St. Joseph's Healthcare System, Inc. and Affiliates

Consolidated Financial Statements as of and for the
Years Ended December 31, 2012 and 2011;
Additional Consolidating Information as of and for the
Years Ended December 31, 2012 and 2011;
Supplemental Schedule of Expenditures of Federal Awards;
Supplemental Schedule of Expenditures of State and Local Awards;
Reports on Internal Control and Compliance in Accordance with
Government Auditing Standards, OMB Circular A-133, and State of
New Jersey OMB Circular Letter 04-04 for the Year Ended
December 31, 2012, and Independent Auditors' Reports

EIN# 22-1487602

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND ADDITIONAL CONSOLIDATING INFORMATION AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, SCHEDULE OF EXPENDITURES OF STATE, AND LOCAL AWARDS AND SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES

To the Board of Trustees of
St. Joseph's Healthcare System, Inc.
Paterson, New Jersey

We have audited the accompanying consolidated financial statements of St. Joseph's Healthcare System, Inc. and its subsidiaries (the "System"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of St. Joseph's Hospital and Medical Center Foundation Inc. and St. Joseph's Wayne Hospital Foundation ("consolidated affiliates"), which statements reflect total assets constituting 3.5% and 3.8%, respectively, of consolidated total assets at December 31, 2012 and 2011, and revenues constituting 1.1% and .47%, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the consolidated affiliates, is based solely on the report of the other auditors. 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System'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 System'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, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of December 31, 2012 and 2011, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the consolidated financial statements, the System adopted the requirements of accounting guidance related to the presentation of the provision for bad debts in the 2012 and 2011 consolidated statements of operations. Our opinion is not modified with respect to this matter.

Report on Additional Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional consolidating information on pages 41-49 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and are not a required part of the consolidated financial statements. This additional consolidating information is the responsibility of the System's management, was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and (as to the amounts included for the consolidated affiliates mentioned above) the reports of other auditors, 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, based on our audits and the reports of other auditors, such additional consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Schedule of Expenditures of Federal Awards, and Schedule of Expenditures of State and Local Awards Required by OMB Circular A-133 and Schedules of Budgeted and Actual Expenditures Required by State of New Jersey OMB Circular Letter 04-04

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of the System taken as a whole. The accompanying schedule of expenditures of federal awards and schedule of expenditures of state and local awards are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*, and the State of New Jersey Office of Management and Budget Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and*

State Aid, and the New Jersey Department of Health and Senior Services, respectively, and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other 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 schedule of expenditures of federal awards and the schedule of expenditures of state and local awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The information presented in the schedules of budgeted and actual expenditures for the year ended December 31, 2012 insofar as it relates to budgeted expenditures is presented for the purpose of additional analysis as required by the New Jersey Department of Health and Senior Services, and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 the 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 the System's internal control over financial reporting and compliance.

Deloitte & Touche LLP

May 30, 2013

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(In thousands)

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,179	$ 52,103
Investments	81,462	67,546
Current portion of assets whose use is limited	18,299	17,444
Patient accounts receivable — less allowance for doubtful accounts of $83,010 in 2012 and $69,620 in 2011	63,065	60,675
Grants, notes, and other receivables	9,019	14,266
Unconditional promises to give — net	3,033	3,100
Supplies	7,866	7,448
Prepaid expenses and other current assets	3,487	1,971
Total current assets	250,410	224,553
ASSETS WHOSE USE IS LIMITED — Less current portion	78,627	98,234
UNCONDITIONAL PROMISES TO GIVE — Net	5,984	6,421
NOTES RECEIVABLE	1,618	1,721
PROPERTY AND EQUIPMENT — Net	344,007	338,993
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	2,792	2,603
INVESTMENTS IN JOINT VENTURES	26,813	25,567
OTHER ASSETS	14,628	16,235
TOTAL	$ 724,879	$ 714,327

LIABILITIES	2012	2011
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 5,905	$ 6,084
Accounts payable	44,079	46,825
Accrued salaries and expenses	54,278	50,827
Accrued interest payable	7,895	7,997
Deferred revenue	3,121	3,158
Estimated third-party payer settlements	14,531	19,259
Total current liabilities	129,809	134,150
LONG-TERM DEBT — Net of current portion	256,302	261,478
ESTIMATED THIRD-PARTY PAYER SETTLEMENTS — Net of current portion	3,126	476
ACCRUED PENSION LIABILITY	169,861	130,708
ESTIMATED PROFESSIONAL LIABILITY CLAIMS PAYABLE	21,523	19,924
DEFERRED REVENUE — Net of current portion		2,500
OTHER LIABILITIES	3,856	3,206
Total liabilities	584,477	552,442
COMMITMENTS AND CONTINGENCIES (Note 17)		
NET ASSETS:		
Unrestricted:		
St. Joseph's Healthcare System, Inc. and affiliates	111,606	128,960
Noncontrolling interests in joint ventures	3,120	3,626
Total unrestricted net assets	114,726	132,586
Temporarily restricted	22,524	26,336
Permanently restricted	3,152	2,963
Total net assets	140,402	161,885
TOTAL	$ 724,879	$ 714,327

See notes to consolidated financial statements.

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
REVENUES:		
Net patient service revenue (after contractual allowances and discounts)	$ 686,893	$ 630,235
Provision for bad debts	(68,985)	(51,779)
Net patient service revenue, net of provision for bad debts	617,908	578,456
Other revenue	76,692	71,341
Gain on sale of outpatient dialysis centers		48,969
Net assets released from restrictions — operations	5,898	617
Total revenues	700,498	699,383
EXPENSES:		
Salaries and wages	321,087	317,770
Employee benefits	76,206	68,157
Physician fees	28,690	22,290
Supplies and other	210,286	205,151
Interest	18,002	10,905
Depreciation and amortization	33,893	25,606
Provision for bad debts	37	113
Total expenses	688,201	649,992
EXCESS OF REVENUES OVER EXPENSES (Note 15)	12,297	49,391
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Change in net unrealized gains and losses on investments	1,920	410
Pension-related adjustments	(29,408)	(37,771)
Distributions to noncontrolling interests in joint ventures	(4,176)	(4,532)
Contributions from noncontrolling interests in joint ventures	91	92
Net assets released from restrictions — capital acquisitions	1,416	738
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (17,860)	$ 8,328

See notes to consolidated financial statements.

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	$ 12,297	$ 49,391
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments	1,920	410
Pension-related adjustments	(29,408)	(37,771)
Distributions to noncontrolling interests in joint ventures	(4,176)	(4,532)
Contributions from noncontrolling interests in joint ventures	91	92
Net assets released from restrictions — capital acquisitions	1,416	738
(Decrease) increase in unrestricted restricted net assets	(17,860)	8,328
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions, grants, investment income, and other support	3,502	4,746
Net assets released from restrictions — operations	(5,898)	(617)
Net assets released from restrictions — capital acquisitions	(1,416)	(738)
(Decrease) increase in temporarily restricted net assets	(3,812)	3,391
PERMANENTLY RESTRICTED NET ASSETS — Change in net unrealized gains and losses on investments held in perpetual trusts	189	(207)
(DECREASE) INCREASE IN NET ASSETS	(21,483)	11,512
NET ASSETS — Beginning of year	161,885	150,373
NET ASSETS — End of year	$ 140,402	$ 161,885

See notes to consolidated financial statements

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (21,483)	$ 11,512
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	33,266	24,986
Provision for bad debts	69,022	51,892
Gain on sale of outpatient dialysis centers		(48,969)
Change in net unrealized gains and losses on investments	(1,920)	(410)
Realized losses on sales of investments	393	512
Change in unrealized gains and losses on investments in perpetual trusts	(189)	207
Temporarily restricted contributions, grants, investment income, and other support	(3,502)	(4,746)
Pension-related adjustments	29,408	37,771
Change in asset retirement obligations	49	
Amortization of deferred financing costs	394	407
Amortization of bond discount	759	805
Amortization of debt premium	(37)	(28)
Amortization of noncompete agreement	580	580
Distributions to noncontrolling interest in joint ventures	4,176	4,532
Equity contributions from noncontrolling interest in joint ventures	(91)	(92)
Equity in earnings of joint ventures	(1,862)	(286)
Gain on sale of property	(652)	
Gain on recognition of deferred liability		(770)
Changes in operating assets and liabilities:		
Patient accounts receivable	(71,375)	(48,027)
Grants, notes, and other receivables	5,714	(7,358)
Supplies	(418)	(26)
Prepaid expenses and other current assets	(1,516)	304
Other assets	633	(2,555)
Accounts payable	(306)	3,368
Accrued salaries and expenses	3,451	5,163
Accrued interest payable	(102)	(155)
Deferred revenue	(2,537)	5,204
Estimated third-party payer settlements	(2,078)	(10,154)
Accrued pension liability	9,745	3,840
Estimated professional liability claims payable and other noncurrent liabilities	4,268	1,822
Net cash provided by operating activities	53,790	29,329
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(40,075)	(101,000)
Proceeds from sale of property	652	
Purchase of investment in joint venture		(4,452)
Proceeds from the sale of outpatient dialysis centers		24,567
Purchases of investments	(120,859)	(122,022)
Proceeds from sales of investments	126,383	181,034
Net change in restricted cash and cash equivalents	(1,258)	19,041
Net cash used in investing activities	(35,157)	(2,832)

(Continued)

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	$ -	$ 1,000
Repayment of long-term debt	(6,077)	(4,970)
Repayment of notes receivable	103	102
Equity contributions from noncontrolling interests	91	92
Distributions paid to noncontrolling interests in joint ventures	(4,176)	(4,532)
Temporarily restricted contributions, investment income, and other support	3,502	4,746
Net cash used in financing activities	(6,557)	(3,562)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,076	22,935
CASH AND CASH EQUIVALENTS:		
Beginning of year	52,103	29,168
End of year	$64,179	$52,103
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest (including capitalized interest of $671 and $6,972 in 2012 and 2011, respectively)	$18,104	$ 9,849
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital lease obligations	$ -	$ 750
Accruals for the acquisition on property and equipment	$ 3,152	$ 5,599
Distribution from joint venture	$ -	$ 5,928
Investment in joint venture	$ -	$19,950

See notes to consolidated financial statements. (Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The accompanying consolidated financial statements include the accounts of St. Joseph's Healthcare System, Inc. (the "Parent"), a not-for-profit holding corporation sponsored by the Sisters of Charity of Saint Elizabeth, and its affiliates (collectively, the "System"). Affiliated members of the Parent include St. Joseph's Hospital and Medical Center and subsidiaries (the "Medical Center"), St. Joseph's Hospital and Medical Center Foundation, Inc. (the "Medical Center Foundation"), St. Joseph's Wayne Hospital Foundation, Inc. (the "Wayne Foundation"), 200 Hospital Plaza Corporation ("200 Hospital Plaza"), SJHS Insurance Limited (the "Insurance Captive"), and VHS Management, Inc. and subsidiary (VHS).

St. Joseph's Hospital and Medical Center d/b/a St. Joseph's Regional Medical Center (the "Regional Medical Center") was founded in 1867 and is located in Paterson, New Jersey. It is an acute-care hospital with 651 licensed beds and 30 newborn bassinets. The Medical Center is a state-designated trauma center and provides a full range of health care services. Effective January 1, 2010, St. Joseph's Wayne Hospital, Inc., and subsidiary ("Wayne Hospital") was merged with the Regional Medical Center and is referred to herein as the Medical Center. Wayne Hospital is located in Wayne, New Jersey, and is an acute-care hospital with 229 licensed beds. Wayne Hospital provides comprehensive medical and surgical care and emergency and diagnostic services for its community.

In addition, the Medical Center includes the following wholly owned subsidiaries:

- St. Vincent's Nursing Home operates a 151-bed skilled nursing facility.
- St. Joseph's Hospital Housing Corp. (the "Housing Corp.") and its subsidiaries Genesis Property Development Holding, LLC and Genesis Property Development, LLC ("Genesis") provide property management services for nonhospital-related real estate holdings. The Housing Corp. ceased its operations in 2009.
- St. Joseph's Healthcare, Inc., St. Joseph's Emergency Physicians, Inc., St. Joseph's Faculty Physicians, Inc., and St. Joseph's Physician's, Inc., manage the Medical Center's faculty staff billing services.
- Harbor House, Inc. and its subsidiaries Harborside Apartments, Inc. and Harborview Apartments, Inc., provide housing and services to individuals with mental illnesses.

The Medical Center is also the majority member of the following consolidated subsidiaries: St. Joseph's Regional Cardiology, LLC ("Paterson Cardiology"), St. Joseph's Wayne Cardiology, LLC ("Wayne Cardiology"), and Blue Moon Properties, LLC ("Blue Moon"). Paterson Cardiology and Wayne Cardiology are limited liability corporations that each operate a cardiac catheterization laboratory. Blue Moon is a limited liability corporation that provides radiology management services.

The Medical Center Foundation and the Wayne Foundation are public charities whose primary purpose is to raise funds for the Medical Center and Wayne Hospital, respectively, and their affiliated organizations, and other area charitable organizations.

200 Hospital Plaza, formerly a subsidiary of the Medical Center, was established as a not-for-profit organization on January 1, 2010, to further the operations of the Medical Center by owning, managing, and operating parking facilities and any other facilities that may be deemed useful or necessary for employees, patients, visitors, doctors, and other persons affiliated with the Medical Center.

The Insurance Captive, which is a wholly owned captive insurance company domiciled in Bermuda, was established in 2007 to provide the System with general liability and professional medical liability insurance.

VHS is a not-for-profit corporation incorporated in the state of New Jersey and is the holding company of Visiting Health Services of New Jersey, Inc. (the "Agency"). The Agency is located in Totowa, New Jersey, and is a not-for-profit home health agency serving Passaic, Bergen, and Morris counties in New Jersey.

In connection with the issuance of the New Jersey Healthcare Facilities Financing Authority (the "Authority") St. Joseph's Healthcare System Obligated Group Issue, Series 2008 Revenue Bonds in 2008, the System formed an "Obligated Group," which includes all of the System's members, except for 200 Hospital Plaza, the Insurance Captive and the Parent.

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

Principles of Consolidation — The consolidated financial statements include the accounts of the Parent and its affiliated members. The Parent accounts for its interests in entities in which it has significant influence on the equity basis of accounting. Such controlled affiliates are disclosed in the additional consolidating information using the cost method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting — The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 954, *Health Care Entities*, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to health care organizations.

Use of Estimates — The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, contractual allowances, estimated third-party payer settlements, valuation of goodwill, accrued pension liability, estimated professional liability claims payable, and other self-insurance liabilities.

Cash and Cash Equivalents — Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, except for amounts recorded in assets whose use is limited.

Investments and Investment Income — Investments in equity securities with readily determinable fair values, all investments in debt securities, and repurchase investment contracts are reported at fair value. Fair value is based on quoted market prices of the investment or similar investments. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in other revenue in the accompanying consolidated statements of operations, unless the income or loss is restricted by donor or law. Net unrealized gains and losses on investments are excluded from the excess of revenues over expenses, except that declines in fair value that are determined by management to be other than temporary are reported as realized losses. Donated investments are recorded at the fair value on the date of receipt.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Other-Than-Temporary Impairment of Investments — The System reviews its investments to identify those for which fair value is below cost. The System then makes a determination as to whether the investment should be considered other-than-temporarily impaired. No such losses were recorded in 2012 or 2011.

Assets Whose Use is Limited — Assets whose use is limited include assets held by trustees under bond indenture agreements, professional liability funds, investments held by the Insurance Captive, designated assets set aside by the Board of Trustees over which the board retains control and may at its discretion subsequently use for other purposes, and donor-restricted assets. Amounts available to meet current liabilities of the System have been classified as current assets in the consolidated balance sheets.

Investment in Consolidated Subsidiaries — The Medical Center is a majority member of Paterson Cardiology, Wayne Cardiology and Blue Moon, and maintains a 51% interest in each of the entities at December 31, 2012 and 2011. The accounts of these consolidated subsidiaries are consolidated with those of the Medical Center. All intercompany transactions and account balances have been eliminated in consolidation.

Supplies — Supplies are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment — Property and equipment acquisitions are recorded at cost, except donated assets, which are recorded at fair value at the date of donation. Depreciation expense is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Construction in progress represents amounts expended or incurred toward property and equipment projects, which have not been completed. No depreciation or amortization has been recorded for these items. Interest costs incurred or imputed on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Estimated useful lives for the assets are as follows:

Land improvements	15–20 years
Buildings and improvements	5–40 years
Fixed and major movable equipment	5–12 years

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Goodwill and Other Intangible Assets — Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is not amortized, but instead is tested for impairment at the reporting unit level annually or more frequently if the presence of certain circumstances indicates that impairment may have occurred. The impairment review process compares the fair value of the reporting unit in which goodwill resides to the carrying value. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The System has selected December 31 as its annual testing date.

Acquired identified intangible assets (other than goodwill) are amortized on a straight-line basis over the period of benefit, which is five years. The System evaluates the recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. Goodwill and other intangible assets are included in other assets in the consolidated balance sheets at December 31, 2012 and 2011.

Impairment of Long-Lived Assets — Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Deferred Financing Costs — Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects at the Medical Center, Wayne Hospital, and 200 Hospital Plaza. These costs are amortized over the remaining term of the applicable indebtedness using the effective interest method. At December 31, 2012 and 2011, deferred financing costs, net of accumulated amortization, of approximately $3.9 million and $4.3 million, respectively, are included in other assets in the consolidated balance sheets. Total accumulated amortization at December 31, 2012 and 2011, was approximately $1.8 million and $1.4 million, respectively.

Beneficial Interest in Perpetual Trusts — Perpetual trusts are arrangements in which a donor establishes and funds a perpetual trust administrated by a third party. The perpetual trusts consist of life estate gifts. Under the terms of the trusts, the Medical Center Foundation and the Wayne Foundation have an irrevocable right to receive the income earned on the trust assets in perpetuity. Income earned is unrestricted and included in investment income in the consolidated statements of operations. The Medical Center Foundation and the Wayne Foundation do not control the assets held by an outside trust. The Medical Center Foundation and Wayne Foundation recognize their respective interest in the trusts as a permanently restricted contribution based on the fair value of the trust assets. Changes in the fair value of the trusts are recorded as a change in the net unrealized gains and losses on investments held in perpetual trusts in the consolidated statements of changes in net assets.

Investments in Joint Ventures — The System's investments in joint ventures are accounted for using the equity method of accounting.

Other Assets — Other assets consist primarily of goodwill, other intangible assets, deferred financing costs, investments held by trustee, security deposits, and physician loans receivable.

Other Liabilities — Capital project obligations related to grant agreements with the State of New Jersey Department of Health and Human Services, Division of Mental Health Services in the amount of

$945,000 at December 31, 2012 and 2011, respectively, are included in other noncurrent liabilities in the consolidated balance sheets.

Deferred Revenue — Advances received from third party payers for future services to be provided to patients are recorded as deferred revenue in the consolidated balance sheets. The System is the recipient of various awards and contracts from governmental agencies. Unearned revenue is recorded as deferred revenue in the consolidated balance sheets upon receipt. Revenues are recognized only to the extent of expenditures incurred, and are recorded in other revenue in the consolidated statements of operations.

Net Patient Service Revenue — Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payers, and others for services rendered and includes estimated retroactive adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Contributions and Pledges Receivable — Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free discount rate of 3.68% at both December 31, 2012 and 2011.Conditional promises to give are not included as support until the conditions are substantially met. Amortization of the discount is recorded as other revenue or as increases in temporarily or permanently restricted net assets in accordance with the donor-imposed restrictions, if any, on the contributions.

Tax Status — The System, including all of its affiliates, except as noted below, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code ("Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The not-for-profit affiliates of the System are also exempt from state income taxes. The Insurance Captive, Genesis, Paterson Cardiology, Wayne Cardiology, and Blue Moon are for-profit corporations. Genesis, Paterson Cardiology, Wayne Cardiology, and Blue Moon are limited liability corporations, which are treated as partnerships, and do not require a provision for income taxes. The Insurance Captive is exempt from taxes through March 2016.

Self-Insurance — The Medical Center offers medical insurance to its employees through a health maintenance organization and a preferred provider organization (PPO). The PPO provides third-party administrative services for employees who are enrolled in the program. The Medical Center remains self-insured for health insurance claims associated with the employees that select the PPO option. The Medical Center is also self-insured for workers' compensation. An estimated liability for employee medical benefits incurred but not reported and workers' compensation is included within accrued salaries and expenses in the accompanying consolidated balance sheets.

Estimated Professional Liability Claims Payable — The System is insured for medical malpractice claims on a claims-made basis. An estimated liability for medical malpractice costs related to reported claims that exceed or are not subject to insurance coverage, if any, and incurred claims that have not been reported to the Insurance Captive or claims-made insurance carrier is recorded in the consolidated balance sheets. The Insurance Captive maintains a self-insurance reserve trust as the funding vehicle for the self-insurance program. The System recognizes a receivable for insurance recoveries at the time a liability is recorded, and records a valuation allowance for uncollectible receivables.

Asset Retirement Obligations — The System recognizes a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation is factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that the System considers are those for which it has a legal obligation to perform an asset retirement activity; however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within its control. The fair value of a liability for the legal obligation associated with an asset retirement is recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

The System evaluated its properties for potential asset retirement obligations and identified obligations primarily related to the removal of certain materials previously utilized in the construction process. Asset retirement obligations are $2.3 million and $2.2 million, respectively, at December 31, 2012 and 2011. Such amounts are included in other noncurrent liabilities in the consolidated balance sheets. The adjustments to the carrying amount of the asset retirement obligation in 2012 and 2011 were primarily attributable to accretion expense, renovation costs incurred, and changes in the valuation of the remediation costs. Such amounts were not significant.

Accounting for Pension Plans — The Medical Center maintains a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees of the Medical Center. The Agency maintains a tax-deferred annuity plan and a noncontributory defined contribution employee benefit plan.

The System recognizes the overfunded or underfunded status of the Plan in the consolidated balance sheets. Changes in the funded status of the Plan are reported in the year in which the changes occur as a change in unrestricted net assets presented below the excess of revenues over expenses in the consolidated statements of operations and changes in net assets.

Performance Indicator — The consolidated statements of operations include excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the performance indicator include pension-related adjustments, contributions of long-lived assets, permanent transfers of assets to and from affiliates for other than goods and services, contributions from and distributions to noncontrolling interests in joint ventures, and net changes in unrealized gains and losses on investments (except for declines in fair value that are determined by management to be other than temporary which are reported as realized losses).

Classification of Net Assets — The System separately accounts for donor-restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the System and an outside party other than the donor or grantor. The noncontrolling interest in joint ventures is also included in unrestricted net assets. Temporarily restricted net assets are those whose use is temporarily limited to a specific time period or purpose by the donor. Permanently restricted assets are to be held in perpetuity.

Donor-Restricted Gifts — Donor-restricted gifts are reported as temporarily 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 statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the consolidated statements of operations. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of unrestricted net assets.

Meaningful Use — Under the Health Information Technology for Economic and Clinical Health (HITECH) Act, acute care hospitals are eligible for incentive payments for achieving Meaningful Use of electronic health records from both Medicare and Medicaid. The System reports amounts awarded to it under the Meaningful Use of Electronic Medical Records program as other operating revenue when the System has met the compliance requirements as set forth by Medicare and Medicaid. The System has recorded approximately $4.9 million and $2.7 million as other revenue in the consolidated statements of operations for the years ended December 31, 2012 and 2011, respectively.

Recently Issued Accounting Pronouncements —In July 2011, the FASB issued Accounting Standards Update (ASU) 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires the System to change the presentation of its consolidated statements 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). Additionally, the ASU requires the System to provide enhanced disclosures about its sources of patient service revenue, policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The provisions of ASU 2011-07 is effective for the System beginning January 1, 2012 and was applied retrospectively. The adoption of this ASU decreased net patient service revenue, total revenues and expenses by $51.8 million for the year ended December 31, 2011. There was no impact on revenues over expenses or increase in unrestricted net assets for the year ended December 31, 2011. The System has included the enhanced disclosures in Note 3 to the consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). The purpose of this ASU is to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. In addition, some of the amendments could change how the fair value measurements guidance in ASC 820 is applied. The amendments in this ASU are to be applied prospectively. The provisions of ASU 2011-04 were adopted by the System on January 1, 2012. The adoption of ASU 2011-04 had no impact on the consolidated financial statements and no additional disclosures were required in the notes to the consolidated financial statements.

2. CHARITY CARE

The Medical Center provides care to patients who meet certain eligibility criteria defined by New Jersey Department of Health and Senior Services charity care program guidelines. The Medical Center receives partial payment for the charity care they provide based upon the approved submission of patient claims once they are qualified for the program (see Note 3).

The estimated cost, net of state subsidies (see Note 3), incurred by the System to provide services to patients who are unable to pay was approximately $4.1 million and $11.4 million for the years ended December 31, 2012 and 2011, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under the System's charity care policy and that do not otherwise qualify for reimbursement from a governmental program. Because the collection of amounts determined to qualify as charity care is not pursued, it is not reported as revenue.

3. NET PATIENT SERVICE REVENUE

The Medical Center and the Agency provide care to patients under Medicare, Medicaid, and other third-party contractual arrangements. Payment arrangements for the Medical Center include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. The Medicare program pays for most services at predetermined rates. However, certain services and specified expenses are reimbursed on a reasonable-cost basis. The Medicaid program reimburses the Medical Center at predetermined rates for inpatient services. Medicaid outpatient services are reimbursed on a reasonable cost basis. The Agency is reimbursed by Medicare on a prospective payment system under which services are reimbursed based on predetermined rates.

Revenue Recognition

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The System's allowance for doubtful accounts for self-pay patients increased from 77.7% of self-pay accounts receivable at December 31, 2011, to 78.8% of self-pay accounts receivable at December 31, 2012. In addition, the System's self-pay write-offs net of recoveries increased $17 million from $45.6 million for year 2011 to $62.6 million for fiscal year 2012. Both increases were the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2012. The System has not changed its charity care or uninsured discount policies during fiscal years 2012 or 2011. The System does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers. The System recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Net patient service revenue (after contractual allowances and discounts), recognized during the year ended December 31, 2012 from the System's major payer sources, is as follows:

	Medicare	Medicaid	Other Third-Party Payers	Managed Care	Self-Pay	Total All Payers
Net patient service revenue (after contractual allowances and discounts)	31%	11%	15%	41%	2%	100%

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the Medical Center and the Agency. These retroactive settlements are recorded in the consolidated financial statements in the year of the settlement. A portion of the accrual for estimated settlements with third-party payers has been classified as long term because such amounts, by their nature or by virtue of regulation or legislation, are not expected to be paid within one year. The estimated settlements recorded at December 31, 2012 and 2011, could differ from actual settlements based on the results of cost report audits. At December 31, 2012, Medicare cost reports for all years through 2004 have been audited and settled for the Regional Medical Center and Wayne Hospital. Medicaid cost reports have been audited and settled through 2008 for the Regional Medical Center and for Wayne Hospital. The Medicare cost report for the Agency has been audited and settled through June 30, 2012. Net patient service revenue increased by approximately $8.7 million during 2012 and $3.9 million during 2011, as a result of changes in estimates of prior-year settlements.

Combined revenue from the Medicare and Medicaid programs accounted for approximately 39.2% of the Medical Center's and the Agency's net patient service revenue, exclusive of state subsidies for charity care, for the years ended December 31, 2012 and 2011. There are various proposals at the federal and state levels that could, among other things, significantly reduce reimbursement rates or modify reimbursement methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Medical Center and the Agency.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The System is not aware of any pending or threatened investigations involving allegations of potential wrongdoing, which could have a material adverse effect on the accompanying consolidated financial statements. Action for noncompliance may include repayment of amounts improperly reimbursed, fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and PPOs. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

State Subsidy Funds — The New Jersey Health Care Subsidy Fund was established for various purposes including the distribution of charity care payments to hospitals statewide. The amounts included in net patient service revenue for the years ended December 31, 2012 and 2011, are as follows (in thousands):

	2012	2011
Charity care payments	$ 74,095	$ 73,789
Special subsidy	10,870	10,693
	$ 84,965	$ 84,482

The System expects to receive approximately $37 million in charity care payments and $5.4 million in special subsidies from the state for the period from January 1, 2013 to June 30, 2013.

4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Investments and assets whose use is limited, stated at fair value as of December 31, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Investments	$ 81,462	$ 67,546
Assets whose use is limited:		
By bond indenture agreements	44,856	66,327
Under Board of Trustees designation	2,691	2,231
Assets held for captive insurance program	25,781	22,237
Restricted cash	825	
Temporarily restricted assets	22,519	24,634
Permanently restricted assets	254	249
Total assets whose use is limited	96,926	115,678
Less assets whose use is limited that are available for current operations	18,299	17,444
Noncurrent assets whose use is limited	78,627	98,234
Total investments and assets whose use is limited	178,388	183,224
Beneficial interest in perpetual trusts	2,792	2,603
Other assets - investments held by trustee	1,667	1,624
Total	$ 182,847	$ 187,451

The composition of investments and assets whose use is limited as of December 31, 2012 and 2011, is as follows:

	2012	2011
Cash and cash equivalents	$ 36,481	$ 35,223
Repurchase investment contracts	14,354	41,389
U.S. government securities and agency obligations	42,653	39,332
Corporate and foreign debt securities	72,593	54,335
Asset-backed securities and mortgage-backed securities	4,078	6,581
Marketable equity securities	5,437	4,436
Municipal bonds	1,018	1,011
Fixed income mutual funds	1,774	917
Total	$ 178,388	$ 183,224

Return on investments for the years ended December 31, 2012 and 2011, is as follows (in thousands):

	2012	2011
Return on investments:		
Unrestricted net assets:		
Investment income	$ 4,354	$ 4,266
Realized losses on sales of investments	(456)	(405)
Change in net unrealized gains and losses on investments	1,920	410
Total unrestricted net assets	5,818	4,271
Temporarily restricted net assets — investment income:		
Investment income	81	487
Realized losses on sales of investments	63	(107)
Total temporarily restricted net assets	144	380
Permanently restricted net assets — change in net unrealized gains and losses on investments in perpetual trusts	189	(207)
Total return on investments	$ 6,151	$ 4,444

Unrestricted investment income and realized gains and losses on sales of investments are included in other revenues in the consolidated statements of operations. The change in net unrealized gains and losses on investments is excluded from the performance indicator, and is included in the change in unrestricted net assets in the consolidated statements of operations and changes in net assets, except for declines in value that are deemed to be other than temporary. Other-than-temporary declines in value are reported with realized gains and losses on sales of investments. Investment income earned on temporarily restricted net assets and realized gains and losses on the sale of certain investments is included in contributions, grants, investment income, and other support in the consolidated statements of changes in net assets.

5. FAIR-VALUE MEASUREMENTS

The System utilizes various methods for calculating the fair value of its consolidated financial assets and liabilities, as applicable. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the asset or liability.

ASC 820 classifies the inputs used to measure fair value into the following hierarchy:

Level 1 — Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Level 2 inputs include the following:

- Quoted prices in active markets for similar assets or liabilities.
- Quoted prices in markets that are not active for identical or similar assets or liabilities.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3 — Level 3 inputs are unobservable inputs for the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value. The System assesses the valuation hierarchy for each asset or liability on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels. The System's policy is to recognize such transfers at the beginning of the reporting period.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Cash and Cash Equivalents — The carrying value of cash and cash equivalents approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and actively traded.

Debt Securities — The estimated fair values of debt securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of debt securities that do not trade on a regular basis in active markets are classified as Level 2.

Municipal Bonds — The fair value of municipal bonds is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. Fair values of such bonds are classified as Level 2.

Asset-Backed Securities and Mortgage-Backed Securities — The fair values of asset-backed securities and mortgage-backed securities classified as Level 2 were primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, actual pool and collateral information, and quotes.

Marketable Equity Securities — Fair value estimates for publicly traded equity securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices.

Mutual Funds — Fair value estimates for publicly traded mutual funds are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Such mutual funds are actively traded and are classified as Level 1. The fair value of private mutual funds that do not trade on a regular basis in active market are classified as Level 2 and are based on the quoted market price of the underlying investments held by the fund.

Repurchase Investment Contracts — Fair value estimates for the repurchase investment contracts are based on quoted market prices and/or other market data available for comparable investments underlying the agreements. The repurchase investment contracts are classified as Level 2.

Limited Liability Partnership — Investments in limited partnerships do not have readily determinable market values. Fair value estimates are based on information provided by each fund manager. Such investments are accounted for under the equity method of accounting and any adjustments to the estimated fair value are recorded as changes in the value of the investment. Investments in limited liability partnerships are classified as Level 3.

Beneficial Interest in Perpetual Trusts — The estimated fair value of the beneficial interest in perpetual trusts is determined based upon information provided by the trustees. Such information is based on the pro rata interest in the net assets of the trusts and is classified as Level 3.

Investment Held by Trustee — The estimated fair value of the investment held by trustee is determined based upon information provided by the trustee and is classified as Level 2 based upon quotable market prices for similar investments.

The information as of December 31, 2012 and 2011, about the System's financial assets that are measured at fair value on a recurring basis is as follows (in thousands):

	2012			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Investments, assets whose use is limited and other assets:				
Cash and cash equivalents	$ 36,481	$ -	$ -	$ 36,481
Marketable equity securities	5,437			5,437
U.S. government securities and agency obligations	29,632	13,021		42,653
Asset-backed and mortgaged-backed securities		4,078		4,078
Repurchase investment contracts		14,354		14,354
Corporate and foreign debt securities		72,593		72,593
Municipal bonds		1,018		1,018
Fixed income mutual funds		1,774		1,774
Investments held by trustee		1,667		1,667
Beneficial interest in perpetual trusts			2,792	2,792
Total	$ 71,550	$ 108,505	$ 2,792	$ 182,847
Assets held in pension plan:				
Cash and cash equivalents	$ 7,389	$ -	$ -	$ 7,389
Marketable equity securities	83,701			83,701
Mutual funds	41,067			41,067
U.S. government securities	26,928			26,928
Corporate bonds		6,864		6,864
Foreign obligations		994		994
Limited liability partnership			8,058	8,058
Total	$ 159,085	$ 7,858	$ 8,058	$ 175,001

	2011			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Investments, assets whose use is limited, and other assets:				
Cash and cash equivalents	$ 35,223	$ -	$ -	$ 35,223
Marketable equity securities	4,436			4,436
U.S. government securities and agency obligations	39,332			39,332
Asset-backed and commercial mortgaged-backed securities		6,581		6,581
Repurchase investment contracts		41,389		41,389
Corporate and foreign debt securities		54,335		54,335
Municipal bonds		1,011		1,011
Fixed income mutual funds		917		917
Investments held by trustee		1,624		1,624
Beneficial interest in perpetual trusts			2,603	2,603
Total	$ 78,991	$ 105,857	$ 2,603	$ 187,451
Assets held in pension plan:				
Cash and cash equivalents	$ 10,326	$ -	$ -	$ 10,326
Marketable equity securities	74,471			74,471
Mutual funds	32,447			32,447
U.S. government securities	23,585			23,585
Corporate bonds		7,932		7,932
Foreign obligations		992		992
Limited liability partnership			4,975	4,975
Total	$ 140,829	$ 8,924	$ 4,975	$ 154,728

Included within the assets above are investments in certain mutual funds that report fair value using a calculated net asset value (NAV) or its equivalent. Attributes relating to the nature and risk of such investments as of December 31, 2012 and 2011, are as follows (in thousands):

Fair Value Estimated Using NAV per Share

2012

	Fair Value	**Unfunded Commitment**	**Redemption Frequency**	**Other Redemption Restrictions**	**Redemption Notice Period**
Investments — mutual fund:					
Fixed income					
Money market fund (a)	$ 6	None	Immediate	None	Daily
Assets held in pension plan:					
Limited liability partnership:					
Endowment TEI Fund (b)	$ 8,058	None	Illiquid	Discretion of Fund	Discretion of Fund

2011

	Fair Value	**Unfunded Commitment**	**Redemption Frequency**	**Other Redemption Restrictions**	**Redemption Notice Period**
Investments — mutual fund:					
Fixed income					
Money market fund (a)	$ 6	None	Immediate	None	Daily
Assets held in pension plan:					
Limited liability partnership:					
Endowment TEI Fund (b)	$ 4,975	None	Illiquid	Discretion of Fund	Discretion of Fund

(a) This separate account fund invests in a fixed-income mutual fund and seeks the realization of current income to the extent consistent with the maintenance of liquidity, investment quality, and stability of capital. The underlying fund invests only in money market instruments and other short-term securities. Neither the Federal Deposit Insurance Corporation nor any other U.S. government agency insures or guarantees the separate account's investments in shares of the money market fund. Although the fund seeks current income and preservation of capital within its guidelines, low market interest rates can result in risk to both of these objectives, particularly after fees and expenses of the separate account, the investment company, its adviser, and distributor are taken into account.

(b) The Endowment TEI Fund seeks to preserve capital and to generate consistent long-term appreciation and returns. To achieve its objective, the fund provide its partners with access to asset classes, investment managers and overall asset allocation services typically available on a collective basis to larger institutions. The funds generally pursues its investment objective by allocating assets to investment funds, including private partnerships, limited liability companies, registered investment companies, and other investment vehicles, which are managed by a group of investment managers identified by the adviser to have investments that are allocated broadly across markets, asset classes and risk profile.

The change in fair value measurements for the beneficial interest in perpetual trusts and the investment in limited partnerships included in assets held in the pension plan with unobservable inputs at December 31, 2012 and 2011, are presented as follows (in thousands):

Beneficial interest in perpetual trusts	**2012**	**2011**
Balance — January 1,	$ 2,603	$ 2,810
Net unrealized losses	189	(207)
Balance — December 31,	$ 2,792	$ 2,603

Assets Held in Pension Plan	**2012**	**2011**
Balance — January 1,	$ 4,975	$ -
Purchases	3,146	5,130
Net unrealized losses	(63)	(155)
Balance — December 31,	$ 8,058	$ 4,975

The following methods and assumptions were used by the System in estimating the fair value of the System's financial instruments that are not measured at fair value on a recurring basis for disclosures in the consolidated financial statements:

Unconditional Promises to Give — The carrying amount reported in the consolidated balance sheets for contributions and pledges receivable is at its estimated fair value.

Long-Term Debt — The fair value of the System's outstanding revenue bonds is based on quoted market prices. The fair value of the System's other long-term debt and capital lease obligations is estimated to approximate the carrying value (see Note 10). The carrying amounts and fair values of the System's long-term debt as of December 31, 2012 and 2011, are as follows (in thousands):

	2012	**2011**
Carrying amount	$ 262,207	$ 267,562
Estimated fair value	$ 307,219	$ 277,857

6. UNCONDITIONAL PROMISES TO GIVE

The unconditional promises to give as of December 31, 2012 and 2011, included in the consolidated balance sheets are as follows (in thousands):

	2012	2011
Amounts expected to be collected in:		
Less than one year	$ 3,033	$ 3,100
One to five years	5,662	6,096
More than five years	2,369	2,469
	11,064	11,665
Discount to present value of future cash flows	(1,042)	(1,103)
Allowance for uncollectibles	(1,005)	(1,041)
Total	9,017	9,521
Less unconditional promises to give — current portion	3,033	3,100
Unconditional promises to give — noncurrent portion	$ 5,984	$ 6,421

7. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Land	$ 11,271	$ 8,940
Land improvements	3,988	4,736
Buildings and improvements	429,632	411,611
Fixed and major movable equipment	202,446	191,608
Total property and equipment	647,337	616,895
Less accumulated depreciation and amortization	(323,067)	(290,246)
	324,270	326,649
Construction in progress	19,737	12,344
Property and equipment — net	$ 344,007	$ 338,993

The System developed a strategic Master Facility Plan (the “Plan”) in 2008 at a total cost of approximately $182 million and included (i) the construction and equipping of a new four-story critical care building at the Medical Center, including a new emergency department and 12 operating rooms; (ii) construction of a new lobby and various other renovations to the existing Medical Center building; (iii) renovation of 275 Hospital Plaza to be used for pediatric and adult clinics; and (iv) the renovation and equipping of operating rooms, intensive care, critical care, and other various units at Wayne Hospital. The construction of the various projects in the Plan is substantially complete at December 31, 2012.

At December 31, 2012 and 2011, accounts payable and accrued expenses include approximately $3.2 million and $5.6 million, respectively, related to construction costs.

Substantially, all property of the Medical Center serves as collateral under the debt agreement (see Note 10).

Total equipment under capital leases included in the table above are approximately $7.5 million as of December 31, 2012 and 2011, respectively. Accumulated amortization relating to the equipment under capital leases was approximately $6.2 million and $4.5 million at December 31, 2012 and 2011, respectively, and is included in accumulated depreciation and amortization. The System entered into two new capital leases for equipment of approximately $750,000 in 2011.

8. GOODWILL AND OTHER INTANGIBLE ASSET

In 2010, the System recorded goodwill and an intangible asset in connection with the acquisition of two radiology practices. At December 31, 2012 and 2011 goodwill was approximately $2.1 million and $1.8 million, respectively. The intangible asset in the amount of $2.9 million, which is a noncompete agreement, is estimated to have a useful life of five years with amortization computed using the straight-line method for financial reporting purposes. Accumulated amortization related to the intangible asset is $1,498,000 and $918,000 at December 31, 2012 and 2011, respectively. Amortization expense of $580,000 was recorded each for the years ended December 31, 2012 and 2011. Goodwill and the intangible asset are included in other assets in the consolidated balance sheets.

Based on the current estimated useful lives, the System expects to record amortization expense as follows for each of the years ending December 31, 2013 through 2015:

Years Ending December 31	
2013	$ 580,000
2014	580,000
2015	241,700

9. JOINT VENTURES

The System's investments in joint ventures were approximately $26.8 million and $25.6 million at December 31, 2012 and 2011, respectively. Equity investments in joint ventures as of December 31, 2012 and 2011, consist of the following (in thousands):

	2012						
Name of Joint Venture	Ownership Percentage	Total Assets	Total Liabilities	Total Revenue	Net Income	Equity Investment	Share of Earnings
Simeon Dialysis, LLC	35 %	$ 75,177	$ 692	$ 30,433	$ 4,683	$ 26,165	$ 1,639
St. Joseph's Dialysis, LLC	50	10	1	38	(110)	369	(55)
Wayne Valley Imaging, LLC	50	1,377	1,240	2,041	556	103	278
		$ 76,564	$ 1,933	$ 32,512	$ 5,129	$ 26,637	$ 1,862

	2011						
Name of Joint Venture	Ownership Percentage	Total Assets	Total Liabilities	Total Revenue	Net Income	Equity Investment	Share of Earnings
Simeon Dialysis, LLC	35 %	$ 71,187	$ 1,114	$ 2,257	$ 353	$ 24,526	$ 124
St. Joseph's Dialysis, LLC	50	2,982	1,551	4,596	13,595	1,041	6,797
Wayne Valley Imaging, LLC	50	1,591	1,462	2,003	445		223
		$ 75,760	$ 4,127	$ 8,856	$ 14,393	$ 25,567	$ 7,144

Included in investments in joint ventures at December 31, 2012 are investments in joint ventures accounted for on the cost method.

On December 1, 2011, the Medical Center and St. Joseph's Dialysis, LLC (SJD) sold their outpatient dialysis centers to Simeon Dialysis, LLC (Simeon), a Delaware limited liability company. In exchange for the outpatient dialysis centers of the Medical Center and its 50% share of the outpatient dialysis center of SJD, the Medical Center received a 35% ownership interest in Simeon; and a preferential distribution from Simeon in the amount of $25.3 million. The remaining 65% of the joint venture is owned by Total Renal Care, Inc., a California corporation and a subsidiary of DaVita, Inc. In connection with the transaction, SJD made a distribution to the Medical Center in the amount of $7.25 million. The Medical Center recorded a gain on the sale of its outpatient dialysis center in the amount of $48.9 million, and such amount is included in the consolidated statements of operations for the year ended December 31, 2011.

10. LONG-TERM DEBT

Long-term debt, inclusive of the System's capital lease obligations as of December 31, 2012 and 2011, consists of the following (in thousands):

	2012	2011
New Jersey Healthcare Facilities Financing Authority — $248,910 St. Joseph's Healthcare System Obligated Group Issue, Series 2008 Revenue Bonds (a)	$234,910	$238,470
Passaic Authority — $29,620 Hospital Plaza Corporation Project, Series 2010 County Guaranteed Parking Revenue Bonds (b)	29,620	29,620
Other:		
Capital lease obligations — with imputed interest ranging from 4.2% to 7.0%, collateralized by related equipment — with varying maturities through 2014	499	1,721
Promissory note with Urban Enterprize Zone, bearing interest at 2.25%, maturing in 2021	840	932
Term loan bearing interest at a rate of 6.5%, maturing in 2020 (c)	1,086	1,228
Note payable bearing interest at a rate of 3.18%, maturing in 2015	1,626	2,527
Non-interest-bearing note payable, maturing in 2015	259	419
Total long-term debt	268,840	274,917
Original issue premiums	381	418
Original issue discount	(7,014)	(7,773)
Current portion of long-term debt	(5,905)	(6,084)
Long-term debt — net of current portion of long-term debt	$256,302	$261,478

(a) The New Jersey Healthcare Facilities Financing Authority Series 2008 Revenue Bonds (the "Series 2008 Bonds") bear interest at rates ranging from 5.75% to 6.625%. The Series 2008 Bonds mature annually through July 1, 2038. The proceeds of the Series 2008 Bonds were used by the System to (i) advance refund the outstanding principal balance of the Series A and Series B Bonds; (ii) repay the Series 2003 Bonds; (iii) repay certain other indebtedness of Wayne Hospital; (iv) fund the construction and renovation of certain facilities at the Medical Center and Wayne Hospital; (v) pay for certain costs of issuance of the Series 2008 Bonds; and (vi) fund the debt service reserve fund relating to the Series 2008 Bonds.

The Series 2008 Bonds are secured by (i) amounts held in the revenue fund created under the Master Indenture Agreement, (ii) the gross receipts of the Obligated Group (see Note 1), and (iii) a first mortgage lien on various properties of the Medical Center and Wayne Hospital as defined in the Master Indenture. The Obligated Group is subject to covenants under the Master Indenture Agreement containing restrictions and limitations with respect to the issuance of notes and guarantees, corporate existences, maintenance of properties, insurance, creation of liens and encumbrances, indebtedness, consolidation or merger, transfer of operating and nonoperating assets, and maintenance of certain financial ratios. Management is not aware of any noncompliance with such covenants at December 31, 2012.

(b) The Passaic Authority Series 2010 County Guaranteed Parking Revenue Bonds (the "Series 2010 Bonds") bear interest at rates ranging from 2% to 5%. The Series 2010 Bonds mature between 2013 and 2042. The proceeds of the Series 2010 Bonds were used by 200 Hospital Plaza to (i) finance a portion of project costs associated with the design and construction of a mixed-use parking/retail seven-level structure consisting of approximately 1,120 parking spaces and approximately 20,400 square feet of retail space located on the deck site adjacent to the Medical Center; (ii) pay capitalized interest on the Series 2010 Bonds from the date of issuance through May 1, 2012; (iii) fund the debt service reserve fund in an amount equal to the Series 2010 Bonds Reserve Requirement; and (iv) pay certain costs of issuance relating to the Series 2010 Bonds.

    200 Hospital Plaza is subject to covenants under the Master Indenture Agreement containing restrictions and limitations with respect to the issuance of guarantees, corporate existences, creation of liens and encumbrances, indebtedness, consolidation, or merger and maintenance of certain financial ratios. Management is not aware of any noncompliance with such covenants at December 31, 2012.

(c) Blue Moon has a term loan with a financial institution bearing interest at a fixed rate of 6.5% and maturing in March 2020. The proceeds of the loan were used to provide leasehold improvements for a new medical condominium located in Wayne, New Jersey. Blue Moon is subject to a minimum debt service coverage ratio requirement, which is tested annually. Management is not aware of any noncompliance with this ratio as of December 31, 2012.

Required principal payments on long-term debt and future minimum payments on the capital lease obligations for the next five years and thereafter as of December 31, 2012, are as follows (in thousands):

Years Ending December 31	**Long-Term Debt**	**Obligations Under Capital Lease**	**Total**
2013	$ 5,548	$ 372	$ 5,920
2014	5,657	144	5,801
2015	5,031		5,031
2016	5,288		5,288
2017	5,571		5,571
Thereafter	241,246		241,246
	268,341	516	268,857
Less amount representing interest on obligations under capital leases		17	17
	268,341	$ 499	268,840

At December 31, 2012, the System has unused letters of credit of $1.8 million, expiring in January 2014; $1.6 million, expiring in February 2014; and $1.5 million, expiring in April 2014.

A summary of interest cost on long-term debt and investment income on borrowed funds held by the trustee under the terms of the master indenture agreement pertaining to the Series 2008 Bonds issuances during the years ended December 31, 2012 and 2011, is as follows (in thousands):

	2012	2011
Interest cost:		
Capitalized	$ 671	$ 6,972
Charged to operations	16,186	9,901
Total interest cost	$ 16,857	$ 16,873
Investment income:		
Capitalized	$ 37	$ 1,678
Credited to other revenue	1,609	514
Total investment income	$ 1,646	$ 2,192

11. PENSION PLANS

The Medical Center maintains a noncontributory defined benefit pension plan (the "Plan") covering substantially all of the employees of the Medical Center. The Plan provides benefits based on the participant's years of service and compensation. The Plan is operated as a church plan under the Code. Under church plan status, the Plan is not subject to the minimum funding or other requirements of the Employee Retirement Income Security Act of 1974 (ERISA). In addition, benefits under the Plan are not covered by the Pension Benefit Guaranty Corporation. The Medical Center determines the amount of the annual contribution to the Plan based on the funded status of the Plan and its financial ability to make contributions. The Medical Center contributed approximately $12.6 million to the Plan in 2012 and expects to contribute approximately $12.6 million to the Plan in 2013. During 2011, the Plan was amended to eliminate charges for death benefits for terminated vested employees.

The funded status of the Plan as of December 31, 2012 and 2011, is set forth as follows (in thousands):

	2012	2011
Change in benefit obligation:		
Projected benefit obligation — beginning of year	$ 284,437	$ 239,109
Service cost	12,935	10,982
Interest cost	14,355	13,589
Actuarial loss	40,366	27,409
Benefit payments	(8,648)	(7,610)
Increase due to Plan amendment		958
Projected benefit obligation — end of year	$ 343,445	$ 284,437
Accumulated benefit obligation	$ 317,137	$ 260,887
Change in Plan assets:		
Fair value of Plan assets — beginning of year	$ 154,728	$ 150,713
Actual return on Plan assets	16,366	(778)
Employer contributions	12,600	12,600
Benefit payments	(7,591)	(6,750)
Administrative expenses	(1,102)	(1,057)
Fair value of Plan assets — end of year	$ 175,001	$ 154,728
Funded status/accrued benefit liability	$ 168,444	$ 129,709

At December 31, 2012 and 2011, unrestricted net assets include unrecognized losses of $129.8 million and $100.3 million, respectively, and unrecognized prior service costs of $783,000 and $932,000, respectively, for the Plan. Of these amounts, $8.8 million of the unrecognized losses and $87,000 of unrecognized prior service cost are expected to be recognized in net periodic benefit costs in 2013.

Weighted-average assumptions used in determining the benefit obligation as of December 31, 2012 and 2011, were as follows:

	2012	2011
Discount rate	4.22 %	5.08 %
Rate of compensation increase	3.00	3.50

Net periodic pension costs for the years ended December 31, 2012 and 2011, are as follows (in thousands):

	2012	2011
Service cost	$ 12,934	$ 10,983
Interest cost	14,355	13,589
Expected return on Plan assets	(12,469)	(12,202)
Amortization of prior service cost	149	262
Amortization of net loss	6,957	3,510
Net periodic pension costs	$ 21,926	$ 16,142

Weighted-average assumptions used in determining the net periodic pension costs for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Discount rate	5.08 %	5.79 %
Expected long-term return on Plan assets	8.00	8.00
Rate of compensation increase	3.50	3.50

The discount rate was determined using the hypothetical portfolio method at December 31, 2012 and 2011.

To develop the expected long-term rate of return on Plan assets, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This approach resulted in the selection of the 8.00% long-term rate of return on Plan assets' assumption.

The date used to determine the pension plan measurements is December 31.

The System's pension plan weighted-average asset allocation as of December 31, 2012 and 2011, by asset category, is as follows:

Asset Category	2012	2011
Equity securities	58 %	58 %
Debt securities	37	42
Alternative investments	5	
	100 %	100 %

The Plan's investment policy includes the following asset allocation guidelines:

Asset Category	Target	Range
Domestic equity:		
Large to midcapitalization growth	22.0 %	18%–28%
Large to midcapitalization value	22.0	18–28
Small capitalization	4.0	0–8
International equity:		
Core	7.5	2–14
Emerging	2.0	0–6
Fixed income	37.5	30–50
Alternative investments	5.0	0–10

The asset allocation policy was developed in consideration of the long-term financial objectives of the Plan, which include ensuring that there is an adequate level of assets to support benefit obligations and maintaining liquidity sufficient to cover current benefit obligations.

In addition to the broad asset allocation described above, the following policies apply to individual asset classes:

- Fixed-income investments are oriented toward risk-adverse, investment-grade securities with an average quality of "A" or higher. Up to 10% of the portfolio may be invested in bonds rated below investment grade. With the exception of U.S. government securities, fixed-income investments are diversified among individual securities and sectors.
- Equity investments are diversified among industries and economic sectors. International equity holdings are also diversified by country. Limitations are placed on the overall allocation to any individual security.

Pension benefit payments, which reflect expected future service and salary, as appropriate, are expected to be paid as follows (in thousands):

Years Ending December 31	
2013	$ 9,218
2014	10,257
2015	11,410
2016	12,644
2017	13,897
2018–2022	89,693

In addition to the employee benefit plan, the Medical Center maintains a deferred employee benefit plan. At December 31, 2012 and 2011, the accrued pension liability for this plan was approximately $1,363,000 and $944,000, respectively. The corresponding assets to the deferred employee benefit plan are included in the noncurrent portion of assets whose use is limited at December 31, 2012 and 2011.

Defined Contribution Plan — VHS maintains a tax-deferred annuity plan and a noncontributory defined contribution employee benefit plan. Under the terms of the tax-deferred annuity plan, VHS contributes to the accounts of each eligible employee a percentage of salaries ($0.25 of each dollar up to the lesser of $13,000 or 4% of the participant's salary). Under the terms of the noncontributory defined contribution employee benefit plan, VHS contributes 2% of each participant's gross salary. For the years ended December 31, 2012 and 2011, pension expense related to the two plans was approximately $129,000 and $146,000, respectively.

12. PROFESSIONAL LIABILITY INSURANCE

Effective February 1, 2007, the Insurance Captive began providing the Regional Medical Center with "claims-made" professional and general liability insurance. The Insurance Captive policy provides coverage of $1 million per occurrence and $3 million annual aggregate. The Insurance Captive has a self-insurance program for a first excess layer above the primary layer. The first excess layer is on a claims-made basis with retentions of $4 million for individual claims and $17 million in the aggregate. The Insurance Captive maintains a self-insurance reserve trust as the funding vehicle for the self-insurance program (see Note 4). The Insurance Captive has a second excess layer of insurance of $10 million annual aggregate, a third excess layer of insurance of $20 million annual aggregate, and a fourth layer of $15 million annual aggregate each maintained with separate commercial carriers.

The Insurance Captive is registered under the Bermuda Insurance Act of 1978 and the Related Regulations (the "Insurance Act") and is obliged to comply with various provisions of the Insurance Act regarding solvency and liquidity. The minimum statutory capital and surplus, at December 31, 2012 and 2011, was $1.9 million and $1.7 million, respectively, and the actual statutory capital and surplus was $6.4 million and $4.6 million, respectively. In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Insurance Act, must exceed 75% of relevant liabilities. As of December 31, 2012 and 2011, the liquidity ratio was met.

Prior to the inception of the Insurance Captive, the Regional Medical Center maintained its primary professional liability insurance coverage of $1 million for individual claims and $3 million in the aggregate on a claims-made basis with a commercial carrier. The first excess layer was on a claims-made basis with retentions of $4 million for individual claims and $7 million in the aggregate. A second excess layer of coverage was maintained with a commercial carrier.

Effective March 1, 2009, the Insurance Captive began providing Wayne Hospital with "claims-made" professional and general liability insurance, and Wayne Hospital began participating in the self-insurance program for a first excess layer above the primary layer. Prior to March 1, 2009, Wayne Hospital maintained primary professional liability insurance coverage on a claims-made basis with a commercial carrier.

VHS maintains primary professional liability insurance coverage on an occurence basis with a commercial carrier. The policy is to accrue an estimate each year of the ultimate cost of malpractice claims incurred, but not reported, under the claims-made insurance policy.

The estimated undiscounted professional liabilities for asserted claims and for incidents that have been incurred but not reported included in the consolidated balance sheets as of December 31, 2012 and 2011, are as follows (in thousands):

	2012	2011
Estimated professional liability claims payable included in accrued expenses	$ 3,675	$ 3,458
Noncurrent estimated professional liability claims payable	21,523	19,924
Total estimated professional liability claims payable	$ 25,198	$ 23,382

The activity in the liability for claims reported and claims incurred but not reported for the years ended December 31, 2012 and 2011, is summarized as follows (in thousands):

	2012	2011
Balance — beginning of year	$ 23,382	$ 21,499
Incurred related to:		
Current year	5,654	391
Prior years	(1,783)	2,860
Total incurred	3,871	3,251
Paid related to:		
Current year	96	49
Prior years	1,959	1,319
Total paid	2,055	1,368
Balance — end of year	$ 25,198	$ 23,382

The System's estimates for professional liability for asserted claims and for incidents that have been incurred, but not reported, are based upon complex actuarial calculations, which utilize factors, such as historical claim experience for the System and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from project expectations are recorded in the period the information becomes known.

13. CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of who are insured under third-party payer agreements. Major concentrations of net accounts receivable from patients and third-party payers as of December 31, 2012 and 2011, are as follows:

	2012	2011
Medicare	27 %	27 %
Medicaid	14	18
Horizon Blue Cross Blue Shield of New Jersey	11	10
AmeriChoice	10	10
Amerigroup	5	5
Aetna	6	6
Health Maintenance Organizations and other third-party payers	19	19
Self-pay patients	8	5
	100 %	100 %

The System invests its surplus operating funds in fixed-income funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in fixed-income funds are not insured or guaranteed by the U.S. government. The System deposits cash with various financial institutions in which the amounts may exceed federally insured limits.

14. OPERATING LEASES

The System leases equipment and office space under various noncancelable operating leases. Future minimum payments due under noncancelable operating leases with a term of one year or greater as of December 31, 2012, are as follows (in thousands):

Years Ending December 31	
2013	$ 3,209
2014	2,236
2015	2,051
2016	2,067
2017	2,116
Thereafter	7,183

Payments made under operating leases amounted to approximately $3.7 million in 2012 and $4.6 million in 2011, respectively.

15. NET ASSETS

Unrestricted Net Assets — Changes in consolidated unrestricted net assets attributable to the System and the noncontrolling interest in joint ventures for the years ended December 31, 2012 and 2011, are as follows (in thousands):

	St. Joseph's Healthcare System, Inc. and Affiliates	Noncontrolling Interests in Joint Ventures	Total
UNRESTRICTED NET ASSETS — January 1, 2011	$ 119,989	$ 4,269	$ 124,258
Excess of revenues over expenses	45,594	3,797	49,391
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on investments	410		410
Pension-related adjustments	(37,771)		(37,771)
Distributions to noncontrolling interests in joint ventures		(4,532)	(4,532)
Contributions from noncontrolling interests in joint ventures		92	92
Net assets released from restrictions — capital acquisitions	738		738
Increase (decrease) increase in unrestricted net assets	8,971	(643)	8,328
UNRESTRICTED NET ASSETS — December 31, 2011	128,960	3,626	132,586
Excess of revenues over expenses	8,718	3,579	12,297
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on investments	1,920		1,920
Pension-related adjustments	(29,408)		(29,408)
Distributions to noncontrolling interests in joint ventures		(4,176)	(4,176)
Contributions from noncontrolling interests in joint ventures		91	91
Contributions for capital acquisitions			
Net assets released from restrictions — capital acquisitions	1,416		1,416
Decrease in unrestricted net assets	(17,354)	(506)	(17,860)
UNRESTRICTED NET ASSETS — December 31, 2012	$ 111,606	$ 3,120	$ 114,726

Temporarily Restricted Net Assets — Temporarily restricted net assets are available for future periods or for specific purposes. Net assets during the year were released from donor restrictions by incurring expenditures satisfying the restricted purpose.

Temporarily restricted net assets as of December 31, 2012 and 2011, are available for the following purposes (in thousands):

	2012	2011
Capital acquisitions and improvements	$ 12,616	$ 12,961
Scholarship fund	123	141
Research	752	1,001
Other healthcare programs	9,033	12,233
	$ 22,524	$ 26,336

Permanently Restricted Net Assets — At December 31, 2012 and 2011, permanently restricted net assets in the amount of $3.1 million and $2.9 million, respectively, consist of endowment funds to be held in perpetuity, and the beneficial interest in perpetual trusts. The assets in the perpetual trusts are held and managed by an independent trustee. The income earned on the beneficial interest in the perpetual trust is unrestricted. The income from the endowment funds is expendable to support health care services.

The Board of Trustees (the "Board") classifies donor-restricted assets based upon the explicit directions of the donor and the provisions of the New Jersey Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of New Jersey in June 2009. The Board has determined that, absent donor stipulations to the contrary, the provisions of New Jersey State law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gift.

From time to time, the fair value of assets associate with individual donor restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets as of year-end. There are no such deficiencies at December 31, 2012 and 2011.

16. FUNCTIONAL EXPENSES

The System's functional expenses for the years ended December 31, 2012 and 2011, are as follows (in thousands):

	2012	2011
Health care services	$ 609,947	$ 567,297
General and administrative	78,416	82,695
Total	$ 688,363	$ 649,992

17. COMMITMENTS AND CONTINGENCIES

Final Settlement of Medicaid Audits — In December 2010, Medicaid issued a final settlement in connection with their audits of the Regional Medical Center's 2005 and 2006 Medicaid cost reports. Medicaid sought recoupment of approximately $7.1 million in alleged overpayments for those years. Medicaid recouped $800,000 of the overpayment in 2012 and $6.3 million in 2011 from the Medical Center. The Medical Center is pursuing its administrative appeal rights. While the ultimate resolution of this matter cannot be determined, it is the opinion of management that it will not have a material adverse effect on the System's consolidated results of operations or financial position.

Litigation — Various suits and claims arising in the normal course of operations are pending or are in progress against the System. Such suits and claims are either specifically covered by insurance, provided for through estimated self-insurance liabilities, or are not material. While the outcome of these other suits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position or results of operations of the System.

18. SUBSEQUENT EVENTS

The System has evaluated subsequent events through May 30, 2013, the date the consolidated financial statements were available to be issued.

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ADDITIONAL CONSOLIDATING INFORMATION

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF DECEMBER 31, 2012
(In thousands)

ASSETS	St. Joseph's Hospital and Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	St. Joseph's Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	Eliminations	Total Obligated Group	200 Hospital Plaza Corp.	St. Joseph's Healthcare System, Inc.	SJHS Insurance Limited	Eliminations	Total
CURRENT ASSETS:											
Cash and cash equivalents	$ 57,252	$ 4,538	$ 1,005	$ 1,277	$ -	$ 64,072	$ 107	$ -	$ -	$ -	$ 64,179
Investments	74,400		874	6,188		81,462					81,462
Current portion of assets whose use is limited	12,802					12,802	1,853		3,644		18,299
Patient accounts receivable — net	62,191			874		63,065					63,065
Grants, notes, and other receivables	8,871	101	2			8,974	45		379	(379)	9,019
Unconditional promises to give — net		2,763	270			3,033					3,033
Supplies	7,847			19		7,866					7,866
Prepaid expenses and other current assets	3,275	25		9		3,309			178		3,487
Due from affiliates	192				(192)						
Total current assets	226,830	7,427	2,151	8,367	(192)	244,583	2,005		4,201	(379)	250,410
ASSETS WHOSE USE IS LIMITED — Less current portion	48,302	1,382	1,684			51,368	5,122		22,137		78,627
UNCONDITIONAL PROMISES TO GIVE — Net		5,772	212			5,984					5,984
NOTES RECEIVABLE		1,618				1,618					1,618
PROPERTY AND EQUIPMENT — Net	312,827	509				313,336	30,671				344,007
BENEFICIAL INTEREST IN PERPETUAL TRUSTS		1,945	847			2,792					2,792
INTEREST IN NET ASSETS OF ST. JOSEPH'S HOSPITAL AND MEDICAL CENTER FOUNDATION, INC.	19,982				(19,982)						
INTEREST IN NET ASSETS OF ST. JOSEPH'S WAYNE HOSPITAL FOUNDATION, INC.	4,755				(4,755)						
ESTIMATED INSURANCE RECOVERIES	7,268					7,268				(7,268)	
INVESTMENT IN JOINT VENTURES	26,813					26,813					26,813
OTHER ASSETS	12,245	1,667		45		13,957	671	3,178		(3,178)	14,628
TOTAL	$ 659,022	$ 20,320	$ 4,894	$ 8,412	$ (24,929)	$ 667,719	$ 38,469	$ 3,178	$ 26,338	$ (10,825)	$ 724,879

The System discloses its interest in its controlled affiliates using the cost method of accounting.

(Continued)

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF DECEMBER 31, 2012
(In thousands)

LIABILITIES AND NET ASSETS	St. Joseph's Hospital and Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	St. Joseph's Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	Eliminations	Total Obligated Group	200 Hospital Plaza Corp.	St. Joseph's Healthcare System, Inc.	SJHS Insurance Limited	Eliminations	Total
CURRENT LIABILITIES:											
Current portion of long-term debt	$ 5,330	$	$	$	$	$ 5,330	$ 575	$	$	$	$ 5,905
Accounts payable	42,898	120	39	161		43,218	481		759	(379)	44,079
Accrued salaries and expenses	49,871			763		50,634			3,644		54,278
Accrued interest payable	7,685					7,685	210				7,895
Due to affiliates		175	17		(192)						
Deferred revenue	2,691			430		3,121					3,121
Estimated third-party payer settlements	14,531					14,531					14,531
Total current liabilities	123,006	295	56	1,354	(192)	124,519	1,266		4,403	(379)	129,809
LONG-TERM DEBT — Net of current portion	226,910					226,910	29,392				256,302
ESTIMATED THIRD-PARTY PAYER SETTLEMENTS	3,126					3,126					3,126
ACCRUED PENSION LIABILITY	169,807			54		169,861					169,861
ESTIMATED PROFESSIONAL LIABILITY CLAIMS PAYABLE	13,256					13,256			15,535	(7,268)	21,523
DEFERRED REVENUE — Net of current portion											
OTHER LIABILITIES	3,799	43				3,842	14				3,856
Total liabilities	539,904	338	56	1,408	(192)	541,514	30,672		19,938	(7,647)	584,477
NET ASSETS:											
Unrestricted:											
St. Joseph's Healthcare System, Inc. and Affiliates	90,403	4,058	1,526	7,004	(5,582)	97,409	7,797	3,178	6,400	(3,178)	111,606
Noncontrolling interests in joint ventures	3,120					3,120					3,120
Total unrestricted net assets	93,523	4,058	1,526	7,004	(5,582)	100,529	7,797	3,178	6,400	(3,178)	114,726
Temporarily restricted	22,443	13,979	2,338		(16,236)	22,524					22,524
Permanently restricted	3,152	1,945	974		(2,919)	3,152					3,152
Total net assets	119,118	19,982	4,838	7,004	(24,737)	126,205	7,797	3,178	6,400	(3,178)	140,402
TOTAL	$ 659,022	$ 20,320	$ 4,894	$ 8,412	$ (24,929)	$ 667,719	$ 38,469	$ 3,178	$ 26,338	$ (10,825)	$ 724,879

The System discloses its interests in its controlled affiliates using the cost method of accounting.

(Concluded)

ST. JOSEPH’S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF DECEMBER 31, 2011
(In thousands)

ASSETS	St. Joseph’s Hospital and Medical Center and Subsidiaries	St. Joseph’s Hospital and Medical Center Foundation, Inc.	St. Joseph’s Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	Eliminations	Total Obligated Group	200 Hospital Plaza Corp.	St. Joseph’s Healthcare System, Inc.	SJHS Insurance Limited	Eliminations	Total
CURRENT ASSETS:											
Cash and cash equivalents	$ 44,203	$ 6,385	$ 872	$ 540	$ -	$ 52,000	$ 103	$ -	$ -	$ -	$ 52,103
Investments	58,958		739	7,849		67,546					67,546
Current portion of assets whose use is limited	12,758					12,758	1,259		3,427		17,444
Patient accounts receivable — net	59,703			972		60,675					60,675
Grants, notes, and other receivables	14,175	89	2			14,266			379	(379)	14,266
Unconditional promises to give — net		2,764	336			3,100					3,100
Supplies	7,426			22		7,448					7,448
Prepaid expenses and other current assets	1,759	24		19	(16)	1,786			185		1,971
Due from affiliates	266				(266)	-					-
Total current assets	199,248	9,262	1,949	9,402	(282)	219,579	1,362	-	3,991	(379)	224,553
ASSETS WHOSE USE IS LIMITED — Less current portion	68,250	1,394	1,707			71,351	8,073		18,810		98,234
UNCONDITIONAL PROMISES TO GIVE — Net		6,183	238			6,421					6,421
NOTES RECEIVABLE		1,721				1,721					1,721
PROPERTY AND EQUIPMENT — Net	307,754	531		2		308,287	30,706				338,993
BENEFICIAL INTEREST IN PERPETUAL TRUSTS		1,813	790			2,603					2,603
INTEREST IN NET ASSETS OF ST. JOSEPH’S HOSPITAL AND MEDICAL CENTER FOUNDATION, INC.	22,159				(22,159)	-					-
INTEREST IN NET ASSETS OF ST. JOSEPH’S WAYNE HOSPITAL FOUNDATION, INC.	4,566				(4,566)	-					-
ESTIMATED INSURANCE RECOVERIES	5,200					5,200				(5,200)	-
INVESTMENT IN JOINT VENTURES	25,567					25,567					25,567
OTHER ASSETS	13,848	1,624		45		15,517	718	3,178		(3,178)	16,235
TOTAL	$ 646,592	$ 22,528	$ 4,684	$ 9,449	$ (27,007)	$ 656,246	$ 40,859	$ 3,178	$ 22,801	$ (8,757)	$ 714,327

The System discloses its interest in its controlled affiliates using the cost method of accounting.

(Continued)

ST. JOSEPH’S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF DECEMBER 31, 2011
(In thousands)

LIABILITIES AND NET ASSETS	St. Joseph’s Hospital and Medical Center and Subsidiaries	St. Joseph’s Hospital and Medical Center Foundation, Inc.	St. Joseph’s Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	Eliminations	Total Obligated Group	200 Hospital Plaza Corp.	St. Joseph’s Healthcare System, Inc.	SJHS Insurance Limited	Eliminations	Total
CURRENT LIABILITIES:											
Current portion of long-term debt	$ 6,084	$ -	$ -	$ -	$ -	$ 6,084	$ -	$ -	$ -	$ -	$ 6,084
Accounts payable	44,389	62	32	178		44,661	1,795		748	(379)	46,825
Accrued salaries and expenses	46,734			666		47,400			3,427		50,827
Accrued interest payable	7,787					7,787	210				7,997
Due to affiliates	14	260	8		(282)	-					-
Deferred revenue	2,685			473		3,158					3,158
Estimated third-party payer settlements	19,259					19,259					19,259
Total current liabilities	126,952	322	40	1,317	(282)	128,349	2,005	-	4,175	(379)	134,150
LONG-TERM DEBT — Net of current portion	231,487					231,487	29,991				261,478
ESTIMATED THIRD-PARTY PAYER SETTLEMENTS	476					476					476
ACCRUED PENSION LIABILITY	130,654			54		130,708					130,708
ESTIMATED PROFESSIONAL LIABILITY CLAIMS PAYABLE	11,153					11,153			13,971	(5,200)	19,924
DEFERRED REVENUE — Net of current portion	2,500					2,500					2,500
OTHER LIABILITIES	3,159	47				3,206					3,206
Total liabilities	506,381	369	40	1,371	(282)	507,879	31,996	-	18,146	(5,579)	552,442
NET ASSETS:											
Unrestricted:											
St. Joseph’s Healthcare System, Inc. and Affiliates	107,363	3,273	1,298	8,078	(4,570)	115,442	8,863	3,178	4,655	(3,178)	128,960
Noncontrolling interests in joint ventures	3,626					3,626					3,626
Total unrestricted net assets	110,989	3,273	1,298	8,078	(4,570)	119,068	8,863	3,178	4,655	(3,178)	132,586
Temporarily restricted	26,259	17,073	2,429		(19,425)	26,336					26,336
Permanently restricted	2,963	1,813	917		(2,730)	2,963					2,963
Total net assets	140,211	22,159	4,644	8,078	(26,725)	148,367	8,863	3,178	4,655	(3,178)	161,885
TOTAL	$ 646,592	$ 22,528	$ 4,684	$ 9,449	$ (27,007)	$ 656,246	$ 40,859	$ 3,178	$ 22,801	$ (8,757)	$ 714,327

The System discloses its interests in its controlled affiliates using the cost method of accounting.

(Concluded)

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE — OPERATING RESULTS INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012
(In thousands)

	St. Joseph's Hospital and Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	St. Joseph's Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	Eliminations	Total Obligated Group	200 Hospital Plaza Corp.	St. Joseph's Healthcare System, Inc.	SJHS Insurance Limited	Eliminations	Total
REVENUES:											
Net patient service revenue (after contractual allowances and discounts)	$ 678,312	$ -	$ -	$ 8,581	$ -	$686,893	$ -	$ -	$ -	$ -	$ 686,893
Provision for bad debts	(68,724)			(261)		(68,985)					(68,985)
Net patient service revenue net of provision for bad debts)	609,588			8,320		617,908					617,908
Other revenue	70,119	1,769	823	289	(1,695)	71,305	2,838		7,099	(4,550)	76,692
Net assets released from restrictions — operations	846	4,761	291			5,898					5,898
Total revenues	680,553	6,530	1,114	8,609	(1,695)	695,111	2,838		7,099	(4,550)	700,498
EXPENSES:											
Salaries and wages	315,040	891	193	6,045	(1,082)	321,087					321,087
Employee benefits	74,937	220	47	1,266	(264)	76,206					76,206
Physician fees	28,690					28,690					28,690
Supplies and other	203,335	5,538	708	2,316	(4,099)	207,798	1,005		6,033	(4,550)	210,286
Interest	16,714			29		16,743	1,259				18,002
Depreciation and amortization	32,230	22		1		32,253	1,640				33,893
Provision for bad debts		13	24			37					37
Total expenses	670,946	6,684	972	9,657	(5,445)	682,814	3,904	-	6,033	(4,550)	688,201
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	9,607	(154)	142	(1,048)	3,750	12,297	(1,066)		1,066		12,297
OTHER CHANGES IN UNRESTRICTED NET ASSETS:											
Change in net unrealized gains and losses on investments	1,192	(11)	86	(26)		1,241			679		1,920
Pension-related adjustments	(29,408)					(29,408)					(29,408)
Change in interest in unrestricted net assets of St. Joseph's Hospital and Medical Center Foundation, Inc.	785				(785)						
Change in interest in unrestricted net assets of St. Joseph's Wayne Hospital Foundation, Inc.	228				(228)						
Transfers (to) from affiliates	(950)	950									
Contribution for capital acquisitions	3,749				(3,749)						
Distributions to noncontrolling interests in joint ventures	(4,176)					(4,176)					(4,176)
Contributions from noncontrolling interests in joint ventures	91					91					91
Net assets released from restrictions — capital acquisitions	1,416					1,416					1,416
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (17,466)	$ 785	$ 228	$ (1,074)	$ (1,012)	$ (18,539)	$ (1,066)	$ -	$ 1,745	$ -	$ (17,860)

The System discloses its interests in its controlled affiliates using the cost method of accounting.

ST. JOSEPH’S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE — OPERATING RESULTS INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands)

	St. Joseph’s Hospital and Medical Center and Subsidiaries	St. Joseph’s Hospital and Medical Center Foundation, Inc.	St. Joseph’s Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	Eliminations	Total Obligated Group	200 Hospital Plaza Corp.	St. Joseph’s Healthcare System, Inc.	SJHS Insurance Limited	Eliminations	Total
REVENUES:											
Net patient service revenue (after contractual allowances and discounts	$ 621,891	$ -	$ -	$ 8,344	$ -	$630,235	$ -	$ -	$ -	$ -	$ 630,235
Provision for bad debts	(51,628)			(151)		(51,779)					(51,779)
Net patient service revenue net of provision for bad debts	570,263			8,193		578,456					578,456
Other revenue	66,380	1,981	674	304	(1,740)	67,599	2,232		6,060	(4,550)	71,341
Gain on sale of outpatient dialysis centers	48,969					48,969					48,969
Net assets released from restrictions — operations		549	68			617					617
Total revenues	685,612	2,530	742	8,497	(1,740)	695,641	2,232	-	6,060	(4,550)	699,383
EXPENSES:											
Salaries and wages	311,804	940	224	5,966	(1,164)	317,770					317,770
Employee benefits	66,726	226	54	1,431	(280)	68,157					68,157
Physician fees	22,290					22,290					22,290
Supplies and other	199,205	2,047	621	2,275	(296)	203,852	1,186		4,663	(4,550)	205,151
Interest	10,309			71		10,380	525				10,905
Depreciation and amortization	25,008	14		1		25,023	583				25,606
Provision for bad debts		113				113					113
Total expenses	635,342	3,340	899	9,744	(1,740)	647,585	2,294	-	4,663	(4,550)	649,992
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	50,270	(810)	(157)	(1,247)		48,056	(62)		1,397		49,391
OTHER CHANGES IN UNRESTRICTED NET ASSETS:											
Change in net unrealized gains and losses on investments	12	(16)	(14)	73		55			355		410
Pension-related adjustments	(37,771)					(37,771)					(37,771)
Change in interest in unrestricted net assets of St. Joseph’s Hospital and Medical Center Foundation, Inc.	(316)				316	-					-
Change in interest in unrestricted net assets of St. Joseph’s Wayne Hospital Foundation, Inc.	57				(57)	-					-
Transfers (to) from affiliates	(2,578)					(2,578)	2,578				-
Distributions to noncontrolling interests in joint ventures	(4,532)					(4,532)					(4,532)
Contributions from noncontrolling interests in joint ventures	92					92					92
Net assets released from restrictions — capital acquisitions	22,240	510	228		(22,240)	738					738
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 27,474	$ (316)	$ 57	$ (1,174)	$ (21,981)	$ 4,060	$2,516	$ -	$ 1,752	$ -	$ 8,328

The System discloses its interests in its controlled affiliates using the cost method of accounting.

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE — CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012
(In thousands)

	St. Joseph's Hospital and Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	St. Joseph's Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	Eliminations	Total Obligated Group	200 Hospital Plaza Corp.	St. Joseph's Healthcare System, Inc.	SJHS Insurance Limited	Eliminations	Total
UNRESTRICTED NET ASSETS:											
Excess (deficiency) of revenues over expenses	$ 9,607	$ (154)	$ 142	$ (1,048)	$ 3,750	$ 12,297	$ (1,066)	$ -	$ 1,066	$ -	$ 12,297
Change in net unrealized gains and losses on investments	1,192	(11)	86	(26)		1,241			679		1,920
Pension-related adjustments	(29,408)					(29,408)					(29,408)
Change in interest in unrestricted net assets of St. Joseph's Hospital and Medical Foundation, Inc.	785				(785)						
Change in interest in unrestricted net assets of St. Joseph's Wayne Hospital Foundation, Inc.	228				(228)						
Transfer (to) from affiliates	(950)	950									
Contribution for capital acquisitions	3,749				(3,749)						
Distributions to noncontrolling interests in joint ventures	(4,176)					(4,176)					(4,176)
Contributions from noncontrolling interests in joint ventures	91					91					91
Net assets released from restrictions — capital acquisitions	1,416					1,416					1,416
(Decrease) increase in unrestricted net assets	(17,466)	785	228	(1,074)	(1,012)	(18,539)	(1,066)	-	1,745	-	(17,860)
TEMPORARILY RESTRICTED NET ASSETS:											
Contributions, grants, investment income, and other support	1,635	1,667	200			3,502					3,502
Change in interest in temporarily restricted net assets of St. Joseph's Hospital and Medical Foundation, Inc.	(3,094)				3,094						
Change in interest in temporarily restricted net assets of St. Joseph's Wayne Hospital Foundation, Inc.	(95)				95						
Net assets released from restrictions — operations	(846)	(4,761)	(291)			(5,898)					(5,898)
Net assets released from restrictions — capital acquisitions	(1,416)					(1,416)					(1,416)
(Decrease) increase in temporarily restricted net assets	(3,816)	(3,094)	(91)	-	3,189	(3,812)	-	-	-	-	(3,812)
PERMANENTLY RESTRICTED NET ASSETS:											
Change in net unrealized gains and losses on investments held in perpetual trusts		132	57			189					189
Change in interest in permanently restricted net assets of St. Joseph's Hospital and Medical Foundation, Inc.	132				(132)						
Change in interest in permanently restricted net assets of St. Joseph's Wayne Hospital Foundation, Inc.	57				(57)						
Increase (decrease) in permanently restricted net assets	189	132	57		(189)	189					189
(DECREASE) INCREASE IN NET ASSETS	(21,093)	(2,177)	194	(1,074)	1,988	(22,162)	(1,066)		1,745		(21,483)
NET ASSETS — Beginning of year	140,211	22,159	4,644	8,078	(26,725)	148,367	8,863	3,178	4,655	(3,178)	161,885
NET ASSETS — End of year	$ 119,118	$ 19,982	$ 4,838	$ 7,004	$ (24,737)	$ 126,205	$ 7,797	$ 3,178	$ 6,400	$ (3,178)	$ 140,402

The System discloses its intererst in its controlled affiliates using the cost method of accounting.

ST. JOSEPH’S HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE — CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands)

	St. Joseph’s Hospital and Medical Center and Subsidiaries	St. Joseph’s Hospital and Medical Center Foundation, Inc.	St. Joseph’s Wayne Hospital Foundation, Inc.	VHS Management, Inc. and Subsidiary	Eliminations	Total Obligated Group	200 Hospital Plaza Corp.	St. Joseph’s Healthcare System, Inc.	SJHS Insurance Limited	Eliminations	Total
UNRESTRICTED NET ASSETS:											
Excess (deficiency) of revenues over expenses	$ 50,270	$ (810)	$ (157)	$ (1,247)	$ -	$ 48,056	$ (62)	$ -	$ 1,397	$ -	$ 49,391
Change in net unrealized gains and losses on investments	12	(16)	(14)	73		55			355		410
Pension-related adjustments	(37,771)					(37,771)					(37,771)
Change in interest in unrestricted net assets of St. Joseph’s Hospital and Medical Foundation, Inc.	(316)				316	-					-
Change in interest in unrestricted net assets of St. Joseph’s Wayne Hospital Foundation, Inc.	57				(57)	-					-
Transfer (to) from affiliates	(2,578)					(2,578)	2,578				-
Distributions to noncontrolling interests in joint ventures	(4,532)					(4,532)					(4,532)
Contributions from noncontrolling interests in joint ventures	92					92					92
Net assets released from restrictions — capital acquisitions	22,240	510	228		(22,240)	738					738
Increase (decrease) in unrestricted net assets	27,474	(316)	57	(1,174)	(21,981)	4,060	2,516	-	1,752	-	8,328
TEMPORARILY RESTRICTED NET ASSETS:											
Contributions, grants, investment income, and other support	1,953	2,495	301		(3)	4,746					4,746
Change in interest in temporarily restricted net assets of St. Joseph’s Hospital and Medical Foundation, Inc.	1,436				(1,436)						-
Change in interest in temporarily restricted net assets of St. Joseph’s Wayne Hospital Foundation, Inc.	2				(2)						-
Net assets released from restrictions — operations		(549)	(68)			(617)					(617)
Net assets released from restrictions — capital acquisitions	(22,240)	(510)	(228)		22,240	(738)					(738)
(Decrease) increase in temporarily restricted net assets	(18,849)	1,436	5	-	20,799	3,391	-	-	-	-	3,391
PERMANENTLY RESTRICTED NET ASSETS:											
Change in net unrealized gains and losses on investments held in perpetual trusts		(147)	(60)			(207)					(207)
Change in interest in permanently restricted net assets of St. Joseph’s Hospital and Medical Foundation, Inc.	(147)				147						-
Change in interest in permanently restricted net assets of St. Joseph’s Wayne Hospital Foundation, Inc.	(60)				60						-
(Decrease) increase in permanently restricted net assets	(207)	(147)	(60)	-	207	(207)	-	-	-	-	(207)
INCREASE (DECREASE) IN NET ASSETS	8,418	973	2	(1,174)	(975)	7,244	2,516		1,752		11,512
NET ASSETS — Beginning of year	131,793	21,186	4,642	9,252	(25,750)	141,123	6,347	3,178	2,903	(3,178)	150,373
NET ASSETS — End of year	$ 140,211	$ 22,159	$ 4,644	$ 8,078	$ (26,725)	$ 148,367	$ 8,863	$ 3,178	$ 4,655	$ (3,178)	$ 161,885

The System discloses its intererst in its controlled affiliates using the cost method of accounting.

SUPPLEMENTAL SCHEDULES

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Period	Expenditures
ST. JOSEPH'S HOSPITAL AND MEDICAL CENTER AND SUBSIDIARIES				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Direct Programs:				
Ryan White Part C OP EIS Program	93.918	6 H76 HA 00064-20-01	01/01/12–12/31/12	$ 846,624
Ryan White Comprehensive AIDS Resources Emergency Act — Dental Reimbursement Program	93.924	1 T22HA24888-01-00	07/01/12-02/28/13	15,226
Health Care Innovation Challenge	93.610	1C1C MS331055-01-00	07/01/12-06/30/13	180,496
Subtotal direct programs				1,042,346
Pass-Through Programs From:				
State of New Jersey Department of Health and Senior Services:				
HIV Counseling and Testing	93.940	AIDS12CTN002 Counseling/Notif 002	01/01/12–12/31/12	334,356
Cancer Education and Early Detection	93.283	FHS 2012 CEED-0018	07/01/11–06/30/12	426,703
		FHS 2013 CEED-0019	07/01/12–06/30/13	356,144
Family Centered HIV Care	93.153	DFHS 2012 PDA 0007	08/01/11–07/31/12	164,386
Pediatric AIDS (formerly known as Family Centered HIV Care)		DFHS 2013 PDA 0007	08/01/12–07/31/13	122,315
Ryan White Title II — HIV Home Care Program	93.917	92-2024 AID-00	04/01/11–03/31/12	49,230
		92-2024 AID-00	04/01/12–03/31/13	111,552
Child Evaluation Services	93.994	FHS 2012 EIP — Child Evaluation Centers 0003	07/01/11–06/30/12	109,985
		FHS 2013 EIP — Child Evaluation Centers 0008	07/01/12–06/30/13	103,854
City of Paterson Department of Human Resources — Ryan White Title I — Mental Health	93.914	#1 0-98-67	03/01/11–02/28/12	6,377
		#1 9-98-67	03/01/12–02/28/13	32,871
Subtotal pass-through programs				1,817,773
Total U.S. Department of Health and Human Services				2,860,119
U.S. DEPARTMENT OF AGRICULTURE — Pass-Through Program From — State of New Jersey Department of Health and Senior Services — Women, Infants, and Children Supplemental Feeding Program (Note 3)	10.557	DFHS 12 WIC 010	10/01/11–09/30/12	1,949,280
		DFHS 13 WIC 019	10/01/12–09/30/13	562,242
Total U.S. Department of Agriculture				2,511,522
U.S. DEPARTMENT OF EDUCATION — Pass-Through Program From — State of New Jersey Department of Health and Senior Services — Early Intervention Program	84.181	04-2141-EIP-H-O	01/01/12–12/31/12	794,863
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 6,166,504

See notes to the schedule of expenditures of federal awards and schedule of expenditures of state and local awards.

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Grantor/Program Title	State/Local Grant Number(s)	Grant Period	Expenditures
ST. JOSEPH'S HOSPITAL AND MEDICAL CENTER AND SUBSIDIARIES			
STATE OF NEW JERSEY DEPARTMENT OF HUMAN SERVICES:			
Mental Health Grant	30406-MH	01/01/12–12/31/12	$ 4,991,807
DYFS Program	12BORN	01/01/12–12/31/12	842,571
Developmental Disabilities Grant	06RK12N	01/01/12–12/31/12	57,478
ACCESS Hearing Impaired	30002	01/01/12–12/31/12	977,144
Total State of New Jersey Department of Human Services			6,869,000
STATE OF NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES:			
Craniofacial/Cleft Palate Program	FHS2012EIP— Tertiary 007	07/01/11–06/30/12	112,299
Early Intervention Services/Pediatric Tertiary Program (formerly known as Craniofacial/Cleft Palate Program)	FHS2013EIP— Tertiary 008	07/01/12–06/30/13	125,209
Early Intervention Services for HIV	AIDS 2012 Care and Treatment 0037	07/01/11–06/30/12	233,018
HIV/AIDS Care and Treatment (formerly known as Early Intervention Services for HIV)	AIDS 2013 Care and Treatment 0002	07/01/12–06/30/13	260,171
Newborn Screening and Genetics Services	FHS 2012 Newborn and Genetics 0005	07/01/11–06/30/12	85,143
	FHS 2013 Newborn and Genetics 0006	07/01/12–06/30/13	85,899
Total State of New Jersey Department of Health and Senior Services			901,739
STATE OF NEW JERSEY DEPARTMENT OF AGRICULTURE — Child and Adult Care Food Program	12-31-1010	10/01/11–09/30/12	21,041
	13-31-1010	10/01/12–09/30/13	5,932
Total State of New Jersey Department of Agriculture			26,973
STATE OF NEW JERSEY DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT — Customized Training Services Grant	CT 120270	03/13/12-03/13/13	74,320
Total State of New Jersey Department of Labor and Work Force Development			74,320
STATE OF NEW JERSEY DEPARTMENT OF CHILDREN AND FAMILIES — Division of Child Behavioral Health Services	12CMGN-DCBHS	01/01/12–12/31/12	111,237
Total State of New Jersey Department of Children and Families			111,237
STATE OF NEW JERSEY DEPARTMENT OF VOCATIONAL REHABILITATION SERVICES — Supported Employment Program — DVRS	70015	01/01/12-09/30/12	50,625
	70015	10/01/12-09/30/13	33,507
Total State of New Jersey Department of Vocational Rehabilitation Services			84,132
NORTH JERSEY COMMUNITY COORDINATED CHILD CARE AGENCY, INC. — Child Care Wrap Around		09/01/11–08/31/12	17,895
		09/01/12–08/31/13	8,713
Total North Jersey Community Coordinated Child Care Agency, Inc.			26,608
COUNTY OF PASSAIC DEPARTMENT OF HUMAN SERVICES:			
Mental Health/Adult Level A Group Home	12-066	01/01/12–12/31/12	39,300
PES Screening	12-066	01/01/12–12/31/12	69,500
Total County of Passaic Department of Human Services			108,800
CITY OF PATERSON BOARD OF EDUCATION — Child Care-Paterson BOED Abbott Program		09/01/11–06/30/12	187,410
		09/01/12–06/30/13	196,041
Total City of Paterson Board of Education			383,451
TOTAL EXPENDITURES OF STATE AND LOCAL AWARDS			$ 8,586,260

See notes to the schedule of expenditures of federal awards and schedule of expenditures of state and local awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2012

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and schedule of expenditures of state and local awards present the activity of all the federal, state, and local financial assistance programs administered by St. Joseph's Hospital and Medical Center and subsidiaries (an affiliate of St. Joseph's Healthcare System, Inc.) (the "Medical Center") for the year ended December 31, 2012. Expenditures are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*, and State of New Jersey Office of Management and Budget Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*.

2. PASS-THROUGH AWARDS

The Medical Center receives certain federal and state awards from various pass-through entities. Federally funded amounts, which are passed through state and/or local agencies, are included in the supplemental schedule of expenditures of federal awards and are excluded from the supplemental schedule of expenditures of state and local awards.

3. NONCASH DISBURSEMENTS

During the year ended December 31, 2012, the Medical Center disbursed $16,240,371 in food vouchers under the Women, Infants, and Children Supplemental Feeding Program (CFDA No. 10.557).

* * * * * *

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INDEPENDENT AUDITORS' 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
St. Joseph's Healthcare System, Inc.
Paterson, New Jersey

We have audited, 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, the consolidated financial statements of St. Joseph's Healthcare System, Inc. and affiliates (the "System"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 30, 2013. Our report includes a reference to other auditors who audited the 2012 financial statements of St. Joseph's Hospital and Medical Center Foundation, Inc., and St. Joseph's Wayne Hospital Foundation, Inc. (the "consolidated affiliates"). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the consolidated affiliates, is based solely on the reports of the other auditors. The financial statements of the consolidated affiliates were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's consolidated 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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free of 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*.

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

May 30, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL, STATE, AND LOCAL AWARD PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND STATE OF NEW JERSEY OMB CIRCULAR LETTER 04-04

To the Board of Trustees of
St. Joseph's Healthcare System, Inc.
Paterson, New Jersey

Report on Compliance for Each Major Federal, State, and Local Award Program

We have audited the compliance of St. Joseph's Healthcare System, Inc. and affiliates (the "System") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, and the State of New Jersey Office of Management and Budget Circular Letter 04-04, *Grants Compliance Supplement*, that could have a direct and material effect on each of its major federal, state, and local award programs for the year ended December 31, 2012. The System's major federal, state, and local award programs are identified in the summary of auditors' 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 each of its major federal, state, and local award programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal, state, and local award programs based on our audit on 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, *Audits of States, Local Governments and Non-Profit Organizations*; and the State of New Jersey Office of Management and Budget Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Those standards, OMB Circular A-133, and State of New Jersey OMB Circular Letter 04-04 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 local award program occurred. An audit includes examining, on a test basis, evidence about the System'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. Our audit does not provide a legal determination on the System's compliance with those requirements.

Opinion on Each Major Federal, State and Local Award Program

In our opinion, the System 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 local award programs for the year ended December 31, 2012.

Internal Control over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal, state, and local award programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and State of New Jersey OMB Circular Letter 04-04, 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 the System'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 local 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 local 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 local 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.

Purpose of this Report

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 and State of New Jersey OMB Circular Letter 04-04. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

May 30, 2013

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	__ yes _X_ no
• Significant deficiency(ies) identified?	__ yes _X_ none reported
Noncompliance material to financial statements noted?	__ yes _X_ no

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	__ yes _X_ no
• Significant deficiency(ies) identified?	__ yes _X_ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	__ yes _X_ no

Identification of Major Programs:

Name of Federal/State Program or Cluster	CFDA or Grant Number
Federal:	
U.S. Department of Agriculture — Women, Infants, and Children Supplemental Feeding Program	10.557
Pass-Through Programs — State of New Jersey Department of Health and Senior Services — Child Evaluation Services	93.994
State of New Jersey:	
Department of Human Services —	
Mental Health Grant	30406-MH
DYFS Program	12BORN
Department of Health and Senior Services —	
Early Intervention Services for HIV	AIDS 2012 Care and Treatment 00037
HIV/AIDS Care and Treatment (Formerly known as Early Intervention Services for HIV)	AIDS 2013 Care and Treatment 00002

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I — SUMMARY OF AUDITORS' RESULTS (Continued)

Identification of Major Programs:

Name of Federal/State Program or Cluster	CFDA or Grant Number
Craniofacial/Cleft Palate Program	FHS 2012 EIP — Tertiary 007
Early Intervention Services/Pediatric Tertiary Program (Formerly known as Craniofacial/Cleft Palate Program)	FHS 2013 EIP — Tertiary 008

Dollar threshold used to distinguish between
Type A and Type B programs: Federal: $672,206; State of New Jersey: $300,000

Auditee qualified as low-risk auditee? _X_ yes __ no

SECTION II — FINANCIAL STATEMENT FINDINGS

No matters were identified.

SECTION III — FEDERAL, STATE, AND LOCAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were identified.

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2012

SECTION I — FINANCIAL STATEMENT FINDINGS

No findings have been reported.

SECTION II — FEDERAL, STATE AND LOCAL AWARD FINDINGS AND QUESTIONED COSTS

No findings have been reported.

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES — NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES FOR THE YEAR ENDED DECEMBER 31, 2012

Cost Category	Final Approved Budgeted Expenditures (Unaudited)	Actual Expenditures January 1, 2012 to December 31, 2012
CRANIOFACIAL/CLEFT PALATE PROGRAM:		
Grant Contract Number — FHS-2012-EIP/Tertiary-007		
Grant Period — July 1, 2011 to June 30, 2012:		
Salaries/wages	$ 180,320	$ 86,087
Consultant/professional service	6,000	4,954
Office expense and related costs	14,000	(6,853)
Program expense and related costs	9,100	(971)
Staff training and education costs	2,000	2,000
Travel, conferences, and meetings	5,250	5,232
Equipment and other capital expenditures	21,850	21,850
	$ 238,520	$ 112,299
EARLY INTERVENTION SERVICES/PEDIATRIC TERTIARY PROGRAM (FORMERLY KNOWN AS CRANIOFACIAL/CLEFT PALATE PROGRAM):		
Grant Contract Number — FHS-2013-EIP/Tertiary-008		
Grant Period — July 1, 2012 to June 30, 2013:		
Salaries/wages	$ 165,814	$ 78,669
Consultant/professional service	9,000	4,500
Office expense and related costs	14,000	6,028
Program expense and related costs	9,100	1,601
Staff training and education costs	2,000	860
Travel, conferences, and meetings	5,250	195
Equipment and other capital expenditures	33,356	33,356
	$ 238,520	$ 125,209
TOTAL		$ 237,508

(Continued)

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES — NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES FOR THE YEAR ENDED DECEMBER 31, 2012

Cost Category	Final Approved Budgeted Expenditures (Unaudited)	Actual Expenditures January 1, 2012 to December 31, 2012
EARLY INTERVENTION SERVICES FOR HIV		
Grant Contract Number — AIDS 2012 Care & Treatment-0037		
Grant Period — July 1, 2011 to June 30, 2012:		
Salaries/wages	$ 429,680	$ 186,414
Fringe benefits	107,420	46,604
	$ 537,100	$ 233,018
HIV/AIDS CARE AND TREATMENT (FORMERLY KNOWN AS EARLY INTERVENTION SERVICES FOR HIV):		
Grant Contract Number — AIDS 2013 Care & Treatment-0002		
Grant Period — July 1, 2012 to June 30, 2013:		
Salaries/wages	$ 412,040	$ 208,137
Fringe benefits	103,010	52,034
	$ 515,050	$ 260,171
TOTAL		$ 493,189

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES — NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES FOR THE YEAR ENDED DECEMBER 31, 2012

Cost Category	Final Approved Budgeted Expenditures (Unaudited)	Actual Expenditures January 1, 2012 to December 31, 2012
NEWBORN SCREENING AND GENETICS SERVICES:		
Grant Contract Number — FHS-2012-Newborn & Genetics-0005		
Grant Period — July 1, 2011 to June 30, 2012:		
Salaries/wages	$ 144,922	$ 63,427
Fringe benefits	36,231	15,858
Program expense and related costs	6,847	5,858
	$ 188,000	$ 85,143
NEWBORN SCREENING AND GENETICS SERVICES:		
Grant Contract Number — FHS-2013-Newborn & Genetics-0006		
Grant Period — July 1, 2012 to June 30, 2013:		
Salaries/wages	$ 137,116	$ 66,767
Fringe benefits	34,280	16,693
Program expense and related costs	16,604	2,439
	$ 188,000	$ 85,899
TOTAL		$ 171,042

(Continued)

ST. JOSEPH’S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES — NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES FOR THE YEAR ENDED DECEMBER 31, 2012

Cost Category	Final Approved Budgeted Expenditures (Unaudited)	Actual Expenditures January 1, 2012 to December 31, 2012
HIV COUNSELING AND TESTING:		
Grant Contract Number — AIDS12CTN002		
Grant Period — January 1, 2012 to December 31, 2012:		
Salaries/wages	$ 274,906	$ 274,906
Fringe benefits	59,450	59,450
	$ 334,356	$ 334,356
TOTAL		$ 334,356

(Continued)

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES — NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES FOR THE YEAR ENDED DECEMBER 31, 2012

Cost Category	Final Approved Budgeted Expenditures (Unaudited)	Actual Expenditures January 1, 2012 to December 31, 2012
CANCER EDUCATION AND EARLY DETECTION:		
Grant Contract Number — FHS-2012-CEED-0018		
Grant Period — July 1, 2011 to June 30, 2012:		
Salaries/wages	$ 251,378	$ 127,361
Fringe benefits	62,845	30,566
Consultant	109,965	61,400
Office expense and related costs	2,000	
Program expense and related costs	295,202	206,369
Staff training and education costs	500	395
Travel, conferences, and meetings	1,000	612
	$ 722,890	$ 426,703
CANCER EDUCATION AND EARLY DETECTION:		
Grant Contract Number — FHS-2013-CEED-0019		
Grant Period — July 1, 2012 to June 30, 2013:		
Salaries/wages	$ 254,286	$ 128,710
Fringe benefits	63,572	32,177
Consultant	106,329	44,600
Office expense and related costs	2,000	
Program expense and related costs	295,213	150,657
Staff training and education costs	500	
Travel, conferences, and meetings	1,000	
	$ 722,900	$ 356,144
TOTAL		$ 782,847

(Continued)

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES — NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES FOR THE YEAR ENDED DECEMBER 31, 2012

Cost Category	Final Approved Budgeted Expenditures (Unaudited)	Actual Expenditures January 1, 2012 to December 31, 2012
FAMILY-CENTERED HIV CARE:		
Grant Contract Number — DFHS-2012-PDA 0007		
Grant Period — August 1, 2011 to July 31, 2012:		
Salaries/wages	$ 228,800	$ 131,509
Fringe benefits	57,200	32,877
	$ 286,000	$ 164,386
PEDIATRIC AIDS (FORMERLY KNOWN AS FAMILY-CENTERED HIV CARE):		
Grant Contract Number — DFHS-2013-PDA 0007		
Grant Period — August 1, 2012 to July 31, 2013:		
Salaries/wages	$ 228,800	$ 97,853
Fringe benefits	57,200	24,462
	$ 286,000	$ 122,315
TOTAL		$ 286,701

SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES — NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES FOR THE YEAR ENDED DECEMBER 31, 2012

Cost Category	Final Approved Budgeted Expenditures (Unaudited)	Actual Expenditures January 1, 2012 to December 31, 2012
CHILD EVALUATION SERVICES:		
Grant Contract Number — FHS-2012-EIP Child Evaluation Centers -0003		
Grant Period — July 1, 2011 to June 30, 2012:		
Salaries/wages	$ 169,728	$ 87,988
Fringe benefits	42,432	21,997
	$ 212,160	$ 109,985
CHILD EVALUATION SERVICES:		
Grant Contract Number — FHS-2013-EIP Child Evaluation Centers -0008		
Grant Period — July 1, 2012 to June 30, 2013:		
Salaries/wages	$ 169,728	$ 83,083
Fringe benefits	42,432	20,771
Program Expense	2,490	
Equipment & Other Capital Expenditures	2,510	
	$ 217,160	$ 103,854
TOTAL		$ 213,839

(Continued)

ST. JOSEPH'S HEALTHCARE SYSTEM, INC. AND AFFILIATES

SCHEDULES OF BUDGETED AND ACTUAL EXPENDITURES — NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES FOR THE YEAR ENDED DECEMBER 31, 2012

Cost Category	Final Approved Budgeted Expenditures (Unaudited)	Actual Expenditures January 1, 2012 to December 31, 2012
WOMEN, INFANT, AND CHILDREN SUPPLEMENTAL FEEDING PROGRAM:		
Grant Contract Number — DFHS-2012-Women Infants Children (WIC) — 010		
Grant Period — October 1, 2011 to September 30, 2012:		
Salaries/wages	$ 1,847,511	$ 1,314,526
Fringe benefits	461,220	328,634
Office expense and related costs	46,467	45,535
Program expense and related costs	47,000	46,444
Staff training and education	2,000	401
Travel, conferences, and meeting	32,500	28,498
Facility cost	246,210	168,598
Other	27,625	16,644
	$ 2,710,533	$ 1,949,280
WOMEN, INFANT, AND CHILDREN SUPPLEMENTAL FEEDING PROGRAM:		
Grant Contract Number — DFHS-2013-Women Infants Children (WIC) — 019		
Grant Period — October 1, 2012 to September 30, 2013:		
Salaries/wages	$ 1,886,425	$ 416,633
Fringe benefits	471,608	104,159
Office expense and related costs	47,000	5,899
Program expense and related costs	50,205	1,424
Staff training and education		
Travel, conferences, and meeting	26,082	3,653
Facility cost	199,555	30,474
Reserve	6,834	
	$ 2,687,709	$ 562,242
TOTAL		$ 2,511,522

(Concluded)