Consolidated Financial Statements

Capital Health System, Inc. and Subsidiaries
Years Ended December 31, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP

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Capital Health System, Inc. and Subsidiaries

Consolidated Financial Statements

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Contents

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Report of Independent Auditors

The Board of Directors
Capital Health System, Inc.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital Health System, Inc. and Subsidiaries at December 31, 2015 and 2014, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 29, 2016

Capital Health System, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2015	**2014**
Assets	*(In Thousands)*	
Current assets:		
Cash and cash equivalents	**$ 12,637**	$ 14,449
Short-term investments	**114,816**	110,271
Assets whose use is limited – current portion	**3,423**	3,477
Patient accounts receivable, net of allowance for doubtful accounts of $38,513 in 2015 and $38,784 in 2014	**94,244**	90,186
Supplies	**8,388**	10,749
Prepaid expenses and other current assets	**14,458**	13,986
Total current assets	**247,966**	243,118
Investments	**5,648**	5,991
Assets whose use is limited – noncurrent portion	**93,283**	88,551
Deferred financing costs, net	**10,936**	11,765
Property, plant, and equipment, net	**641,721**	691,139
Other noncurrent assets	**1,375**	1,471
	$ 1,000,929	$ 1,042,035
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 17,707**	$ 16,666
Accounts payable	**26,069**	33,879
Accrued expenses	**37,588**	42,954
Accrued interest	**4,138**	4,223
Estimated third-party payor settlements – current portion	**2,762**	1,709
Total current liabilities	**88,264**	99,431
Long-term debt, excluding current portion	**714,062**	731,752
Estimated third-party payor settlements and other long-term liabilities– noncurrent portion	**32,261**	31,270
Total liabilities	**834,587**	862,453
Commitments and contingencies		
Net assets:		
Unrestricted	**158,026**	170,777
Temporarily restricted	**2,534**	2,774
Permanently restricted	**4,920**	4,915
Total Capital Health System net assets	**165,480**	178,466
Non-controlling interest	**862**	1,116
Total net assets including non-controlling interest	**166,342**	179,582
	$ 1,000,929	$ 1,042,035

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31	
	2015	**2014**
Unrestricted net assets:	*(In Thousands)*	
Revenue:		
Net patient service revenue	**$ 633,535**	$ 603,391
Provision for bad debt	**(52,523)**	(40,153)
Net patient service revenue, less provision for bad debts	**581,012**	563,238
Other revenue	**14,468**	19,355
Unrestricted contributions	**326**	335
Total revenue	**595,806**	582,928
Expenses:		
Salaries and wages	**254,131**	262,978
Employee benefits	**40,064**	43,003
Supplies and other expenses	**195,904**	203,556
Interest	**54,788**	51,240
Depreciation and amortization	**63,040**	64,064
Total expenses	**607,927**	624,841
Loss from operations prior to items below	**(12,121)**	(41,913)
Investment income and realized gains and losses, net	**9,215**	21,467
Gain on sale of investment in joint venture	**–**	156
Other	**25**	(1,047)
Deficiency of revenue over expenses, before non-controlling interest	**(2,881)**	(21,337)
Less: gain attributable to non-controlling interest	**1,656**	2,382
Deficiency of revenue over expenses	**(4,537)**	(23,719)
Net change in unrealized gains and losses on investments	**(9,230)**	(15,981)
Net assets released from restrictions for equipment	**214**	8
Pension-related changes other than net periodic pension cost	**802**	(2,001)
Decrease in unrestricted net assets	**$ (12,751)**	$ (41,693)

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Non-controlling Interest	Total
			(In Thousands)		
Net assets at December 31, 2013	$ 212,470	$ 2,567	$ 4,860	$ 2,032	$ 221,929
(Deficiency) excess of revenue over expenses	(23,719)	–	–	2,382	(21,337)
Net change in unrealized gains and losses on investments	(15,981)	–	–	–	(15,981)
Pension-related changes other than net periodic pension cost	(2,001)	–	–	–	(2,001)
Decrease in net assets related to change in control	–	–	–	(1,351)	(1,351)
Member distributions, net	–	–	–	(1,947)	(1,947)
Donor restricted contributions	–	789	55	–	844
Net assets released from restrictions for equipment	8	(8)	–	–	–
Net assets released from restrictions for operations	–	(574)	–	–	(574)
Decrease (increase) in net assets	(41,693)	207	55	(916)	(42,347)
Net assets at December 31, 2014	170,777	2,774	4,915	1,116	179,582
(Deficiency) excess of revenue over expenses	**(4,537)**	**–**	**–**	**1,656**	**(2,881)**
Net change in unrealized gains and losses on investments	**(9,230)**	**–**	**–**	**–**	**(9,230)**
Member distributions, net	**–**	**–**	**–**	**(1,910)**	**(1,910)**
Donor restricted contributions	**–**	**478**	**5**	**–**	**483**
Net assets released from restrictions for equipment	**214**	**(214)**	**–**	**–**	**–**
Pension-related changes other than net periodic pension cost	**802**	**–**	**–**	**–**	**802**
Net assets released from restrictions for operations	**–**	**(504)**	**–**	**–**	**(504)**
(Decrease) increase in net assets	**(12,751)**	**(240)**	**5**	**(254)**	**(13,240)**
Net assets at December 31, 2015	**$ 158,026**	**$ 2,534**	**$ 4,920**	**$ 862**	**$ 166,342**

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31 2015	2014
	(In Thousands)	
Cash flows from operating activities		
Decrease in net assets	**$ (13,240)**	$ (42,347)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	**63,040**	64,064
Amortization of deferred financing fees	**829**	834
Net change in unrealized gains and losses on investments	**9,230**	15,981
Gain on disposal of fixed assets	**(25)**	–
Pension-related changes other than net periodic pension cost	**(802)**	2,001
Member distributions, net, related to non-controlling interest	**1,910**	1,947
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(4,058)**	(4,648)
Supplies	**2,361**	15
Prepaid expenses and other current assets	**330**	(2,269)
Other noncurrent assets	**96**	5,924
Accounts payable	**(7,810)**	2,115
Accrued expenses	**(5,366)**	3,542
Accrued interest	**(85)**	617
Estimated third-party payor settlements and other long-term liabilities	**2,044**	(12,190)
Net cash provided by operating activities	**48,454**	35,586
Cash flows from investing activities		
Net purchases of assets whose use is limited	**(7,333)**	(52,254)
Net (purchases) sales of investments	**(10,777)**	33,418
Investment in joint ventures	**(1,910)**	168
Cash proceeds from sale of property and equipment	**99**	–
Purchases of property and equipment, net	**(13,676)**	(8,767)
Net cash used in investing activities	**(33,597)**	(27,435)
Cash flows from financing activities		
Payments of capital leases	**(1,601)**	(1,595)
Payments of long-term debt	**(15,068)**	(4,799)
Net cash used in financing activities	**(16,669)**	(6,394)
Net (decrease) increase in cash and cash equivalents	**(1,812)**	1,757
Cash and cash equivalents at beginning of year	**14,449**	12,692
Cash and cash equivalents at end of year	**$ 12,637**	$ 14,449
Noncash investing and financing transactions		
Assets acquired under capitalized lease obligations	**$ 20**	$ –
Supplemental disclosures of cash flow information		
Cash paid for interest expense	**$ 54,044**	$ 49,789

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Capital Health System, Inc. (Capital Health), a New Jersey nonprofit corporation, consists of three operating divisions: Capital Health Regional Medical Center (Regional), Capital Health at Mercer (Mercer), and Capital Health Medical Center – Hopewell (Hopewell). Regional is a separately licensed acute care hospital with 237 licensed beds, located in Trenton, New Jersey. Mercer ceased operations as a separately licensed acute care hospital on November 6, 2011 but remained open as a satellite emergency department (SED) licensed under Regional. Capital Health sold the Mercer campus on August 29, 2013. The SED ceased operations on December 17, 2013. Hopewell consists of a separately licensed acute care hospital with 221 licensed beds, located in Hopewell Township, New Jersey and an ambulatory care facility located in Hamilton, New Jersey. Capital Health is the sole member of Capital Health Foundation (the Foundation), a nonprofit corporation. Capital Health is also the sole shareholder of two for-profit corporations: Mercer Holding Corporation (Mercer Holding) and Capital Region Insurance Company (CRIC).

Mercer Holding owns 100% of the capital stock of Bellevue Avenue Management, Inc. (Bellevue), a for-profit company which provides management services; 100% of the capital stock of Oasis Spa at Hopewell, LLC (Oasis Spa), a for-profit company which provides spa services at Hopewell; 100% of the capital stock of Capital Health Accountable Care Organization Limited Liability Company (ACO), a for-profit Company with no activity in 2015 or 2014; and 100% of the capital stock of Capital Pharmacy LLC (Capital Pharmacy), a for-profit Company with no activity in 2015 or 2014.

Mercer Holding has a 43.64% ownership interest in Hamilton Surgery Center, LLC (Hamilton Surgery Center) and majority control of the Board of Directors. Mercer Holding had owned 50% of the capital stock of Capital Imaging Ventures, LLC (Capital Imaging Ventures), a for-profit company which has a 50% ownership in a radiology joint venture. On December 31, 2014, Mercer Holding sold its ownership interest in Capital Imaging Ventures. Mercer Holding accounts for the non-controlling interests in Hamilton Surgery Center and Capital Imaging Ventures in accordance with Accounting Standards Codification (ASC) 810, *Consolidation*.

CRIC is a captive insurance company formed under the laws of the Cayman Islands, which provides professional and general liability coverage for Capital Health and its employees.

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

Capital Health System Condominium Association, Inc. (the Association) is a nonprofit corporation that provides maintenance, preservation and control of the common areas within Hopewell. Capital Health is grantor of the Association and has majority control of its Board of Trustees. As such, the Association is consolidated in the accompanying consolidated financial statements.

Stroke and Cerebrovascular Center of New Jersey, P.C. (SCNJ) is a professional service corporation which operates a medical practice specializing in cerebrovascular and neurosurgical services at Capital Health. An employed physician of Capital Health is currently the sole shareholder of SCNJ. Capital Health has control over the appointment of shareholders and directors in SCNJ, and as such, SCNJ is included in the accompanying consolidated financial statements. On March 15, 2015, SCNJ ceased operations as a professional service corporation.

A summary of significant accounting policies of Capital Health follows:

Principles of Consolidation

The consolidated financial statements include the accounts of Capital Health, the Foundation, Mercer Holding, the Association, SCNJ, and CRIC. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, such as estimated allowance for doubtful accounts, estimated settlements with third-party payors, professional liability insurance, pension benefit assets, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates and assumptions.

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid instruments with a maturity of three months or less when purchased, excluding assets whose use is limited by board designation, debt and trust agreements or other arrangements and those held in the investment portfolio.

Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable results from health care services provided by Capital Health. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and adjusted in future periods, as adjustments become known, or as years are no longer subject to such audits, reviews and investigations (see Note 3).

Investments

Short-term investments are readily marketable and not subject to donor restriction. Investments include amounts under donor restrictions.

(Dollars In Thousands)

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

Investments in equity securities (including mutual funds) with readily determinable fair values and all investments in debt securities (including mutual funds) are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, other than temporary impairments of investments, and interest and dividends) are included in the deficiency of revenue over expenses, unless the income or loss is restricted by donor or law. Net change in unrealized gains and losses on investments, except for those unrealized losses which are deemed to be other than temporary impairments, are excluded from the deficiency of revenue over expenses. The fair value of marketable investments is determined by reference to quoted market prices.

Nonmarketable investments are defined as nontraditional, not readily marketable asset classes. Nonmarketable investment holdings consist of private mutual funds of funds (the Funds). The valuation of the Funds is determined by the investment managers or general partners (see below). Individual investment holdings within the Funds primarily include investments in market-traded securities. However, values for nonmarketable securities held by the Funds, where readily available fair values do not exist, may be based on estimates determined by the fund managers based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Capital Health's units of account are valued based on monthly net asset values (NAV) as published and reported to qualified investors and used for the basis for trades. NAV approximates fair value. The investments may indirectly expose Capital Health to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. While these financial instruments may contain varying degrees of risk, Capital Health's risk with respect to such transactions is limited to its capital balance in the investment. Funds are available and can be divested within 65 days from the tender deadline. The financial statements of the Funds are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with Capital Health's annual financial statement reporting. At December 31, 2015, Capital Health has no future commitments to invest in nonmarketable investments. Unrealized gains and losses on the Funds are excluded from the deficiency of revenue over expenses.

(Dollars In Thousands)

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

Assets Whose Use is Limited

Assets whose use is limited includes investments held by CRIC (see Note 4), restricted investments for collateral, restricted cash for guarantees, investments held under the debt agreement and investments held under a supplemental retirement plan. Assets whose use is limited are recorded at fair value determined by reference to quoted market prices.

Supplies

Supplies are carried at the lower of cost, determined on the first-in, first-out method, or market.

Deferred Financing Costs

Deferred financing costs include the costs of obtaining financing and are amortized over the period the obligation is outstanding using the effective interest method. Deferred financing fees are reported net of accumulated amortization of $5,753 and $4,924 at December 31, 2015 and 2014, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost, except those acquired by gift or bequest which are recorded at their fair value established at date of contribution.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The estimated lives range from two to forty years.

Capital Health continually evaluates whether later events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, Capital Health uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset, or determines the fair value of the long-lived asset in measuring whether the long-lived asset is recoverable.

(Dollars In Thousands)

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

Estimated Professional Liabilities

Insurance reserves represent estimated unpaid losses and loss adjustment expenses. Such amounts are established using management's estimates on the basis of claims records and an independent actuarial review and include an amount for the adverse development of reported claims. Adjustments to the estimate of the liability for losses are reflected in earnings in the period in which the adjustment is determined. The insurance reserves are based on estimates and, while management believes that the amount is adequate, the ultimate liability may vary significantly from the amount provided. Amounts are recorded within other long-term liabilities within the accompanying consolidated balance sheets.

Classification of Net Assets

Capital Health separately accounts for and reports upon donor restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Resources arising from the results of operations or assets set aside by the Board of Directors are not considered to be donor restricted. Temporarily restricted net assets are those whose use is temporarily limited by the donor. Permanently restricted net assets have been restricted by donors to be maintained by Capital Health in perpetuity.

When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as other revenue, if intended for operations, or below deficiency of revenue over expenses, if intended for capital purposes. Income earned from temporarily restricted net assets is included in investment income and realized gains and losses, net, unless the income is restricted by the donor, in which case it is added to temporarily restricted net assets. Income earned from permanently restricted net assets is not subject to donor restriction and is, therefore, included in the consolidated statements of operations as investment income and realized gains and losses, net.

Capital Health follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it relates to its permanently restricted contributions and net assets, as enacted by the State of New Jersey in 2009. Capital Health expends the income distributed from the related assets according to donor stipulations.

(Dollars In Thousands)

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

Advertising Costs

Capital Health expenses advertising costs as incurred. Total amounts charged to advertising expense during the years ended December 31, 2015 and 2014 were $1,931 and $2,103, respectively.

Deficiency of Revenue Over Expenses

The consolidated statements of operations include deficiency of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from deficiency of revenue over expenses, include the net change in unrealized gains and losses on investments (excluding those considered to be other than temporary), net assets released from restrictions for equipment and pension-related changes other than net periodic pension cost.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported within loss from operations.

Functional Expenses

All operating expenses incurred by Capital Health were related to the provision of health care services.

Income Taxes

Capital Health and the Foundation are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation is classified with public charity status of 170(b)(1)(A)(vi) under Section 501(c)(3) of the Code. These entities are also exempt from state and local income taxes. Mercer Holding and SCNJ are taxable entities; amounts provided for federal and state and local income taxes are included in supplies and other expenses in the accompanying consolidated financial statements. However, such amounts are not material for disclosure. The Association is a New Jersey nonprofit association, with no taxable income recorded during 2015 or 2014. CRIC is not subject to taxes on income or gains under Section 6 of the Cayman Islands Tax Concessions Law (Revised). Therefore, no provision for taxes has been made in the accompanying

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

consolidated financial statements. ACO and Capital Pharmacy are taxable entities with no activity in 2015 or 2014. Therefore, no provision for taxes has been made in the accompanying consolidated financial statements.

Pension Plan

Capital Health's policy is to fund amounts as necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

Capital Health recognizes in its consolidated balance sheets an asset for its defined benefit pension plan's (the Plan) overfunded status or a liability for the Plan's underfunded status, measures the Plan's assets and obligations that determine its funded status as of the end of its fiscal year, and recognizes changes in the funded status of the Plan in changes in unrestricted net assets in the year in which the changes occur (see Note 10).

Recent Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The provisions of ASU 2014-09 are effective for Capital Health for annual reporting periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. Capital Health has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

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

(Dollars In Thousands)

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

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the statement of financial position as a direct deduction from the corresponding debt liability rather than as an asset. This change will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The recognition and measurement guidance for debt issuance costs is not affected. The provisions of ASU 2015-03 are effective for Capital Health for annual reporting periods beginning after December 15, 2015, with retrospective application to all periods presented. Early application is permitted. Capital Health has not yet adopted ASU 2015-03. Adoption of ASU 2015-03 would result in the reclassification of deferred financing costs of $11.0 million at December 31, 2015 to long-term debt in the accompanying consolidated financial statements.

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

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. Early adoption is permitted. Capital Health has elected to adopt ASU 2015-07 for the year ended December 31, 2015.

(Dollars In Thousands)

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

In February 2016, the FASB issued ASU 2016-02, *Leases* that will require lessees to report most leases on their statement of financial position, but recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. Lessors in operating leases continue to recognize the underlying asset and recognize lease income on either a straight-line basis or another systematic and rational basis. The provisions of ASU 2016-02 are effective for Capital Health for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. Capital Health has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

2. Charity Care

Capital Health provides care to patients who meet certain criteria defined by the New Jersey Department of Health (DOH) without charge or at amounts less than established rates. Because Capital Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Capital Health's records identify and monitor the level of charity care it provides and include the amount of charges forgone for services and supplies furnished. DOH allows retroactive application for charity care up to two years from the date of service.

The costs of charity care is derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing Capital Health's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients. Charity care provided, at cost, during 2015 and 2014 totaled approximately $32,823 and $41,795, respectively. Costs are shifting from charity care provided due to the Medicaid expansion in 2014.

Capital Health receives payments from the New Jersey Health Care Subsidy Funds for charity care and such amounts totaled approximately $26,790 and $30,013 for the years ended December 31, 2015 and 2014, respectively (Note 3).

(Dollars In Thousands)

3. Net Patient Service Revenue

Patient Accounts Receivable and Net Patient Service Revenue

Capital Health recognizes accounts receivable and patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered (see description of third-party payor payment programs below). For uninsured patients that do not qualify for charity care, Capital Health recognizes revenue on the basis of discounted rates under Capital Health's self-pay patient policy. Under the policy for self-pay patients, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which would be billed to a commercially insured patient. Previously, uncollectible amounts for such patients were recorded as provision for bad debts.

Patient service revenue for the years ended December 31, 2015 and 2014, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2015	2014
Third party payors	**$ 608,196**	$ 573,221
Self-pay	**25,339**	30,170
Total payors	**$ 633,535**	$ 603,391

Deductibles and copayments under third-party payment programs with third-party payors are the patient's responsibility and Capital Health considers these amounts in its determination of the provision for bad debts based on collection experience. Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, Capital Health analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

For receivables associated with services provided to patients who have third-party coverage, Capital Health analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for payors who are known to have financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, Capital Health records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Capital Health's allowance for doubtful accounts totaled $38,513 and $38,784 at December 31, 2015 and 2014, respectively. The allowance for doubtful accounts for self-pay patients was approximately 29% and 30% of self-pay accounts receivable as of December 31, 2015 and 2014. Overall, the total of self-pay discounts and write-offs has not changed significantly for the year ended December 31, 2015. Capital Health has not experienced significant changes in write-off trends and has not changed its charity care policy for the years ended December 31, 2015 and 2014.

Third Party Payment Programs

Capital Health has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of Capital Health have been audited and settled for years through 2011, except for 2005 and 2008, at December 31, 2015.

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. Capital Health is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of Capital Health for years through 2012, with the exception of 2005 and 2008 for Hopewell, have been audited and settled at December 31, 2015.

Other Third Party Payors: Capital Health also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to Capital Health under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

No material revenue was recorded in 2015 or 2014 for net adjustments and settlements related to prior years.

Capital Health has appealed certain items in audited cost reports. The outcome of these appeals is uncertain and, therefore, potential revenue associated with these appeals is not included within the accompanying consolidated statements of operations.

Capital Health has provided for certain amounts which are expected to be repaid in relation to a Medicare supplemental payment referred to as disproportionate share, under which Capital Health is paid additional funds based on the number of Medicaid and similar patients it serves. The disproportionate share formula and the requirements for inclusion of certain types of patient days are extremely complex. The underlying data for the formula has been subject to state-wide evaluations by the national and regional administrators of the federal Medicare and New Jersey Medicaid programs in recent years. In 2009, amounts related to cost report years 2001 through 2004 were settled by Medicare. Beginning in August 2010, certain data related to cost report years 2005 through 2007 was required to be resubmitted by hospitals state-wide. As part of this resubmission process in 2010, Capital Health reviewed and revised the applicable data to be in conformity with management's interpretation of the disproportionate share formula requirements. Data for cost report years 2005 through 2007 and analysis for similar revisions for cost report years through 2014, and the impact on the estimated disproportionate share calculations from any resulting data revisions, are reviewed regularly by management of Capital

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Health. In 2013, Medicare settled cost reports for years 2006 and 2007. In 2014, Medicare settled cost reports for years 2009 and 2010. In 2015, Medicare settled cost reports for the year 2011. Capital Health believes that adequate provision has been made for this issue; however, the resubmitted data and subsequent years' information are subject to review in the future by the national and regional administrators of the Medicare and Medicaid programs.

Revenue from the Medicare and Medicaid programs accounted for approximately 24% and 27% of Capital Health's net patient service revenue for the years ended December 31, 2015 and 2014, respectively.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on Capital Health.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Capital Health believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on its consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

State Subsidy Funds

The New Jersey Health Care Subsidy Funds were established for various purposes, including the distribution of charity care payments to hospitals statewide.

The following is a summary of subsidy revenue included in net patient service revenue:

	2015	**2014**
Charity care *(Note 2)*	**$ 26,790**	$ 30,013
Delivery system reform incentive payments	**4,949**	4,591
Mental health	**958**	958
	$ 32,697	$ 35,562

Effective January 1, 2014, the State of New Jersey replaced the Hospital Relief Subsidy Fund with a new payment mechanism referred to as the Delivery System Reform Incentive Payment Pool (the Pool). The Pool is available to certain hospitals that are able to establish performance improvement activities in one of eight specified clinical improvement areas. Capital Health's application with the State of New Jersey to participate in the Pool has been approved.

Capital Health expects to receive approximately $11,545 in Charity Care subsidies for distributions scheduled through June 30, 2016. Charity Care subsidies subsequent to June 30, 2016 are presently unknown.

(Dollars In Thousands)

4. Assets Whose Use is Limited

Assets whose use is limited consist of the following:

	December 31			
		2015		2014
Restricted investments for collateral	**$**	**8,183**	$	12,141
Assets held under supplemental retirement plan		**8,790**		8,241
Assets held under debt agreement		**56,073**		41,644
Assets held by CRIC (see Note 14)		**23,660**		30,002
Total assets whose use is limited		**96,706**		92,028
Less: assets whose use is limited – current portion		**3,423**		3,477
	$	**93,283**	$	88,551

Assets held under debt agreements are maintained for the following purposes:

	December 31			
		2015		2014
Mortgage reserve fund	**$**	**52,650**	$	38,167
Mortgage insurance premium		**3,373**		3,427
Environmental escrow		**50**		50
	$	**56,073**	$	41,644

Capital Health's gross unrealized losses and fair value of individual securities, classified as assets whose use is limited, aggregated by investment category, which have been in a continuous unrealized loss position less than 12 months and greater than 12 months at December 31, 2015 and 2014 are as follows:

	December 31, 2015											
	Less than Twelve Months				Twelve Months or Longer				Total			
		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses
Fixed income securities (7 securities)	$	12,556	$	(849)	$	3,532	$	(259)	$	16,088	$	(1,108)
Mutual funds – fixed income securities (12 funds)		7,394		(324)		–		–		7,394		(324)
Total	$	19,950	$	(1,173)	$	3,532	$	(259)	$	23,482	$	(1,432)

(Dollars In Thousands)

4. Assets Whose Use is Limited (continued)

	December 31, 2014					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income securities (3 securities)	$ –	$ –	$ 621	$ (18)	$ 621	$ (18)
Mutual funds – fixed income securities (6 funds)	2,603	(99)	–	–	2,603	(99)
Total	$ 2,603	$ (99)	$ 621	$ (18)	$ 3,224	$ (117)

At December 31, 2015 and 2014, the unrealized losses of approximately $1,432 and $117, respectively, were not deemed to be other than temporary based on Capital Health's ability and intent to hold the funds until recovery.

5. Investments

Investments consist of the following:

	December 31	
	2015	2014
Cash and cash equivalents	**$ 12,323**	$ 13,114
Mutual funds – fixed income securities	**77,382**	73,204
Mutual funds – equity securities	**30,684**	29,750
Private mutual funds	**–**	129
Accrued interest	**75**	65
Total investments	**120,464**	116,262
Less short-term investments	**114,816**	110,271
	$ 5,648	$ 5,991

(Dollars In Thousands)

5. Investments (continued)

Investment income, included within investment income and realized gains and losses, net, consists of the following:

	Year Ended December 31 2015	2014
Interest and dividend income	**$ 3,339**	$ 3,903
Net realized gains	**5,876**	17,564
Total investment income	**$ 9,215**	$ 21,467

At December 31, 2015 and 2014, unrealized losses of approximately $3,675 and $657, respectively, detailed below, were not deemed to be other than temporary based on Capital Health's ability and intent to hold the funds until recovery.

	December 31, 2015					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds equity securities mutual funds (6 funds)	**$ 27,549**	**$ (2,064)**	**$ –**	**$ –**	**$ 27,549**	**$ (2,064)**
Mutual funds- fixed income securities (36 funds)	**1,211**	**(15)**	**21,345**	**(1,596)**	**22,556**	**(1,611)**
Total	**$ 28,760**	**$ (2,079)**	**$ 21,345**	**$ (1,596)**	**$ 50,105**	**$ (3,675)**

	December 31, 2014					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Private mutual funds (3 funds)	$ –	$ –	$ 95	$ (4)	$ 95	$ (4)
Mutual funds- fixed income securities (33 funds)	18,668	(248)	2,856	(405)	21,524	(653)
Total	$ 18,668	$ (248)	$ 2,951	$ (409)	$ 21,619	$ (657)

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy for fair value measurements exists 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 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(Dollars In Thousands)

6. Fair Value Measurements (continued)

The following tables present the financial instruments carried at fair value by caption on the consolidated balance sheet based on the valuation hierarchy defined above (excludes accrued interest):

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 12,637	$ –	$ –	$ 12,637
Assets whose use is limited:				
Assets held by CRIC (see Note 14):				
Equity securities	–	10,668	–	10,668
Fixed income	–	12,992	–	12,992
Investments restricted for collateral:				
Mutual funds – fixed income securities	8,183	–	–	8,183
Assets held under supplemental retirement plan:				
Mutual funds – fixed income securities	3,112	–	–	3,112
Mutual funds – equity securities	5,314	–	–	5,314
Investment contract with insurance company	–	364	–	364
Assets held under debt agreement:				
Cash and cash equivalents	40,993	–	–	40,993
U.S. government securities	–	15,080	–	15,080
Total assets whose use is limited	57,602	39,104	–	96,706
Investments:				
Cash and cash equivalents	12,323	–	–	12,323
Mutual funds – fixed income securities	77,382	–	–	77,382
Mutual funds – equity securities	30,684	–	–	30,684
Total investments	120,389	–	–	120,389
Total assets at fair value	$ 190,628	$ 39,104	$ –	$ 229,732
Pension assets				
Mutual funds – fixed income securities	$ 48,514	$ –	$ –	$ 48,514
Mutual funds – equity securities	13,879	–	–	13,879
U.S. government securities	–	11,825	–	11,825
Common collective trust	–	4,046	–	4,046
Total pension assets at fair value	$ 62,393	$ 15,871	$ –	$ 78,264

(Dollars In Thousands)

6. Fair Value Measurements (continued)

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 14,449	$ –	$ –	$ 14,449
Assets whose use is limited:				
Cash and cash equivalents	–	–	–	–
Assets held by CRIC (see Note 14):				
Equity securities	–	13,617	–	13,617
Fixed income	–	16,385	–	16,385
Investments restricted for collateral:				
Mutual funds – fixed income securities	12,141	–	–	12,141
Assets held under supplemental retirement plan:				
Mutual funds – fixed income securities	2,157	–	–	2,157
Mutual funds – equity securities	5,570	–	–	5,570
Investment contract with insurance company	–	514	–	514
Assets held under debt agreement – cash and cash equivalents	41,644	–	–	41,644
Total assets whose use is limited	61,512	30,516	–	92,028
Investments:				
Cash and cash equivalents	13,114	–	–	13,114
Mutual funds – fixed income securities	73,204	–	–	73,204
Mutual funds – equity securities	29,750	–	–	29,750
Private mutual funds	–	129	–	129
Total investments	116,068	129	–	116,197
Total assets at fair value	$ 192,029	$ 30,645	$ –	$ 222,674
Pension assets				
Mutual funds – fixed income securities	$ 55,535	$ –	$ –	$ 55,535
Mutual funds – equity securities	17,235	–	–	17,235
U.S. government securities	–	6,932	–	6,932
Common collective trust	–	4,194	–	4,194
Total pension assets at fair value	$ 72,770	$ 11,126	$ –	$ 83,896

The carrying value of long-term debt approximates fair value at December 31, 2015 and 2014. The fair value is based upon discounted cash flow analyses. Fair value of FHA/GNMA debt is classified as Level 1 of the valuation hierarchy, while the fair value of capital leases is classified as Level 2.

(Dollars In Thousands)

7. Pledges Receivable

Pledges receivable, which are due from individuals, businesses and civic organizations and are uncollateralized, consist of the following:

	December 31 2015	December 31 2014
Pledges receivable within one year	**$ 373**	$ 637
Pledges receivable greater than one year	**282**	566
Pledges receivable, gross	**655**	1,203
Allowance for uncollectible pledges	**(59)**	(111)
Discount on pledges, with rates ranging from 0.73% to 2.56%	**(61)**	(94)
Total pledges receivable, net	**535**	998
Less pledges receivable, net – current portion (included in prepaid expenses and other current assets)	**373**	637
Pledges receivable, net – noncurrent (included in other noncurrent assets)	**$ 162**	$ 361

8. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31 2015	December 31 2014
Land	**$ 48,620**	$ 48,620
Land improvements	**34,747**	34,424
Buildings, leasehold improvements and fixed equipment	**743,362**	740,272
Major movable equipment	**238,569**	232,564
	1,065,298	1,055,880
Accumulated depreciation and amortization	**(429,980)**	(367,094)
	635,318	688,786
Construction in progress	**6,403**	2,353
Property, plant, and equipment, net	**$ 641,721**	$ 691,139

(Dollars In Thousands)

8. Property, Plant and Equipment (continued)

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was $63,040 and $64,064, respectively.

Major moveable equipment includes assets held under capital lease obligations of $8,167 and $8,147 at December 31, 2015 and 2014, respectively, net of accumulated amortization of $5,604 and $4,016, respectively, as of those dates.

9. Long-Term Debt

Long-term debt consists of the following:

	December 31	
	2015	**2014**
FHA/GNMA $755,875 Taxable Insured Mortgage Loan	**$ 730,175**	$ 745,243
Capital lease obligations with interest rates ranging from 1.3% to 5.3% payable monthly and quarterly	**1,594**	3,175
	731,769	748,418
Less current portion	**17,707**	16,666
	$ 714,062	$ 731,752

On April 7, 2009, Capital Health closed on a $755,875 mortgage insured by HUD through the Federal Housing Administration's (FHA's) Section 242 Hospital Mortgage Insurance Program. The proceeds of this financing were used to: 1) fund the construction of a 223 bed hospital in Hopewell Township, New Jersey that replaced Mercer; 2) fund the construction of the RPC at Regional; 3) defease Capital Health's NJHCFFA Series 1997, Series 2003A and Series 2003B bonds; 4) repay a $45,000 line of credit with a bank; and 5) pay financing costs related to the transaction.

Financing from the FHA Section 242 Hospital Mortgage Insurance Program provided $755,875. Capital Health was required to provide an equity contribution of $124,506, which was provided by final endorsement of the mortgage loan on September 20, 2012. At the initial closing, the debt had a fixed interest rate of 7.83%, and no principal was due on the loan until February 2012. At final endorsement of the loan, the mortgage note was amended effective September 1, 2012 with interest rates of 7.83% from April 7, 2009 through July 31, 2012, 5.77% from August 1, 2012

(Dollars In Thousands)

9. Long-Term Debt (continued)

through July 31, 2014, 6.80% from August 1, 2014 through July 31, 2018 and 6.77% from August 1, 2018 through maturity date of January 1, 2037. Under the terms of the amended mortgage note, interest only was due and payable on the first day of each month on the outstanding balance of principal up to and including January 1, 2012. The following table outlines the principal and interest payments due and payable on the first day of each month for the entire loan's term:

February 1, 2012-August 1, 2012	$	5,749
September 1, 2012-August 1, 2014 (interest only)		3,606
September 1, 2014-August 1, 2018		5,440
September 1, 2018- January 1, 2037		5,428

The mortgage note is collateralized by a security interest and a mortgage on substantially all of the property, plant and equipment at the Regional and Hopewell divisions. Interest costs resulting from the portion of debt related to construction was capitalized accordingly.

As of December 31, 2015 and 2014, Capital Health had an outstanding letter of credit totaling $1,390, related to an aspect of the Project. No amounts have been drawn at December 31, 2015 and 2014. The letter of credit expires in September 2016 and automatically renews for a term of one year.

Also in connection with the Project, Capital Health was required to provide a security interest in and lien on certain of its investments as collateral. As of December 31, 2015 and 2014, $8,183 and $12,141 of investments were pledged as collateral for the outstanding letters of credit. These investments are included in assets whose use is limited as of December 31, 2015 and 2014.

As of December 31, 2015 and 2014, Capital Health had outstanding letters of credit totaling $5,056 and $4,906, respectively, related to vendor arrangements. No amounts have been drawn on the letters of credit at December 31, 2015 and 2014. The letters of credit expire throughout 2016 and automatically renew for a term of one year.

(Dollars In Thousands)

9. Long-Term Debt (continued)

Under the terms of the mortgage loan, Capital Health is required to maintain certain financial ratios and comply with other restrictive covenants as described in the respective agreements in order to enter into additional indebtedness or to transfer funds to an affiliate without HUD approval. At December 31, 2015 and 2014, Capital Health was in compliance with the financial ratio requirements described in the agreements.

Scheduled payments on long-term debt and capital lease obligations at December 31, 2015, net of interest, are as follows:

	FHA/GNMA	Capital Lease	Total
2016	$ 16,124	$ 1,583	$ 17,707
2017	17,256	7	17,263
2018	18,487	4	18,491
2019	19,823	–	19,823
2020	21,207	–	21,207
Thereafter	637,278	–	637,278
Total long-term debt	$ 730,175	$ 1,594	$ 731,769

10. Retirement Plans

Capital Health has a non-contributory defined benefit pension plan and a defined contribution plan that operate under Section 403(b) of the Internal Revenue Code. Both plans cover substantially all of its employees. The benefits are based on years of service and compensation. Capital Health's funding policy provides that payments to the defined benefit pension plan shall be equal to the minimum funding requirement of ERISA plus additional amounts, which may be approved by Capital Health. In 2015 and 2014, Capital Health incurred $1,699 and $1,542, respectively, in pension expense for employer contributions to the defined contribution plan, which is included in employee benefits expense in the accompanying consolidated statements of operations.

10. Retirement Plans (continued)

As noted in Note 1, Capital Health recognizes in its consolidated balance sheets an asset, for the defined benefit plan's overfunded status, or a liability, for the plan's underfunded status; measures the defined benefit plan's assets and obligations that determine funded status as of the end of the its fiscal year; and recognizes the periodic change in the funded status of the defined benefit plan as a component of changes in unrestricted net assets in the year in which the change occurs.

Amounts that are recognized as a component of other changes in unrestricted net assets will be subsequently recognized as a component of net periodic pension.

Capital Health froze its defined benefit pension plan as of December 31, 2007.

Included in unrestricted net assets is unrecognized actuarial loss at December 31, 2015 and 2014 of $15,249 and $16,051, respectively, which has not yet been recognized in net periodic pension cost. At December 31, 2015 Capital Health has a defined benefit asset of $653 which is reported within other noncurrent assets in the accompanying consolidated balance sheet.

The unrecognized actuarial loss included in unrestricted net assets at December 31, 2015 and expected to be recognized in net periodic pension cost during the year ending December 31, 2016 is approximately $732.

(Dollars In Thousands)

10. Retirement Plans (continued)

The following table sets forth the funded status of the plan at December 31, 2015 and 2014 and the amounts recognized in the consolidated financial statements:

	2015	2014
Change in benefit obligation		
Benefit obligation, beginning of year	**$ 83,681**	$ 79,589
Interest cost	**2,729**	3,113
Actuarial (gain) loss	**(3,798)**	6,271
Benefits paid	**(2,184)**	(2,128)
Settlement gain	**(2,817)**	(3,164)
Benefit obligation, end of year	**77,611**	83,681
Change in plan assets		
Fair value of plan assets, beginning of year	**83,896**	81,833
Actual return on plan assets	**(631)**	7,355
Benefits paid and settlement gain	**(5,001)**	(5,292)
Fair value of plan assets, end of year	**78,264**	83,896
Funded status	**$ 653**	$ 215

The net periodic pension cost includes the following components:

	2015	2014
Interest cost	**$ 2,729**	$ 3,113
Expected return on plan assets	**(3,651)**	(4,214)
Recognized actuarial loss	**732**	522
Settlement loss	**554**	607
Periodic pension cost	**$ 364**	$ 28

The benefit obligations represent the projected and accumulated benefit obligation.

(Dollars In Thousands)

10. Retirement Plans (continued)

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

	2015	2014
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	**3.87%**	3.52%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	**3.52%**	4.25%
Expected long-term return on plan assets	**4.65%**	5.52%

The expected long-term rate of return on plan assets assumption of 5.52% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selecting Economic Assumptions for Measuring Pension Obligations. Based on Capital Health's investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 4.0% was selected and added to the real rate of return range to arrive at a best estimate. The actuarial (gains) losses in 2015 and 2014 primarily relate to changes in discount rate and mortality assumptions used to measure the projected benefit obligation.

Capital Health's pension plan weighted-average asset allocations at December 31, 2015 and 2014 by asset category are as follows:

	Plan Assets at December 31	
	2015	**2014**
Mutual funds – equity securities	**18%**	21%
Mutual funds – fixed income securities	**62**	66
U.S. government securities	**15**	8
Other	**5**	5
	100%	100%

(Dollars In Thousands)

10. Retirement Plans (continued)

Capital Health expects to pay future benefits as follows:

2016	$ 6,706
2017	7,002
2018	6,553
2019	6,307
2020	6,126
2021-2025	26,227

Capital Health's investment policies and strategies for plan assets include allocations of a diversified portfolio of equity investments, fixed income securities and cash equivalents. Though these assets are long-term in nature, a reasonable amount of liquidity should be maintained.

Capital Health does not expect to contribute to its defined benefit pension plan in 2016.

11. Concentration of Credit Risk

Capital Health grants credit without collateral to its patients, most of whom are local residents of the greater Trenton metropolitan area and are insured under third-party payor agreements. Concentrations of net accounts receivable from patients and third-party payors were as follows:

	December 31	
	2015	**2014**
Medicare	**25%**	27%
Medicaid	**12**	10
Commercial and managed care	**49**	50
Blue Cross	**13**	11
Self-pay	**1**	2
	100%	100%

(Dollars In Thousands)

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31 2015	December 31 2014
Health care services	**$ 1,290**	$ 1,290
Education	**397**	442
Equipment	**668**	867
Charity care	**81**	71
Other	**98**	104
	$ 2,534	$ 2,774

Net assets were released from restrictions for the following purposes:

	Year Ended December 31 2015	Year Ended December 31 2014
Equipment	**$ 368**	$ 74
Health care services	**275**	330
Education	**54**	114
Charity care	**8**	11
Other	**13**	53
	$ 718	$ 582

Changes in donor endowment funds for the years ended December 31, 2015 and 2014 consisted of the following:

	Unrestricted	Permanently Restricted
Endowment funds at December 31, 2014	$ 999	$ 4,915
Investment return on endowments	(246)	–
Appropriations	(25)	–
Contributions	–	5
Endowment funds at December 31, 2015	$ 728	$ 4,920

(Dollars In Thousands)

12. Temporarily and Permanently Restricted Net Assets (continued)

	Unrestricted	Permanently Restricted
Endowment funds at December 31, 2013	$ 680	$ 4,860
Investment return on endowments	324	55
Contributions	(5)	–
Endowment funds at December 31, 2014	$ 999	$ 4,915

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 Capital Health to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. Individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets. There were no such deficiencies as of December 31, 2015 and 2014.

13. Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in appeal against Capital Health. Such lawsuits and claims are either specifically covered by insurance or are not material. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from Capital Health's actions will not have a material adverse effect on the consolidated financial position or consolidated results of operations.

14. Professional Liability Insurance

Capital Health purchased first dollar claims made insurance coverage prior to April 5, 2003 through a commercial carrier. Under this program, the professional and general liabilities were insured under two policies. A "package policy" covered those risks related to Capital Health's general and professional liability as well as certain employed physicians. A "master physician policy" covered all other physicians for whom Capital Health provided coverage. The master physician policy also included an automatic tail provision. In addition to the two primary policies mentioned above, Capital Health purchased umbrella and excess insurance on a claims-made basis.

(Dollars In Thousands)

14. Professional Liability Insurance (continued)

As of April 5, 2003, Capital Health purchased coverage for its professional and general liability exposures through CRIC. The reinsurance purchased by CRIC covers, on a claims-made basis, both new occurrences and any incident that occurred prior to April 5, 2003 that was unknown to Capital Health as of that date. For the insurance coverage year May 1, 2012 to May 1, 2013 CRIC insures Capital Health for its professional liability in the amount of $42,000 per claim and $46,000 in the annual aggregate, of which $40,000 per claim and $40,000 in the annual aggregate is ceded to "A" rated reinsurers. CRIC, therefore, retains professional liability losses of $2,000 per claim and $6,000 in the annual aggregate. During the same insurance coverage year, CRIC insures Capital Health for its general liability in the amount of $41,000 per claim and $46,000 in the annual aggregate, of which $40,000 per claim and $40,000 in the annual aggregate is ceded to "A" rated insurers. CRIC, therefore, retains general liability losses of $1,000 per claim and $6,000 in the annual aggregate.

At December 31, 2015 and 2014, CRIC has recorded an estimated reserve for claims of $9,549 and $10,511, respectively, included in other long-term liabilities within the accompanying consolidated balance sheets, which includes an estimate for claims incurred but not reported. These undiscounted reserves are not offset by estimates of reinsurance claims. Estimated receivables for reinsurance recoveries recorded by CRIC of $560 and $660 at December 31, 2015 and 2014, respectively, are included in other noncurrent assets within the accompanying consolidated balance sheets.

Liabilities arising from incidents which occurred prior to April 5, 2003 which were known to Capital Health are the responsibility of Capital Health. At December 31, 2014, Capital Health has calculated estimates of approximately $3,318 which has been discounted at 3% based upon an actuarial valuation, for these incidents and has recorded them in other long-term liabilities in the accompanying consolidated balance sheets. No estimates were required as of December 31, 2015.

(Dollars In Thousands)

15. Functional Expenses

Capital Health provides health care services to residents within its geographic region. Expenses related to providing these services were as follows (in thousands):

	Year Ended December 31, 2015	2014
Program expenses	**$ 478,873**	$ 506,545
General and administrative expenses	**129,054**	118,296
	$ 607,927	$ 624,841

16. Electronic Health Records

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningful use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

Capital Health uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when Capital Health is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue of $1,932 (Medicare) for the year ended December 31, 2014, is included in other revenue in the accompanying consolidated statements of operations. No related

(Dollars In Thousands)

16. Electronic Health Records (continued)

income was recorded for the year ended December 31, 2015. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, Capital Health's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

17. Subsequent Events

Capital Health's management has evaluated subsequent events from December 31, 2015 through April 29, 2016, which is the date the consolidated financial statements were issued. There were no events identified that required adjustment to or disclosure in these financial statements.

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