

**Kennedy Health System, Inc.  
and Subsidiaries**

Financial Statements and  
Supplementary Information

December 31, 2015 and 2014



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# Kennedy Health System, Inc. and Subsidiaries

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December 31, 2015 and 2014

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## **Independent Auditors' Report**

Board of Directors  
Kennedy Health System, Inc. and Subsidiaries

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

We have audited the accompanying consolidated financial statements of Kennedy Health System, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kennedy Health System, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2015 and 2014 consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Baker Tilly Viechow Krause, LLP*

Clark, New Jersey  
April 19, 2016

## Kennedy Health System, Inc. and Subsidiaries

Consolidated Balance Sheet

(In Thousands)

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 65,473	\$ 55,952	Long-term debt, current portion	\$ 6,732	\$ 6,216
Accounts receivable:			Accounts payable	42,100	38,897
Patients (net of estimated allowance for doubtful collections of \$24,191 in 2015 and \$23,245 in 2014)	65,779	61,803	Accrued expenses:		
Other	4,998	3,542	Payroll and benefits	23,294	29,001
Assets whose use is limited	2,429	1,794	Other	9,782	10,173
Inventories	8,957	8,496	Accrued interest	1,396	1,412
Prepaid expenses and other current assets	4,375	4,646	Estimated settlements with third party payors	3,831	3,858
			Deferred revenue	1,712	1,782
Total current assets	152,011	136,233	Total current liabilities	88,847	91,339
<b>Property and Equipment, Net</b>	260,190	250,549	<b>Long-Term Debt</b>	92,689	92,459
<b>Assets Whose Use is Limited</b>	180,190	176,761	<b>Accrued Pension Cost</b>	33,877	33,636
<b>Investments in Joint Ventures</b>	827	776	<b>Other Liabilities</b>	17,272	22,343
<b>Deferred Financing Costs and Other Assets</b>	10,651	10,888	Total liabilities	232,685	239,777
			<b>Net Assets</b>		
			Unrestricted	370,501	334,664
			Temporarily restricted	683	766
			Total net assets	371,184	335,430
<b>Total assets</b>	<u>\$ 603,869</u>	<u>\$ 575,207</u>	<b>Total liabilities and net assets</b>	<u>\$ 603,869</u>	<u>\$ 575,207</u>

See notes to consolidated financial statements

## Kennedy Health System, Inc. and Subsidiaries

### Consolidated Statement of Operations

(In Thousands)

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Unrestricted Revenues, Gains, and Other Support</b>		
Net patient service revenues	\$ 601,073	\$ 566,046
Provision for doubtful collections	(30,684)	(25,063)
Net patient service revenue less provision for doubtful collections	570,389	540,983
Other revenues	9,563	12,979
Net assets released from restrictions	158	140
Total unrestricted revenues, gains, and other support	<u>580,110</u>	<u>554,102</u>
<b>Expenses</b>		
Employee salaries	242,021	223,668
Physician salaries and fees	29,772	30,424
Employee benefits	54,848	48,446
Supplies and expenses	187,326	173,970
Interest	3,150	3,491
Depreciation and amortization	27,977	27,918
Total expenses	<u>545,094</u>	<u>507,917</u>
<b>Non-controlling Interest, Garden State Radiology</b>	<u>438</u>	<u>63</u>
<b>Income from Operations</b>	35,454	46,248
<b>Nonoperating Income</b>		
Interest, dividends, and net realized gains and losses on investments	3,327	2,742
<b>Revenue in Excess of Expenses</b>	38,781	48,990
<b>Change in Net Unrealized Gains and Losses on Securities</b>	(2,344)	4,969
<b>Net Assets Released from Restrictions for Property and Equipment</b>	306	-
<b>Change in Investment in Garden State Radiology</b>	(438)	2,105
<b>Pension Liability Adjustment</b>	(468)	(19,888)
Increase in unrestricted net assets	<u>\$ 35,837</u>	<u>\$ 36,176</u>

See notes to consolidated financial statements

## Kennedy Health System, Inc. and Subsidiaries

### Consolidated Statement of Changes in Net Assets

(In Thousands)

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Unrestricted Net Assets</b>		
Revenues in excess of expenses	\$ 38,781	\$ 48,990
Change in net unrealized gains and losses on securities	(2,344)	4,969
Net assets released from restrictions used for property and equipment	306	-
Change in Investment in Garden State Radiology	(438)	2,105
Pension liability adjustment	(468)	(19,888)
	<u>35,837</u>	<u>36,176</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	381	296
Net assets released from restrictions used for property and equipment	(306)	-
Net assets released from restrictions used for operations	(158)	(140)
	<u>(83)</u>	<u>156</u>
(Decrease) increase in temporarily restricted net assets	<u>(83)</u>	<u>156</u>
Increase in net assets	35,754	36,332
<b>Net Assets, Beginning</b>	<u>335,430</u>	<u>299,098</u>
<b>Net Assets, Ending</b>	<u>\$ 371,184</u>	<u>\$ 335,430</u>

See notes to consolidated financial statements

**Kennedy Health System, Inc. and Subsidiaries**

## Consolidated Statement of Cash Flows

(In Thousands)

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 35,754	\$ 36,332
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	30,684	25,063
Depreciation and amortization	27,977	27,918
Net unrealized and realized losses (gains) on securities	2,344	(4,969)
Pension liability adjustment	468	19,888
Changes in assets and liabilities:		
Patient accounts receivable	(34,659)	(30,505)
Other receivables	(1,456)	(401)
Inventories	(461)	(302)
Prepaid expenses and other current assets	271	253
Other long-term assets	237	(3,543)
Accounts payable	2,982	6,841
Accrued expenses	(6,098)	2,179
Accrued interest	(16)	(11)
Estimated settlements with third-party payors	(4,516)	1,204
Other long-term liabilities	(463)	1,447
Deferred revenue	(190)	156
Accrued pension costs	(227)	(888)
Net cash provided by operating activities	<u>52,631</u>	<u>80,662</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(37,397)	(29,251)
Net purchases of assets whose use is limited	(6,408)	(26,164)
Net investment in joint ventures	(51)	(522)
Net cash used in investing activities	<u>(43,856)</u>	<u>(55,937)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on capital leases	(4,675)	(4,758)
Proceeds from long-term borrowings	7,135	-
Repayment of long-term debt	(1,714)	(1,652)
Net cash provided by (used in) financing activities	<u>746</u>	<u>(6,410)</u>
Net increase in cash and cash equivalents	9,521	18,315
<b>Cash and Cash Equivalents, Beginning</b>	<u>55,952</u>	<u>37,637</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 65,473</u>	<u>\$ 55,952</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 3,238</u>	<u>\$ 3,579</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities:</b>		
Purchases of property and equipment in accounts payable	<u>\$ 13,374</u>	<u>\$ 10,964</u>
Capital lease obligation incurred for equipment	<u>\$ -</u>	<u>\$ 1,565</u>

See notes to consolidated financial statements



# Kennedy Health System, Inc. and Subsidiaries

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

## 1. Nature of Operations

Kennedy Health System, Inc. and Subsidiaries (the “System”) has a combined profit, not-for-profit structure. The System’s Board of Directors is responsible for the appointment of trustees for the subsidiary corporations. The System coordinates fund-raising activities and the management of other revenue generating opportunities as follows:

- Kennedy Health System, Inc. home office (“KHS”) is a not-for-profit corporation which is responsible for the overall policy, management and financial support of all entities.
- Kennedy University Hospital, Inc. (“Hospital”) is a non-profit New Jersey corporation which owns and operates a 607-bed multi-campus hospital system with hospital facilities in Stratford, Cherry Hill and Turnersville (Washington Township), New Jersey. The Hospital is the major teaching affiliate of the Rowan University School of Osteopathic Medicine. The Hospital provides inpatient, outpatient and emergency care services, as well as home health, dialysis, radiation oncology and rehabilitation services, principally to residents of Camden and Gloucester Counties, New Jersey.

On December 4, 2014, the Hospital acquired 51% of the ownership in Kennedy Cherry Hill Surgical Center, L.L.C. Due to the distribution of voting rights and super-majority clauses included in the operating agreement, the Hospital cannot exercise control over operations and therefore has included the investment in its financial statements under the equity method of accounting. In 2015, Kennedy University Hospital contributed \$765,000 as its equity contribution amongst the partners in this venture. The operations of the joint venture are expected to commence in late 2017.

- STAT Medical Transport, Inc. (“STAT”) is a not-for-profit ambulance company which owns and operates ambulances that service the Hospital and the community.
- Kennedy Property Corporation (“KPC”) is a not-for-profit property and development company. This corporation owns and operates buildings within the service area of the Hospital.
- Kennedy Health Facilities, Inc. (“Facility”) is a not-for-profit nursing home company and currently has 190 beds consisting of 130 long-term care beds and 60 sub-acute beds.
- Kennedy Medical Group Practice PC, d/b/a Kennedy Health Alliance, is a tax-exempt professional corporation and operates as a network of primary physician groups and specialists with offices located throughout the South Jersey region. Kennedy Medical Group, Inc. ceased operations on May 31, 2014 and was succeeded immediately by Kennedy Medical Group Practice, PC.

## **Kennedy Health System, Inc. and Subsidiaries**

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### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

- Kennedy Management Group, Inc. (“KMG”) is a for-profit corporation that invests in for-profit businesses to further its mission. KMG accounts for investments under the equity method and has a 50% interest in the operations of Healthtrax Fitness Gym, LLC, a 20% interest in MAB Building Associates, a 26% interest in KHS Ambulatory Surgery Center, LLC and a 37.5% interest in the operations of Velocity Sports Performance Washington Township, which ceased operations in 2015. KMG files its federal tax return in consolidation with Professional Medical Management, Inc. For financial statement presentation purposes, the retained earnings and capital stock (no par value, 1,000 common shares authorized, 100 issued and outstanding) have been consolidated with net assets.
- Professional Medical Management, Inc. (“PMM”) is a subsidiary of Kennedy Management Group, Inc. This corporation is a for-profit collection service company which has been operational since September of 1984. For financial statement presentation, the retained earnings and capital stock (no par value, 100 common shares authorized, issued and outstanding) have been consolidated with net assets.
- Kennedy Imaging, P.C. (“KIPC”) is a for-profit professional corporation providing professional imaging services to the System. This company ceased operations in 2015.
- On November 1, 2014, the System acquired 51 percent of the ownership in Garden State Radiology Network, L.L.C (“Garden State Radiology”). Kennedy Health System has established control of this company and as such includes the financial position and results of operations and changes in net assets of this company in its consolidated financial statements. Garden State Radiology will develop, own, operate and manage a diagnostic imaging network for the System. The balance of net assets attributable to the non-controlling interest and included in unrestricted net assets in the consolidated balance sheet was \$1,667,000 and \$2,105,000 at December 31, 2015 and 2014, respectively.

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

### **Principles of Consolidation**

The consolidated financial statements include accounts of KHS, its not-for-profit entities and its for-profit entities, as described in Note 1. All significant intercompany transactions and accounts are eliminated.

### **Footnote Presentation**

Numerical schedules included in the notes to the consolidated financial statements are presented in thousands (000). All numbers included in the narrative portion of the notes are presented as whole numbers.

# **Kennedy Health System, Inc. and Subsidiaries**

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

## **Use of Estimates**

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

## **Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by Board designation or other arrangements under trust agreements.

## **Accounts Receivable, Patients**

Accounts receivable, patients are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful collections is estimated based upon a periodic review of the accounts receivable aging, payor classifications, and application of historical write-off percentages. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractual amounts due and provides an allowance for doubtful collections and a provision for doubtful collections, if necessary. For receivables associated with self-pay patients, the System records a significant provision for doubtful collections in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful collections.

The System's allowance for doubtful collections for self-pay patients was approximately 88% of self-pay accounts receivable at December 31, 2015 and December 31, 2014, respectively. The System's self-pay account write-offs (net of recoveries) increased to \$27,665,000 in 2015 from \$25,566,000 in 2014. The increase is a result of the shift from charity care to more insurance plans with high deductibles. The System has not changed its financial assistance policy in 2015 or 2014.

## **Other Receivables**

Other receivables are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. No allowance for doubtful collections was recorded due to management's belief that realization losses on other receivables would be immaterial.

## **Investments and Investment Risk**

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

## **Kennedy Health System, Inc. and Subsidiaries**

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### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The System reports investments in marketable equity securities with readily determinable fair values and all investments in debt securities at fair value in the consolidated balance sheet.

Investment income (including net realized gains and losses, interest, and dividends) on Board designated funds are recorded as nonoperating income. Certain declines in market value that are deemed to be other-than-temporary are reported as impairment losses in investment income (see note 5). Investment income on trustee held funds is recorded net against interest expense in the consolidated statement of operations. Investment income from all other unrestricted investments is recorded as nonoperating income.

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

Assets whose use is limited include assets held by trustee under bond indenture agreements, designated assets set aside by the Board of Directors for future capital improvements or for other purposes at the Board's discretion, assets of donor restricted funds, and investments held by the System. Amounts required to meet current liabilities of the System have been reclassified to current assets.

#### **Inventories**

Inventories, which primarily consist of medical supplies, are stated at the lower of cost or market, using the first-in, first-out (FIFO) method.

#### **Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Normal repairs and maintenance expenses are charged to operations as incurred. Gains and losses on sales or retirements are included in other operating revenue. Capitalized computer software costs are amortized over the estimated useful or economic lives of the software.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### **Deferred Financing Costs**

Deferred financing costs, consisting of the cost of issuing revenue bonds, are amortized over the period the obligation is outstanding using the straight-line method. This does not result in a significant difference from the effective interest rate method.

## **Kennedy Health System, Inc. and Subsidiaries**

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### **Bond Premiums and Discounts**

Bond premiums and discounts are amortized using the straight-line method. This does not result in a significant difference from the effective interest rate method.

### **Temporarily Restricted Net Assets**

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Resources restricted by donors for property and equipment are reclassified to unrestricted net assets to the extent expended within the period.

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

The consolidated statement of operations includes the determination of revenues in excess of expenses. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include pension liability adjustments, unrealized gains and losses on investments other than trading securities, transfers to affiliates, equity transfers, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

### **Donor-Restricted Gifts**

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

### **Estimated Malpractice Costs**

The System is insured for medical malpractice claims under a claims-made policy and excess loss policies. The System records an estimated liability for medical malpractice costs related to reported claims that exceed insurance coverage, if any, and incurred claims that have not been reported. Anticipated insurance recoveries associated with reported claims are reported separately in the System's consolidated balance sheet at net realizable value.

### **Income Taxes**

KHS and its not-for-profit subsidiaries qualify as tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code, and accordingly, no provision for income taxes with respect to these entities has been made in the accompanying consolidated financial statements. The for-profit subsidiaries (as described in Note 1) account for income taxes in accordance with the provisions of ASC Topic 740, *Accounting for Income Taxes*, which requires the establishment of a deferred tax asset or liability for the recognition of future deductible or taxable amounts. Deferred tax expense or benefit is recognized as a result of the changes in the deferred tax assets or liabilities during the year.

## **Kennedy Health System, Inc. and Subsidiaries**

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### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The System accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2015 and 2014.

The System's federal income tax returns for the years ended December 31, 2014, 2013, and 2012 remain subject to examination by the Internal Revenue Service.

The System's policy is to recognize interest related to unrecognized tax benefits in interest expense, and penalties in supplies and expenses.

#### **Accounting for Long-Lived Assets**

In accordance with ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the System assesses their assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a respective asset that the System expects to hold and use may not be recoverable. Management believes no impairment has occurred and therefore no write-downs were necessary as of December 31, 2015 and 2014.

#### **Advertising Costs**

The System expenses advertising costs as incurred. For the years ended December 31, 2015 and 2014, advertising costs totaled approximately \$2,415,000 and \$2,457,000, respectively.

#### **Investments in Joint Ventures, Equity Method**

The System has a financial interest in several entities. Where the System has the ability to influence management or has a twenty percent or more interest in the entity, the investment is recorded at initial cost, adjusted to the System's proportionate share of their undistributed earnings or losses. All other investments in such entities are recorded at cost.

#### **Subsequent Events**

The System evaluated subsequent events for recognition or disclosure through April 19, 2016, the date the consolidated financial statements were issued.

#### **New Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU No. 2014-09 supercedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The System will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017. The System has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

## Kennedy Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

### 3. Net Patient Service Revenue

Net patient service revenue is reported on an accrual basis at the estimated net realizable amounts from patients, third party payors and others for services rendered. The System provides care to all patients, regardless of their ability to pay. For uninsured patients that do not qualify for charity care, the System recognizes revenues on the basis of its standard rates, discounted in accordance with the System's policy. On the basis of historical experience, a significant portion of the System's uninsured patients will be unable to pay for the services provided. Thus, the System records a significant provision of doubtful collections related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision of doubtful collections), recognized in 2015 and 2014 from these major payor sources, are as follows:

	December 31, 2015			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total All Payors
Patient service revenues (net of contractual allowances and discounts)	\$ 235,080	\$ 340,352	\$ 25,641	\$ 601,073
	December 31, 2014			
Patient service revenues (net of contractual allowances and discounts)	\$ 226,237	\$ 321,863	\$ 17,946	\$ 566,046

Inpatient acute care services for Medicare and Medicaid beneficiaries are paid at predetermined rates per discharge. Outpatient services for Medicare beneficiaries are paid at predetermined rates referred to as Ambulatory Payment Classifications (APC's). Medicaid outpatient services are paid at interim rates and reconciled to state specific payment amounts adjusted for certain hospital specific cost factors through submission and audit of the annual Medicaid cost report. Medicare Disproportionate Share (DSH), and Medicare Graduate Medical Education (GME) costs are paid at interim rates and reconciled to actual DSH eligible patient days and Intern and Resident-approved full time equivalents (FTEs) through Hospital submission and fiscal intermediary audit of the annual Medicare cost report. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as revisions or final settlements are determined. As a result, there is at least a reasonable possibility that recorded liabilities will change by a material amount in the near term. The estimated settlements recorded at December 31, 2015 and 2014, could differ from actual settlements based on the results of cost report audits. Net patient service revenues increased by approximately \$5,849,000 in 2015 and \$5,990,000 in 2014 for net adjustments and settlements related to prior years. The Hospital's cost reports for Medicare have been audited and settled by the fiscal intermediary through December 31, 2012 with the exception of December 31, 2005 and December 31, 2010 which have not yet been settled. The Hospital's cost reports for Medicaid have been audited and settled by the fiscal intermediary through December 31, 2012.

## Kennedy Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The State provides certain subsidy payments to qualified hospitals to partially fund uncompensated care and certain other costs. Subsidy payments recognized as revenue amounted to approximately \$20,137,000 and \$21,770,000 for 2015 and 2014, respectively, and are included in net patient service revenue in the accompanying consolidated statements of operations. There can be no assurance that the subsidies received by the Hospital will continue at the same level in future years.

#### Charity Care

The System provides services to patients who meet the criteria of its charity service policy without charge or at amounts less than the established rates. Criteria for charity care consider the patient's family income and net worth. The System maintains records to identify and monitor the level of charity care it provides. The estimated costs of providing charity care, which are based upon the direct and indirect costs identified with the specific charity care services provided, amounted to approximately \$4,982,000 in 2015 and \$9,209,000 in 2014. During 2014, the State of New Jersey expanded Medicaid eligibility as a result of the Affordable Care Act which resulted in a decrease in charity care provided. Charges for services rendered to patients who meet guidelines for charity care have been excluded from net patient service revenue.

#### 4. Assets Whose Use is Limited

Under the provisions of the Hospital Revenue and Refunding Bonds, and Facility's 2009 Revenue and Refunding Bonds, certain trustee held funds were established to pay for the costs of certain capital projects and retirement of indebtedness. The terms of the bond indenture require that certain debt service funds be established and maintained by the System.

Assets whose use is limited at December 31, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Trustee held funds	\$ 2,429	\$ 5,875
Board designated funds	179,304	171,757
Special purpose funds - temporarily restricted	682	766
Patient security deposits	<u>204</u>	<u>157</u>
Total	182,619	178,555
Less current portion	<u>(2,429)</u>	<u>(1,794)</u>
Noncurrent portion	<u>\$ 180,190</u>	<u>\$ 176,761</u>

Interest and dividend income on assets whose use is limited was \$4,141,000 and \$3,314,000 in 2015 and 2014, respectively. Realized (losses)/gains on sale of assets whose use is limited were \$(51,000) and \$207,000 in 2015 and 2014, respectively. The change in net unrealized (losses)/gains amounted to \$(2,344,000) and \$4,969,000 in 2015 and 2014, respectively.



## **Kennedy Health System, Inc. and Subsidiaries**

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### **5. Fair Value of Financial Instruments**

The System follows the provisions of authoritative guidance relating to fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that this guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the System for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

## Kennedy Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The fair value of the System's cash and cash equivalents, assets whose use is limited and long-term debt were measured using the following inputs at December 31, 2015 and 2014:

		2015				
		Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>						
Assets whose use is limited:						
Cash and cash equivalents	\$	1,868	\$ 1,868	\$ 1,868	\$ -	\$ -
U.S. Treasury obligations		54,457	54,457	54,457	-	-
Corporate bond obligations		67,201	67,201	-	67,201	-
Equity index fund		59,093	59,093	59,093	-	-
Total assets whose use is limited:	\$	<u>182,619</u>	<u>\$ 182,619</u>	<u>\$ 115,418</u>	<u>\$ 67,201</u>	<u>\$ -</u>
<b>Disclosed at Fair Value</b>						
Cash and cash equivalents	\$	65,473	\$ 65,473	\$ 65,473	\$ -	\$ -
Long-term debt:						
Bonds		78,362	84,172	-	84,172	-
Other		8,923	8,923	-	-	8,923
		<b>2014</b>				
		Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>						
Assets whose use is limited:						
Cash and cash equivalents	\$	2,947	\$ 2,947	\$ 2,947	\$ -	\$ -
U.S. Treasury obligations		59,786	59,786	59,786	-	-
Corporate bond obligations		58,847	58,847	-	58,847	-
Equity index fund		56,975	56,975	56,975	-	-
Total assets whose use is limited:	\$	<u>178,555</u>	<u>\$ 178,555</u>	<u>\$ 119,708</u>	<u>\$ 58,847</u>	<u>\$ -</u>
<b>Disclosed at Fair Value</b>						
Cash and cash equivalents	\$	55,952	\$ 55,952	\$ 55,952	\$ -	\$ -
Long-term debt:						
Bonds		79,465	84,954	-	84,954	-
Other		2,229	2,229	-	-	2,229

There were no investments in 2015 or 2014 with inputs that cannot be corroborated by observable market data and therefore classified as level 3. There were no significant transfers between Levels 1 and 2 during 2015 and 2014.

## Kennedy Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following table identifies securities with unrealized losses at December 31, 2015. There are certain risks and uncertainties inherent in the System's impairment methodology, such as the financial condition of specific industry sectors and the effect of underlying security collateral values. Should the System subsequently determine a decline in the fair value below the cost basis to be other than temporary, the security would be written down to its fair market value and the difference would be included in earnings as a realized loss for the period such determination was made.

	2015 Total	
	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ 36,308	\$ 561
Corporate obligations	48,651	1,411
Total	<u>\$ 84,959</u>	<u>\$ 1,972</u>

  

	2014 Total	
	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ 22,846	\$ 338
Corporate obligations	34,715	642
Total	<u>\$ 57,561</u>	<u>\$ 980</u>

Based upon the System's impairment evaluation as of December 31, 2015, it was concluded that the unrealized losses in the table above are not other than temporary.

The following methods and assumptions were used by the System in estimating fair value disclosures for the consolidated financial statements:

*Cash and Cash Equivalents:* The carrying amount of cash and cash equivalents, including amounts reported in assets whose use is limited, approximates fair value due to the short-term nature of these instruments.

*Assets Whose Use Is Limited:* The fair values for marketable equity, U.S. Treasury, and corporate bond obligations included in assets whose use is limited are based on quoted market prices for identical or similar investments.

*Long-Term Debt Obligations:* The fair value of long-term debt is based on quoted market prices or estimates using discounted cash flow analyses, based on the participating institution's incremental borrowing rates for similar types of borrowing arrangements.

## Kennedy Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

### 6. Investment in Joint Ventures

KMG has entered in joint venture relationships to further its missions. In 2007, KMG entered into an agreement with Washington Fitness Centers, LLC. for 50% interest in the operations of Healthtrax Fitness Gym, LLC., and a 20% interest in the real estate and construction of a seventy-two thousand square foot building located in Washington Township, New Jersey. The operations of Healthtrax Fitness Center, LLC commenced in February, 2009. The investment has been accounted for under the equity method. Under the operating agreement, KMG is part of a group of guarantors for the real estate joint venture's \$12,829,000 outstanding mortgage at December 31, 2015.

In 2008, KMG entered into an agreement with USP, a physician group, to form KHS/USP Surgery Centers, LLC ("JV"). The JV subsequently entered into an agreement for an interest in KHS Ambulatory Surgery Center (ASC), LLC. The purpose of the joint venture is to form a strategic alliance that will provide ambulatory services in South Jersey. KMG's effective share in ASC is 26%. The investment has been accounted for under the equity method.

In 2012, KMG entered into an agreement with S&H Sports of Washington Township, LLC and QRISP, LP for a 37.5% interest in the operations of VSP Washington Township, LLC. The purpose of the joint venture is to acquire a franchise agreement with S&H Sports of Washington Township, LLC and Velocity Sports Performance, Inc. to provide a facility that focuses on optimizing individual athletic performance. The investment has been accounted under the equity method. The joint venture ceased operations as of June 1, 2015.

### 7. Property and Equipment

Property and equipment at December 31, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 6,445	\$ 6,445
Land improvements	6,523	6,490
Buildings	255,567	250,674
Fixed equipment	105,337	100,002
Major movable equipment	213,493	203,665
Capitalized leases	41,636	41,677
Leasehold improvements	4,172	4,172
Other properties	<u>942</u>	<u>942</u>
Total property and equipment	634,115	614,067
Less accumulated depreciation and amortization	<u>(394,691)</u>	<u>(367,087)</u>
	239,424	246,980
Construction in progress	<u>20,766</u>	<u>3,569</u>
Property and equipment, net	<u>\$ 260,190</u>	<u>\$ 250,549</u>

## Kennedy Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Total depreciation and amortization expense for 2015 and 2014 is \$27,977,000 and \$27,918,000, respectively. The amount of accumulated amortization related to capitalized leases was \$32,927,000 and \$28,772,000 for the years ended 2015 and 2014, respectively.

#### 8. Long-Term Debt

A summary of long-term debt at December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
<u>Kennedy University Hospital</u>		
Series 2012 New Jersey Health Care Facilities Authority (the "Authority"), Revenue and Refunding Bonds due in varying installments through 2042 plus interest at rates ranging from 2% to 5%	\$ 63,610	\$ 64,375
Loan and Security Agreement, with TD Bank, NA as agent. This debt will mature in September, 2025. The interest rate at 12/31/15 was 1.21%	7,135	-
Note payable	585	918
Capitalized lease obligations	8,706	13,380
Unamortized original issued bond premium (net)	3,430	3,560
<u>Kennedy Health Facilities</u>		
Series 2009 Revenue and Refunding Bonds dated October 1, 2009, due in varying installments through October 1, 2039 plus interest of 4.55%	14,752	15,090
<u>Kennedy Property Corporation</u>		
4.5% fixed rate mortgage dated March 1, 2011 due June 1, 2015	-	16
4.5% fixed rate mortgage dated March 1, 2011 due June 1, 2015	-	11
3.75% fixed rate mortgage dated May 20, 2011 due September 1, 2022	259	290
3.75% fixed rate mortgage dated December 1, 2009 due December 1, 2029	658	694
3.75% fixed rate mortgage dated October 22, 2010 due November 1, 2030	286	300
<u>Garden State Radiology Network</u>		
Capitalized lease obligations	-	41
Total	99,421	98,675
Less current portion	<u>(6,732)</u>	<u>(6,216)</u>
Long-term debt	<u>\$ 92,689</u>	<u>\$ 92,459</u>

## Kennedy Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

In September 2015, the Hospital signed a Loan and Security Agreement in the amount of \$71,000,000 with TD Bank, NA as the agent for this loan. TD Bank has committed \$51,000,000 toward this loan while M & T Bank has committed the remaining \$20,000,000 of the loan. The anticipated total construction cost will approximate \$80,000,000 with the Hospital contributing \$8,000,000 per the Agent's assent and an additional \$7,900,000 that is not subject to the Agent's assent to complete the project. The proceeds of the loan will be drawn based on construction needs and are to be used for construction of a new parking garage, medical office building where operations for Kennedy Cherry Hill Surgical Center, L.L.C. are due to commence, and lobby at the hospital's Cherry Hill campus. Principal payments of this debt start in October 2017 and mature in September 2025. The interest rate is determined based on the 30-day LIBOR rate plus .85%.

In August 2012, the Authority issued \$66,035,000 of the tax-exempt 2012 Bonds on behalf of the Hospital. The proceeds of the 2012 Bonds were used to refund the Series 1997A and 2001 Revenue and Refunding Bonds, fund certain capital projects, and pay the costs of issuance of the 2012 Bonds.

In August 2012, the Hospital entered into a bank note for equipment purchases. The note bears interest of 4.01% and is payable in sixty monthly installments of \$30,285.

In October, 2009, the Facility issued \$16,340,000 Revenue Bonds in conjunction with the New Jersey Health Care Facilities Financing Authority. The Series 2009 Revenue Bonds were issued to pay a portion of the costs for construction of approximately 44,000 square feet 60 bed sub-acute nursing unit addition to the existing facility. In addition, the funds were also used for the purchase of capital equipment, fund capitalized interest, acquisition of an interest rate cap agreement, and to pay bond issuance costs.

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

	<u>Long-Term Debt</u>	<u>Capital Leases</u>
Years ending December 31:		
2016	\$ 2,847	\$ 4,053
2017	5,080	2,356
2018	7,600	1,711
2019	2,731	843
2020	2,859	44
Thereafter	66,169	-
Total	87,286	9,007
Less amount representing interest	-	301
Total	<u>\$ 87,286</u>	<u>\$ 8,706</u>

# Kennedy Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

## 9. Commitments and Contingencies

### Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2015, that have initial or remaining lease terms in excess of one year:

Years ending December 31:	
2016	\$ 2,832
2017	2,358
2018	2,056
2019	1,541
2020	1,441
Thereafter	<u>612</u>
Total	<u>\$ 10,840</u>

Total rental expense in 2015 and 2014 for all operating leases and other month-to-month leases was approximately \$4,589,000 and \$3,905,000, respectively.

### Litigation

The System is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by commercial insurance or by accruals. If not so covered, these matters are without merit or are of such kind, or involve such amounts, as would not have a material adverse effect on the consolidated financial position or consolidated results of operations.

### Regulatory Compliance

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations through the years ended December 31, 2015 and 2014. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid program.

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

# Kennedy Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### Workers Compensation

The Hospital has been granted a letter of credit issued by TD Bank, dated April 28, 2011, in the amount of \$2,800,000 in favor of Pennsylvania Manufacturer's Association Insurance Co. The letter of credit expires June 30, 2016.

### Real Estate Taxes

As a not-for-profit corporation in New Jersey, the System is an organization which has historically qualified for an exemption from real property taxes; however, a number of cities and municipalities in New Jersey have challenged and continue to challenge such exemption. It is possible in the future that the System will be responsible to local authorities for real property taxes, payments in lieu of taxes, or other payments based on a certain assessment. The financial effects of this matter on the System are not presently determinable.

## 10. Pension Plan

The Hospital froze participation in its cash balance defined benefit pension plan (the "Plan") for all employees hired or rehired on or after July 1, 2015. Employees hired prior to July 1, 2015, remain eligible for the benefits earned under this plan. The benefits are based on years of service and the employee's compensation during the last five years of employment. The Hospital's funding policy is to contribute annually an amount equal to at least the minimum required contribution in accordance with minimum funding standards established by the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The funded status of the plan is measured as the difference between the plan assets at fair value and the projected benefit obligation or accumulated post retirement benefit obligation. At December 31, 2015 and 2014, the Hospital recognized \$468,000 and \$19,888,000, respectively, as the difference between actual amounts and estimates based on actuarial assumptions as a change in net assets.

The following table sets forth the funded status and amounts recognized in the Hospital's balance sheets for its defined benefit plan:

### Change in Benefit Obligation

	<u>2015</u>	<u>2014</u>
Accumulated benefit obligation at the end of the year	\$ 146,688	\$ 149,213
Projected benefit obligation at the beginning of the year	\$ 150,818	\$ 127,107
Interest cost on projected benefit obligations	6,202	6,244
Service costs - during the year	6,039	5,036
Actuarial (gain)/loss due to change in discount rates and updated mortality tables	(6,833)	21,465
Benefits paid	(8,074)	(9,034)
Projected benefit obligation at the end of the year	<u>\$ 148,152</u>	<u>\$ 150,818</u>



# Kennedy Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### Change in Plan Assets

	<u>2015</u>	<u>2014</u>
Fair value of plan assets at beginning of year	\$ 117,182	\$ 112,471
Actual return on plan assets	(1,374)	8,793
Hospital contribution	7,000	5,500
Benefits and administrative expenses paid	<u>(8,533)</u>	<u>(9,582)</u>
Fair value of plan assets at end of year	<u>114,275</u>	<u>117,182</u>
Amounts recognized in the balance sheet		
Non-current liabilities	<u>\$ (33,877)</u>	<u>\$ (33,636)</u>

### Amounts Recognized in Unrestricted Net Assets

	<u>2015</u>	<u>2014</u>
Prior service credit	\$ -	\$ (36)
Net actuarial loss	<u>57,375</u>	<u>56,943</u>
Total amount recognized in unrestricted net assets	<u>\$ 57,375</u>	<u>\$ 56,907</u>

### Weighted Average Assumption at the End of the Year

	<u>2015</u>	<u>2014</u>
Weighted average discount rate	4.54 %	4.16 %
Rate of increase in compensation levels	3.00 %	3.00 %

### Components of Net Periodic Benefit Cost

	<u>2015</u>	<u>2014</u>
Service cost – benefits earned during the period	\$ 6,039	\$ 5,037
Interest cost on projected benefit obligation	6,202	6,244
Expected return on plan assets	(9,702)	(9,236)
Amortization of prior service cost	(36)	(40)
Recognized net actuarial loss	<u>4,269</u>	<u>2,607</u>
Total net periodic benefit cost	<u>\$ 6,772</u>	<u>\$ 4,612</u>
Net actuarial loss	\$ 4,701	\$ 22,455
Amortization of prior service cost	36	40
Amortization of net gain	<u>(4,269)</u>	<u>(2,607)</u>
Total recognized in net assets	<u>\$ 468</u>	<u>\$ 19,888</u>
Total recognized in net benefit cost and net assets	<u>\$ 7,240</u>	<u>\$ 24,500</u>

## Kennedy Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The principal assumptions used in determining the net periodic benefit cost were as follows:

	<u>2015</u>	<u>2014</u>
Weighted average discount rate	4.16 %	5.00 %
Rate of increase in compensation levels	3.00	3.00
Expected long-term rate of return on assets	8.50	8.50

#### Expected Amortizations

	<u>12/31/2015</u>	<u>12/31/2014</u>
Expected amortization of prior service cost	\$ -	\$ (36)
Expected amortization of net loss	3,243	3,948

#### Other Accounting Items

	<u>2015</u>	<u>2014</u>
Measurement date used	12/31/15	12/31/14

#### Plan Assets

Diversification across and within asset classes is the primary means by which the Hospital mitigates risk. The Hospital maintains guidelines for all asset and sub-asset categories in order to avoid excessive investment concentrations. Fund assets are monitored on a regular basis. If at any time the fund asset allocation is not within the acceptable allocation range, funds will be reallocated. The Hospital also reviews the fund on a regular basis to ensure that the investment returns received are consistent with the short-term and long-term goals of the fund and with comparable market returns.

The weighted average asset allocations by asset category for the Hospital's pension plan, at December 31, are as follows:

	<b>Target</b>	<u>2015</u>	<u>2014</u>
Equity securities	50-90 %	68 %	71 %
Debt securities	15-45 %	25 %	27 %
Other	0-10 %	7 %	2 %
Total		<u>100 %</u>	<u>100 %</u>

## Kennedy Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31:

	<b>2015</b>			
	<b>Basis of Fair Value Measurements</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalent	\$ 7,870	\$ -	\$ -	\$ 7,870
U.S. Treasury obligations	13,042	-	-	13,042
Corporate bonds	-	15,489	-	15,489
Equities:				
Industrials	4,658	-	-	4,658
Consumer discretionary	6,410	-	-	6,410
Consumer staples	2,041	-	-	2,041
Energy	1,700	-	-	1,700
Financial	8,017	-	-	8,017
Materials	1,330	-	-	1,330
Information technology	6,995	-	-	6,995
Utilities	286	-	-	286
Health care	6,781	-	-	6,781
Telecommunication services	687	-	-	687
Unclassified stock	273	-	-	273
Equity mutual funds	27,609	-	-	27,609
Equity ETF	8,290	-	-	8,290
Other	-	2,797	-	2,797
<b>Total</b>	<b>\$ 95,989</b>	<b>\$ 18,286</b>	<b>\$ -</b>	<b>\$ 114,275</b>
	<b>2014</b>			
Cash and cash equivalent	\$ 1,848	\$ -	\$ -	\$ 1,848
U.S. Treasury obligations	8,393	-	-	8,393
Corporate bonds	-	23,476	-	23,476
Equities:				
Industrials	6,058	-	-	6,058
Consumer discretionary	8,573	-	-	8,573
Consumer staples	6,459	-	-	6,459
Energy	3,714	-	-	3,714
Financial	9,465	-	-	9,465
Materials	1,733	-	-	1,733
Information technology	10,012	-	-	10,012
Utilities	413	-	-	413
Health care	9,157	-	-	9,157
Telecommunication services	823	-	-	823
Unclassified stock	700	-	-	700
Equity mutual funds	12,628	-	-	12,628
Equity ETF	5,898	-	-	5,898
Other	-	7,832	-	7,832
<b>Total</b>	<b>\$ 85,874</b>	<b>\$ 31,308</b>	<b>\$ -</b>	<b>\$ 117,182</b>

## Kennedy Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following is a description of the valuation methodologies used for the plan's assets measured at fair value:

- Cash and cash equivalents - Include certain instruments in highly liquid debt instruments with original maturities of three months or less at date of purchase.
- Corporate debt securities and U.S. government obligations - Valued based on spreads of published interest rate curves.
- Equity securities & ETF's - Valued at closing price reported on the active market on which the individual securities are traded.
- Mutual funds - Valued at the net asset value ("NAV") of shares held by the Plan at year-end.
- Other investments are valued by an independent advisor that values the underlying investments of the securities, which are substantially invested in an active market in which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There were no transfers between levels during 2015 and 2014.

The table below provides an estimate of the plan contributions for the next year. The table also presents the benefits expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter.

#### Cash Flows

Contributions for the period of 01/01/2016 - 12/31/2016	
Expected employer amount	\$ 5,591
Expected employee amount	-
	<hr/>
Total	\$ 5,591
	<hr/> <hr/>
Estimated future benefit payments reflecting expected future service:	
01/01/2016 - 12/31/2016	\$ 9,194
01/01/2017 - 12/31/2017	8,271
01/01/2018 - 12/31/2018	9,002
01/01/2019 - 12/31/2019	9,625
01/01/2020 - 12/31/2020	10,204
01/01/2021 - 12/31/2024	59,329

## Kennedy Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### 11. Professional Liability Insurance

The System has malpractice insurance coverage on a claims-made basis under a guaranteed cost program. It is management's intention to continue existing coverage. The amount of malpractice coverage is \$1,000,000 per claim, with a \$3,000,000 annual aggregate. The System's umbrella policy and excess liability coverage is \$10,000,000 per occurrence with an annual aggregate of \$10,000,000 for its first layer of coverage. The System also maintains a second layer of coverage at \$10,000,000 per occurrence with an annual aggregate of \$10,000,000. The estimated liability for claims and incidents not reported to the insurance carrier at December 31, 2015 and 2014 was approximately \$1,859,000 and \$1,958,000, respectively. The medical malpractice accrual is discounted at 3.5% for 2015 and 2014. The System has recorded a receivable for anticipated insurance recoveries at December 31, 2015 and 2014 of \$7,683,000 and \$8,047,000, respectively. The estimated insurance recoveries receivable is included in deferred financing costs and other assets on the consolidated balance sheet. The System has recorded a related claim liability for December 31, 2015 and 2014 of \$9,542,000 and \$10,005,000, respectively. The total claims liability is included in other liabilities in the consolidated balance sheet.

### 12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Healthcare Services:		
Purchase of equipment	\$ 231	\$ 312
Health education	17	17
Research	62	85
Community wellness	278	293
Scholarships	95	59
	<u>95</u>	<u>59</u>
Total	<u>\$ 683</u>	<u>\$ 766</u>

## Kennedy Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### 13. Functional Expenses

In accordance with FASB ASC Topic 958, *Financial Statements of Not-for-Profit Organizations*, the System has elected to report its natural expenses on its consolidated statement of operations. Accordingly, the System's functional expenses are as follows:

	<u>2015</u>	<u>2014</u>
Program services	\$ 459,519	\$ 434,653
Management and general	85,497	73,193
Fundraising	78	71
Total	<u>\$ 545,094</u>	<u>\$ 507,917</u>

### 14. Concentration 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. The mix of receivables from patients and third-party payors was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	23 %	24 %
Medicaid	3	4
Blue Cross	12	13
Other third-party payors	51	48
Patients (self-pay)	11	11
Total	<u>100 %</u>	<u>100 %</u>

The System routinely invests its excess cash with local banks. At December 31, 2015 and 2014, the System had cash balances with these local banks which exceeded Federal Depository insurance limits. Management believes that credit risk related to these deposits is minimal.

### 15. Subsequent Event

On January 14, 2016, the System and Thomas Jefferson University ("Jefferson") executed a nonbinding letter of intent to negotiate and complete an affiliation and integration agreement. The System and Jefferson have agreed to conditions of a prospective affiliation that will support the enhancement and benefit of healthcare in the South Jersey region. While a definitive agreement is expected to be signed by the end of April 2016, the proposed affiliation is subject to final regulatory approvals and is expected to be finalized in 2017.

**Kennedy Health System, Inc. and Subsidiaries**

Schedule of Consolidating Information, Balance Sheet

(In Thousands)

December 31, 2015

(See Independent Auditors' Report on Supplementary Information)

	Kennedy University Hospital, Inc.	Kennedy Health System	STAT Medical Transport, Inc.	Kennedy Property Corporation	Kennedy Health Facilities, Inc.	Kennedy Management Group, Inc.	Professional Medical Management, Inc.	Kennedy Health Alliance	Kennedy Healthcare Foundation	Garden State Radiology	Consolidation	
											Eliminations	Consolidated
<b>Assets</b>												
<b>Current Assets</b>												
Cash and cash equivalents	\$ 54,959	\$ 89	\$ 2,501	\$ 172	\$ 4,816	\$ 38	\$ 2,178	\$ 325	\$ 138	\$ 257	\$ -	\$ 65,473
Accounts receivable:												
Patients (net of estimated allowance for doubtful collections of \$24,191)	60,486	-	1,788	5	1,852	-	-	3,271	-	-	(1,623)	65,779
Other	3,289	-	-	-	-	24	1,360	189	-	731	(595)	4,998
Due from affiliates	2,153	2,252	898	-	-	-	7,314	4	82	-	(12,703)	-
Assets whose use is limited	2,429	-	-	-	-	-	-	-	-	-	-	2,429
Inventories	8,798	-	-	-	44	-	-	115	-	-	-	8,957
Prepaid expenses and other current assets	3,262	-	156	103	147	233	72	391	-	11	-	4,375
Total current assets	135,376	2,341	5,343	280	6,859	295	10,924	4,295	220	999	(14,921)	152,011
<b>Property and Equipment</b>	225,427	5	732	11,863	19,094	-	390	1,033	-	1,646	-	260,190
<b>Assets Whose Use is Limited</b>	173,172	3,275	796	-	851	-	2,086	-	10	-	-	180,190
<b>Loans to Affiliates</b>	-	1,656	-	-	-	-	-	-	-	-	(1,656)	-
<b>Investments in Joint Ventures</b>	765	1,735	-	-	-	62	-	-	-	-	(1,735)	827
<b>Deferred Financing Costs and Other Assets</b>	8,261	-	3	1	600	62	-	-	-	1,724	-	10,651
Total assets	\$ 543,001	\$ 9,012	\$ 6,874	\$ 12,144	\$ 27,404	\$ 419	\$ 13,400	\$ 5,328	\$ 230	\$ 4,369	\$ (18,312)	\$ 603,869

**Kennedy Health System, Inc. and Subsidiaries**

Schedule of Consolidating Information, Balance Sheet

(In Thousands)

December 31, 2015

(See Independent Auditors' Report on Supplementary Information)

	Kennedy University Hospital, Inc.	Kennedy Health System	STAT Medical Transport, Inc.	Kennedy Property Corporation	Kennedy Health Facilities, Inc.	Kennedy Management Group, Inc.	Professional Medical Management, Inc.	Kennedy Health Alliance	Kennedy Healthcare Foundation	Garden State Radiology	Consolidation	
											Eliminations	Consolidated
<b>Liabilities and Net Assets (Deficit)</b>												
<b>Current Liabilities</b>												
Long-term debt, current portion	\$ 6,297	\$ -	\$ -	\$ 1,258	\$ 353	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,176)	\$ 6,732
Accounts payable	43,692	-	29	126	599	-	76	571	-	40	(3,033)	42,100
Accrued expenses:												
Payroll and benefits	20,882	18	184	-	560	-	180	1,440	-	30	-	23,294
Other	6,703	24	102	3	1,491	-	551	3	28	877	-	9,782
Accrued interest	1,396	-	-	-	-	-	-	-	-	-	-	1,396
Due to affiliates	-	141	73	1,477	306	7,314	258	1,122	21	-	(10,712)	-
Estimated settlements with third party payors	3,792	-	-	-	39	-	-	-	-	-	-	3,831
Deferred revenue	1,346	-	-	64	-	-	12	270	-	20	-	1,712
Total current liabilities	84,108	183	388	2,928	3,348	7,314	1,077	3,406	49	967	(14,921)	88,847
<b>Long-Term Debt</b>	77,169	-	-	2,777	14,399	-	-	-	-	-	(1,656)	92,689
<b>Accrued Pension Cost</b>	33,877	-	-	-	-	-	-	-	-	-	-	33,877
<b>Other Liabilities</b>	17,010	-	-	-	262	-	-	-	-	-	-	17,272
Total liabilities	212,164	183	388	5,705	18,009	7,314	1,077	3,406	49	967	(16,577)	232,685
<b>Net Assets (Deficit)</b>												
Unrestricted	330,590	8,403	6,486	6,439	9,395	(6,895)	12,323	1,922	171	3,402	(1,735)	370,501
Temporarily restricted	247	426	-	-	-	-	-	-	10	-	-	683
Total net assets (deficit)	330,837	8,829	6,486	6,439	9,395	(6,895)	12,323	1,922	181	3,402	(1,735)	371,184
Total liabilities and net assets (deficit)	\$ 543,001	\$ 9,012	\$ 6,874	\$ 12,144	\$ 27,404	\$ 419	\$ 13,400	\$ 5,328	\$ 230	\$ 4,369	\$ (18,312)	\$ 603,869



**Kennedy Health System, Inc. and Subsidiaries**

Schedule of Consolidating Information, Balance Sheet

(In Thousands)

December 31, 2014

(See Independent Auditors' Report on Supplementary Information)

	Kennedy University Hospital, Inc.	Kennedy Health System	STAT Medical Transport Inc.	Kennedy Property Corporation	Kennedy Health Facilities Inc.	Kennedy Management Group, Inc.	Professional Medical Management Inc.	Kennedy Health Alliance	Kennedy Imaging, P.C.	Kennedy Healthcare Foundation	Garden State Radiology	Consolidation	
												Eliminations	Consolidated
<b>Assets</b>													
<b>Current Assets</b>													
Cash and cash equivalents	\$ 45,525	\$ 210	\$ 2,438	\$ 120	\$ 3,502	\$ 40	\$ 1,782	\$ 915	\$ 69	\$ 88	\$ 1,263	\$ -	\$ 55,952
Accounts receivable:													
Patients (net of estimated allowance for doubtful collections of \$23,245)	56,708	-	1,359	-	2,385	-	-	2,467	-	-	-	(1,116)	61,803
Other	2,210	-	-	29	-	21	856	306	-	-	376	(256)	3,542
Due from affiliates	2,222	1,979	693	-	-	-	6,633	179	-	-	-	(11,706)	-
Assets whose use is limited	1,794	-	-	-	-	-	-	-	-	-	-	-	1,794
Inventories	8,352	-	-	-	37	-	-	107	-	-	-	-	8,496
Prepaid expenses and other current assets	3,875	-	149	1	174	183	84	173	-	-	7	-	4,646
Total current assets	120,686	2,189	4,639	150	6,098	244	9,355	4,147	69	88	1,646	(13,078)	136,233
<b>Property and Equipment</b>	219,087	6	754	8,202	19,586	-	340	816	-	-	1,758	-	250,549
<b>Assets Whose Use is Limited</b>	169,902	3,201	788	-	798	-	2,062	-	-	10	-	-	176,761
<b>Loans to Affiliates</b>	-	1,852	-	-	-	-	-	-	-	-	-	(1,852)	-
<b>Investments in Joint Ventures</b>	-	2,191	-	-	-	776	-	-	-	-	-	(2,191)	776
<b>Deferred Financing Costs and Other Assets</b>	8,436	-	3	5	626	94	-	-	-	-	1,724	-	10,888
Total assets	\$ 518,111	\$ 9,439	\$ 6,184	\$ 8,357	\$ 27,108	\$ 1,114	\$ 11,757	\$ 4,963	\$ 69	\$ 98	\$ 5,128	\$ (17,121)	\$ 575,207

**Kennedy Health System, Inc. and Subsidiaries**

Schedule of Consolidating Information, Balance Sheet

(In Thousands)

December 31, 2014

(See Independent Auditors' Report on Supplementary Information)

	Kennedy University Hospital, Inc.	Kennedy Health System	STAT Medical Transport Inc.	Kennedy Property Corporation	Kennedy Health Facilities Inc.	Kennedy Management Group, Inc.	Professional Medical Management Inc.	Kennedy Health Alliance	Kennedy Imaging, P.C.	Kennedy Healthcare Foundation	Garden State Radiology	Consolidation	
												Eliminations	Consolidated
<b>Liabilities and Net Assets (Deficit)</b>													
<b>Current Liabilities</b>													
Long-term debt, current portion	\$ 5,772	\$ -	\$ -	\$ 1,085	\$ 338	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (979)	\$ 6,216
Accounts payable	40,055	-	45	35	31	-	37	338	4	-	304	(1,952)	38,897
Accrued expenses:													
Payroll and benefits	26,153	20	288	-	822	-	256	1,413	-	-	49	-	29,001
Other	7,185	3	93	3	1,945	-	491	3	-	15	435	-	10,173
Accrued interest	1,412	-	-	-	-	-	-	-	-	-	-	-	1,412
Due to affiliates	-	219	27	1,365	248	6,636	207	1,377	68	-	-	(10,147)	-
Estimated settlements with third party payors	3,792	-	-	-	66	-	-	-	-	-	-	-	3,858
Deferred revenue	1,448	-	-	63	-	-	12	256	-	-	3	-	1,782
Total current liabilities	85,817	242	453	2,551	3,450	6,636	1,003	3,387	72	15	791	(13,078)	91,339
<b>Long-Term Debt</b>	76,461	-	-	3,057	14,752	-	-	-	-	-	41	(1,852)	92,459
<b>Accrued Pension Cost</b>	33,636	-	-	-	-	-	-	-	-	-	-	-	33,636
<b>Other Liabilities</b>	22,068	-	-	-	275	-	-	-	-	-	-	-	22,343
Total liabilities	217,982	242	453	5,608	18,477	6,636	1,003	3,387	72	15	832	(14,930)	239,777
<b>Net Assets (Deficit)</b>													
Unrestricted	299,756	8,814	5,731	2,749	8,631	(5,522)	10,754	1,576	(3)	73	4,296	(2,191)	334,664
Temporarily restricted	373	383	-	-	-	-	-	-	-	10	-	-	766
Total net assets (deficit)	300,129	9,197	5,731	2,749	8,631	(5,522)	10,754	1,576	(3)	83	4,296	(2,191)	335,430
Total liabilities and net assets (deficit)	\$ 518,111	\$ 9,439	\$ 6,184	\$ 8,357	\$ 27,108	\$ 1,114	\$ 11,757	\$ 4,963	\$ 69	\$ 98	\$ 5,128	\$ (17,121)	\$ 575,207

**Kennedy Health System, Inc. and Subsidiaries**

Schedule of Consolidating Information, Statement of Operations

(In Thousands)

Year Ended December 31, 2015

(See Independent Auditors' Report on Supplementary Information)

	Kennedy University Hospital, Inc.	Kennedy Health System	STAT Medical Transport Inc.	Kennedy Property Corporation	Kennedy Health Facilities Inc.	Kennedy Management Group, Inc.	Professional Medical Management Inc.	Kennedy Health Alliance	Kennedy Healthcare Foundation	Garden State Radiology	Consolidation	
											Eliminations	Consolidated
<b>Unrestricted Revenues, Gains, and Other Support</b>												
Net patient services revenue	\$ 554,345	\$ -	\$ 5,702	\$ -	\$ 21,000	\$ -	\$ -	\$ 19,632	\$ -	\$ 2,795	\$ (2,401)	\$ 601,073
(Provision for) recovery of doubtful collections	(30,098)	-	(148)	-	251	-	-	(689)	-	-	-	(30,684)
Net patient service revenue less provision for doubtful collections	524,247	-	5,554	-	21,251	-	-	18,943	-	2,795	(2,401)	570,389
Other operating revenue	4,007	-	848	1,369	42	(1,427)	6,814	4,905	1,164	-	(8,159)	9,563
Net assets released from restrictions	93	65	-	-	-	-	-	-	-	-	-	158
Total unrestricted revenues, gains and other support	528,347	65	6,402	1,369	21,293	(1,427)	6,814	23,848	1,164	2,795	(10,560)	580,110
<b>Expenses</b>												
Employee salaries	205,501	663	3,261	-	9,207	-	2,307	19,902	331	849	-	242,021
Physician salaries and fees	33,435	-	-	-	-	-	-	-	-	438	(4,101)	29,772
Employee benefits	48,760	43	889	-	2,173	-	731	2,252	-	-	-	54,848
Supplies and expenses	171,966	231	1,158	1,110	7,766	(50)	2,048	6,550	772	2,237	(6,462)	187,326
Interest	2,707	-	-	124	396	-	-	-	-	-	(77)	3,150
Depreciation and amortization	25,792	1	336	418	979	-	100	186	-	165	-	27,977
Total expenses	488,161	938	5,644	1,652	20,521	(50)	5,186	28,890	1,103	3,689	(10,640)	545,094
<b>Non-controlling Interest, Garden State Radiology</b>	-	438	-	-	-	-	-	-	-	-	-	438
<b>Income (Loss) from Operations</b>	40,186	(435)	758	(283)	772	(1,377)	1,628	(5,042)	61	(894)	80	35,454
<b>Nonoperating Income (Loss)</b>												
Interest, dividends, and net realized gains and losses on investments	3,280	146	7	(2)	-	4	(31)	-	-	-	(77)	3,327
Revenues in excess of (less than) expenses	43,466	(289)	765	(285)	772	(1,373)	1,597	(5,042)	61	(894)	3	38,781
<b>Change in Net Unrealized Gains (Losses) on Securities</b>	(2,260)	(38)	(10)	-	(8)	-	(28)	-	-	-	-	(2,344)
<b>Net Assets Released from Restrictions for Property for Property and Equipment</b>	306	-	-	-	-	-	-	-	-	-	-	306
<b>Pension Liability Adjustment</b>	(468)	-	-	-	-	-	-	-	-	-	-	(468)
<b>Change in Investment in Garden State Radiology</b>	-	(894)	-	-	-	-	-	-	-	-	456	(438)
<b>Transfer (to) from Affiliate</b>	(10,210)	810	-	3,975	-	-	-	5,388	37	-	-	-
Increase (decrease) in unrestricted net assets	\$ 30,834	\$ (411)	\$ 755	\$ 3,690	\$ 764	\$ (1,373)	\$ 1,569	\$ 346	\$ 98	\$ (894)	\$ 459	\$ 35,837

**Kennedy Health System, Inc. and Subsidiaries**

Schedule of Consolidating Information, Statement of Operations

(In Thousands)

Year Ended December 31, 2014

(See Independent Auditors' Report on Supplementary Information)

	Kennedy University Hospital, Inc.	Kennedy Health System	STAT Medical Transport Inc.	Kennedy Property Corporation	Kennedy Health Facilities Inc.	Kennedy Management Group, Inc.	Professional Medical Management Inc.	Kennedy Health Alliance	Kennedy Imaging, P.C.	Kennedy Healthcare Foundation	Garden State Radiology	Consolidation		
												Eliminations	Consolidated	
<b>Unrestricted Revenues, Gains, and Other Support</b>														
Net patient services revenue	\$ 529,314	\$ -	\$ 5,537	\$ -	\$ 20,494	\$ -	\$ -	\$ 12,507	\$ -	\$ -	\$ 404	\$ (2,210)	\$ 566,046	
Provision for doubtful collections	(24,043)	-	-	-	(680)	-	-	(340)	-	-	-	-	(25,063)	
Net patient services revenue less provision for doubtful collections	505,271	-	5,537	-	19,814	-	-	12,167	-	-	404	(2,210)	540,983	
Other operating revenue	7,000	(66)	810	1,249	47	(384)	5,996	4,530	77	456	-	(6,736)	12,979	
Net assets released from restrictions	72	68	-	-	-	-	-	-	-	-	-	-	140	
Total unrestricted revenues, gains and other support	512,343	2	6,347	1,249	19,861	(384)	5,996	16,697	77	456	404	(8,946)	554,102	
<b>Expenses</b>														
Employee salaries	195,164	370	3,164	-	9,011	-	2,222	13,421	-	156	160	-	223,668	
Physician salaries and fees	34,041	-	-	-	-	-	-	-	-	-	61	(3,678)	30,424	
Employee benefits	43,425	45	787	-	1,941	-	664	1,584	-	-	-	-	48,446	
Supplies and expenses	162,583	205	1,231	995	7,361	343	1,803	4,122	67	297	297	(5,334)	173,970	
Interest	3,032	-	-	138	406	-	-	144	-	-	-	(229)	3,491	
Depreciation and amortization	25,987	1	298	456	935	-	99	127	-	-	15	-	27,918	
Total expenses	464,232	621	5,480	1,589	19,654	343	4,788	19,398	67	453	533	(9,241)	507,917	
<b>Non-controlling Interest, Garden State Radiology</b>	-	-	-	-	-	-	-	-	-	-	63	-	63	
<b>Income (Loss) from Operations</b>	48,111	(619)	867	(340)	207	(727)	1,208	(2,701)	10	3	(66)	295	46,248	
<b>Nonoperating Income (Loss)</b>														
Interest, dividends, and net realized gains and losses on investments	2,751	264	8	(2)	5	5	(41)	(16)	(3)	-	-	(229)	2,742	
Revenues in excess of (less than) expenses	50,862	(355)	875	(342)	212	(722)	1,167	(2,717)	7	3	(66)	66	48,990	
<b>Change in Net Unrealized Gains on Securities</b>	4,715	127	-	-	-	-	127	-	-	-	-	-	4,969	
<b>Loan Forgiveness</b>	-	(11,670)	-	-	-	-	-	11,670	-	-	-	-	-	
<b>Pension Liability Adjustment</b>	(19,888)	-	-	-	-	-	-	-	-	-	-	-	(19,888)	
<b>Change in Investment in Garden State Radiology</b>	-	-	-	-	-	-	-	-	-	-	4,362	(2,257)	2,105	
<b>Transfer (to) from Affiliate</b>	(5,122)	3,462	-	-	-	-	-	1,590	-	70	-	-	-	
Increase (decrease) in unrestricted net assets	\$ 30,567	\$ (8,436)	\$ 875	\$ (342)	\$ 212	\$ (722)	\$ 1,294	\$ 10,543	\$ 7	\$ 73	\$ 4,296	\$ (2,191)	\$ 36,176	