**BARNABAS HEALTH, INC.**

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

**BARNABAS HEALTH, INC.**

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**KPMG LLP**
345 Park Avenue
New York, NY 10154-0102

# Independent Auditors' Report

The Board of Trustees
Barnabas Health, Inc.:

We have audited the accompanying consolidated financial statements of Barnabas Health, Inc. (the Corporation), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 controls 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 controls. 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 Barnabas Health, Inc. as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

April 15, 2015

**BARNABAS HEALTH, INC.**

Consolidated Balance Sheets

December 31, 2014 and 2013

(In thousands)

| Assets | | 2014 | 2013 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 225,223 | 178,516 |
| Investments | | 27,802 | 38,362 |
| Assets limited or restricted as to use | | 57,131 | 61,367 |
| Patient accounts receivable, net of allowance for doubtful accounts of $91,116 and $82,470 | | 291,233 | 261,415 |
| Estimated amounts due from third-party payors, net | | 2,775 | — |
| Other current assets | | 107,849 | 86,870 |
| Total current assets | | 712,013 | 626,530 |
| Assets limited or restricted as to use, noncurrent portion: | | | |
| Under bond indenture agreements | | 72,237 | 72,617 |
| Externally designated or restricted | | 156,941 | 190,885 |
| Total noncurrent assets limited or restricted as to use | | 229,178 | 263,502 |
| Investments | | 1,030,853 | 756,469 |
| Property, plant, and equipment, net | | 923,503 | 698,349 |
| Net pension asset | | — | 5,326 |
| Other assets, net | | 55,768 | 43,109 |
| | $ | 2,951,315 | 2,393,285 |
| **Liabilities and Net Assets** | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 239,859 | 186,449 |
| Accrued expenses and other current liabilities | | 301,269 | 261,737 |
| Estimated amounts due to third-party payors, net | | — | 13,417 |
| Long-term debt | | 43,933 | 57,703 |
| Self-insurance liabilities | | 51,330 | 48,514 |
| Total current liabilities | | 636,391 | 567,820 |
| Estimated amounts due to third-party payors, net of current portion | | 39,761 | 28,690 |
| Self-insurance liabilities, net of current portion | | 165,740 | 142,419 |
| Long-term debt, less current portion | | 1,075,048 | 937,852 |
| Accrued pension liability | | 61,945 | — |
| Other liabilities | | 77,656 | 65,112 |
| Total liabilities | | 2,056,541 | 1,741,893 |
| Commitments and contingencies | | | |
| Net assets: | | | |
| Unrestricted | | 799,430 | 549,413 |
| Temporarily restricted | | 81,592 | 88,284 |
| Permanently restricted | | 13,752 | 13,695 |
| Total net assets | | 894,774 | 651,392 |
| Total liabilities and net assets | $ | 2,951,315 | 2,393,285 |

See accompanying notes to consolidated financial statements.

**BARNABAS HEALTH, INC.**

Consolidated Statements of Operations

Years ended December 31, 2014 and 2013

(In thousands)

| | 2014 | 2013 |
|---|---|---|
| Revenue: | | |
| Patient service revenue (net of contractual allowances and discounts) | $ 2,746,310 | 2,413,607 |
| Provision for bad debts | (99,130) | (72,833) |
| Net patient service revenue less provision for bad debts | 2,647,180 | 2,340,774 |
| Other revenue, net | 320,559 | 237,564 |
| Total revenue | 2,967,739 | 2,578,338 |
| Expenses: | | |
| Salaries and wages | 1,041,676 | 934,986 |
| Physician fees and salaries | 257,452 | 209,112 |
| Employee benefits | 282,001 | 244,715 |
| Supplies | 512,110 | 450,731 |
| Other | 554,950 | 458,083 |
| Interest | 47,845 | 45,144 |
| Depreciation and amortization | 101,042 | 93,220 |
| Total expenses | 2,797,076 | 2,435,991 |
| Income from operations | 170,663 | 142,347 |
| Nonoperating revenue (expenses): | | |
| Investment income | 88,520 | 32,813 |
| Contribution received in acquisition | 73,385 | — |
| Interest expense on settlement with U.S. Department of Justice | — | (482) |
| Loss on early extinguishment of debt, net | (2,143) | — |
| Other, net | (441) | 1,064 |
| Total nonoperating revenue, net | 159,321 | 33,395 |
| Excess of revenue over expenses | 329,984 | 175,742 |
| Net change in unrealized (losses) gains on available for sale investments | (51,952) | 7,959 |
| Gain on curtailment of pension plan | — | 35,285 |
| Pension and postretirement changes other than net periodic benefit cost | (32,455) | 65,136 |
| Net assets released from restriction for purchases of property and equipment | 8,485 | 12,466 |
| Other | (4,045) | (1,186) |
| Increase in unrestricted net assets | $ 250,017 | 295,402 |

See accompanying notes to consolidated financial statements.

**BARNABAS HEALTH, INC.**

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2014 and 2013

(In thousands)

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total net assets |
|---|---|---|---|---|---|
| Net assets at December 31, 2012 | $ | 254,011 | 86,675 | 13,621 | 354,307 |
| Changes in net assets deficit: | | | | | |
| Excess of revenue over expenses | | 175,742 | — | — | 175,742 |
| Net change in unrealized gains on investments | | 7,959 | 748 | — | 8,707 |
| Gain on curtailment of pension plan | | 35,285 | — | — | 35,285 |
| Pension-related changes other than net periodic benefit cost | | 65,136 | — | — | 65,136 |
| Net assets released from restriction | | 12,466 | (20,880) | — | (8,414) |
| Restricted contributions | | — | 21,883 | 58 | 21,941 |
| Investment income on restricted investments, net | | — | 465 | — | 465 |
| Other | | (1,186) | (607) | 16 | (1,777) |
| Change in net assets | | 295,402 | 1,609 | 74 | 297,085 |
| Net assets at December 31, 2013 | | 549,413 | 88,284 | 13,695 | 651,392 |
| Changes in net assets deficit: | | | | | |
| Excess of revenue over expenses | | 329,984 | — | — | 329,984 |
| Net change in unrealized (losses) gains on investments | | (51,952) | 10 | — | (51,942) |
| Contribution received in acquisition | | — | 894 | — | 894 |
| Pension and postretirement changes other than net periodic benefit cost | | (32,455) | — | — | (32,455) |
| Net assets released from restriction | | 8,485 | (20,661) | — | (12,176) |
| Restricted contributions | | — | 12,712 | 57 | 12,769 |
| Investment income on restricted investments, net | | — | 611 | — | 611 |
| Other | | (4,045) | (258) | — | (4,303) |
| Change in net assets | | 250,017 | (6,692) | 57 | 243,382 |
| Net assets at December 31, 2014 | $ | 799,430 | 81,592 | 13,752 | 894,774 |

See accompanying notes to consolidated financial statements.

**BARNABAS HEALTH, INC.**

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

(In thousands)

| | | 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 243,382 | 297,085 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | |
| Contribution received in acquisition | | (74,279) | — |
| Pension and postretirement changes other than net periodic benefit cost | | 32,455 | (65,136) |
| Gain on curtailment of pension plan | | — | (35,285) |
| Depreciation and amortization expense | | 101,042 | 93,220 |
| Provision for bad debts | | 99,130 | 72,833 |
| Net change in unrealized losses (gains) on investments | | 65,102 | (19,110) |
| Realized gains on investments | | (79,077) | (2,342) |
| Equity in income of joint venture | | (2,815) | 185 |
| Gain on sale of assets | | (12,000) | — |
| Accretion on capital appreciation bonds | | 11,255 | 11,041 |
| Contributions restricted for long-term use | | (7,071) | (15,047) |
| Loss on early extinguishment of debt, net | | 2,143 | — |
| Changes in operating assets and liabilities: | | | |
| Patient accounts receivable | | (102,195) | (53,844) |
| Other assets | | (8,654) | (982) |
| Accounts payable, accrued expenses, and other current liabilities | | 26,675 | 19,415 |
| Estimated amounts due from and to third-party payors | | (15,820) | (43,613) |
| Amounts due to U.S. Department of Justice | | — | (29,664) |
| Pension liability | | (3,888) | (114,330) |
| Self-insurance and other long-term liabilities | | 14,119 | (14,641) |
| Net cash provided by operating activities | | 289,504 | 99,785 |
| Cash flows from investing activities: | | | |
| Purchases of property, plant, and equipment, net | | (77,760) | (62,383) |
| Proceeds from bond escrow account | | 151,154 | — |
| Proceeds from the sale of investments and assets limited or restricted as to use | | 1,140,045 | 153,181 |
| Purchases of investments and assets limited or restricted as to use | | (582,328) | (135,075) |
| Purchases of trading securities | | (2,559,016) | (66,648) |
| Proceeds from the sale of trading securities | | 1,792,246 | — |
| Cash received in acquisition | | 39,125 | — |
| Investment in joint venture | | (1,179) | (754) |
| Purchase of imaging facility | | — | (3,954) |
| Proceeds from sale of assets | | 14,750 | — |
| Net cash used in investing activities | | (82,963) | (115,633) |
| Cash flows from financing activities: | | | |
| Repayments of long-term debt | | (392,350) | (52,575) |
| Proceeds from issuance of debt | | 218,081 | 66,000 |
| Payments for deferred financing costs | | (2,345) | (585) |
| Proceeds from contributions restricted for long-term use | | 7,071 | 15,047 |
| Proceeds from conditional contributions and grants | | 9,709 | — |
| Net cash (used in) provided by financing activities | | (159,834) | 27,887 |
| Net increase in cash and cash equivalents | | 46,707 | 12,039 |
| Cash and cash equivalents at beginning of year | | 178,516 | 166,477 |
| Cash and cash equivalents at end of year | $ | 225,223 | 178,516 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | $ | 36,907 | 30,744 |
| Supplemental disclosures of noncash investing and financing activities: | | | |
| Property, plant and equipment additions included in accounts payable | | 16,079 | — |
| Capital lease obligations incurred | | 6,000 | 9,538 |

See accompanying notes to consolidated financial statements.

## (1) Organization

Barnabas Health, Inc. (the Corporation or Barnabas Health) is a not-for-profit company located in West Orange, New Jersey. Barnabas Health is the sole corporate member or sole shareholder of the Corporation's affiliated organizations and subsidiaries and provides management services to those organizations.

The Corporation was organized to develop and operate a multihospital healthcare system providing a comprehensive spectrum of healthcare services, principally to the residents of New Jersey and surrounding areas. The services and facilities of Barnabas Health include: acute care hospitals, ambulatory care facilities, home care and hospice services, geriatric services, a freestanding inpatient psychiatric facility and state wide behavioral health network, a burn treatment facility, comprehensive cardiac surgery services, including a heart transplant center, a lung transplant center, kidney transplant centers, comprehensive cancer services, comprehensive breast centers, and the Children's Hospital of New Jersey at Newark Beth Israel Medical Center and the Children's Hospital at Monmouth Medical Center.

### *Liberty Health Acquisition*

On May 16, 2013, Barnabas Health, Liberty HealthCare System, Inc. (Liberty) and Jersey City Medical Center (JCMC) entered into an Agreement and Plan of Merger and Acquisition (the Transaction). Effective June 1, 2014 (Acquisition Date), Liberty and its (former) wholly owned subsidiary JCMC, became part of Barnabas Health whereby the Corporation became the sole member of each of Liberty and JCMC. JCMC is a not-for-profit acute care hospital with 316 licensed beds located in Jersey City, New Jersey. JCMC provides inpatient, outpatient, and emergency care services to residents of Jersey City, New Jersey, and surrounding communities.

No cash consideration was exchanged at the closing of the Transaction. The Corporation accounted for this business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of the fair value of the assets acquired over the fair value of the liabilities assumed. The results of Liberty's operations have been included in the consolidated financial statements commencing on the Acquisition Date.

(In thousands)

The estimated fair value of the assets acquired and liabilities assumed as of the Acquisition Date is as follows:

| | | June 1, 2014 |
|---|---|---|
| Current assets | $ | 85,932 |
| Noncurrent assets (including property, plant and equipment) | | 383,230 |
| Total assets acquired | | 469,162 |
| Current liabilities | | 69,021 |
| Noncurrent liabilities | | 325,862 |
| Total liabilities assumed | | 394,883 |
| Excess of assets acquired over liabilities assumed | $ | 74,279 |
| Unrestricted net assets | $ | 73,385 |
| Temporarily restricted net assets | | 894 |
| Total net assets acquired | $ | 74,279 |

The following table summarizes amounts attributable to Liberty since the Acquisition Date that are included in the accompanying consolidated financial statements:

| | | Period from June 1, 2014 to December 31, 2014 |
|---|---|---|
| Total operating revenue | $ | 225,338 |
| Total operating expenses | | 218,031 |
| Income from operations | | 7,307 |
| Total nonoperating losses | | (2,154) |
| Excess of revenue over expenses | $ | 5,153 |
| Change in net assets: | | |
| Unrestricted net assets | $ | 6,228 |
| Temporarily restricted | | (37) |
| | $ | 6,191 |

(In thousands)

The following table represents the proforma financial information, assuming the acquisition of Liberty had taken place on January 1, 2013. The proforma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on January 1, 2013.

| | | Year ended December 31 | |
|---|---|---|---|
| | | **2014** | **2013** |
| Operating revenues | $ | 3,122,232 | 2,956,023 |
| Operating expenses | | 2,953,808 | 2,785,973 |
| Income from operations | | 168,424 | 170,050 |
| Nonoperating income | | 86,008 | 34,351 |
| Excess of revenue over expenses | $ | 254,432 | 204,401 |
| Changes in net assets: | | | |
| Unrestricted | $ | 174,564 | 332,145 |
| Temporarily restricted | | (7,587) | 2,038 |
| Permanently restricted | | 57 | 74 |
| | $ | 167,034 | 334,257 |

Proforma excess of revenue over expenses for both December 31, 2014 and 2013 excludes $73,385 of nonrecurring nonoperating revenue and $894 of temporarily restricted funds for the contribution received as a result of the acquisition.

## (2) Significant Accounting Policies

A summary of the Corporation's significant accounting policies is as follows:

### *(a) Basis of Accounting of Financial Statement Presentation*

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the Corporation and its controlled affiliates and subsidiaries. Affiliates and subsidiaries of the Corporation include all entities that the Corporation directly or indirectly controls. Investments in entities where the Corporation has 50% or less of an entity's operations are accounted for under the equity or cost method of accounting. The Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in nonoperating revenue and expenses. All significant intercompany balances and transactions have been eliminated.

### *(b) Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates.

(In thousands)

### *(c) Cash and Cash Equivalents*

Cash and cash equivalents include investments in money market funds and highly liquid debt instruments with maturities of three months or less at the time of purchase, excluding assets limited or restricted as to use. The Corporation maintains cash on deposit with major banks and invests in money market securities with multiple financial institutions. The Corporation generally limits the credit exposure to any one financial institution; however, such deposits exceed federally insured limits.

### *(d) Patient Accounts Receivable and Patient Service Revenue*

The Corporation 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. Management regularly reviews accounts and contracts and provides appropriate contractual allowances and discounts that are netted against patient accounts receivable in the consolidated balance sheets. Patient accounts receivable are further reduced by an allowance for doubtful accounts.

The Corporation regularly reviews its past collection history and payment trends for each of its major payor sources of patient service revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Corporation records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted.

The following tables set forth the components of the change in the allowance for doubtful accounts for the years ended December 31:

| | 2014 | | | | |
|---|---|---|---|---|---|
| **Primary payor** | **Balance at the beginning of the period** | **Liberty acquisition** | **Provision for bad debts** | **Write-offs, net of recoveries** | **Balance at the end of the period** |
| Medicare fee for service | $ 9,296 | 955 | 373 | (3,251) | 7,373 |
| Medicare managed care fee for service | 3,624 | 973 | 2,052 | (5,977) | 672 |
| Medicaid fee for service | 3,380 | 934 | 6,174 | (1,188) | 9,300 |
| Medicaid managed care fee for service | 1,077 | 3,903 | 1,932 | (2,336) | 4,576 |
| Blue Cross | 11,387 | 360 | 15,473 | (18,554) | 8,666 |
| Managed care | 22,838 | 4,886 | 26,694 | (26,582) | 27,836 |
| Self-pay patients and other | 30,868 | 6,111 | 46,432 | (50,718) | 32,693 |
| Grand total | $ 82,470 | 18,122 | 99,130 | (108,606) | 91,116 |

(In thousands)

| | 2013 | | | |
|---|---|---|---|---|
| **Primary payor** | **Balance at the beginning of the period** | **Provision for bad debts** | **Write-offs, net of recoveries** | **Balance at the end of the period** |
| Medicare fee for service | $ 9,866 | 690 | (1,260) | 9,296 |
| Medicare managed care fee for service | 5,919 | 1,069 | (3,364) | 3,624 |
| Medicaid fee for service | 12,373 | (7,943) | (1,050) | 3,380 |
| Medicaid managed care fee for service | 3,762 | (1,553) | (1,132) | 1,077 |
| Blue Cross | 14,817 | 10,159 | (13,589) | 11,387 |
| Managed care | 28,677 | 15,828 | (21,667) | 22,838 |
| Self-pay patients and other | 24,555 | 54,583 | (48,270) | 30,868 |
| Grand total | $ 99,969 | 72,833 | (90,332) | 82,470 |

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The percentages of patient accounts receivables from patient and third-party payors were as follows:

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Medicare fee for service | 18% | 19% |
| Medicare managed care fee for service | 6 | 8 |
| Medicaid fee for service | 7 | 5 |
| Medicaid managed care fee for service | 13 | 8 |
| Blue Cross | 17 | 19 |
| Managed care | 28 | 30 |
| Self-pay patients and other | 11 | 11 |
| | 100% | 100% |

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under payment agreements with third-party payors. Settlement with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

(In thousands)

The estimated percentages of patient service revenue by inpatient and outpatient services, net of the provision for bad debts, for the years ended December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Inpatient services | 61% | 63% |
| Outpatient services | 39 | 37 |

The following table reflects the estimated percentages of patient service revenue, net of the provision for bad debts, for the years ended December 31:

| | 2014 | 2013 |
|---|---|---|
| Medicare fee for service | 30% | 31% |
| Medicare managed care fee for service | 6 | 7 |
| Medicaid fee for service | 4 | 3 |
| Medicaid managed care fee for service | 15 | 12 |
| Blue Cross | 22 | 22 |
| Managed care | 19 | 21 |
| Self-pay patients and other | 4 | 4 |
| | 100% | 100% |

***(e) Supplies***

Supplies, principally medical supplies, are carried at the lower of cost (first-in, first-out method) or market. Supplies, totaling $43,512 and $34,871, are included in other current assets in the consolidated balance sheets at December 31, 2014 and 2013, respectively.

***(f) Assets Limited or Restricted as to Use***

Assets limited or restricted as to use include assets held by trustees under bond indenture agreements; assets restricted for self-insurance; assets held for supplemental retirement benefits; and assets restricted by donors for specific purposes or endowment. Current assets limited or restricted as to use include debt service principal and interest funds held by bond trustee and self-insurance funds that are expected to be utilized to settle current obligations.

***(g) Investments and Investment Income***

A significant portion of the Corporation’s investments are held in an investment portfolio maintained for the benefit of the Corporation and its affiliates and subsidiaries. Investments are classified as trading investments except for certain investments, which are limited or restricted as to use, which are classified as investments available for sale. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, based on quoted market prices. Donated investments are recorded at their fair value, based on quoted market prices at the date of receipt.

Alternative investments (nontraditional, not readily marketable asset classes) within the investment portfolio are structured such that the Corporation holds interests in private investment funds, consisting of hedge funds and private equity funds. These investments are reported at fair value as estimated and reported by general partners, based upon the underlying net asset value of the fund or partnership as a practical expedient. Because of inherent uncertainty in these valuations, those estimated values may significantly differ from the values that would have been used had a ready market for the investments existed, and differences could be material.

Investment income and realized gains are recorded as nonoperating revenue. Unrealized gains and losses on trading securities are recorded as nonoperating revenue. Unrealized gains and losses on available for sale investments are included in other changes in net assets. Investment income and realized gains and losses on assets restricted by donors for specific purposes or endowment are included in temporarily restricted net assets. A decline in fair value deemed other than temporary for available for sale investments, results in a reduction in carrying amount and the related loss is included in nonoperating revenue (expenses).

### *(h) Property, Plant, and Equipment*

Property, plant, and equipment expenditures are recorded at cost. Donated assets are recorded at fair value at the date of donation. Capitalized leases are recorded at present value at the inception of the lease and included in property, plant, and equipment.

Depreciation expense is computed on a straight-line basis using estimated useful lives of the assets ranging from two to forty years. Equipment held under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term and is included in depreciation expense.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted net assets and are excluded from the excess of revenue over expenses in the consolidated statement of operations, 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 net assets. Absent explicit 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.

### *(i) Deferred Financing Costs*

Deferred financing costs represent costs incurred to obtain debt-financing arrangements. Amortization of these costs is provided using the effective-interest method over the terms of the applicable indebtedness. Deferred financing costs totaling approximately $13,224 and $12,025, net of accumulated amortization, are included in other assets, net in the consolidated balance sheets at December 31, 2014 and 2013, respectively.

During 2014, the Corporation incurred $2,345 of deferred financing costs related to the Series 2014A bonds and the 2014 term loan. During 2013, the Corporation incurred approximately $585 of deferred financing costs related to the 2013 term loan.

In connection with the refunding and refinancing that occurred during 2014, $2,143 of unamortized deferred financing costs were written off and are included as a loss on early extinguishment of debt in the accompanying consolidated statement of operations.

### *(j) Deferred Revenue*

Deferred revenue represents the proceeds of investment rights of the Corporation's required debt service payments and debt service reserve funds sold by the Corporation related to the Saint Barnabas Realty Development Corporation's Series 1997A revenue bonds and the Saint Barnabas Corporation's Series 2006A and 2006B revenue bonds.

The proceeds from the sale of the investment rights have been deferred and are being amortized as investment income in other operating revenue in the consolidated statements of operations over the life of the bonds in a manner that approximates the interest method. Under the terms of the agreements, the Corporation retains the ability to redeem the bonds as provided in the bond indenture agreements. However, in the event of redemption, the Corporation may be required to pay a termination value.

Deferred revenue totaling $12.6 million and $13.6 million, respectively, at December 31, 2014 and 2013 is included as other current liabilities and other liabilities in the consolidated balance sheets.

### *(k) 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 and/or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statement of operations.

Pledges receivable, net of an allowance for uncollectible pledges receivable, totaled $9,773 and $9,965 at December 31, 2014 and 2013, respectively. Pledges receivable represent an unconditional promise to give cash and other assets to Barnabas Health's Foundations over a period not greater than twenty years. Such amounts are recorded at their present value at the date the promise is received, net of an allowance for uncollectible pledges. Such amounts are included as externally designated noncurrent assets limited as to use in the consolidated balance sheets.

### *(l) Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets represent funds whose use has been restricted by donors to a specific period or purpose. Permanently restricted net assets represent funds that have been restricted by donors to be maintained in perpetuity. Generally, the donors of these permanently restricted assets permit the use of part of the income earned on related investments for specific purposes. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted.

(In thousands)

Temporarily restricted net assets are available for the following purposes:

| | | December 31 | |
|---|---|---|---|
| | | **2014** | **2013** |
| Healthcare services | $ | 15,807 | 16,146 |
| Capital purchases | | 51,690 | 53,104 |
| Health education and other services | | 14,095 | 19,034 |
| | $ | 81,592 | 88,284 |

### *(m) Performance Indicator*

The consolidated statements of operations include a performance indicator, which is the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, include unrealized gains and losses on investments that are classified as available for sale, changes in pension and post retirement obligations, capital contributions, and other.

The Corporation differentiates its ongoing operating activities by providing income from operations as a subperformance indicator. Investment income (excluding unrealized gains and losses on available for sale investments), loss on early extinguishment of debt, contribution received in acquisition, and other transactions, which are not considered to be components of the Corporation's ongoing activities are excluded from income from operations and reported as nonoperating revenue (expenses) in the consolidated statements of operations. Investment income earned on assets limited as to use under bond indenture agreements, and assets held by the Corporation's captive insurance companies are included in other revenue in the consolidated statements of operations.

### *(n) Charity Care*

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates (note 3). Since the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as patient service revenue.

### *(o) Other Revenue*

Other revenue primarily includes income from physician practice services, gains on the sale of assets, grant revenue, cafeteria, parking lot, and investment income on funds held under bond indenture agreements and assets held by the Corporation's captive insurance companies.

***(p) Income Taxes***

The Corporation and its affiliates, excluding its for-profit subsidiaries, are not-for-profit corporations and are exempt from federal and state income taxes on related income under existing provisions of the Internal Revenue Code and State of New Jersey statutes.

The Corporation's for-profit subsidiaries have recorded various deferred income tax assets and liabilities that reflect temporary differences between the amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax purposes. These amounts are not material to the consolidated financial position of the Corporation and are included as other assets or other liabilities in the consolidated balance sheets as appropriate. In addition, the provision for income taxes recorded by the Corporation's for-profit subsidiaries is not material to the consolidated results of operations of the Corporation and is included as other expenses in the consolidated statements of operations.

Certain for-profit subsidiaries have federal net operating loss carryforwards of approximately $65,749 that expire through 2034 and State of New Jersey net operating loss carryforwards of approximately $19,425 that expire through 2021. At December 31, 2014, all deferred tax assets related to these net operating loss carryforwards have been fully reserved due to the uncertainty of realizing the tax benefits associated with these amounts.

The Corporation does not have any significant uncertain tax positions as of and for the years ended December 31, 2014 and 2013.

***(q) Self-Insurance***

Under the Corporation's self-insurance programs (professional/general liability, directors and officers liability, workers' compensation, and employee health benefits), claims are recorded based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments.

***(r) Impairment of Long-Lived Assets***

Management routinely evaluates the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of assets, or related group of assets, may not be recoverable from estimated undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds its estimated recoverability, an asset impairment charge is recognized for the difference between the fair value and carrying value of the asset.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining useful lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining useful lives. In estimating the future cash flows for determining whether an asset is impaired, the Corporation groups their assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. No impairment charge was recorded during the years ended December 31, 2014 and 2013.



(Continued)

***(s) Goodwill***

Goodwill represents the excess of the aggregate purchase price over the fair value of net assets acquired. Goodwill resulting from business combinations has an indefinite useful life and is not amortized, but is subjected to impairment tests. The Corporation performs impairment testing at least annually or more frequently if events or circumstances change creating a reasonable possibility that an impairment may exist. No impairment of goodwill deemed necessary during the years ended December 31, 2014 and 2013. At December 31, 2014 and 2013, other assets, net include approximately $8.3 million of goodwill. During 2013, the Corporation purchased a diagnostic imaging facility and recorded goodwill in the amount of $2,592 as part of the purchase (note 14(a)).

***(t) New Accounting Pronouncements***

In 2014, Barnabas Health adopted ASU 2013-04 (Topic 405): *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. The debt obligations of Barnabas Health are arrangements that certain of its affiliated organizations agreed to pay as a co-obligor, and as such, are reflected on their respective balance sheets at December 31, 2014 and 2013. The accompanying consolidated balance sheets at December 31, 2014 and 2013 and the related consolidated statements of operations, changes in net assets and cash flows for those periods have not been affected by the adoption of ASU 2013-04.

***(u) Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year presentation.



(Continued)

(In thousands)

## (3) Charity Care and Community Benefit

In accordance with the Corporation's mission and philosophy, Barnabas Health's hospitals commit substantial resources to both the indigent population and the broader community. The Corporation's charity care policy is to provide care without regard to the patient's ability to pay for services rendered. To the extent that patients do not have the ability to pay, services rendered to those patients are reported as charity care. The Corporation's hospitals and affiliates also provide other benefits through a broad range of community service programs and charitable activities. The amount of charity care, community service programs, and charitable activities, at estimated cost, provided to the indigent population and broader community for the years ended December 31 is as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Cost of charity care and community benefit programs: | | | |
| Net estimated cost of charity care provided | $ | 29,641 | 68,460 |
| Unpaid cost of public programs, Medicaid, and other means tested programs | | 65,794 | 45,530 |
| Other programs: | | | |
| Cash and in-kind donations | $ | 2,265 | 2,733 |
| Education and research | | 37,106 | 48,067 |
| Subsidized departments | | 5,048 | 6,246 |
| Other community benefits | | 2,887 | 2,602 |

The Corporation's hospitals utilize a cost to charge ratio methodology to convert charity care to cost. The cost to charge ratio is calculated utilizing the Corporation's cost accounting system.

The State of New Jersey's regulations provide for the distribution of funds from a Charity Care Fund, which is intended to partially offset the cost of services provided to the uninsured. For the years ended December 31, 2014 and 2013, Barnabas Health's hospitals received distributions from the Charity Care Fund of $89,254 and $61,850, respectively, which are included in net patient service revenue. The 2014 increase is inclusive of $27,580 in funding related to the acquisition of Jersey City Medical Center.

## (4) Healthcare Reimbursement System

(a) The Corporation records patient service revenue at estimated net realizable value in the period in which services are performed. Patient service revenue consists of amounts charged for services rendered less estimated discounts for contractual and other allowances for patients covered by Medicare, Medicaid and other health plans and discounts offered to patients under the Corporation's uninsured discount program. Revenue from the Medicare and Medicaid programs account for approximately 55% and 53% of the Corporation's net patient service revenue in both 2014 and 2013. Future changes in the Medicare and Medicaid programs, such as the Health Care Reform Law, and any reduction of funding could adversely impact the Corporation's operations.

The Medicare program currently pays for most services at predetermined rates; however, certain services and specified expenses continue to be reimbursed on a cost basis. The Medicaid program also currently reimburses the Corporation at predetermined rates for inpatient services and on a cost reimbursement methodology for outpatient services. Regulations require annual retroactive settlements for cost-based reimbursement and other payment arrangements through cost reports filed by the Corporation.

The Corporation also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These agreements have retrospective audit clauses, allowing the payor to review and adjust claims subsequent to initial payment.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates could change by a material amount. In accounting for Medicare and Medicaid cost report settlements, the Corporation records all third-party receivables and liabilities at their estimated realizable values. Management periodically reviews recorded amounts receivable from or payable to third-party payors and adjusts these balances as new information becomes available. In addition, revenue received under certain third-party agreements is subject to audit.

During the years ended December 31, 2014 and 2013, certain of the Corporation’s prior year third-party cost reports were audited and settled, or tentatively settled by third-party payors. Adjustments resulting from such audits, settlements, and management reviews are reflected as adjustments to patient service revenue in the period that the adjustments becomes known. In 2013, the Corporation received settlements related to its 2006 and 2007 Medicare cost reports related to the Disproportionate Share Hospitals (DSH) reimbursement. Accordingly, the Corporation evaluated the results of these settlements on its open cost reports. The effect of the cost report settlements and other adjustments increased patient service revenue by approximately $43,655 for the year ended December 31, 2013, which includes $39,402 related to the impact of settlements and revenue recognition of DSH reimbursement. The effect of cost report settlements and other adjustments increased patient service revenue by approximately $19,633 for the year ended December 31, 2014. Although certain other prior-year cost reports submitted to third-party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements. Medicare cost reports for all years prior to 2010, except for 2005, have been audited and settled. Medicaid cost reports for all years prior to 2012 have been audited and settled. The fiscal intermediary may reopen certain years related to specific settlement items in the cost report year.

The Corporation has a compliance program to monitor conformity with applicable laws and regulations, but the possibility of future government review and interpretation exists. The Corporation is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing.

(b) The Corporation and others in the healthcare industry are subject to certain inherent risks, including the following:

- Substantial dependence on revenue derived from reimbursement by the Federal Medicare and State Medicaid programs that have been reduced in recent years and which entail exposure to various healthcare fraud statutes;

- Government regulations, government budgetary constraints, and proposed legislative and regulatory changes

Such inherent risks require the use of certain management estimates in the preparation of the Corporation's consolidated financial statements and it is reasonably possible that a change in such estimates may occur. The Corporation believes that adequate provision has been made in the consolidated financial statements for the matters discussed above and their ultimate resolution will not have a material effect on the consolidated financial statements.

(c) On July 13, 2010, CMS issued rules implementing the Medicare and Medicaid electronic health record (EHR) incentive program established under the Health Information Technology for Economic and Clinical Health Act (HITECH Act). Certain hospitals and eligible healthcare professionals that demonstrate "meaningful use" of certified EHR technology can qualify for Medicare EHR Incentive payments. Medicaid requires that hospitals and eligible healthcare professionals "adopt, implement or upgrade" certified EHR, which includes purchasing the technology, in order to receive EHR incentive payments. The Corporation utilizes a grant model for recognition of EHR incentive payments. Recognition occurs when there is reasonable assurance that the Corporation has achieved the conditions of the EHR incentive program and the reimbursement will be received. During 2014 and 2013, the Corporation qualified for Medicare and Medicaid EHR incentive payments of approximately $15,507 and $17,186, respectively, which is included in other revenue in the consolidated statements of operations.

(d) As a result of an investigation by the U.S. Department of Justice and the U.S. Attorney's Office on possible violations of federal law related to the Corporation's receipt of outlier payments, the Corporation entered into a Settlement Agreement on June 14, 2006 to settle civil claims related to this issue. Under the terms of the Settlement Agreement, the Corporation agreed to pay $265 million to the U.S. Department of Justice over a period of approximately six years, and entered into a Corporate Integrity Agreement (CIA) with the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services to promote compliance with federal healthcare programs. During 2013, the Corporation made its final payment of $30,146, under the restructured payment terms. In addition, during 2013, the Corporation recorded $482 of nonoperating interest expense related to the Settlement Agreement in the consolidated statements of operations. The Corporation received a letter dated February 19, 2014 from the Department of Health and Human Services Office of Inspector General, which indicated that the Corporation has completed its CIA requirements and other obligations under the Settlement Agreement.

(In thousands)

## (5) Investments and Assets Limited or Restricted as to Use

Investments and assets limited or restricted as to use consist of the following:

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Investments and assets limited or restricted as to use: | | |
| Cash and cash equivalents and money market funds | $ 194,945 | 159,756 |
| U.S. government obligations/municipal bonds | 62,372 | 2,674 |
| Corporate bonds | 58,270 | 26,783 |
| Equity securities | 278,050 | 66,026 |
| Mutual funds | 241,467 | 816,753 |
| Collateralized loan obligations | 10,571 | 11,378 |
| Commercial mortgage-backed securities | 19,841 | 19,971 |
| Exchange traded funds | 413,135 | 56 |
| Alternative investments | 50,885 | — |
| Pledges receivable, net | 9,773 | 9,965 |
| Other investments | 4,238 | 6,149 |
| Accrued interest | 1,417 | 189 |
| Total investments and assets limited or restricted as to use | 1,344,964 | 1,119,700 |
| Less current portion related to investments and assets limited or restricted as to use: | | |
| Investments | 27,802 | 38,362 |
| Assets limited or restricted as to use | 57,131 | 61,367 |
| Long-term portion | $ 1,260,031 | 1,019,971 |

Investments and assets limited or restricted as to use comprise the following:

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Board-designated funds | $ 1,058,655 | 794,798 |
| Self-insurance funds | 32,417 | 66,840 |
| Donor-restricted funds and pledges receivable, net | 106,213 | 101,979 |
| Funds held by bond trustees under bond indenture agreements | 99,888 | 103,695 |
| Other limited use funds | 47,791 | 52,388 |
| | $ 1,344,964 | 1,119,700 |

(In thousands)

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

| | | December 31 | |
|---|---|---|---|
| | | **2014** | **2013** |
| Capital project funds | $ | 15,595 | 15,994 |
| Cost of issuance funds | | 22 | — |
| Interest funds | | 13,536 | 14,155 |
| Principal funds | | 13,769 | 16,891 |
| Debt service reserve funds | | 56,966 | 56,655 |
| | $ | 99,888 | 103,695 |

The Corporation’s investment return is as follows:

| | | December 31 | |
|---|---|---|---|
| | | **2014** | **2013** |
| Investment return included in other revenue: | | | |
| Interest and dividend income | $ | 3,000 | 4,888 |
| Investment return included in nonoperating revenue (expenses): | | | |
| Interest and dividend income | | 22,603 | 20,068 |
| Net realized gains | | 79,077 | 2,342 |
| Unrealized (losses) gains on trading investments | | (13,160) | 10,403 |
| | | 88,520 | 32,813 |
| Net change in unrealized (losses) gains on available for sale investments | | (51,952) | 7,959 |
| Restricted investment income and unrealized gains, net | | 621 | 1,213 |
| Total investment return | $ | 40,189 | 46,873 |

The Corporation’s investments are exposed to various kinds and levels of risk. Fixed income securities, including fixed income mutual funds and exchange traded funds, expose the Corporation to interest rate risk, credit risk, and liquidity risk. As interest rates change, the values of many fixed income securities are affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.



(Continued)

Equity securities, equity mutual funds and exchange traded funds, commercial mortgage-backed securities, and corporate bonds expose the Corporation to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a particular fund's operating performance. Liquidity risk, as previously defined, tends to be higher for international funds and small capitalization equity funds.

The Corporation has incorporated an Investment Policy Statement (IPS) into its investment program. The IPS, which has been formally adopted by the Board of Trustees, contains standards designed to ensure adequate diversification by asset category and geography. The IPS also limits fixed-income investments by credit rating, which serves to further mitigate the risk associated with the investment program. At December 31, 2014 and 2013, management believes that its investment positions are in accordance with guidelines established by the IPS.

## (6) Fair Value Measurements

ASC 820, *Fair Value Measurement*, establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include cash and cash equivalents and debt and equity securities that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, and corporate bonds.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

(In thousands)

The following tables present the Corporation's fair value hierarchy for those assets measured at fair value on a recurring basis, and excludes pledges receivable, net, other investments, and accrued interest receivable, as of December 31:

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| Available for sale investments: | | | | |
| Investment categories: | | | | |
| Cash and cash equivalents and money market funds | $ 147,343 | 147,343 | — | — |
| U.S. government obligations/ municipal bonds | 584 | — | 584 | — |
| Commercial mortgage-backed securities | 19,711 | — | 19,711 | — |
| Corporate bonds | 565 | — | 565 | — |
| Equity mutual funds: | | | | |
| U.S. large-cap blend | 42,684 | 42,684 | — | — |
| U.S. small-cap blend | 6,960 | 6,960 | — | — |
| Non-U.S. emerging markets | 907 | 907 | — | — |
| Non-U.S. developed markets | 8,287 | 8,287 | — | — |
| Fixed income mutual funds: | | | | |
| U.S. short-term investment grade | 20,011 | 20,011 | — | — |
| U.S. intermediate investment grade | 10,398 | 10,398 | — | — |
| U.S. high yield noninvestment grade | 4,573 | 4,573 | — | — |
| Total available for sale investments | 262,023 | 241,163 | 20,860 | — |
| Trading investments: | | | | |
| Investment categories: | | | | |
| Cash and cash equivalents and money market funds | 47,602 | 47,602 | — | — |
| Equity securities | | | | |
| Domestic | 268,296 | 268,296 | — | — |
| Foreign | 8,800 | 8,800 | — | — |
| Commercial mortgage-backed securities | 130 | — | 130 | — |
| Preferred stock | 954 | 954 | — | — |



(Continued)

(In thousands)

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Fair value | Level 1 | Level 2 | Level 3 |
| Corporate bonds: | | | | |
| Domestic | $ 56,158 | — | 56,158 | — |
| Foreign | 1,547 | — | 1,547 | — |
| Collateralized loan obligations | 10,571 | — | 10,571 | — |
| Government bonds | 21,838 | — | 21,838 | — |
| Government mortgage-backed securities | 39,950 | — | 39,950 | — |
| Fixed income exchange-traded funds | 298,604 | 298,604 | — | — |
| Fixed income mutual funds | 147,647 | 147,647 | — | — |
| Equity exchange-traded funds: | | | | |
| Non-U.S. emerging markets | 17,999 | 17,999 | — | — |
| U.S. large-cap blend | 96,532 | 96,532 | — | — |
| Private equity | 21,082 | — | — | 21,082 |
| Hedge funds | 29,803 | — | — | 29,803 |
| Other | (786) | (208) | (578) | — |
| Total trading investments | 1,067,513 | 886,434 | 130,194 | 50,885 |
| Total | $ 1,329,536 | 1,127,597 | 151,054 | 50,885 |



(Continued)

(In thousands)

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| Available for sale investments: | | | | |
| Investment categories: | | | | |
| Cash and cash equivalents and money market funds | $ 162,033 | 162,033 | — | — |
| U.S. government obligations/ municipal bonds | 2,674 | — | 2,674 | — |
| Commercial mortgage-backed securities | 19,711 | — | 19,711 | — |
| Corporate bonds | 24,185 | — | 24,185 | — |
| Equity mutual funds: | | | | |
| U.S. large-cap blend | 114,111 | 114,111 | — | — |
| U.S. small-cap blend | 25,890 | 25,890 | — | — |
| Non-U.S. emerging markets | 5,703 | 5,703 | — | — |
| Non-U.S. developed markets | 32,739 | 32,739 | — | — |
| Fixed income mutual funds: | | | | |
| U.S. short-term investment grade | 351,972 | 351,972 | — | — |
| U.S. intermediate investment grade | 212,368 | 212,368 | — | — |
| U.S. high yield noninvestment grade | 73,970 | 73,970 | — | — |
| Total available for sale investments | 1,025,356 | 978,786 | 46,570 | — |
| Trading investments: | | | | |
| Investment categories: | | | | |
| Cash and cash equivalents and money market funds | (2,277) | (2,277) | — | — |
| Equity securities: | | | | |
| Domestic | 56,567 | 56,567 | — | — |
| Foreign | 9,021 | 9,021 | — | — |
| Preferred stock – domestic | 915 | 915 | — | — |
| Corporate bonds: | | | | |
| Domestic | 2,598 | — | 2,598 | — |
| Collateralized loan obligations: | | | | |
| Domestic | 10,640 | — | 10,640 | — |
| Foreign | 738 | — | 738 | — |

(In thousands)

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Fair value | Level 1 | Level 2 | Level 3 |
| Commercial mortgage-backed securities: | | | | |
| Domestic | $ 204 | — | 204 | — |
| Foreign | 56 | — | 56 | — |
| Corporate bank debt-domestic | 56 | — | 56 | — |
| Other | (477) | (473) | (4) | — |
| Total trading investments | 78,041 | 63,753 | 14,288 | — |
| Total | $ 1,103,397 | 1,042,539 | 60,858 | — |

There were no transfers between Levels 1, 2, and 3 during the years ended December 31, 2014 and 2013.

There are no financial liabilities reported at fair value.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Corporation's business, its value, or financial position based on the fair value information of financial assets presented.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. The disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Fair values for the Corporation's fixed income securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Inputs include direct or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities in inactive markets; other inputs that may be considered in fair value determination include interest rates and yield curves, volatilities, and credit risk. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit rating, duration and yields. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The Corporation's fixed income securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

(In thousands)

Fair values of equity securities, preferred stock and call and put options have been determined by the Corporation from observable market quotations, when available.

Mutual funds are valued at the NAV of shares held at year-end, based on published market quotations on active markets. The NAV is classified within Level 1 of the fair value hierarchy as the unit price is quoted in an active market.

Short-term funds comprise short-term fixed income securities. Because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available.

Fair values of collateralized loan obligations and commercial mortgage backed securities have been determined by the Corporation based on a discounted future cash flows methodology, using current market interest rate data adjusted for inherent credit risk or quoted market prices and recent transactions, when available.

Fair values of U.S. government obligations/municipal bonds and corporate bonds have been determined by the Corporation from observable market quotations, when available. Because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available.

The fair value of the foreign currency forward exchange contracts is measured as the total amount of currency to be purchased, multiplied by the difference between (i) the forward rate as of the period end and (ii) the settlement rate specified in each contract.

Private investment bond funds include investments in funds that, in addition to a stated coupon, pay a return based upon the results of the underlying portfolios. The fair values of these securities are determined by reference to the funds' NAV. Any restrictions on the ability to redeem interests in these funds at NAV are considered to have a de minims effect on the fair value. Since the NAV at which the funds trade can be observed by redemption and subscription transactions between third parties, the fair values of these investments have been reflected within Level 2 in the fair value hierarchy.

Changes to the fair values based on the Level 3 inputs are summarized as follows:

| | | Private equity | Hedge funds | Total |
|---|---|---|---|---|
| Balance as of December 31, 2013 | $ | — | — | — |
| Purchases | | 21,218 | 30,000 | 51,218 |
| Sales | | (20) | — | (20) |
| Net change in value | | (116) | (197) | (313) |
| Balance as of December 31, 2014 | $ | 21,082 | 29,803 | 50,885 |

(In thousands)

The following summarizes redemption terms for the Hedge fund vehicles held as of December 31, 2014:

| | Fund 1 | Fund 2 |
|---|---|---|
| Redemption timing: | | |
| Redemption frequency | Quarterly | Semi-annually |
| Required notice | 90 days | 90 days |
| Audit reserve: | | |
| Percentage held back for audit reserve | Up to 10% | — |
| Gates: | | |
| Potential gate holdback | 4% if redeemed within 1 year | 5% if redeemed within 18 months |
| Potential gate release timeframe | — | — |

Investments in hedge fund-of-funds are typically carried at estimated fair value. Fair value is estimated based on the NAV of the shares in each investment company or partnership. Such investment companies or partnerships mark-to-market or mark-to-fair value the underlying assets and liabilities in accordance with U.S. GAAP. Realized and unrealized gains and losses of the investment companies and partnerships are included in their respective operations in the current year. Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the investment at the beginning of the year, as adjusted for contributions and redemptions made during the year. Generally, no dividends or other distributions are paid.

The following summarizes the status of contributions to the Private equity fund vehicles held as December 31, 2014:

| | Total commitment | Percentage of commitment contributed | Percentage of commitment remaining |
|---|---|---|---|
| Fund 1 | $ 35,000 | 56.7% | 43.3% |
| Fund 2 | 5,000 | 27.5 | 72.5 |

Investments in private equity funds, typically structured as limited partnership interests, are carried at fair value and estimated using NAV or equivalent as determined by the General Partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges are quoted on the NASDAQ and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third party transactions, the General Partner may use other information to develop a good faith determination



(Continued)

(In thousands)

of the value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates and salvage value assumptions.

The valuation of both marketable and nonmarketable securities may include discounts to reflect a lack of liquidity or extraordinary risks, which may be associated with the investment. Determination of fair value is performed on a quarterly basis by the General Partner. Because of the inherent uncertainty of the valuation, the determined values may differ significantly from the values that would have been used had a ready market for those investments existed.

## (7) Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

| | | December 31 | |
|---|---|---|---|
| | | **2014** | **2013** |
| Land and improvements | $ | 67,710 | 20,171 |
| Buildings and leasehold improvements | | 1,365,166 | 1,172,065 |
| Fixed equipment | | 238,344 | 279,810 |
| Major movable equipment | | 761,588 | 881,015 |
| | | 2,432,808 | 2,353,061 |
| Less accumulated depreciation | | 1,561,851 | 1,666,214 |
| | | 870,957 | 686,847 |
| Construction in progress | | 52,546 | 11,502 |
| Property, plant, and equipment, net | $ | 923,503 | 698,349 |

The Corporation’s property, plant, and equipment, net increased by $229,216 related to the acquisition of Liberty and JCMC.

The Corporation wrote off approximately $310,000 of fully depreciated assets in 2014.

At December 31, 2014 and 2013, major movable equipment includes equipment under capital leases with a cost of $78,657 and $72,657, respectively. The accumulated amortization recorded under these leases was approximately $43,107 and $28,161 at December 31, 2014 and 2013.

At December 31, 2014, and 2013, construction in progress includes construction projects, renovation, expansion, and technology projects at various stages of completion throughout Barnabas Health. The amounts to complete these projects approximate $212,000 at December 31, 2014 and approximately $51,000 of temporarily restricted net assets are available for capital purposes.



(Continued)

(In thousands)

## (8) Long-Term Debt

Long-term debt consists of the following:

| | | December 31 | |
|---|---|---|---|
| | | **2014** | **2013** |
| New Jersey Health Care Facilities Financing Authority (NJHCFFA) Revenue and Refunding Bonds: | | | |
| Barnabas Health Issue, Series 2014A term bonds, $100,000 maturing July 1, 2044 with an interest rate of 5%; $29,925 maturing July 1, 2044 with an interest rate of 4.25% | $ | 129,925 | — |
| Barnabas Health Issue, Series 2012A serial bonds maturing through 2026 with interest rates ranging from 4.00% to 5.00%. | | 104,985 | 105,485 |
| Barnabas Health Issue, Series 2011A $147,305 and $171,710 of serial bonds at December 31, 2014, and 2013, respectively, maturing through 2024 with interest rates ranging from 3.25% to 5%; $152,505 of term bonds outstanding at December 31, 2014, and 2013, maturing July 1, 2026 through 2044 with interest rates ranging from 5.25% to 5.75%. | | 299,810 | 324,215 |
| Barnabas Health Issue, Series 2011B (Variable Rate) term bonds maturing through July 1, 2038, initially bearing interest at a weekly interest rate (0.03% and 0.04% at December 31, 2014 and 2013, respectively), secured by an irrevocable direct pay letter of credit (see c). | | 34,910 | 35,610 |
| Barnabas Health Issue, Series 2011C (Variable Rate) (Taxable) term bonds maturing July 1, 2038, initially bearing interest at a daily interest rate (0.08% at December 31, 2014 and 2013), secured by an irrevocable direct pay letter of credit (see c). | | 42,990 | 42,990 |
| Saint Barnabas Health Care System Issue, Series 2006A (Current Interest Bonds), term bonds maturing on July 1, 2029 with an interest rate 5.00%. | | 62,935 | 63,045 |
| Saint Barnabas Health Care System Issue, Series 2006B (Capital Appreciation Bonds), $78,249 outstanding at December 31, 2014 and 2013 plus accreted interest of $38,844 and $33,114 at December 31, 2014 and 2013, respectively, maturing July 1, 2030 through July 1, 2037 with yields ranging from 5.05% to 5.13%. | | 117,093 | 111,363 |

(In thousands)

| | | December 31 | |
|---|---|---|---|
| | | **2014** | **2013** |
| Saint Barnabas Health Care System Issue, Series 1998B (Capital Appreciation Bonds), $21,206 outstanding at December 31, 2014 and 2013, plus accreted interest of $25,870 and $23,587 at December 31, 2014 and 2013, respectively, maturing July 1, 2016 through July 1, 2023, with yields ranging from 4.98% to 5.05% insured by National Public Finance guarantee Corporation. | $ | 47,076 | 44,793 |
| Barnabas Health System Taxable Revenue Bonds, Series 2012, term bonds maturing on July 1, 2028, with an interest rate of 4.00%. | | 81,240 | 81,240 |
| New Jersey Economic Development Authority (NJEDA) Revenue Bonds – Saint Barnabas Project Series 1997A Capital Appreciation Bonds, $17,346 and $24,391 outstanding at December 31, 2014 and 2013, respectively, plus accreted interest of $39,282 and $36,041 at December 31, 2014 and 2013, respectively, maturing on July 1, 2012 through July 1, 2026 with yields ranging from 5.50% to 5.625%, insured by National Public Finance Guarantee Corporation. | | 56,628 | 60,432 |
| 2014 Term loan in the amount of $80,500 dated December 1, 2014 payable to a consortium of banks and JPMorgan Chase Bank, N.A., secured by a note issued under the Master Trust Indenture, bearing interest at the Adjusted LIBO rate plus 1%, principle due in 2017. | | 80,500 | — |
| 2013 Term loan in the amount of $66,000 dated August 1, 2013 payable to a consortium of banks and JPMorgan Chase Bank, N.A., secured by a note issued under the Master Trust Indenture, amortized over a seven year period on a level principal and interest basis, bearing interest at a fixed-rate of 2.75% per annum. This was refinanced with the 2014 term loan. | | — | 62,857 |
| Student Nurses' Resident Bonds – Newark Beth Israel Medical Center Issue, payable to the Department of Housing and Urban Development in installments through 2014 with interest at 3.63%. | | — | 55 |

(In thousands)

| | | December 31 | |
|---|---|---|---|
| | | **2014** | **2013** |
| Capital leases with various interest rates | $ | 33,028 | 40,309 |
| Other | | 3,649 | 4,869 |
| Total long-term debt | | 1,094,769 | 977,263 |
| Plus unamortized bond premium | | 27,117 | 21,457 |
| Less: | | | |
| Unamortized bond discount | | 2,905 | 3,165 |
| Current portion | | 43,933 | 57,703 |
| Long-term portion | $ | 1,075,048 | 937,852 |

Under the terms of the Master Trust Indenture (MTI), Clara Maass Medical Center, Community Medical Center, Kensington Manor Care Center, Inc., Mega Care Inc., Monmouth Medical Center (including Monmouth Medical Center, Southern Campus), Newark Beth Israel Medical Center, Union Hospital, Saint Barnabas Corporation, Saint Barnabas Medical Center, and Jersey City Medical Center are members of an Obligated Group (collectively, the Obligated Group). The operations of Union Hospital and Kensington Manor Care Center, Inc. have been terminated or sold but remain as current members of the Obligated Group. Saint Barnabas Outpatient Centers and Saint Barnabas Behavioral Health Center are Restricted Affiliates (collectively, the Restricted Affiliates). Collectively, the members of the Obligated Group and the Restricted Affiliates comprise the Combined Group.

To secure its payment obligations, the Obligated Group has granted to the Trustee a first lien and security interest in the gross receipts of the Obligated Group and in certain mortgaged property.

Obligated group members are jointly and severally liable under the MTI. The Corporation does have the right to name designated affiliates. Though designated affiliates are not obligated to make debt service payments on the obligations under the MTI, the Corporation may cause each designated affiliate to transfer such amounts as necessary to enable the Obligated Group members to comply with the terms of the MTI, including payment of the outstanding obligations.

The Corporation’s Obligated Group and Combined Group (collectively, the Obligated and Combined Group) are required to maintain certain financial covenants in connection with the NJHCFFA debt, NJEDA debt, and Credit Arrangements with a consortium of banks, including JPMorgan Chase Bank, N.A. (JPMorgan).

The Corporation’s credit arrangements are as follows:

(a) An Irrevocable Standby Letter of Credit with a consortium of banks, and JPMorgan, as Administrative Agent, supporting the Corporation’s self-insured workers’ compensation program. The LOC has an available amount of $21,617. At December 31, 2014 and 2013, no amounts have been drawn against the LOC. The LOC expires five business days prior to its maturity date of November 15, 2015. On March 19, 2015, the LOC was reduced to $15,000.

(b) A Credit Agreement with JPMorgan that provided for an Irrevocable Standby Letter of Credit in the amount of $4,750 for additional liquidity support for the Corporation's self-insured workers' compensation program was terminated on February 7, 2014.

(c) Irrevocable direct pay letters of credit with JPMorgan that provide liquidity support for the Series 2011 B and C bonds. The 2011 Series B and C bonds, while subject to long-term amortization periods, may be put at the option of the bondholders. At such point, JPMorgan would advance funds on behalf of the Corporation to the bondholders under the two issued irrevocable direct pay letters of credit, which each expire on November 16, 2016.

The Series 2011 B and C Bonds are subject to long-term amortization periods. However, while bearing interest at a weekly or daily rate, respectively, the Series 2011 B and C Bonds are subject to optional tender by the bondholders. If bonds, which are tendered and are not remarketed to new bondholders, pursuant to the letter of credit, the bank will purchase the tendered Series 2011 B and C Bonds on behalf of the Obligated Group. If the bank purchases tendered Series 2011 B and C Bonds pursuant to the letter of credit, no payments are due to the Bank with respect to such Bonds until 367 days from the date the bank purchases the tendered Series 2011 B and C Bonds. The Obligated Group must repay the principal amount of the purchased bonds as described above, on the first day of the 13th month succeeding the stated expiration date, in substantially equal payments commencing on the first business day following the 367th day, and semiannually thereafter over the subsequent three years.

On August 15, 2013, the Corporation entered into a Credit Agreement dated August 1, 2013, between a consortium of banks and JPMorgan (collectively, the Lenders), whereby the Lenders made a term loan pursuant to the Credit Agreement in the amount of $66,000. The term loan was secured by a note issued under the MTI. The proceeds of the term loan were used to make a $66,000 contribution to the Barnabas Health defined-benefit pension plan (note 9).

On December 23, 2014, the Corporation entered into an Amended and Restated Credit Agreement dated December 1, 2014, whereby the Lenders amended and restated the original Credit Agreement between the Corporation and the Lenders dated August 1, 2013. The 2013 term loan was cancelled and replaced by the 2014 term loan in the amount of $80,500. The 2014 term loan is secured by a note issued under the MTI. The additional proceeds of the 2014 term loan were used to make a $23,000 contribution to the Jersey City Medical Center and Greenville Medical Center's defined-benefit pension plans, $21,000 and $2,000, respectively (note 9). The 2014 term loan bears interest at the Adjusted LIBO Rate plus 1.00% and requires interest only payments until its maturity in 2017.

As a result of the Amended and Restated Credit Agreement, the Corporation incurred a loss on extinguishment of debt totaling $96 which is included within nonoperating revenue (expenses) in the consolidated statement of operations for the year ended December 31, 2014.

On December 3, 2014, the Corporation's Obligated Group issued $129,925 NJHCFFA, Revenue and Refunding Bonds, Barnabas Health Issue, Series 2014A as obligations under its MTI. Upon issuance of the Series 2014A bonds, JCMC became a member of the Obligated Group pursuant to the terms of the MTI.

 (Continued)

(In thousands)

The proceeds of the Series 2014A were used to (i) provide for the repayment of $135,473 of Taxable Revenue Bonds previously issued by JCMC; and (ii) to pay certain issuance costs of $2,106. As a result of the issuance of the Series 2014A, the Corporation incurred a loss on extinguishment of debt totaling $2,047, which amount is included within nonoperating revenue (expenses) in the consolidated statement of operations for the year ended December 31, 2014.

Scheduled maturities on long-term debt and future minimum payments on capital lease obligations at December 31, 2014 are as follows:

| | | Long-term debt | Capital leases | Total |
|---|---|---|---|---|
| 2015 | $ | 30,419 | 14,478 | 44,897 |
| 2016 | | 31,170 | 11,450 | 42,620 |
| 2017 | | 32,015 | 5,887 | 37,902 |
| 2018 | | 32,600 | 2,833 | 35,433 |
| 2019 | | 36,285 | 122 | 36,407 |
| Thereafter | | 899,252 | — | 899,252 |
| Total | | 1,061,741 | 34,770 | 1,096,511 |
| Add: | | | | |
| Unamortized bond premium | | 27,117 | — | 27,117 |
| Less: | | | | |
| Amount representing interest on capital lease obligations | | — | 1,742 | 1,742 |
| Unamortized bond discount | | 2,905 | — | 2,905 |
| Current portion | | 30,419 | 13,514 | 43,933 |
| Long-term portion | $ | 1,055,534 | 19,514 | 1,075,048 |

## (9) Employee Benefit Plans

### *(a) Barnabas Health*

Prior to May 31, 2013, the Corporation maintained the Saint Barnabas Retirement Income Plan (Pension Plan), a noncontributory defined benefit plan covering substantially all employees of the Corporation. During 2013, the Corporation's Board of Trustees approved a plan to freeze the Pension Plan, effective December 31, 2013. The Pension Plan's documents were amended on May 31, 2013 to effectuate the Board of Trustee's actions. Accordingly, the Corporation recorded a gain on the curtailment of the pension plan (increase in other changes to unrestricted net assets) of $35,285 in the consolidated statement of operations in 2013. In addition, the Corporation recorded a reduction of net periodic pension costs of approximately $4,820 at May 31, 2013, representing the recognition of the prior service credit at May 31, 2013.

In September 2014, the Board of Trustees approved a plan to offer a single payment (lump sum), in lieu of the annuity benefit, to former vested employees in the Pension Plan with accrued benefits.

(In thousands)

ASC 715, *Compensation – Retirement Benefits*, requires settlement accounting when lump sum payments exceed the sum of service cost and interest cost for the plan year. When applying settlement accounting the plan must recognize a portion of the unrecognized gains or losses as a one-time charge in pension cost. The portion of the unrecognized gain/loss that was recognized in pension cost was based on the percentage of the obligation that was settled. Since the Pension Plan's lump sum payments of $55,372 exceeded the 2014 service and interest cost of $41,145, settlement accounting was required for the 2014 plan year. As a result, there was a one-time charge to pension expense of $14,704 in 2014.

During 2014, the Corporation adopted the new mortality table published by the Society of Actuaries. The impact to the projected benefit obligation was $49,000.

ASC 715 requires recognition on the balance sheet of the funded status of defined benefit pension plans and the recognition in unrestricted net assets of unrecognized actuarial gains and losses and prior service costs and credits. The funded status is measured as the difference between the fair value of the Pension Plan's assets and the projected benefit obligation of the Pension Plan.

Using the measurement dates of December 31, the following table sets forth the funded status of the Pension Plan and the amounts recognized in the Corporation's consolidated financial statements:

| | | 2014 | 2013 |
|---|---|---|---|
| Changes in benefit obligation: | | | |
| Benefit obligation at beginning of year | $ | 797,836 | 901,342 |
| Service cost | | — | 29,206 |
| Interest cost | | 41,145 | 38,735 |
| Actuarial (gains) losses | | 108,072 | (90,673) |
| Benefits paid and expenses | | (23,326) | (45,489) |
| Curtailment | | — | (35,285) |
| Settlements | | (55,372) | — |
| Benefit obligation at end of year | | 868,355 | 797,836 |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | | 803,162 | 691,917 |
| Actual return on plan assets | | 94,544 | 6,734 |
| Employer contributions | | — | 150,000 |
| Benefits paid and expenses | | (23,326) | (45,489) |
| Settlements | | (55,372) | — |
| Fair value of plan assets at end of year | | 819,008 | 803,162 |
| Funded status –(accrued pension liability) net pension asset | $ | (49,347) | 5,326 |

(In thousands)

The Corporation's funding policy is to contribute amounts to the Pension Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Corporation may determine to be appropriate from time to time. During 2013, the Corporation contributed $150,000 to the Pension Plan. As discussed note 8, the Corporation borrowed $66,000 to fund a portion of the amount contributed during 2013. The Corporation expects to contribute $5,000 to the Pension Plan in 2015.

Included in other changes in unrestricted net assets are unrecognized actuarial losses of $230,584 and $196,040, respectively, at December 31, 2014 and 2013. The amounts have not yet been recognized in net periodic pension costs.

The portion of the unrecognized prior service credit and the unrecognized actuarial loss that was amortized and included as a component of net periodic pension costs, including the recognition of the unamortized prior service credit are as follows:

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Amortization of unrecognized prior service credit | $ — | (374) |
| Amortization of unrecognized actuarial loss | 5,068 | 17,069 |
| Recognition of unamortized prior service credit | — | (4,820) |

It is estimated that $5,283 of unrecognized actuarial loss at December 31, 2014 will be amortized from unrestricted net assets into net periodic pension cost in 2015.

The actuarially computed net periodic pension cost included the following components:

| | Year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Service costs | $ — | 29,206 |
| Interest costs | 41,145 | 38,735 |
| Expected return on plan assets | (40,788) | (43,567) |
| Amortization of actuarial loss | 5,068 | 17,069 |
| Amortization of prior service credit | — | (374) |
| Total net periodic pension cost | 5,425 | 41,069 |
| Effect of curtailment of Pension Plan | — | (4,820) |
| Effect of settlement charge | 14,704 | — |
| Total pension cost | $ 20,129 | 36,249 |

The projected unit credit method is the actuarial cost method used to compute pension expense.

(In thousands)

Weighted average assumptions used in determining the net periodic pension costs are as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Discount rate | 5.26% | 4.63% |
| Rate of increase in compensation levels | — | 3.50 |
| Expected long-term rate of return on plan assets | 5.26 | 4.63 |

Weighted average assumptions used in the accounting for the projected benefit obligation are as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Discount rate | 4.54% | 5.26% |
| Rate of increase in compensation levels | — | — |
| Expected long-term rate of return on plan assets | 4.54 | 5.26 |

Effective May 1, 2013, Pacific Investment Management Company, LLC (PIMCO) was appointed to manage 93.4% of the Pension Plan's investments, with the remaining assets invested in an alternative investment hedge fund. The Pension Plan's assets managed by PIMCO have been transitioned from a long-term return strategy to a liability-driven investment (LDI) strategy. Under the LDI strategy, the expected rate of return on plan assets at both December 31, 2014 and 2013 is based upon the assumption that Pension Plan assets will be invested primarily in fixed income and other related securities based upon their ability to perform similarly to the characteristics of the Pension Plan's liabilities over time.

(In thousands)

The following tables present the Saint Barnabas Plan's fair value hierarchy for those assets measured at fair value as of December 31, 2014 and 2013. During January 2013, the Corporation sold its ownership in one of its alternative investments. The proceeds from the sale of the alternative investment totaled $23,816, representing the net asset value on the date of the sale. At December 31, 2014 and 2013, Level 3 assets comprised approximately 7.0% and 7.3%, respectively, of the Saint Barnabas Plan's total investment portfolio fair value.

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| Alternative investment | $ 57,349 | — | — | 57,349 |
| Asset backed securities | 1,079 | — | 1,079 | — |
| Cash and cash equivalents | 578 | 578 | — | — |
| Cash collateral held at financial institutions | 1,211 | 1,211 | — | — |
| Commodity forward swaps | 610 | — | 610 | — |
| Corporate bank debt | 1,289 | — | 1,289 | — |
| Corporate bonds: | | | | |
| Domestic | 170,462 | — | 170,462 | — |
| Foreign | 37,874 | — | 37,874 | — |
| Credit contracts: | | | | |
| Domestic | 3,598 | — | 3,598 | — |
| Foreign | 872 | — | 872 | — |
| Currency swaps: | | | | |
| Domestic | 884 | — | 884 | — |
| Foreign | 192 | — | 192 | — |
| Government bonds: | | | | |
| Domestic | 9,155 | — | 9,155 | — |
| Foreign | 203,118 | — | 203,118 | — |
| Municipal bond | 492 | — | 492 | — |
| Obligation to return cash collateral held | (1,150) | (1,150) | — | — |
| Other options | (479) | (479) | — | — |
| Other | 519 | 519 | — | — |
| Preferred stock | 16 | 16 | — | — |
| Private investment bond fund | 331,228 | — | 331,228 | — |
| Short term funds | 1,537 | 1,537 | — | — |
| Swap liabilities | (1,426) | — | (1,426) | — |
| | $ 819,008 | 2,232 | 759,427 | 57,349 |



(Continued)

(In thousands)

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Fair value | Level 1 | Level 2 | Level 3 |
| Asset backed securities | $ 1,077 | — | 1,077 | — |
| Private investment bond funds | 387,781 | — | 387,781 | — |
| Cash collateral due to broker | (3,840) | (3,840) | — | — |
| Cash collateral held at financial institutions | 4,892 | 4,892 | — | — |
| Corporate bonds: | | | | |
| Domestic | 112,545 | — | 112,545 | — |
| Foreign | 41,011 | — | 41,011 | — |
| Credit contracts | 3,614 | — | 3,614 | — |
| Currency swaps | 6,274 | — | 6,274 | — |
| Alternative investments | 58,373 | — | — | 58,373 |
| Foreign exchange contracts | 109 | — | 109 | — |
| Government bonds: | | | | |
| Domestic | 178,682 | — | 178,682 | — |
| Foreign | 7,763 | — | 7,763 | — |
| Interest rate contracts | 360 | 360 | — | — |
| Other | (31) | (31) | — | — |
| Obligation to return cash collateral held | (270) | (270) | — | — |
| Other contracts | (313) | — | (313) | — |
| Preferred stock | 16 | 16 | — | — |
| Short-term funds | 5,119 | 5,119 | — | — |
| | $ 803,162 | 6,246 | 738,543 | 58,373 |

There were no transfers between Levels 1, 2, and 3 during the years ended December 31, 2014 and 2013.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Alternative investments primarily include an alternative investment fund that is structured such that the Pension Plan holds a limited partnership interest. The Corporation applies the practical expedient in ASC 820, which permits, the fair value of certain investments to be estimated using net asset value or its equivalent. The alternative investment fund is classified within Level 3 of the fair value hierarchy because the determination of fair value requires significant management judgment and estimation.

(In thousands)

The following summarizes redemption and commitment terms for the alternative investment vehicle held in the Saint Barnabas Plan at December 31, 2014:

| | | **Fund # 1** |
|---|---|---|
| Redemption timing: | | |
| Redemption frequency | | Yearly at December 31st |
| Required notice | | 45 Days |
| Audit reserve: | | |
| Percentage held back for audit reserve | | n/a |
| Gates: | | |
| Potential gate holdback | | n/a |
| Potential gate release timeframe | | n/a |
| Unfunded commitments | $ | — |

The following table presents reconciliation for all Level 3 assets measured at fair value for the years ended December 31, 2014 and 2013:

| | | **Level 3 assets** |
|---|---|---|
| Financial assets: | | |
| Beginning balance at January 1, 2013 | $ | 64,301 |
| Unrealized gains | | 17,888 |
| Sales | | (23,816) |
| Ending balance at December 31, 2013 | | 58,373 |
| Unrealized losses | | (1,024) |
| Ending balance at December 31, 2014 | $ | 57,349 |

Expected benefit payments by year as of December 31, 2014 are as follows:

| | | |
|---|---|---|
| 2015 | $ | 46,172 |
| 2016 | | 48,214 |
| 2017 | | 49,781 |
| 2018 | | 50,682 |
| 2019 | | 53,011 |
| 2020–2024 | | 278,707 |



(Continued)

The Corporation also maintains a defined contribution plan, the Saint Barnabas Health Care System 401(k) Savings Plan (401(k) Plan). The Corporation's Board of Trustees approved a plan, effective January 1, 2014, which enhances the 401(k) Plan to include automatic retirement contributions based on an employee's eligible pay and years of service, as well as an increased matching contribution based upon eligible pay and an accelerated vesting period. Benefit expense for the 401(k) Plan for the years ended December 31, 2014 and 2013 was approximately $50,207 and $7,908, respectively.

The Corporation has a supplemental executive retirement plan for certain key individuals. The plan was funded during 2014 and 2013 based upon the benefit formula as outlined in the plan document.

In addition, Monmouth Medical Center, Southern Campus maintains the Kimball Medical Center Supplemental Plan (the Kimball Plan). The Kimball Plan is a frozen defined benefit plan.

***(b) Liberty Health***

**(i) Pension Plan**

JCMC and Greenville sponsor defined benefit pension plans (collectively, the Plans) covering substantially all JCMC and Greenville employees who were employed on or before December 31, 2011, the date the Plans were frozen. No additional employees are eligible to participate in the Plans and no participants accrue credited service or contribute to the Plans. JCMC and Greenville's funding policy is to contribute annually at least the minimum amounts required under the Employee Retirement Income Security Act of 1974. The following is a summary of the funded status of the Plans at December 31, 2014, the measurement date for the Plans and the amounts recognized in the Corporations consolidated financial statements:

(In thousands)

| | | JCMC | Greenville | Total |
|---|---|---|---|---|
| Changes in benefit obligation: | | | | |
| Benefit obligation at beginning of period | $ | 74,670 | 14,526 | 89,196 |
| Interest cost | | 1,968 | 402 | 2,370 |
| Actuarial loss | | 10,796 | 1,926 | 12,722 |
| Benefit and settlement payments | | (2,337) | (2,775) | (5,112) |
| Settlement gain | | — | (187) | (187) |
| Benefit obligation at end of year | | 85,097 | 13,892 | 98,989 |
| Changes in plan assets: | | | | |
| Fair value of plan assets at beginning of period | | 51,058 | 13,063 | 64,121 |
| Actual return on plan assets | | 1,503 | 401 | 1,904 |
| Employer contributions | | 23,478 | 2,000 | 25,478 |
| Benefit and settlement payments | | (2,337) | (2,775) | (5,112) |
| Fair value of plan assets end of year | | 73,702 | 12,689 | 86,391 |
| Funded status-accrued pension liability | $ | (11,395) | (1,203) | (12,598) |

Included in unrestricted net assets is the following amount that has not yet been recognized in net periodic pension cost:

| | | JCMC | Greenville | Total |
|---|---|---|---|---|
| Unrecognized actuarial loss | $ | 34,212 | 4,634 | 38,846 |

It is estimated that $4,726 of the unrecognized actuarial loss at December 31, 2014 will be amortized from unrestricted net assets into net periodic pension cost in 2015.

(In thousands)

The following table sets forth the plan assets at December 31, 2014:

| | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 50,517 | 50,517 | — | — |
| Fixed income securities: | | | | |
| Mutual funds | 10,905 | 10,905 | — | — |
| Corporate bonds | 10,363 | — | 10,363 | — |
| U.S. government and government agencies | 11,686 | — | 11,686 | — |
| Asset-backed securities | 1,591 | — | 1,591 | — |
| Commercial mortgage-backed securities | 1,329 | — | 1,329 | — |
| Total | $ 86,391 | 61,422 | 24,969 | — |

At December 31, 2014, plan assets as summarized above were measured using Level 1 and Level 2 inputs. The Plans did not have any assets whose fair values were measured using Level 3 inputs at December 31, 2014.

The Plans' investments are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, and mutual funds. Fixed income securities are valued based on spreads of published interest rate curves.

The Plans' overall portfolio of fixed income (debt) securities is based on asset allocation modeling taking into consideration historical return patterns and risk factors. Fixed income securities are invested in investment grade bonds and similar instruments.

The Plans' investment policy is designed to achieve the following long-term investment objectives:

- To maintain or exceed a target funding level of 100% of the Plans' liabilities, defined as the market value of the portfolio assets as a percentage of the accumulated benefit obligation including a target allocation of a conservative mix of investments, and
- To achieve a long-term rate of return of 8% as established by the Plan's actuarial consultant.

The plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with JCMC's and Greenville's risk tolerance. This is achieved through the utilization of asset managers and systemic allocation to investment management styles, providing a broad exposure to different segments of the fixed income markets.

The overall expected long-term rate-of-return-on-assets assumption was chosen to anticipate the long range experience of the Plans, including the consideration of the allocation of the plan assets among fixed income securities. The recognition of inflationary trends in the economy was also considered to determine the overall expected long-term rate-of-return-on-assets.

(In thousands)

The following benefit payments are expected to be paid:

| | | JCMC | Greenville | Total |
|---|---|---|---|---|
| Years ending December 31: | | | | |
| 2015 | $ | 5,222 | 770 | 5,992 |
| 2016 | | 5,048 | 757 | 5,805 |
| 2017 | | 5,250 | 765 | 6,015 |
| 2018 | | 5,474 | 786 | 6,260 |
| 2019 | | 5,646 | 804 | 6,450 |
| 2020–2024 | | 28,726 | 4,296 | 33,022 |

The Corporation expects to contribute approximately $4,000 to the Plans in 2015.

Net periodic pension cost (benefit) in 2014 is as follows:

| | | JCMC | Greenville | Total |
|---|---|---|---|---|
| Interest cost | $ | 1,968 | 402 | 2,370 |
| Expected return on plan assets | | (2,308) | (563) | (2,871) |
| Amortization of actuarial loss | | 1,747 | 46 | 1,793 |
| Net periodic pension cost (benefit) | $ | 1,407 | (115) | 1,292 |

The weighted average assumption used in computing the benefit obligation of the Plans at December 31, 2014 is as follows:

| | | JCMC | Greenville |
|---|---|---|---|
| Discount rate | $ | 4.50% | 4.56% |

The weighted average assumptions used in the measurement of the net periodic pension cost of the Plans in 2014 are as follows:

| | | JCMC | Greenville |
|---|---|---|---|
| Discount rate | $ | 4.67% | 4.81% |
| Expected long-term rate of return on plan assets | | 8.00 | 7.50 |

**(ii) Postretirement Plans**

JCMC and Greenville sponsor defined postretirement medical insurance plans (collectively, the Postretirement Plans) covering certain full-time employees age 60 and over who have at least 25 years of service.

(In thousands)

During 2014, the Postretirement Plan of JCMC was amended to limit the program to current retirees and any full-time employees who retire before October 1, 2014. Coverage in the program will continue only until age 65 or until January 1, 2016 for current retirees. For 2014 retirees, coverage will end the earlier of Medicare eligibility or the end of the collective bargaining agreement, which is January 31, 2017. The effect of this change is accounted for as a negative plan amendment and was recorded as a one-time gain to net assets.

The following is a summary of the funded status and amounts recognized in Liberty Health's consolidated financial statements as of December 31, 2014:

| | | JCMC | Greenville | Total |
|---|---|---|---|---|
| Fair value of plan assets | $ | — | — | — |
| Accumulated postretirement benefit obligation | | 854 | 2,719 | 3,573 |
| Funded status of the postretirement plans | $ | (854) | (2,719) | (3,573) |

Net periodic postretirement benefit cost in 2014 was $31 and $86 for JCMC and Greenville, respectively.

A net loss of $1,740 represents the unrecognized component of net periodic postretirement benefit cost included in unrestricted net assets at December 31, 2014. A net gain of $14,238 is expected to be recognized in net periodic postretirement benefit cost in the next calendar year.

The changes in accumulated postretirement benefit obligations (APBO) in 2014 are as follows:

| | | JCMC | Greenville | Total |
|---|---|---|---|---|
| APBO at beginning of period | $ | 21,652 | 2,525 | 24,177 |
| Interest cost | | 6 | 65 | 71 |
| Actuarial (gain) loss | | (5,077) | 226 | (4,851) |
| Plan amendment | | (15,120) | — | (15,120) |
| Benefits paid | | (607) | (97) | (704) |
| APBO at end of year | $ | 854 | 2,719 | 3,573 |

(In thousands)

Assumed healthcare cost trends and weighted average discount rate at December 31, 2014 are as follows:

| | | JCMC | Greenville |
|---|---|---|---|
| Discount rate | $ | 1.00% | 4.24% |
| Healthcare cost trend assumed for next year | | 6.40 | 7.00 |
| Rate to which cost trend rate is assumed to decline (the ultimate trend rate) | | — | 5.00 |
| Year that the rate reaches the ultimate trend rate | | 2015 | 2018 |

The Corporation expects to contribute approximately $1,052 to the Postretirement Plans in 2015.

The following benefit payments are expected to be paid:

| | | JCMC | Greenville | Total |
|---|---|---|---|---|
| Years ending December 31: | | | | |
| 2015 | $ | 854 | 199 | 1,053 |
| 2016 | | — | 202 | 202 |
| 2017 | | — | 204 | 204 |
| 2018 | | — | 205 | 205 |
| 2019 | | — | 204 | 204 |
| 2020–2024 | | — | 985 | 985 |

**(iii) Defined Contribution Plans**

JCMC, Greenville, and other related entities maintain various retirement plans for their employees, including three 401(a) plans, four 403(b) tax sheltered annuity plans, and one 401(k) plan. The JCMC 401(a) and Management 401(k) plans are noncontributory for the employees and provide for a contribution by the employer as well as a supplemental contribution if the employee contributes to the 403(b) plan. Pension expense was approximately $172 in 2014.

***(c) Multi-Employer Plans***

At December 31, 2014, the Corporation participates in two multi-employer pension plans established under collective bargaining agreements that cover certain groups of employees throughout Barnabas Health, as outlined in the table below. These groups of employees are not eligible to participate in the Saint Barnabas Plan or the 401(k) Plan. The "EIN/Pension Plan Number'' column provides the Employer Identification Number (EIN) and the three digit plan number. The most recent Pension Protection Act (PPA) zone status available for Local 68 Engineers Union Pension Plan (Local 68 Plan) was June 30, 2014 and for District 1199J – New Jersey Healthcare Employers Pension Plan (District 1199J Plan) was December 31, 2013. The Zone status is based on information received for the plan sponsors and, as required by PPA, is certified by each plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plan in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

(In thousands)

The "FIP/RP Status Pending/Implemented" column indicates plans for which a funding improvement plan (FIP) or rehabilitation plan (RP), as required by PPA, is either pending or has been implemented by the plan's sponsor. The last column of the table lists the expiration dates of the collective bargaining agreements requiring contributions to the plans. Barnabas Health's contributions to the Local 68 Engineers Plan for the year ended June 30, 2014 and to the District 1199J Plan for the year ended December 31, 2013 represented 2.72% and 35.77%, respectively, of the total contributions to each plan. Participants in the Local 68 Plan and District 1199J Plan increased by 4.20% and decreased by 2.98%, respectively, from December 31, 2013 to December 31, 2014. At the date the consolidated financial statements were issued, Forms 5500 were not available beyond the year ended June 30, 2013 for Local 68 Plan and December 31, 2013 for the 1199J Plan.

| Pension fund | EIN/Pension plan number | Pension protection Act Zone Status | | FIP/RP Status Pending/ Implemented | | Contributions of Barnabas Health 2014 | 2013 | Surcharge paid as of 12/31/14 | Expiration date of collective-Bargaining Agreement |
|---|---|---|---|---|---|---|---|---|---|
| Local 68 Engineers Union Pension Plan | 51-0176618-001 | As of 6/30/2014 Green | As of 6/30/2013 Yellow | Yes | $ | 350 | 357 | N/A | 3/20/2016 |
| District 1199J-New Jersey Healthcare Employers Pension Plan | 22-3095464-001 | As of 12/31/2013 Green | As of 12/31/2012 Yellow | No | | 2,860 | 2,947 | N/A | 6/30/2016 |

The Local 68 Plan adopted a funding improvement plan on March 27, 2013, which projected to increase annual employer contributions for the plan years July 1, 2012 through July 1, 2022. A letter from the Local 68 Plan's actuary dated September 22, 2014 indicated that for the plan year beginning July 1, 2014, the Plan is no longer in endangered status.

## (10) Commitments and Contingencies

### *(a) Professional and General Liabilities*

The Corporation formed Commercial Professional Insurance Co. Ltd. (CPIC), an off-shore captive insurance company located in Bermuda, writes professional liability, comprehensive general liability, and other casualty lines of business for the Corporation and its affiliates. CPIC is a wholly owned subsidiary of Saint Barnabas Medical Center (the Medical Center) and is consolidated in the accompanying financial statements. Investments and other assets maintained by CPIC are reported in assets limited as to use under externally designated or restricted in the consolidated balance sheets. In addition, CPIC maintains a contract with Professional Liability Insurance Company (ProQual), a risk retention group, which is domiciled in the State of Vermont and was initially capitalized by the Corporation in December 2006, to reinsure 95% of the losses and expenses of ProQual. The accounts of ProQual are included in the consolidated financial statements of the Corporation. ProQual has offered professional liability insurance to private attending physicians on the Monmouth Medical Center medical staff with limits of $1 million per occurrence or $3 million in the aggregate. ProQual has ceased marketing and renewing policies in 2015 and has converted to runoff status. The Corporation has estimated a range of losses for its potential liability for professional liability, comprehensive general liability, and other casualty lines of business related to CPIC and ProQual based upon its own past experience and industry experience data. These estimates include reserves for unreported incidents and losses not covered by current insurance limits on a present value basis.

The total accrued liability of approximately $150,105 and $133,459 at December 31, 2014 and 2013, respectively, associated with these estimates have been discounted at a risk-free rate and is included in self-insurance liabilities in the accompanying consolidated balance sheets. The accrual at December 31, 2014 and 2013 includes $19,158 and $9,494, respectively, of claims, which are expected to be reimbursed by the insurance carrier. Such amounts are included in other assets.

For policy years beginning July 1, 2004, CPIC provides payment of claims on a reimbursement basis for the Corporation's self-insurance program, which has limits of $7 million for each and every professional liability claim with an annual aggregate limit of $59 million and $1 million for each and every general liability occurrence. In addition, for the policy years beginning July 1, 2003, the Corporation purchased excess coverage of $150 million from various carriers for amounts in excess of the Corporation's and CPIC's retained limits.

Effective July 1, 2003, the Corporation purchased professional and general liability insurance from a commercial insurance carrier with a limit of $7 million per claim (no aggregate) for professional liability, subject to a $1 million per claim retention, and $1 million per occurrence (no aggregate) for general liability for the Corporation and its affiliates. In addition, the aforementioned commercial insurance carrier reinsured its obligation to pay claims within the $6 million layer in excess of the $1 million retention pursuant to a Reinsurance Agreement with CPIC.

Prior to July 1, 2003, the Corporation and its affiliates maintained professional and general liability insurance coverage through a combination of the purchase of such coverage from commercial insurance carriers and self-insurance. The Corporation records and revises annually a liability related to the run-off of claims related to these programs based on an independent actuary's estimate. At December 31, 2014 and 2013, the accrued liability related to these claims totaled $23,669 and $21,626, respectively, and is included in self-insurance liability in the accompanying consolidated balance sheets.

During 2014 and 2013, CPIC's Board of Directors declared and paid dividends totaling $5,000 and $9,000, respectively, to the Medical Center. The intercompany transactions between CPIC and the Medical Center are eliminated in the consolidated financial statements. In addition, during 2014, CPIC converted to a retrospective paid loss premium funding arrangement (premium funding arrangement) for the professional and general liability policy years 2006 through 2014. As a result of the change in the premium funding arrangement, $75,600 was transferred to Saint Barnabas Corporation.

### *(b) Workers' Compensation*

The Corporation is self-insured for the majority of workers' compensation benefits. At December 31, 2014 and 2013, the accrual for estimated workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported and totaled $26,242 and $19,248, respectively. The accrual at December 31, 2014 includes $5,314 of claims which are expected to be reimbursed by the insurance carrier. Such amounts are included in other assets, net and self-insurance liabilities. The Corporation's obligation to pay workers compensation benefits are secured by a LOC totaling $21,617 at December 31, 2014 (note 8).

(In thousands)

### *(c) Employee Health Insurance*

The Corporation maintains self-insured employee health benefit programs to provide coverage for its employees. At December 31, 2014 and 2013, the accrual for estimated employee health insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported of approximately $18,454 and $16,600, respectively, and is included in self-insurance liabilities in the accompanying consolidated balance sheets.

### *(d) Operating Leases*

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rent expense was $44,618 and $41,734 in 2014 and 2013, respectively. Future rental payments under noncancelable operating leases with durations in excess of one year are as follows:

| Period | | Minimum lease payments | Sublease | Net |
|---|---|---|---|---|
| 2015 | $ | 30,877 | 1,479 | 29,398 |
| 2016 | | 20,495 | 982 | 19,513 |
| 2017 | | 12,989 | 571 | 12,418 |
| 2018 | | 8,612 | 388 | 8,224 |
| 2019 | | 5,206 | 65 | 5,141 |
| Thereafter | | 11,171 | 370 | 10,801 |
| | $ | 89,350 | 3,855 | 85,495 |

In addition to the above leases, the Corporation entered into a long-term land lease for certain property used in its operations. Under the terms of this lease agreement, the Corporation has irrevocable rights to use the property through 2089 in exchange for noncancelable lease payments. The annual lease payments from 2015 through 2019 average $282 per year. Payments from 2020 through the end of the lease term increase by set amounts every 5 years and total $42,837.

### *(e) Litigation*

Various investigations, lawsuits, and claims arising in the normal course of operations are pending or on appeal against the Corporation. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management that the liabilities that may arise from such actions would not materially affect the consolidated financial position or results of operations of the Corporation.

***(f) Other***

For both December 31, 2014 and 2013, approximately 15% of the Corporation's employees were covered by collective bargaining agreements, of which 6% expire in the next year.

## (11) Endowment Funds Net Asset Classification

The Corporation's endowment consists of funds that have been established by the Corporation to provide funding for construction and equipment purchases, as well as funding for healthcare services and health education. The Corporation's endowment funds represent a component of the Corporation's total unrestricted, temporarily restricted, and permanently restricted net assets. These funds are invested by the Corporation. As required by GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

***(a) Funds with Deficiencies***

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 Foundation 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 can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. No such deficiencies existed at December 31, 2014 and 2013.

***(b) Interpretation of Relevant Law***

The Board of Trustees of the Corporation has interpreted the New Jersey Uniform Prudent Management of Institutional Funds Act 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 Corporation classifies 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 investment income earned on the accumulations to the permanently restricted endowment funds is classified based on donor stipulations as temporarily restricted net assets until the donor-imposed restrictions have been met.

***(c) Spending Policy***

The Corporation spends earnings on donor-restricted endowment funds as expenses have been incurred that satisfy the donor-imposed restrictions.

***(d) Return Objectives and Risk Parameters***

The Corporation has 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

(In thousands)

Corporation must hold in perpetuity. Under this policy, as approved by the Corporation's Board 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.

Endowment net asset composition as of December 31 is as follows:

| | | **2014** | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Donor-restricted endowment funds | $ — | 5,353 | 13,752 | 19,105 |
| Board-designated endowment funds | 1,000 | — | — | 1,000 |
| Total funds | $ 1,000 | 5,353 | 13,752 | 20,105 |

| | | **2013** | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Donor-restricted endowment funds | $ — | 4,836 | 13,695 | 18,531 |
| Board-designated endowment funds | 1,000 | — | — | 1,000 |
| Total funds | $ 1,000 | 4,836 | 13,695 | 19,531 |



(Continued)

(In thousands)

Changes in endowment net assets for the years ended December 31, 2014 and 2013 are as follows:

| | 2014 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Endowment net assets, beginning of year | $ 1,000 | 4,836 | 13,695 | 19,531 |
| Investment return: | | | | |
| Investment income | 32 | 227 | — | 259 |
| Net appreciation (realized and unrealized) | 2 | 413 | — | 415 |
| Total investment return | 34 | 640 | — | 674 |
| Contributions and other | — | — | 57 | 57 |
| Appropriation of endowment assets for expenditure | (34) | (123) | — | (157) |
| Endowment net assets, end of year | $ 1,000 | 5,353 | 13,752 | 20,105 |

| | 2013 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Endowment net assets, beginning of year | $ 1,000 | 3,792 | 13,621 | 18,413 |
| Investment return: | | | | |
| Investment income | 42 | 284 | — | 326 |
| Net (depreciation) appreciation (realized and unrealized) | (9) | 985 | — | 976 |
| Total investment return | 33 | 1,269 | — | 1,302 |
| Contributions and other | | — | 74 | 74 |
| Appropriation of endowment assets for expenditure | (33) | (225) | — | (258) |
| Endowment net assets, end of year | $ 1,000 | 4,836 | 13,695 | 19,531 |



(Continued)

(In thousands)

## (12) Fair Value of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

- The carrying amounts reported in the balance sheets for cash and cash equivalents, patient accounts receivable, net, estimated amounts due to/from third party payors, net, other current assets, accounts payable, accrued expenses, and other current liabilities approximate fair value.
- *Long-term debt*: The fair value (Level 2) of the Corporation's bonds and term loans are estimated based on quoted market prices.

The carrying value and fair value of the Corporation's long-term debt at December 31, 2014 and 2013 are as follows:

| | | 2014 | | 2013 | |
|---|---|---|---|---|---|
| | | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Long-term debt (excluding capital leases and other) | $ | 1,058,092 | 1,063,115 | 932,085 | 840,880 |

## (13) Functional Expenses

The Corporation provides general healthcare services to residents within its geographic area. Expenses from operations related to providing these services are as follows for the years ended December 31, 2014 and 2013:

| | | **2014** | **2013** |
|---|---|---|---|
| Healthcare services | $ | 2,483,537 | 2,191,620 |
| General and administrative | | 313,539 | 244,371 |
| | $ | 2,797,076 | 2,435,991 |

## (14) Affiliations and Other Transactions

(a) The Corporation has entered into several business arrangements with RadNet, Inc., a publicly traded company, to provide diagnostic imaging services to residents of New Jersey and the surrounding areas. These arrangements include joint ventures, of which the Corporation owns a majority ownership interest. The joint ventures are managed by RadNet, Inc. Additionally, on March 29, 2013, the Corporation purchased a diagnostic imaging facility from RadNet, Inc. for $3,954. The Corporation recognized goodwill and property, plant, and equipment in the amount of $2,592 and $1,362, respectively, as part of the purchase. This practice is also being managed by RadNet, Inc.

(b) On January 21, 2014, the Board of Trustees of Monmouth Medical Center and Kimball Medical Center approved a plan to merge Kimball Medical Center with Monmouth Medical Center to create an integrated, regionalized, two-campus partnership. As such, and effective with the approved merger on May 1, 2014, Kimball Medical Center was renamed Monmouth Medical Center, Southern Campus. Both hospitals have retained their individual licenses with separate medical staffs and a single Board of Trustees oversees both campuses. Representatives from Kimball Medical Center's board have joined Monmouth Medical Center's board.

(c) On December 31, 2014, Barnabas Health and the Jersey City Redevelopment Agency (the Agency) entered into an agreement whereby the Corporation has been designated as the redeveloper of a City Parcel in Jersey City, New Jersey. The development will be undertaken in phases and will consist of the construction of a mixed use complex including a parking garage and buildings for medical, office, retail and residential uses. The purchase price for the conveyance of the City Parcel is $24,000. The initial deposit of $1,000 was paid in January 2015. An additional $5,000 will be delivered to the Agency no later than June 1, 2015 with the balance due at closing, which is expected to be December 2015. The initial deposit is being held in escrow and will be delivered to the Agency on June 1, 2015 and is non-refundable.

(d) Barnabas Health is currently engaged in potential affiliation discussions with Robert Wood Johnson Health Care Corp. (RWJ) headquartered in New Brunswick, New Jersey. Barnabas Health and RWJ have entered into a Memorandum of Understanding, which specifies confidentiality while discussions are ongoing. It is not currently possible to determine if, or when, a transaction with RWJ will be completed.

## (15) Subsequent Events

Management evaluated all events and transactions that occurred after December 31, 2014 and through April 15, 2015. The Corporation did not have any material recognizable subsequent events during the period, except as previously disclosed.