Jefferson Health System, Inc.

Consolidated Financial Statements
For the Years Ended
June 30, 2013 and 2012

Jefferson Health System, Inc.
Contents
June 30, 2013 and 2012

Independent Auditor's Report

Board of Trustees
Jefferson Health System, Inc.
Radnor, Pennsylvania

We have audited the accompanying consolidated financial statements of Jefferson Health System, Inc. and its Subsidiaries ("JHS"), which comprise the consolidated balance sheets as of June 30, 2013 and June 30, 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JHS at June 30, 2013 and June 30, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 16, 2013

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

Jefferson Health System, Inc.
Consolidated Balance Sheets
Years Ended June 30, 2013 and 2012

(in millions of dollars)

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 133.6	$ 186.2
Investments	504.1	431.2
Accounts receivable, less allowance for doubtful accounts of $78.8 and $63.4 in 2013 and 2012, respectively	372.1	398.0
Inventory	46.7	45.5
Other current assets	35.1	35.9
Assets whose use is limited	53.3	55.1
Due from affiliated foundations	-	13.7
Total current assets	1,144.9	1,165.6
Investments	456.6	434.0
Assets whose use is limited	901.8	751.2
Assets held by affiliated foundations	418.9	398.4
Land, buildings and equipment, net	1,541.0	1,457.9
Beneficial interest in perpetual trusts	66.3	61.7
Other non-current assets	65.2	73.8
Total assets	$ 4,594.7	$ 4,342.6
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	$ 13.1	$ 12.1
Accounts payable and accrued expenses	337.4	355.4
Accrued vacation	63.8	61.2
Current portion of accrued professional liability claims	31.6	31.8
Other current liabilities	25.1	22.3
Total current liabilities	471.0	482.8
Long-term obligations	528.2	537.3
Accrued pension liability	323.2	462.1
Accrued professional liability claims	305.7	349.7
Other non-current liabilities	94.6	110.8
Total liabilities	1,722.7	1,942.7
Net assets		
Unrestricted	2,578.0	2,133.7
Temporarily restricted	159.2	136.5
Permanently restricted	134.8	129.7
Total net assets	2,872.0	2,399.9
Total liabilities and net assets	$ 4,594.7	$ 4,342.6

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

Jefferson Health System, Inc.
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2013 and 2012

(in millions of dollars)

	2013	2012
Unrestricted net assets		
Unrestricted operating revenues, gains and other support		
Net patient service revenue	$ 2,973.2	$ 2,921.9
Provision for bad debts	(114.6)	(83.7)
Net patient service revenue less provision for bad debts	2,858.6	2,838.2
Investment income	11.9	5.8
Other revenues	159.8	154.9
Net assets released from restrictions used for operations	17.0	19.2
Total unrestricted operating revenues, gains and other support	3,047.3	3,018.1
Operating expenses		
Salaries and employee benefits	1,488.1	1,438.2
Supplies	520.3	530.1
Depreciation and amortization	156.2	149.4
External physician, clinical and professional service fees	374.3	357.8
Interest expense	2.4	18.4
Insurance	6.6	54.3
Other	260.5	246.5
Total operating expenses	2,808.4	2,794.7
Operating income before non-recurring charge	238.9	223.4
Loss on extinguishment of debt	-	(0.7)
Operating income	238.9	222.7
Nonoperating revenues (expenses)		
Investment income and net realized gains	82.2	66.6
Other	(16.8)	(56.6)
Excess of revenues over expenses	$ 304.3	$ 232.7

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

Jefferson Health System, Inc.
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2013 and 2012

(in millions of dollars)

	2013	2012
Unrestricted net assets		
Excess of revenues over expenses (from previous page)	$ 304.3	$ 232.7
Change in net unrealized gain on investments and net assets held by affiliated foundations	16.7	(22.1)
Other changes in pension plan assets and benefit obligations	125.0	(236.5)
Net assets released from restrictions - capital purchases	4.5	10.4
Other	-	4.6
Additional capital contribution / (dividend distribution to shareholder)	(6.2)	(3.7)
Increase (decrease) in unrestricted net assets	444.3	(14.6)
Temporarily restricted net assets		
Contributions	23.0	15.1
Investment income and realized gains, net	11.0	12.1
Change in net unrealized loss on investments and net assets held by affiliated foundations	10.2	(14.2)
Net assets released from restrictions - operations	(17.0)	(19.2)
Net assets released from restrictions - capital purchases	(4.5)	(10.4)
Other	-	3.3
Increase (decrease) in temporarily restricted net assets	22.7	(13.3)
Permanently restricted net assets		
Contributions	0.4	3.9
Investment income and realized gains, net	2.2	0.8
Increase (decrease) in beneficial interest in perpetual trusts	1.5	(3.7)
Change in net unrealized gain on investments and assets held by affiliated foundations	1.0	(1.4)
Increase (decrease) in permanently restricted net assets	5.1	(0.4)
Increase (decrease) in net assets	472.1	(28.3)
Net assets, beginning of year	2,399.9	2,428.2
Net assets, end of year	$ 2,872.0	$ 2,399.9

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

Jefferson Health System, Inc.
Consolidated Statements of Cash Flows
June 30, 2013 and 2012

(in millions of dollars, unless otherwise noted)

	2013	2012
Cash flows from operating activities		
Increase / (decrease) in net assets	$ 472.1	$ (28.3)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments and changes in beneficial interest and affiliated foundations	(76.5)	8.8
(Increase) / decrease in fair market value on interest rate swaps	(11.4)	28.7
Depreciation and amortization	156.2	149.4
(Decrease) / increase in pension liability	(125.0)	236.5
Provision for bad debts	114.6	83.7
Contributions and investment income restricted for long-term purposes	(17.2)	(15.3)
Equity in income of joint ventures and affiliates	4.9	2.4
Loss on early extinguishment of debt	-	0.7
Changes in assets and liabilities:		
Accounts receivable	(88.7)	(102.0)
Inventory	(1.2)	(9.4)
Other assets	9.4	(29.0)
Accounts payable and accrued expenses	(13.3)	(14.9)
Accrued vacation	2.6	4.5
Accrued pension liability	(13.9)	(33.8)
Accrued professional liability	(44.2)	21.5
Other liabilities	(2.0)	32.0
Net cash provided by operating activities	366.4	335.5
Cash flows from investing activities		
Purchase of property and equipment	(244.0)	(238.5)
Purchase of investments and assets whose use is limited, net	(177.9)	(63.2)
Net cash used in investing activities	(421.9)	(301.7)
Cash flows from financing activities		
Proceeds from long-term borrowings	24.2	165.7
Repayment of long-term borrowings	(32.3)	(183.0)
Return of capital / dividend to shareholder	(6.2)	(3.7)
Contributions and investment income restricted for long-term purposes	17.2	15.3
Net cash provided (used) by financing activities	2.9	(5.7)
Net increase (decrease) in cash and cash equivalents	(52.6)	28.1
Cash and cash equivalents at beginning of year	186.2	158.1
Cash and cash equivalents at end of year	$ 133.6	$ 186.2
Supplemental disclosures		
Interest paid (net of amount capitalized)	$ 15.6	$ 18.4
Non-cash expenditures for purchase of property and equipment	$ 14.5	$ 9.8
Mortgage obligation and a capital lease	$ -	$ 22.0

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

(in millions of dollars, unless otherwise noted)

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Jefferson Health System, Inc. ("JHS"), a Pennsylvania nonprofit corporation headquartered in Radnor, Pennsylvania, is the parent of a system of health care organizations comprised of three Member health systems. JHS is the sole corporate member of the parent companies of each of the three Member health systems. These three Member systems are: The Magee Memorial Hospital for Convalescents, d/b/a Magee Rehabilitation Hospital ("Magee"), Main Line Health, Inc. ("MLH") and TJUH System ("TJUH"), Magee, MLH and TJUH are collectively referred to as "Members".

Any Member institution may voluntarily withdraw from the System effective July 1, 2022 upon not less than two years prior notice. Voluntary withdrawal of any Member will result in the dissolution of JHS subsequent to the refinancing of all debt obligations of JHS.

Magee includes Magee Rehabilitation Services, Inc. and other related organizations.

MLH includes Main Line Hospitals, Inc. (The Bryn Mawr Hospital; The Lankenau Medical Center; Paoli Hospital, Bryn Mawr Rehabilitation Hospital); Lankenau Institute for Medical Research; Main Line Health Care; Riddle Memorial Hospital; Riddle Memorial Hospital Health Care Center III Associates; Riddle Health Care Services; Mirmont Alcohol Rehabilitation Center; Riddle Surgical Center, LLC; and other related organizations.

TJUH includes Thomas Jefferson University Hospitals, Inc. (Thomas Jefferson University Hospital and its divisions; the Jefferson Hospital for Neuroscience and the Methodist Hospital Division); TJUH Physician Affiliates; Jeffex, Inc. and the Atrium Corporation and other related organizations.

Mountain Laurel Risk Retention Group, Inc. ("RRG"), a Vermont domiciled risk retention group, was formed in December 2003 by JHS and the Members of JHS and is used by JHS and Members of JHS to insure certain of their professional and general liability exposures. As of July 1, 2007**,** JHS formed a Delaware captive, Five Pointe Professional Liability Insurance Company ("Five Pointe"). Five Pointe is a Delaware not-for-profit sponsored captive insurance company, which is exempt from federal income taxation under section 501(c)(3) of the Internal Revenue Code. JHS is the sole common member of Five Pointe. Five Pointe is the reinsurer for the RRG for certain of the professional liability exposures of JHS and Members of JHS (current and past). As of December 22, 2010, JHS formed the Accountable Care Organization of Pennsylvania, LLC (ACO). JHS is the sole common member of the ACO. The RRG, Five Pointe and the ACO are consolidated subsidiaries of JHS.

The Members and their affiliated organizations provide inpatient, outpatient and emergency care services through acute and rehabilitation hospitals, as well as behavioral health, long-term care, ambulatory care, home care, physician and other primary and specialty care services, principally to residents of Southeastern Pennsylvania and Southern New Jersey. JHS maintains a close contractual affiliation with a former Member, Aria Health (formerly known as Frankford Health Care System) ("Aria"), which involves clinical affiliations and collaboration in areas, such as quality reporting and benchmarking, among Aria and the Members as well as the provision of certain support services by JHS to Aria.

(in millions of dollars, unless otherwise noted)

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. These consolidated financial statements include the accounts of JHS; Magee and its controlled affiliates; MLH and its controlled affiliates; TJUH and its controlled affiliates; Five Pointe; and RRG. Investments in companies in which JHS and Members do not have control, but in which they have a substantial (20-50 percent) ownership interest and can exercise significant influence, are accounted for using the equity method. All significant intercompany accounts and transactions have been eliminated.

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

Performance Indicator

In the accompanying consolidated statements of operations and changes in net assets, the primary indicator of JHS' results is "Excess of revenues over expenses". As such, it includes all unrestricted revenues, operating investment income (as defined in the Investments and Investment Income policy note), expenses and non operating revenues and non-operating expenses. Transactions such as restricted contributions and contributions for long-lived assets (e.g., capital equipment), certain investment income, realized and unrealized gains and losses related to these transactions and certain adjustments to pension liabilities are not included in "Excess of revenues over expenses".

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments in highly liquid debt instruments with an original maturity of three months or less. At June 30, 2013 and 2012 JHS had cash balances in financial institutions which exceed federal depository insurance limits. Management believes that credit risk related to these deposits is minimal.

Investments, Assets Whose Use is Limited, Assets Held by Affiliated Foundations and Investment Income

JHS segregates investment income between operating and non-operating income to better match operating income with operating expenses. Investment income or loss on unrestricted cash, short-term investments and trustee-held funds associated with debt obligations (including realized gains and losses on investments, interest and dividends) are included in operating income. Long term investment income, realized gains and losses, and the change in unrealized gains or losses on alternative investments are included in non-operating revenues. Unrealized gains and losses on all investments, except alternative investments, are shown below the excess of revenues over expenses. Investment income or loss on investments of donor-restricted funds, including unrealized gains and losses, is added to (deducted from) the appropriate net asset category based on the donors' restrictions or state law. An impairment review of investments is performed annually to determine if declines in fair value below cost are other-than-temporary. This review is subjective and requires a high degree of judgment. JHS and its Members evaluate their investments using both quantitative and qualitative factors to determine whether any declines in value are other-than-temporary.

(in millions of dollars, unless otherwise noted)

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are not currently observable.

Inputs are used in applying the various valuations techniques and broadly refer to the assumption that market participants use to make valuation decisions. An investments level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment. The categorization of an investment within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to JHS's perceived risk of that instrument.

Level 1
Investments are based on quoted market prices in active markets. Typically, securities traded on the NYSE, AMEX, NASDAQ and other major exchanges will be classified as Level 1. These assets include active listed equities, certain U.S. government obligations, mutual funds and certain money market securities. For investments regularly traded on any recognized securities or commodities exchange, the closing price on such exchange (or, if applicable, as reported on the consolidated transactions reporting system) on the last trading date at the end of the fiscal year is used. In the case of securities regularly traded in the over-the-counter market, the closing bid quotations for long positions and the closing asked quotation for short positions on the trading date ending on or preceding the end of the fiscal year is used. Level 1 liquidity is daily based on quoted market value at time of transaction or at daily Net Asset Value (NAV).

Level 2
Investments are trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs. They include investment- common trust equity and fixed income funds, corporate grade bonds, high yield bonds and certain mortgage products These assets are valued based on quoted market prices in active markets or dealer quotations and are categorized as Level 2. Level 2 liquidity is daily based on quoted market value at time of transaction or at daily NAV.

Level 3
Investments have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity (direct and fund of funds), real assets investments (real estate, natural resources - direct and fund of funds), hedge funds (direct and fund of funds), and beneficial interests in perpetual trusts and charitable lead trusts held by third parties. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of

estimated of future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. JHS uses the "market approach value" valuation technique to value its investments in private equity and real estate ("private investments") and hedge funds. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities to determine the value.

With level 3 investments, JHS estimates the fair value of an investment company at the measurement date using the reported NAV. Adjustment is required if JHS expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with generally accepted accounting principles. JHS uses the NAV to determine the fair value of all underlying investments which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Most private investment funds (private equity, real asset funds) are structured as closed-end, commitment-based investment funds where JHS commits a specified amount of capital upon inception of the fund (i.e., committed capital) which is then drawn down over a specified period of the fund's life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit subscriptions by new or existing investors. Accordingly, JHS generally holds interests in such funds for which there is no active market, although in some situations, a transaction may occur in the "secondary market" where an investor purchases a limited partner's existing interest and remaining commitment. The fund managers may value the underlying investment based on an appraised value, discounted cash flow, industry comparables or some other method. JHS values these limited partnerships at NAV. These interests, in the absence of a recent and relevant secondary market transaction, are classified as Level 3.

Unlike private investment funds, hedge funds are generally open-end funds as they typically offer subscription and redemption options to investors. The frequency of such subscriptions or redemptions is dictated by such fund's governing documents. The amount of liquidity provided to investors in a particular fund is generally consistent with the liquidity and risk associated with the underlying portfolio (i.e., the more liquid the investments in the portfolio, the greater the liquidity provided to the investors). The fund managers invest in a variety of securities which may not be quoted in an active market. Illiquid investments may be valued based on appraise value, discounted cash flow, industry comparables or some other method.

The methods described above may produce a fair value calculation that may not be indicative of a net realized value or reflective of future fair values. Furthermore, while JHS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to demine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 liquidity related to private investment funds do not have liquidity or redemption options. Liquidity for private investments can be accomplished via a secondary sale transaction. When available, distributions typically take place on a quarterly basis.

(in millions of dollars, unless otherwise noted)

Level 3 liquidity related to hedge funds is quarterly liquidity with ninety days notice prior to the quarters end. Liquidity of individual hedge funds vary based on various factors and may include "gates", "holdbacks" and "side pockets" imposed by the manager of the hedge fund, as well as redemption fees which may also apply. Depending on the redemption options available, it may be possible that the reported NAV represents fair value based on observable data such as ongoing redemption and/or subscription activity. In these cases, the NAV is considered as a Level 2 input. Limited partnerships are valued at NAV. However, certain hedge funds may provide the manager with the ability to suspend or postpone redemption (a "gate") or "hold back" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual audited financial statements are distributed. In the case of the imposition of a gate, JHS does not have the ability to validate or verify the NAV through redemptions. Therefore, the interest is generally classified as Level 3.

In the cases of a holdback, JHS considers the significance of the holdback, its impact on the overall valuation and the associated risk that the holdback amount will not be fully realized based on a prior history of adjustments to the initially reported NAV. If the holdback is significant, then the interest is generally classified as Level 3.

For those private equity, real estate limited partnerships, or hedge-fund of fund transactions where valuations dated on the last business day of the year are available, the valuations will be based on the most recent capital account statement (monthly/quarterly), adjusted for interim cash flow activity (contributions, distributions, fees). Substantially all of JHS's investments in such funds have been classified within Level 3.

Accounts Receivable, Allowance for Doubtful Accounts, Provision / Expense for Bad Debt
JHS records an allowance for doubtful accounts and bad debt expense for estimated losses resulting from non-payment for accounts receivable for services from patients. JHS accounts for uncollectible accounts receivable balances from third-party commercial insurers as reductions to net patient service revenue rather than bad debt expense. Management routinely evaluates account collection history, economic conditions, and trends in health care coverage in determining the sufficiency of the allowance for doubtful accounts and provision for bad debts. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease.

The allowance for doubtful accounts increased by the bad debt expense of $114.6 and $83.7 million in 2013 and 2012, respectively. The allowance for doubtful accounts decreased due to writeoffs of $99.2 million and $83.1 million in 2013 and 2012, respectively.

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

Assets Whose Use Is Limited
Assets whose use is limited are reported at fair value and principally include amounts set aside by the appropriate related Member Boards of Trustees for future capital improvements, self-insurance arrangements, and amounts held by trustees under bond indenture agreements, amounts in

temporarily restricted and permanently restricted by donors. Amounts required to meet current liabilities have been classified as current assets in the accompanying consolidated balance sheets.

Assets Held by Affiliated Foundations
Unconditional promises to give (pledges) are recorded as receivables and revenues or increases in net assets and require the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. Additionally, The Bryn Mawr Hospital Foundation, The Bryn Mawr Rehabilitation Foundation, The Lankenau Medical Center Foundation, The Magee Rehabilitation Hospital Foundation, The Methodist Hospital Foundation, The Paoli Hospital Foundation and The Riddle Healthcare Foundation (collectively, the "Foundations") are each treated, for accounting purposes only, as though acting on behalf of their respective supported hospital affiliate and therefore, the Foundations' net assets and financial results are included in the consolidated results of JHS.

The consolidated financial statements of JHS reflect net assets held by affiliated Foundations relating to net assets held, managed, and controlled by all the aforementioned Foundations. This required accounting treatment does not imply that the Foundations' net assets, or investment income, are those of their respective hospital affiliates. Under the by-laws of each Foundation, its Board of Trustees has sole discretion whether to make any Foundation assets available, except with respect to the terms of certain restricted gifts to the Foundations or net assets held by the Foundations in a special projects fund (which are available to fund hospital requests for contributions by the Foundations for identified purposes other than voluntary or required prepayments or payments of debt).

The consolidated financial statements of JHS do not reflect or establish the legal relationship, agency or otherwise, between a Foundation and its hospital affiliates or any right to any net assets owned by a Foundation. The Foundations are separately incorporated non-membership nonprofit corporations governed by individual self-perpetuating Boards of Trustees. The by-laws of each Foundation provide that all net assets held by it, including net assets in its Special Projects Fund, if any, shall not be subject to attachment, execution or sequestration for any debt, obligation or liability of its hospital affiliate or any other person or entity, and shall not be subject to pledge, assignment, conveyance or anticipation by that hospital or any other person or entity. The Foundations are not parties to or obligated by the Amended and Restated Master Trust Indenture ("Master Indenture") (See Note 6), and assets owned by the Foundations are not subject to the lien of the Master Indenture.

Land, Buildings and Equipment
Land, buildings and equipment are recorded at cost, net of accumulated depreciation. Donated equipment is recorded at fair market value at the date of receipt, which is then treated as cost. Depreciation is calculated utilizing the straight-line method based on the estimated useful lives of the underlying assets. Buildings and building improvements, leasehold improvements and land improvements are depreciated using an average estimated useful life of twenty years. Equipment is depreciated using an average estimated useful life of eight years. No depreciation is taken on land or construction in progress. Gains and losses from retirement or disposition of fixed assets are recognized in the statement of operations and changes in net assets as non-operating gains or losses. Interest costs associated with the construction of certain capital assets are capitalized and amortized over the life of the asset being depreciated. Capitalized interest relating to the construction of certain capital assets during 2013 amounted to $18.1 million.

(in millions of dollars, unless otherwise noted)

Beneficial Interest in Perpetual Trusts
Beneficial interest in perpetual trusts represents the interests of the Members in perpetual trusts which are administered by independent trustees. Because the trusts are perpetual and the original corpus cannot be withdrawn, they are reported as permanently restricted net assets. The beneficial interest in perpetual trusts is reported at the fair value of the underlying assets in the trust. Annual distributions are included in other non-operating income.

Insurance
Professional liability claims are insured under a combination of captive insurer, self-insurance and excess commercial reinsurance programs. JHS hospitals, physicians, residents and certain other individual health care providers also participate in the MCARE Fund (See Note 9).

Workers' compensation exposures are insured through self-insurance and commercial excess insurance programs. Reserves for workers' compensation liabilities are recorded on an expected basis, using a discount rate of 3%.

Other Non-Current Liabilities - Derivative Financial Instruments
Derivative financial instruments consist of interest rate swaps which are reported at fair market value on a recurring basis. The fair market value of the interest rate swaps is determined from financial models that consider current and future interest rates.

Net Assets
Resources are classified for accounting and reporting purposes into three net asset categories according to donor imposed restrictions. A description of the three net asset categories follows:

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

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

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

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

Revenue from Medicare and Medical Assistance fee-for-service programs, accounted for approximately 22.4% ($613.3 million) and 2.3% ($62.7 million), respectively, of net patient revenue for the fiscal year ended June 30, 2013 and 22.8% ($614.3 million) and 2.4% ($64.0 million), respectively, for the fiscal year ended June 30, 2012. Most payments from the Medicare and Medical Assistance programs for inpatient hospital services are made on a prospective basis. Under these programs, payments are made at a pre-determined specific rate for each discharge based on a patient's diagnosis. Additional payments are made for cases that have an extremely long length of stay or unusually high costs in comparison to national or statewide averages. Laws governing the Medicare and Medical Assistance programs are complex and subject to interpretation. JHS Member hospitals participated in the Pennsylvania Medicaid Modernization Program in 2013 and 2012 and received increased Medical Assistance revenues associated with this program. There can be no assurance that this program will continue.

JHS has also entered into agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations, the largest being Independence Blue Cross at 29.2% ($797.8 million) and 30.1% ($809.3 million) of net patient revenue for hospital operations for the years ended June 30, 2013 and June 30, 2012, respectively. The basis for payment under these agreements for hospital services includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and a small amount of capitated rates.

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

The Members maintain records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies furnished. Such amounts have been excluded from net patient service revenue. Management estimates that the cost associated with these services and supplies for charity care provided by the Members approximated $15.0 million and $16.3 million for the years ended June 30, 2013 and 2012, respectively. These amounts do not include the provision for bad debts, which is reflected separately in the accompanying consolidated statements of operations and changes in net assets. The estimated costs of providing charity services are based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the hospital's total expenses divided by gross patient service revenue.

Other Uncompensated Community Services (unaudited)
Services are provided to patients in the community who are insured under the Pennsylvania Medical Assistance Program. Payments from the Medical Assistance Program are substantially below the cost of providing such services. The cost of providing services to eligible individuals who participate in the Pennsylvania Medical Assistance Program directly and from managed care plans serving medical assistance enrollees exceeded reimbursement by approximately $90.3 million and $86.5 million in 2013 and 2012, respectively.

In addition to providing direct patient charity care and in furtherance of its exempt purpose to benefit the community, the Members provide various community benefits such as health professional education, screenings and support groups for patients and their families, health and wellness festivals, continuum of independent living and senior health programs, heart disease screenings, maternity care and childbirth programs, and other related community health programs and lectures. The Members of JHS are also involved with school partnerships and help organize educational programs for childhood and adolescent health issues, including underage drinking and smoking. Associated amounts expended for the above community services and discounts to uninsured patients at cost approximated $50.2 million and $45.2 million for the years ended June 30, 2013 and 2012, respectively.

Other Operating Revenue

In 2013 and 2012, JHS received the payment of the incentive relating to Electronic Health Records (EHR), as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The Health Information Technology for Economic and Clinical Health Action provision within the ARRA allowed for incentives to hospitals that implement and meaningfully use EHR technology by 2014. JHS is accounting for payments using the Gain Contingency accounting model. Accordingly, when all contingencies have been met and the funds have been received, JHS recognizes these incentives as "Other Operating Revenue" in the Statement of Operations. For the fiscal year ending June 30, 2013 and 2012, JHS recorded $3.8 million and $11.6 million, respectively, of funds received in connection with the verified use of EHR, as all contingencies with respect to these funds have been met.

Donor-Restricted Gifts

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

Income Taxes

Magee and certain of its controlled affiliates; MLH and certain of its controlled affiliates; and TJUH and certain of its controlled affiliates; Five Pointe; and JHS itself are tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. In addition to the Members above, JHS also owns or controls for-profit subsidiaries, such as the RRG, which are taxable corporations and disregarded entities for tax purposes such as the Accountable Care Organization of Pennsylvania, LLC.

Reclassifications

Certain prior year amounts in the consolidated balance sheets have been reclassified to conform to the current year presentation.

Subsequent Events

JHS has performed an evaluation of subsequent events through October 14, 2013, which is the date the financial statements were issued.

(in millions of dollars, unless otherwise noted)

2. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements

Assets measured at fair value are presented in the accompanying consolidated balance sheet under the following classifications:

	2013	2012
Investments, current	$ 504.1	$ 431.2
Assets whose use is limited, current	53.3	55.1
Long-term investments	456.6	434.0
Assets whose use is limited, long-term	901.8	751.2
	$ 1,915.8	$ 1,671.5

Current and long-term assets whose use is limited for 2013 and 2012 are classified as follows:

	2013	2012
Board designated assets, primarily construction and capital	$ 680.2	$ 532.9
Bond indenture agreement assets restricted by trustees	0.1	0.1
Self-insurance assets board designated	274.8	273.3
	$ 955.1	$ 806.3

(in millions of dollars, unless otherwise noted)

The following tables present assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2013:

	Assets at Fair Value as of June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in millions)		
Assets, at fair value:				
Mutual funds - primarily US government obligations	$ 180.6	$ -	$ -	$ 180.6
Mutual funds - marketable equity securities	76.1	158.5	-	234.6
Mutual funds - fixed income securities	9.4	176.8	-	186.2
Equity Securities	32.5	-	-	32.5
US Government obligations	189.7	-	-	189.7
Corporate bonds	388.6	10.0	-	398.6
Certificates of deposit and other commercial paper	366.8	26.5	-	393.3
Fixed income securities	63.8	84.1	-	147.9
Hedge funds	-	-	35.8	35.8
Other, including alternative assets	15.8	33.6	54.8	104.2
	$ 1,323.3	$ 489.5	$ 90.6	1,903.4
Investments at cost				12.4
				$ 1,915.8
Beneficial interest in perpetual trusts	$ -	$ 66.3	$ -	$ 66.3

A roll forward of those assets and liabilities classified as Level 3 as of June 30, 2013 within the fair value hierarchy by JHS is as follows:

	Hedge funds	**Other, including alternative assets**	**Total**
		(in millions)	
Balance, at June 30, 2012	$ 32.7	$ 46.4	$ 79.1
Purchases at cost	3.6	37.2	40.8
Sales at cost	(0.1)	(45.3)	(45.4)
Realized and unrealized gains (losses)			
Included in earnings	-	8.9	8.9
Included in changes to net assets	2.9	4.3	7.2
Balance, at June 30, 2013	$ 39.1	$ 51.5	$ 90.6

(in millions of dollars, unless otherwise noted)

The following tables present assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2012:

	Assets at Fair Value as of June 30, 2012			
	Level 1	Level 2 (in millions)	Level 3	Total
Assets, at fair value:				
Mutual funds - primarily US government obligations	$ 197.2	$ -	$ -	$ 197.2
Mutual funds - marketable equity securities	59.0	120.2	-	179.2
Mutual funds - fixed income securities	-	175.6	-	175.6
Equity Securities	40.8	-	-	40.8
US Government obligations	156.5	-	-	156.5
Corporate bonds	317.2	10.6	-	327.8
Certificates of deposit and other commercial paper	306.8	25.2	-	332.0
Fixed income securities	-	139.5	-	139.5
Hedge funds	-	-	29.5	29.5
Other, including alternative assets	1.6	33.5	49.6	84.7
	$ 1,079.1	$ 504.6	$ 79.1	1,662.8
Investments at cost				8.7
				$ 1,671.5
Beneficial interest in perpetual trusts	$ -	$ 61.7	$ -	$ 61.7

A roll forward of those assets and liabilities classified as Level 3 as of June 30, 2012 within the fair value hierarchy by JHS is as follows:

	Hedge funds	Other, including alternative assets (in millions)	Total
Balance, at June 30, 2011	$ 31.6	$ 46.0	$ 77.6
Purchases at cost	14.6	29.0	43.6
Sales at cost	(13.1)	(27.4)	(40.5)
Realized and unrealized gains (losses)			
Included in earnings	1.1	5.2	6.3
Included in changes to net assets	(1.4)	(5.6)	(7.0)
Transfers in	(0.1)	-	(0.1)
Transfers out	-	(0.8)	(0.8)
Balance, at June 30, 2012	$ 32.7	$ 46.4	$ 79.1

There were no transfers between Levels 1 and 2 during 2013 and 2012.

MLH has investments in alternative commingled funds amounting to $32.6 million and $29.5 million as of June 30, 2013 and 2012, respectively. These funds invest in a portfolio of global stocks, hedge funds and multi-strategy funds. These funds are managed by separate investment managers.

TJUH has made commitments to various private equity and real asset limited partnerships. The total amount of unfunded commitments is $13.4 million and $12.4 million at June 30, 2013 and June 30, 2012, respectively, which represents 7.5% and 7.6% of the value of TJU's pooled investments at June 30, 2013 and June 30, 2012, respectively. TJUH expects these funds to be called over the next three to five years.

TJUH's pooled investments at June 30, 2013 include $35.8 million of hedge fund investments. These funds provide for quarterly or annual redemptions and require between 60 and 90 day notice periods, limiting the University's ability to respond quickly to changes in market conditions.

TJUH has securities with an aggregate fair value of $0.7 million and $2.7 million at June 30, 2013 and June 30, 2012, respectively, were loaned primarily on a short-term basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 103% at June 30, 2013 and June 30, 2012 of the market value of the securities loaned. TJUH receives lending fees and continues to earn interest and dividends on the loaned securities.

As of June 30, 2013 and 2012, JHS recognized an other-than-temporary impairment charge of $0.3 million and $1.3 million, respectively, on its investments in marketable securities.

(in millions of dollars, unless otherwise noted)

3. Investment Income

Investment income for 2013 and 2012 is comprised of the following:

	2013	2012
	(in millions)	
Investment income included in operating income		
Interest and dividends	$ 5.3	$ 5.7
Net realized gains (lossses) on sales of investments	5.3	(1.2)
Equity in earnings in joint venture	1.3	1.3
	11.9	5.8
Investment income included in nonoperating revenues		
Interest and dividends	51.3	42.1
Net realized gains on sales of investments	28.6	25.5
Change in unrealized gains (losses) on alternative and impaired assets	2.3	(1.0)
	82.2	66.6
Total investment income on unrestricted net assets	$ 94.1	$ 72.4

	2013	2012
	(in millions)	
Investment income (temporarily restricted net assets):		
Interest and dividends	$ 3.2	$ 3.6
Net realized gains on sales of investments	7.8	8.5
	$ 11.0	$ 12.1
Other changes in unrestricted net assets:		
Change in net unrealized gain on investments and net assets held by affiliated foundations	$ 16.7	$ (22.1)
Other changes in temporarily restricted net assets:		
Change in net unrealized gain on investments and net assets held by affiliated foundations	$ 10.2	$ (14.2)
Other changes in permanently restricted net assets:		
Change in net unrealized gain on investments and net assets held by affiliated foundations	$ 1.0	$ (1.4)

(in millions of dollars, unless otherwise noted)

4. Endowment

JHS Members' endowments consist of approximately 123 individual funds established for a variety of purposes. The respective Members' endowments include both donor-restricted endowment funds, if any, and funds designated by the Members' Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

JHS Members have interpreted the Pennsylvania State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, JHS Members classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund, except for beneficial interests in perpetual trusts, that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

At June 30, 2013, the endowment net asset composition by type of fund consisted of the following:

(in millions)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor - restricted funds	$ -	$ 54.7	$ 134.8	$ 189.5
Board - restricted funds	77.6	-	-	77.6
	$ 77.6	$ 54.7	$ 134.8	$ 267.1

(in millions of dollars, unless otherwise noted)

Changes in endowment net assets for the fiscal year ended June 30, 2013 consisted of the following:

(in millions)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	$ 70.9	$ 47.6	$ 129.7	$ 248.2
Investment return				
Investment income	0.6	1.5	1.4	3.5
Net appreciation (realized and unrealized)	6.3	4.7	5.0	16.0
Total investment loss	6.9	6.2	6.4	19.5
Contributions	(0.1)	0.1	0.5	0.5
Appropriation of endowment assets for expenditure	(3.0)	(1.1)	(2.0)	(6.1)
Other Changes				
Transfers to create board-designated endowment funds	2.9	1.9	0.2	5.0
Endowment net assets end of year	$ 77.6	$ 54.7	$ 134.8	$ 267.1

At June 30, 2012, the endowment net asset composition by type of fund consisted of the following:

(in millions)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor - restricted funds	$ -	$ 47.6	$ 129.7	$ 177.3
Board - restricted funds	70.9	-	-	70.9
	$ 70.9	$ 47.6	$ 129.7	$ 248.2

(in millions of dollars, unless otherwise noted)

Changes in endowment net assets for the fiscal year ended June 30, 2012 consisted of the following:

(in millions)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	$ 75.6	$ 52.9	$ 130.1	$ 258.6
Investment return				
Investment income	0.1	1.2	0.6	1.9
Net appreciation (realized and unrealized)	(3.1)	(5.9)	(3.4)	(12.4)
Total investment loss	(3.0)	(4.7)	(2.8)	(10.5)
Contributions	0.1	0.3	4.0	4.4
Appropriation of endowment assets for expenditure	(3.0)	(1.1)	(1.2)	(5.3)
Other Changes				
Transfers to create board-designated endowment funds	1.2	0.2	(0.4)	1.0
Endowment net assets end of year	$ 70.9	$ 47.6	$ 129.7	$ 248.2

(in millions of dollars, unless otherwise noted)

5. Land, Buildings and Equipment

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

	2013	2012
Land and land improvements	$ 83.4	$ 82.4
Buildings	1,786.9	1,734.9
Equipment	1,387.4	1,310.7
Leasehold improvements	37.0	35.7
Construction in progress	256.1	157.4
	3,550.8	3,321.1
Less accumulated depreciation	(2,009.8)	(1,863.2)
	$ 1,541.0	$ 1,457.9

Depreciation expense was $156.2 million and $149.4 million for 2013 and 2012, respectively.

(in millions of dollars, unless otherwise noted)

6. Long-Term Obligations

Long-term obligations consist of the following:

	2013	2012
Jefferson Health System Revenue Bonds, net of unamortized premium of $5.0 for 2013, Series A of 2012 due in varying annual amounts through 2042. Interest rates ranging from 2.00% to 5.00% (a)	$ 63.8	$ 65.7
Jefferson Health System Revenue Bonds, Series B of 2012 due in varying annual amounts through 2037. Interest rate is equal to 70% of libor plus 0.79% (b)	100.0	100.0
Jefferson Health System Revenue Bonds, Series C of 2012 due in varying annual amounts through 2022. Interest rate is equal to the daily libor. Average interest rates were 1.11% during fiscal 2013 (c)	19.5	-
Jefferson Health System Revenue Bonds, including unamortized premium of $0.2 for 2013, Series A of 2010 due in varying annual amounts through 2040. Interest rates ranging from 2.00% to 5.25% (d)	155.7	158.6
Jefferson Health System Revenue Bonds, including unamortized premium of $1.9 for 2013, Series B of 2010 due in varying annual amounts through 2040. Interest rates ranging from 2.00% to 5.25% (e)	169.4	173.9
Jefferson Health System Revenue Bonds, Series A of 2005 due in varying annual amounts from 2022 through 2028. Interest rate resets weekly. Average interest rates were 0.19% and 0.24% during fiscal 2013 and 2012, respectively (f)	22.4	23.0
Other bonds and notes payable (g)	10.5	28.2
	541.3	549.4
Less current portion of long term obligations	(13.1)	(12.1)
	$ 528.2	$ 537.3

As of June 1, 2012, JHS entered into a Seventh Supplement ("Seventh Supplement") to the Amended and Restated Master Trust Indenture. The Amended and Restated Master Trust Indenture is dated November 1, 1997. The Seventh Supplement provides for, among other things, the issuance from time to time of general unsecured debt obligations of JHS. The Seventh Supplement was entered into in connection with the issuance of the Series A of 2012 Bonds, the Series B of 2012 Bonds and the Series C of 2012 Bonds. None of the Members of JHS are directly obligated to pay the bondholders the principal or interest on any bonds issued pursuant to the Master Trust Indenture.

(in millions of dollars, unless otherwise noted)

In addition, JHS entered into an Amended and Restated Contribution Agreement, dated as of June 1, 2010 and amended in 2012, with certain TJUH entities and certain MLH entities (the "Institutions") whereby the Institutions have agreed to pay, loan or otherwise transfer to JHS such amounts as are necessary to pay the principal of and interest on the Series A of 2005 Bonds, the Series A of 2010 Bonds, the Series B of 2010 Bonds, the Series A of 2012 Bonds, the Series B of 2012 Bonds and the Series C of 2012 Bonds.

(a) JHS issued the Series A of 2012 Bonds ("2012A Bonds") with a par amount of approximately $60.1 million through the Montgomery County Industrial Development Authority, dated as of June 1, 2012. JHS used the 2012A Bond proceeds for: (i) the acquisition, construction, renovation, relocation, expansion, and / or equipping of certain health care facilities of Main Line Health; (ii) the refunding of all of the Pennsylvania Economic Development Financing Authority's Main Line Health Revenue Bonds, Series 2007, in the aggregate principal amount of $34.6 million and (iii) the costs and expenses incurred in connection with the issuance of the Series 2012A Bonds. This 2012 transaction resulted in a loss on refunding of $0.2 million, which is included in the Consolidated Statements of Operations and Changes in Net Assets as a non-recurring charge.

(b) JHS issued the Series B of 2012 Bonds ("2012B Bonds") with a par amount of approximately $100.0 million through the Montgomery County Industrial Development Authority as of June 21, 2012. JHS used the 2012B Bond proceeds to: (i) refund the Pennsylvania Economic Development Financing Authority's Thomas Jefferson University Hospital Revenue Bonds, Series 2007 (ii) pay the costs and expenses incurred in connection with the issuance of the Series 2012B Bonds. This 2012 transaction resulted in a loss on refunding of $0.5 million, which is included in the Consolidated Statements of Operations and Changes in Net Assets as a non-recurring charge.

(c) JHS issued the taxable Series C of 2012 Bonds ("2012C Bonds") with a par amount of approximately $20.0 million through the Bank of America as of September 14, 2012. JHS used the taxable 2012C Bond proceeds to refund the mortgage loan originally made to TJUH to finance certain real property listed at 925 Chestnut Street, Philadelphia, Pennsylvania.

(d) JHS issued the Series A of 2010 Bonds ("2010A Bonds") with a par amount of approximately $164.5 million through the Chester County Health and Education Facilities Authority, dated as of July 1, 2010. JHS used the 2010A Bond proceeds to: (i) refinance a portion of the Chester County Authority's Health System Revenue Bonds, Series 1997B, originally issued in the principal amount of $199.1 million, of which $176.9 million in principal amount was outstanding; (ii) refinance all of the Chester County Authority's Health System Revenue Bonds, Series 2004A and 2004B, originally issued in the principal amount of $67.1 million, of which $67.1 million in principal amount was outstanding; (iii) finance or reimburse certain capital expenditures for Main Line Health; and (iv) pay certain expenses incurred in connection with the issuance of the Series 2010A Bonds.

(e) JHS issued the Series B of 2010 Bonds ("2010B Bonds") with a par amount of approximately $183.4 million through the Hospitals and Higher Education Facilities Authority of Philadelphia as of July 1, 2010. JHS used the 2010B Bond proceeds to: (i) refinance all of the currently outstanding Philadelphia Hospital Authority's Health System Revenue Bonds, Series 1997A, originally issued in the principal amount of $134.8 million, of which $68.5 million in principal amount was outstanding; (ii) refinance the portion of the Series 1997B Bonds not being refunded with the proceeds of the Series 2010A Bonds; and (iii) pay certain expenses incurred in connection with the issuance of the Series 2010B Bonds.

(f) On April 1, 2005, the Pennsylvania Economic Development Financing Authority ("PEDFA") issued $26.7 million of Health System Revenue Bonds, Series A of 2005 ("2005 Bonds"). The proceeds received by PEDFA were loaned to JHS and were used to (i) reimburse TJUH for costs related to the acquisition of the short-term acute care hospital business of St. Agnes Medical Center as well as costs incurred in its related expansion of emergency care facilities, capital improvements, equipment purchases and other capital expenditures at Methodist Hospital and (ii) reimburse TJUH for costs related to the acquisition of a 40% interest in the limited liability partnership established to own and operate a new long-term acute care hospital located in Philadelphia.

(g) Other bonds and notes payable, which are not part of the 1997 Master Indenture, are as follows:

On March 1, 2013, a Master Lease Agreement was entered into by TJUH for a term of 84 months commencing March 1, 2013 in the amount of $4.2 million. The outstanding balance as of June 30, 2013 was $4.0 million.

On December 31, 2009, an agreement was entered into by TJUH in the amount of $3.6 million. The term of the loan was 25 years, which included rate resets every five years during the term of the loan. The new rate effective January 1, 2009 and for the next five years thereafter is 2.55%. The outstanding balance as of June 30, 2013 was $2.9 million.

On December 10, 2009, an agreement was entered into by TJUH in the amount of $22.0 million to fund the acquisition of the property located at 925 Chestnut Street, Philadelphia, Pennsylvania. The loan bears interest at a rate equal to libor plus 190 basis points with a mortgage-style amortization of 20 years. The outstanding balance as of June 30, 2013 was zero due to the refinancing of the loan by the 2012C Bonds.

On October 9, 2009, a Master Lease Agreement was entered into by TJUH for a term of 60 months commencing July 2010 in the amount of $5.9 million. The outstanding balance as of June 30, 2013 was $2.8 million.

During fiscal year 2003, the Series of 2003 Hospital Revenue Bonds were issued, maturing on January 1, 2017, in the amount of $6.5 million for the "Thomas Jefferson University Hospital Project". The proceeds of the bonds were used to provide funding for the construction and equipping of improvements to the existing facilities of TJUH and its affiliates. The bonds were initially issued at a short-term rate of 1.03% and remarketed weekly. The bonds traded at a rate of 0.26% at June 30, 2010. Interest rates ranged from 0.19% to 0.39% during 2010. A reimbursement agreement was entered into by TJUH to provide for the issuance of a long-term letter of credit, which provides amounts sufficient to pay the purchase price of any bonds tendered for purchase and not remarketed. The outstanding balance as of June 30, 2013 is $0.8 million.

(in millions of dollars, unless otherwise noted)

JHS generated the required “Income Available for Debt Service,” as defined in the 1997 Master Indenture of at least 110 percent of “Annual Debt Service.”

Consolidated annual maturities for long-term obligations for each of the next five years, and thereafter, are as follows:

2014	$ 13.1
2015	13.0
2016	12.5
2017	12.9
2018	13.3
Thereafter	476.5
	$ 541.3

The unamortized deferred financing fees associated with all the bond issues is $4.6 million and $4.0 million as of June 30, 2013 and June 30, 2012, respectively. During FY 2013 JHS conformed its capitalization of interest policy with GAAP and as a result interest expense was reduced.

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

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

	Carrying Amount	Fair Value
Balance sheet liabilities		
Debt obligations	$ 541.3	$ 550.7

The carrying amounts and fair values of long-term debt at June 30, 2012 are as follows:

	Carrying Amount	Fair Value
Balance sheet liabilities		
Debt obligations	$ 549.4	$ 578.1

(in millions of dollars, unless otherwise noted)

7. Derivative Financial Instruments

In order to lock in the then current debt interest rates JHS entered into various interest rate swap agreements with notional amounts of $253.1 million and $253.8 million at June 30, 2013 and June 30, 2012, respectively. The London InterBank Offered Rate ("libor") British Bankers' Association ("BBA") rates for the one month ranged from 0.19 percent to 0.25 percent (average rate of 0.21 percent) in 2013. The libor BBA rates for the five year ranged from 0.73 percent to 1.74 percent (average rate of 0.93 percent) in 2013.

Included in other non-current liabilities on the consolidated balance sheets are unrealized losses of $21.8 million and $33.0 million as of June 30, 2013 and 2012, respectively, related to these swap agreements.

Expiration Date ($ in millions)	JHS Receives	JHS Pays	Notional Amount at June 30, 2013	Notional Amount at June 30, 2012	Balance Sheet Location	Fair Value at June 30, 2013	Fair Value at June 30, 2012
May 1, 2018	68% of United States Dollar libor BBA (One Month)	3.8570%	$19.7	$19.8	Other non-current liabilities	$2.6	$3.4
May 1, 2027	68% of United States Dollar libor BBA (One Month)	3.9190%	$74.1	$74.3	Other non-current liabilities	$14.3	$20.0
May 1, 2027	68% of United States Dollar libor BBA (One Month)	3.9800%	$42.6	$42.7	Other non-current liabilities	$8.5	$11.9
May 1, 2027	68% of United States Dollar libor BBA (Five Year minus 0.2930%)	68% of United States Dollar libor BBA (One Month)	$74.1	$74.3	Other non-current liabilities	($3.1)	($2.0)
May 1, 2027 (a)	68% of United States Dollar libor BBA (Five Year minus 0.325%)	68% of United States Dollar libor BBA (One Month)	$42.6	$42.7	Other non-current liabilities	($0.5)	($0.3)
			$253.1	$253.8		$21.8	$33.0

(a) In January 2011 the agreement was restructured to a forward start date of July 1, 2016.

(in millions of dollars, unless otherwise noted)

The amounts in the fair value column above represent the liability of JHS, except those amounts in parenthesis then the amount which represent a receivable of JHS.

All of these swaps are marked to market and recorded as nonoperating revenues investment income and realized gains. Included in other nonoperating revenues (expenses) on the Statements of Operations and Changes in Net Assets is a gain (loss) of $11.4 million and ($28.7) million for the years ended June 30, 2013 and 2012, respectively, related to these swap agreements.

All of the JHS derivative instruments contain credit-risk-related provisions that require JHS to post collateral in varying amounts based on respective credit ratings. The counterparties to the derivative instruments would require JHS to post collateral only if the position of the individual derivative instrument is negative by in excess of $40.0 million. Based on JHS' current credit rating and the position of the derivative instruments, JHS was not required to post collateral as of June 30, 2013 or June 30, 2012.

	Liabilities at Fair Value as of June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in millions)		
Liabilites, at fair value:				
Interest rate swaps	$ -	$ 21.8	$ -	$ 21.8
	$ -	$ 21.8	$ -	$ 21.8

	Liabilities at Fair Value as of June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in millions)		
Liabilites, at fair value:				
Interest rate swaps	$ -	$ 33.0	$ -	$ 33.0
	$ -	$ 33.0	$ -	$ 33.0

(in millions of dollars, unless otherwise noted)

8. Pension Plans

Each of the Members has a separate non-contributory defined benefit plan covering substantially all full-time employees (the “Plans”). Generally, benefits under the Plans are based on the employee’s compensation and years of service. Contributions to the Plans are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Items included in unrestricted net assets represent amounts that have not been recognized in net periodic pension expense. The components recognized in unrestricted net assets, as of June 30, 2013 include:

	2013	2012
Amounts recognized in unrestricted net assets		
Unamortized net actuarial loss	$ 347.9	$ 475.4
Unamortized prior service (credit)	(11.6)	(14.1)
	$ 336.3	$ 461.3

At June 30, 2013 and 2012 amounts in unrestricted net assets that are expected to be recognized as components of net periodic pension expense during fiscal year 2014 and 2013, respectively, are as follows:

Amounts recognized in unrestricted net assets to be amortized	2013	2012
Unamortized net actuarial loss	$ 22.9	$ 30.2
Unamortized prior service (credit)	$ (1.3)	$ (2.4)

(in millions of dollars, unless otherwise noted)

The following table presents the change in the benefit obligation and the change in the fair value of the Plans' assets based on the measurement date, as well as the amounts recognized in the accompanying consolidated financial statements as of June 30, 2013 and 2012:

	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year -	$ 1,356.0	$ 1,082.1
Service cost	52.6	37.9
Interest cost	60.9	60.3
Actuarial loss	(94.5)	206.6
Benefits paid	(34.5)	(30.9)
Benefit obligation at end of year	1,340.5	1,356.0
Change in plan assets:		
Fair value of plan assets at beginning of year -	877.0	814.3
Actual return on plan assets (net of expenses)	70.3	24.0
Employer contributions	83.5	69.6
Benefits paid	(34.7)	(30.9)
Fair value of plan assets at end of year	996.1	877.0
Funded status at end of year	$ (344.4)	$ (479.0)
Amounts recognized in the statement of financial position consist of:		
Other current liabilities	$ (21.2)	$ (16.9)
Non-current portion of accrued pension liability	(323.2)	(462.1)
Net amount recognized	$ (344.4)	$ (479.0)

The following table presents the average assumptions for the Members utilized to estimate year-end pension obligations:

	2013	2012
Assumptions used to estimate June 30, 2013 and 2012 year end pension obligations		
Discount rate	4.98%	4.43%
Rate of compensation increase	3.92%	4.08%

(in millions of dollars, unless otherwise noted)

The following table presents the periodic benefit cost activity of the applicable Plans at June 30, 2013 and 2012:

	2013	2012
Periodic Benefit Cost		
Service cost	$ 52.6	$ 37.9
Interest cost	60.9	60.3
Expected return on plan assets	(67.6)	(63.7)
Amortization of prior service cost	(2.4)	(3.7)
Amortization of net actuarial loss	30.2	12.9
Net periodic benefit cost	$ 73.7	$ 43.7
Weighted-average assumptions used in the measurement of periodic pension costs were:		
Discount rate	4.85%	5.66%
Expected return on plan assets	7.58%	7.75%
Rate of compensation increase	4.08%	4.08%

The consolidated Accumulated Benefit Obligation is $1,258.1 million and $1,258.7 million as of June 30, 2013 and June 30, 2012, respectively.

In aggregate, JHS' Members will make contributions of approximately $88.6 million to the Plans in fiscal year 2014.

Asset Allocation
The aggregate asset allocation for the various Plans' investments is as follows:

	Target Allocation	Percentage of Plan Assets June 30	
		2013	2012
Equity Securities	56%	61%	56%
Fixed Income	37%	32%	36%
Alternative Investments	7%	7%	8%
Total	100%	100%	100%

(in millions of dollars, unless otherwise noted)

The following table presents the Plans' assets as of June 30, 2013, measured at fair value on a recurring basis using the fair value hierarchy described in Note 2**:**

	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
		(in millions)		
Assets, at fair value:				
Mutual funds - primarily US government obligations	$ -	$ 81.1	$ -	$ 81.1
Mutual funds - fixed income securities	28.4	67.3	37.6	133.3
Equity Securities	73.4	236.3	76.3	386.0
US Government obligations	6.8	-	-	6.8
Corporate bonds	-	1.7	-	1.7
Certificates of deposit and other commercial paper	23.6	4.6	-	28.2
Fixed income securities	4.3	63.8	-	68.1
Hedge funds	-	-	31.6	31.6
Other, including alternative assets	(0.9)	35.3	224.9	259.3
	$ 135.6	$ 490.1	$ 370.4	$ 996.1

(in millions)	Hedge funds	Other, including alternative assets	Total
Balance, at June 30, 2012	$ 147.6	$ 172.9	$ 320.5
Purchases at cost	97.4	73.7	171.1
Sales at cost	(7.4)	(149.6)	(157.0)
Realized and unrealized gains (losses)			
Included in earnings	0.5	9.0	9.5
Included in changes to net assets	17.9	8.2	26.1
Transfers in	-	0.2	0.2
Balance, at June 30, 2013	$ 256.0	$ 114.4	$ 370.4

The following table presents the Plan's assets as of June 30, 2012, measured at fair value on a recurring basis using the fair value hierarchy described in Note 2**:**

	Assets at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets, at fair value:				
Mutual funds - primarily US government obligations	$ 96.5	$ -	$ -	$ 96.5
Mutual funds - marketable equity securities	78.5	-	-	78.5
Mutual funds - fixed income securities	120.5	-	-	120.5
Equity Securities	78.6	88.7	104.8	272.1
US Government obligations	5.6	-	-	5.6
Corporate bonds	-	1.7	-	1.7
Certificates of deposit and other commercial paper	2.4	10.0	-	12.4
Fixed income securities	-	71.8	-	71.8
Hedge funds	-	-	26.2	26.2
Other, including alternative assets	(3.2)	5.4	189.5	191.7
	$ 378.9	$ 177.6	$ 320.5	$ 877.0

(in millions)	Hedge funds	Other, including alternative assets	Total
Balance, at June 30, 2011	$ 75.5	$ 175.7	$ 251.2
Purchases at cost	110.2	18.7	128.9
Sales at cost	(36.9)	(8.1)	(45.0)
Realized and unrealized gains (losses), net			
Included in earnings	0.2	(1.3)	(1.1)
Included in changes to net assets	(1.3)	(10.3)	(11.6)
Transfers in, net	5.6	21.1	26.7
Transfers out	(5.7)	(22.9)	(28.6)
Balance, at June 30, 2012	$ 147.6	$ 172.9	$ 320.5

In selecting the expected long-term rate of return on the Plans' assets assumption, the Members of JHS consider average rate of earnings on the funds invested and to be invested, the Plan's asset allocation and the expected returns likely to be earned over the life of the Plans.

Projected Pension Benefit Payments

(in millions of dollars, unless otherwise noted)

Pension benefit payments for the next ten years are currently projected by the Members of JHS to be:

Year	Amount
2014	$40.5
2015	44.7
2016	49.7
2017	55.0
2018	60.9
2016 - 2020	397.1

Participation in Multiemployer Defined Benefit Pension Plan

Through its affiliation with Thomas Jefferson University, TJUH is a participating employer in The Pension Fund for Hospital and Health Care Employees – Philadelphia and Vicinity (the "Pension Fund"), a jointly-trusteed multiemployer defined benefit pension plan. The Pension Fund is operated for the benefit of Chapter 1199C of the American Federation of State, County and Municipal Employees (the "Union"). Information about the Pension Fund and TJUH's participation is summarized below:

TJUH contributions to the Pension Fund were $4.0 million and $3.6 million for each of the years ended June 30, 2013 and 2012, respectively. These contributions represent approximately 27% and 25% of contributions to the Pension Fund, respectively.

The collective bargaining agreement with 1199C expired on June 30, 2012. A new six-year agreement was approved on July 1, 2012. For the years ended June 30, 2013 and June 30, 2012, TJUH contributed approximately 12.5% and 10.0%, respectively, of covered payroll to the Pension Fund. The contribution increases to 14% for the year beginning July 1, 2013.

For the Plan Years beginning January 1, 2011 and 2012, the Pension Fund was determined to be in critical status (also referred to as red zone status) under the Pension Protection Act of 2006. Accordingly, the Pension Fund is subject to a funding improvement plan.

At December 31, 2012, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by $214.4 million.

9. Professional and General Liability Claims

JHS, the Members, Aria, Thomas Jefferson University (TJU), Jefferson University Physicians (JUP) and their affiliated organizations ("Policyholders") have several layers of coverage for professional liability exposures.

As of June 30, 2013 and 2012 for the JHS Member hospitals and Aria hospitals, the first ("primary") layer of coverage is claims made coverage with limits of $500 thousand per medical incident / $2.5 million annual aggregate per hospital and $500 thousand per medical incident/$1.5 million annual aggregate per the scheduled individual Healthcare Providers (physician / residents and other individual providers) covered under Pennsylvania's MCARE Act of 2007, of the JHS Members, Aria

(in millions of dollars, unless otherwise noted)

and JUP. The limits for this primary coverage layer are statutorily prescribed in the Commonwealth. In addition, a $1.0 million per medical incident / $3.0 million annual aggregate limit is provided per scheduled dentists, scheduled allied healthcare providers as well as for scheduled physicians / residents practicing in Delaware and New Jersey.

As of June 30, 2013 and 2012 JHS, the JHS Members' entities that do not qualify as Healthcare Providers under MCARE (Non-Healthcare Provider Entities), TJU and Aria's Non-Healthcare Provider Entities are each provided with a $1.0 million / $3.0 million annual aggregate limit of liability. JUP and its scheduled Non-Healthcare Provider Entities continue to be provided with a $1.0 million / $2.0 million annual aggregate limit of liability.

In addition, as of June 30, 2013 and 2012 a $2.0 million per occurrence / $5.0 million aggregate general liability coverage limit shared by JHS and the JHS Members is provided. As of June 30, 2013 and 2012 separate general liability policy limits of $1.0 million per occurrence / $3.0 million aggregate are provided to Aria and $1.0 million per occurrence / $2.0 million aggregate limits are provided to TJU.

JHS, JHS Members, Aria, TJU, and JUP (the Policyholders) obtain their primary hospital and physician professional liability, miscellaneous professional liability and general liability coverages from the RRG. For the professional liability coverages the RRG is 100% reinsured by Five Pointe. The RRG retains 100% of the general liability coverage exposure.

The premiums charged to policyholders for the primary professional and general liability layers of coverage are determined by an independent outside actuary based on loss and loss adjustment expense experience, reflecting a discount rate of 3 percent and a 65 percent confidence level for 2013 and 2012. Premiums also include a charge for the RRG and Five Pointe operating expenses and premium taxes.

The second layer of professional liability coverage for certain Healthcare Providers as defined by MCARE is obtained through the MCARE Fund. This second layer, required by statute, consists of coverage limits of $0.5 million per medical incident and $1.5 million annual aggregate per hospital and per employed physician at June 30, 2013 and June 30, 2012. The annual assessments for MCARE Fund coverage are based on the schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association multiplied by an annual assessment percentage. This assessment is recognized as an expense in the period incurred.

Liabilities for JHS and the JHS Members and their affiliated organizations for potential losses in excess of the primary and MCARE layers (if applicable) up to $5.0 million each medical incident / $5.0 million aggregate retention excess of a $7.0 million each and every medical incident retention for JHS and the Members of JHS and their affiliated organizations (with the exception of Bryn Mawr Rehabilitation and Magee) and up to $2.0 million each and every medical incident for Bryn Mawr Rehabilitation Hospital and Magee are based on actuarially determined estimates, which reflect a discount rate of 3 percent and a 65 percent confidence level for fiscal year 2013 and 2012. These estimates are based on historical loss and loss adjustment expense information along with certain assumptions about future events. Changes in assumptions for such considerations as medical costs and actual experience could cause these estimates to change.

(in millions of dollars, unless otherwise noted)

During fiscal year 2013 and 2012, JHS and the JHS Members and their affiliated organizations maintained claims made excess / umbrella liability insurance coverage through Five Pointe in the amount of $90.0 million per medical incident / $90.0 million annual aggregate after a $5.0 million / $5.0 million excess of a $7.0 million each and every medical incident retention by JHS and Members of JHS and their affiliated organizations (with the exception of Bryn Mawr Rehabilitation Hospital and Magee). The excess catastrophic professional liability insurance coverage through Five Pointe attaches after a $2.0 million each and every medical incident retention for Bryn Mawr Rehabilitation Hospital and Magee. During fiscal year 2013 and 2012, Five Pointe reinsured 100 percent of this risk to six currently at least A-rated insurers (ACE, Zurich, Allied World, Berkley, Endurance, Swiss Re). A separate limit of $90.0 million per occurrence / $90.0 million aggregate is also maintained to provide liability insurance coverage on an occurrence basis excess of the primary general, auto, employers and aviation liability coverages.

For fiscal year 2013 Five Pointe provided a claims made excess insurance coverage for Aria and its affiliated organizations with limits of $20.0 million per medical incident / $20.0 million annual aggregate. Five Pointe reinsured 100 percent of this risk with currently at least A- rated reinsurance carriers.

The insurance expense may vary from year to year based on the development in the primary layer and the development above the primary and MCARE layer. The decline in insurance expense in 2013 results from favorable development compared to previously established reserves.

10. Commitments and Contingencies

Operating Leases

JHS Members have various lease obligations for equipment, ambulatory facilities and office space. At June 30, 2013, the minimum future rental commitment is as follows:

2014	$ 41.6
2015	37.9
2016	30.1
2017	25.8
2018	22.1
Thereafter	64.9
	$ 222.4

Total rental expense was $42.7 million in 2013 and $40.7 million in 2012.

Lines of Credit

At June 30, 2013 and 2012, JHS had available unsecured lines of credit of $20.0 million and $20.8 million, respectively. There was zero outstanding as of June 30, 2013 and 2012.

Letters of Credit

At June 30, 2013 and 2012, JHS had available open letters of credit aggregating $52.2 million and $58.7 million, respectively.

(in millions of dollars, unless otherwise noted)

Litigation

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

On November 20, 2009, a class action lawsuit was filed against JHS and the Members by certain hourly employees alleging restitution for unfair business practices, injunctive relief for unfair business practices, failure to pay overtime wages, and penalties associated therewith. On August 8, 2012, the federal district court granted the defendants' Motions to Dismiss all asserted claims. On September 5, 2012, the plaintiffs appealed this decision to the U.S. Court of Appeals for the Third Circuit, where it is currently pending. JHS is unable to determine the cost of defending this lawsuit or the impact, if any, this action may have on its results of operations.

FICA Medical Resident Refund

In March 2010, the IRS announced that for periods ending before April 1, 2005, medical residents would be eligible for the student exception of FICA taxes. Institutions that had filed timely FICA refund claims covering periods up through that date are eligible for refunds of both the employer and employee portions of FICA taxes paid, plus statutory interest. As a result of this decision by the IRS, TJUH recorded other revenue of $14.5 million for the employer portion, an accounts receivable of $21.8 million and an accrued liability of $7.3 million. As of June 30, 2013, all payments have been received as well as an additional $10.4 million representing the employer portion that was recorded in other revenue this fiscal year. All monies, initially recorded as an accrued liability, which were due to the medical residents, have been refunded to the residents.

Other

The health care industry is subject to extensive federal and state laws and regulations. In particular, the federal Patient Protection and Affordable Care Act ("ACA") includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the obligations of health insurers, providers, employers, and consumers. Moreover, a significant portion of JHS' net revenue is derived from payments by government-sponsored health care programs, principally Medicare and Medicaid, and is subject to audit and resulting adjustments by applicable governmental agencies. Rates of payment for such programs are established by governmental entities and are subject to change. Reductions in the amounts payable for services under these programs; regulatory audits and resulting adjustments; or the failure to comply with applicable laws or regulations could have a material, adverse effect on JHS' business, financial condition, results of operations, or cash flows. At this time, JHS cannot estimate the effects of the ACA on JHS' business and operations.

(in millions of dollars, unless otherwise noted)

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are primarily comprised of unspent capital appreciation (net realized and unrealized gains) that can be spent in the future subject to certain spending limitations under Pennsylvania Statue:

	2013	2012
Healthcare services	$ 125.2	$ 108.1
Fellowship and research	21.9	16.7
Indigent care	12.1	11.7
	$ 159.2	$ 136.5

Investment income generated from investment of the following permanently restricted net assets is available to support the following purposes:

	2013	2012
Endowments to be held in perpetuity, the income of which is expendable to support:		
Healthcare services	$ 70.9	$ 68.6
Fellowship and research	25.3	25.1
Indigent care	38.6	36.0
	$ 134.8	$ 129.7

The above amounts include $66.3 million and $61.7 million at June 30, 2013 and 2012, respectively, of beneficial interest in perpetual trusts.

12. Relationship with Thomas Jefferson University

JHS and Thomas Jefferson University (TJU) are parties to a Master Academic Affiliation Agreement, which establishes TJU as the primary academic affiliate for JHS and the Members of JHS. The Academic Affiliation Agreement is intended to strengthen academic programs, enhance patient care and further basic and clinical research activities.

Transactions with TJU

Subsequent to March 1996, TJU agreed to provide to TJUH the following services: physician and non-physician personnel and other support services necessary to preserve and maintain the tertiary care capacity of TJUH. TJU also provides office and clinical space as well as administrative, finance, human resource, information technology, maintenance, security, temporary staffing and other ancillary services to TJUH. Expenses charged for these services by TJU aggregated $190.3 million and $183.0 million for the years ended June 30, 2013 and 2012, respectively. The costs in 2013 and 2012 include $1.7 million and $12.0 million, respectively to offset a portion of clinically related medical malpractice expenses.

(in millions of dollars, unless otherwise noted)

TJUH provides TJU with certain office and clinical space, as well as housekeeping, catering, employee health, information systems, telecommunications, supply chain management and other support services. Expenses charged to TJU for these services aggregated to $44.1 million and $38.2 million in 2013 and 2012, respectively.

Approximately $178.8 million and $171.4 million of JHS' investments represent participation by TJUH in TJU's pooled investment funds at June 30, 2013 and 2012, respectively.

13. Recent Accounting Pronouncements

Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows
In October 2012, the FASB issued a new cash flow disclosure requirement related to the disclosure of the classification of proceeds from the sale of donated assets. The new guidance requires entities to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows, if the sale of donated financial assets was without any NFP-imposed limitations on sale and the donated financial assets were converted nearly immediately into cash. This standard is effective for JHS on July 1, 2013. JHS is still evaluating the effect of this guidance.

Services Received from Personnel of an Affiliate
In April 2013, the FASB issued a new requirement related to the recognition of contributed services received from personnel of an affiliate. The new guidance requires entities to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. This standard is effective for JHS on July 1, 2014. JHS is still evaluating the effect of this guidance.