Princeton HealthCare System Holding, Inc.

Consolidated Financial Statements and Supplemental Information

December 31, 2015 and 2014

Princeton HealthCare System Holding, Inc.
Contents
December 31, 2015 and 2014

pwc

Independent Auditor's Report

To the Board of Trustees
Princeton HealthCare System Holding, Inc.

We have audited the accompanying consolidated financial statements of Princeton HealthCare System Holding, Inc. ("PHCSH") which comprise the consolidated balance sheets as of December 31, 2015 and 2014 and the related consolidated statement of operations, changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to PHCSH'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 PHCSH'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.

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1800, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330-3000, F: (267) 330-3300, www.pwc.com/us

Opinion

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

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating supplemental schedules and other supplemental schedules are 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 consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual entities.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
April 28, 2016

Princeton HealthCare System Holding, Inc.
Consolidated Balance Sheets
December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 58,594	$ 58,401
Bond proceeds held by trustee	451	5
Patient accounts receivable, less allowance for doubtful accounts of $14,003 in 2015 and $13,124 in 2014	50,130	51,386
Investments	105,978	71,137
Pledges receivable, current	2,782	3,890
Other current assets	14,399	15,297
Land held for resale	10,555	-
Total current assets	242,889	200,116
Investments in other entities	3,533	4,185
Noncurrent investments	10,620	9,492
Property, plant, equipment and construction-in-progress, net	482,613	521,690
Pledges receivable, noncurrent	3,219	4,598
Other noncurrent assets	3,973	3,691
Total assets	$ 746,847	$ 743,772
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 7,310	$ 7,035
Accounts payable	28,743	22,585
Accrued expenses	29,456	28,035
Capital lease obligations	627	692
Accrued interest payable	2,345	2,385
Other current liabilities	6,267	3,804
Total current liabilities	74,748	64,536
Accrued benefit liability	46,350	51,168
Estimated third-party payable, net	4,792	5,293
Other noncurrent liabilities	13,073	13,482
Long-term debt, less current portion	296,312	303,622
Capital lease obligations, less current portion	258	878
Total liabilities	435,533	438,979
Net assets		
Unrestricted	291,613	284,615
Temporarily restricted	9,599	10,257
Permanently restricted	10,102	9,921
Total net assets	311,314	304,793
Total liabilities and net assets	$ 746,847	$ 743,772

The accompanying notes are an integral part of these consolidated financial statements.

Princeton HealthCare System Holding, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Unrestricted revenues, gains and other support		
Net patient service revenue before provision for bad debts	$ 438,663	$ 393,814
Less: provision for bad debts	12,135	9,747
Net patient service revenue after provision for bad debts	426,528	384,067
Other revenue	9,331	4,220
Net assets non capital released from restrictions	1,472	1,849
Total operating revenue	437,331	390,136
Expenses		
Salaries and wages	172,295	160,432
Contracted labor	11,463	6,424
Employee benefits	47,272	44,102
Supplies	66,804	65,823
Fees, utilities and other	87,206	79,392
Depreciation and amortization	40,919	39,830
Insurance	5,123	5,363
Interest	6,985	7,463
Total operating expenses	438,067	408,829
Operating loss before non recurring transactions	(736)	(18,693)
Gain on sale of assets	-	1,183
Operating loss	(736)	(17,510)
Investment income	3,292	4,421
Excess / (deficiency) of revenues over expenses	$ 2,556	$ (13,089)

The accompanying notes are an integral part of these consolidated financial statements.

Princeton HealthCare System Holding, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Unrestricted net assets		
Excess / (deficiency) of revenues over expenses	$ 2,556	$ (13,089)
Unrealized (loss) / gain on investments, net	(2,256)	-
Net assets released from restriction	2,117	4,264
Net assets reclassed to restriction	-	(33)
Change in minimum pension liability	4,581	(27,828)
Increase / (decrease) in unrestricted net assets	6,998	(36,686)
Temporarily restricted net assets		
Contributions	2,810	2,523
Investment income, net of fees	574	-
Realized gain on investments	288	-
Unrealized (loss) on investments	(718)	-
Reclassification of net assets	(57)	-
Net assets released from restrictions	(3,555)	(6,288)
Decrease in temporarily restricted net assets	(658)	(3,765)
Permanently restricted net assets		
Contributions	181	446
Increase in permanently restricted net assets	181	446
Increase / (decrease) in net assets	6,521	(40,005)
Net assets		
Beginning of year	304,793	344,798
End of year	$ 311,314	$ 304,793

The accompanying notes are an integral part of these consolidated financial statements.

Princeton HealthCare System Holding, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Cash flows from operating activities		
Increase/(decrease) in net assets	$ 6,521	$ (40,005)
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation and amortization	40,919	39,829
Donated securities received	(1,447)	(1,326)
Net realized and unrealized losses (gains) on investments	2,270	(1,114)
Provision for bad debts	12,135	9,387
Restricted contributions received	(4,269)	(6,519)
Proceeds from sale of unrestricted donated securities	13	68
Equity in (earnings) / loss of other entities	(1,946)	2,833
Distributions from joint ventures	2,325	-
Change in pension liability	(4,581)	27,828
Gain on sale of property, plant and equipment	-	(1,183)
(Increase) decrease in		
Accounts receivable	(10,879)	(14,193)
Other current assets	898	2,060
Pledges receivable	2,487	5,288
Other assets	(282)	1,000
Increase (decrease) in		
Accounts payable	6,158	1,620
Accrued expenses	1,420	878
Current liabilities	2,463	175
Other noncurrent liabilities	(409)	(1,137)
Accrued interest payable	(40)	(323)
Estimated third-party receivable / payable	(501)	2,792
Accrued benefit liability	(237)	(3,508)
Net cash provided by operating activities	53,018	24,450
Cash flows from investing activities		
Purchase of investments	(83,818)	(11,732)
Proceeds from sale of investments, net of fees	45,579	5,629
Proceeds from sale of property, plant and equipment	-	30,394
Acquisitions of property, plant and equipment	(12,397)	(5,319)
Distributions from joint ventures	273	2,129
(Increase) / decrease in bond proceeds held by trustee	(446)	5,819
Net cash (used in) / provided by investing activities	(50,809)	26,920
Cash flows from financing activities		
Repayment of long-term debt	(7,035)	(47,554)
Payments under capital lease obligations	(685)	(1,120)
Restricted contributions received	4,269	6,519
Proceeds from sale of restricted donated securities	1,435	1,258
Net cash (used in) financing activities	(2,016)	(40,897)
Net change in cash and cash equivalents	193	10,473
Cash and cash equivalents		
Beginning of year	58,401	47,928
End of year	$ 58,594	$ 58,401
Supplemental information		
Cash paid for interest expense	$ 7,118	$ 7,786

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations

Organization: Princeton HealthCare System Holding, Inc. ("PHCSH"), and its not-for-profit and for-profit members provide healthcare services primarily to residents of the greater Princeton area including Mercer, Middlesex, and Somerset counties in central New Jersey.

Basis of Presentation: The financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include allowance for doubtful accounts, estimated third-party retroactive adjustments, self-insurance and accrued employee benefits. Actual results could differ from those estimates.

Principles of Consolidation: The consolidated financial statements include the accounts of PHCSH, a not-for-profit holding corporation, its controlled member not-for-profit subsidiaries, Princeton HealthCare System (the "System"), Princeton HealthCare System Foundation, Inc. (the "Foundation"), Princeton Medical Properties, Inc. ("PMP"), Princeton Caregivers ("PCG"), its wholly owned for-profit subsidiaries Princeton Health, Inc. ("PHI") and Princeton HealthCare Affiliated Physicians d/b/a Princeton Medicine.

All significant intercompany balances and transactions have been eliminated in consolidation. Although these entities have been consolidated for financial statement presentation, there may be limitations, due to the charitable nature of some of the consolidated entities or other factors, on the use of the consolidated entity's net assets by another member of the affiliated group.

The System is comprised of three divisions. The University Medical Center of Princeton at Plainsboro ("UMCPP") is an acute care facility licensed for 319 acute care beds (including 14 special care nursery bassinets and 17 physical rehabilitation beds). Princeton House Behavioral Health is a 110-bed psychiatric and behavioral health facility. Princeton HomeCare Services provides home nursing care, home rehabilitation, homemaker services, and operates a hospice program.

The Foundation supports and maintains programs, services, and facilities through the solicitation, receipt, administration and distribution of philanthropic gifts for the sole benefit of PHCSH.

PMP was formed for the purpose of acquiring, constructing, financing and holding property for the benefit of PHCSH.

PCG's primary business activity is providing private duty home care services.

PHI is the sole shareholder of Princeton HealthCare Management Services, Inc. ("PMS"). PMS provides management and administrative support to physician practices owned by the System and to private physician practices. PHI is also a partner in joint ventures with Princeton Fitness & Wellness Center, Princeton Endoscopy Center, LLC and Princeton Fitness & Wellness Center at Plainsboro.

Princeton Medicine is a Captive PC and is structured as a professional corporation pursuant to the provisions of the Professional Services Corporation Act of New Jersey. Princeton Medicine is incorporated outside of PHCSH. Because the System retains reserve power of control and authority, and because Princeton Medicine is financially dependent on the System for its operations and funding it is consolidated for financial reporting purposes. Princeton Medicine's purpose is to provide physician services to further the charitable and health care purposes of the System.

In the Other Supplemental Schedules, financial information of Princeton HealthCare System Obligated Group is included. The Obligated Group consists of the System and the Foundation and is the guarantor of PHCSH's long-term debt.

2. Summary of Significant Accounting Policies

The following is a summary of PHCSH's significant accounting policies:

Cash and Cash Equivalents: Cash and cash equivalents include highly liquid short term investments purchased with original maturities of three months or less. PHCSH maintained cash balances in bank accounts that exceed insured limits set by the Federal Deposit Insurance Corporation (FDIC). PHCSH has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Bond Proceeds Held by Trustee: The balances of bond proceeds from Long Term Debt of the Obligated Group are reported as 'Bond proceeds held by trustee' on the Consolidated Balance Sheets. The Bank of New York Mellon serves as the Master Trustee of the bond offering and manages the short term investment and disbursement of funds pertaining to the construction of the replacement facility project. The proceeds are invested in a fixed income mutual fund.

Temporarily and Permanently Restricted Net Assets: PHCSH accounts for and reports donor restricted and unrestricted assets separately. Donor restricted assets are assets whose use is limited by the donor. Assets arising from the results of operations are set aside for board-designated purposes are not considered to be donor restricted. Restricted assets are available to support healthcare services. Cumulative losses to individual funds in excess of restricted amounts are classified as unrestricted net assets.

Temporarily restricted net assets are those whose use by PHCSH has been limited by donors to a specific time period and/or purpose. PHCSH's policy is to exclude from operating income, net assets released from capital restrictions. Net assets released from restrictions for noncapital purposes are included within other operating revenue. Investment losses related to restricted net assets are included in unrestricted net assets.

Permanently restricted net assets have been restricted by donors to be maintained by PHCSH in perpetuity.

Property, Plant and Equipment: Property, plant and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives as follows:

Building and improvements	10–40 years
Fixed equipment	5–20 years
Moveable equipment	4–20 years
Information technology related	3–7 years

Capitalized leases are recorded at their present value of future cash flows at the inception of the lease. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. Gains and losses resulting from the retirement of property, plant and equipment are included in the results of operations.

Gifts of long-lived assets such as property, plant and equipment are determined at the fair value at the date of the gift and reported as an increase to unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Land Held for Resale: PHCSH owns certain properties contiguous to its hospital campus for which it has numerous contracts to sell for certain healthcare related services (child care, adult day care, assisted living and independent living) to unrelated third parties. The cost of these properties has been reclassified to a current asset.

Impairment of Long-Lived Assets*:* Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum for the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. No impairment losses were recorded for the years ended December 31, 2015 and 2014.

Deferred Financing Costs: Deferred financing costs, included with other assets, were $585 and $615 at December 31, 2015 and 2014, respectively. Deferred financing costs are being amortized over the period the applicable obligation is outstanding using the straight-line method, which is not materially different than the effective interest method. Amortization expenses related to deferred financing costs were $30 and $39 for years ended December 31, 2015 and 2014, respectively.

Investments in Other Entities: Investments in other entities in which the System and PHI have an ownership interest less than or equal to 50% are accounted for by the equity method. Under such method, the System's and PHI's share of net earnings (or losses) is included in the consolidated statements of operations.

Net Patient Service Revenue and Patient Accounts Receivable: Net patient service revenue is accounted for on the accrual basis in the period in which the service is provided. The System, Caregivers and Princeton Medicine are reimbursed from third party payers under various methodologies based on the level of care provided. Net revenues received are subject to audit and retroactive adjustments for which estimates are made and reserves are established.

A summary of the payment arrangements with major third-party payers is as follows:

- Medicare – Inpatient services and outpatient services rendered to Medicare program beneficiaries are paid prospectively at set rates. Inpatient rates only vary according to a patient classification system that is based on clinical, diagnostic and other factors. The System is reimbursed for certain items such as graduate medical education costs which are subject to base year limits at a tentative rate with final settlement determined after submission of the annual cost report and audits thereof by the Medicare fiscal intermediary. Services billed to the Medicare program are subject to external review for both medical necessity and billing compliance. Medicare cost reports for all years up to 2012 have been audited and final settled as of December 31, 2015.

- 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. Non-acute services such as rehabilitation and behavioral health services are paid based on a base year cost per case inflated forward. Most outpatient services are paid based upon a cost reimbursement methodology and certain services, such as outpatient behavioral health services, are paid based on a Medicaid fee schedule. The System is paid for reimbursable costs at a tentative rate with final settlement determined after submission of the annual cost report and audit thereof by the New Jersey Division of Medical Assistance and Health Services. Medicaid cost reports for all years up to 2013 have been final settled as of December 31, 2015.

  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 day/case, fee schedules and discounts from established charges.

Supplies*:* Supplies are carried at the lower of cost or market using the average cost method.

Other Current Assets: Other current assets are comprised primarily of prepaid expenses, inventory, and non-patient accounts receivable.

Other Noncurrent Assets: Other noncurrent assets are comprised primarily of estimated insurance recoverables and deferred financing cost.

Accrued Expenses: Accrued expenses include employee wage and benefit expenses as well as accruals for goods and services received but not yet invoiced.

Other Noncurrent Liabilities: Other noncurrent liabilities are comprised primarily of deferred revenues and estimated professional liability reserves. The deferred revenues relate to a 70-year ground lease for the Medical Arts Pavilion and a 60-year prepaid rent agreement with the Princeton Fitness & Wellness Center at Plainsboro.

Investments and Fair Value Measurement: Investments are measured at fair value at the balance sheet date. The investments are governed by the Board of Trustees and the Board's Investment Committee. The investment portfolio serves both as collateral for the outstanding bank debt of the Obligated Group and a general liquidity vehicle.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Fair value is generally determined by sales prices or bid-and-asked quotations that are available on a securities exchange registered with the Securities and Exchange Commission or in the over-the-counter market. For investments in mutual funds, the fair value per share, or unit, is the value that is determined and published and the basis for current transactions. Realized and unrealized gains and losses on investments, interest and dividends, are included in "Investment income" unless the income or loss is restricted by donor or law. Alternative investments include both Level 2 and Level 3 investments. Level 2 alternative investments are valued using net asset value (NAV) as a practical expedient. Level 3 alternative investments are considered funds where no immediate secondary market exists and prices cannot be substantiated by market data.

Noncurrent investments are investments restricted by donor.

In May 2014, the FASB issued a standard on fair value that provides a framework for measuring fair value and expands disclosures required for fair value measurements. The standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participant would use in pricing the asset or liability. As a basis for considering market participation assumptions in fair value measurements, the standard establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participation assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The standard classifies the inputs used to measure the fair value into the following hierarchy:

Level 1 Level 1 valuations are based on unadjusted quoted market based prices for identical assets, exchange traded securities, mutual funds and actual transactions in an active market. Mutual funds are valued daily with net asset values retrievable with pricing sources such as Bloomberg.

Level 2 Level 2 valuations include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active. The hedge fund of funds invested with Grosvenor Capital Management, L.P. (Grosvenor) is categorized as Level 2 using net asset value as a practical expedient to estimate the fair value of the investment at the measurement date. Additionally, PHCSH has the ability to redeem with 90 days' notice.

Level 3 Level 3 valuations relate to unobservable inputs derived from extrapolation or interpolation that cannot be substantiated by market data including other investment manager specific inputs such as projected cash flows. These investments are valued by the fund manager, based on the pro-rata interest in the net assets of the underlying investments, which approximates fair value, and by financial information provided by the manager. Only the pension plan has investments in private equity funds, which are categorized as Level 3 using net asset value as a practical expedient. The funds are illiquid and have a substantial lockup period.

Categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Donor Restricted Gifts*:* Signed unconditional gift agreements to give cash are reported at fair value at the date the agreement 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 temporary restriction expires, that is, when a stipulated time restriction ends or specific purpose restriction is accomplished, they are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Net assets released from restrictions for noncapital purposes are included within other operating revenue.

Performance Indicator: The consolidated statements of operations and changes in net assets include excess of revenue over expenses as the performance indicator. Consistent with industry practice, changes in unrestricted net assets excluded from excess of revenue over expenses include net assets released from restrictions for equipment purchases, forgiveness of debt of related party, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including donor restricted), and changes to the pension liability.

Self-Insurance Plan: PHCSH maintains self-insured medical and dental plans and a large deductible workers' compensation plan. Claim expenses are accrued as the incidents occur. Unpaid accrued claim expenses (including estimates of the ultimate costs for both reported claims and claims incurred but not reported) are estimated based upon standard industry reserve factors. Unpaid accrued claim expenses are reported as accrued expenses in the accompanying consolidated balance sheets. PHCSH purchases a stop loss commercial insurance policy to supplement its self-insured medical and pharmaceutical plans. This policy covers losses in excess of $300 per covered individual on an annual basis. Both estimated liabilities are included on the balance sheet in other noncurrent liabilities.

Professional Liability Insurance: PHCSH maintains a claims-made policy with various retroactive dates under several policies. The policies include a provision for prior acts coverage. Premiums are calculated based on PHCSH's exposures, loss experience and rates in effect at time of renewal. PHCSH also accrued estimated liabilities for instances that have occurred prior to the balance sheet date. As of December 31, 2015 and 2014, PHCSH recorded an insurance liability and corresponding receivable of $2,896 and $2,425, respectively, for claims that have been reported to its commercial insurance carrier and PHCSH also recorded estimated accrued liabilities of $2,158 and $2,199, respectively, for instances that have occurred prior to the balance sheet date for which a claim has not yet been made (incurred but not reported claims, also known as IBNR). Both estimated liabilities are included on the balance sheet in other noncurrent liabilities and the estimated insurance recoverable is included in other noncurrent assets.

Income Taxes: PHCSH, the System, Foundation, PMP, Princeton Medicine and PCG individually qualify as tax-exempt organizations under existing provisions of the Internal Revenue Code as described in Section 501(c). Per the requirement to assess for tax uncertainty, management has determined that it does not have any uncertain tax positions required to be accrued or reported.

Reclassifications: Certain prior year balances have been reclassified to be consistent with the current year presentation.

***New Accounting Pronouncement**:* In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2016. PHCSH is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2017.

In May 2015, the FASB issued ASU 2015-7, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). This guidance removes the requirement to categorize investments for which fair value is measured using net asset value per share in the fair value hierarchy and limits certain required disclosures to those for which the fair value is being measured using the net asset value per share practical expedient. PHCSH elected not to adopt this guidance as of January 1, 2015 and to apply the guidance retrospectively.

In January 2016, the FASB issued ASU 2016-1, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance supersedes the guidance to classify equity securities with readily determinable fair values into different categories, and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. This guidance allows equity investments without readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment and requires additional disclosures regarding these investments. This guidance is effective for PHCSH on January 1, 2019. PHCSH is currently evaluating the impact of adopting this guidance on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-2, Leases (Topic 842). This guidance is effective for PHCSH on January 1, 2019. The most significant change from current practice is that this guidance requires the recognition of lease assets and liabilities for those leases classified as operating leases under current guidance. The guidance also provides guidance for the measurement of lease assets and liabilities and additional required disclosures. This guidance is effective for PHCSH on January 1, 2019 with modified retrospective presentation required. We are currently evaluating the impact of adopting this guidance on PHCSH's consolidated financial statements.

Subsequent Events: On January 20, 2016, PHCSH refinanced all its debt, except for the $5,162 still outstanding on the Park Assessment Bond, by issuing the Series 2016 A Revenue Bonds ($190,065 plus $28,720 Original Issue Premium) and direct Bank Placement Bonds (Series 2016 B and 2016 C Bonds totaling $85,000). The proceeds were used to i) refund and redeem on a current refunding basis all of the Authority's outstanding Revenue Bonds Series 2010 B, 2010 C and 2010 D, ii) refinance a commercial bank loan, iii) finance certain capital expenditures including but not limited to a surface parking lot and iv) pay the costs of issuance of the Series 2016 A bonds. The debt was structured such that PHCSH would pay annual level debt service payments of approximately $15,459 per year through 2039 and $15,098 annually from 2040 to 2045. The Series 2016 A Revenue Bonds were issued at a premium of $28,720 with stated fixed interest rates between 2% to 5% on the Serial and Term Bonds with yields to maturity estimated between 0.5% to 4.075%. The total interest costs for the Series 2016 A Bonds are estimated at 3.66%.

The Bank Placement Bonds are issued at variable rates. The Series 2016 B Bank Placement Bonds ($65,000) are at 70% of the 30-day LIBOR plus 75 basis points which was 1.04% at closing. The Series 2016 C Bank Placement Bonds ($20,000) are at 67% of the 30-day LIBOR plus 95 basis points which was 1.23% at closing.

The Obligated Group for the Debt includes the System and the Foundation.

PHCSH has evaluated subsequent events in accordance with the statements through April 28, 2016.

3. Fair Value Measurements

All PHCSH investments (pension and non-pension) are under management of SEI or Grosvenor. Both use a manager-of-manager platform. Valuations are based on identifiable market transactions leading to a price. SEI manages alternative investment pension investments along with Grosvenor (Note 11). PHCSH considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable and provided by an independent source actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the PHCSH perceived risk of those investments.

The Grosvenor funds, which are categorized as Level 2, are invested in a globally diversified, multi-strategy, multi-manager portfolio that allocates its assets to hedge fund managers that specialize in a wide range of alternative investment strategies including: credit, relative value, multi-strategy, event driven, equities, macro, commodities and portfolio hedges.

There are three primary investment objectives of Grosvenor as alternative investments:
(1) to provide an additional source of investment diversification as these funds are less correlated to equity and fixed income markets, (2) to generate a superior absolute and risk-adjusted rate of return, with low performance volatility and low correlation with global equity and fixed income markets, over a full market cycle, and (3) to preserve capital during challenging market environments.

The pension plan investments in SEI's private equity are in the form of limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at net asset value, are not redeemable within 180 days and are categorized as Level 3.

The table below summarizes the non-pension assets that are measured at fair value on a recurring basis in the balance sheet, including $33 and $2 of accrued interest for 2015 and 2014, respectively. No liabilities exist that are subject to this guidance.

(dollars in thousands)

Investment Holdings – by Level

Basis of Fair Value Measurements as of December 31, 2015

	Total	Level 1	Level 2	Level 3
Fixed income securities	$ 23,987	$ 23,987	$ -	$ -
Fixed income mutual funds	46,298	46,298	-	-
Domestic equity mutual funds	20,831	20,831	-	-
International equity mutual funds	13,325	13,325	-	-
Hedge fund of funds	12,157	-	12,157	-
Total	$ 116,598	$ 104,441	$ 12,157	$ -
	100 %	90 %	10 %	0 %

Basis of Fair Value Measurements as of December 31, 2014

	Total	Level 1	Level 2	Level 3
Fixed income securities	$ -	$ -	$ -	$ -
Fixed income mutual funds	38,999	38,999	-	-
Domestic equity mutual funds	17,881	17,881	-	-
International equity mutual funds	11,568	11,568	-	-
Hedge fund of funds	12,181	-	12,181	-
Total	$ 80,629	$ 68,448	$ 12,181	$ -
	100 %	85 %	15 %	0 %

Included in the above table are Level 1 gift annuities of $177 and $528 at December 31, 2015 and 2014, respectively. The liabilities associated with the gift annuities have been recorded by PHCSH. The amounts were $35 and $71 at December 31, 2015 and 2014, respectively.

Level 2 Disclosure 2015 and 2014	**Alternative Investments**	
	2015	**2014**
Fair Value Measurements using Significant Unobservable Inputs		
Balance as of January 1	$ 12,181	$ 11,816
Net realized gains (losses)	-	-
Change in unrealized appreciation	117	503
Purchases	-	-
Sales	-	-
Fees	(141)	(138)
Balance as of December 31	$ 12,157	$ 12,181

(dollars in thousands)

The following provides additional fair value measurement information at December 31, 2015 and 2014 on the Level 2 investments above. Net asset value is calculated on a per share basis or its equivalent. There were no transfers between Levels 1 and 2.

Hedge Fund of Funds	Fair Market Value December 31, 2015	Fair Market Value December 31, 2014	Redemption Frequency (if currently available)	Redemption Notice Period
System (level 2)	$ 6,079	$ 6,091	quarterly	30-60 days
Foundation (level 2)	6,078	6,090	quarterly	30-60 days
Total	$ 12,157	$ 12,181		

No unfunded commitments existed on December 31, 2015 or 2014.

4. Net Assets

PHCSH's endowment consists of twelve donor permanently restricted individual funds established for a variety of purposes. As required by Generally Accepted Accounting Principles ("GAAP"), net assets associated with endowment funds, are classified and reported based on the existence of donor-imposed restrictions. The Board of Trustees of the System has interpreted the State of New Jersey's enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the historic dollar value of donor-restricted endowment funds (absent explicit donor stipulations to the contrary). As a result of this interpretation, PHCSH classifies as permanently restricted net assets (a) the original value of gifts donated to the permanently restricted net assets (b) the original value of subsequent gifts to the permanent endowment (c) the net realizable value of future payments to permanently restricted net assets in accordance with the donor's gift instrument (outstanding endowment pledges net of applicable discount) and (d) appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in permanently restricted net assets.

The Board of Trustees further understands that expenditure from a donor-restricted fund is limited to the uses and purposes for which the endowment fund is established and the use of net appreciation, realized gains (with respect to all assets) and unrealized gains (with respect only to readily marketable assets). Gains are limited to the extent that the fair value of a donor-restricted fund exceeds the historic dollar value of the fund (unless the applicable gift instrument indicates that net appreciation shall not be expended) subject to the following considerations. The expenditure is considered to be prudent if the long and short term needs of PHCSH in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

PHCSH's endowment investments fall under the investment policy guidelines as established, and reviewed annually, by the System's Investment Committee. PHCSH intends to expend a 4% drawdown from 2015 earnings in 2016, as approved by the System's Investment Committee.

(dollars in thousands)

Changes in endowment net assets for the fiscal year ended December 31, 2015 consisted of the following:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ 365	$ 9,921
Investment return:		
Investment income	573	-
Realized and unrealized (losses)	(427)	-
Total investment gain	146	-
Contributions and pledges	-	143
Amortization of pledge discounts and bad debt write off	-	38
Appropriation of endowment assets for expenditure	(120)	-
Endowment net assets, end of year	$ 391	$ 10,102

Changes in permanently restricted endowment net assets for the fiscal year ended December 31, 2014 consisted of the following:

	Permanently Restricted
Endowment net assets, beginning of year	$ 9,475
Contributions and pledges	378
Amortization of pledge discounts and bad debt write off	68
Endowment net assets, end of year	$ 9,921

(dollars in thousands)

Permanently restricted net assets, net of pledge discounts, are held in perpetuity as endowments for the following purposes:

	2015	2014
Community Health Center	$ 2,287	$ 2,287
Cardiac and Pulmonary Care Center	2,000	2,000
Total Joint Replacement Center	2,000	1,980
Geriatric care	1,992	1,977
Religious ministries programs	1,038	902
Art Gallery at UMCPP	299	297
Nursing development	247	245
Orthopedic nursing education	100	99
Volunteer services	71	70
Medical grand rounds lecture	43	40
OR staff professional development	25	24
	$ 10,102	$ 9,921

5. Functional Expenses

PHCSH provides general healthcare services to residents within its geographic area. Expenses related to providing these services for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Healthcare services	$ 322,251	$ 309,786
General and administrative	113,569	96,981
Fundraising	2,246	2,062
	$ 438,066	$ 408,829

6. Reimbursement

PHCSH records gross patient service revenue on an accrual basis at established rates, with contractual and other allowances deducted from such amounts to determine net patient service revenue, before provision for bad debts. PHCSH maintains policies and records to identify and monitor these contractual allowances and its level of charity care. These records include the amount of deductions from gross revenue due to qualified services provided under the State of New Jersey’s charity care guidelines.

(dollars in thousands)

The process for estimating the collection of receivables involves significant assumptions and judgments. For each business entity, the System has implemented a monthly standardized approach to estimate and review the collectability of receivables by services based on (inpatient versus outpatient) the payer classification and the period from which the receivables have been outstanding. Account balances are written off against the allowance or bad debt expense (for self-pay balances) when management feels it is probable the receivable will not be recovered. Historical collection and payer reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. In addition, the System assesses the current state of its billing functions in order to identify any known collection or reimbursement issues and assess the impact, if any, on reserve estimates.

PHCSH derives its gross patient service revenue for inpatient and outpatient services from the following payers at December 31:

	2015	2014
Medicare and Medicaid (Traditional and Managed)	46 %	45 %
Managed Care	15	15
Blue Cross	18	18
Aetna	12	13
Commercial and other	6	6
Self-pay patients	3	3
	100 %	100 %

Net patient service revenue consists of the following at December 31:

	2015	2014
Gross charges	$ 1,771,783	$ 1,631,882
Contractual and other allowances	(1,345,255)	(1,247,815)
Net patient service revenue after provision for bad debts	$ 426,528	$ 384,067

Charity Care

The System provides care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services ("DOHSS") without charge or at amounts less than its established rates. The majority of patients qualify for charity care where household income is less than 200% of the family federal poverty guidelines or their financial condition is such that requiring payment would impose a hardship on the patient. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System's records identify and monitor the level of charity care it provides and the amount of charges foregone for services and supplies furnished. The costs associated with charity care during the years ended December 31, 2015 and 2014 were approximately $7,321 and $8,539, respectively. The estimated cost of providing charity services is based on valuing all charity care claims using the System's decision support system that utilizes cost to charge ratios derived from the most recently filed Medicare cost reports. DOHSS charity care guidelines require participation and specific documentation of the patient in order to be identified as a charity care account. In addition to charity care, the System provides a significant amount of community benefit that includes community outreach programs, subsidized medical education costs and unreimbursed costs of providing care to Medicare and Medicaid beneficiaries.

(dollars in thousands)

The New Jersey Health Care Subsidy Fund was established for various purposes including the distribution of charity care and hospital relief fund payments to hospitals statewide. As of December 31, 2015 and 2014, the System received subsidy amounts of $1,519 and $1,738, respectively, which are included in net patient service revenue.

Additionally, the State of New Jersey established a Mental Health Subsidy Fund to pay for specific behavioral health services. The System received $1,257 for these services in both 2015 and 2014.

7. Investments

Investments consist of the following at December 31:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities	$ 24,007	$ 23,954	$ -	$ -
Fixed income mutual funds	46,631	46,298	39,102	38,997
Domestic equity mutual funds	20,665	20,831	15,588	17,881
International equity mutual funds	12,988	13,325	10,669	11,568
Alternative investments	9,410	12,157	9,551	12,181
Accrued interest	33	33	2	2
	$ 113,734	116,598	$ 74,912	80,629
Less: Current portion		105,978		71,137
Noncurrent investments		$ 10,620		$ 9,492

(dollars in thousands)

A summary of the total investment return for the years ended December 31 is as follows:

	2015	2014
Interest and dividend income	$ 2,876	$ 3,294
Net unrealized (loss) on alternative investments	(24)	-
Net unrealized (loss) / gain on investments	(2,256)	824
Realized gain on sales of securities	440	303
Unrestricted total investment return	1,036	$ 4,421
Investment income, net of fees	574	
Realized gain on investments	288	
Unrealized loss on investments	(718)	
Temporarily restricted total investment return	144	
Total investment return	$ 1,180	

8. Investments in Other Entities

The net book value of the PHCSH's investments in other entities represents PHCSH's initial capital investment plus PHCSH's share of the income less PHCSH's share of the distributions received since the commencement of the joint venture.

The System is a 50% general partner in Princeton Radiology Oncology Center ("PROC"), a free-standing radiation oncology treatment center located in Monroe Township, New Jersey. The current amount of the investment was $304 and $823 at December 31, 2015 and 2014, respectively.

The System is a 50% general partner in Princeton Imaging Ventures ("PIV"), a free-standing imaging center with locations in Monroe Township and Princeton New Jersey. The System has guaranteed 50%, or approximately $313, of the partnership's outstanding debt at December 31, 2015. The remaining 50% has been guaranteed by PIV's other general partner. These debts are collateralized by the partnership's equipment and leasehold improvements. The current amount of the investment was $162 and $0 at December 31, 2015 and 2014, respectively.

The System is a 50% owner in Imaging Ventures of Princeton ("IVP"), a limited liability corporation imaging center. IVP also owns 50% of both Windsor Imaging Center ("WIC") and Hillsborough Imaging Center ('HIC"), which are free-standing imaging centers located in their respective towns in central New Jersey. The current amount of the investment in the corporation was $463 and $682 at December 31, 2015 and 2014, respectively.

The System has a 26.47% ownership in UMCP SurgiCenter Partners, LLC, a corporation formed with physicians and physician practices to provide administrative services, medical oversight, management services, equipment, supplies and certain nonclinical personnel to the outpatient surgery center owned by the System and located on UMCPP's Plainsboro campus. The current amount of the investment was $539 and $564 at December 31, 2015 and 2014, respectively.

The System has a 20% ownership in UMCP-Monroe Surgical Partners, LLC, a corporation formed with Forsgate ASC Partners, LLC to provide, among other things, certain administrative services, medical oversight, management services, equipment, supplies and certain non-clinical personnel to the outpatient surgery center owned by the System and located in Monroe Township, New Jersey. The current amount of the investment was $23 and $34 at December 31, 2015 and 2014, respectively.

(dollars in thousands)

PHI is a 25% partner in Princeton Fitness & Wellness Center (“PF&WC”), a for-profit joint venture located in Princeton, New Jersey. The current amount of the investment in PF&WC was $298 and $190 as of December 31, 2015 and 2014, respectively.

PHI is a 47.5% owner in Princeton Endoscopy Center, LLC, (“PEC”) a for-profit corporation located in Princeton, New Jersey. The current amount of the investment in PEC was $208 and $230 as of December 31, 2015 and 2014, respectively.

PHI is a 25% partner in Princeton Fitness & Wellness Center at Plainsboro (“PF&WCP”), a for-profit joint venture located on UMCPP’s Plainsboro campus. The current amount of the investment in PF&WCP was $1,536 and $1,677 as of December 31, 2015 and 2014, respectively.

9. Property, Plant, Equipment and Construction-in-Progress

Property, plant, equipment and construction-in-progress consist of the following at December 31:

	2015	2014
Land	$ 40,435	$ 50,990
Land improvements	26,341	23,682
Buildings and leasehold improvements	473,982	472,849
Furniture and equipment	97,815	92,099
Information technology related	36,161	34,188
Construction-in-progress	2,981	2,095
	677,715	675,903
Less: Accumulated depreciation	195,102	154,213
Property, plant, equipment and construction-in-progress, net	$ 482,613	$ 521,690

Depreciation expense for the years ended December 31, 2015 and 2014 was $40,889 and $39,790, respectively.

(dollars in thousands)

10. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consists of the following at December 31:

		2015		2014
Long term debt				
Bank of America loan $125,000, Bank of America, was remarketed in 2011 from a weekly rate bond secured by a letter of credit to a taxable, direct loan with a variable weekly rate that ranged from 1.55% to 1.64% in 2015.	$	104,955	$	107,330
2010 Series B bond $55,000, TD Bank, was remarketed in 2011 from a weekly rate bond secured by a letter of credit to tax exempt, direct purchase bonds with a variable weekly rate that ranged from 2.09% to 2.15% in 2015.		46,190		47,235
2010 Series C bond $100,000, Wells Fargo Bank, was modified in 2011 from index rate bonds to 2.79% fixed rate bonds, but still tax exempt and directly purchased.		84,335		86,035
2010 Series D bond $75,000, JPMorgan Chase Bank, was modified in 2011 from index bonds to 2.7% fixed rate bonds, but still tax exempt and directly purchased.		62,980		64,405
Park Assessment Bond $7,120 Plainsboro Township special assessment. 15 year annual installments, terminating on April 1, 2026 with a 3.836% interest rate.		5,162		5,652
Total long-term debt		303,622		310,657
Less: Current portion		7,310		7,035
Long-term debt, net of current portion	$	296,312	$	303,622
Capital lease obligations				
Canon Business Solutions commitment of $1,490 for Imagerunner equipment commenced on April 20, 2012 and will terminate on June 30, 2017.	$	478	$	782
Bank of America loan commitment of $1,052 for McKesson MedCarousel commenced on December 9, 2011, first payment due June 2012 and will terminate May 2017. The annual interest rate is 3.49%		317		531
Stryker Finance loan commitment of $448 for surgical medical equipment commenced on December 21, 2012, first payment due August 2013, and will terminate in July 2016. The annual interest rate is 2.25%.		90		241
TD Bank loan commitment of $614 for Modular EVO 7Plus System commenced on March 1, 2010, first payment due March 2010, and terminated in February 2015. The annual interest rate is 4.73%.		-		16
Total obligation under capital leases		885		1,570
Less: Current portion		627		692
Obligation under capital leases, net of current portion	$	258	$	878

(dollars in thousands)

The variable bonds bear interest at a Weekly Rate not to exceed 12% (Maximum Interest Rate). The weighted average effective interest rate paid on the bank loan and Series B, C, and D bonds in 2015 approximated 2.24%. Each series of bonds is separately subject to redemption under the applicable Trust Agreement pursuant to which it was issued.

The master indenture pledges as collateral the gross revenues of PHCSH and the mortgages from the System on the new campus. Although the bonds mature on July 1, 2041, the debt is subject to a mandatory redemption by the banks on December 1, 2016. The Obligated Group is in compliance with all covenants required by the Authority and the Banks in the Loan Agreements.

The terms of the bank loan and the Series B, C, and D bonds include scheduled principal payments through 2041. Notwithstanding the 2016 mandatory redemptions which were refinanced on January 20, 2016 (see Subsequent Events footnote), the following five years' scheduled principal payments are included debt agreement as follows:

2016	$	7,310
2017		7,665
2018		7,970
2019		8,300
2020		8,634
	$	39,879

The fair value of PHCSH's long-term debt is based on fixed rates. The fair value of the System's debt at December 31, 2015 is approximately $303,735 based on publicly traded bonds of comparable characteristics (e.g. credit quality, tax-exempt and maturity) and would constitute a level 2 security.

The System has non-cancelable capital leases for medical equipment which have gross carrying values of $8.7 million at December 31, 2015 and 2014. Accumulated amortization related to these capital leases totaled $7.3 million and $6.8 million at December 31, 2015 and 2014, respectively.

11. Pension Plans

The System previously offered a defined benefit pension plan which was "frozen" as of December 31, 2011 and replaced by a self-directed 401(a) defined contribution plan effective January 1, 2012. Defined contribution plan funding for services earned in 2013 was funded in July of 2014, likewise, services earned in 2014 will be funded in 2015. Both plans cover substantially all of PHCSH's employees.

As of December 31, 2015 and 2014, the frozen defined benefit pension plan's assets were comprised of primarily equity, fixed income securities, and alternative investments.

(dollars in thousands)

The following table sets forth the funded status of the defined benefit plan at December 31:

	2015	2014
Change in projected benefit obligation		
Benefit obligation at beginning of year	$ 166,117	$ 138,520
Interest cost	6,100	6,340
Actuarial (gain) / loss	(7,782)	29,300
Benefits paid	(7,049)	(8,043)
Projected benefit obligation at end of year	157,386	166,117
Change in plan assets		
Fair value of plan assets at beginning of year	$ 119,824	$ 115,851
Actual return on plan assets	(192)	7,938
Employer contribution	3,966	4,715
Expenses	(845)	(636)
Benefits paid	(7,049)	(8,044)
Fair value of plan assets at end of year	115,704	119,824
Amounts included in the balance sheets	$ 41,682	$ 46,293

The total amount recognized in net periodic benefit cost and change in unrestricted net assets includes the following components at December 31:

	2015	2014
Service cost	$ -	$ 607
Interest cost on projected benefit obligation	6,100	6,340
Expected return on plan assets	(7,311)	(8,676)
Amortization of prior service cost	(1,274)	(1,274)
Amortization of net loss	6,420	3,511
Net periodic pension cost	$ 3,935	$ 508
Net loss	$ 565	$ 30,065
Amortization of net (loss)	(6,420)	(3,511)
Amortization of prior service cost	1,274	1,274
Total recognized in change in unrestricted net assets	$ (4,581)	$ 27,828
Total recognized in net periodic benefit cost and change in unrestricted net assets	$ (646)	$ 28,336

(dollars in thousands)

Assumptions used in determining net benefit pension cost and the periodic obligation at December 31 are as follows:

	2015	2014
Benefit obligations		
Discount rates	4.17 %	3.78 %
Net periodic benefit cost		
Discount rates	3.78 %	3.78 %
Expected return on assets	7.00 %	7.00 %

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

Estimated future benefit payments at December 31,	
2016	$ 12,922
2017	9,934
2018	9,003
2019	9,114
2020	8,205
2021 through 2025	41,969

Plan assets consisted of the following at December 31:

	2015	2014
Plan assets		
Equity securities	48 %	49 %
Debt securities	38	37
Hedge fund of funds	10	10
Private equity funds	4	4
	100 %	100 %

All pension assets are managed by SEI with the exception of $11,924 of hedge fund of funds managed by Grosvenor. The fair values of pension plan investments included in pension plan assets as of December 31, 2015, utilizing the fair value hierarchy discussed in Note 3, *Fair Value Measurements*, are:

	Level 1	Level 2	Level 3	Total
Money market fund	$ 395	$ -	$ -	$ 395
Private equity	-	-	4,430	4,430
Hedge fund of funds	-	11,924	-	11,924
Equity and fixed income mutual funds	98,955	-	-	98,955
	$ 99,350	$ 11,924	$ 4,430	$ 115,704

(dollars in thousands)

The information below sets forth a summary of changes in the fair value of the Plan's Level 3 Investment assets for the year ended December 31, 2015.

	Private Equity
Beginning balance, December 31, 2014	$ 5,101
Realized gain/(loss)	-
Purchases	238
Sales	(1,455)
Unrealized gain related to instruments held at December 31, 2015	546
Ending balance, December 31, 2015	$ 4,430

Pension	Fair Market Value December 31, 2015	Fair Market Value December 31, 2014	Redemption Frequency (if currently available)	Redemption Notice Period
Hedge fund of funds (Level 2)	$ 11,924	$ 11,956	quarterly	30-60 days
Private equity (Level 3)	4,430	5,101	quarterly	30-60 days
	$ 16,354	$ 17,057		

Unfunded commitments during the years ended December 31, 2015 and 2014 were $3,325 and $3,301, respectively.

The fair values of pension plan assets of December 31, 2014, utilizing the fair value hierarchy discussed in Note 4, *Fair Value Measurements*, were:

	Level 1	Level 2	Level 3	Total
Money market fund	$ 244	$ -	$ -	$ 244
Private equity	-	-	5,101	5,101
Hedge fund of funds	-	11,956	-	11,956
Equity and fixed income mutual funds	102,449	-	-	102,449
	$ 102,693	$ 11,956	$ 5,101	$ 119,750

(dollars in thousands)

The information below sets forth a summary of changes in the fair value of the Plan's Level 3 Investment assets for the year ended December 31, 2014.

	Private Equity
Beginning balance, December 31, 2013	$ 4,078
Realized gain	47
Purchases	565
Sales	(449)
Unrealized gain related to instruments held at December 31, 2014	860
Ending balance, December 31, 2014	$ 5,101

Investment Policy and Strategy
The System's Investment Committee is responsible for establishing the investment policy for the Plan assets. A long-term actuarial return on plan assets of 7.0% was adopted by the Investment Committee in 2014 given a more conservative asset allocation. The Investment Committee reviews the investment policy guidelines annually in consultation with its investment managers. The current strategic asset allocation guidelines for Plan assets is 40% equities, 40% fixed income, and 20% alternative investments. The allocation between equities and fixed income may be adjusted from time to time within 10% bands based on market conditions and risk/return considerations. Alternative investments may not exceed 20% of the total allocation.

The expected long-term rate of return for the Plan's total assets is based on the current and expected future asset allocations and long-term historic and expected future investment returns and is consistent with assumptions used by plans of similar size.

Contributions
The System intends to contribute $8,200 to the defined benefit plan, and $4,475 to the defined contribution plan, in fiscal year 2016.

12. Concentration of Credit Risk

The System grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. Net accounts receivable from patients and third-party payers were as follows at December 31:

	2015	2014
Medicare and Medicaid	34 %	35 %
Managed care	16	17
Blue Cross	16	18
Aetna	11	11
Commercial and other	12	11
Self-pay patients (including balances after insurance)	11	8
	100 %	100 %

(dollars in thousands)

13. Operating Leases

PHCSH utilizes various types of equipment, office space and vehicles under separate operating leases. The related expenses for those leases for the years ended December 31, 2015 and 2014 were $16,742 and $16,611, respectively. Facility leases, including common area maintenance (CAM) charges, comprised 89% of the 2015 lease expenses, which included $8,555 related to the Power Plant and Medical Arts Pavilion ("MAP") leases.

The following is a projection of the future minimum payments for the next five years required under operating leases currently in effect:

Years ending December 31,		
2016	$	12,151
2017		11,182
2018		10,672
2019		10,606
2020		10,205
	$	54,816

14. Commitments and Contingencies

Various investigations, suits and claims arising in the normal course of operations are pending or are on appeal against PHCSH. Such suits and claims are either specifically covered by insurance or are not material. While the outcome of such actions cannot be determined at this time, legal counsel and management believe that any loss which may arise from these actions will not have a material effect on the financial position or results of operations of PHCSH.

In order to meet patient care needs within the community served by the System, it has provided assistance to third party organizations that provide certain medical related services. The System has guaranteed these organizations an annual income guaranty for the provision of services to patients. These revenue payments are to be refunded back to the System if the organization is unable to meet certain commitments. The System made payments of $427 in 2015 and $702 in 2014. In 2015 and 2014, the System recorded a 50% reserve against the guaranty balance. The net receivable balance is $948 at December 31, 2015.

(dollars in thousands)

15. Pledges

A summary of pledges receivable is as follows at December 31, 2015 and 2014:

	2015	2014
Unconditional promises expected to be collected in		
Less than one year	$ 2,839	$ 3,970
One year to five years	2,697	3,892
Over five years	850	1,150
Pledges receivable, gross	6,386	9,012
Less NPV discount	(257)	(344)
Less bad debt reserve	(128)	(180)
Pledges receivable, net	6,001	8,488
Less current portion	(2,782)	(3,890)
Long term pledges receivable	$ 3,219	$ 4,598

Outstanding pledge balances are discounted to their net present value, using discount rates between 1.82 % and 3.84%.