Albert Einstein Healthcare Network

**Reports on Federal, State and City Awards
in Accordance with OMB Circular A-133,
Commonwealth of Pennsylvania, Department
of Public Welfare Audit Requirements and
City of Philadelphia Subrecipient Audit Guide
June 30, 2014
Federal Entity Identification
Numbers 23-2290323, 23-1396794, 20-4193243**

Part V – City of Philadelphia Requirements and Supplemental Schedules

Part VI – Findings

Part I – Financial Statements

Independent Auditor's Report

To the Board of Trustees of
Albert Einstein Healthcare Network

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Albert Einstein Healthcare Network and its subsidiaries (AEHN), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AEHN and its subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of expenditures of federal, state and city of Philadelphia awards for the year ended June 30, 2014 are presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements; and the *City of Philadelphia Subrecipient Audit Guide* and are not a required part of the consolidated financial statements. The supplemental schedules contained in Part V of this report are presented for purposes of additional analysis as required by the Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide* and are not a required part of the consolidated financial statements. The accompanying overview and the financial schedules of the mortgagor for the year ended June 30, 2014 that are contained in Part IV of this report, are presented for purposes of additional analysis as required by the Consolidated Audit Guide for Audits of HUD Programs, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The schedules of expenditures of federal, state and city of Philadelphia awards have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of federal, state and city of Philadelphia awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014 on our consideration of AEHN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AEHN's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

September 26, 2014

Albert Einstein Healthcare Network
Consolidated Balance Sheets
June 30, 2014 and 2013

(in thousands of dollars)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 50,905	$ 50,669
Investments	8,896	8,814
Accounts receivable, for patient services less allowance for doubtful accounts of $14,000 and $10,400 for 2014 and 2013, respectively	129,444	122,435
Other accounts receivable	14,109	12,157
Inventories	17,457	14,731
Other current assets	8,591	7,293
Assets whose use is limited	20,308	34,446
Total current assets	249,710	250,545
Investments	266,299	288,446
Assets whose use is limited	215,750	214,947
Land, buildings and equipment, net	653,146	633,329
Beneficial interest in perpetual trusts	44,205	39,675
Recoverable professional liability	46,794	41,748
Other non-current assets	65,431	64,590
Total assets	$ 1,541,335	$ 1,533,280
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term obligations	$ 20,688	$ 16,276
Accounts payable and accrued expenses	147,367	146,084
Accrued vacation and other benefits	14,644	19,761
Current portion of accrued professional liability claims	36,025	34,222
Other liabilities	8,289	8,495
Total current liabilities	227,013	224,838
Long-term obligations	422,077	443,981
Accrued pension liability	115,020	113,859
Accrued professional liability claims	201,023	194,982
Other liabilities	32,387	30,234
Total liabilities	997,520	1,007,894
Net assets:		
Unrestricted	407,062	401,311
Temporarily restricted	82,798	75,900
Permanently restricted	53,955	48,175
Total net assets	543,815	525,386
Total liabilities and net assets	$ 1,541,335	$ 1,533,280

Albert Einstein Healthcare Network
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2014 and 2013

(in thousands of dollars)

	2014	2013
Unrestricted Net Assets		
Unrestricted operating revenues, gains and other support		
Net patient service revenue before provision for bad debts	$ 1,071,053	$ 1,021,045
Provision for bad debts	28,947	22,755
Net patient service revenue	1,042,106	998,290
Other revenue	50,163	55,205
Net assets released from restrictions	3,596	3,101
Total unrestricted operating revenues, gains and other support	1,095,865	1,056,596
Operating expenses		
Salaries and employee benefits	673,091	678,407
Supplies	142,626	135,334
External physician, clinical and professional service fees	89,933	93,398
Depreciation and amortization	58,078	51,860
Interest expense	25,250	21,191
Insurance	36,563	22,844
Other	91,173	80,338
Total operating expenses	1,116,714	1,083,372
Operating loss	(20,849)	(26,776)
Non-operating revenues		
Investment income and realized gains and losses	40,592	22,181
Other than temporary impairments on investments	(213)	(3,890)
Other	1,883	9,000
Excess of revenues over expenses before discontinued operations	21,413	515
Discontinued operations		
Loss from operations of discontinued Montgomery Hospital Medical Center	(5,683)	(8,676)
Excess/(deficiency)of revenues over expenses	15,730	(8,161)

Albert Einstein Healthcare Network
Consolidated Statements of Operations and Changes in Net Assets, continued
Years Ended June 30, 2014 and 2013

(in thousands of dollars)

	2014	2013
Unrestricted net assets (continued)		
Excess/(deficiency)of revenues over expenses (previous page)	15,730	(8,161)
Change in net unrealized gains on investments	176	8,034
(Increase) decrease in pension liability	(10,155)	71,657
Other changes	-	473
Increase in unrestricted net assets	5,751	72,003
Temporarily restricted net assets		
Contributions	2,403	7,171
Investment income and realized gains	6,595	4,485
Other than temporary impairments on investments	(91)	(363)
Change in net unrealized gains on investments	1,587	1,989
Net assets released from restrictions	(3,596)	(4,131)
Increase in temporarily restricted net assets	6,898	9,151
Permanently restricted net assets		
Contributions for endowment funds	1,250	-
Change in beneficial interest in perpetual trusts	(54)	(75)
Change in net unrealized gains on investments	4,584	2,716
Increase in permanently restricted net assets	5,780	2,641
Increase in net assets	18,429	83,795
Net assets, beginning of year	525,386	441,591
Net assets, end of year	$ 543,815	$ 525,386

Albert Einstein Healthcare Network
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013

(in thousands of dollars)

	2014	2013
Cash flows from operating activities		
Increase in net assets	$ 18,429	$ 83,795
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(42,144)	(25,361)
Depreciation and amortization	57,370	52,235
Increase (decrease) in pension liability	10,155	(71,657)
Provision for bad debts	28,947	23,665
Change in beneficial interest in perpetual trusts	54	75
Contributions and investment income restricted for long-term purposes	(2,781)	(7,839)
Equity in income of joint ventures	(3,165)	(6,079)
Capitalization of joint venture	-	(372)
Increase in accounts receivable	(37,908)	(41,988)
Increase in inventories	(2,726)	(3,942)
(Increase) decrease in recoverable professional liability	(5,046)	7,893
Increase in other assets	(1,943)	(208)
Increase (decrease) accounts payable and accrued expenses	1,283	(2,713)
(Decrease) increase in accrued pension liability, net of funding	(8,994)	7,956
(Decrease) increase in accrued vacation and other benefits	(5,117)	6,073
Increase (decrease) in accrued professional liability, net of funding	7,844	(17,325)
Increase in other liabilities	1,947	4,417
Net cash provided by operating activities	16,205	8,625
Cash flows from investing activities		
Purchase of land, buildings and equipment	(77,070)	(141,026)
Proceeds of investments and assets whose use is limited, net	72,960	118,885
Other	2,636	(3,858)
Net cash used in investing activities	(1,474)	(25,999)

Albert Einstein Healthcare Network
Consolidated Statements of Cash Flows - Continued
Years Ended June 30, 2014 and 2013

(in thousands of dollars)

	2014	2013
Cash flows from financing activities		
Proceeds from long-term borrowings	637	5,645
Repayment of long-term borrowings	(16,963)	(10,059)
Principal payments under capital lease obligations	(647)	(306)
Contributions and investment income restricted for long-term purposes	2,781	7,839
Capitalization of joint venture	-	372
Deferred financing fees	(303)	(21)
Net cash provided by financing activities	(14,495)	3,470
Net increase (decrease) in cash and cash equivalents	236	(13,904)
Cash and cash equivalents, beginning of year	50,669	64,573
Cash and cash equivalents, end of year	$ 50,905	$ 50,669

1. Organization and Nature of Operations

Albert Einstein Healthcare Network ("AEHN") is a not-for-profit corporation that controls related organizations in a health care delivery system serving the greater Delaware Valley through sole membership in those related organizations. AEHN, together with its related member organizations, comprise Albert Einstein Healthcare Network ("Network").

The Network engages in health education, health promotion and fundraising activities, conducts system-wide planning, establishes overall financial goals and oversees funds management.

AEHN appoints the governing boards of subsidiaries and member organizations. The related organizations and their primary operations included in the consolidated financial statements are as follows:

Albert Einstein Medical Center ("AEMC") is a controlled organization through sole AEHN membership. AEMC is licensed to operate 575 acute care beds, 197 rehabilitation beds, 102 skilled nursing beds and an outpatient surgical center across three campuses.

> On its main campus, in North Philadelphia, AEMC provides tertiary care in a 509 acute care bed hospital setting. AEMC provides rehabilitation services in a 17-bed setting on its main campus and 50-bed setting at four other hospitals that are part of its Moss Rehab division. AEMC provides nursing care in a 102-bed setting that is a skilled nursing facility. In addition, services are provided through an emergency department on the main campus; outpatient and ancillary services are provided both on the main campus and through surrounding community sites.
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> On its Elkins Park campus, AEMC provides tertiary care in a 66-bed acute care hospital setting. AEMC provides rehabilitation services in a 130-bed rehabilitation setting that is also part of its Moss Rehab division. In addition, services are provided through an emergency department and various outpatient and ancillary departments.
>
> On its Germantown campus, AEMC provides services through a crisis response center and various outpatient and ancillary departments. Psychiatric services are provided in a long-term structured residential setting.

Belmont Center for Comprehensive Treatment ("Belmont") is a controlled organization through sole AEHN membership. Belmont is licensed to provide psychiatric services in a 147-bed hospital setting and counseling and psychiatric care in various outpatient and partial hospital settings.

Einstein Practice Plan, Inc. ("EPPI") is a controlled organization through sole AEHN membership. EPPI employs physicians who are members of the medical staff of AEMC and/or Belmont and provide clinical care, teaching and research services to the Network's affiliated entities.

Einstein Community Health Associates ("ECHA") is a controlled organization through sole AEHN membership. ECHA employs physician who provide primary care services in the community.

Einstein Healthcare Systems, Inc. ("EHS") is a wholly owned for-profit business corporation and subsidiary of AEHN.

Einstein Medical Center Montgomery (“EMCM) is a controlled organization through AEHN. EMCM constructed a new medical center to provide acute care services to residents in and around central Montgomery County. EMCM provides tertiary care in a 170 acute care bed hospital setting. In addition, services are provided through an emergency department on the main campus; outpatient and ancillary services are provided both on the main campus and through surrounding community sites. On September 29, 2012, the first patients were treated in the new facility.

Fornance Physician Services (“FPS”) is a controlled organization through sole AEHN membership. FPS is a physician practice organization providing services in various medical specialties at locations throughout Montgomery County.

Montgomery Hospital Medical Center (“MHMC”) is a controlled organization through sole AEHN membership. MHMC consists of three constituent companies, Montgomery Hospital Medical Center (“MHMC”), Montgomery Health Foundation ("MHF"), and CMMC, Inc. (“CMMC”)

MHMC was licensed to operate as a general acute care hospital providing services in a 177-bed hospital setting in Norristown, Pennsylvania. On September 29, 2012, MHMC discontinued its healthcare delivery services.

MHF engages in fund raising activities primarily for the benefit of MHMC and the community.

CMMC leases space in its medical office building and provides other services ancillary to MHMC.

Broadline Risk Retention Group, Inc., (“BRRG”), a Vermont not for profit sponsored risk retention group, organized on July 2010, is a controlled organization through membership of AEHN (Parent) and its subsidiaries who participate in its risk retention program. BRRG is organized and operated exclusively to support the Network and the charitable healthcare activities of the member organizations of the Network and provides professional liability, general liability and excess liability insurance to the Network and its members.

Einstein/USP Surgery Centers, L.L.C., a Pennsylvania L.L.C., is a controlled organization through which AEHN (Parent) controls 80% of the ownership. Its partner, United Surgical Partners, Inc., (USP) holds 20% of the ownership. The partnership operates an ambulatory surgical center on the campus of Einstein Medical Center Montgomery.

2. Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States of America (“GAAP”). These consolidated financial statements include the accounts of the Network and its controlled affiliates. Investments in which the Network does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. All significant inter-company accounts and transactions have been eliminated.

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

Financial Statement Presentation
Unrestricted Net Assets are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by contract or board designation.

Temporarily Restricted Net Assets include gifts for which donor-imposed restrictions such as specific time period or purpose have not been met and trust activity and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently Restricted Net Assets include gifts, trusts and pledges which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Performance Indicator
In the consolidated statements of operations and changes in net assets, the primary indicator of the Network's results of operations is "Excess/(deficiency) of revenues over expenses." As such, it includes all unrestricted revenues, operating expenses, non-operating revenues, investment income and non-operating expenses. Transactions such as restricted contributions and contributions of long-lived assets (e.g., capital equipment), certain investment income and realized gains and losses related to these transactions are not included in Excess/(deficiency) of revenues over expenses.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash and investments in highly liquid debt instruments with an original maturity of three months or less.

Fair Value Measurement
The Network adopted FASB guidance on fair value measurements for investments effective July 1, 2008. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Under the standard, fair value is defined as an exit price, representing 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. As such, fair value is a market-based measurement to be determined based on the assumptions that market participants would use in pricing an asset or liability in a hypothetical transaction at the measurement date.

The Network measures its available-for-sale restricted and unrestricted marketable securities at fair value on a recurring basis. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. The Network's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below:

Level 1 **–** Where applicable, the Network uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology typically applies to domestic equities, international equities and mutual funds which redeem at net asset value (NAV).

Level 2 **–** If quoted prices in active markets for identical assets are not available, then quoted prices for similar assets, quoted prices for identical assets in inactive markets or inputs other than quoted prices that are observable for the asset, either directly or indirectly, will be used to determine fair value. These inputs may include recent bid prices, interest rates, yield curves, credit risk and default rates or inputs derived principally from market data and corroborated by market data. Securities typically priced using Level 2 inputs include government bonds (including U.S. Treasuries and Agencies), corporate bonds, asset-backed securities and mortgage-backed securities, commercial paper, guaranteed investment contracts, currency options and commingled funds where NAV is corroborated with observable market data.

Level 3 **–** These inputs would be the Network's own assumptions about the assumptions market participants would use in pricing an asset.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as follows:

- Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- Cost approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- Income approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

Unrealized Gains and Losses
Unrealized gains and losses on all investments are shown below the Excess/(deficiency) of revenues over expenses.

Investments with unrealized depreciation are reviewed at each year-end to determine whether these investments are other-than-temporarily impaired. Externally managed marketable investments with fair value below cost at year-end are considered to be other-than-temporarily impaired and, accordingly, the unrealized depreciation is recognized as an impairment loss through a write-down in the cost basis of such investments to year-end fair values. This loss is reflected in the Excess/(deficiency) of revenues over expenses.

Investment income on investments of donor-restricted funds, including unrealized gains and losses, is added to or deducted from the appropriate net asset category based on the donor's restrictions.

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

Assets Whose Use Is Limited
Assets whose use is limited are recorded at fair value and principally include amounts restricted by donors, amounts set aside by the Board of Trustees for future capital improvements and amounts held by outside trustees under bond indenture agreements and self-insurance trust arrangements. Amounts required to meet current liabilities have been classified as current assets in the accompanying consolidated balance sheets.

Equity in Joint Ventures
The Network is one of six owners of Health Partners of Philadelphia, Inc.,("Health Partners") a not-for-profit Health Maintenance Organization joint venture providing access to health care services on a prepaid basis. Health Partners is licensed to operate in Philadelphia and the surrounding

counties, for the Commonwealth of Pennsylvania Medicaid Health Choices program. The Network accounts for its joint venture interest on the equity method whereby it records its share of earnings and net assets. Its share of Health Partners earnings was $3.3 million and $6.1 million in 2014 and 2013, respectively, and is included in other operating revenues. Its share of Health Partners net assets was $18.5 million in 2014 and 2013 and is included in other non-current assets.

Land, Buildings and Equipment
Land, buildings and equipment are stated at cost less accumulated depreciation. Interest and associated borrowing costs for financed projects such as major facility construction are capitalized during the time to complete and prepare the asset for its intended use. Donated equipment is recorded at fair market value at the date of receipt, which is then treated as cost. Depreciation is calculated utilizing the straight-line method based on the estimated useful lives of the underlying assets. Gains and losses from retirement or disposition of fixed assets are recognized in the consolidated statements of operations as operating gains or losses.

Beneficial Interest in Perpetual Trusts
The Network is the beneficiary of various irrevocable charitable and split-interest trusts which are administered by trustees. The Network's proportionate interest in the investments of these trusts is recorded at fair value. The Network's proportionate interest is reported as permanently restricted funds within assets whose use is limited in the consolidated balance sheets. Distributions of trust income are included in other non-operating revenues.

Self-Insurance Plans
Professional liability claims are insured under a combination of a risk retention group, self-insurance and excess commercial reinsurance programs. All of the Network's hospital operating entities also participate in the Medical Care Availability and Reduction of Error ("MCARE") Fund. Management accrues its best estimate of known and unknown medical malpractice and workers' compensation losses utilizing historical and actuarial data on a discounted basis. Professional liability claims are recorded on a discounted basis using a rate of 3%.

Workers' compensation liabilities are insured through a large deductible commercial insurance policy. Workers' compensation liabilities are recorded on a discounted basis using a rate of 3%.

Self insurance plans, claims and related insurance recoveries, are not netted against a related claim liability. The Network has recorded $46.8 million and $41.7 million for 2014 and 2013, respectively, of insurance liabilities that are recoverable from insurance carriers.

Net Patient Service Revenue
Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined.

In July 2011, new guidance was issued regarding presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts for certain health care entities, which requires health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). This guidance became effective for the Network on July 1, 2012.

Revenue from the Medicare and Medicaid programs, directly and from managed care providers serving Medicare and Medicaid enrollees, accounted for approximately 39.5% and 29.9%, respectively, of the Network's net patient service revenue for the fiscal year ended June 30, 2014 and 39.6% and 30.4%, respectively, for the fiscal year ended June 30, 2013. Most payments to the Network from the Medicare and Pennsylvania Medical Assistance programs for inpatient hospital services are made on a prospective basis.

Under these programs, payments are made at a predetermined specific rate for each discharge based on a patient's diagnosis. Additional payments are made to the Network for cases that have an extremely long length of stay or unusually high costs in comparison to national or statewide averages. Laws governing the Medicare and Medicaid programs are complex and subject to interpretation.

The Network has also entered into agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations, the largest being Independence Blue Cross at 18.8% and 17.4% of net patient revenues for the fiscal years ended June 30, 2014 and 2013, respectively. The basis for payment to the Network under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, capitated rates and pay-for-performance incentives.

Donor-Restricted Gifts
Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions.

Charitable Medical Care Provided
The Network provides services to all patients regardless of ability to pay. Although patients are ultimately responsible for hospital services rendered that are not covered by insurance, some uninsured patients qualify for charity care under established guidelines and are therefore not responsible for payment of such services. These guidelines require medical indigence status based on federal poverty guidelines. Charges for services rendered to patients who qualify for charity care are not reflected in the accompanying consolidated financial statements. Uninsured patients who do not qualify for free charity care are provided care at reduced rates.

The Network maintains records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies furnished. Such amounts have been excluded from net patient service revenue. Management estimates that the cost of unreimbursed charity care provided by the Network approximated $19.7 million in 2014 and $18.6 million in 2013. The cost of charity care is computed by taking the ratio of each operating division's cost to charges and multiplying it by the charges forgone for each charity patient.

Charity care amounts do not include the provision for bad debts, amounting to $28.9 million and $22.7 million for amounts due from patients at the Network's uninsured discounted fee scale amounts but not collected for the years ended June 30, 2014 and 2013, respectively. This provision is reflected separately in the accompanying consolidated statements of operations and changes in net assets as a reduction of net patient service revenue.

Other Uncompensated Community Services

Services are provided to patients in the community who are insured under the Pennsylvania Medical Assistance Program. Payments from the Medical Assistance Program are substantially below the Network's cost of providing such services. The costs of providing services to eligible welfare recipients who participate in the Pennsylvania Medical Assistance and local Health Choices programs exceeded reimbursement by $40.7 million in 2014 and $42.4 million in 2013.

In addition to providing direct patient charity care and in furtherance of its exempt purpose to benefit the community, the Network provides various community services such as education, screenings and support groups for cancer patients and their families, health and wellness festivals, continuum of independent living and senior health programs, heart disease screenings, maternity care and childbirth programs, behavioral health crisis response and other related community health programs. The Network is also involved with school partnerships and helps organize educational programs for childhood and adolescent health issues, including underage drinking and smoking. Associated amounts expended for the above services approximated $4.1 million in 2014 and $5.5 million in 2013.

Meaningful Use – IAS 20 Grant Model

The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Network recognizes its EHR incentive payments using a government grant recognition model. The Network determined the EHR incentive payments are similar to grants that are related to income and recognizes the incentive payments ratably over each meaningful use period. The Network recognizes the incentive payments when there is reasonable assurance that it will comply with the conditions attached to them and that the grants will be received. The recognition of income related to the EHR incentive payments is based on management's best estimates and the amounts are subject to change, with such changes impacting the operations in the period in which they occur.

Income Taxes

AEHN and its controlled affiliates are tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The Network also owns or controls for-profit subsidiaries that are taxable corporations. These subsidiaries do not currently pay income taxes due to use of loss carry forwards.

Reclassifications

Certain amounts in the prior year consolidated balance sheets, statements of operations, changes in net assets and cash flows have been reclassified to conform to the current year presentation.

Discontinued Operations

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of operations is re-presented as if the operation had been discontinued from the start of the comparative year.

Subsequent Events

The Network has performed an evaluation of subsequent events through September 26, 2014, which is the date the financial statements were widely distributed.

New Accounting Pronouncements

A number of new standards, amendments to standards and interpretation are effective for fiscal periods beginning after July 1, 2014, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Network.

3. Fair Value of Investments

As of June 30, 2014, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, consisted of the following:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 35,524	$ 9,690	$ -	$ 45,214
U.S. treasury obligations	-	29,465	-	29,465
U.S. agency obligations	-	181	-	181
Bond mutual funds	182,774	-	-	182,774
Equity mutual funds	60,501	-	-	60,501
Commingled equity funds	-	19,429	-	19,429
Commingled bond funds	-	63,510	-	63,510
Marketable equity securities	47,063	-	-	47,063
Corporate bonds	-	-	-	-
Alternative investments	27,318	-	-	27,318
Guaranteed investment contracts	-	24,396	-	24,396
Other	-	11,401	-	11,401
	353,180	158,072	-	511,252
Beneficial interest in perpetual trusts	-	44,205	-	44,205
	$ 353,180	$ 202,277	$ -	$ 555,457

The unfunded commitments, redemption frequency and redemption notice periods for Alternative Investments by strategy are as follows in thousands of dollars:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Equity *	$ 27,318	-	Daily	2% fee if < 90 days

* This category includes investments in hedge funds that invest in both long and short positions. The focus is on value, emphasizing low price-to-earnings ratios as well as discounts to private market value. Short equity investments are limited to 10% of assets.

As of June 30, 2014, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, are presented in the consolidated balance sheets under the following classifications:

	Level 1	Level 2	Level 3	Total Fair Value
Investments, current	$ -	$ 8,896	$ -	$ 8,896
Assets whose use is limited, current	11,152	9,155	-	20,307
Investments, non-current	258,630	7,669	-	266,299
Assets whose use is limited, non-current	83,398	132,352	-	215,750
	353,180	158,072	-	511,252
Beneficial interest in perpetual trusts	-	44,205	-	44,205
	$ 353,180	$ 202,277	$ -	$ 555,457

As of June 30, 2013, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, consisted of the following:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 32,085	$ 1,736	$ -	$ 33,821
U.S. treasury obligations	-	17,435	-	17,435
U.S. agency obligations	-	21,952	-	21,952
Bond mutual funds	122,413	-	-	122,413
Equity mutual funds	72,932	-	-	72,932
Commingled equity funds	-	29,307	-	29,307
Commingled bond funds	-	150,422	-	150,422
Marketable equity securities	68,887	-	-	68,887
Corporate bonds	-	588	-	588
Guaranteed investment contracts	-	24,396	-	24,396
Other	-	4,500	-	4,500
	296,317	250,336	-	546,653
Beneficial interest in perpetual trusts	-	39,675	-	39,675
	$ 296,317	$ 290,011	$ -	$ 586,328

As of June 30, 2013, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, are presented in the consolidated balance sheets under the following classifications:

	Level 1	Level 2	Level 3	Total Fair Value
Investments, current	$ 20	$ 8,794	$ -	$ 8,814
Assets whose use is limited, current	25,395	9,051	-	34,446
Investments, non-current	184,525	103,921	-	288,446
Assets whose use is limited, non-current	86,377	128,570	-	214,947
	296,317	250,336	-	546,653
Beneficial interest in perpetual trusts	-	39,675	-	39,675
	$ 296,317	$ 290,011	$ -	$ 586,328

4. Investment Income

Investment income and net realized gains (losses) for 2014 and 2013 included in the consolidated statements of operations and changes in net assets, in thousands of dollars, are comprised of the following:

	2014	2013
Investment income included in non-operating revenues:		
Interest and dividends	$ 10,708	$ 9,281
Net realized gains on sales of investments	29,884	12,713
Investment impairments	(213)	(3,644)
Total investment income on unrestricted net assets	$ 40,379	$ 18,350

	2014	2013
Investment income (temporarily restricted net assets):		
Interest and dividends	363	665
Net realized gains on sales of investments	6,232	3,820
Investment impairments	(91)	(363)
Total investment income on temporarily restricted net assets	$ 6,504	$ 4,122

Increases in net unrealized gains for 2014 and 2013 included in the consolidated statements of operations and changes in net assets, in thousands of dollars, are comprised of the following:

	2014	2013
Change in net unrealized gain on investments on unrestricted net assets	$ 176	$ 8,034
Change in net unrealized gain on investments on temporarily restricted net assets	1,587	1,989
Change in net unrealized gain on investments on permanently restricted net assets	4,584	2,716
Total increase in net unrealized gains	$ 6,347	$ 12,739

Included in interest, dividends and net realized gains are investment management fees of $2.3 million and $2.1 million for 2014 and 2013, respectively.

5. Assets Whose Use Is Limited

Assets whose use is limited by donors, trust agreements or board designation, in thousands of dollars, were comprised of the following at June 30, 2014 and 2013:

	2014	2013
Trust indentures assets	$ 55,264	$ 55,016
Self-insurance assets internally designated	78,767	74,177
Board designated assets	19,336	45,672
Temporarily restricted net assets invested	72,937	66,026
Permanently restricted net assets invested	9,752	8,502
	$ 236,056	$ 249,393

6. Land, Buildings and Equipment

A summary of land, buildings and equipment, in thousands of dollars, is as follows:

	2014	2013
Land and land improvements	$ 65,193	$ 61,515
Buildings	702,328	676,163
Equipment	541,070	510,623
Construction in progress	54,187	37,193
	1,362,778	1,285,494
Less: Accumulated depreciation	(709,632)	(652,165)
	$ 653,146	$ 633,329
Total depreciation expense	$ 57,467	$ 51,377

Included in equipment are capital leases of $6,061,000 in 2014 and $6,548,000 in 2013; included in accumulated depreciation is $5,137,000 in 2014 and $4,676,000 in 2013 pertaining to the accumulated amortization of capital leases.

Included in equipment are unamortized computer software costs of $71,027,000 in 2014 and $66,912,000 in 2013. Included in total depreciation expense is $7,793,000 in 2014 and $6,868,000 in 2013 pertaining to amortization of computer software.

7. Long-Term Obligations

Long-term obligations at June 30, 2014 and 2013, in thousands of dollars, consisted of the following:

	2014	2013
Series 2010 Bonds (a)	$ 308,284	$ 314,228
Series 2009A Bonds (b)	115,353	123,725
Capital leases (c)	141	506
Negative arbitrage term loan (d)	14,945	17,005
Other (e)	4,042	4,793
	442,765	460,257
Less: Current portion	20,688	16,276
	$ 422,077	$ 443,981

a. On June 23, 2010, EMCM issued $309,435,000 in FHA Insured Mortgage Revenue Bonds, Series 2010 through the Montgomery County Industrial Development Authority (“MCIDA”). The bond proceeds, along with other funds are being used to:

   i. pay for the cost of acquiring land, constructing and equipping a new medical center in central Montgomery County (EMCM),

   ii. pay a portion of the interest accruing on the Series 2010 Bonds during construction,

   iii. fund a Debt Service Reserve Fund and

   iv. pay bond issuance costs.

   Included in the Series 2010 Bonds obligation is an unamortized premium of $4,084,000.

   In conjunction with (a) above, EMCM has entered into a loan agreement with MCIDA whereby MCIDA has loaned the proceeds of the Series 2010 bonds to EMCM. EMCM has agreed to repay the loan by paying amounts sufficient to pay, when due, the principal and interest on the Series 2010 bonds.

   Monthly payments to the Trustee providing funds equivalent for Series 2010 Bond maturities and interest will be made through February 2038. Interest on the bonds outstanding at June 30, 2014 is at stated rates ranging from 5.0% to 5.75%.

   As evidence of its obligation under the loan agreement and in order to provide security for the repayment of the loan, EMCM issued its Series 2010 Mortgage Note which is secured by a Mortgage granting a first lien on EMCM’s fee interest to the Trustee, as mortgagee, in its 84 acre campus, a $24.4 million Debt Service Reserve Fund and certain other assets.

   The Series 2010 Note and Mortgage are insured by the Department of Housing and Urban Development, acting by and through the Federal Housing Authority, under Section 242 of Title II of the National Housing Act.

   Although AEHN is the sole member of EMCM, neither AEHN nor any of its affiliates, other than EMCM, are obligated on, or are guarantors of the Series 2010 Bonds.

   The Series 2010 Bonds maturing on or before August 1, 2020 are not subject to optional redemption prior to maturity. At the option of MCIDA, upon the direction of EMCM, at par plus accrued interest, the Series 2010 Bonds maturing on August 1, 2030 are subject to optional redemption on August 1, 2015 and all other Series 2010 Bonds maturing on or after August 1, 2024 are subject to optional redemption on or after August 1, 2020.

b. On June 18, 2009, the Network issued $148,020,000 in Health System Revenue Bonds, Series 2009A through the Pennsylvania Economic Development Financing Authority ("PEDFA"). The proceeds were used for:

   i. refunding of a Commercial Bank Loan that was a bridge loan until such time that bonds could be issued,

   ii. funding a Debt Service Reserve Fund and

   iii. payment of bond issuance costs.

   Included in the Series 2009A Bonds obligation is an unamortized discount of $1,122,000.

   In conjunction with (b) above, the Network has entered into a loan agreement with PEDFA whereby PEDFA has loaned the proceeds of the Series 2009A bonds to the Network. The Network has agreed to repay the loan by paying amounts sufficient to pay, when due, the principal and interest on the Series 2009A bonds.

   Semi-annual payments to a Trustee providing funds equivalent for Series 2009 Bond maturities and interest will be made through October 2023. Interest on the bonds outstanding at June 30, 2014 and 2013 is at stated rates ranging from 5.0% to 6.25%.

   As evidence of its obligation under the loan agreement and in order to provide security for the repayment of the loan, the Network has issued its Series 2009A Master Note and granted PEDFA through its Trustee a mortgage lien and security interest in certain real property owned by the Network.

   For the purpose of securing payment of the Series 2009A Bonds, AEHN (the Network parent company), AEMC, Belmont, EPPI and ECHA formed the AEHN Obligated Group (the "Obligated Group"). No other Network affiliates other than members of the Obligated Group are obligated or are guarantors of the Series 2009A Bonds.

   Payment of the Series 2009A Bonds is also secured by amounts on deposit in certain trustee-held accounts including $14.7 million in the Debt Service Reserve Fund.

   The Series 2009 Bonds maturing on or before October 15, 2019 are not subject to optional redemption prices prior to maturity. The Series 2009 Bonds maturing on or after October 15, 2020 are subject to optional redemption prior to maturity on or after October 15, 2019 at the option of the Network at par plus accrued interest.

c. MHMC has leased certain medical equipment. Leases are payable in monthly installment amounts through 2015, ranging from $31,000 in 2013 to $23,000 in 2015.

d. Under the terms of the Trust Indenture for the Series 2010 Bonds, bond proceeds were invested during the period of construction at a rate that was less than the interest rate payable on the bonds. This negative arbitrage resulted in a cash flow deficit that is funded with a Letter of Credit, the Negative Arbitrage Letter of Credit.

   Under the terms of the Reimbursement Agreement for the Negative Arbitrage Letter of Credit, draws on the Letter of Credit can be repaid at any time. On August 1, 2013, the outstanding balance was converted to a five year term loan at the option of EMCM. Under the terms of the loan, interest is charged at the variable rate of one month LIBOR market index rate plus 2.2% on the outstanding balance and payment of principal and interest are payable in quarterly installments through 2019. All obligations of the Negative Arbitrage Letter of Credit are guaranteed by the AEHN Obligated Group. As of June 30, 2014, the remaining balance on the term loan was $14,945,000.

e. Einstein/USP Surgery Centers, L.LC. entered into term loans secured by certain equipment owned by the joint venture. As of June 30, 2014 the outstanding balance was $3,128,000. Under the terms of the loan, interest is charged at 3.6% on the outstanding balance and payment of principal and interest are payable in monthly installments through 2019.

Einstein/USP Surgery Centers, L.LC. has leased certain equipment. Leases are payable in monthly installments of 27,000 through 2017.

MHMC had a loan for construction of a linear accelerator vault with an outstanding balance of $312,000 at June 30, 2012 payable in monthly installment amounts of $32,000 through 2013 at 3.76% interest. As of June 30, 2013 the loan had been satisfied.

FPS also had an outstanding loan balance of $1,030,000 on a revolving line of credit payable May 31, 2013 at variable interest rates, the weighted average of which was 1.24% at June 30, 2013. As of June 30, 2013 the loan had been satisfied.

Cash paid for interest on long-term debt in 2014 and 2013 was $24,370,000 and $24,740,000, respectively.

Principal payments and installments for debt service requirements of the Series 2010 Bonds and Series 2009A Bonds over the next five years and thereafter, in thousands of dollars, are as follows:

	Series 2009A	Series 2010	Term Loan	Other	Combined
2015	$ 8,935	$ 7,150	$ 3,516	$ 1,087	$ 20,688
2016	9,415	6,265	3,516	961	20,157
2017	9,975	6,590	3,516	945	21,026
2018	10,615	6,925	3,516	693	21,749
2019	11,300	7,280	881	497	19,958
Thereafter	65,113	274,074	-	-	339,187
	$ 115,353	$ 308,284	$ 14,945	$ 4,183	$ 442,765

The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analyses based on the borrower’s incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of long-term debt at June 30, 2014 and June 30, 2013, in thousands of dollars, are as follows:

	2014		2013	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Balance sheet liabilities				
Debt obligations Series 2009A	$115,353	$129,191	$123,725	$139,560
Debt obligations Series 2010	308,284	334,786	314,228	339,088
	$423,637	$463,977	$437,953	$478,648

8. Pension Plans

The Network has a non-contributory defined benefit retirement plan ("The Plan"), which provides retirement benefits, generally at age 65, to all employees other than the employees of EMCM. Benefits under the Plan are based on average final pay and years of service. Contributions to the Plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006. The measurement date used for plan assets and liabilities is June 30th of each year.

Both MHMC and FPS curtailed its individual non-contributory defined benefit plan effective May 31, 2003, when benefit accruals were frozen. Obligations of the defined benefit plans remain outstanding and are properly accrued.

Items included in unrestricted net assets represent amounts that have not been recognized in net periodic pension expense. The components recognized in unrestricted net assets, as of June 30 include:

	2014	2013
Net actuarial loss	$ 137,824	$ 127,590
Prior service cost	73	152
	$ 137,897	$ 127,742

The changes in amounts in unrestricted net assets that have not been recognized in net periodic pension expense are as follows:

	2014	2013
Unrestricted net assets, prior year	$127,742	$199,399
Recognition of prior service (cost) credit	(79)	(13)
Recognition of net actuarial losses	(8,810)	(17,524)
Increase (decrease) in net actuarial loss	19,044	(54,120)
	$137,897	$127,742

Year-end amounts in unrestricted net assets expected to be recognized as components of net periodic pension expense during the following fiscal year are as follows:

	2015	2014
Amortization of net actuarial losses	$ 9,234	$ 9,324
Amortization of prior service cost	73	79

The components of pension expense for the Plan were as follows:

	2014	2013
Components of net periodic pension cost		
Service cost *	$ -	$ 18,695
Interest cost	26,032	23,733
Expected return on plan assets	(30,127)	(27,868)
Amortization of prior service cost	79	13
Recognized actuarial loss	8,810	17,524
Net periodic pension cost	$ 4,794	$ 32,097

* The Network temporarily suspended retirement benefits to employees for fiscal 2014 year.

Actuarial assumptions used to compute pension expense were as follows:

	2014	2013
Discount rate	5.25%	4.50%
Long-term rate of return	8.00%	8.00%
Compensation increase	3.41%	4.00%

The components of the pension plan financial position on the consolidated balance sheets, in thousands of dollars, were as follows:

	2014	2013
Change in benefit obligation		
Projected benefit obligation, beginning of year	$ 506,475	$ 529,144
Service cost	-	18,695
Interest cost	26,032	23,733
Actuarial (gain)/loss	48,118	(48,601)
Benefit payments	(17,641)	(16,496)
Projected benefit obligation, end of year	562,984	506,475
Change in Plan assets		
Fair value of Plan assets, beginning of year	392,697	351,584
Actual return on Plan assets	59,099	33,308
Employer contributions	13,809	24,220
Benefit payments	(17,641)	(16,496)
Fair value of Plan assets, end of year	447,964	392,616
Funded status, end of year	$ (115,020)	$ (113,859)

Amounts recognized on the consolidated balance sheet consist of:

	2014	2013
Accrued pension liability	$ 115,020	$ 113,859
Unrestricted net assets (cumulative actuarial loss and prior service cost)	(137,897)	(127,742)
Net amount recognized	$ (22,877)	$ (13,883)

Assumptions utilized to estimate year-end pension obligations are as follows:

	2014	2013
Discount rate	4.60%	5.25%
Compensation increase	3.41%	4.00%

The Accumulated Benefit Obligaton was $538,791,000 and $486,116,000 as of June 30, 2014 and June 30, 2013, respectively.

Projected Benefit Payments

Benefit payments for the next ten years, in thousands of dollars, are currently projected to be:

2015	20,826
2016	22,459
2017	24,160
2018	26,241
2019	28,231
2020-2024	170,762

Asset Allocation

The asset allocation of the Plan's investments can be summarized as follows:

	Target Allocation	Percentage of Plan Assets June 30	
	2014	2014	2013
Equity Securities	40.0%	40.0%	56.0%
Debt Securities	45.0%	45.0%	44.0%
Alternative Investments	10.0%	9.6%	-
Inflation Hedging	5.0%	4.8%	-
Cash & Equivalents	-	0.4%	-
Total	100%	100%	100%

The expected long-term rate of return for the U.S. plan assets of 8% is based on the expected return of each of the above categories, weighted based on the target allocations for each class. Equity securities are expected to return 10% on average over the long-term, while the average expected return for debt securities is 5% over the long-term.

The Network's investment policy utilizes a constant risk strategy, whereby employer contributions and the sale of securities are utilized to rebalance the asset allocation back to target levels when the actual asset allocation percentages vary from the target allocation percentages. Under normal market conditions, tolerance for variation from target percentages has been approximately 5%.

The following table presents the Plan's assets as of June 30, 2014, in thousands of dollars, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 2:

	Level 1	Level 2	Level 3	Total Fair Value
Pension investment program:				
Cash management funds	$ -	$ 15,768	$ -	$ 15,768
U.S. treasury obligations	-	14,031	-	14,031
U.S. agency obligations	-	251	-	251
Bond mutual funds	33,886	-	-	33,886
Equity mutual funds	122,208	-	-	122,208
Commingled equity funds	-	5,263	-	5,263
Commingled bond fund	-	-	-	-
Marketable equity securities	51,083	-	-	51,083
Corporate bonds	-	143,901	-	143,901
Alternative investments	5,439	36,829	-	42,268
Guaranteed investment contracts	-	-	-	-
Other	-	18,219	-	18,219
Total pension investment program	$ 212,616	$ 234,262	$ -	$ 446,878

The unfunded commitments, redemption frequency and redemption notice periods for the Plans' Alternative Investments by strategy are as follows in thousands of dollars:

Category	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Equity (a)	$ 10,831	-	Daily/Quarterly	45-90 Days
Event Driven (b)	10,303	-	Quarterly/Annually	45-65 Days
Multi-Strategy (c)	21,133	-	Monthly/Quarterly	65-90 Days

(a) This category includes investments in hedge funds that invest in long and short positions in both domestic and international stocks.
(b) This category includes investments in hedge funds that seek to preserve capital and to profit from merger arbitrage, distressed investments, and extraordinary corporate actions with predictable outcomes.
(c) This category invests in hedge funds of funds that pursue multiple strategies to diversify risks and reduce downside exposure. The portfolio seeks a mixture of managers by style, size, geography and liquidity that can perform well in a variety of markets and can protect against a market correction.

The following table presents the Plan's assets as of June 30, 2013, in thousands of dollars, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 2:

	Level 1	Level 2	Level 3	Total Fair Value
Pension investment program:				
Cash management funds	$ 205	$ 7,747	$ -	$ 7,952
U.S. treasury obligations	-	834	-	834
U.S. agency obligations	-	-	-	-
Bond mutual funds	83,238	-	-	83,238
Equity mutual funds	100,194	-	-	100,194
Commingled equity funds	-	15,812	-	15,812
Commingled bond fund	-	17,710	-	17,710
Marketable equity securities	100,816	-	-	100,816
Corporate bonds	-	65,376	-	65,376
Total pension investment program	$ 284,454	$ 107,479	$ -	$ 391,933

Contributions

The Network projects that it will contribute $1.3 million to the Plan during the 2015 fiscal year.

In addition to the defined benefit plan, the Network maintains defined contribution plans that cover substantially all employees. Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Total plan expenses for the years ended June 30, 2014 and 2013 were $3,653,000 and $1,250,000, respectively. In lieu of accrued service cost to the defined benefit plan, the Network made a $2.5 million one-time contribution to the defined contribution plan on behalf of eligible employees, which is included in 2014 total plan expenses.

9. Professional Liability Claims

At June 30, 2014 and 2013 the Network has accrued professional liability claims of approximately $197.8 million and $187.4 million, respectively. In addition, the Network has recorded $46.8 million and $41.7 million for 2014 and 2013, respectively, of insurance liabilities that are recoverable from insurance carriers. These claims have been discounted at a 3% rate. As of June 30, 2014 and 2013 the carrying amount of these accrued liability claims before discounting was $261.2 million and $245.5 million, respectively. The Network has recognized professional liability expense of approximately $38.8 million and $20.7 million, for the years ended June 30, 2014 and 2013 respectively.

The Network obtains primary hospital and physician professional liability and general liability coverage through BRRG. BRRG provides the first ("primary") layer of professional liability on a claims made coverage basis with limits of $500,000 per professional incident/$2,500,000 annual aggregate per licensed acute care hospital, $500,000 per professional incident/$1,500,000 annual aggregate per long term care facility, $1,000,000 per professional incident/$3,000,000 annual aggregate for Belmont, $1,000,000 per professional incident/$3,000,000 annual aggregate for non healthcare professional liability $500,000 per professional incident and $1,500,000 annual aggregate per physician and $1,000,000 per professional incident/$3,000,000 annual aggregate per employed Dentist at June 30, 2014 and 2013. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania. BRRG provides general liability coverage on an occurrence basis with limits of liability of $1,000,000 per occurrence/$3,000,000 annual aggregate. The premiums charged for the primary layer are determined by an independent actuary based on loss and loss adjustment expense experience and other factors at a 65% confidence level and include a charge for premium tax and operating expenses. The premiums charged by BRRG are subject to annual retrospective adjustments made to align assets available for payment of claims at fiscal year-end with estimated liabilities. Claims are recorded on a discounted basis using a rate of 3% as of June 30, 2014 and 2013.

The second layer of coverage is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). MCARE acts as a service agent to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by AEHN and most of the physicians they insure. This second layer, required by statute, consists of coverage with limits of $500,000 per incident and $1,500,000 annual aggregate per hospital, long term care facility and per employed physician at June 30, 2014 and June 30, 2013. The annual assessments for MCARE Fund coverage are based on a schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association multiplied by an annual assessment percentage. This assessment is recognized as an expense in the period incurred.

AEHN and its employed/insured physicians paid surcharge assessments during fiscal years 2014 and 2013 totaling $6.1 million and $5.5 million, respectively. The actuarially computed liability to all Pennsylvania healthcare providers (hospital, physicians and others) participating in the Commonwealth's MCARE Fund at December 31, 2012 (the latest date for which such information is available) was $1.16 billion ($.99 billion at net present value discounted at 4%). No provision has been made for any MCARE Fund unfunded liabilities in the accompanying financial statements as AEHN's portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

The Network's recorded expense for potential losses in excess of the primary and MCARE layers up to a $6 million each professional incident/$6 million annual aggregate retention excess of $6 million each and every professional incident (acute care facilities excluding EMCM and any potential losses from the former operations of MHMC), $5 million each and every professional incident (EMCM, MH, Fornance) and $4 million each professional incident/$4 million annual aggregate retention excess of $2 million each and every professional incident (psychiatric, rehabilitation and long term care services) is based on actuarially determined estimates at a 65% confidence level and 3% discount rate for fiscal year 2014 and fiscal year 2013. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such considerations as medical costs and actual experience could cause these estimates to change. Primary and MCARE erode these retentions.

During fiscal years 2014 and 2013, BRRG provided excess, professional liability on a claims made coverage basis and umbrella liability coverage on an occurrence basis with limits of liability of $40 million per professional incident/ $40 million annual aggregate and $40 million per occurrence/ $40 million annual aggregate respectively in excess of underlying coverage and limits. BRRG has reinsured 100% of the excess professional liability and umbrella liability to reinsurance companies, Zurich American Insurance Company, Berkley Insurance Company and Ironshore, all rated A- or better by A.M. Best.

Effective May 1, 2013, BRRG assumed the risk for MHMC and FPS professional and general liabilities for claim years preceding July 1, 2012, through a loss portfolio transfer of MHMC's and FPS's liabilities and investments. Professional and general liabilities of $3.5 million (MHMC) and

$3.1 million (FPS) were transferred to BRRG along with equivalently valued investments to fund the projected liabilities.

10. Commitments and Contingencies

Operating Leases

The Network and its related entities have various lease obligations for equipment, ambulatory facilities and office space. At June 30, 2014, the minimum future rental commitment, in thousands of dollars, is as follows:

2015	$ 6,657
2016	6,635
2017	5,630
2018	4,637
2019	3,471
Thereafter	10,395
	$ 37,425

Total rent expense was $14,434,962 in 2014 and $13,642,000 in 2013.

Letters of Credit

The Network had open letters of credit aggregating to $63.5 million and $63.1 million as of June 30, 2014 and 2013, respectively, letters of credit are reviewed and renewed, as needed on an annual basis. During fiscal 2014, the Obligated Group guaranteed $40 million of letters of credit issued to guarantee working capital requirements of EMCM during the first several years of operations of the new hospital.

The Obligated Group also guaranteed a letter of credit in the amount of $15 million in lieu of a capital equity contribution to Broadline Risk Retention Group, Inc. to meet Vermont statutory requirements.

Lines of Credit

The Network had open lines of credit aggregating to $50.0 million as of June 30, 2014. Pursuant to line of credit covenants, the Obligated Group may transfer property and make loans and advances to EMCM not to exceed $120 million.

Litigation

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

In November, 2009, two Federal and two State lawsuits were filed against the Network and certain individuals alleging violations of certain laws. All claims are based on allegations that the Network failed to pay employees for compensable work completed during meal breaks before and after scheduled work hours and time spent in training sessions and failure to maintain proper records and carry out certain fiduciary duties with respect to the calculation of benefits. Plaintiffs purport to bring these claims on behalf of a class of employees. The Federal and State cases were subsequently consolidated in Federal Court. After allowing multiple amendments to plaintiffs'

Complaint, the Federal Court, by order dated August 7, 2012, dismissed plaintiffs' federal claims with prejudice and declined to exercise jurisdiction over the state law claims. On September 5, 2012, plaintiffs filed an appeal with the Third Circuit. That appeal has been fully briefed and is awaiting decision. On August 26, 2014, the Third Circuit Court of Appeals affirmed the August 2012 dismissal.

On October 17, 2012, plaintiffs filed a motion with the Court of Common Pleas of Philadelphia, seeking to reinstate the original November 2009 state court complaint. The Network removed this action to Federal Court on November 16, 2012, and plaintiffs filed a motion for remand. By order dated June 4, 2013, the Federal Court stayed this action pending decision on the aforementioned appeal.

The Network is and intends to defend the claims vigorously. At this time the Network is unable to determine the cost of defending the lawsuits or the impact, if any, the lawsuits may have on its results of operations.

Other
A large portion of the Network's net revenue is derived from services provided to beneficiaries of government sponsored health care programs, principally Medicare and Medicaid. The Network, like other health care providers who participate in these programs, is required to adhere to billing, coding and other requirements. As a condition of its receiving payment and continued participation in Medicare and Medicaid programs, the Network must comply with extensive federal and state regulations and must submit to reviews and audits by the federal and state agencies charged with administering these programs.

Violations of these billing, coding and other similar requirements can subject the Network to claims by the government for repayment of amounts it received for the services billed to the government programs, as well as for civil monetary penalties of up to three times the amount of payments received from the programs. Failure to comply with any of the laws or regulations under these programs could have a material, adverse effect on the Network's financial position and results of operations.

11. Donor Restricted Endowment Funds

The Network adopted FASB guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enhanced version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and additional disclosures about an organization's endowment funds. Pennsylvania is one of three states that have not adopted UPMIFA to date, however certain disclosures are made as required under the FASB guidance.

The Network's endowments consist of 338 individual funds established for purposes specified by donors (Specific Purpose Funds), 127 individual funds for which donors have established permanent balances (Endowment Funds), 18 outside trust funds where the Network is a benefactor (Perpetual Trusts) and 1 fund established by the Board of Trustees to underwrite rehabilitation research (Board Designated Funds). Net assets associated with each of these groups of funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the State Prudent Management of Institution Funds Act ("SPMIFA") 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. As a result of this interpretation, the Network classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to a 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 remaining portion of the donor-restricted endowment fund, except for beneficial interests in perpetual trusts, that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Network in a manner consistent with the standard of prudence prescribed by SPMIFA.

A summary of net asset composition by type of endowment restrictions fund and changes in net assets by those types of funds, in thousands of dollars, is as follows:

June 30, 2014:

		Donor Restricted			
			Permanently Restricted		
	Board Designated	Temporarily Restricted	Endowments	Perpetual Trusts	Total
Donor-restricted endowment funds	$ -	$ 82,781	$ 9,752	$ 44,204	$136,737
Board-designated endowment funds	19,336	-	-	-	19,336
Total Funds	$ 19,336	$ 82,781	$ 9,752	$ 44,204	$156,073

June 30, 2013:

		Donor Restricted			
			Permanently Restricted		
	Board Designated	Temporarily Restricted	Endowments	Perpetual Trusts	Total
Donor-restricted endowment funds	$ -	$ 75,900	$ 8,502	$ 39,673	$124,075
Board-designated endowment funds	45,672	-	-	-	45,672
Total Funds	$ 45,672	$ 75,900	$ 8,502	$ 39,673	$169,747

Changes in Net Assets functioning as endowments for the fiscal years ended June 30, 2014 and 2013, in thousands of dollars, are as follows:

		Donor Restricted			
			Permanently Restricted		
	Board Designated	Temporarily Restricted	Endowments	Perpetual Trusts	Total
Endowment net assets June 30, 2012	$ 40,974	$ 66,749	$ 8,502	$ 37,032	$ 153,257
Investment return:					
Investment income	1,036	592	-	-	1,628
Net appreciation (realized and unrealized)	3,728	5,882	-	2,716	12,326
Total investment return	4,764	6,474	-	2,716	13,954
Contributions	258	7,171	-	-	7,429
Appropriation of endowment assets for expenditure	(324)	(4,131)	-	-	(4,455)
Other changes:					
Change in beneficial interest in Perpetual trust	-	-	-	(75)	(75)
Investment impairment	-	(363)	-	-	(363)
Endowment net assets June 30, 2013	45,672	75,900	8,502	39,673	169,747
Investment return:					
Investment income	334	358	-	-	692
Net appreciation (realized and unrealized)	2,200	7,825	-	4,585	14,610
Total investment return	2,534	8,183	-	4,585	15,302
Contributions	-	2,403	1,250	-	3,653
Appropriation of endowment assets for expenditure	(28,870)	(3,614)	-	-	(32,484)
Other changes:					
Change in beneficial interest in Perpetual trust	-	-	-	(54)	(54)
Investment impairment	-	(91)	-	-	(91)
Endowment net assets June 30, 2014	$ 19,336	$ 82,781	$ 9,752	$ 44,204	$ 156,073

	2014	2013
Permanently Restricted Net Assets		
(1) The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	$ 53,956	$ 48,175
Total endowment funds classified as permanently restricted net assets	$ 53,956	$ 48,175
Temporarily Restricted Net Assets		
(2) The portion of perpetual endowment funds subject to a time restriction under SPMIFA:		
Cumulative realized and unrealized gains	$ 46,396	$ 38,872
Funds appropriated for specific purpose expenditure	36,385	37,028
Total endowment funds classified as temporarily restricted net assets	$ 82,781	$ 75,900

12. Functional Expenses

The following is a summary of operating expenses by patient service setting:

	2014	2013
Hospital Services:		
Acute Care	$ 669,572	$ 641,326
Skilled Nursing	12,421	13,258
Rehabilitation	77,314	77,723
Behavioral Health	38,066	39,192
Total Hospital Services	797,373	771,499
Physician Services:		
Tertiary Care	152,853	155,277
Primary Care	57,880	51,960
Total Physician Services	210,733	207,237
General and Administrative Support:		
Hospital & Physician Services	107,685	99,066
Other	923	5,570
Total General and Administrative Support	108,608	104,636
Total Operating Expenses	$ 1,116,714	$ 1,083,372

13. Asset Retirement Obligations

As of June 30, 2014, $4,216,000 of conditional asset retirement obligations are included within other non-current liabilities in the balance sheet and relate to asbestos remediation. Interest accretion costs reduced operating income and increased the conditional asset retirement liability by $154,000 for the year ended June 30, 2014 and by $147,000 for the year ended June 30, 2013.

14. Discontinued Operations

On September 29, 2012, MHMC ceased its healthcare delivery services. As a result, the Pennsylvania Department of Public Welfare decommissioned the facility on October 1, 2012. Included in the operating loss (within other operating expense) at June 30, 2013 are $5.81 million of costs related to making the property available for sale.

Operating results of the discontinued operations for the years ended June 30 are as follows:

(in thousands of dollars)

	2014	2013
Unrestricted Net Assets		
Unrestricted operating revenues, gains and other support		
Net patient service revenue before provision for bad debts	$ -	$ 24,463
Provision for bad debts	-	910
Net patient service revenue	-	23,553
Other revenue	10	-
Net assets released from restrictions	-	1,030
Total unrestricted operating revenues, gains and other support	10	24,583
Operating expenses		
Salaries and employee benefits	899	13,361
Supplies	-	4,671
External physician, clinical and professional service fees	320	6,037
Depreciation and amortization	-	947
Interest expense	18	37
Insurance	4,114	105
Other	342	8,169
Total operating expenses	5,693	33,327
Operating (loss) income	(5,683)	(8,744)
Non-operating revenues		
Investment (loss) income and realized gains and losses	-	59
Other	-	9
(Loss) income from operations of discontinued Montgomery Hospital Medical Center	$ (5,683)	$ (8,676)

Cash flows from discontinued operations

Cash flows from operating activities	$ (4,321)	$ (6,276)
Cash flows from investing activities	-	7,044
Cash flows from financing activities	(366)	(748)
	$ (4,687)	$ 20

Part II – Schedules of Expenditures of Federal, State and City Awards

Albert Einstein Healthcare Network
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through/Direct Entity Identification or Award Number	Federal Expenditures
Research & Development (R&D) Cluster			
Einstein Medical Center Philadelphia (EMCP)			
U.S. Department of Health and Human Services			
National Institutes of Health			
Prospective Surveillance Drug and HDS-Induced Liver Injury	93.847	2U01DK083027-07	297,738
Pass-Through Duke University			
Coordinating Center for Drug Induced Liver Injury Network (DILIN)	93.847	5 U01 DK065176-10	13,754
Drug-Induced Liver Injury Network	93.847	2U01DK065176-11	17,122
Total CFDA 93.847			328,614
Moss Rehabilitation Hospital (Moss)			
U.S. Department of Health and Human Services			
National Institutes of Health			
Understanding the Conceptual-Motor Interface	93.853	1R01NS065049-01A2	381,888
A Longitudinal Multi-modal Neuroimaging Investigation of Functional Recovery afte	93.853	5R01NS065980-03	293,843
Total CFDA 93.853			675,731
Dynamics of Spoken Word Comprehension in Aphasia	93.173	1R01DC010805-01A1	70,046
Psycholinguistic Analysis of Aphasic Syndromes	93.173	5R01DC000191-31	643,890
Delineating the Impact of Retrieval Practice in Aphasia	93.173	1R03DC012426-01A1	178,162
TMS as a Biomarker of Plasticity in Aphasia Recovery	93.173	1RO1-DC-012780-01A1	34,813
National Institute on Deafness and Other Communication Disorders			
Pass-through Drexel University			
Dynamics of Spoken Word Comprehension in Aphasia	93.173	7R01DC010805-05	56,728
Total CFDA 93.173			983,640
Anger Self-Management in Post-Acute Traumatic Brain Injury: A Multi-Center Clinic	93.865	5R01HD061400-02	410,201
Home-Based Mirror Therapy for Treating Hemiparesis in Stroke Patients	93.865	5R01HD068565-02	293,985
Postdoctoral Training in Translational Neurorehabilitation Research	93.865	1T32HD071844-01A1	66,290
Pass-through University of Pittsburgh			
Rehabilitation Medicine Scientist Training (RMST) Program	93.865	2K12HD001097-16	2,338
Rehabilitation Medicine Scientist Training(RMST-17	93.865	5K12HD001097-17	98,967
Total CFDA 93.865			871,781
Total U.S. Department of Health and Human Services			2,859,766
U.S. Department of Education			
The Moss Traumatic Brain Injury Model System	84.133A	H133A070040	11,488
The Moss Traumatic Brain Injury Model System	84.133A	H133A120037	510,226
Pass-through TIRR Memorial Hermann Health System			
Multicenter Evaluation of Memory Remediation After TBID	84.133A	H133A130047	37,136
Total CFDA 84.133A			558,851
Pass-through Mount Sinai School of Medicine			
Classification and measurement of Medical Rehabilitation Interventions	83.133A	H133A080053	100,672
Total U.S. Department of Education			659,523
National Science Foundation			
Pass-through University of Pennsylvania			
HCC: Small Modular Tactile Feedback for Whole body Motion Guidance	47.070	IIS-0915560	3,387
Total National Science Foundation			3,387
Total R&D Cluster			3,522,675

Albert Einstein Healthcare Network
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through/Direct Entity Identification or Award Number	Federal Expenditures
Other Federal Awards			
SNAP Cluster			
U.S. Department of Agriculture			
Pass-Through Pennsylvania State University			
Nutrition and Education Program/Eat Right Now	10.561	708/F06	3,623,460
Total SNAP Cluster			3,623,460
Einstein Medical Center Philadelphia (EMCP)			
Pass-Through Family Planning Council of Southeastern PA, Inc.			
Family Planning/Delegate Agency	93.217	142501	84,107
Family Planning/Delegate Agency	93.217	144004	14,194
Einstein Medical Center Montgomery (EMCM)			
Pass-Through Family Planning Council of Southeastern PA, Inc.			
Family Planning/Delegate Agency	93.217	143201	54,121
Total CFDA 93.217			152,422
Einstein Medical Center Philadelphia (EMCP)			
Family Planning/Delegate Agency	93.994	142501	13,123
Total CFDA 93.994			13,123
Einstein Medical Center Philadelphia (EMCP)			
Family Planning/Delegate Agency	93.283	142501	3,221
Total CFDA 93.283			3,221
Einstein Medical Center Philadelphia (EMCP)			
Family Planning/Delegate Agency	93.667	142501	10,618
Total CFDA 93.667			10,618
Total Family Planning			179,383

Albert Einstein Healthcare Network
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through/Direct Entity Identification or Award Number	Federal Expenditures
Other Federal Awards			
Pass-Through Philadelphia AIDS Activities Coordinating Office			
Ambulatory/Outpatient Medical Care Services	93.914	09-20868	235,996
HIV Testing in Healthcare Settings	93.940	CPA3042	43,111
Total Philadelphia AIDS Activities Coordinating Office			279,107
Pass-Through Philadelphia Corporation for Aging			
Premier Years - Apprise Funds	93.779	09-0495-00-3113	90,041
Community-based Care Transition Program		23-1905649	177,041
Total Philadelphia Corporation for Aging			267,082
Pass-Through Commonwealth of Pennsylvania Department of Health			
Surge Capacity Hospital Preparedness Program	93.889	4100062570	76,445
Total CFDA 93.889			76,445
MCH Services Block Grant	93.994	4100056953	320,733
Total CFDA 93.994			320,733
Pass-Through Commonwealth of Pennsylvania Department of Public Welfare			
EMBRACE-Children's Trust Fund Program	126335-002	4100046133	69,247
Baby Friendly WIC 2012	10.558	23-7399017	64,053
Total Commonwealth of PA Department of Public Welfare			133,300
U.S. Department of Health and Human Services			
Health Resources and Services Administration			
Ryan White Title III Funding: Early Intervention Services	93.918	6H76 HA00631-14-03	439,501
Healthy Tomorrows Partnership for Children Program	93.110	H17MC11291AO	43,697
Affordable Care Act: Primary Care Residency Expansion	93.510	T89HP20731AC	480,011
Centers for Medicare & Medicaid Services			
Strong Start for Mothers and Newborns	93.611	1D1CMS331142-01-00	194,441
Total U.S. Department of Health and Human Services			1,157,649
U.S. Department of Housing and Urban Development			
Federal Housing Administration			
Section 242 Mortgage Insurance Program	14.		284,540,022
Total U.S. Department of Housing and Urban Development			284,540,022
Belmont Center for Comprehensive Treatment (Belmont)			
U.S. Department of Health and Human Services			
Pass-Through Philadelphia			
Coordinating Office of Addiction Services Outpatient Program	93.959	94-6164	24,000
Total Other Federal Awards			286,977,721
Total Expenditures of Federal Awards			$ 294,123,856

Albert Einstein Healthcare Network
Schedule of Expenditures of State Awards
Year Ended June 30, 2014

Grantor/Pass-Through Grantor/Program or Cluster Title	Program Access Code	Grantor's Number	State Expenditures
Albert Einstein Medical Center (AEMC)			
Pennsylvania Department of Welfare			
Pass-Through Philadelphia Department of Behavioral Health And Intellectual Disability Services			
Outpatient - Student Assistance Program	PAC CD - 0103-0628	09-20734-03	236,678
Long Term Structured Residence	PAC CD - 0100-1605	09-20734-03	3,565,123
Emergency Mental Health-Child/Adolescents	PAC CD - 0101-1031	09-20734-03	770,593
Emergency Mental Health-Adult-Crisis Response Center	PAC CD - 0100-1031	09-20734-03	806,377
Total PA Department of Welfare			5,378,771
Pass-Through Family Planning Council of Southeastern PA, Inc.			
Family Planning/Delegate Agency	N/A	142501	8,232
Pass-Through Philadelphia AIDS Activities Coordinating Office			
HIV Prevention Services	N/A	1020504-02	16,562
Commonwealth of Pennsylvania Department of Health			
Division of Health Professions Development			
CPC Expanded Access	RFA#67-26	4100065263	56,692
Total Expenditures of State Awards			$ 5,460,257

Albert Einstein Healthcare Network
Schedules of Expenditures of City of Philadelphia Awards
Year Ended June 30, 2014

Grantor/Pass-Through Grantor/Program or Cluster Title	Program Access Code	Grantor's Number	City Expenditures
Albert Einstein Medical Center (AEMC)			
Philadelphia Department of Public Health			
Pass-Through Philadelphia Office of Behavioral Health and Intellectual Disability Services			
Outpatient - Student Assistance Program	PAC CD - 0103-0628	09-20734-03	$ 287
Emergency Mental Health-Adult-Crisis Response Center	PAC CD - 0100-1031	09-20734-03	89,597
Emergency Mental Health-Child/Adolescents	PAC CD - 0101-1031	09-20734-03	85,621
Total Expenditures of City Awards			$ 175,505

1. General Information

The accompanying schedules of expenditures of federal, state and city awards (the "Schedules") present the activities in all the federal, state and city financial assistance programs of Albert Einstein Healthcare Network ("AEHN") as of June 30, 2014. All financial assistance received directly from federal, state or city agencies, as well as financial assistance passed through other governmental agencies or not-for-profit organizations is included on the schedules. The information in the Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* the Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements, and the *City of Philadelphia Subrecipient Audit Guide.*

2. Basis of Accounting

The accompanying schedules of expenditures of federal, state and city awards are presented using the accrual basis of accounting. The amounts reported in these schedules as expenditures may differ from certain financial reports submitted to federal, state or city funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

3. Relationship to Basic Consolidated Financial Statements

Federal, state and city awards expenditures are reported on the statement of operations. In certain programs, the expenditures reported in the basic consolidated financial statements may differ from the expenditures reported in the schedules of federal, state and city awards due to program expenditures exceeding grant or contract budget limitations which are not included as federal, state and city awards. Because the Schedules present only a selected portion of the activities of AEHN, they are not intended to, and do not present either the financial position, changes in net assets or cash flows of AEHN.

4. Facilities and Administrative Costs

Expenditures consist of direct costs and indirect costs. AEHN has a predetermined facilities and administrative rate for federal awards, which is effective from July 1, 2013 to June 30, 2014. The rate is a percentage of modified total direct costs for the year ended June 30, 2014 as follows:

AEHN Facility	Rate
Albert Einstein Medical Center	49.5%
Moss Rehabilitation Hospital	52.5%
Belmont Behavioral Health	45.2%

5. Subrecipients

Of the federal expenditures presented in the schedule, AEHN provided federal awards to subrecipients for the year ended June 30, 2014 as follows:

Program Title	CFDA Number	Amount
Research and Development Cluster		
U.S. Department of Health and Human Services		
National Institutes of Health		
Home Based Mirror Therapy for Treating Hemiparesis in Stroke Patients	93.865	$ 48,622
Rehabilitation Medicine Scientist Training Program	93.865	400
Rehabilitation Medicine Scientist Training Program-Whyte	93.865	6,800
Understanding the Conceptual-Motor Interface	93.853	24,072
Psycholinguistic Analysis of Aphasic Syndromes	93.173	268,374
Continuation and Expansion of the Drug Induced Liver Injury Network	93.847	76,617
Dynamics of Spoken Word Comprehension in Aphasia	93.173	14,602
A Longitudinal Multi-modal Neuroimaging Investigation of Functional Recovery afte	93.853	116,347
Anger Self-Management in Post-Acute Traumatic Brain Injury: A Multi-Center Clinic	93.865	270,946
Drug-Induced Liver Injury Network	93.847	2,320
U.S. Department of Education		
The Moss Traumatic Brain Injury Model System	84.133A	22,500
Model System-Hart	84.133A	22,903
Total amount passed through to subrecipients		$ 874,504

6. Long-Term Obligations

On June 23, 2010, EMCM issued $309,435,000 in FHA insured Mortgage Revenue Bonds, Series 2010 through the Montgomery County Industrial Development Authority ("MCIDA"). The Series 2010 note and mortgage are insured by the Department of Housing and Urban Development, acting by and through the Federal Housing Authority, under Section 242 of Title 11 of the National Housing Act.
Refer to Note 7 included in the accompanying consolidated financial statements.

7. Program Funding Pass Through – Commonwealth of Pennsylvania

Total Revenue Recognized in FY'2014

	Federal CFDA Number	Pass-Through/Direct Entity Identification or Award Number	Amount
Surge Capacity Hospital Preparedness Program	93.889	4100062570	$ 76,445
MCH Services Block Grant	93.994	4100056953	320,733
CPC Expanded Access	RFA#67-26	4100065263	56,692

Total Funding Received in FY'2014

	Federal CFDA Number	Pass-Through/Direct Entity Identification or Award Number	Amount
Surge Capacity Hospital Preparedness Program	93.889	4100062570	$ 82,155
MCH Services Block Grant	93.994	4100056953	379,476
CPC Expanded Access	RFA#67-26	4100065263	-

Accrued or Deferred Revenue at the beginning and end of the fiscal year are not applicable for these grants.

Part III – Reports on Internal Control and Compliance

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Albert Einstein Healthcare Network and its subsidiaries (AEHN), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered AEHN's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AEHN's internal control. Accordingly, we do not express an opinion on the effectiveness of AEHN's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AEHN's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

pwc

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

September 26, 2014

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, *Consolidated Audit Guide for Audits of HUD Programs*, Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the City of Philadelphia Subrecipient Audit Guide

To the Board of Trustees of the
Albert Einstein Healthcare Network

Report on Compliance for Each Major Federal, State and City of Philadelphia Program

We have audited Albert Einstein Healthcare Network's (AEHN) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement, Consolidated Audit Guide for Audits of HUD Programs,* the Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit* that could have a direct and material effect on each of AEHN's major federal, state and City of Philadelphia programs for the year ended June 30, 2014. AEHN's major federal, state and City of Philadelphia programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal, state and City of Philadelphia programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of AEHN's major federal, state and City of Philadelphia programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Consolidated Audit Guide for Audits of HUD Programs, Audits of States, Local Governments, and Non-Profit Organizations,* Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide*. Those standards, OMB Circular A-133, *Consolidated Audit Guide for Audits of HUD Programs,* Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal, state or City of Philadelphia programs occurred. An audit includes examining, on a test basis, evidence about AEHN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal, state and City of Philadelphia program. However, our audit does not provide a legal determination of AEHN's compliance.

Opinion on Each Major Federal, State and City of Philadelphia Program

In our opinion, AEHN complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal, state and City of Philadelphia programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of AEHN is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered AEHN's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal, state and City Philadelphia program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal, state and City of Philadelphia program and to test and report on internal control over compliance in accordance with OMB Circular A-133*, Consolidated Audit Guide for Audits of HUD Programs,* Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of AEHN's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal, state or City of Philadelphia program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal, state or City of Philadelphia program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal, state or City of Philadelphia program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133*, Consolidated Audit Guide for Audits of HUD Programs,* the Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide*. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

October 03, 2014

Part IV – U.S. Department of Housing and Urban Development Requirements and Supplemental Schedules

Albert Einstein Healthcare Network

The Albert Einstein Healthcare Network is a not-for-profit corporation that controls related organizations in a health care delivery system serving the greater Delaware Valley through sole membership in those related organizations. The Albert Einstein Healthcare Network ("AEHN"), the parent company, together with its related member organizations, comprises the Albert Einstein Healthcare Network ("Network").

AEHN engages in health education, health promotion and fundraising activities, conducts system-wide planning, establishes overall financial goals and oversees funds management.

AEHN appoints the governing boards of subsidiaries and member organizations.

Einstein Medical Center Montgomery

Einstein Medical Center Montgomery ("EMCM) is a controlled organization through membership in AEHN. EMCM constructed a new medical center to provide acute care services to residents in and around central Montgomery County. EMCM provides tertiary care in a 170 acute care bed hospital setting. In addition, services are provided through an emergency department on the main campus; outpatient and ancillary services are provided both on the main campus and through surrounding community sites.

On September 29, 2012, the first patients were treated in the new facility. The accompanying financial statement schedules and supplementary information schedules are for the fiscal year ended June 30, 2014.

The Mortgagor

The accompanying financial statement schedules and supplementary information schedules are the schedules of EMCM, which is the mortgaged entity ("Mortgagor') pursuant to its Series 2010 Note and Mortgage issued as security for repayment of its Series 2010 FHA Insured Mortgage Revenue Bonds. The Series 2010 Note and Mortgage are insured by the Department of Housing and Urban Development ("HUD"), acting by and through the Federal Housing Authority, under section 242 of Title II of the National Housing Act. As the mortgaged entity, EMCM's assets, liabilities, net assets, revenues and expenses are encumbered by the Series 2010 Note and Mortgage.

Basis of Mortgagor's Financial Schedules Presentation

The accompanying financial statement schedules and supplementary information schedules have been:

1.) prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States of America ("GAAP"),

2.) presented in accordance with guidance provided in HUD's Handbook, <u>Mortgage Insurance for Hospitals (4615.1)</u>, <u>Appendix 9: Financial Statement Presentation</u> ,("Appendix 9") and

3.) structured to present the activities of: "EMCM Mortgagor," "Other" which is all Network entities other than EMCM and "Total Consolidated Health Care System" also referred to as "Network."

Certain line items have been reclassified from a GAAP presentation to conform to a HUD presentation under the guidelines of Appendix 9.

Use of Estimates

Preparation of the financial statement schedules and supplementary information schedules in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and the accompanying notes. Actual results could differ from these estimates.

Schedule 1

Einstein Medical Center Montgomery
Balance Sheet
Year Ended June 30, 2014

(in thousands of dollars)

	EMCM Mortgagor	Other Activities	Total Consolidated Health System
Assets			
Current Assets:			
Cash and Cash equivalents	$ 14,298	$ 65,810	$ 80,108
Gross Patient Receivables	25,668	115,282	140,950
less allowance for uncollectible accounts and contractual allowances	(1,656)	(9,850)	(11,506)
Net Patient Receivables	24,012	105,432	129,444
Other Receivables	221	13,889	14,110
Inventories	4,407	13,050	17,457
Other Current Assets	1,607	6,985	8,592
Total Current Assets	44,545	205,166	249,711
Qualified Liquid Investments	-	285,408	285,408
Hospital Held Non Liquid Qualified Investments	-	-	-
Other Long Term Investments	-	-	-
Investments Limited as to Use	37,899	231,147	269,046
Net Property and Equipment	328,669	324,476	653,145
Other Assets	7,863	76,162	84,025
Total Assets	$ 418,976	$ 1,122,359	$ 1,541,335
Liabilities and Net Assets			
Current Liabilities			
Current Portion of Long Term Debt	$ 10,666	$ 10,022	$ 20,688
Accounts Payable and Accrued Liabilities	10,175	52,337	62,512
Accrued interest payable	6,792	1,497	8,289
Accrued Salaries & Benefits	2,051	81,464	83,515
Due to Affiliates	7,260	(7,260)	-
Payables to third-party payors	152	15,850	16,002
Other Current Liabilities	102	35,923	36,025
Total Current Liabilities	37,198	189,833	227,031
Long-term debt & leases, net of current portion	312,563	109,514	422,077
Other Long-term liabilities	3,678	344,752	348,430
Total Liabilities	353,439	644,099	997,538
Net Assets			
Unrestricted Net Assets	58,059	349,001	407,060
Temporarily Restricted Net Assets	7,478	75,303	82,781
Permanently Restricted Net Assets	-	53,956	53,956
Total Net Assets	65,537	478,260	543,797
Total Liabilities and Net Assets	$ 418,976	$ 1,122,359	$ 1,541,335

Schedule 2

Einstein Medical Center Montgomery
Income Statement
Year Ended June 30, 2014

(in thousands of dollars)

	EMCM Mortgagor	Other Activities	Total Consolidated Health System
Revenue:			
Net Inpatient Revenue	$ 108,775	$ 542,142	$ 650,917
Net Outpatient Revenue	63,050	357,086	420,136
Patient Service Revenue (net of contractual allowances and discounts)	171,825	899,228	1,071,053
Provision for Bad Debts	(4,433)	(24,514)	(28,947)
Net Patient Service Revenue	167,392	874,714	1,042,106
Other Operating Revenue	4,576	49,183	53,759
Total Operating Revenue	171,968	923,897	1,095,865
Operating Expenses :			
Salaries and Wages	62,558	511,519	574,077
Physician Salaries and Wages	-	-	-
Employee benefits	10,980	81,278	92,258
Professional Fees	4,981	4,364	9,345
Supplies	32,391	110,236	142,627
Bad Debts	-	-	-
Interest	17,721	7,529	25,250
Depreciation and Amortization	17,298	40,781	58,079
Other	39,815	175,263	215,078
Total Operating Expenses	185,744	930,970	1,116,714
Operating Income (loss)	**(13,776)**	**(7,073)**	**(20,849)**
Non-operating Revenue (Expense):			
Investment Income	908	39,471	40,379
Contributions	872	(660)	212
Provision for income taxes	-	-	-
Other	-	1,671	1,671
Total Non-Operating Income (loss)	1,780	40,482	42,262
Excess of Revenue over Expenses Before Discontinued Operations	(11,996)	33,409	21,413
Discontinued Operations:			
Loss on Montgomery Hospital	-	(5,683)	(5,683)
Excess of Revenue over Expenses After Discontinued Operations	**(11,996)**	**27,726**	**15,730**
Unrealized gains/losses on investments	-	6,347	6,347
Net assets released from restriction	(80)	(3,516)	(3,596)
Transfers from (or to) parent	13,072	(13,072)	-
Change in unrestricted net assets	-	(10,155)	(10,155)
Change in Temporarily Restricted Net Assets	(516)	9,423	8,907
Change in Permanently Restricted Net Assets	-	1,196	1,196
Net increase/(decrease) in net assets	$ 480	$ 17,949	$ 18,429

Schedule 3

Einstein Medical Center Montgomery
Statement of Cash Flows
Year Ended June 30, 2014

(in thousands of dollars)

	EMCM Mortgagor	Other Activities	Total Consolidated Health System
Cash flows from operating activities:			
Increase/(decrease) in net assets	$ 480	$ 17,949	$ 18,429
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and Amortization	16,590	40,780	57,370
Bad debts	4,433	24,514	28,947
Change in operating assets and liabilities:			
Accounts Receivable	(7,161)	(28,795)	(35,956)
Other receivables	67	(2,019)	(1,952)
Inventories	(661)	(2,065)	(2,726)
Other Current Assets	16	(44,886)	(44,870)
Accounts payable & accrued liabilities	(7,131)	8,414	1,283
Other Current liabilities	832	(5,152)	(4,320)
Net cash provided by (used in) operations	7,465	8,740	16,205
Cash flows from investing activities:			
Purchases of Investments	-	-	-
Proceeds from sale of property	-	-	-
Capital expenditures	(12,330)	(64,740)	(77,070)
Purchases of assets limited as to use	258	75,338	75,596
Net cash provided by/(used in) investing activities	(12,072)	10,598	(1,474)
Cash Flows from financing activities:			
Due to (Due from) affiliates	3,610	(3,610)	-
Principle payments on long term obligations	(7,874)	(9,736)	(17,610)
Proceeds from construction loan	-	-	-
Proceeds from additional contributed capital	(242)	3,357	3,115
Net cash provided by financing activities	(4,506)	(9,989)	(14,495)
Net increase (decrease) in cash	(9,113)	9,349	236
Cash at beginning of year	13,346	37,323	50,669
Cash at end of year	$ 4,233	$ 46,672	$ 50,905

Einstein Medical Center Montgomery
Property and Equipment of Mortgagor
Year Ended June 30, 2014

(in thousands of dollars)

A summary of land, buildings and equipment and related depreciation in thousands of dollars at June 30, 2014, is as follows:

	EMCM Mortgagor	Other Activities	Total Consolidated Health System
Land and land improvements	$ 52,028	13,165	$ 65,193
Buildings	232,982	469,346	702,328
Equipment	71,797	469,273	541,070
Construction in progress	1,048	53,139	54,187
	357,855	1,004,923	1,362,778
Less: Accumulated depreciation	(29,187)	(680,445)	(709,632)
	$ 328,668	$ 324,478	$ 653,146
Total depreciation expense	$ 16,997	$ 40,470	$ 57,467

Included in EMCM's equipment are unamortized computer software costs of $10,822,000 in 2014 and $10,637,000 in 2013. Included in EMCM's total depreciation expense is $2,649,000 in 2014 and $1,125,000 in 2013 pertaining to amortization of computer software.

Einstein Medical Center Montgomery
Long Term Debt of Mortgagor
Year Ended June 30, 2014

(in thousands of dollars)

	EMCM Mortgagor	Other Activities	Total Consolidated Health System
Series 2010 Bonds (a)	$ 308,284	$ -	$ 308,284
Series 2009A Bonds (b)	-	115,353	115,353
Capital leases	-	141	141
Negative arbitrage term loan (c)	14,945	-	14,945
Other	-	4,043	4,043
	323,229	119,537	442,766
Less: Current portion	10,666	10,023	20,689
	$ 312,563	$ 109,514	$ 422,077

a. On June 23, 2010, EMCM issued $309,435,000 in FHA Insured Mortgage Revenue Bonds, Series 2010 through the Montgomery County Industrial Development Authority (“MCIDA”). The bond proceeds, along with other funds are being used to:

pay for the cost of acquiring land, constructing and equipping a new medical center in central Montgomery County (EMCM),

i. pay a portion of the interest accruing on the Series 2010 Bonds during construction,

ii. fund a Debt Service Reserve Fund and

iii. pay bond issuance costs.

Included in the Series 2010 Bonds obligation is an unamortized premium of $4,084,000.

In conjunction with (a) above, EMCM has entered into a loan agreement with MCIDA whereby MCIDA has loaned the proceeds of the Series 2010 bonds to EMCM. EMCM has agreed to repay the loan by paying amounts sufficient to pay, when due, the principal and interest on the Series 2010 bonds.

Monthly payments to the Trustee providing funds equivalent for Series 2010 Bond maturities and interest will be made through February 2038. Interest on the bonds outstanding at June 30, 2014 is at stated rates ranging from 5.0% to 5.75%.

As evidence of its obligation under the loan agreement and in order to provide security for the repayment of the loan, EMCM issued its Series 2010 Mortgage Note which is secured by a Mortgage granting a first lien on EMCM’s fee interest to the Trustee, as mortgagee, in its 84 acre campus, a $24.4 million Debt Service Reserve Fund and certain other assets.

The Series 2010 Note and Mortgage are insured by the Department of Housing and Urban Development, acting by and through the Federal Housing Authority, under Section 242 of Title II of the National Housing Act.

Although AEHN is the sole member of EMCM, neither AEHN nor any of its affiliates, other than EMCM, are obligated on, or are guarantors of the Series 2010 Bonds.

The Series 2010 Bonds maturing on or before August 1, 2020 are not subject to optional redemption prior to maturity. At the option of MCIDA, upon the direction of EMCM, at par plus accrued interest, the Series 2010 Bonds maturing on August 1, 2030 are subject to optional redemption on August 1, 2015 and all other Series 2010 Bonds maturing on or after August 1, 2024 are subject to optional redemption on or after August 1, 2020.

b. On June 18, 2009, the Network issued $148,020,000 in Health System Revenue Bonds, Series 2009A through the Pennsylvania Economic Development Financing Authority ("PEDFA").

Obligated Group - for the purpose of securing payment of the Series 2009A Bonds, AEHN (the Network parent company), and its affiliates, AEMC, Belmont, EPPI and ECHA, formed the AEHN Obligated Group ("Obligated Group").

The Obligated Group has also guaranteed certain EMCM letters of credit and has transferred property and made loans and advances to EMCM

c. Under the terms of the Trust Indenture for the Series 2010 Bonds, bond proceeds are invested during the period of construction at a rate that may be less than the interest rate payable on the bonds. This negative arbitrage results in a cash flow deficit that is funded with a Letter of Credit, the Negative Arbitrage Letter of Credit.

d. Under the terms of the Reimbursement Agreement for the Negative Arbitrage Letter of Credit, draws on the Letter of Credit can be repaid at any time. On August 1, 2013, the outstanding balance was converted to a five year term loan at the option of EMCM. Under the terms of the loan, interest is charged at the variable rate of one month LIBOR market index rate plus 2.2% on the outstanding balance and payment of principal and interest are payable in quarterly installments through 2019.

All obligations of the Negative Arbitrage Letter of Credit are guaranteed by the AEHN Obligated Group. As of June 30, 2014, the remaining balance on the term loan was $14,944,707.

Cash paid for interest on EMCM's long-term debt in 2014 was $16,888,000.

Einstein Medical Center Montgomery
Long Term Debt of Mortgagor
Year Ended June 30, 2014

Principal payments and installments for EMCM's debt service requirements of the Series 2010 Bonds and Negative Letter of Credit Term Loan over the next five years and thereafter, in thousands of dollars, are as follows:

	EMCM Series 2010	EMCM Term Loan	EMCM Combined
2015	$ 7,150	$ 3,516	$ 10,666
2016	6,265	3,516	9,781
2017	6,590	3,516	10,106
2018	6,925	3,516	10,441
2019	7,280	881	8,161
Thereafter	274,074	-	274,074
	$ 308,284	$ 14,945	$ 323,229

Fair Value

The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analyses based on the borrower's incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair value of EMCM's Series 2010 long-term debt at June 30, 2014, in thousands of dollars, were $308,284,000 and $334,786,000, respectively.

Schedule 6

Einstein Medical Center Montgomery
Due To and Due From Mortgagor
Year Ended June 30, 2014

(in thousands of dollars)

Description	EMCM	Other	- Affiliate	Network
Pre Operating and Start Up costs	$ (6,072)	$ 6,072	AEHN	$ -
Health Benefits Reconciliation - year end	511	(511)	AEMC	-
Management Fee Recociliation - year end	(1,264)	1,264	AEHN	-
Services provided	53	(53)	Fornance	-
All Other, Net	(488)	488	Various	-
Net (Due To) / Due From Affiliates	$ (7,260)	$ 7,260		$ -

Einstein Medical Center Montgomery
Qualified Liquid Investments and Assets Whose Use is Limited of Mortgagor
Year Ended June 30, 2014

(in thousands of dollars)

Fair Value

As of June 30, 2014, the fair values of qualified liquid investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, of EMCM, Other Activities and the Network consisted of the following:

	EMCM				Other	Network
	Level 1	Level 2	Level 3	Total Fair Value	Total Fair Value	Total Fair Value
Cash and cash equivalents	$ 10,673	$ -	$ -	$ 10,673	$ 27,891	$ 38,564
U.S. treasury obligations	-	5,349	-	5,349	24,116	29,465
U.S. agency obligations	-	-	-	-	181	181
Bond mutual funds	-	-	-	-	182,774	182,774
Equity mutual funds	-	-	-	-	60,501	60,501
Commingled equity funds	-	-	-	-	19,429	19,429
Commingled bond funds	-	-	-	-	63,510	63,510
Marketable equity securities	-	-	-	-	47,063	47,063
Alternative investments	-	-	-	-	33,969	33,969
Guaranteed investment contracts	-	24,396	-	24,396	-	24,396
Other	-	-	-	-	11,401	11,401
	10,673	29,745	-	40,418	470,835	511,253
Beneficial interest in perpetual trusts	-	-	-	-	44,205	44,205
	$ 10,673	$ 29,745	$ -	$ 40,418	$ 515,040	$ 555,458

As of June 30, 2014, the fair values of qualified liquid investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, are presented in the balance sheet under the following classifications:

	EMCM				Other	Network
	Level 1	Level 2	Level 3	Total Fair Value	Total Fair Value	Total Fair Value
Investments, current	$ -	$ -	$ -	$ -	$ 8,896	$ 8,896
Assets whose use is limited, current	10,065	-	-	10,065	10,243	20,308
Investments, non-current	-	-	-	-	266,299	266,299
Assets whose use is limited, non-current	608	29,746	-	30,354	185,396	215,750
	10,673	29,746	-	40,419	470,834	511,253
Beneficial interest in perpetual trusts	-	-	-	-	44,205	44,205
	$ 10,673	$ 29,746	$ -	$ 40,419	$ 515,039	$ 555,458

Einstein Medical Center Montgomery
Contingencies of Mortgagor - Professional Liability Claims
Year Ended June 30, 2014

At June 30, 2014, EMCM has accrued professional liability claims of approximately $2.9 million. In addition, EMCM has recorded $0.5 million of 2014 insurance liabilities that are recoverable from insurance carriers. These claims have been discounted at a 3% rate. As of June 30, 2014, the carrying amount of these accrued liability claims before discounting was $3.3 million. EMCM has recognized professional liability expense of approximately $2.3 million for the year ended June 30, 2014.

EMCM obtains primary hospital professional liability and general liability coverage through Broadline Risk Retention Group ("BRRG"). BRRG is a Vermont not for profit sponsored risk retention group that is a Network controlled organization through membership of AEHN (parent) and its subsidiaries, including EMCM, who participate in its risk retention program. BRRG is organized and operated exclusively to support Network members through providing professional liability, general liability and excess liability insurance.

BRRG provides the first ("primary") layer of professional liability to EMCM on a claims made coverage basis with limits of $500,000 per professional incident/$2,500,000 annual at June 30. 2014. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania.

BRRG provides general liability coverage on an occurrence basis with limits of liability of $1,000,000 per occurrence/$3,000,000 annual aggregate.

The premiums charged for the primary layer are determined by an independent actuary based on loss and loss adjustment expense experience and other factors at a 65% confidence level and include a charge for premium tax and operating expenses. The premiums charged by BRRG are subject to annual retrospective adjustments made to align assets available for payment of claims at fiscal year-end with estimated liabilities. Claims are recorded on a discounted basis using a rate of 3% as of June 30, 2014

The second layer of coverage is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). MCARE acts as a service agent to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by EMCM. This second layer, required by statute, consists of coverage with limits of $500,000 per incident and $1,500,000 annual aggregate per hospital. The annual assessments for MCARE Fund coverage are based on a schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association multiplied by an annual assessment percentage. This assessment is recognized as an expense in the period incurred.

EMCM paid surcharge assessments during fiscal year 2014 totaling $0.3 million. The actuarially computed liability to all Pennsylvania healthcare providers (hospital, physicians and others) participating in the Commonwealth's MCARE Fund at December 31, 2012 (the latest date for which such information is available) was $1.16 billion ($.99 billion at net present value discounted at 4%). No provision has been made for any MCARE Fund unfunded liabilities in the accompanying financial statements as EMCM's portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

EMCM's recorded expense for potential losses in excess of the primary and MCARE layers up to a $6 million each professional incident/$6 million annual aggregate retention excess of $5 million each and every professional incident is based on actuarially determined estimates at a 65% confidence level and 3% discount rate for fiscal year 2014. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such considerations as medical costs and actual experience could cause these estimates to change. Primary and MCARE erode these retentions.

During fiscal year 2014, BRRG provided excess professional liability on a claims made coverage basis and umbrella liability coverage on an occurrence basis with shared limits of liability of $40 million per professional incident/ $40 million annual aggregate and $40 million per occurrence/ $40 million annual aggregate respectively, in excess of underlying coverage and limits. BRRG has reinsured 100% of the excess professional liability and umbrella liability to reinsurance companies, Zurich American Insurance Company, Berkley Insurance Company and Ironshore, all rated A- or better by A.M. Best.

Einstein Medical Center Montgomery
Contingencies of Mortgagor - Commitments and Net Revenue
Year Ended June 30, 2014

(in thousands of dollars)

Operating Leases

EMCM has various lease obligations for equipment, ambulatory facilities and office space. At June 30, 2014, the minimum future rental commitment, in thousands of dollars, is as follows:

2015	$	1,913
2016		1,953
2017		1,994
2018		1,872
2019		1,870
Thereafter		6,435
	$	16,037

Total rent expense was $3,270,000 in 2014.

Letters of Credit

EMCM did not have open letters of credit as of June 30, 2014. . During fiscal 2014, the Obligated Group guaranteed $40 million of letters of credit issued to guarantee working capital requirements of EMCM during the first several years of operations of the hospital.

Lines of Credit

EMCM did not have any lines of credit as of June 30, 2014.

Litigation

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

Net Revenue

A large portion of EMCM’s net revenue is derived from services provided to beneficiaries of government sponsored health care programs, principally Medicare and Medicaid. EMCM, like other health care providers who participate in these programs, is required to adhere to billing, coding and other requirements. As a condition of its receiving payment and continued participation in Medicare and Medicaid programs, EMCM must comply with extensive federal and state regulations and must submit to reviews and audits by the federal and state agencies charged with administering these programs.

Violations of these billing, coding and other similar requirements can subject EMCM to claims by the government for repayment of amounts it received for the services billed to the government programs, as well as for civil monetary penalties of up to three times the amount of payments received from the programs. Failure to comply with any of the laws or regulations under these programs could have a material, adverse effect on EMCM’s financial position and results of operations.

Einstein Medical Center Montgomery
Concentration of Credit Risk of the Mortgagor – Net Patient Service Revenue
Year Ended June 30, 2014

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined.

In July 2011, new guidance was issued regarding presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts for certain health care entities, which requires health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). This guidance became effective for EMCM on July 1, 2012.

Revenue from the Medicare and Medicaid programs, directly and from managed care providers serving Medicare and Medicaid enrollees, accounted for approximately 39.3% and 11.5%, respectively, of EMCM's net patient service revenue for the fiscal year ended June 30, 2014. Most payments to EMCM from the Medicare and Pennsylvania Medical Assistance programs for inpatient hospital services are made on a prospective basis.

Under these programs, payments are made at a predetermined specific rate for each discharge based on a patient's diagnosis. Additional payments are made to EMCM for cases that have an extremely long length of stay or unusually high costs in comparison to national or statewide averages. Laws governing the Medicare and Medicaid programs are complex and subject to interpretation.

EMCM has also entered into agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations, the largest being Independence Blue Cross at 24.6% for the fiscal year ended June 30, 2014. The basis for payment to EMCM under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, capitated rates and pay-for-performance incentives.

Einstein Medical Center Montgomery
Charity Care and Uncompensated Community Services of Mortgagor
Year Ended June 30, 2014

Charitable Medical Care Provided

EMCM provides services to all patients regardless of ability to pay. Although patients are ultimately responsible for hospital services rendered that are not covered by insurance, some uninsured patients qualify for charity care under established guidelines and are therefore not responsible for payment of such services. These guidelines require medical indigence status based on federal poverty guidelines. Charges for services rendered to patients who qualify for charity care are not reflected in the accompanying consolidated financial statements. Uninsured patients who do not qualify for free charity care are provided care at reduced rates.

EMCM maintains records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies furnished. Such amounts have been excluded from net patient service revenue. Management estimates that the cost of unreimbursed charity care provided by EMCM approximated $1.2 million in 2014. The cost of charity care is computed by taking the ratio of EMCM's cost to charges and multiplying it by the charges forgone for each charity patient.

Charity care amounts do not include the provision for bad debts, amounting to $3.5 million for amounts due from patients at EMCM's uninsured discounted fee scale amounts but not collected for the year ended June 30, 2014. This provision is reflected separately in the accompanying statement of operations and changes in net assets as a reduction of net patient service revenue.

Other Uncompensated Community Services

Services are provided to patients in the community who are insured under the Pennsylvania Medical Assistance Program. Payments from the Medical Assistance Program are substantially below EMCM's cost of providing such services. The costs of providing services to eligible welfare recipients who participate in the Pennsylvania Medical Assistance and local Health Choices programs exceeded reimbursement by $ 10.7 million in 2014.

In addition to providing direct patient charity care and in furtherance of its exempt purpose to benefit the community, Einstein Medical Center Montgomery (EMCM) provides various community services. EMCM has a partnership with the Elmwood Park Zoo where seasonal events geared to health education are held. In addition, health fairs were sponsored by EMCM at Greater Plymouth Community Center, Ursinus College, Plymouth Ambulance and Montgomery County Community College. EMCM was a sponsor of various community events including the 9/11 Heroes Run, East Norriton Day, Family Services of Montgomery County Annual Evansburg Challenge, and North Penn Relay for Life. Community educational programs are offered for maternity care and childbirth classes, smoking cessation and CPR training. Support groups are held for cancer patients and their families.

Einstein Medical Center Montgomery
Compliance Ratios including MRF Balance of Mortgagor
Year Ended June 30, 2014

FHA Guidelines			**Operating Period FY 14**	
	Debt Service Coverage Ratio		0.95	X
	Days Cash on Hand		9.17	Days
Regualtory Agreement Section 30				
	MRF Balance:			
	Mortgage Reserve Fund Actual	$	5,351,000	
	Mortgage Reserve Fund Required	$	5,325,000	
	Debt Service Coverage Ratio		0.95	X
	Current Ratio		1.25	X
	Average Payment Period		64.88	Days
	Equity Financing Ratio		15.92%	

Schedule 13

Einstein Medical Center Montgomery
Reconciliation of Bonds and Debt Service Funds to Mortgage Balance
Year Ended June 30, 2014

(in thousands of dollars)

	Mortgagor Balance Sheet	Reconciliation	Mortgage
Long Term Debt:			
Par Value Bonds Issued	$ 309,435	$ -	$ 309,435
Original Premium	7,083	-	7,083
Amortization of Premium	(2,999)	2,999	-
	313,519	2,999	316,518
Bond Principal Payments	(5,235)	5,235	-
Mortgage Principal Payments	-	(7,103)	(7,103)
Mortgage Reduction (Project Savings)	-	(857)	(857)
Net Long Term Debt	308,284	274	308,558
Assets Whose Use is Limited - Trustee Funds:			
Debt Service Reserve Fund	(24,013)	-	(24,013)
Debt Service Fund - Mortgage Principal Component	(1,945)	1,945	-
Bond Proceeds to Debt Service Fund	-	(5)	(5)
Net Trustee Funds	(25,958)	1,940	(24,018)
Net Debt Financing Position	$ 282,326	$ 2,214	$ 284,540 (a)

(a)	Maximum Insurable Mortgage	$ 291,643
	Principal Payments to date	(7,103)
	Mortgage balance 6/30/14	$ 284,540

Part V – City of Philadelphia Requirements and Supplemental Schedule

Independent Auditor's Report on City of Philadelphia, Department of Public Health Supplemental Schedules

To the Board of Trustees of the
Albert Einstein Healthcare Network

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Albert Einstein Healthcare Network and its subsidiaries ("AEHN"), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2014.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and in the *City of Philadelphia Subrecipient Guide*, which incorporates guidance from OMB Circular A-133. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying: Schedule of Functional Expenditures by Control Program and Revenue by Funding Source; Ambulatory/Outpatient Medical Care Services Schedules of Contractual Performance (Budget vs. Actual);, Schedule of Program Activity Invoice Summary by Contract Number; and Schedule of Adjustments on Summary of Program Activities by Program Activity Code are presented for purposes of additional analysis as required the *City of Philadelphia Subrecipient Guide*, which incorporates guidance from OMB Circular A-133, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The actual information in these schedules has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

This report is intended solely for the information and use of AEHN's Board of Trustees, management and City of Philadelphia awarding agencies and is not intended to be and shall not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

October 03, 2014

AIDS Activities Coordinating Office (AACO)
Ambulatory/Outpatient Medical Care Services,
City of Philadelphia Contract #09-20868
Einstein Medical Center Philadelphia
Schedules of Contractual Performance (Budget vs. Actual)
July 1, 2013 to June 30, 2014

	Ambulatory/Outpatient Medical Care Services #09-20868
Expenditures by program activity	
Personnel services	$ 174,391
Fringe benefits	38,556
Total personnel expenditures	212,947
Total supplies and other expense	3,183
Total direct expenditures	216,130
Indirect expenditures at contracted 10%	19,866
Total actual expenditures	$ 235,996
Net AACO Funded expeditures	$ 235,996
Total Funding	$ 235,996

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Mental Intellectual Disability Services
Schedule of Program Activity Invoice Summary by Contract Number
July 1, 2013 to June 30, 2014

Program Activity
Invoice Summary
XMH MR

Agency Emergency Mental Health Service of
Albert Einstein Medical Center
Approved
Fiscal Director : Steven Nearing
Executive Director: Barry Freedman

Period Covered

From July 1, 2013 to June 30, 2014

			Eligible Expenditures			
Program Activity	**PAC Code**	**Contract Number**	**Personnel**	**Operating**	**Total**	**Net to Be Funded****
Crisis Response Center	*	09-20734-03	$ 3,759,643	$ 2,917,565	$ 6,677,208	$ 1,989,153
Long-term structured residence	*	09-20734-03	2,732,272	3,025,912	5,758,184	3,565,123
Total			$ 6,491,915	$ 5,943,477	$ 12,435,392	$ 5,554,276

* See Schedule of Adjustments of Program Activity by Program Activity Code, pages 69-72.
** Represents maximum contract amount.

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by Program Activity Code
Albert Einstein Medical Center
July 1, 2013 to June 30, 2014

Program Activity	Total Per Quarterly Invoice	Total Per Final Invoice	Adjustments/ Differences	
Contract Number 09-20734-03				
PAC Code 1030628				
Personnel	$ 150,930	$ 174,899	(23,969)	A
Operating	363	611	(248)	B
Administration	22,694	61,455	(38,761)	B
Total expenses	173,987	236,965	(62,978)	
Hospital funded	-	-	-	
Hospital cash collections	-	-	-	
Total revenue	-	-	-	
Net eligible to be funded	$ 173,987	$ 236,965	$ (62,978)	

A. The employee benefits are estimated using the 2013 Medicare filed cost report.

B. The administrative costs are estimated using the 2013 Medicare filed cost report.

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by Program Activity Code, continued
Albert Einstein Medical Center
July 1, 2013 to June 30, 2014

Program Activity	Total Per Quarterly Invoice	Total Per Final Invoice	Adjustments/ Differences	
PAC Code 1001605				
Personnel	$ 2,762,246	$ 2,732,272	$ 29,974	A
Operating	189,526	2,274,643	(2,085,117)	B
Administration	2,863,062	751,269	2,111,793	B
Total expenses	5,814,834	5,758,184	56,650	
Hospital funded	2,075,275	2,018,625	56,650	
Hospital cash collections	-	-	-	
Other revenue	174,436	174,436	-	
Total revenue	2,249,711	2,193,061	56,650	
Net eligible to be funded	$ 3,565,123	$ 3,565,123	$ -	

A. The employee benefits are estimated using the 2013 Medicare filed cost report.

B. The administrative costs are estimated using the 2013 Medicare filed cost report.

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by Program Activity Code, continued
Albert Einstein Medical Center
July 1, 2013 to June 30, 2014

Program Activity	Total Per Quarterly Invoice	Total Per Final Invoice	Adjustments/ Differences	
PAC Code 1001031				
Personnel	$ 2,414,317	$ 2,013,913	$ 400,404	A
Operating	160,009	815,505	(655,496)	B
Administration	1,190,625	898,322	292,303	B
Total expenses	3,764,951	3,727,740	37,210	
Hospital funded	1,322,744	1,285,534	37,210	
Hospital cash collections	1,546,233	1,546,233	-	
Total revenue	2,868,977	2,831,767	37,210	
Net eligible to be funded	$ 895,974	$ 895,974	$ -	
PAC Code 1011031				
Personnel	$ 1,836,142	$ 1,570,831	$ 265,311	A
Operating	123,463	488,003	(364,540)	B
Administration	815,847	653,667	162,180	B
Total expenses	2,775,452	2,712,502	62,950	
Hospital funded	506,693	443,743	62,950	
Hospital cash collections	1,412,545	1,412,545	-	
Total revenue	1,919,238	1,856,288	62,950	
Net eligible to be funded	$ 856,214	$ 856,214	$ -	

A. The employee benefits are estimated using the 2013 Medicare filed cost report.

B. The administrative costs are estimated using the 2013 Medicare filed cost report.

City of Philadelphia, Department of Public Health
Office of Behavior Health and Intellectual Disability Services
Schedule of Program Activity Invoice Summary
July 1, 2013 to June 30, 2014

Program Activity
Invoice Summary
XMH MR

Agency Emergency Mental Health Service of
Albert Einstein Medical Center
Approved
Fiscal Director : Steven Nearing
Executive Director: Barry Freedman

Period Covered

From July 1, 2013 to June 30, 2014

Program Activity	PAC Code	Contract Number	Eligible Expenditures: Personnel	Eligible Expenditures: Administrative and Operating	Eligible Expenditures: Total	Net to Be Funded*
Emergency Mental Health - Crisis Response Center	1001031	09-20734-03	$ 2,013,914	$ 1,713,828	$ 3,727,741	$ 895,974
Emergency Mental Health - Child/Adolescents	1011031	09-20734-03	1,570,831	1,141,671	2,712,502	856,214
Outpatient -Student Assistance Program	1030628	09-20734-03	174,898	62,067	236,965	236,965
Long Term Structured Residence	1001605	09-20734-03	2,732,272	3,025,912	5,758,184	3,565,123
Total			$ 6,491,915	$ 5,943,477	$ 12,435,392	$ 5,554,276

* Represents maximum contract amount

Independent Accountant's Report on Compliance with Specified Indirect Cost Allocation Requirements

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have examined Albert Einstein Healthcare Network's ("AEHN") compliance with allocating indirect costs reflected in the City of Philadelphia, Department of Public Health, Office of Behavioral Health and Intellectual Disability Services program activity summary as required by the Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 Regulations during the year ended June 30, 2014. Management is responsible for AEHN's compliance with those requirements. Our responsibility is to express an opinion on AEHN's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, including examining, on a test basis, evidence about AEHN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on AEHN's compliance with specified requirements.

In our opinion, AEHN complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2014.

This report is intended solely for the information and use of AEHN's Board of Trustees, management, and the City of Philadelphia, Department of Public Health and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 03, 2014

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Independent Accountant's Report on Cost Allocation
(For Upcoming Budget Year)

To the Board of Trustees of the
Albert Einstein Healthcare Network

Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of Title 4300 Regulations states, "The overall objective of the allocation process is to distribute the indirect costs of the agency to its various services or cost categories in reasonable proportion with the benefits provided to these services or cost categories." The Regulations require that the method used results in a fair and equitable distribution of costs which shall be in direct relation to actual benefits accruing to the services to which costs are charged.

At your request, we have performed the procedures enumerated below with the respect to the administrative costs distribution included in the Line Item Budget for the year ended June 30, 2014 submitted by Albert Einstein Healthcare Network (AEHN) to the City of Philadelphia, Department of Health. Our review was made solely to assist you in your filing requirements with the City of Philadelphia, Department of Public Health.

The procedures we performed are summarized as follows:

a. We obtained a schedule contained within the 2014 Line Item Budget which reflected the allocation factors utilized in distributing administrative costs.

b. We confirmed our understanding of the method of allocating administrative costs through reading the supporting AEHN work papers and by discussions with management responsible for allocation factors.

c. We compared AEHN's method of allocating costs to those requirements as specified in Section 4300.94 of the Title 4300 Regulations Related Methods for Allocating Indirect Costs without exception.

d. We compared the allocation methods used between the current fiscal year and prior fiscal year to determine consistency between years and did not find any inconsistencies. We noted that the cost allocation method is based upon direct costs for each program. Actual costs are tracked, totaled and the program's percentage of direct costs is calculated. Indirect costs are allocated to each program based on these percentages.

Because the above procedures do not constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on the amount of administrative costs distributed to AEHN nor on any other amounts contained within the June 30, 2014 budget submitted to the City of Philadelphia, Department of Public Health. Had we performed additional procedures or had we conducted an audit in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the items specified above and does not extend to any financial statements of AEHN, taken as a whole.

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This report is intended solely for the information and use of the AEHN's Board of Trustees, management, and the City of Philadelphia, Department of Public Health. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

PricewaterhouseCoopers LLP

October 03, 2014

Part VI – Findings

(1) Part I – Summary of Auditor's Results

Financial Statements

(i)	Type of auditor's report issued:	Unmodified	
(ii)	Internal control over financial reporting:		
	Material weakness(es) identified?	___ yes	_X_ no
	Significant deficiency(ies) identified not considered to be material weaknesses?	___ yes	_X_ none reported
(iii)	Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

(iv)	Internal control over major programs:		
	Material weakness(es) identified?	___ yes	_X_ no
	Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes	_X_ none reported
(v)	Type of auditor's report issued on compliance for major programs:	Unmodified	
(vi)	Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_X_ yes	___ no
(vii)	Identification of major programs:		

Name of Federal Program or Cluster	CFDA Number (s)
Research and Development Cluster	Various
U.S. Department of Health and Human Services / Strong Start for Mothers and Newborns	93.611
U.S. Department of Housing and Urban Development / Section 242 Mortgage Insurance Program	14

(viii)	Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
(ix)	Auditee qualified as low-risk auditee?	_X_ yes	___ no

State Awards

(iv) Internal control over major programs:

Material weakness(es) identified?	___ yes	_X_ no
Significant deficiency(ies) identified that are not considered To be material weaknesses?	___ yes	_X_ none reported

(v) Type of auditor's report issued on compliance for major programs: Unmodified

(vi) Any audit findings disclosed that are required to be reported in accordance with Government Auditing Standards? ___ yes _X_ no

(vii) Identification of major programs:

	State Award Number
Long Term Residential Services	PAC CD - 0100-1605
Emergency Mental Health-Adult	PAC CD - 0100-1031
Emergency Mental Health-Child/Adolescents	PAC CD - 0101-1031

(viii) Dollar threshold used to distinguish between Type A and B programs: $300,000

(ix) Auditee qualified as low-risk auditee? _X_ yes ____ no

City Awards

(iv)	Internal control over major programs:	
	Material weakness(es) identified?	___ yes _X_ no
	Significant deficiency(ies) identified that are not considered to be material weaknesses?	____yes _X_ none reported
(v)	Type of auditor's report issued on compliance for major programs:	Unmodified
(vi)	Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) and the City of Philadelphia Subrecipient Audit Guide?	__yes _X_ no
(vii)	Identification of major programs:	

	City Award Number
Emergency Mental Health –Adult	PAC CD - 0100-1031
Emergency Mental Health –Child/Adolescents	PAC CD - 0101-1031

(viii)	Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
(ix)	Auditee qualified as low-risk auditee?	_X_ yes ____ no

Part II – Financial Statement Findings

None noted

Part III – Federal, State, HUD and City of Philadelphia Award Findings and Questioned Costs

Finding 2014-1 Subrecipient Monitoring

Grantor: National Institute of Health
Title: Psycholinguistic Analysis of Aphasic Syndromes
CFDA #: 93.173
Award #: 5R01DC000191-32
Award Year: 2013-2014

Grantor: Department of Education
Title: The Moss Traumatic Brain Injury Model System
CFDA #: 84.133
Award #: H133A120037
Award Year: 2013-2014

Criteria

OMB Circular A-133 Compliance Supplement (Part 3) – Monitoring specifies, "the pass through entity must identify in the SEFA the total amount of grant money provided to subrecipients from each Federal program."

Condition

Based upon testing procedures performed it was identified that reconciliations over expenses incurred by the subrecipient during the award year was not reconciled to the amount reported on the SEFA as pass through money provided to subrecipients.

Cause

Management does not have proper policies and procedures in place to ensure subrecipient expenditures are completely and accurately reported on the SEFA.

Effect

Expenses incurred by subrecipients may be incomplete and inaccurately reported on the SEFA.

Recommendation

We recommend that AEHN management institute procedures to reconcile expenditures incurred by subrecipients during the award year to the amount reported on the SEFA.

Albert Einstein Healthcare Network
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding 2014-1 Subrecipient Monitoring

Grantor: National Institute of Health
Title: Psycholinguistic Analysis of Aphasic Syndromes
CFDA #: 93.173
Award #: 5R01DC000191-32
Award Year: 2013-2014

Grantor: Department of Education
Title: The Moss Traumatic Brain Injury Model System
CFDA #: 84.133
Award #: H133A120037
Award Year: 2013-2014

Management's View and Corrective Action Plan

Management will improve its process by including procedures to reconcile expenditures incurred by subrecipients during the award year to the amount reported on the SEFA. In addition to this Management will include language in all subcontract agreements requiring timely invoice submission to Research Administration. We will implement this process improvement immediately.

Mary Klein
Director, Office of Research and Technology Development
Albert Einstein Healthcare Network

Steven C. Nearing
Director of Finance
Albert Einstein Healthcare Network

Albert Einstein Healthcare Network
Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014

There were no findings or questioned costs reported within the June 30, 2013 report.