2016, the Obligated Group will consist of the Hospital only and the mortgage on the Care Center was released.

- (b) The System obtained a \$10,000 line of credit with a bank in April 2015 which replaced a previous \$5,000 line of credit. During 2014, the System had total draws of \$4,500, which was repaid in 2014. At December 31, 2015 and 2014, no amounts were outstanding on the line.

At December 31, 2015 and 2014, the System has a loan to a utility company totaling \$4,614 and \$5,048, 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)**

During 2015, the System entered into an agreement for an equipment loan from a financial institution for approximately \$4,900 maturing in December 2020 with an interest rate of approximately 4.01% for the installation of information technology for a new patient accounting system. At December 31, 2015, the balance outstanding on this loan was approximately \$4,135.

The System has other loans with financial institutions maturing in 2019 with interest rates ranging from approximately 3.50% to 4.50% to finance the construction of the interventional radiology and catheterization suites and the replacement of the System's power plant totaling \$5,426 and \$4,276 at December 31, 2015 and 2014, respectively.

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

|            | <b>Series 2011<br/>and 2007<br/>Bonds</b> | <b>Line of<br/>Credit<br/>and Other</b> | <b>Mortgage<br/>Payable</b> | <b>Capital<br/>Lease<br/>Obligations</b> | <b>Total</b>      |
|------------|---|---|-----------------------------|--|-------------------|
| 2016       | \$ 4,560                                  | \$ 2,279                                | \$ 2,519                    | \$ 839                                   | \$ 10,197         |
| 2017       | 4,785                                     | 2,896                                   | 367                         | 792                                      | 8,840             |
| 2018       | 5,030                                     | 2,764                                   | 320                         | 474                                      | 8,588             |
| 2019       | 5,280                                     | 2,633                                   | 199                         | 343                                      | 8,455             |
| 2020       | 5,550                                     | 1,286                                   | 208                         | 359                                      | 7,403             |
| Thereafter | 128,220                                   | 2,317                                   | 265                         | 347                                      | 131,149           |
|            | <u>\$ 153,425</u>                         | <u>\$ 14,175</u>                        | <u>\$ 3,878</u>             | <u>\$ 3,154</u>                          | <u>\$ 174,632</u> |

**8. Retirement Plans**

The System sponsors a non-contributory 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.

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **8. Retirement Plans (continued)**

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.

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 \$9,227 and \$9,209 in 2015 and 2014, respectively. Additionally, a defined contribution plan was established in 2014 for Physician Associates PC eligible employees with contribution expense of approximately \$196 and \$109 in 2015 and 2014, respectively.

The System recognizes on 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 on the System's consolidated balance sheets is as follows:

|  | <b>December 31</b>  |              |
|--|---------------------|--------------|
|  | <b>2015</b>         | <b>2014</b>  |
| Change in benefit obligation:                  |                     |              |
| Benefit obligation at beginning of year        | \$ 280,555          | \$ 222,843   |
| Interest cost                                  | 11,897              | 11,403       |
| Benefits paid                                  | (7,407)             | (6,890)      |
| Actuarial (gain) loss                          | (15,742)            | 53,199       |
| Benefit obligation at end of year              | <b>269,303</b>      | 280,555      |
| Change in plan assets:                         |                     |              |
| Fair value of plan assets at beginning of year | 165,735             | 166,876      |
| Actual return on plan assets                   | (3,944)             | 3,394        |
| Employer contributions                         | 3,000               | 3,000        |
| Benefits paid                                  | (7,407)             | (6,890)      |
| Administrative expenses and other              | (371)               | (645)        |
| Fair value of plan assets at end of year       | <b>157,013</b>      | 165,735      |
| Accrued pension liability                      | <b>\$ (112,290)</b> | \$ (114,820) |

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

|                                | <b>December 31</b> |             |
|--------------------------------|--------------------|-------------|
|                                | <b>2015</b>        | <b>2014</b> |
| Projected benefit obligation   | \$ 269,303         | \$ 280,555  |
| Accumulated benefit obligation | 269,303            | 280,555     |
| Fair value of plan assets      | <b>157,013</b>     | 165,735     |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**8. Retirement Plans (continued)**

The actuarial gain of \$15,742 in 2015 primarily relates to a change in assumptions for the discount rate used to measure the benefit obligation at December 31, 2015. The actuarial loss of \$53,199 in 2014 primarily relates to a change in the assumption for the discount rate used to measure the benefit obligation at December 31, 2014, resulting in a loss of approximately \$36,400 and changes in the mortality table and mortality projection scales resulting in a loss of approximately \$16,400.

The unrecognized actuarial loss included in other changes in unrestricted net assets at December 31, 2015 and 2014, is \$89,882 and \$91,730, respectively, of which \$2,340 is expected to be recognized in net periodic pension cost during the year ending December 31, 2016. The change in the pension liability to be recognized in future periods as reported on the accompanying consolidated statements of operations and changes in net assets totaled \$1,848 in 2015 and represents the change in these amounts from December 31, 2014 to 2015.

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

|   | <b>Year Ended December 31</b> |                 |
|---|-------------------------------|-----------------|
|   | <b>2015</b>                   | <b>2014</b>     |
| Interest cost   | \$ 11,897                     | \$ 11,403       |
| Expected return on plan assets                        | (12,219)                      | (12,314)        |
| Recognized actuarial loss and administrative expenses | 2,640                         | 565             |
| Net periodic pension cost (credit)                    | <u>\$ 2,318</u>               | <u>\$ (346)</u> |



Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**8. Retirement Plans (continued)**

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

|  | <b>December 31</b> |             |
|--|--------------------|-------------|
|  | <b>2015</b>        | <b>2014</b> |
| Weighted average assumptions used to determine benefit obligations at December 31:                       |                    |             |
| Discount rate  | <b>4.69%</b>       | 4.28%       |
| Weighted average assumptions used to determine net periodic benefit cost for the year ended December 31: |                    |             |
| Discount rate  | <b>4.28%</b>       | 5.19%       |
| Expected long-term rate of return on plan assets   | <b>7.50</b>        | 7.50        |

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, 2015 and 2014.

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:

|                           | <b>Target</b> | <b>Permissible Range</b> |
|---------------------------|---------------|--------------------------|
| 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                    |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**8. Retirement Plans (continued)**

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

|   | <b>December 31</b> |             |
|---|--------------------|-------------|
|   | <b>2015</b>        | <b>2014</b> |
| Equity funds                                    | <b>37%</b>         | 37%         |
| Equity and fixed-income alternative investments | <b>35</b>          | 36          |
| Fixed-income mutual fund                        | <b>16</b>          | 15          |
| Global allocation                               | <b>12</b>          | 12          |
|   | <b>100%</b>        | 100%        |

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 (non-traditional, 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, 2015 and 2014.

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, which is ongoing.

The accrued pension liability reported in the accompanying consolidated financial statements of \$112,290 and \$114,820 at December 31, 2015 and 2014, respectively, is actuarially determined in accordance with the accounting requirements for reporting in the financial statements of the plan sponsor.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**8. Retirement Plans (continued)**

During 2015 and 2014, the System contributed \$3,000 to the Plan. The System plans to contribute \$4,400 to the Plan in 2016, as well as an additional \$6,100 which will be paid prior to September 15, 2016, in relation to Plan year 2015.

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

|           |    |        |
|-----------|----|--------|
| 2016      | \$ | 9,016  |
| 2017      |    | 9,814  |
| 2018      |    | 10,478 |
| 2019      |    | 11,285 |
| 2020      |    | 12,042 |
| 2021–2025 |    | 70,996 |

**9. Leases and Other Commitments and Contingencies**

Rent expense under operating leases amounted to approximately \$4,521 and \$3,557 in 2015 and 2014, respectively, and is reported within supplies and other expense on the accompanying consolidated statements of operations and changes in net assets.

The future minimum rental payments required under the non-cancelable operating leases are as follows:

|            | <b>Operating<br/>Leases</b> |
|------------|-----------------------------|
| 2016       | \$ 1,586                    |
| 2017       | 1,369                       |
| 2018       | 1,112                       |
| 2019       | 967                         |
| 2020       | 954                         |
| Thereafter | 3,484                       |

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **9. Leases and Other Commitments and Contingencies (continued)**

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.

In relation to workers' compensation exposure, the System maintains a standby letter of credit in the amount of \$850 to secure its self-insured workers' compensation program. There were no draws on the letter of credit in 2015 or 2014.

#### **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 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 liabilities. 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.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**10. Medical Malpractice and General Liability Claims (continued)**

Reserves for loss and loss adjustment expense are set based on management's best estimate of liability and damages. At December 31, 2015 and 2014, undiscounted reserve amounts were \$8,676 and \$10,771, respectively, and are included within other liabilities on 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 \$1,981 and \$2,797, at December 31, 2015 and 2014, respectively, and are included within other current assets on the accompanying consolidated balance sheets.

In relation to claims insured through RAC, the Hospital recorded an estimated insurance recovery receivable and medical malpractice claim liability at December 31, 2015 and 2014, equal to RAC's liability estimates. Such amounts are recorded within other assets 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 \$1,700 and \$1,889 at December 31, 2015 and 2014, 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 on the accompanying consolidated balance sheets.

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

## Saint Peter's Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 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 payors are as follows:

|                          | <b>December 31</b> |             |
|--------------------------|--------------------|-------------|
|                          | <b>2015</b>        | <b>2014</b> |
| Medicare and Medicaid    | <b>16%</b>         | 18%         |
| Blue Cross               | <b>19</b>          | 21          |
| Patients                 | <b>6</b>           | 7           |
| Commercial               | <b>6</b>           | 4           |
| Managed care             | <b>47</b>          | 44          |
| Other third-party payors | <b>6</b>           | 6           |
|                          | <b>100%</b>        | 100%        |

#### 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.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**12. Fair Value Measurements (continued)**

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 non-performance risk in its assessment of fair value.

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, 2015 and 2014, by caption on the consolidated balance sheets based upon the fair value hierarchy defined above:

|                                   | Level 1   | Level 2   | Level 3 | Total      |
|-----------------------------------|-----------|-----------|---------|------------|
| <b>December 31, 2015</b>          |           |           |         |            |
| Cash and cash equivalents         | \$ 15,315 | \$ -      | \$ -    | \$ 15,315  |
| Assets whose use is limited:      |           |           |         |            |
| Cash and cash equivalents         | 11,213    | -         | -       | 11,213     |
| Fixed income:                     |           |           |         |            |
| U.S. Treasury bills               | 7,153     | -         | -       | 7,153      |
| Asset-backed securities           | -         | 16,921    | -       | 16,921     |
| Corporate bonds                   | -         | 19,902    | -       | 19,902     |
| Mortgage-backed securities        | -         | 26,523    | -       | 26,523     |
| Mutual funds:                     |           |           |         |            |
| Fixed income                      | 8,293     | -         | -       | 8,293      |
| Domestic                          | 7,393     | -         | -       | 7,393      |
| International                     | 1,888     | -         | -       | 1,888      |
| Global allocation                 | 5,959     | -         | -       | 5,959      |
| Real estate                       | 115       | -         | -       | 115        |
| Commodities                       | 342       | -         | -       | 342        |
| Other                             | 1,884     | 1,479     | -       | 3,363      |
| Assets held by RAC:               |           |           |         |            |
| Cash and cash equivalents         | 3,886     | -         | -       | 3,886      |
| Fixed-asset fund                  | -         | 12,354    | -       | 12,354     |
| Domestic equities                 | -         | 10,287    | -       | 10,287     |
| Total assets whose use is limited | 48,126    | 87,466    | -       | 135,592    |
| Total assets at fair value        | \$ 63,441 | \$ 87,466 | \$ -    | \$ 150,907 |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**12. Fair Value Measurements (continued)**

|                                      | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--------------------------------------|----------------|----------------|----------------|--------------|
| <b>December 31, 2014</b>             |                |                |                |              |
| 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 real estate investment trusts | –              | 1,172          | –              | 1,172        |
| Total assets whose use is limited    | 43,220         | 89,032         | –              | 132,252      |
| Total assets at fair value           | \$ 56,746      | \$ 89,032      | \$ –           | \$ 145,778   |



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, 2015 and 2014, by the valuation hierarchy defined above:

|                           | Level 1           | Level 2          | Level 3     | Total             |
|---------------------------|-------------------|------------------|-------------|-------------------|
| <b>December 31, 2015</b>  |                   |                  |             |                   |
| Cash and cash equivalents | \$ 1,265          | \$ –             | \$ –        | \$ 1,265          |
| Equity funds:             |                   |                  | –           |                   |
| Domestic                  | 32,797            | –                | –           | 32,797            |
| International             | 22,950            | –                | –           | 22,950            |
| Equity alternatives       | 18,563            | 18,860           | –           | 37,423            |
| Commodities               | 29,418            | –                | –           | 29,418            |
| Fixed-income mutual fund  | 33,160            | –                | –           | 33,160            |
| Total                     | <u>\$ 138,153</u> | <u>\$ 18,860</u> | <u>\$ –</u> | <u>\$ 157,013</u> |
| <b>December 31, 2014</b>  |                   |                  |             |                   |
| 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                     | <u>\$ 147,283</u> | <u>\$ 18,452</u> | <u>\$ –</u> | <u>\$ 165,735</u> |

Fair value for Level 1 assets is based upon quoted market prices. Level 2 assets maintained in the System's portfolio 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 2 financial instruments maintained by the Plan 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 sales of securities, and trading in futures and forwards contracts,

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**12. Fair Value Measurements (continued)**

Options, and other derivative products. Alternative investments often have liquidity restrictions under which capital may be divested only at specified times. At December 31, 2015 and 2014, there were no commitments or liquidity restrictions.

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, 2015 and 2014, is approximately \$180,500 and \$183,100, respectively. Fair value of long-term debt is classified as Level 2 of the valuation hierarchy.

**13. Temporarily and Permanently Restricted Net Assets**

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

|                       | <b>December 31</b> |                 |
|-----------------------|--------------------|-----------------|
|                       | <b>2015</b>        | <b>2014</b>     |
| Health care programs  | \$ 1,806           | \$ 1,337        |
| Children's fund       | 2,015              | 1,891           |
| Health education      | 2,183              | 1,250           |
| Purchase of equipment | 1,904              | 3,656           |
|                       | <b>\$ 7,908</b>    | <b>\$ 8,134</b> |

**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:

|                                     | <b>Year Ended December 31</b> |                   |
|-------------------------------------|-------------------------------|-------------------|
|                                     | <b>2015</b>                   | <b>2014</b>       |
| Program expenses                    | \$ 292,051                    | \$ 277,484        |
| General and administrative expenses | 144,422                       | 138,184           |
|                                     | <b>\$ 436,473</b>             | <b>\$ 415,668</b> |

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**15. Other Operating Revenue**

Other operating revenue consists of the following:

|                              | <b>Year Ended December 31</b> |                  |
|------------------------------|-------------------------------|------------------|
|                              | <b>2015</b>                   | <b>2014</b>      |
| Grant revenue                | \$ 2,952                      | \$ 2,179         |
| Rental income                | 1,725                         | 1,849            |
| Electronic health records    | 615                           | 1,624            |
| Investment income (Note 4)   | 2,508                         | 1,637            |
| Legal settlement             | –                             | 3,530            |
| Retail pharmacy cost sharing | 4,120                         | 1,290            |
| Nursing services             | 1,661                         | 1,633            |
| Food services                | 2,069                         | 1,965            |
| Physician services           | 3,827                         | 2,830            |
| Other                        | 7,324                         | 7,022            |
|                              | <b>\$ 26,801</b>              | <b>\$ 25,559</b> |

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 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.

Saint Peter's Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**15. Other Operating Revenue (continued)**

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 \$615 (Medicaid) and \$0 (Medicare) for year ended December 31, 2015, and \$145 (Medicaid) and \$1,479 (Medicare) for the year ended December 31 2014, is included in other operating revenue, net on 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 28, 2016, which is the date the accompanying consolidated financial statements were issued. Except as disclosed in Notes 1, 4, and 7, and as noted below, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

The net assets of the Care Center and the net proceeds from the sale of the Care Center will be transferred to the Hospital in 2016 in accordance with bond indenture requirements.

On April 6, 2016, the System signed an agreement for \$1,000 to obtain a 10% ownership and voting interest in Holy Redeemer Healthcare System's New Jersey homecare operation.

## Supplementary Information

Saint Peter's Healthcare System, Inc.

Consolidating Balance Sheet  
(In Thousands)

December 31, 2015

|   | Saint Peter's University Hospital and Subsidiaries |   |                  |  |  | Saint Peter's Health & Management Services Corporation |  |  |  |                               |                                       |  |  |                  |                 |               | Saint<br>Peter's<br>Healthcare<br>System, Inc. | Saint<br>Peter's<br>Foundation | National<br>Gianna<br>Center | Saint<br>Peter's<br>Physician<br>Associates | Saint<br>Peter's<br>Advanced<br>Care | Saint<br>Peter's<br>Specialty<br>Physicians | Consolidating<br>and<br>Eliminating<br>Entries | Total<br>Saint<br>Peter's<br>Health Care<br>System |
|---|--|---|------------------|--|--|--|--|--|--|-------------------------------|---------------------------------------|--|--|------------------|-----------------|---------------|--|--------------------------------|------------------------------|---|--------------------------------------|---|--|--|
|   | Saint<br>Peter's<br>University<br>Hospital         | Saint<br>Peter's<br>Faculty<br>Foundation | RAC              | Consolidating<br>and<br>Eliminating<br>Entries | Total<br>Saint Peter's<br>University<br>Hospital &<br>Subs | McCarrick<br>Care<br>Center                            | Saint<br>Peter's<br>Properties<br>Corp | Saint<br>Peter's<br>Solar<br>Energy<br>Solutions | Saint<br>Peter's<br>Health &<br>Mgmt<br>Services | Sports<br>Physical<br>Therapy | Gianna<br>Physician<br>Practice<br>NY | Consolidating<br>and<br>Eliminating<br>Entries | Total<br>Saint Peter's<br>Health &<br>Management<br>Services |                  |                 |               |  |                                |                              |   |                                      |   |  |  |
| <b>Assets</b>   |  |   |                  |  |  |  |  |  |  |                               |                                       |  |  |                  |                 |               |  |                                |                              |   |                                      |   |  |  |
| Current assets:   |  |   |                  |  |  |  |  |  |  |                               |                                       |  |  |                  |                 |               |  |                                |                              |   |                                      |   |  |  |
| Cash and cash equivalents   | \$ 10,816  | \$ -                                      | \$ -             | \$ -   | \$ 10,816  | \$ 860   | \$ 399                                 | \$ 9   | \$ -   | \$ -                          | \$ 16                                 | \$ -   | \$ 1,284   | \$ 514           | \$ 342          | \$ 607        | \$ 1,695                                       | \$ 42                          | \$ 15                        | \$ -  | \$ 15,315                            |   |  |  |
| Patient accounts receivable,<br>less allowance for doubtful<br>accounts | 55,796   | -   | -                | -  | 55,796   | 1,632  | -                                      | -  | -  | -                             | -                                     | -  | 1,632  | -                | -               | -             | -  | -                              | -                            | -   | 57,428                               |   |  |  |
| Assets whose use is limited,<br>current portion                         | 75,131   | -   | -                | -  | 75,131   | 13,553   | -                                      | -  | -  | -                             | -                                     | -  | 13,553   | -                | 4,610           | -             | -  | -                              | -                            | -   | 93,294                               |   |  |  |
| Supplies  | 6,275  | -   | -                | -  | 6,275  | -  | -                                      | -  | -  | -                             | -                                     | -  | -  | -                | -               | -             | -  | -                              | -                            | -   | 6,275                                |   |  |  |
| Estimated third-party payor<br>settlements, current portion             | 2,206  | -   | -                | -  | 2,206  | -  | -                                      | -  | -  | -                             | -                                     | -  | -  | -                | -               | -             | -  | -                              | -                            | -   | 2,206                                |   |  |  |
| Due from related parties,<br>current portion                            | 29,916   | -   | -                | -  | 29,916   | -  | 10                                     | 10   | -  | -                             | 196                                   | (14)   | 202  | 35,751           | -               | 5             | 1,784  | 772                            | 307                          | (68,737)                                    | -                                    |   |  |  |
| Other current assets  | 7,459  | -   | 1,981            | -  | 9,440  | 21   | 3                                      | -  | 135  | 3                             | 28                                    | -  | 190  | 1,020            | 1,300           | -             | 884  | 310                            | 472                          | -   | 13,616                               |   |  |  |
| <b>Total current assets</b>   | <b>187,599</b>                                     | <b>-</b>                                  | <b>1,981</b>     | <b>-</b>                                       | <b>189,580</b>   | <b>16,066</b>  | <b>412</b>                             | <b>19</b>  | <b>135</b>                                       | <b>3</b>                      | <b>240</b>                            | <b>(14)</b>                                    | <b>16,861</b>  | <b>37,285</b>    | <b>6,252</b>    | <b>612</b>    | <b>4,363</b>                                   | <b>1,124</b>                   | <b>794</b>                   | <b>(68,737)</b>                             | <b>188,134</b>                       |   |  |  |
| Assets whose use is limited, less<br>current portion                    | 15,519   | -   | 26,527           | -  | 42,046   | 252  | -                                      | -  | -  | -                             | -                                     | -  | 252  | -                | -               | -             | -  | -                              | -                            | -   | 42,298                               |   |  |  |
| Deferred financing costs, net   | 2,176  | -   | -                | -  | 2,176  | -  | -                                      | -  | -  | -                             | -                                     | -  | -  | -                | -               | -             | -  | -                              | -                            | -   | 2,176                                |   |  |  |
| Property, plant, equipment, and<br>construction, net                    | 183,518  | -   | -                | -  | 183,518  | 290  | 1,646                                  | 8,732  | -  | -                             | -                                     | -  | 10,668   | -                | 1               | -             | 380  | 35                             | -                            | -   | 194,602                              |   |  |  |
| Estimated third-party payor<br>settlements, less current<br>portion     | 1,771  | -   | -                | -  | 1,771  | -  | -                                      | -  | -  | -                             | -                                     | -  | -  | -                | -               | -             | -  | -                              | -                            | -   | 1,771                                |   |  |  |
| Beneficial interest in Foundation                                       | 7,856  | -   | -                | -  | 7,856  | -  | -                                      | -  | -  | -                             | -                                     | -  | -  | -                | -               | -             | -  | -                              | -                            | (7,856)                                     | -                                    |   |  |  |
| Due from related parties,<br>non-current                                | 2,134  | -   | -                | -  | 2,134  | -  | -                                      | -  | -  | -                             | -                                     | -  | -  | -                | -               | -             | -  | -                              | -                            | (2,134)                                     | -                                    |   |  |  |
| Investments in joint ventures and<br>other assets                       | 16,895   | -   | -                | (14,576)                                       | 2,319  | -  | -                                      | -  | 2,410  | -                             | -                                     | -  | 2,410  | -                | 1,948           | -             | -  | -                              | -                            | (500)                                       | 6,177                                |   |  |  |
| <b>Total assets</b>   | <b>\$ 417,468</b>                                  | <b>\$ -</b>                               | <b>\$ 28,508</b> | <b>\$ (14,576)</b>                             | <b>\$ 431,400</b>  | <b>\$ 16,608</b>                                       | <b>\$ 2,058</b>                        | <b>\$ 8,751</b>                                  | <b>\$ 2,545</b>                                  | <b>\$ 3</b>                   | <b>\$ 240</b>                         | <b>\$ (14)</b>                                 | <b>\$ 30,191</b>   | <b>\$ 37,285</b> | <b>\$ 8,201</b> | <b>\$ 612</b> | <b>\$ 4,743</b>                                | <b>\$ 1,159</b>                | <b>\$ 794</b>                | <b>\$ (79,227)</b>                          | <b>\$ 435,158</b>                    |   |  |  |

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)  
(In Thousands)

December 31, 2015

|   | 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 | Saint Peter's Physician Associates | Saint Peter's Advanced Care | Saint Peter's Specialty Physicians | Consolidating and Eliminating Entries | Total Saint Peter's Health Care System |  |
|---|--|----------------------------------|-----------|---------------------------------------|--|-----------------------|-------------------------------|--------------------------------------|--------------------------------------|-------------------------|------------------------------|---------------------------------------|---------------------------------------|--------------------------|------------------------|------------------------------------|-----------------------------|------------------------------------|---------------------------------------|--|--|
|   | Saint Peter's University Hospital                  | Saint Peter's Faculty Foundation | RAC       | Consolidating and Eliminating Entries | Total Saint Peter's University Hospital & Subs         | McCarrick Care Center | Saint Peter's Properties Corp | Saint Peter's Solar Energy Solutions | Saint Peter's Health & Mgmt Services | Sports Physical Therapy | Gianna Physician Practice NY | Consolidating and Eliminating Entries |                                       |                          |                        |                                    |                             |                                    |                                       |  | Total Saint Peter's Health & Management Services |
| <b>Liabilities and net assets</b>                             |  |                                  |           |                                       |  |                       |                               |                                      |                                      |                         |                              |                                       |                                       |                          |                        |                                    |                             |                                    |                                       |  |  |
| Current liabilities:  |  |                                  |           |                                       |  |                       |                               |                                      |                                      |                         |                              |                                       |                                       |                          |                        |                                    |                             |                                    |                                       |  |  |
| Current portion of long-term debt                             | \$ 10,111  | \$ -                             | \$ -      | \$ -                                  | \$ 10,111  | \$ 86                 | \$ -                          | \$ -                                 | \$ -                                 | \$ -                    | \$ -                         | \$ 86                                 | \$ -                                  | \$ -                     | \$ -                   | \$ -                               | \$ -                        | \$ -                               | \$ -                                  | \$ 10,197                              |  |
| Accounts payable  | 22,767   | -                                | 810       | -                                     | 23,577   | 506                   | -                             | -                                    | -                                    | 9                       | -                            | 515                                   | 2,195                                 | -                        | -                      | 1,069                              | -                           | -                                  | -                                     | 27,356                                 |  |
| Accrued expenses and other liabilities                        | 28,524   | -                                | -         | -                                     | 28,524   | 1,121                 | 8                             | -                                    | -                                    | 78                      | 49                           | 1,256                                 | 2,829                                 | 265                      | -                      | 1,140                              | 233                         | 60                                 | (1)                                   | 34,306                                 |  |
| Accrued interest  | 4,369  | -                                | -         | -                                     | 4,369  | 71                    | -                             | -                                    | -                                    | -                       | -                            | 71                                    | -                                     | -                        | -                      | -                                  | -                           | -                                  | -                                     | 4,440                                  |  |
| Estimated third-party payor settlements, current portion      | 5,649  | -                                | -         | -                                     | 5,649  | -                     | -                             | -                                    | -                                    | -                       | -                            | -                                     | -                                     | -                        | -                      | -                                  | -                           | -                                  | -                                     | 5,649                                  |  |
| Due to related parties  | 33,818   | -                                | -         | -                                     | 33,818   | 738                   | 1                             | 2,269                                | 629                                  | 101                     | 2,305                        | (14)                                  | 6,029                                 | 28,826                   | 80                     | 47                                 | 28,179                      | 1,707                              | 1,022                                 | (99,708)                               |  |
| Total current liabilities                                     | 105,238  | -                                | 810       | -                                     | 106,048  | 2,522                 | 9                             | 2,269                                | 629                                  | 188                     | 2,354                        | (14)                                  | 7,957                                 | 33,850                   | 345                    | 47                                 | 30,388                      | 1,940                              | 1,082                                 | (99,709)                               |  |
| Long-term debt, less current portion                          | 156,772  | -                                | -         | -                                     | 156,772  | 2,357                 | -                             | 4,614                                | -                                    | -                       | -                            | -                                     | 6,971                                 | -                        | -                      | -                                  | -                           | -                                  | -                                     | 163,743                                |  |
| Estimated third-party payor settlements, less current portion | 970  | -                                | -         | -                                     | 970  | -                     | -                             | -                                    | -                                    | -                       | -                            | -                                     | -                                     | -                        | -                      | -                                  | -                           | -                                  | -                                     | 970                                    |  |
| Accrued pension liability                                     | 109,532  | -                                | -         | -                                     | 109,532  | 5                     | -                             | -                                    | -                                    | -                       | -                            | 5                                     | 2,753                                 | -                        | -                      | -                                  | -                           | -                                  | -                                     | 112,290                                |  |
| Other liabilities   | 20,553   | -                                | 8,676     | (8,676)                               | 20,553   | -                     | -                             | -                                    | -                                    | -                       | -                            | -                                     | 682                                   | -                        | -                      | -                                  | -                           | -                                  | 12                                    | 21,247                                 |  |
| Total liabilities   | 393,065  | -                                | 9,486     | (8,676)                               | 393,875  | 4,884                 | 9                             | 6,883                                | 629                                  | 188                     | 2,354                        | (14)                                  | 14,933                                | 37,285                   | 345                    | 47                                 | 30,388                      | 1,940                              | 1,082                                 | (99,697)                               |  |
| Net assets:   |  |                                  |           |                                       |  |                       |                               |                                      |                                      |                         |                              |                                       |                                       |                          |                        |                                    |                             |                                    |                                       |  |  |
| Unrestricted  | 15,781   | -                                | 19,022    | (5,900)                               | 28,903   | 11,724                | 2,049                         | 1,868                                | 1,916                                | (185)                   | (2,114)                      | -                                     | 15,258                                | -                        | 1,183                  | 96                                 | (25,645)                    | (781)                              | (288)                                 | 28,326                                 |  |
| Temporarily restricted  | 8,522  | -                                | -         | -                                     | 8,522  | -                     | -                             | -                                    | -                                    | -                       | -                            | -                                     | -                                     | -                        | 6,573                  | 219                                | -                           | -                                  | -                                     | (7,756)                                |  |
| Permanently restricted  | 100  | -                                | -         | -                                     | 100  | -                     | -                             | -                                    | -                                    | -                       | -                            | -                                     | -                                     | -                        | 100                    | 250                                | -                           | -                                  | -                                     | (100)                                  |  |
| Total net assets  | 24,403   | -                                | 19,022    | (5,900)                               | 37,525   | 11,724                | 2,049                         | 1,868                                | 1,916                                | (185)                   | (2,114)                      | -                                     | 15,258                                | -                        | 7,856                  | 565                                | (25,645)                    | (781)                              | (288)                                 | 20,470                                 |  |
|   | \$ 417,468   | \$ -                             | \$ 28,508 | \$ (14,576)                           | \$ 431,400   | \$ 16,608             | \$ 2,058                      | \$ 8,751                             | \$ 2,545                             | \$ 3                    | \$ 240                       | \$ (14)                               | \$ 30,191                             | \$ 37,285                | \$ 8,201               | \$ 612                             | \$ 4,743                    | \$ 1,159                           | \$ 794                                | \$ (79,227)                            | \$ 435,158                                       |

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 University Hospital Obligated Group

### Combining Balance Sheet (In Thousands)

December 31, 2015

|   | <b>Saint Peter's<br/>University<br/>Hospital</b> | <b>McCarrick<br/>Care Center</b> | <b>Consolidating<br/>and<br/>Eliminating<br/>Entries</b> | <b>Total</b>      |
|---|--|----------------------------------|--|-------------------|
| <b>Assets</b>   |  |                                  |  |                   |
| <b>Current assets:</b>  |  |                                  |  |                   |
| Cash and cash equivalents   | \$ 10,816  | \$ 860                           | \$ –   | \$ 11,676         |
| Patient accounts receivable, less allowance for doubtful accounts | 55,796   | 1,632                            | –  | 57,428            |
| Assets whose use is limited, current portion                      | 75,164   | 13,553                           | –  | 88,717            |
| Supplies  | 6,275  | –                                | –  | 6,275             |
| Estimated third-party payor settlements, current portion          | 2,206  | –                                | –  | 2,206             |
| Due from related parties, current portion                         | 29,916   | –                                | (216)  | 29,700            |
| Other current assets  | 7,459  | 21                               | –  | 7,480             |
| <b>Total current assets</b>                                       | <b>187,632</b>                                   | <b>16,066</b>                    | <b>(216)</b>   | <b>203,482</b>    |
| Assets whose use is limited, less current portion                 | 15,486   | 252                              | –  | 15,738            |
| Deferred financing costs, net                                     | 2,176  | –                                | –  | 2,176             |
| Property, plant, equipment, and construction, net                 | 183,518  | 290                              | –  | 183,808           |
| Estimated third-party payor settlements, less current portion     | 1,771  | –                                | –  | 1,771             |
| Beneficial interest in Foundation                                 | 7,856  | –                                | –  | 7,856             |
| Due from related parties, current portion                         | 2,134  | –                                | –  | 2,134             |
| Investments in joint ventures and other assets                    | 16,895   | –                                | –  | 16,895            |
|   | <b>\$ 417,468</b>                                | <b>\$ 16,608</b>                 | <b>\$ (216)</b>  | <b>\$ 433,860</b> |

*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) (In Thousands)

December 31, 2015

|   | Saint Peter's<br>University<br>Hospital | McCarrick<br>Care Center | Consolidating<br>and<br>Eliminating<br>Entries | Total      |
|---|---|--------------------------|--|------------|
| <b>Liabilities and net assets</b>                             |   |                          |  |            |
| Current liabilities:  |   |                          |  |            |
| Current portion of long-term debt                             | \$ 10,111                               | \$ 86                    | \$ –   | \$ 10,197  |
| Accounts payable  | 22,767                                  | 506                      | –  | 23,273     |
| Accrued expenses and other liabilities                        | 28,524                                  | 1,121                    | –  | 29,645     |
| Accrued interest  | 4,369                                   | 71                       | –  | 4,440      |
| Estimated third-party payor settlements, current portion      | 5,649                                   | –                        | –  | 5,649      |
| Due to related parties  | 33,818                                  | 738                      | (228)  | 34,328     |
| Total current liabilities                                     | 105,238                                 | 2,522                    | (228)  | 107,532    |
| Long-term debt, less current portion                          | 156,772                                 | 2,357                    | –  | 159,129    |
| Estimated third-party payor settlements, less current portion | 970                                     | –                        | –  | 970        |
| Accrued pension liability                                     | 109,532                                 | 5                        | –  | 109,537    |
| Other liabilities   | 20,553                                  | –                        | 12   | 20,565     |
| Total liabilities   | 393,065                                 | 4,884                    | (216)  | 397,733    |
| Net assets:   |   |                          |  |            |
| Unrestricted  | 15,781                                  | 11,724                   | –  | 27,505     |
| Temporarily restricted  | 8,522                                   | –                        | –  | 8,522      |
| Permanently restricted  | 100                                     | –                        | –  | 100        |
| Total net assets  | 24,403                                  | 11,724                   | –  | 36,127     |
|   | \$ 417,468                              | \$ 16,608                | \$ (216)                                       | \$ 433,860 |

*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  
(In Thousands)

Year Ended December 31, 2015

|  | Saint Peter's<br>University<br>Hospital | McCarrick<br>Care Center | Consolidating<br>and<br>Eliminating<br>Entries | Total      |
|--|---|--------------------------|--|------------|
| Revenue, gains, and other support:                                 |   |                          |  |            |
| Net patient service revenue  | \$ 405,801                              | \$ -                     | \$ -   | \$ 405,801 |
| Provision for bad debts  | (10,571)                                | -                        | -  | (10,571)   |
| Net patient service revenue less provision for bad debts           | 395,230                                 | -                        | -  | 395,230    |
| Other operating revenue, net                                       | 22,317                                  | -                        | -  | 22,317     |
| Net assets released from restriction                               | 109                                     | -                        | -  | 109        |
| Total revenue, gains, and other support                            | 417,656                                 | -                        | -  | 417,656    |
| Expenses:  |   |                          |  |            |
| Salaries and wages   | 197,299                                 | -                        | -  | 197,299    |
| Resident and physician fees  | 9,618                                   | -                        | -  | 9,618      |
| Employee benefits  | 49,707                                  | -                        | -  | 49,707     |
| Supplies and expenses  | 129,215                                 | -                        | -  | 129,215    |
| Interest   | 9,222                                   | -                        | -  | 9,222      |
| Depreciation and amortization                                      | 22,732                                  | -                        | -  | 22,732     |
| Total expenses   | 417,793                                 | -                        | -  | 417,793    |
| Loss from operations   | (137)                                   | -                        | -  | (137)      |
| Severance costs  | (46)                                    | -                        | -  | (46)       |
| Equity in net earnings of joint ventures                           | 962                                     | -                        | -  | 962        |
| Pharmacy school pledge   | (924)                                   | -                        | -  | (924)      |
| Deficiency of revenue over expenses                                | (145)                                   | -                        | -  | (145)      |
| Net change in unrealized gains and losses on investments           | (742)                                   | -                        | -  | (742)      |
| Change in pension liability to be recognized in future periods     | 1,848                                   | -                        | -  | 1,848      |
| Donated equipment  | 2,352                                   | -                        | -  | 2,352      |
| Increase in unrestricted net assets before discontinued operations | 3,313                                   | -                        | -  | 3,313      |
| Loss from discontinued operations                                  | -                                       | (2,123)                  | -  | (2,123)    |
| Increase (decrease) in unrestricted net assets                     | 3,313                                   | (2,123)                  | -  | 1,190      |
| Temporarily restricted:  |   |                          |  |            |
| Restricted gifts and contributions                                 | 75                                      | -                        | -  | 75         |
| Net change in beneficial interest in Foundation                    | (642)                                   | -                        | -  | (642)      |
| Net assets released from restriction                               | (109)                                   | -                        | -  | (109)      |
| Decrease in temporarily restricted net assets                      | (676)                                   | -                        | -  | (676)      |
| Increase (decrease) in net assets                                  | 2,637                                   | (2,123)                  | -  | 514        |
| Net assets at beginning of year                                    | 21,766                                  | 13,847                   | -  | 35,613     |
| Net assets at end of year  | \$ 24,403                               | \$ 11,724                | \$ -   | \$ 36,127  |

Note: The Saint Peter's University Hospital Obligated Group combining statement of operations and changes in net assets 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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