

**Hunterdon Healthcare System, Inc.
and Affiliates**

Consolidated Financial Statements
and Supplementary Information

December 31, 2014 and 2013



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Hunterdon Healthcare System, Inc. and Affiliates

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Independent Auditors' Report

Board of Trustees
Hunterdon Healthcare System, Inc. and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hunterdon Healthcare System, Inc. and Affiliates (the "System"), which comprise the consolidated statement of financial position as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Hunterdon Healthcare System, Inc. and Affiliates as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information presented on pages 41 to 54 is presented for purposes of additional analysis 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
June 22, 2015

Hunterdon Healthcare System, Inc. and Affiliates

Consolidated Statement of Financial Position

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 49,516,748	\$ 44,697,669	Accounts payable and accrued expenses	\$ 21,270,913	\$ 17,520,564
Short-term investments	41,736,405	39,000,542	Accrued payroll and payroll taxes	11,543,646	9,994,895
Patient accounts receivable, net of allowance for doubtful accounts of \$14,882,000 and \$17,433,000 in 2014 and 2013, respectively	29,800,363	31,259,410	Current portion of long-term debt and capital leases	2,430,380	2,535,998
Assets whose use is limited	-	1,226,280	Accrued interest payable	24,317	996,533
Inventories	1,945,260	1,580,071	Estimated third-party payor settlements, net	1,176,419	1,305,221
Other receivables	7,694,844	6,827,102	Other liabilities	195,681	233,135
Prepaid expenses and other current assets	2,873,621	2,617,133			
			Total current liabilities	<u>36,641,356</u>	<u>32,586,346</u>
Total current assets	<u>133,567,241</u>	<u>127,208,207</u>	Long-Term Liabilities		
Assets Whose Use is Limited (Exclusive of Current Portion)			Long-term debt and capital leases, net	74,405,468	52,795,065
Board-designated funds	42,457,199	41,434,997	Other liabilities	6,786,016	7,835,464
Donor-restricted assets	17,434,118	16,499,859	Pension benefit liability	37,543,554	-
Funds held by trustee under bond indenture agreement, net	6,073,897	3,245,640	Estimated third party payor settlements, net	4,251,376	4,125,791
Total assets whose use is limited, net	<u>65,965,214</u>	<u>61,180,496</u>	Total long-term liabilities	<u>122,986,414</u>	<u>64,756,320</u>
Other Noncurrent Assets			Total liabilities	159,627,770	97,342,666
Investments	6,852,855	6,975,242	Net Assets		
Deferred financing costs, net	533,494	692,765	Unrestricted	168,603,466	209,663,615
Property and equipment, net	132,904,994	116,239,172	Temporarily restricted	8,050,252	8,326,406
Beneficial interest in trusts	3,173,166	3,058,474	Permanently restricted	20,877,362	19,282,079
Real estate held for investment	213,099	213,099			
Investment in affiliate	66,343	72,382	Total net assets	197,531,080	237,272,100
Investment in subsidiary	447,404	367,208			
Pension asset	-	4,651,170	Noncontrolling interests	1,193,766	1,132,821
Goodwill	3,836,899	3,664,625			
Other assets	10,791,907	11,424,747			
Total other noncurrent assets	<u>158,820,161</u>	<u>147,358,884</u>	Total liabilities and net assets	<u>\$ 358,352,616</u>	<u>\$ 335,747,587</u>
Total assets	<u>\$ 358,352,616</u>	<u>\$ 335,747,587</u>			

See notes to financial statements

Hunterdon Healthcare System, Inc. and Affiliates

Consolidated Statement of Operations

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues		
Patient service revenue (net of contractual allowances and discounts)	\$ 278,921,687	\$ 277,112,752
Provision for bad debts	(13,506,992)	(13,972,519)
Net patient service revenue less provision for bad debts	<u>265,414,695</u>	<u>263,140,233</u>
Other revenue	24,058,259	22,369,999
Net assets released from restrictions for operations	<u>1,372,108</u>	<u>790,776</u>
Total revenues	<u>290,845,062</u>	<u>286,301,008</u>
Expenses		
Salaries, wages, and benefits	168,913,833	180,320,100
Physician fees	6,265,646	6,414,549
Supplies and services	90,310,627	81,495,638
Interest	2,669,308	2,733,003
Depreciation and amortization	<u>14,942,622</u>	<u>14,621,716</u>
Total expenses	<u>283,102,036</u>	<u>285,585,006</u>
Operating income	<u>7,743,026</u>	<u>716,002</u>
Nonoperating revenues and gains, net	<u>315,108</u>	<u>5,505,796</u>
Excess of revenues and gains over expenses and losses before provision for income taxes and loss on extinguishment of debt	<u>8,058,134</u>	<u>6,221,798</u>
Provision for Income Taxes		
Federal	(352,635)	(293,005)
State	<u>(102,576)</u>	<u>(85,231)</u>
Total provision for income taxes	(455,211)	(378,236)
Loss on Extinguishment of Debt	<u>(2,819,101)</u>	<u>-</u>
Excess of revenues and gains over expenses and losses	<u>4,783,822</u>	<u>5,843,562</u>
Other Changes		
Change in net unrealized gains (losses) on investment securities, other than trading securities	2,039,798	67,394
Net assets released from restrictions for capital acquisitions	1,647,550	2,389,610
Pension-related changes other than net periodic pension cost	(48,090,522)	78,668,790
Net income attributable to noncontrolling interests	<u>(1,440,797)</u>	<u>(1,435,190)</u>
(Decrease) increase in unrestricted net assets	<u>\$ (41,060,149)</u>	<u>\$ 85,534,166</u>

See notes to consolidated financial statements

Hunterdon Healthcare System, Inc. and Affiliates

Consolidated Statement of Changes in Net Assets
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Changes in Unrestricted Net Assets		
Excess of revenues and gains over expenses and losses	\$ 4,783,822	\$ 5,843,562
Change in net unrealized gains (losses) on investment securities, other than trading securities	2,039,798	67,394
Net assets released from restrictions for capital acquisitions	1,647,550	2,389,610
Pension-related changes other than net periodic pension cost	(48,090,522)	78,668,790
Net income attributable to noncontrolling interests	(1,440,797)	(1,435,190)
	<u>(41,060,149)</u>	<u>85,534,166</u>
(Decrease) increase in unrestricted net assets		
Changes in Temporarily Restricted Net Assets		
Contributions	2,230,244	3,490,081
Investment income from donor-restricted assets	326,324	1,080,586
Net realized gains on investment securities	6,663	165,907
Change in net unrealized gains (losses) on investment securities	180,273	(540,407)
Net assets released from restrictions	(3,019,658)	(3,180,386)
Net asset transfer	-	(200,000)
	<u>(276,154)</u>	<u>815,781</u>
(Decrease) increase in temporarily restricted net assets		
Changes in Permanently Restricted Net Assets		
Contributions	1,000,000	-
Net realized gains on investment securities	57,220	106,727
Change in value of beneficial interest in trusts	(42,544)	241,035
Net asset transfer	-	200,000
Change in net unrealized gains (losses) on investment securities	580,607	1,138,574
	<u>1,595,283</u>	<u>1,686,336</u>
Increase in permanently restricted net assets		
(Decrease) increase in net assets	(39,741,020)	88,036,283
Net Assets, Beginning	<u>237,272,100</u>	<u>149,235,817</u>
Net Assets, Ending	<u>\$ 197,531,080</u>	<u>\$ 237,272,100</u>

See notes to consolidated financial statements

Hunterdon Healthcare System, Inc. and AffiliatesConsolidated Statement of Cash Flows
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (39,741,020)	\$ 88,036,283
Adjustments to reconcile (decrease) increase in net assets provided by operating activities:		
Change in beneficial interest in trusts	(114,692)	(292,437)
Gain on sale of assets	(7,592)	(14,616)
Loss on extinguishment of debt	2,819,101	-
Depreciation and amortization	14,942,622	14,621,716
Provision for bad debts, net	13,506,992	13,972,519
Net realized and unrealized gains on investment securities	(3,057,702)	(6,177,827)
Net income attributable to noncontrolling interests	1,440,797	1,435,190
Accretion of bond premium, net of amortization of bond discount	(34,027)	(35,889)
Pension-related changes other than net periodic pension cost	48,090,522	(78,668,790)
Change in value of derivatives	286,678	(535,879)
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(12,047,945)	(10,308,328)
Decrease in estimated third-party payor settlements, net	(3,217)	(928,204)
Net change in other operating assets and liabilities	(4,032,236)	4,561,457
Net cash provided by operating activities	22,048,281	25,665,195
Cash Flows from Investing Activities		
Acquisition of property and equipment	(29,866,326)	(17,587,150)
Proceeds from sale of assets	26,850	2,400
Purchases of assets whose use is limited and investments, net	(3,114,212)	(15,960,948)
Purchase of physician practice	(201,875)	(178,580)
Repayment (issuance) of loan receivable, net	20,686	(64,392)
Net cash used in investing activities	(33,134,877)	(33,788,670)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	72,634,127	-
Repayment of long-term debt and capital lease obligations	(54,437,934)	(1,625,653)
Payments of deferred financing costs	(876,712)	-
Payments of annuity obligations	(33,954)	(33,954)
Distributions to noncontrolling interests	(1,379,852)	(1,384,208)
Net cash provided by (used in) financing activities	15,905,675	(3,043,815)
Net increase (decrease) in cash and cash equivalents	4,819,079	(11,167,290)
Cash and Cash Equivalents, Beginning	44,697,669	55,864,959
Cash and Cash Equivalents, Ending	<u>\$ 49,516,748</u>	<u>\$ 44,697,669</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid, including capitalized interest	<u>\$ 3,695,878</u>	<u>\$ 2,793,848</u>
Taxes paid	<u>\$ 598,108</u>	<u>\$ 444,171</u>
Acquisition of property and equipment through capital leases	<u>\$ 1,500,000</u>	<u>\$ 390,762</u>

See notes to consolidated financial statements

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

1. Organization and Summary of Significant Accounting Policies

Organization

Hunterdon Healthcare System, Inc. and affiliates (the "System") is organized and operated exclusively for charitable, scientific, and educational purposes, and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). More specifically, the System has the charitable purpose of supporting Hunterdon Medical Center (the "Medical Center"), a New Jersey not-for-profit acute care medical center, and any other qualifying members, in the performance of the Medical Center's charitable, educational, scientific, and hospital purposes within Hunterdon County. It is anticipated that such support will improve the quality and diversity of healthcare delivered to the public in the region and contains consumer and governmental cost of such healthcare, through more efficient utilization and allocation of healthcare resources within the region.

The System was formed by the board of trustees of the Medical Center for the purpose of having direct control over its not-for-profit affiliates: the Medical Center, Hunterdon Healthcare Foundation (formerly the Hunterdon Medical Center Foundation, Inc.) (the "Foundation"), and Hunterdon Regional Community Health, Inc. and subsidiaries ("HRCH"). These affiliates are tax-exempt not-for-profit organizations under Section 501(c)(3) of the Code.

The System owns 100% of the outstanding stock of Midjersey Health Corporation ("Midjersey"), a for-profit entity. This subsidiary has been consolidated with the System. The System also owns 50% of the outstanding stock of Hunterdon Health Care, LLC, a for-profit entity. The System accounts for this subsidiary under the equity method.

The consolidated financial statements include the accounts of the parent company and its subsidiaries and affiliates. Intercompany transactions and balances have been eliminated.

Basis of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

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

Cash and Cash Equivalents

Cash equivalents include cash on hand and highly liquid investments with an original maturity of twelve months or less.

The System has balances with financial institutions that exceed federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Patient Accounts Receivable

Patient accounts receivable 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. In evaluating the collectability of patient 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. 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 accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that 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 accounts.

The Medical Center's allowance for doubtful accounts for self-pay patients was 97% and 91% of self-pay accounts receivable at December 31, 2014 and December 31, 2013, respectively. In addition, the Medical Center's self-pay account write-offs (net of recoveries) decreased to \$9,560,465 in 2014 from \$12,105,060 in 2013. The decrease is primarily due to the Medical Center implementing a new policy in May 2014 to apply a discount to self-pay accounts and recording the adjustment as a contractual allowance.

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payment at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, 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 or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts, and net of contractual allowances and discounts and provision for bad debts, recognized in 2014 and 2013 from these major payor sources, are as follows:

	Patient Service Revenues (Net of Contractual Allowances and Discounts)			Total
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	
December 31, 2014	\$ 89,123,550	\$ 177,983,769	\$ 11,814,368	\$ 278,921,687
December 31, 2013	\$ 77,654,666	\$ 179,720,770	\$ 19,737,316	\$ 277,112,752

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

	Patient Service Revenues (Net of Contractual Allowances and Discounts and Provision for Bad Debts)			Total
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	
December 31, 2014	<u>\$ 87,499,664</u>	<u>\$ 173,957,606</u>	<u>\$ 3,957,425</u>	<u>\$ 265,414,695</u>
December 31, 2013	<u>\$ 76,590,408</u>	<u>\$ 176,174,645</u>	<u>\$ 10,375,180</u>	<u>\$ 263,140,233</u>

Contributions Receivable

Contributions receivable are recognized as revenue in the period received. Contributions receivable are recorded at present value using discount rates ranging from 3.38% to 6.04% and are included in other receivables in the consolidated statements of financial position. At December 31, 2014 and 2013, net contributions receivable of approximately \$4,212,000 and \$3,467,000, respectively, were recorded. Approximately \$3,147,000 of the gross contributions receivable is expected to be collected between one and ten years at December 31, 2014 and the remainder of the balance is expected to be collected during 2015.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Investment in Affiliate

HRCH is a 50% owner of Hunterdon Infusion Care. This investment is accounted for by the equity method.

Investments and Assets Whose Use is Limited

Assets whose use is limited primarily includes assets held by trustees under indenture agreements; designated assets set aside by the board of trustees for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes; and donor-restricted assets. Amounts required to meet current liabilities of the System have been reclassified as current assets in the consolidated statements of financial position at December 31, 2014 and 2013.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investments in commingled funds are recognized at fair value as estimated by the external investment managers and is based on the net asset value of the funds. The System reviews and evaluates the net asset values provided by the external investment managers for reasonableness. Investment income or loss (including realized gains and losses on investments and interest and dividends) is included in excess of revenues and gains over expenses and losses unless the income or loss is restricted by donor or law. Gains and losses on the sale of investments are based on an identified cost basis. Unrealized gains and losses on investments are excluded from excess of revenues and gains over expenses and losses since investments are classified as investments held for sale. Donated investments are reported at fair value at the date of receipt.

A decline in the fair value below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to excess of revenues and gains over expenses and losses and a new cost basis for the security is established.

The System's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated statement of financial position are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Property and Equipment

Property and equipment are carried at cost, except donated assets which are recorded at fair market value at date of donation. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Depreciation expense is calculated on all depreciable assets, based on the straight-line method utilizing estimated useful lives ranging from 3 to 40 years.

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 donated or acquired long-lived assets are placed in service.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
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Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed 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 estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated statement of financial position.

Beneficial Interest in Trusts

Beneficial interest in trusts are arrangements whereby a donor establishes and funds a trust, and the assets are held in perpetuity or for a period of time, with the income earned distributed annually to the System for both restricted and unrestricted use. The System recognizes the contribution as either temporarily restricted net assets or permanently restricted net assets, based on donor restriction, in the period the trust is established at its present value. The fair value of these assets is based on the net asset value reported by the fund manager, which are reviewed by management for reasonableness. Adjustments to the trust to reflect changes in fair value are recognized as additional contributions to either temporarily restricted net assets or permanently restricted net assets.

Goodwill

Goodwill is a result of acquisitions of physician practices and a transaction entered into by Hunterdon Center for Surgery. The System does not amortize the carrying value of goodwill. Rather, an impairment analysis is performed at least annually on the recorded amounts. For the years ended December 31, 2014 and 2013, the System did not recognize any goodwill impairments.

Deferred Financing Costs

Deferred financing costs consist principally of debt acquisition costs, which are being amortized over the life of the related debt using the effective interest method.

Self Insured Health Benefits

The System is self insured for employee health benefits. The provision for estimated employee health benefits includes estimates for the ultimate cost for both reported claims and claims incurred but not reported and is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Temporary and Permanently 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. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of unrestricted net assets. A number of unpaid volunteers contribute their time to the System and other affiliates of the System. The value of this contributed time is not reflected in the consolidated financial statements.

Charitable Gifts Annuities

Charitable gift annuities are arrangements between a donor and the Foundation in which a donor contributes assets to the Foundation, under the Foundation's gift annuity program, in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to the donor or to individuals designated by the donor. The time period can be for the life of the donor or his/her designee. The assets received are recognized at fair value when received, and an annuity payment liability is recorded at the present value of future cash flows expected to be paid to the donor or his/her designee (based upon mortality tables and interest assumptions approved by the State of New Jersey). Contributions revenue is recognized as the difference between these two amounts. Contributions, investments, and a liability to annuitants are recognized by the Foundation in the period in which the assets are donated. Adjustments to the annuity liability to reflect amortization of the discount and changes in the life expectancy of the donor or his/her beneficiary are recognized in the consolidated statements of operations.

Excess of Revenues and Gains Over Expenses and Losses

The System's operating income includes all unrestricted revenues and expenses. Nonoperating revenues and gains, net include unrestricted investment income and realized gains on investments, unrestricted contributions and change in value of derivatives. The consolidated statements of operations also include excess of revenues and gains over expenses and losses, which is the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues and gains over expenses and losses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, changes in accounting principles, 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).

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
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Other Revenue

Other revenue consists primarily of grant revenue, health and wellness center fees and service agreement fees. Midjersey has a service agreement for the operation of its MRI equipment and receives a monthly fee based on a performance calculation as detailed in the service agreement.

Estimated Malpractice Costs

The liability for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Anticipated insurance recoveries associated with reported claims are reported separately in the System's balance sheet at net realizable value.

Derivative Instruments and Hedging Activities

Derivative financial instruments are employed to manage risks. The principal financial instruments used for cash flow hedging purposes are interest rate swaps. The System enters into interest rate swap agreements to manage its exposure to interest rate changes. The System recognizes all financial instruments in the consolidated statement of financial position at fair value. Changes in the fair value of derivatives are recognized either within the performance indicator or in other changes in unrestricted net assets, which is excluded from the performance indicator, depending on whether the derivative financial instrument qualifies for hedge accounting. Gains and losses on derivatives designated as cash flow hedges, to the extent they are effective, are recorded in other changes in the consolidated statements of operations and changes in net assets. Changes in the fair value of derivatives not qualifying as hedges, and for any portion of a hedge that is ineffective, are reported within the performance indicator.

Income Taxes

The Medical Center, the Foundation and HRCH are tax-exempt not-for-profit organizations under Section 501(c)(3) of the Code. Accordingly, these organizations are not subject to income taxes on income generating activities that are substantially related to their tax-exempt purposes or that are statutorily excluded from income tax for organizations exempt under Section 501(c)(3). Therefore, no provision for federal and state income taxes is required. The federal tax-exempt organization business income tax returns are no longer subject to examination by the Internal Revenue Service for years before 2011.

Midjersey and two affiliates of HRCH, Hunterdon Regional Pharmacy (the "Pharmacy") and Hunterdon Community Care ("HCC"), are taxable for-profit entities. These entities use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Hunterdon Healthcare System, Inc. and Affiliates

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Certain items of income and expenses are recognized for income tax purposes in different periods from those periods in which such items are recognized for financial reporting purposes. These timing difference items include provisions for uncollectible fees and tax and book depreciation differences. Deferred tax assets and liabilities, if any, are provided for the tax effect of these differences.

The System recognizes income tax positions when it is more-likely-than-not that the position will be sustainable based on the merits of the position. Management has concluded that there are no material tax liabilities that need to be recorded.

Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

The System evaluated subsequent events for recognition or disclosure through June 22, 2015, the date the financial statements were issued.

2. Charity and Uncompensated Care

In furtherance of its charitable purpose, the Medical Center and HRCH provide a wide variety of benefits to the community, including offering various community-based social service programs, such as health screenings, training for emergency service personnel, social service and support counseling for patients and families, pastoral care, and crisis intervention. Additionally, a large number of health-related educational programs are provided for the benefit of the community, including health enhancements and wellness, classes on specific conditions, telephone information services, and costs related to programs designed to improve the general standards of the health of the community.

The Medical Center and HRCH also provide medical care without charge or at reduced costs to residents of its community who meet the criteria under the state regulation for charity care. The definition of charity care includes services provided at no charge or at a reduced charge to patients who are uninsured or underinsured. The Medical Center and HRCH maintain records to identify and monitor the level of charity care it provides. These records support the amount of charges foregone from services and supplies furnished under its charity care policy. Because the Medical Center and HRCH do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. An overall cost to charge ratio was applied to arrive at the cost of charity care. As a result, the cost of providing charity care was \$5,449,587 and \$9,695,800 in 2014 and 2013, respectively.

The State of New Jersey provides certain subsidy payments to qualified hospitals to partially fund uncompensated care and certain other costs. Subsidy payments recognized as revenue amounted to \$1,551,369 and \$1,557,787 for 2014 and 2013, respectively, and are included in other revenue in the accompanying consolidated statement of operations.

Hunterdon Healthcare System, Inc. and Affiliates

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3. Net Patient Service Revenue

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

- **Medicare:** Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. In addition, the Medical Center is reimbursed for certain cost reimbursable items at tentative interim rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2011 with the exception of the 2005 cost report, which has not been settled.
- **Medicaid:** Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a published fee schedule, with final settlement determined after submission of annual cost reports. The Medicaid cost reports have been settled through December 31, 2011.
- **Other Payors:** The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and various other prospectively determined rates.

Revenue received under third-party arrangements is subject to audit and retroactive adjustments. Net patient service revenues include favorable adjustments of approximately \$328,000 in 2014 and \$1,070,000 in 2013 related to tentative and/or final settlements of prior year cost reports and other third-party payor adjustments. In the opinion of management, adequate provision has been made for any adjustments which may result from the final settlement of open cost reports.

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Notes to Consolidated Financial Statements
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4. Investments and Assets Whose Use is Limited

The composition of short-term investments and assets whose use is limited at December 31, 2014 and 2013 is set forth in the following table:

	<u>2014</u>	<u>2013</u>
Short-term investments:		
Cash and cash equivalents	\$ 312,797	\$ 245,113
Certificates of deposit	3,832,566	3,672,442
Government bonds	1,599,657	4,614,510
Investment-grade corporate bonds	29,893,761	24,377,868
Mutual funds - fixed income	6,068,029	5,815,324
Accrued interest receivable	29,595	275,285
	<u>\$ 41,736,405</u>	<u>\$ 39,000,542</u>
Total short-term investments		
Assets whose use is limited:		
Board-designated funds,		
Cash and cash equivalents	\$ 3,993,237	\$ 4,411,577
Certificates of deposit	2,386,596	3,656,643
Mutual funds - international equity	4,308,696	3,540,777
Mutual funds - fixed income	11,023,057	14,290,237
Mutual funds - domestic equity	20,720,131	15,477,130
Accrued interest receivable	25,482	58,633
	<u>42,457,199</u>	<u>41,434,997</u>
Total		
Donor-restricted assets,		
Cash and cash equivalents	2,651,516	4,896,277
Commingled funds - U.S. large cap equities	5,196,296	4,845,128
Commingled funds - U.S. bonds	3,352,636	3,609,557
Mutual funds - international equity	1,935,630	1,525,545
Mutual funds - fixed income	1,267,881	297,321
Mutual funds - domestic equity	3,030,159	1,326,031
	<u>17,434,118</u>	<u>16,499,859</u>
Total		
Funds held by trustee under bond indenture agreement,		
Cash and cash equivalents	6,073,897	4,471,920
	<u>65,965,214</u>	<u>62,406,776</u>
Total assets whose use is limited		
Less current portion	-	1,226,280
	<u>\$ 65,965,214</u>	<u>\$ 61,180,496</u>
Noncurrent portion of assets whose use is limited		

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

	<u>2014</u>	<u>2013</u>
Construction fund	\$ 6,020,409	\$ -
Other trustee-held funds	53,488	-
Debt service funds for principal and interest	-	1,226,280
Debt service reserve funds	-	3,245,640
	<hr/>	<hr/>
Total funds held by trustee under bond indenture agreements	6,073,897	4,471,920
	<hr/>	<hr/>
Less current portion	-	1,226,280
	<hr/>	<hr/>
Noncurrent portion	<u>\$ 6,073,897</u>	<u>\$ 3,245,640</u>

Investments consist of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments:		
Cash and cash equivalents	\$ 1,384,535	\$ 3,293,701
Marketable equity securities	2,885,254	1,490,391
Certificates of deposit	-	507,146
Mutual funds - fixed income	2,022,533	700,893
Mutual funds - equity	337,069	231,555
Mutual funds - other	-	312,587
U.S. Government securities	-	120,660
Corporate bonds	-	33,101
Other investments	223,464	285,208
	<hr/>	<hr/>
Total investments	<u>\$ 6,852,855</u>	<u>\$ 6,975,242</u>

Investment return consists of the following for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 1,667,092	\$ 1,428,176
Realized gains on the sale of investments	257,024	5,563,668
Change in net unrealized gain (losses) on investment securities	2,800,678	614,159
	<hr/>	<hr/>
Total	<u>\$ 4,724,794</u>	<u>\$ 7,606,003</u>

There were no gross unrealized losses on assets whose use is limited at December 31, 2014 and 2013.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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5. Fair Value Measurements and Financial Instruments

The System measures its short-term investments and assets whose use is limited on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

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

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

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

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The following tables present financial instruments measured at fair value at December 31, 2014 and 2013:

	Fair Value as of December 31, 2014			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets:				
Short-term investments:				
Cash and cash equivalents	\$ 312,797	\$ 312,797	\$ -	\$ -
Certificates of deposit	3,832,566	3,832,566	-	-
Government bonds	1,599,657	-	1,599,657	-
Investment-grade corporate bonds	29,893,761	-	29,893,761	-
Mutual funds - fixed income	6,068,029	6,068,029	-	-
Assets whose use is limited:				
Cash and cash equivalents	12,718,650	12,718,650	-	-
Certificates of deposit	2,386,596	2,386,596	-	-
Mutual funds - international equity	6,244,326	6,244,326	-	-
Mutual funds - fixed income	12,290,938	12,290,938	-	-
Mutual funds - domestic equity	23,750,290	23,750,290	-	-
Commingled funds - U.S. large cap equities	5,196,296	-	5,196,296	-
Commingled funds - U.S. bonds	3,352,636	-	3,352,636	-
Investments:				
Cash and cash equivalents	1,384,535	1,384,535	-	-
Marketable equity securities	2,885,254	2,885,254	-	-
Mutual funds - fixed income	2,022,533	2,022,533	-	-
Mutual funds - equity	337,069	337,069	-	-
Beneficial interest in trusts	3,173,166	-	971,591	2,201,575
Total assets	<u>\$ 117,449,099</u>	<u>\$ 74,233,583</u>	<u>\$ 41,013,941</u>	<u>\$ 2,201,575</u>

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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	Fair Value as of December 31, 2014			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Swap agreements	<u>\$ 680,853</u>	<u>\$ -</u>	<u>\$ 680,853</u>	<u>\$ -</u>
Disclosed at Fair Value				
Cash and cash equivalents	<u>\$ 49,516,748</u>	<u>\$ 49,516,748</u>	<u>\$ -</u>	<u>\$ -</u>
Long-term debt, excluding capital lease obligations (carrying value of \$74,966,201)	<u>\$ 78,262,287</u>	<u>\$ -</u>	<u>\$ 50,707,287</u>	<u>\$ 27,555,000</u>

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

	Fair Value as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets:				
Short-term investments:				
Cash and cash equivalents	\$ 245,113	\$ 245,113	\$ -	\$ -
Certificates of deposit	3,672,442	3,672,442	-	-
Government bonds	4,614,510	-	4,614,510	-
Investment-grade corporate bonds	24,377,868	-	24,377,868	-
Mutual funds - fixed income	5,815,324	5,815,324	-	-
Assets whose use is limited:				
Cash and cash equivalents	13,779,774	13,779,774	-	-
Certificates of deposit	3,656,643	3,656,643	-	-
Mutual funds - international equity	5,066,322	5,066,322	-	-
Mutual funds - fixed income	14,587,558	14,587,558	-	-
Mutual funds - domestic equity	16,803,161	16,803,161	-	-
Commingled funds - U.S. large cap equities	4,845,128	-	4,845,128	-
Commingled funds - U.S. bonds	3,609,557	-	3,609,557	-
Investments:				
Cash and cash equivalents	3,293,701	3,293,701	-	-
Marketable equity securities	1,490,391	1,490,391	-	-
Certificates of deposit	507,146	507,146	-	-
Mutual funds - fixed income	700,893	700,893	-	-
Mutual funds - equity	231,555	231,555	-	-
Mutual funds - other	312,587	312,587	-	-
U.S. Government securities	120,660	-	120,660	-
Corporate bonds	33,101	-	33,101	-
Beneficial interest in trusts	3,058,474	-	814,355	2,244,119
Total assets	\$ 110,821,908	\$ 70,162,610	\$ 38,415,179	\$ 2,244,119

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements
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	Fair Value as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Swap agreements	\$ 967,531	\$ -	\$ 967,531	\$ -
Disclosed at Fair Value				
Cash and cash equivalents	\$ 44,697,669	\$ 44,697,669	\$ -	\$ -
Long-term debt, excluding capital lease obligations (carrying value of \$54,836,949)	\$ 55,028,522	\$ -	\$ 55,028,522	\$ -

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and certificates of deposit approximate fair value at December 31, 2014 and 2013 due to the short maturity of those financial instruments.

Mutual funds are valued at the net asset value ("NAV") of shares held by the System at year end.

Government bonds and investment-grade corporate bonds are valued at fair value, which are the amounts reported in the consolidated statement of financial position, based on quoted market prices, if available, or estimated using quoted market process of similar securities.

The System measures its commingled funds at fair value based on the net asset value of the fund held at the end of the year. The fair value is based on the funds' underlying investments using observable inputs (Level 2) in accordance with accounting principles generally accepted in the United States of America.

Beneficial interest in trusts is valued using discounted cash flow methodologies.

The fair value of the interest rate swap derivative financial instruments are determined by an independent third party valuation specialist based on proprietary models of discounted cash flow. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments and the credit risk of the Foundation. The value represents the estimated exit price the System would pay or receive upon termination of the agreements.

The fair value of long-term debt is calculated based on quoted market prices, if available, or estimated using quoted market prices of similar securities a discount rate that a market participant would demand.

Hunterdon Healthcare System, Inc. and Affiliates

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Changes to the beneficial interest in trusts in 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 3,058,474	\$ 2,766,037
Investment income from beneficial interest in trusts	126,349	75,724
Distributions from beneficial interest in trusts	(126,349)	(75,724)
Change in value of beneficial interest in trusts	<u>114,692</u>	<u>292,437</u>
Ending balance	<u>\$ 3,173,166</u>	<u>\$ 3,058,474</u>

6. Property and Equipment

Property and equipment at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 6,876,849	\$ 6,876,849
Land improvements	6,715,739	6,438,111
Buildings	108,017,769	106,477,912
Leasehold improvements	10,350,761	11,045,430
Fixed equipment	38,707,581	38,462,242
Major moveable equipment	127,389,746	112,969,533
Minor equipment	51,244	51,244
Construction in progress	<u>23,350,615</u>	<u>9,876,181</u>
	321,460,304	292,197,502
Less accumulated depreciation and amortization	<u>188,555,310</u>	<u>175,958,330</u>
Total	<u>\$ 132,904,994</u>	<u>\$ 116,239,172</u>

The construction in progress primarily relates to the Medical Center's cardiac expansion project and relocation of the cardiopulmonary rehabilitation facility. At December 31, 2014, the Medical Center has approximately \$4,640,000 in outstanding commitments for the completion of these initiatives.

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Notes to Consolidated Financial Statements

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7. Long-term Debt

Long-term debt at December 31, 2014 and 2013 consists of the following:

	2014	2013
New Jersey Health Care Facilities Financing Authority ("Authority") Revenue and Refunding Bonds, Series 2014A, Serial Bonds payable annually through July 1, 2030, bearing interest at a rate of 5% (c)	\$ 1,845,000	\$ -
Authority Revenue and Refunding Bonds, Series 2014A, Serial Bonds, maturing July 1, 2031, bearing interest at a rate of 5% (c)	1,940,000	-
Authority Revenue and Refunding Bonds, Series 2014A, Serial Bonds, maturing July 1, 2032, bearing interest at a rate of 5% (c)	2,035,000	-
Authority Revenue and Refunding Bonds, Series 2014A, Serial Bonds, maturing July 1, 2033, bearing interest at a rate of 5% (c)	2,140,000	-
Authority Revenue and Refunding Bonds, Series 2014A, Serial Bonds, maturing July 1, 2034, bearing interest at a rate of 5% (c)	2,245,000	-
Authority Revenue and Refunding Bonds, Series 2014A, Term Bonds, maturing July 1, 2036, bearing interest at a rate of 4% (c)	4,805,000	-
Authority Revenue and Refunding Bonds, Series 2014A, Term Bonds, maturing July 1, 2045, bearing interest at a rate of 5% (c)	18,225,000	-
Authority Revenue and Refunding Bonds, Series 2014A, Term Bonds, maturing July 1, 2045, bearing interest at a rate of 4% (c)	9,500,000	-
Authority Refunding Bonds, Series 2014B, payable monthly through - December 1, 2029, bearing interest at a fixed rate of 2.44% (c)	16,260,000	-
Authority Refunding Bonds, Series 2014C, payable monthly through December 1, 2019, bearing interest at a variable rate of .09% (c)	6,360,000	-
Authority Refunding Bonds, Series 2014D, payable monthly through December 1, 2034, bearing interest at a variable rate of 1.08% (c)	4,935,000	-
Authority Revenue Bonds, Series 2006A and B (a)	-	38,125,000
Authority Revenue Bonds, Series 2009 (b)	-	7,560,000
Term Loan, collateralized by Midjersey's equipment, payable in 60 equal installments of \$26,217, consisting of principal and interest through June 2015, bearing interest at a rate of 4.96%	155,049	453,870
Term Loan with interest calculated at one-month LIBOR plus 1% guaranteed by Midjersey's future rental income payable in 96 installments consisting of principal and interest through 2016, repaid in 2014 (c)	-	5,033,935
Term Loan with interest calculated at one-month LIBOR plus 1.05% guaranteed by Midjersey's personal property, payable in 120 installments consisting of principal and interest through June 2017 (d)	783,729	1,063,472
Term Loan with interest calculated at one-month LIBOR plus 1.05% guaranteed by Midjersey's personal property, payable in 120 installments consisting of principal and interest through June 2017 (d).	519,443	597,772
Term Note, collateralized by HRCH's leasehold improvements, payable in 120 equal installments of \$7,445 through November 2019, consisting of principal and interest bearing interest at a rate of 6%.	873,853	908,836
	<u>72,622,074</u>	<u>53,742,885</u>
Less current portion due within one year	1,962,386	2,363,223
Plus unamortized bond premium, net of discount	<u>2,344,127</u>	<u>859,010</u>
Long-term portion	<u>\$ 73,003,815</u>	<u>\$ 52,238,672</u>

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- a) The Medical Center issued \$22,500,000 of Revenue Bonds, Series 2006A ("Series 2006A bonds"), dated January 1, 2006, through the Authority. The loan agreement required principal payments beginning in July 2008 and ending on July 1, 2035. There were two term bonds, totaling \$21,525,000, the first of which matured in 2025 bearing interest at 5.25%, and the second of which matured in 2035 bearing interest at 5.125%. The Series 2006A bonds were refunded with a portion of the proceeds of the Series 2014A Bonds in December 2014.

The Medical Center issued \$17,085,000 of Revenue Bonds, Series 2006B ("Series 2006B bonds"), dated December 21, 2006, through the Authority. The loan agreement required principal payments beginning in July 2010 and ending on July 1, 2036. There were serial bonds maturing each year beginning in 2010 through 2020 totaling \$3,690,000 bearing interest from 4% to 5% and two term bonds, totaling \$13,395,000, the first of which matured in 2026 bearing interest at 5%, and the second of which matured in 2036 bearing interest at 5%. The Series 2006B bonds were refunded with a portion of the proceeds of the Series 2014B Bonds in December 2014.

- b) On December 1, 2009, the Authority signed a loan agreement with the Medical Center that allowed for the issuance of \$12,765,000 Revenue Bonds, Series 2009 ("Series 2009 bonds"), in the name of Hunterdon Medical Center. The Series 2009 bonds were special and limited obligations of the Authority, payable in monthly installments ranging from \$105,000 to \$110,000 from January 2010 to December 2019. The bonds were initially issued in the Index Floating Rate Mode and were subsequently converted to a fixed rate of 4.107% through an interest rate swap. The Series 2009 bonds were refunded with a portion of the proceeds of the Series 2014C Bonds in December 2014.
- c) On December 1, 2014, the Medical Center issued \$42,735,000 of Revenue and Refunding Bonds, Series 2014A ("Series 2014A bonds") pursuant to a loan agreement between the Medical Center and the Authority. The Series 2014A Bonds include \$10,205,000 of Serial Bonds maturing July 1, 2030 through 2034, bearing interest at 5% and \$32,530,000 of Term Bonds maturing July 1, 2036 through 2045, with interest ranging from 4% to 5%. Interest is payable semiannually on July 1 and January 1.

The Medical Center also entered into a Master Trust Indenture and First Supplemental Indenture, both dated as of December 1, 2014 ("Master Trust Indenture"), with U.S. Bank National Association, as Master Trustee in connection with the issuance of the Series 2014A Bonds. As security for the repayment of the bonds, the Medical Center has granted a security interest in and a first lien on its gross revenues. The Master Trust Indenture requires the Medical Center to comply with certain covenants and ratios.

Proceeds from the Series 2014A bonds will be used to refund and redeem the Series 2006A bonds and approximately \$15,204,000 of 2014 Bonds issued by the Authority on January 1, 2014; to finance a portion of the costs of various capital improvements to the Medical Center's acute care facility (Note 6); and to pay costs of issuance of the Series 2014A bonds.

The Medical Center also issued \$16,260,000, \$6,360,000 and \$4,935,000 of Refunding Bonds, Series 2014B, C and D, respectively, ("Series 2014B-D bonds") pursuant to a loan agreement between the Medical Center and the Authority on December 1, 2014. The Series 2014B-D bonds were special and limited obligations of the Authority, payable in monthly installments ranging from \$14,000 to \$153,000 from January 2015 to December 2034.

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TD Bank N.A. (the "Bank") purchased the Series 2014B-D Bonds pursuant to a Direct Bond Purchase Agreement dated December 23, 2014. The Medical Center has entered into a Continuing Covenants Agreement with the Bank which requires the Medical Center to comply with certain covenants and ratios.

Proceeds from the Series 2014B and C bonds will be used to refund and redeem the Series 2006B bonds and Series 2009 bonds, respectively and the proceeds from the Series 2014D bonds were used to refinance an existing bank loan issued by Midjersey.

In connection with the refunding of the Series 2006A, 2006B, 2009 and 2014 Bonds and Midjersey bank loan, the System recognized a loss on extinguishment of debt of approximately \$2,819,000.

Effective December 11, 2009, the Medical Center entered into an interest rate swap exchange agreement with TD Bank, N.A. On December 23, 2014, the Medical Center entered into a novation agreement with TD Bank, N.A. and the Toronto-Dominion Bank for the interest rate swap. The Toronto-Dominion Bank replaced TD Bank, N.A. as the counterparty, under this agreement. The novated swap agreement has a notional amount of \$6,360,000 and requires the Medical Center to pay a fixed rate of 2.21% to the bank in exchange for the bank agreeing to pay the Medical Center a variable rate equal to 69% of one-month LIBOR (0.12% at December 31, 2014).

Effective December 23, 2014, the Medical Center entered into a novation agreement with TD Bank, N.A. and the Toronto-Dominion Bank. Under this agreement, an interest rate swap was transferred from Midjersey to the Medical Center and The Toronto-Dominion Bank replaced TD Bank, N.A. as the counterparty. The novated swap agreement has a notional amount of \$4,935,000 and requires the Medical Center to pay a fixed rate of 2.5% to the bank in exchange for the bank agreeing to pay the Medical Center a variable rate equal to 69% of one-month LIBOR (0.12% at December 31, 2014).

At December 31, 2014 and 2013, the fair value of the derivative financial instruments is \$(617,680) and \$(846,156), respectively, and is included in other liabilities in the accompanying consolidated statement of financial position. The change in fair value recognized during the years ended December 31, 2014 and 2013, in the amount of \$(228,476) and \$296,383 is recorded in the consolidated statement of operations and is included in the performance indicator.

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- d) Effective June 26, 2007, Midjersey entered into two swap agreements with a bank covering the two loans with a cumulative outstanding balance of \$1,303,172 and \$1,661,244 at December 31, 2014 and 2013, respectively. The swaps require Midjersey to pay a fixed rate of 6.39% to the bank in exchange for the bank agreeing to pay Midjersey a variable rate equal to one-month LIBOR plus 1.05% (1.22% and 1.63% at December 31, 2014 and 2013, respectively). Midjersey entered into these agreements with the intention of lowering its effective interest rate. At December 31, 2014 and 2013, respectively, the fair value of the derivatives were \$(63,173) and \$(121,375), and are included in other liabilities in the consolidated statement of financial position. The change in fair value recognized during the years ended December 31, 2014 and 2013, respectively, was \$(58,202) and \$239,496 and is recorded in the consolidated statements of operations and is included in the performance indicator.
- e) The Medical Center has a \$6,000,000 unsecured line of credit with a bank. The interest rate at December 31, 2014 and 2013 was 4.0% and the term was extended to December 31, 2015. There is no balance on the line of credit as of December 31, 2014 and 2013.

Future principal debt payments at December 31, 2014 follow:

Year ending December 31:	
2015	\$ 1,962,386
2016	1,855,295
2017	2,010,109
2018	1,544,967
2019	1,595,324
Thereafter	<u>63,653,993</u>
Total	<u>\$ 72,622,074</u>

Capital Lease Obligations

Capital lease obligations, included in current portion of long-term debt and long-term debt in the accompanying consolidated statement of financial position at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Siemens/Lumins Agile (a)	\$ 264,134	\$ 362,717
Siemens/Symbia S-Series (b)	298,360	366,451
TD Equipment Finance/Davinci Robot (c)	<u>1,307,153</u>	<u>-</u>
Subtotal	1,869,647	729,168
Less portion due within one year	<u>467,994</u>	<u>172,775</u>
Long-term portion	<u>\$ 1,401,653</u>	<u>\$ 556,393</u>

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- a) During 2012, the Medical Center entered into a capital lease with Siemens for a piece of radiology equipment. The term of the lease is five years with lease payments of \$8,753, including interest, required monthly beginning August 22, 2012. The lease includes interest at 2.03% and a purchase option of \$1 at the end of the term.
- b) During 2013, the Medical Center entered into two capital leases with Siemens for two pieces of radiology equipment. The terms of both leases is five years with a total monthly lease payment of \$6,883, including interest, required monthly beginning October 11, 2013. The leases include interest at 2.93% and purchase options of \$1 each at the end of the terms.
- c) During 2014, the Medical Center entered in a capital lease with TD Equipment Finance for a Davinci Surgical System. The term of the lease is five years with a total monthly lease payment of \$26,406, including interest, beginning May 1, 2014. The lease includes interest at 2.25% and a purchase option of \$10 at the end of the term.

8. Pension Plan

The Medical Center sponsors a noncontributory defined benefit pension plan (the "Plan") that covers all eligible employees. The plan provides for benefits to be paid to eligible employees at retirement, based primarily upon years of service and compensation. 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 Medical Center's funding policy is to contribute annually an amount equal to or greater than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA). The Medical Center uses a December 31 measurement date. In November 2013, the Board of Trustees approved an amendment to freeze the Plan effective January 15, 2014. In accordance with generally accepted accounting principles, the Medical Center reduced the Plan's projected benefit obligation as of December 31, 2013 by \$26,447,004 for this curtailment and recognized a loss of \$220,610 which is included as a component of the net periodic benefit cost for the year ended December 31, 2013.

The Medical Center recognizes the funded status of the benefit plan, which is measured as the difference between plan assets at fair value and the benefit obligation, in the statement of financial position. Additionally, the Medical Center recognizes changes in the funded status of the Plan in the year in which the changes occur through a separate line within changes in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic benefit cost.

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The following table sets forth the plan's funded status, amounts recognized in the consolidated statements of financial position and components of net periodic pension cost for 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 189,538,007	\$ 232,568,502
Service cost	-	10,605,170
Interest cost	9,382,744	9,537,056
Amendments	-	54,190
Benefits paid	(5,992,610)	(5,195,755)
Plan curtailment	-	(26,447,044)
Actuarial loss (gain)	46,273,383	(31,584,112)
	<u>239,201,524</u>	<u>189,538,007</u>
Benefit obligation at end of year		
Change in plan assets:		
Fair value of plan assets at beginning of year	194,189,177	164,192,943
Actual return on plan assets	13,461,403	27,491,989
Employer contributions	-	7,700,000
Benefits paid	(5,992,610)	(5,195,755)
	<u>201,657,970</u>	<u>194,189,177</u>
Fair value of plan assets at end of year		
Funded status	<u>(37,543,554)</u>	<u>4,651,170</u>
Amounts recognized in accumulated unrestricted net assets consist of:		
Net actuarial (loss) gain	(48,090,522)	78,455,778
Prior service (cost) credit	-	213,012
	<u>\$ (48,090,522)</u>	<u>\$ 78,668,790</u>

The actuarial loss of \$46,273,383 in 2014 is primarily attributed to a decrease in the discount rate and change in mortality table. The actuarial gain of \$31,584,112 in 2013 is primarily attributed to the increase in the discount rate.

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The accumulated benefit obligation for the Plan was \$239,201,524 and \$189,538,007 at December 31, 2014 and 2013, respectively.

	<u>2014</u>	<u>2013</u>
Weighted average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.10 %	5.00 %
Rate of compensation increases	N/A	N/A
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	5.00 %	4.34 %
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increases	N/A	3.25
		grading to 4.0 in 2017
Components of net periodic benefit cost:		
Service cost	\$ -	\$ 10,605,170
Interest cost	9,382,744	9,537,056
Expected return on plan assets	(15,278,542)	(13,393,979)
Amortization of prior service cost	-	46,592
Amortization of unrecognized actuarial loss	-	6,326,612
Recognized loss due to plan curtailment	-	220,610
	<u>\$ (5,895,798)</u>	<u>\$ 13,342,061</u>
Amounts expected to be recognized in net periodic benefit cost in 2015 are as follows:		
Net actuarial loss	\$ 851,713	\$ -

The expected long-term rate of return on pension assets is selected by taking into account the expected duration of the projected obligation ("PBO") for the plan, and the asset mix of the plan. The rate of return is expected to be the rate earned over the period until the benefits represented by the current PBO are paid. The expected return on plan assets is based on the Medical Center's expectation of historical long-term average rates of return on the different asset classes held in the pension fund. This is reflective of the current and projected asset mix of the funds and considers the historical returns earned on the Medical Center's asset allocation and the duration of the plan liabilities. Thus, the Medical Center has taken a historical approach to the development of the expected return on asset assumption. The Medical Center believes the fundamental changes in the markets cannot be predicted over the long term. Rather, historical returns, realized across numerous economic cycles, should be representative of the market return expectations applicable to the funding of a long-term benefit obligation.

Actual year-by-year returns can deviate substantially from the long-term expected return assumption. However, over time, it is expected that the amount of over-performance will equal the amount of under-performance.

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The fair value hierarchy for the Medical Center's pension plan assets at December 31, 2014 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pension assets:				
Mutual funds - domestic fixed income	\$ 69,891,215	\$ 69,891,215	\$ -	\$ -
Mutual funds - domestic equity	112,793,182	112,793,182	-	-
Mutual funds - international equity	18,335,280	18,335,280	-	-
Cash and cash equivalents	638,293	638,293	-	-

The fair value hierarchy for the Medical Center's pension plan assets at December 31, 2013 are as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pension assets:				
Mutual funds - domestic fixed income	\$ 78,451,595	\$ 78,451,595	\$ -	\$ -
Mutual funds - domestic equity	87,793,946	87,793,946	-	-
Mutual funds - international equity	27,180,344	27,180,344	-	-
Cash and cash equivalents	763,292	763,292	-	-

The Medical Center's pension plan weighted average asset allocations at December 31, 2014 and 2013, by asset category, are as follows:

<u>Asset Category</u>	<u>2014 Target Allocations</u>	<u>2014</u>	<u>2013 Target Allocations</u>	<u>2013</u>
Mutual and commingled funds invested in equity securities	64 %	65 %	55.0 %	59 %
Mutual and commingled funds invested in debt securities	36	35	42.5	40
Other	-	-	2.5	1
		<u>100 %</u>		<u>100 %</u>

In determining the asset allocation, the Medical Center's investment manager recognizes its desire for funding and expense stability, the long-term nature of the pension obligation, and current and projected cash needs for retiree benefit payments. An asset allocation analysis is performed to determine the long-term targets for the major asset classes of equity, debt and cash using an efficient frontier model. The asset allocation is reviewed quarterly and rebalanced if the variance to the targets exceeds 2.5%.

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The Medical Center does not expect to contribute to the Plan during 2015.

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

Years ending December 31:	
2015	\$ 7,361,067
2016	8,098,931
2017	8,732,422
2018	9,639,902
2019	10,556,368
Thereafter	62,862,920

In addition to the defined benefit plan, the Medical Center also provides a deferred compensation plan for certain employees and physicians. At December 31, 2014 and 2013, the assets related to this plan are included in other assets and the related liability is included in other liabilities in the amount of \$2,124,368 and \$2,374,138, respectively.

In addition, certain of the Medical Center's key employees participate in a split dollar life insurance plan. Under the insurance policy, all premium payments are divided between the participant's portion and the Medical Center's portion. Any withdrawal or death benefit must first be used to repay the Medical Center's portion of the policy. At December 31, 2014 and 2013, the assets related to this plan are included in other assets in the amount of \$4,386,966 and \$4,119,609, respectively.

Defined Contribution Pension Plan

On January 1, 2010, the System established the Hunterdon Healthcare 403(B) Retirement Savings Plan. Certain System employees are eligible for participation in the plan. The System will make a core annual contribution between 2% and 4% of each employee's annual compensation based on years of service and a 50% match of each employee's annual individual contribution to the plan to a maximum of 2%. Total expense recorded by the System for contributions into the plan in 2014 and 2013 was approximately \$4,776,000 and \$500,000, respectively.

9. Noncontrolling Interests in Joint Ventures

At December 31, 2014, Midjersey holds a 43% interest in Hunterdon Center for Surgery LLC ("HCS"); a 100% interest in Hunterdon Cardiovascular Health, LLC ("HCH"); a 100% interest in Hunterdon Medical management, LLC ("HMM"); a 100% interest in North Hunterdon Medical Associates; a 67% interest in Hunterdon Imaging Associates ("HIA"); and a 77% interest in Delaware Valley Office Associates, Inc. ("DVOA"). Noncontrolling interest in joint ventures, as stated in the consolidated statements of financial position, represents the noncontrolling partners' share in the equity of HCS, HIA, and DVOA.

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10. Professional and Patient Care Liability Insurance

The System has annually purchased a claims-made professional liability insurance policy, which provides coverage of \$1,000,000 per occurrence and \$3,000,000 annual aggregate. In addition, the System has purchased an additional layer of insurance above the base policy of \$15,000,000. Employed physicians are not covered by the above policy. Each individual employed physician is provided individual coverage in the amount of \$3,000,000 per occurrence and \$5,000,000 annual aggregate through a group purchased policy. The Medical Center has estimated losses and recorded an undiscounted liability of \$1,343,000 at December 31, 2014 and 2013, relating to unasserted claims and incidents not yet reported to the insurance carrier, which are included in other liabilities in the accompanying consolidated statement of financial position. In addition, the Medical Center has recorded a receivable (included in other assets), and related claim liability (included in other liabilities), for anticipated insurance recoveries of approximately \$2,589,000 and \$2,852,000 at December, 2014 and 2013, respectively.

HCS has purchased annually a “claims-made” professional liability insurance policy. The policy currently provides coverage of \$1,000,000 per occurrence and \$3,000,000 annual aggregate. In addition, HCS has purchased an additional layer of insurance above the base policy of \$2,000,000. HCS has no knowledge of any material claims or reportable events under this insurance policy.

HIA is separately insured under the providers’ professional liability policy.

11. Operating Leases

Midjersey and HRCH has entered into various noncancellable operating lease arrangements with terms in excess of one year for its office buildings and equipment and has sublease agreements, principally for office space with certain physicians. Additionally, the Medical Center is obligated under noncancellable operating leases with terms in excess of one year for certain equipment and office space. Rental expense for these operating leases was \$8,158,587 in 2014 and \$7,971,089 in 2013.

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The required minimum lease payments at December 31, 2014 are as follows:

	<u>Medical Center Lease Payments</u>	<u>HRCH Lease Payments</u>	<u>Midjersey Lease Payments</u>	<u>Subtotal</u>	<u>Subleases</u>	<u>Net Expense</u>
2015	\$ 3,848,639	125,719	1,491,216	\$ 5,465,574	\$ 510,473	\$ 4,955,101
2016	3,180,952	125,719	1,173,500	4,480,171	444,141	4,036,030
2017	2,496,153	125,719	904,007	3,525,879	350,103	3,175,776
2018	1,898,514	125,719	213,852	2,238,085	201,426	2,036,659
2019	1,667,920	125,719	100,987	1,894,626	159,285	1,735,341
Thereafter	<u>8,566,332</u>	<u>1,760,066</u>	<u>58,909</u>	<u>10,385,307</u>	<u>-</u>	<u>10,385,307</u>
Total	<u>\$ 21,658,510</u>	<u>\$ 2,388,661</u>	<u>\$ 3,942,471</u>	<u>\$ 27,989,642</u>	<u>\$ 1,665,428</u>	<u>\$ 26,324,214</u>

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets in the amount of \$8,050,252 and \$8,326,406 at December 31, 2014 and 2013, respectively, are available for use by the System, as specified by the donor, for capital acquisitions, research, and education. Permanently restricted net assets of \$20,877,362 and \$19,282,079 at December 31, 2014 and 2013, respectively, are funds to be held in perpetuity by the System. The income earned on these funds is expendable either to support patient care or as specified by the donor. Realized gains and losses are retained in either unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets in accordance with donors' wishes.

The System's endowment consists of eight funds that have been established by the Medical Center and five funds that have been established by the Foundation to support the Medical Center and HRCH, in providing health care services. These funds are invested by the Medical Center and Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets as of year-end. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees. There were no such deficiencies as of December 31, 2014 and 2013.

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Interpretation of Relevant Law

The boards of trustees of the Medical Center and the Foundation have interpreted the New Jersey Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Medical Center and the Foundation classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The interest and dividends income earned on the accumulations to the permanently restricted endowment funds is classified as temporarily restricted net assets until appropriated by the boards.

Spending Policy

The Foundation distributes funds from its endowment account to the Medical Center when donor-imposed restrictions have been met. The Medical Center spends earnings on donor-restricted endowment funds when expenses have been incurred that satisfy the donor-imposed restrictions.

Return Objectives and Risk Parameters

The Foundation and Medical Center have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income and growth, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center and Foundation must hold in perpetuity. Under this policy, as approved by the Medical Center’s and Foundation’s boards of trustees, the endowment assets are invested in a manner that is intended to produce moderate to high rates of return while assuming a moderate to low level of investment risk.

The following represents the net asset classes of the System’s donor-restrict and board-designated endowment funds at December 31, 2014 and 2013:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 2,004,699	\$ -	\$ -	\$ 2,004,699
Donor-restricted endowment funds	-	2,399,372	17,704,196	20,103,568
Total	<u>\$ 2,004,699</u>	<u>\$ 2,399,372</u>	<u>\$ 17,704,196</u>	<u>\$ 22,108,267</u>

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	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 1,944,330	\$ -	\$ -	\$ 1,944,330
Donor-restricted endowment funds	-	2,335,724	16,223,605	18,559,329
Total	<u>\$ 1,944,330</u>	<u>\$ 2,335,724</u>	<u>\$ 16,223,605</u>	<u>\$ 20,503,659</u>

The following table presents changes in endowments for the years ended December 31, 2013 and 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at December 31, 2012	\$ 1,708,982	\$ 2,015,636	\$ 14,829,706	\$ 18,554,324
Investment income	675,991	1,009,077	-	1,685,068
Net asset transfer	-	-	200,000	200,000
Unrealized gain in fair value of investments	(440,643)	(615,100)	1,087,172	31,429
Net realized gains on investments	-	-	106,727	106,727
Appropriation of endowment assets for expenditure	-	(73,889)	-	(73,889)
Endowment assets at December 31, 2013	1,944,330	2,335,724	16,223,605	20,503,659
Investment income	66,789	141,627	-	208,416
Contributions	-	-	1,000,000	1,000,000
Unrealized gain(loss) in fair value of investments	(6,420)	(4,957)	423,371	411,994
Net realized gains on investments	-	-	57,220	57,220
Appropriation of endowment assets for expenditure	-	(73,022)	-	(73,022)
Endowment net assets at December 31, 2014	<u>\$ 2,004,699</u>	<u>\$ 2,399,372</u>	<u>\$ 17,704,196</u>	<u>\$ 22,108,267</u>

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13. Functional Expenses

The System provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2014 and 2013 included in the consolidated statements of operations are as follows:

	<u>2014</u>	<u>2013</u>
Health services	\$ 241,828,458	\$ 243,535,194
Fundraising	1,012,382	1,250,079
General and administrative	<u>40,261,196</u>	<u>40,799,733</u>
Total	<u>\$ 283,102,036</u>	<u>\$ 285,585,006</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 arrangements. The significant concentrations of accounts receivable for services to patients include the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Medicare	25.6 %	26.4 %
Medicaid	4.0	2.9
Blue Cross	18.2	15.1
Aetna	11.3	10.2
Other third-party payors	20.7	22.1
Self-pay patients	<u>20.2</u>	<u>23.3</u>
	<u>100 %</u>	<u>100 %</u>

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15. Income Taxes

The components of the provision for income taxes for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Current income tax provision:		
Federal	\$ 501,493	\$ 427,841
State	<u>143,115</u>	<u>104,947</u>
	644,608	532,788
Deferred income tax provision:		
Federal	(148,858)	(134,836)
State	<u>(40,539)</u>	<u>(19,716)</u>
	<u>(189,397)</u>	<u>(154,552)</u>
Total	<u>\$ 455,211</u>	<u>\$ 378,236</u>

The provision for income taxes for the years ended December 31, 2014 and 2013 was \$455,211 and \$378,236 on Midjersey income before provision for income taxes of approximately \$2.6 million and \$2.3 million, respectively. The effective tax rate for the years ended December 31, 2014 and 2013 is 17.8% and 16.5%, respectively. The difference between the effective tax rate of 17.8% and 16.5% for the years ended December 31, 2014 and 2013, respectively, and the U.S. federal tax rate of 34% primarily relates to the exclusion of income attributable to noncontrolling interests of approximately \$1.4 million for the years ended December 31, 2014 and 2013, and state income taxes. Midjersey had deferred tax assets of \$465,174 and \$275,777 at December 31, 2014 and 2013, respectively, which are included in other assets in the consolidated statement of financial position. These amounts represent the deferred tax consequences attributable to temporary differences that will result in additional taxable income and a reduction of deductible expenses in future years. The temporary differences comprise lease payments, depreciation, and other temporary differences. In addition, Midjersey has recorded an income tax payable (refundable) of \$110,272 and \$(28,373) which are included in accrued expenses and other current liabilities in the consolidated balance sheets at December 31, 2014 and 2013, respectively.

HCC and the Pharmacy file federal and state income tax returns on a separate company basis. HCC recorded a current federal and state income tax provision of approximately \$1,420 and \$6,708 for December 31, 2014 and 2013, respectively, which was included in other expenses. Due to Pharmacy's accumulated net operating losses, no federal or state current income tax provision was recorded.

The Pharmacy has deferred tax assets, prior to valuation allowance, of \$107,000 and \$74,000 at December 31, 2014 and 2013, respectively, which consisted primarily of federal and state net operating loss carryforwards. At December 31, 2014, the Pharmacy had a federal and state operating loss carryforward of approximately \$237,000, which is available to offset future taxable income and expires in 2024.

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In assessing the realization of deferred tax assets, management is required to consider whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and must be supported by sufficient positive evidence. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. Pharmacy has had two consecutive years of income but historically has had net operating losses. As a result, management has recorded a full valuation allowance against the deferred tax asset.

16. Contingencies

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

17. Meaningful Use of Electronic Health Records

The American Recovery and Reinvestment Act of 2009 established one-time incentive payments under the Medicare and Medicaid programs for hospitals that meaningfully use certified electronic health records (“EHR”) technology. In general, a hospital may receive an incentive payment for up to four years, provided it successfully demonstrates meaningful use of certified EHR technology for the EHR reporting period. The key component of receiving the EHR incentive payments is “demonstrating meaningful use,” which means meeting a series of objectives that make use of an EHR’s potential related to the improvement of quality, efficiency, and patient safety. Meaningful use will be assessed on a year-by-year basis.

Once the Medical Center meets the requirements for an incentive payment, a preliminary payment is made by The Centers for Medicare & Medicaid Services based on discharge data from the Hospital’s most recently filed cost report. The final amount of the payment is determined at the time the cost report for the period beginning in the payment year is settled, based on discharge data from that cost report. The Medical Center recognized EHR incentive funds of \$294,000 and \$2,292,000 for the years ended December 31, 2014 and 2013, respectively. The EHR incentive funds are included in other revenue in the statement of operations.

The other revenue recognized is based on management’s estimate and it is reasonably possible that the estimates used could change materially in the near term. Any such changes would affect operations in the period in which they occur. The Medical Center’s attestation as a meaningful user is subject to audit by the Federal Government or its designee.

Hunterdon Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

18. Subsequent Events

On January 8, 2015, Midjersey entered into a 10.5 year office lease agreement to lease an office building containing approximately 56,000 square feet commencing August 1, 2015 with annual lease payments ranging from \$936,000 to \$1,170,000.

The System entered into a membership and license agreement with HealthQuest of Central NJ on January 1, 2015. Under the HealthQuest Agreement, the System is obligated to purchase a minimum number of individual HealthQuest memberships for their employees annually at a cost of approximately \$220,000 over a 10 year period.

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2014

(See Independent Auditors' Report)

Assets	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Eliminating Entries	Consolidated Balances	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Current Assets									
Cash and cash equivalents	\$ 247,368	7,248,973	\$ -	\$ 7,496,341	\$ 38,132,865	\$ 3,102,128	\$ 785,414	\$ -	\$ 49,516,748
Short-term investments	-	-	-	-	41,144,213	-	592,192	-	41,736,405
Patient accounts receivable, net	-	530,314	-	530,314	28,039,113	-	1,310,936	(80,000)	29,800,363
Assets whose use is limited	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	1,456,375	-	488,885	-	1,945,260
Other receivables	197,276	1,093,788	(150,000)	1,141,064	2,512,952	4,212,100	-	(171,272)	7,694,844
Due from affiliates	-	219,940	-	219,940	-	-	-	(219,940)	-
Prepaid expenses and other current assets	-	473,906	-	473,906	2,306,608	19,739	73,368	-	2,873,621
Total current assets	444,644	9,566,921	(150,000)	9,861,565	113,592,126	7,333,967	3,250,795	(471,212)	133,567,241
Assets whose use is limited (exclusive of current position):									
Board-designated funds	-	-	-	-	42,457,199	-	-	-	42,457,199
Donor-restricted assets	-	-	-	-	17,434,118	-	-	-	17,434,118
Funds held by trustee under bond indenture agreement	-	-	-	-	6,073,897	-	-	-	6,073,897
Total assets whose use is limited, net	-	-	-	-	65,965,214	-	-	-	65,965,214
Other Noncurrent Assets									
Investments	-	223,464	-	223,464	-	6,629,391	-	-	6,852,855
Due from affiliates	-	-	-	-	1,827,120	-	-	(1,827,120)	-
Deferred financing costs, net	-	-	-	-	533,494	-	-	-	533,494
Property and equipment, net	-	1,721,294	-	1,721,294	129,003,602	45,918	2,134,180	-	132,904,994
Beneficial interest in trusts	-	-	-	-	2,201,575	971,591	-	-	3,173,166
Beneficial interest in net assets of the Foundation	-	-	-	-	7,528,362	-	1,687,701	(9,216,063)	-
Real estate held for investment	-	-	-	-	213,099	-	-	-	213,099
Investment in affiliate	-	-	-	-	-	-	66,343	-	66,343
Investment in subsidiary	7,340,281	-	(6,892,877)	447,404	-	-	-	-	447,404
Investment in controlled affiliates	200,793,193	-	-	200,793,193	-	-	-	(200,793,193)	-
Pension asset	-	-	-	-	-	-	-	-	-
Goodwill	-	413,532	-	413,532	3,423,367	-	-	-	3,836,899
Other assets	-	465,174	-	465,174	10,326,733	-	-	-	10,791,907
Total other noncurrent assets	208,133,474	2,823,464	(6,892,877)	204,064,061	155,057,352	7,646,900	3,888,224	(211,836,376)	158,820,161
Total assets	\$ 208,578,118	\$ 12,390,385	\$ (7,042,877)	\$ 213,925,626	\$ 334,614,692	\$ 14,980,867	\$ 7,139,019	\$ (212,307,588)	\$ 358,352,616

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2014

(See Independent Auditors' Report)

Liabilities and Net Assets	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Eliminating Entries	Consolidated Balances	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Current Liabilities									
Accounts payable and accrued expenses	\$ 3,855	\$ 2,688,417	\$ (150,000)	\$ 2,542,272	\$ 18,131,651	\$ 54,812	\$ 692,178	\$ (150,000)	\$ 21,270,913
Accrued payroll and payroll taxes	-	-	-	-	11,543,646	-	-	-	11,543,646
Current portion of long-term debt and capital leases	-	536,801	-	536,801	1,856,400	-	37,179	-	2,430,380
Accrued interest payable	-	-	-	-	24,317	-	-	-	24,317
Due to affiliate	-	93,931	-	93,931	116,358	3,285	107,638	(321,212)	-
Estimated third-party payor settlements, net	-	-	-	-	1,176,419	-	-	-	1,176,419
Other liabilities	-	-	-	-	-	195,681	-	-	195,681
Total current liabilities	3,855	3,319,149	(150,000)	3,173,004	32,848,791	253,778	836,995	(471,212)	36,641,356
Long-Term Liabilities									
Long-term debt and capital leases, net	-	921,420	-	921,420	72,647,374	-	836,674	-	74,405,468
Due to affiliates	1,827,120	-	-	1,827,120	-	-	-	(1,827,120)	-
Other liabilities	-	63,173	-	63,173	6,722,843	-	-	-	6,786,016
Pension benefit liability	-	-	-	-	37,543,554	-	-	-	37,543,554
Estimated third-party payor settlements, net	-	-	-	-	4,251,376	-	-	-	4,251,376
Total long-term liabilities	1,827,120	984,593	-	2,811,713	121,165,147	-	836,674	(1,827,120)	122,986,414
Total liabilities	1,830,975	4,303,742	(150,000)	5,984,717	154,013,938	253,778	1,673,669	(2,298,332)	159,627,770
Net Assets									
Unrestricted	168,603,466	-	-	168,603,466	159,603,519	(731,652)	3,777,649	(162,649,516)	168,603,466
Temporarily restricted	15,562,286	-	-	15,562,286	2,468,753	11,709,861	1,383,672	(23,074,320)	8,050,252
Permanently restricted	22,581,391	-	-	22,581,391	18,528,482	3,748,880	304,029	(24,285,420)	20,877,362
Shareholders' Equity									
Midjersey shareholders' equity:									
Common stock	-	985,000	(985,000)	-	-	-	-	-	-
Additional paid-in capital	-	1,539,355	(1,539,355)	-	-	-	-	-	-
Retained earnings	-	4,368,522	(4,368,522)	-	-	-	-	-	-
Total Midjersey shareholders' equity	-	6,892,877	(6,892,877)	-	-	-	-	-	-
Noncontrolling Interests	-	1,193,766	-	1,193,766	-	-	-	-	1,193,766
Total shareholders' equity and net assets	206,747,143	8,086,643	(6,892,877)	207,940,909	180,600,754	14,727,089	5,465,350	(210,009,256)	198,724,846
Total liabilities and net assets	\$ 208,578,118	\$ 12,390,385	\$ (7,042,877)	\$ 213,925,626	\$ 334,614,692	\$ 14,980,867	\$ 7,139,019	\$ (212,307,588)	\$ 358,352,616

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

December 31, 2014

(See Independent Auditors' Report)

	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Eliminating Entries	Consolidated Balances	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Revenues									
Patient service revenue (net of contractual allowances and discounts)	\$ -	8,640,958	\$ -	\$ 8,640,958	\$ 263,250,012	\$ -	\$ 7,030,717	\$ -	\$ 278,921,687
Provision for bad debts	-	(31,905)	-	(31,905)	(13,420,545)	-	(54,542)	-	(13,506,992)
Net patient service revenue less provision for bad debts	-	8,609,053	-	8,609,053	249,829,467	-	6,976,175	-	265,414,695
Other revenue	3,245,458	8,167,221	-	11,412,679	14,592,870	1,116,162	1,335,323	(4,398,775)	24,058,259
Net assets released from restrictions for operations	-	-	-	-	686,643	1,183,636	-	(498,171)	1,372,108
Total revenues	<u>3,245,458</u>	<u>16,776,274</u>	<u>-</u>	<u>20,021,732</u>	<u>265,108,980</u>	<u>2,299,798</u>	<u>8,311,498</u>	<u>(4,896,946)</u>	<u>290,845,062</u>
Expenses									
Salaries, wages, and benefits	2,839,218	5,445,601	-	8,284,819	154,934,694	1,116,270	4,578,050	-	168,913,833
Physician fees	-	-	-	-	6,265,646	-	-	-	6,265,646
Supplies and services	351,477	7,396,010	-	7,747,487	81,522,264	2,539,461	4,898,361	(6,396,946)	90,310,627
Interest	-	368,223	-	368,223	2,301,085	-	-	-	2,669,308
Depreciation and amortization	-	1,252,525	-	1,252,525	13,502,788	25,480	161,829	-	14,942,622
Total expenses	<u>3,190,695</u>	<u>14,462,359</u>	<u>-</u>	<u>17,653,054</u>	<u>258,526,477</u>	<u>3,681,211</u>	<u>9,638,240</u>	<u>(6,396,946)</u>	<u>283,102,036</u>
Operating (loss) income	54,763	2,313,915	-	2,368,678	6,582,503	(1,381,413)	(1,326,742)	1,500,000	7,743,026
Nonoperating revenues and gains, net	150,619	249,301	(150,000)	249,920	1,521,327	(1,500,000)	43,861	-	315,108
Equity in earnings (losses) of controlled affiliates	(42,140,853)	-	-	(42,140,853)	-	-	-	42,140,853	-
Equity in earnings of subsidiary	875,322	-	(875,322)	-	-	-	-	-	-
Excess (deficiency) of revenues and gains over expenses and losses before provision for taxes and loss on extinguishment of debt	(41,060,149)	2,563,216	(1,025,322)	(39,522,255)	8,103,830	(2,881,413)	(1,282,881)	43,640,853	8,058,134
Provision for Income Taxes									
Federal	-	(352,635)	-	(352,635)	-	-	-	-	(352,635)
State	-	(102,576)	-	(102,576)	-	-	-	-	(102,576)
Total provision for income taxes	-	(455,211)	-	(455,211)	-	-	-	-	(455,211)
Loss on Extinguishment of Debt									
Excess (deficiency) of revenues and gains over expenses and losses	(41,060,149)	2,108,005	(1,025,322)	(39,977,466)	5,284,729	(2,881,413)	(1,282,881)	43,640,853	4,783,822
Change in net unrealized gains (losses) on investments	-	-	-	-	2,040,160	(6,420)	6,058	-	2,039,798
Net assets released from restrictions for capital acquisitions	-	-	-	-	1,647,550	1,500,000	-	(1,500,000)	1,647,550
Pension-related changes other than net periodic pension cost	-	-	-	-	(48,090,522)	-	-	-	(48,090,522)
Change in additional paid-in capital	-	-	-	-	-	-	-	-	-
Net income attributable to noncontrolling interests	-	(1,440,797)	-	(1,440,797)	-	-	-	-	(1,440,797)
Transfer (to) from affiliate	-	358,114	-	358,114	(2,458,114)	700,000	1,400,000	-	-
Dividends paid	-	(150,000)	150,000	-	-	-	-	-	-
(Decrease) increase in unrestricted net assets	<u>\$ (41,060,149)</u>	<u>\$ 875,322</u>	<u>\$ (875,322)</u>	<u>\$ (41,060,149)</u>	<u>\$ (41,576,197)</u>	<u>\$ (687,833)</u>	<u>\$ 123,177</u>	<u>\$ 42,140,853</u>	<u>\$ (41,060,149)</u>

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Midjersey Health Corporation

December 31, 2014

(See Independent Auditors' Report)

Assets	Midjersey Health Corporation	Delaware Valley Office Associates	Hunterdon Imaging Associates	Hunterdon Center for Surgery, LLC	Hunterdon Medical Management, LLC	North Hunterdon Med Assoc, LLC	Hunterdon Cardiovascular Health, LLC	Subtotal	Eliminations/ Reclassifications	Consolidated Total
Current Assets										
Cash and cash equivalents	\$ 2,018,257	\$ 187,518	\$ 1,517,421	\$ 1,093,083	\$ 227,396	\$ 2,185,071	\$ 20,227	\$ 7,248,973	\$ -	\$ 7,248,973
Patient accounts receivable, net	-	-	-	530,314	-	-	-	530,314	-	530,314
Other receivables	852,901	-	253,967	-	-	-	-	1,106,868	(13,080)	1,093,788
Due from affiliates	-	4,000	-	-	215,940	-	-	219,940	-	219,940
Prepaid and other current assets	8,530	234	39,281	419,839	6,022	-	-	473,906	-	473,906
Total current assets	2,879,688	191,752	1,810,669	2,043,236	449,358	2,185,071	20,227	9,580,001	(13,080)	9,566,921
Investments	223,464	-	-	-	-	-	-	223,464	-	223,464
Property and equipment, net	184,313	90,013	535,419	892,963	18,586	-	-	1,721,294	-	1,721,294
Goodwill, net	-	-	-	413,532	-	-	-	413,532	-	413,532
Other assets	465,174	-	-	-	-	-	-	465,174	-	465,174
Total assets	<u>\$ 3,752,639</u>	<u>\$ 281,765</u>	<u>\$ 2,346,088</u>	<u>\$ 3,349,731</u>	<u>\$ 467,944</u>	<u>\$ 2,185,071</u>	<u>\$ 20,227</u>	<u>\$ 12,403,465</u>	<u>\$ (13,080)</u>	<u>\$ 12,390,385</u>
Liabilities and Shareholders' Equity										
Current Liabilities										
Accounts payable and accrued expenses	\$ 563,384	\$ 3,553	\$ 1,342,437	\$ 508,704	\$ 268,350	\$ -	\$ 15,069	\$ 2,701,497	\$ (13,080)	\$ 2,688,417
Current portion of long-term debt	-	-	155,049	381,752	-	-	-	536,801	-	536,801
Due to affiliates	31,595	-	-	-	-	62,336	-	93,931	-	93,931
Total current liabilities	594,979	3,553	1,497,486	890,456	268,350	62,336	15,069	3,332,229	(13,080)	3,319,149
Long-term debt	-	-	-	921,420	-	-	-	921,420	-	921,420
Other liabilities	-	-	-	63,173	-	-	-	63,173	-	63,173
Total liabilities	594,979	3,553	1,497,486	1,875,049	268,350	62,336	15,069	4,316,822	(13,080)	4,303,742
Shareholders' Equity										
Midjersey shareholders' equity:										
Common stock	985,000	15,400	300,000	1,020,000	242,656	1,461,706	20,145	4,044,907	(3,059,907)	985,000
Additional paid-in capital	1,181,241	-	-	-	-	358,114	-	1,539,355	-	1,539,355
Retained earnings	991,419	198,897	267,009	(388,365)	(43,062)	302,915	(20,198)	1,308,615	3,059,907	4,368,522
Total Midjersey shareholders' equity	3,157,660	214,297	567,009	631,635	199,594	2,122,735	(53)	6,892,877	-	6,892,877
Noncontrolling Interests	-	63,915	281,593	843,047	-	-	5,211	1,193,766	-	1,193,766
Total equity	3,157,660	278,212	848,602	1,474,682	199,594	2,122,735	5,158	8,086,643	-	8,086,643
Total liabilities and shareholders' equity	<u>\$ 3,752,639</u>	<u>\$ 281,765</u>	<u>\$ 2,346,088</u>	<u>\$ 3,349,731</u>	<u>\$ 467,944</u>	<u>\$ 2,185,071</u>	<u>\$ 20,227</u>	<u>\$ 12,403,465</u>	<u>\$ (13,080)</u>	<u>\$ 12,390,385</u>

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Midjersey Health Corporation
 December 31, 2014
 (See Independent Auditors' Report)

	Midjersey Health Corporation	Delaware Valley Office Associates	Hunterdon Imaging Associates	Hunterdon Center for Surgery, LLC	Hunterdon Medical Management, LLC	North Hunterdon Med Assoc, LLC	Hunterdon Cardiovascular Health, LLC	Subtotal	Eliminations/ Reclassifications	Consolidated Total
Revenues										
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ -	\$ -	\$ 8,640,958	\$ -	\$ -	\$ -	\$ 8,640,958	\$ -	\$ 8,640,958
Provision for bad debts	-	-	-	(31,905)	-	-	-	(31,905)	-	(31,905)
Net patient service revenue less provision for bad debts	-	-	-	8,609,053	-	-	-	8,609,053	-	8,609,053
Other revenue	624,683	146,605	3,230,744	10,284	3,925,267	1,009,994	-	8,947,577	(780,356)	8,167,221
Total revenues	624,683	146,605	3,230,744	8,619,337	3,925,267	1,009,994	-	17,556,630	(780,356)	16,776,274
Expenses										
Salaries and benefits	272,444	-	-	2,183,197	2,989,960	-	-	5,445,601	-	5,445,601
Supplies and services	1,406,088	60,657	1,121,538	4,495,229	929,804	163,050	-	8,176,366	(780,356)	7,396,010
Interest	-	-	15,779	82,102	-	270,342	-	368,223	-	368,223
Depreciation and amortization	13,846	30,010	497,259	345,175	5,347	360,888	-	1,252,525	-	1,252,525
Total expenses	1,692,378	90,667	1,634,576	7,105,703	3,925,111	794,280	-	15,242,715	(780,356)	14,462,359
(Loss) income from operations	(1,067,695)	55,938	1,596,168	1,513,634	156	215,714	-	2,313,915	-	2,313,915
Change in value of derivatives	-	-	-	58,202	-	191,099	-	249,301	-	249,301
(Loss) income before provision for income taxes	(1,067,695)	55,938	1,596,168	1,571,836	156	406,813	-	2,563,216	-	2,563,216
Provision for income taxes										
Federal	(352,635)	-	-	-	-	-	-	(352,635)	-	(352,635)
State	(102,576)	-	-	-	-	-	-	(102,576)	-	(102,576)
Total provision for income taxes	(455,211)	-	-	-	-	-	-	(455,211)	-	(455,211)
Net (loss) income	(1,522,906)	55,938	1,596,168	1,571,836	156	406,813	-	2,108,005	-	2,108,005
Less: Net income (loss) attributable to the noncontrolling interests	-	(12,849)	(532,002)	(895,946)	-	-	-	(1,440,797)	-	(1,440,797)
Net (loss) income attributable to Midjersey	(1,522,906)	43,089	1,064,166	675,890	156	406,813	-	667,208	-	667,208
Transfer from affiliate										
Dividends paid	(150,000)	-	-	-	-	358,114	-	358,114	-	358,114
Increase in unrestricted net assets	\$ (1,672,906)	\$ 43,089	\$ 1,064,166	\$ 675,890	\$ 156	\$ 764,927	\$ -	\$ 875,322	\$ -	\$ 875,322

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Hunterdon Community Regional Health, Inc.

December 31, 2014

(See Independent Auditors Report on Supplementary Information)

Assets	Hunterdon Regional Community Health, Inc.	Hunterdon Hospice, Inc.	Visiting Health and Supportive Services, Inc.	Hunterdon Regional Pharmacy	Hunterdon Community Care	Briteside Adult Daycare	Subtotal	Eliminations	Consolidated Balance
Current Assets									
Cash and cash equivalents	\$ 369,941	\$ 128,217	\$ 118,867	\$ 86,827	\$ 37,581	\$ 43,981	\$ 785,414	\$ -	\$ 785,414
Investments	-	-	-	-	-	592,192	592,192	-	592,192
Accounts receivable, net	-	685,233	137,768	388,542	1,960	97,433	1,310,936	-	1,310,936
Due from affiliates	1,975,378	-	81,982	10,156	50,000	-	2,117,516	(2,117,516)	-
Inventories	-	-	-	488,885	-	-	488,885	-	488,885
Prepaid assets	88	-	-	73,280	-	-	73,368	-	73,368
Total current assets	2,345,407	813,450	338,617	1,047,690	89,541	733,606	5,368,311	(2,117,516)	3,250,795
Investment in Affiliate									
Investment in affiliate	64,000	-	-	-	66,343	-	130,343	(64,000)	66,343
Beneficial interest in net assets of Hunterdon Medical Center Foundation, Inc.	993,262	288,086	175,677	-	-	230,676	1,687,701	-	1,687,701
Property and equipment, net	1,597,503	13,194	-	2,255	-	521,228	2,134,180	-	2,134,180
Total assets	<u>\$ 5,000,172</u>	<u>\$ 1,114,730</u>	<u>\$ 514,294</u>	<u>\$ 1,049,945</u>	<u>\$ 155,884</u>	<u>\$ 1,485,510</u>	<u>\$ 9,320,535</u>	<u>\$ (2,181,516)</u>	<u>\$ 7,139,019</u>
Liabilities and Net Assets									
									-
Current Liabilities									
Current portion of long-term debt	\$ 37,179	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,179	\$ -	\$ 37,179
Accounts payable and accrued expenses	163,534	205,147	73,433	220,208	2,194	27,662	692,178	-	692,178
Due to affiliates	318,213	535,104	159,939	1,060,363	2,082	149,453	2,225,154	(2,117,516)	107,638
Total current liabilities	518,926	740,251	233,372	1,280,571	4,276	177,115	2,954,511	(2,117,516)	836,995
Long-Term Debt, Net of Current Portion	836,674	-	-	-	-	-	836,674	-	836,674
Total liabilities	1,355,600	740,251	233,372	1,280,571	4,276	177,115	3,791,185	(2,117,516)	1,673,669
Net Assets (Deficit)									
Unrestricted/shareholders' equity	2,651,310	86,393	105,245	(230,626)	151,608	1,077,719	3,841,649	(64,000)	3,777,649
Temporarily restricted	793,262	288,086	71,648	-	-	230,676	1,383,672	-	1,383,672
Permanently restricted	200,000	-	104,029	-	-	-	304,029	-	304,029
Total net assets (deficit)	3,644,572	374,479	280,922	(230,626)	151,608	1,308,395	5,529,350	(64,000)	5,465,350
Total liabilities and net assets	<u>\$ 5,000,172</u>	<u>\$ 1,114,730</u>	<u>\$ 514,294</u>	<u>\$ 1,049,945</u>	<u>\$ 155,884</u>	<u>\$ 1,485,510</u>	<u>\$ 9,320,535</u>	<u>\$ (2,181,516)</u>	<u>\$ 7,139,019</u>

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Hunterdon Community Regional Health, Inc.

December 31, 2014

(See Independent Auditors Report on Supplementary Information)

	Hunterdon Regional Community Health, Inc.	Hunterdon Hospice, Inc.	Visiting Health and Supportive Services, Inc.	Hunterdon Regional Pharmacy	Hunterdon Community Care	Briteside Adult Daycare	Subtotal	Eliminations	Consolidated Balance
Change in Unrestricted Net Assets									
Revenue:									
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 2,809,464	\$ 998,910	\$ 2,994,081	\$ 13,720	\$ 300,946	\$ 7,117,121	\$ (86,404)	\$ 7,030,717
Provision for bad debts	-	(40,165)	(13,306)	(430)	-	(641)	(54,542)	-	(54,542)
Net patient service revenue less provisions for bad debts	-	2,769,299	985,604	2,993,651	13,720	300,305	7,062,579	(86,404)	6,976,175
Other revenue	1,592,316	211,236	924,113	79,142	37,625	263,222	3,107,654	(1,772,331)	1,335,323
Total revenue	1,592,316	2,980,535	1,909,717	3,072,793	51,345	563,527	10,170,233	(1,858,735)	8,311,498
Expenses									
Salaries and benefits	1,007,857	1,701,694	1,827,836	300,207	-	453,190	5,290,784	(712,644)	4,578,140
Supplies and services	611,881	1,594,916	786,368	2,836,581	46,869	206,148	6,082,763	(1,184,491)	4,898,272
Depreciation	133,910	5,713	-	3,246	-	18,959	161,828	-	161,828
Total expenses	1,753,648	3,302,323	2,614,204	3,140,034	46,869	678,297	11,535,375	(1,897,135)	9,638,240
Operating income (loss)	(161,332)	(321,788)	(704,487)	(67,241)	4,476	(114,770)	(1,365,142)	38,400	(1,326,742)
Nonoperating Revenues and Gains									
Nonoperating revenues and gains, net	40,158	77	1,934	67	19	40,006	82,261	(38,400)	43,861
Excess (deficiency) of revenues over expenses	(121,174)	(321,711)	(702,553)	(67,174)	4,495	(74,764)	(1,282,881)	-	(1,282,881)
Change in net unrealized gains (losses) on investments	-	-	-	-	-	6,058	6,058	-	6,058
Transfer from Affiliate	-	-	1,400,000	-	-	-	1,400,000	-	1,400,000
Change in unrestricted net assets	(121,174)	(321,711)	697,447	(67,174)	4,495	(68,706)	123,177	-	123,177

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2013

(See Independent Auditors' Report)

Assets	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Eliminating Entries	Consolidated Balances	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Current Assets									
Cash and cash equivalents	\$ 465,600	\$ 6,375,879	\$ -	\$ 6,841,479	\$ 32,054,316	\$ 4,075,329	\$ 1,726,545	\$ -	\$ 44,697,669
Short-term investments	-	-	-	-	38,446,401	-	554,141	-	39,000,542
Patient accounts receivable, net	-	527,180	-	527,180	29,915,253	-	816,977	-	31,259,410
Assets whose use is limited	-	-	-	-	1,226,280	-	-	-	1,226,280
Inventories	-	-	-	-	1,133,593	-	446,478	-	1,580,071
Other receivables	530,408	223,027	(500,000)	253,435	3,106,304	3,467,363	-	-	6,827,102
Due from affiliates	-	575,036	-	575,036	479,677	-	-	(1,054,713)	-
Prepaid expenses and other current assets	-	459,382	-	459,382	2,020,147	26,225	111,379	-	2,617,133
Total current assets	996,008	8,160,504	(500,000)	8,656,512	108,381,971	7,568,917	3,655,520	(1,054,713)	127,208,207
Assets whose use is limited (exclusive of current position):									
Board-designated funds	-	-	-	-	41,434,997	-	-	-	41,434,997
Donor-restricted assets	-	-	-	-	16,499,859	-	-	-	16,499,859
Funds held by trustee under bond indenture agreement	-	-	-	-	3,245,640	-	-	-	3,245,640
Total assets whose use is limited, net	-	-	-	-	61,180,496	-	-	-	61,180,496
Other Noncurrent Assets									
Investments	-	285,208	-	285,208	-	6,690,034	-	-	6,975,242
Due from affiliates	-	-	-	-	2,523,205	-	-	(2,523,205)	-
Deferred financing costs, net	-	-	-	-	692,765	-	-	-	692,765
Property and equipment, net	-	7,694,203	-	7,694,203	106,189,483	71,398	2,284,088	-	116,239,172
Beneficial interest in trusts	-	-	-	-	2,244,119	814,355	-	-	3,058,474
Beneficial interest in net assets of the Foundation	-	-	-	-	7,288,918	-	761,417	(8,050,335)	-
Real estate held for investment	-	-	-	-	213,099	-	-	-	213,099
Investment in affiliate	-	-	-	-	-	-	72,382	-	72,382
Investment in subsidiary	6,384,763	-	(6,017,555)	367,208	-	-	-	-	367,208
Investment in controlled affiliates	240,449,189	-	-	240,449,189	-	-	-	(240,449,189)	-
Pension asset	-	-	-	-	4,651,170	-	-	-	4,651,170
Goodwill	-	413,532	-	413,532	3,251,093	-	-	-	3,664,625
Other assets	-	311,162	-	311,162	11,113,585	-	-	-	11,424,747
Total other noncurrent assets	246,833,952	8,704,105	(6,017,555)	249,520,502	138,167,437	7,575,787	3,117,887	(251,022,729)	147,358,884
Total assets	\$ 247,829,960	\$ 16,864,609	\$ (6,517,555)	\$ 258,177,014	\$ 307,729,904	\$ 15,144,704	\$ 6,773,407	\$ (252,077,442)	\$ 335,747,587

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2013

(See Independent Auditors' Report)

Liabilities and Net Assets	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Eliminating Entries	Consolidated Balances	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Current Liabilities									
Accounts payable and accrued expenses	\$ 2,500	\$ 1,663,053	\$ (500,000)	\$ 1,165,553	\$ 15,433,258	\$ 121,420	\$ 800,333	\$ -	\$ 17,520,564
Accrued payroll and payroll taxes	-	-	-	-	9,994,895	-	-	-	9,994,895
Current portion of long-term debt	-	812,353	-	812,353	1,692,775	-	30,870	-	2,535,998
Accrued interest payable	-	-	-	-	996,533	-	-	-	996,533
Due to affiliate	-	231,543	-	231,543	-	193,001	648,349	(1,072,893)	-
Estimated third-party payor settlements, net	-	-	-	-	1,305,221	-	-	-	1,305,221
Other liabilities	-	-	-	-	-	233,135	-	-	233,135
Total current liabilities	2,500	2,706,949	(500,000)	2,209,449	29,422,682	547,556	1,479,552	(1,072,893)	32,586,346
Long-Term Liabilities									
Long-term debt, net	-	6,336,696	-	6,336,696	45,580,403	-	877,966	-	52,795,065
Due to affiliates	2,505,025	-	-	2,505,025	-	-	-	(2,505,025)	-
Other liabilities	-	670,588	-	670,588	7,164,876	-	-	-	7,835,464
Pension benefit liability	-	-	-	-	-	-	-	-	-
Estimated third-party payor settlements, net	-	-	-	-	4,125,791	-	-	-	4,125,791
Total long-term liabilities	2,505,025	7,007,284	-	9,512,309	56,871,070	-	877,966	(2,505,025)	64,756,320
Total liabilities	2,507,525	9,714,233	(500,000)	11,721,758	86,293,752	547,556	2,357,518	(3,577,918)	97,342,666
Net Assets									
Unrestricted	209,663,615	-	-	209,663,615	201,179,716	(43,819)	3,654,472	(204,790,369)	209,663,615
Temporarily restricted	15,872,712	-	-	15,872,712	3,523,237	11,892,087	457,388	(23,419,018)	8,326,406
Permanently restricted	19,786,108	-	-	19,786,108	16,733,199	2,748,880	304,029	(20,290,137)	19,282,079
Shareholders' Equity									
Midjersey shareholders' equity:									
Common stock	-	985,000	(985,000)	-	-	-	-	-	-
Additional paid-in capital	-	1,181,241	(1,181,241)	-	-	-	-	-	-
Retained earnings	-	3,851,314	(3,851,314)	-	-	-	-	-	-
Total Midjersey shareholders' equity	-	6,017,555	(6,017,555)	-	-	-	-	-	-
Noncontrolling interests	-	1,132,821	-	1,132,821	-	-	-	-	1,132,821
Total shareholders' equity and net assets	245,322,435	7,150,376	(6,017,555)	246,455,256	221,436,152	14,597,148	4,415,889	(248,499,524)	238,404,921
Total liabilities and net assets	\$ 247,829,960	\$ 16,864,609	\$ (6,517,555)	\$ 258,177,014	\$ 307,729,904	\$ 15,144,704	\$ 6,773,407	\$ (252,077,442)	\$ 335,747,587

Hunterdon Healthcare System, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

December 31, 2013

(See Independent Auditors' Report)

	Hunterdon Healthcare System, Inc.	Midjersey Health Corporation	Eliminating Entries	Consolidated Balances	Hunterdon Medical Center	Hunterdon Medical Center Foundation, Inc.	Hunterdon Regional Community Health, Inc.	Eliminating and Consolidating Entries	Consolidated Balances
Revenues									
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 8,429,622	\$ -	\$ 8,429,622	\$ 261,617,873	\$ -	\$ 7,065,257	\$ -	\$ 277,112,752
Provision for bad debts	-	(154,187)	-	(154,187)	(13,775,060)	-	(43,272)	-	(13,972,519)
Net patient service revenue less provision for bad debts	-	8,275,435	-	8,275,435	247,842,813	-	7,021,985	-	263,140,233
Other revenue	2,517,881	7,363,050	-	9,880,931	15,974,804	1,373,453	2,405,161	(7,264,350)	22,369,999
Net assets released from restrictions for operations	-	-	-	-	672,723	2,322,073	-	(2,204,020)	790,776
Total revenues	<u>2,517,881</u>	<u>15,638,485</u>	<u>-</u>	<u>18,156,366</u>	<u>264,490,340</u>	<u>3,695,526</u>	<u>9,427,146</u>	<u>(9,468,370)</u>	<u>286,301,008</u>
Expenses									
Salaries, wages, and benefits	2,611,934	4,975,569	-	7,587,503	166,189,563	1,215,270	5,327,764	-	180,320,100
Physician fees	-	-	-	-	6,414,549	-	-	-	6,414,549
Supplies and services	477,378	6,992,482	-	7,469,860	76,258,945	3,110,475	4,124,728	(9,468,370)	81,495,638
Interest	-	435,107	-	435,107	2,297,896	-	-	-	2,733,003
Depreciation and amortization	-	1,258,654	-	1,258,654	13,174,959	22,019	166,084	-	14,621,716
Total expenses	<u>3,089,312</u>	<u>13,661,812</u>	<u>-</u>	<u>16,751,124</u>	<u>264,335,912</u>	<u>4,347,764</u>	<u>9,618,576</u>	<u>(9,468,370)</u>	<u>285,585,006</u>
Operating (loss) income	(571,431)	1,976,673	-	1,405,242	154,428	(652,238)	(191,430)	-	716,002
Nonoperating revenues and gains, net	650,409	320,337	(650,000)	320,746	5,139,149	-	45,901	-	5,505,796
Equity in earnings (losses) of controlled affiliates	85,621,604	-	-	85,621,604	-	-	-	(85,621,604)	-
Equity in earnings of subsidiary	(166,416)	-	166,416	-	-	-	-	-	-
Excess (deficiency) of revenues and gains over expenses and losses before provision for taxes	85,534,166	2,297,010	(483,584)	87,347,592	5,293,577	(652,238)	(145,529)	(85,621,604)	6,221,798
Provision for Income Taxes									
Federal	-	(293,005)	-	(293,005)	-	-	-	-	(293,005)
State	-	(85,231)	-	(85,231)	-	-	-	-	(85,231)
Total provision for income taxes	<u>-</u>	<u>(378,236)</u>	<u>-</u>	<u>(378,236)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(378,236)</u>
Excess (deficiency) of revenues and gains over expenses and losses	85,534,166	1,918,774	(483,584)	86,969,356	5,293,577	(652,238)	(145,529)	(85,621,604)	5,843,562
Change in net unrealized gains (losses) on investment securities	-	-	-	-	495,427	(435,951)	7,918	-	67,394
Net assets released from restrictions for capital acquisitions	-	-	-	-	2,389,610	-	-	-	2,389,610
Pension-related changes other than net periodic pension cost	-	-	-	-	78,668,790	-	-	-	78,668,790
Change in additional paid-in capital	-	-	-	-	-	-	-	-	-
Net income attributable to noncontrolling interests	-	(1,435,190)	-	(1,435,190)	-	-	-	-	(1,435,190)
Equity transfer to the Foundation	-	-	-	-	(1,950,000)	1,950,000	-	-	-
Dividends paid	-	(650,000)	650,000	-	-	-	-	-	-
Increase in unrestricted net assets	<u>\$ 85,534,166</u>	<u>\$ (166,416)</u>	<u>\$ 166,416</u>	<u>\$ 85,534,166</u>	<u>\$ 84,897,404</u>	<u>\$ 861,811</u>	<u>\$ (137,611)</u>	<u>\$ (85,621,604)</u>	<u>\$ 85,534,166</u>

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Midjersey Health Corporation

December 31, 2013

(See Independent Auditors' Report)

Assets	Midjersey Health Corporation	Delaware Valley Office Associates	Hunterdon Imaging Associates	Hunterdon Center for Surgery, LLC	Hunterdon Medical Management, LLC	North Hunterdon Med Assoc, LLC	Hunterdon Cardiovascular Health, LLC	Subtotal	Eliminations/ Reclassifications	Consolidated Total
Current Assets										
Cash and cash equivalents	\$ 2,643,459	\$ 315,825	\$ 322,064	\$ 1,034,976	\$ 317,941	\$ 1,721,387	\$ 20,227	\$ 6,375,879	\$ -	\$ 6,375,879
Patient accounts receivable, net	-	-	-	527,180	-	-	-	527,180	-	527,180
Other receivables	44,177	7,867	161,952	-	-	-	-	213,996	(125,399)	88,597
Due from affiliates	23,709	-	-	-	575,036	110,721	-	709,466	-	709,466
Prepaid and other current assets	-	210	62,867	396,305	-	-	-	459,382	-	459,382
Total current assets	2,711,345	323,902	546,883	1,958,461	892,977	1,832,108	20,227	8,285,903	(125,399)	8,160,504
Investments	285,208	-	-	-	-	-	-	285,208	-	285,208
Property and equipment, net	198,159	113,653	1,032,678	1,135,238	10,985	5,203,490	-	7,694,203	-	7,694,203
Goodwill, net	-	-	-	413,532	-	-	-	413,532	-	413,532
Other assets	275,777	-	-	-	-	35,385	-	311,162	-	311,162
Total assets	<u>\$ 3,470,489</u>	<u>\$ 437,555</u>	<u>\$ 1,579,561</u>	<u>\$ 3,507,231</u>	<u>\$ 903,962</u>	<u>\$ 7,070,983</u>	<u>\$ 20,227</u>	<u>\$ 16,990,008</u>	<u>\$ (125,399)</u>	<u>\$ 16,864,609</u>
Liabilities and Shareholders' Equity										
Current Liabilities										
Accounts payable and accrued expenses	\$ 920,926	\$ 15,281	\$ 56,918	\$ 500,765	\$ 204,524	\$ 74,969	\$ 15,069	\$ 1,788,452	\$ (125,399)	\$ 1,663,053
Current portion of long-term debt	-	-	298,820	358,071	-	155,462	-	812,353	-	812,353
Due to affiliates	103,146	-	73,340	-	-	55,057	-	231,543	-	231,543
Total current liabilities	1,024,072	15,281	429,078	858,836	204,524	285,488	15,069	2,832,348	(125,399)	2,706,949
Long-term debt	-	-	155,049	1,303,173	-	4,878,474	-	6,336,696	-	6,336,696
Other liabilities	-	-	-	121,375	-	549,213	-	670,588	-	670,588
Total liabilities	1,024,072	15,281	584,127	2,283,384	204,524	5,713,175	15,069	9,839,632	(125,399)	9,714,233
Shareholders' Equity										
Midjersey shareholders' equity:										
Common stock	985,000	15,400	300,000	1,020,000	742,656	1,461,706	20,145	4,544,907	(3,559,907)	985,000
Additional paid-in capital	1,181,241	-	-	-	-	-	-	1,181,241	-	1,181,241
Retained earnings	280,176	309,868	364,901	(496,224)	(43,218)	(103,898)	(20,198)	291,407	3,559,907	3,851,314
Total Midjersey shareholders' equity	2,446,417	325,268	664,901	523,776	699,438	1,357,808	(53)	6,017,555	-	6,017,555
Noncontrolling Interests										
Total equity	2,446,417	422,274	995,434	1,223,847	699,438	1,357,808	5,158	7,150,376	-	7,150,376
Total liabilities and shareholders' equity	<u>\$ 3,470,489</u>	<u>\$ 437,555</u>	<u>\$ 1,579,561</u>	<u>\$ 3,507,231</u>	<u>\$ 903,962</u>	<u>\$ 7,070,983</u>	<u>\$ 20,227</u>	<u>\$ 16,990,008</u>	<u>\$ (125,399)</u>	<u>\$ 16,864,609</u>

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Midjersey Health Corporation

December 31, 2013

(See Independent Auditors' Report)

	Midjersey Health Corporation	Delaware Valley Office Associates	Hunterdon Imaging Associates	Hunterdon Center for Surgery, LLC	Hunterdon Medical Management, LLC	North Hunterdon Med Assoc, LLC	Hunterdon Cardiovascular Health, LLC	Subtotal	Eliminations/ Reclassifications	Consolidated Total
Revenues										
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ -	\$ -	\$ 8,429,622	\$ -	\$ -	\$ -	\$ 8,429,622	\$ -	\$ 8,429,622
Provision for bad debts	-	-	-	(154,187)	-	-	-	(154,187)	-	(154,187)
Net patient service revenue less provision for bad debts	-	-	-	8,275,435	-	-	-	8,275,435	-	8,275,435
Other revenue	505,741	142,811	3,265,094	20,728	3,196,240	969,418	-	8,100,032	(736,982)	7,363,050
Total revenues	505,741	142,811	3,265,094	8,296,163	3,196,240	969,418	-	16,375,467	(736,982)	15,638,485
Expenses										
Salaries and benefits	458,949	-	-	2,142,359	2,374,261	-	-	4,975,569	-	4,975,569
Supplies and services	1,354,697	57,448	1,154,508	4,205,213	819,041	138,557	-	7,729,464	(736,982)	6,992,482
Interest	-	-	30,210	104,761	-	300,136	-	435,107	-	435,107
Depreciation and amortization	14,266	28,043	494,999	356,920	2,800	361,626	-	1,258,654	-	1,258,654
Total expenses	1,827,912	85,491	1,679,717	6,809,253	3,196,102	800,319	-	14,398,794	(736,982)	13,661,812
(Loss) income from operations	(1,322,171)	57,320	1,585,377	1,486,910	138	169,099	-	1,976,673	-	1,976,673
Change in value of derivatives	-	-	-	80,841	-	239,496	-	320,337	-	320,337
(Loss) income before provision for income taxes	(1,322,171)	57,320	1,585,377	1,567,751	138	408,595	-	2,297,010	-	2,297,010
Provision for income taxes										
Federal	(293,005)	-	-	-	-	-	-	(293,005)	-	(293,005)
State	(85,231)	-	-	-	-	-	-	(85,231)	-	(85,231)
Total provision for income taxes	(378,236)	-	-	-	-	-	-	(378,236)	-	(378,236)
Net (loss) income	(1,700,407)	57,320	1,585,377	1,567,751	138	408,595	-	1,918,774	-	1,918,774
Less: Net income (loss) attributable to the noncontrolling interests	-	(13,166)	(528,406)	(893,618)	-	-	-	(1,435,190)	-	(1,435,190)
Net (loss) income attributable to Midjersey	(1,700,407)	44,154	1,056,971	674,133	138	408,595	-	483,584	-	483,584
Dividends paid	(650,000)	-	-	-	-	-	-	(650,000)	-	(650,000)
Increase in unrestricted net assets	\$ (2,350,407)	\$ 44,154	\$ 1,056,971	\$ 674,133	\$ 138	\$ 408,595	\$ -	\$ (166,416)	\$ -	\$ (166,416)

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Financial Position - Hunterdon Community Regional Health, Inc.

December 31, 2013

(See Independent Auditors Report on Supplementary Information)

Assets	Hunterdon Regional Community Health, Inc.	Hunterdon Hospice, Inc.	Visiting Health and Supportive Services, Inc.	Hunterdon Regional Pharmacy	Hunterdon Community Care	Briteside Adult Daycare	Subtotal	Eliminations	Consolidated Balance
Current Assets									
Cash and cash equivalents	\$ 525,334	\$ 347,969	\$ 615,903	\$ 113,894	\$ 74,075	\$ 49,370	\$ 1,726,545	\$ -	\$ 1,726,545
Investments	-	-	-	-	-	554,141	554,141	-	554,141
Accounts receivable, net	-	427,120	86,393	225,882	8,820	68,762	816,977	-	816,977
Due from affiliates	1,577,599	-	64,286	9,350	-	-	1,651,235	(1,651,235)	-
Inventories	-	-	-	446,478	-	-	446,478	-	446,478
Prepaid assets	7,949	-	-	103,042	-	388	111,379	-	111,379
Total current assets	2,110,882	775,089	766,582	898,646	82,895	672,661	5,306,755	(1,651,235)	3,655,520
Investment in Affiliate									
Investment in affiliate	64,000	-	-	-	72,382	-	136,382	(64,000)	72,382
Beneficial interest in net assets of Hunterdon Medical Center Foundation, Inc.	483,905	121,154	114,362	-	-	41,996	761,417	-	761,417
Property and equipment, net	1,722,836	18,907	-	3,334	-	539,011	2,284,088	-	2,284,088
Total assets	<u>\$ 4,381,623</u>	<u>\$ 915,150</u>	<u>\$ 880,944</u>	<u>\$ 901,980</u>	<u>\$ 155,277</u>	<u>\$ 1,253,668</u>	<u>\$ 8,488,642</u>	<u>\$ (1,715,235)</u>	<u>\$ 6,773,407</u>
Liabilities and Net Assets									
Current Liabilities									
Current portion of long-term debt	\$ 30,870	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,870	\$ -	\$ 30,870
Accounts payable and accrued expenses	180,811	263,048	156,341	126,837	6,986	52,792	786,815	-	786,815
Due to affiliates	35,587	122,844	1,202,443	938,595	1,178	12,455	2,313,102	(1,651,235)	661,867
Total current liabilities	247,268	385,892	1,358,784	1,065,432	8,164	65,247	3,130,787	(1,651,235)	1,479,552
Long-Term Debt, Net of Current Portion	<u>877,966</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>877,966</u>	<u>-</u>	<u>877,966</u>
Total liabilities	1,125,234	385,892	1,358,784	1,065,432	8,164	65,247	4,008,753	(1,651,235)	2,357,518
Net Assets (Deficit)									
Unrestricted/shareholders' equity	2,772,484	408,104	(592,202)	(163,452)	147,113	1,146,425	3,718,472	(64,000)	3,654,472
Temporarily restricted	283,905	121,154	10,333	-	-	41,996	457,388	-	457,388
Permanently restricted	200,000	-	104,029	-	-	-	304,029	-	304,029
Total net assets (deficit)	<u>3,256,389</u>	<u>529,258</u>	<u>(477,840)</u>	<u>(163,452)</u>	<u>147,113</u>	<u>1,188,421</u>	<u>4,479,889</u>	<u>(64,000)</u>	<u>4,415,889</u>
Total liabilities and net assets	<u>\$ 4,381,623</u>	<u>\$ 915,150</u>	<u>\$ 880,944</u>	<u>\$ 901,980</u>	<u>\$ 155,277</u>	<u>\$ 1,253,668</u>	<u>\$ 8,488,642</u>	<u>\$ (1,715,235)</u>	<u>\$ 6,773,407</u>

Hunterdon Healthcare System, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Unrestricted Net Assets - Hunterdon Community Regional Health, Inc.

December 31, 2013

(See Independent Auditors Report on Supplementary Information)

	Hunterdon Regional Community Health, Inc.	Hunterdon Hospice, Inc.	Visiting Health and Supportive Services, Inc.	Hunterdon Regional Pharmacy	Hunterdon Community Care	Briteside Adult Daycare	Subtotal	Eliminations	Consolidated Balance
Change in Unrestricted Net Assets									
Revenue:									
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 2,976,879	\$ 1,058,640	\$ 2,840,024	\$ 15,960	\$ 302,418	\$ 7,193,921	\$ (128,664)	\$ 7,065,257
Provision for bad debts	-	(35,000)	(7,666)	-	-	(606)	(43,272)	-	(43,272)
Net patient service revenue less provisions for bad debts	-	2,941,879	1,050,974	2,840,024	15,960	301,812	7,150,649	(128,664)	7,021,985
Other revenue	2,288,574	195,091	1,025,031	63,610	37,352	251,787	3,861,445	(1,456,284)	2,405,161
Total revenue	2,288,574	3,136,970	2,076,005	2,903,634	53,312	553,599	11,012,094	(1,584,948)	9,427,146
Expenses									
Salaries and benefits	1,544,974	1,640,671	1,676,686	266,648	-	465,433	5,594,412	(266,648)	5,327,764
Supplies and services	622,584	1,492,887	715,951	2,523,491	30,530	95,985	5,481,428	(1,356,700)	4,124,728
Depreciation	132,778	6,491	-	4,488	-	22,327	166,084	-	166,084
Total expenses	2,300,336	3,140,049	2,392,637	2,794,627	30,530	583,745	11,241,924	(1,623,348)	9,618,576
Operating income (loss)	(11,762)	(3,079)	(316,632)	109,007	22,782	(30,146)	(229,830)	38,400	(191,430)
Nonoperating Revenues and Gains									
Nonoperating revenues and gains, net	40,443	435	2,523	255	104	48,459	92,219	(38,400)	53,819
Excess (deficiency) of revenues over expenses and change in unrestricted net assets	28,681	(2,644)	(314,109)	109,262	22,886	18,313	(137,611)	-	(137,611)