

Jefferson Health System, Inc.

Consolidated Financial Statements

For the Years Ended

June 30, 2009 and 2008

Jefferson Health System, Inc.
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June 30, 2009 and 2008

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Jefferson Health System, Inc. and subsidiaries ("JHS") at June 30, 2009 and 2008, and the results of operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of JHS's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 30, 2009

Jefferson Health System, Inc.
Consolidated Balance Sheets
June 30, 2009 and 2008

(in millions of dollars)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 238.1	\$ 214.7
Investments	226.5	192.8
Accounts receivable, less allowance for doubtful accounts of \$63.2 and \$59.9 in 2009 and 2008, respectively	318.4	315.5
Inventory	33.5	33.1
Other current assets	33.2	29.4
Assets whose use is limited	139.0	138.4
Due from affiliated foundations	8.0	13.4
Assets of discontinued operations	-	433.1
Total current assets	<u>996.7</u>	<u>1,370.4</u>
Investments	357.7	393.5
Assets whose use is limited	466.9	571.8
Assets held by affiliated foundations	358.0	417.2
Land, buildings and equipment, net	1,149.7	985.7
Beneficial interest in perpetual trusts	50.7	68.1
Other non-current assets	50.5	234.9
Assets of discontinued operations	-	842.4
Total assets	<u>\$ 3,430.2</u>	<u>\$ 4,884.0</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	\$ 10.3	\$ 19.3
Accounts payable and accrued expenses	292.5	278.0
Accrued vacation	49.5	45.5
Current portion of accrued pension liability	0.1	3.2
Current portion of accrued professional liability claims	32.7	31.5
Other current liabilities	6.2	8.1
Liabilities of discontinued operations	-	225.2
Total current liabilities	<u>391.3</u>	<u>610.8</u>
Long-term obligations	476.3	668.2
Accrued pension liability	274.1	59.9
Accrued professional liability claims	358.1	320.2
Other non-current liabilities	70.5	56.1
Liabilities of discontinued operations	-	231.2
Total liabilities	<u>1,570.3</u>	<u>1,946.4</u>
Net assets		
Unrestricted	1,620.7	1,838.6
Temporarily restricted	131.4	162.1
Permanently restricted	107.8	117.8
Net assets of discontinued operations	-	819.1
Total net assets	<u>1,859.9</u>	<u>2,937.6</u>
Total liabilities and net assets	<u>\$ 3,430.2</u>	<u>\$ 4,884.0</u>

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, 2009 and 2008

(in millions of dollars)

	2009	2008
Unrestricted net assets		
Unrestricted operating revenues, gains and other support		
Net patient service revenue	\$ 2,442.1	\$ 2,331.1
Investment income	14.4	21.6
Other revenues	173.9	177.3
Net assets released from restrictions used for operations	10.3	14.9
Total unrestricted operating revenues, gains and other support	<u>2,640.7</u>	<u>2,544.9</u>
Operating expenses		
Salaries and employee benefits	1,268.0	1,205.4
Supplies	471.5	449.3
Depreciation and amortization	121.6	113.7
External physician, clinical and professional service fees	267.0	255.0
Interest expense	23.9	29.6
Insurance	74.2	64.1
Provision for bad debts	95.7	100.2
Other	183.9	164.2
Total operating expenses	<u>2,505.8</u>	<u>2,381.5</u>
Operating income from continuing operations	134.9	163.4
Nonoperating revenues (expenses)		
Investment (loss) / income and net realized gains / (losses)	(50.5)	16.5
Other	(25.7)	(14.8)
Excess of revenues over expenses	<u>\$ 58.7</u>	<u>\$ 165.1</u>

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, 2009 and 2008

(in millions of dollars)

	2009	2008
Unrestricted net assets		
Excess of revenues over expenses (from previous page)	\$ 58.7	\$ 165.1
Discontinued operations (Note 13)		
Operating income of discontinued operations	(7.0)	52.8
Nonoperating income of discontinued operations	(18.9)	47.5
Excess of revenues over expenses of discontinued operations	(25.9)	100.3
Excess of revenues over expenses after discontinued operations	32.8	265.4
Change in net unrealized gain (loss) on investments and net assets held by affiliated foundations	(49.6)	(17.4)
Increase in pension liability	(228.5)	(19.5)
Net assets released from restrictions - capital purchases	5.6	9.9
Other	-	1.0
Additional capital contribution / (dividend distribution to shareholder)	(4.2)	(3.9)
Change in unrestricted net assets of discontinued operations	(690.1)	(21.0)
(Decrease) / increase in unrestricted net assets	(934.0)	214.5
Temporarily restricted net assets		
Contributions	17.7	23.0
Investment income and realized gains (losses), net	(9.1)	6.8
Change in net unrealized loss on investments and net assets held by affiliated foundations	(23.5)	(5.3)
Net assets released from restrictions - operations	(10.3)	(14.9)
Net assets released from restrictions - capital purchases	(5.6)	(9.9)
Other	.1	.4
Change in temporarily restricted net assets of discontinued operations	(54.3)	(2)
Decrease in temporarily restricted net assets	(85.0)	(1)
Permanently restricted net assets		
Contributions	7.4	3.6
Decrease in beneficial interest in perpetual trusts	(16.8)	(9.1)
Change in net unrealized loss on investments and assets held by affiliated foundations	(.5)	(.6)
Change in permanently restricted net assets of discontinued operations	(48.8)	(4.9)
Decrease in permanently restricted net assets	(58.7)	(11.0)
(Decrease) / increase in net assets	(1,077.7)	203.4
Net assets, beginning of year	2,937.6	2,734.2
Net assets, end of year	\$ 1,859.9	\$ 2,937.6

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

Jefferson Health System, Inc.
Consolidated Statements of Cash Flows
June 30, 2009 and 2008

(in millions of dollars, unless otherwise noted)

	2009	2008
Cash flows from operating activities		
(Decrease) / increase in net assets	\$ (1,077.7)	\$ 203.4
(Increase) / decrease in net assets from discontinued operations	819.1	(74.2)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Return of capital to discontinued operations	10.0	-
Net realized and unrealized (gains) losses on investments and changes in beneficial interest and affiliated foundation	154.5	38.7
Loss on interest rate swaps	16.7	18.6
Depreciation and amortization	121.6	113.7
Provision for bad debts	95.7	100.2
Contributions and investment income restricted for long-term purposes	(20.9)	(22.7)
Equity in income of joint ventures and affiliates	(1.9)	(1.0)
Changes in assets and liabilities:		
Accounts receivable	(98.6)	(129.8)
Inventory	(.4)	(6.5)
Other assets	180.6	39.0
Accounts payable and accrued expenses	14.5	25.8
Accrued vacation	4.0	3.5
Accrued pension liability	211.1	1.7
Accrued professional liability	39.1	(6.6)
Other liabilities	(4.2)	5.9
	<u>463.2</u>	<u>309.7</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(285.5)	(299.3)
Purchase of investments and assets whose use is limited, net	35.7	22.8
Return of capital for discontinued operations	(10.0)	-
	<u>(259.8)</u>	<u>(276.5)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from long-term borrowings	-	134.5
Repayment of long-term borrowings	(200.9)	(58.1)
Contributions and investment income restricted for long-term purposes	20.9	22.7
	<u>(180.0)</u>	<u>99.1</u>
Net cash (used in) / provided by financing activities		
Net increase in cash and cash equivalents	23.4	132.3
Cash and cash equivalents at beginning of year	214.7	82.4
Cash and cash equivalents at end of year	<u>\$ 238.1</u>	<u>\$ 214.7</u>
Supplemental disclosures		
Interest paid (net of amount capitalized)	\$ 23.8	\$ 20.6

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

Jefferson Health System, Inc.

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

(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 Inc. (“TJUH”). Magee, MLH and TJUH are collectively referred to as “Member”.

On September 30, 2008 JHS ceased to be the corporate member of Albert Einstein Healthcare Network (AEHN), and AEHN was no longer a member health system of JHS (Note 13).

On December 31, 2008 JHS ceased to be the corporate member of Frankford Health Care System (FHCS now called Aria Health) and FHCS was no longer a member health system of JHS (Note 13).

Since AEHN and FHCS separated from JHS during the year ended June 30, 2009, the results of operations of AEHN and FHCS for the periods presented in these financial statements have been presented as discontinued operations.

Any Member institution may voluntarily withdraw from the System effective July 1, 2012 upon not less than two years prior notice provided that such Member refinances all the System debt allocated to it and reimburses both JHS and all other Members for any incremental costs incurred as a result of any debt refinancing associated with such withdrawal.

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

MLH includes Main Line Hospitals, Inc. (The Bryn Mawr Hospital; The Lankenau Hospital; Paoli Memorial Hospital), Lankenau Institute of Medical Research; Main Line Diversified Services, Inc. (Bryn Mawr Rehabilitation Hospital and other related organizations); Main Line Health Care (formerly Great Valley Health, a physician group practice); Riddle Health System (RHS) along with its related entities, Riddle Memorial Hospital, Riddle Enterprises, Inc., Riddle Healthcare Associates, Riddle System Services, Riddle Physician Services, Riddle Healthcare Services, Mirmont Alcohol Rehabilitation Center, and The Riddle Healthcare Foundation and other related organizations.

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

On September 19, 1996, ownership of Whitehall Station Insurance Company Ltd. (“Whitehall”), a captive insurance company domiciled in the Cayman Islands, was transferred from MLH to JHS. Effective December 2002, JHS formed Mountain Laurel Risk Retention Group, Inc. (“RRG”) and Whitehall Station Insurance SPC, Ltd. (“Whitehall SPC”). The RRG is domiciled in Vermont and Whitehall SPC is domiciled in the Cayman Islands. Effective beginning in fiscal year 2004, both insurance companies were used by JHS and Members of JHS to insure certain of their professional and general liability exposures. Effective July 1, 2007, Whitehall SPC was liquidated and assigned its

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rights and liabilities, which included a simultaneous transfer of substantially all assets (including deferred charges), all liabilities and operations, to a newly formed 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.

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 care services, principally to residents of Southeastern Pennsylvania and Southern New Jersey.

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; Whitehall; Whitehall SPC; 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.

Assets Held by Affiliated Foundations

Unconditional promises to give (pledges) are recorded as receivables and revenues or increase 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 Hospital 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 of \$366.0 million and \$430.6 million as of June 30, 2009 and 2008, respectively, 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, nor 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).

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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 1997 Amended and Restated Master Trust Indenture (See Note 7), and assets owned by the Foundations are not subject to the lien of the 1997 Master Indenture.

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 require by donor restriction that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Performance Indicator

In the 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, 2009 and 2008 JHS had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes that credit risk related to these deposits is minimal. Cash and cash equivalents are carried at cost, which approximates market value.

Investments and Investment Income

Effective July 1, 2008, JHS adopted Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure about fair value measurements. FAS 157 defines fair

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value 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.” FAS 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy under FAS 157 are as follows:

- | | |
|---------|--|
| Level 1 | Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities (“Level 1”). Level 1 assets include active listed equities, mutual funds, certain U.S. government obligations, and certain money market securities; |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active (“Level 2”); |
| Level 3 | Inputs that are both significant to the fair value measurement and unobservable (“Level 3”). |

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). 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.

Assets and liabilities are measured at fair value and are based on one or more of the three valuation techniques noted in FAS 157. The three valuation techniques are as follows:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities,

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

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

The realizable value of its marketable equity investments is evaluated on at least an annual basis. In the event that the cost of the investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. This impairment charge essentially moves unrealized losses previously recognized as a reduction to net assets to realized losses which reduces excess of revenues over expenses. Factors considered in determining other-than-temporary declines in value include the duration and extent to which the fair value has been less than cost; the ability of the investment to recover to its original cost, and the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP FAS 115-2 and FAS 124-2), which amends SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and SFAS No. 124,

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"Accounting for Certain Investments Held by Not-for-Profit Organizations". This standard establishes a new other-than-temporary impairment indicator for debt securities. If it is more likely than not that an impaired security will be sold before the recovery of its cost basis, either due to the investor's intent to sell or because it will be required to sell the security, the entire impairment is recognized in earnings. Otherwise, only the portion of the impaired debt security related to estimated credit losses is recognized in earnings, while the remainder of the impairment is recorded in net assets and recognized over the remaining life of the debt security. In addition, the standard expands the presentation and disclosure requirements for other-than-temporary-impairments for both debt and equity securities. FSP FAS 115-2 and FAS 124-2 were adopted for the year ended June 30, 2009. FSP FAS 115-2 and FAS 124-2 did not have a material impact on JHS results of operations, cash flows, or financial positions.

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 donor's restrictions or state law.

Inventories

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

Assets Whose Use Is Limited

Assets whose use is limited 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.

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. 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.

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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. All of the healthcare provider entities also participate in the Medical Care Availability and Reduction of Error (“MCARE”) Fund. Reserves for professional liability claims are recorded on a discounted basis using a rate of 3 percent (Note 9).

Workers’ compensation exposures are insured through self-insurance and large deductible commercial insurance programs. Reserves for workers’ compensation liabilities are recorded on a discounted basis, using a rate of 3 percent.

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 Medicaid programs, directly and from managed care providers serving Medicare beneficiaries and Medicaid enrollees, for hospital services, accounted for approximately 29.4 percent and 6.5 percent, respectively, of net patient revenue for the fiscal year ended June 30, 2009 and 29.5 percent and 6.7 percent, respectively, for the fiscal year ended June 30, 2008. Most payments from the Medicare and Medicaid 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 Medicaid programs are complex and subject to interpretation.

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 27.6 percent and 25.1 percent of net patient revenue for hospital operations for the years ended June 30, 2009 and June 30, 2008, 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.

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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 accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions. 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.

Charitable Medical Care Provided

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 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 patients, who do not qualify for free charity 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 charges converted to the cost associated with these services and supplies for charity care provided by the Members approximated \$11.5 million and \$9.2 million for the years ended June 30, 2009 and 2008, 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.

Other Uncompensated Community Services

Services are provided to patients in the community who are insured under the Pennsylvania Medical Assistance Program. Payments from the Medical Assistance Program are substantially below the cost of providing such services. The cost of providing services to eligible welfare recipients who participate in the Pennsylvania Medical assistance and local Health Choices programs exceeded reimbursement by \$53.5 million in 2009 and \$39.3 million in 2008.

In addition to providing direct patient charity care and in furtherance of its exempt purpose to benefit the community, the Members provide various community services such as education, screenings and support groups for patients and their families, health 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 approximated \$50.7 million and \$41.7 million for the years ended June 30, 2009 and 2008, respectively.

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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. Whitehall and Whitehall SPC are controlled foreign corporations as defined by the Tax Code of the United States.

Effective July 1, 2007, JHS adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which requires the use of a two-step approach for recognizing and measuring tax benefit taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. No adjustments to the financial statements were required as a result of the implementation of FIN 48.

2. Fair Value of Financial Instruments

The following methods and assumptions were used by JHS in estimating fair value disclosures for financial statements:

Cash and Cash Equivalents

Cash and cash equivalents are recorded at cost, which approximates fair value due to the short-term nature of these instruments.

Investments and Assets Whose Use Is Limited

FAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure about fair value measurements. FAS 157 defines fair value 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." FAS 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

FSP FAS 115-2 and FAS 124-2 were adopted for the year ended June 30, 2009. FSP FAS 115-2 and FAS 124-2 did not have a material impact on JHS results of operations, cash flows, or financial positions.

Beneficial Interest in Perpetual Trusts

The beneficial interest in perpetual trusts is reported at the fair value of the underlying assets in the trust. The consolidated financial statements of JHS reflect beneficial interest in perpetual trusts of \$50.7 million and \$68.1 million as of June 30, 2009 and 2008, respectively.

Long-Term Debt Obligations

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.

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The carrying amounts and fair values of financial instruments at June 30, 2009 are as follows:

	Carrying Amount	Fair Value
Balance sheet assets		
Cash and cash equivalents	\$ 238.1	\$ 238.1
Investments and assets whose use is limited	1,190.1	1,190.1
Balance sheet liabilities		
Debt obligations	486.6	490.7

The carrying amounts and fair values of financial instruments at June 30, 2008 are as follows:

	Carrying Amount	Fair Value
Balance sheet assets		
Cash and cash equivalents	\$ 214.7	\$ 214.7
Investments and assets whose use is limited	1,296.5	1,296.5
Balance sheet liabilities		
Debt obligations	687.5	696.4

3. Cash and Cash Equivalents, Investments, Assets Whose Use Is Limited and Investment Income

Cash and cash equivalents, investments and assets whose use is limited consist of the following:

	2009	2008
Cash and cash equivalents	\$ 434.0	\$ 452.7
Commercial paper	5.3	102.7
Marketable equity securities	72.9	104.4
U.S. treasury obligations	220.4	117.7
Mutual funds - primarily mortgages and corporate bonds	20.9	21.2
Mutual funds - primarily U.S. government obligations	150.4	141.3
Mutual funds - primarily marketable equity securities	259.2	290.1
Corporate bonds	187.7	190.9
Other	77.4	90.2
	<u>\$1,428.2</u>	<u>\$1,511.2</u>

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Cash and cash equivalents, investments and assets whose use is limited are presented in the accompanying consolidated balance sheets under the following classifications:

	2009	2008
Cash and cash equivalents	\$ 238.1	\$ 214.7
Investments, current	226.5	192.8
Assets whose use is limited, current	139.0	138.4
Long-term investments	357.7	393.5
Assets whose use is limited, long-term	466.9	571.8
	<u>\$ 1,428.2</u>	<u>\$ 1,511.2</u>

Current and long-term assets whose use is limited for 2009 and 2008 are classified as follows:

	2009	2008
Board designated assets, primarily construction and capital	\$ 326.7	\$ 377.9
Bond indenture agreement assets restricted by trustees	42.7	92.1
Self-insurance trust agreement assets held by trustees	2.4	2.3
Self-insurance assets board designated	234.1	237.9
	<u>\$ 605.9</u>	<u>\$ 710.2</u>

Investment income for 2009 and 2008 is comprised of the following:

	2009	2008
Investment income included in operating income		
Interest and dividends	\$ 10.4	\$ 19.6
Net realized gains on sales of investments	2.1	1.0
Equity in earnings in joint venture	1.9	1.0
	<u>14.4</u>	<u>21.6</u>
Investment income included in nonoperating revenues		
Interest and dividends	1.5	25.7
Net realized losses on sales of investments	(32.2)	(5.8)
Change in unrealized losses on alternative and impaired assets	(19.8)	(3.4)
	<u>(50.5)</u>	<u>16.5</u>
Total investment income on unrestricted net assets	<u>\$ (36.1)</u>	<u>\$ 38.1</u>

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	2009	2008
Investment income (temporarily restricted net assets):		
Interest and dividends	\$ 4.5	\$ 4.5
Net realized (loss) / gain on sales of investments	<u>(13.6)</u>	<u>2.3</u>
	<u>\$ (9.1)</u>	<u>\$ 6.8</u>
Other changes in unrestricted net assets:		
Change in net unrealized gain / (loss) on investments and net assets held by affiliated foundations	<u>\$ (49.6)</u>	<u>\$ (17.4)</u>
Other changes in temporarily restricted net assets:		
Change in net unrealized gain / (loss) on investments and net assets held by affiliated foundations	<u>\$ (23.5)</u>	<u>\$ (5.3)</u>
Other changes in permanently restricted net assets:		
Change in net unrealized gain / (loss) on investments and net assets held by affiliated foundations	<u>\$ (.5)</u>	<u>\$ (.6)</u>

As of June 30, 2009 and 2008, JHS recognized an other-than-temporary impairment charge of \$15.2 million and \$5.4 million, respectively, on its investments in marketable securities. Most investments are held under active management by outside managers and JHS does not have the ability to retain the investments to recovery since the managers have the discretion to dispose of individual investments as long as they are within investment guidelines.

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4. Fair Value Measurement

The following table presents 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, 2009:

Assets at Fair Value as of June 30, 2009				
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets, at fair value:				
Mutual funds - primarily US government obligations	\$ 164.4	\$ 0.3	\$ -	\$ 164.7
Mutual funds - marketable equity securities	56.0	105.2	-	161.2
Mutual funds - fixed income securities	-	147.0	-	147.0
Equity Securities	31.7	-	-	31.7
US Government obligations	219.0	-	-	219.0
Corporate bonds	141.6	1.7	-	143.3
Certificates of deposit and other commercial paper	131.9	69.1	-	201.0
Fixed income securities	-	45.1	-	45.1
Hedge funds	-	-	-	-
Other, including alternative assets	12.9	2.5	51.1	66.5
	<u>\$ 757.5</u>	<u>\$ 370.9</u>	<u>\$ 51.1</u>	<u>1,179.5</u>
Investments at Cost				10.6
				<u>\$ 1,190.1</u>
Beneficial Interest in Perpetual Trusts	<u>\$ -</u>	<u>\$ 50.7</u>	<u>\$ -</u>	<u>\$ 50.7</u>

Liabilities at Fair Value as of June 30, 2009				
	Level 1	Level 2	Level 3	Total
	(in millions)			
Liabilities, at fair value:				
at fair value:				
Interest rate swaps	\$ -	\$ 34.0	\$ -	\$ 34.0
	<u>\$ -</u>	<u>\$ 34.0</u>	<u>\$ -</u>	<u>\$ 34.0</u>

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

(in millions)	<u>Hedge funds</u>	<u>Other, including alternative assets</u>	<u>Total</u>
Balance, at June 30, 2008	\$ 15.9	\$ 38.0	\$ 53.9
Net purchases and sales	(0.7)	7.8	7.1
Realized and unrealized losses, net	(2.2)	(7.7)	(9.9)
Transfers in, net	-	-	-
Balance, at June 30, 2009	<u>\$ 13.0</u>	<u>\$ 38.1</u>	<u>\$ 51.1</u>

5. Endowment

In August 2008, the FASB issued FASB Staff Position No.117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds (FSP FAS 117-1), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. Pennsylvania is one of three states that has not adopted UPMIFA to date, however certain disclosures are made as required by FSP FAS 117-1. The following disclosures are made as required by FSP FAS 117-1.

JHS Members endowment consists of approximately 153 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds, if any, and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors 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 as temporarily

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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, 2009, the endowment net asset composition by type of fund consisted of the following:

(in millions)	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor - restricted funds	\$ -	\$ 36.4	\$ 107.8	\$ 144.2
Board - restricted funds	58.8	-	-	58.8
	<u>\$ 58.8</u>	<u>\$ 36.4</u>	<u>\$ 107.8</u>	<u>\$ 203.0</u>

Changes in endowment net assets for the fiscal year ended June 30, 2009 consisted of the following:

(in millions)	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of year	<u>\$ 78.9</u>	<u>\$ 59.2</u>	<u>\$ 117.8</u>	<u>\$ 255.9</u>
Investment return				
Investment income	1.3	1.9	1.1	4.3
Net depreciation (realized and unrealized)	<u>(19.7)</u>	<u>(23.1)</u>	<u>(16.7)</u>	<u>(59.5)</u>
Total investment loss	(18.4)	(21.2)	(15.6)	(55.2)
Contributions	0.2	-	7.1	7.3
Appropriation of endowment assets for expenditure	(3.4)	(1.6)	(1.6)	(6.6)
Other Changes				
Transfers to create board- designated endowment funds	<u>1.5</u>	<u>-</u>	<u>0.1</u>	<u>1.6</u>
Endowment net assets end of year	<u>\$ 58.8</u>	<u>\$ 36.4</u>	<u>\$ 107.8</u>	<u>\$ 203.0</u>

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At June 30, 2008, the endowment net asset composition by type of fund consisted of the following:

(in millions)	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor - restricted funds	\$ -	\$ 59.2	\$ 117.8	\$ 177.0
Board - restricted funds	78.9	-	-	78.9
	<u>\$ 78.9</u>	<u>\$ 59.2</u>	<u>\$ 117.8</u>	<u>\$ 255.9</u>

Changes in endowment net assets for the fiscal year ended June 30, 2008 consisted of the following:

(in millions)	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of year	<u>\$ 83.2</u>	<u>\$ 63.3</u>	<u>\$ 124.0</u>	<u>\$ 270.5</u>
Investment return				
Investment income	2.2	2.0	1.9	6.1
Net depreciation (realized and unrealized)	<u>(5.3)</u>	<u>(4.0)</u>	<u>(9.8)</u>	<u>(19.1)</u>
Total investment loss	(3.1)	(2.0)	(7.9)	(13.0)
Contributions	0.4	0.1	3.5	4.0
Appropriation of endowment assets for expenditure	(3.2)	(1.5)	(1.6)	(6.3)
Other Changes				
Transfers to create board- designated endowment funds	<u>1.6</u>	<u>(0.7)</u>	<u>(0.2)</u>	<u>0.7</u>
Endowment net assets end of year	<u>\$ 78.9</u>	<u>\$ 59.2</u>	<u>\$ 117.8</u>	<u>\$ 255.9</u>

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6. Land, Buildings and Equipment

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

	2009	2008
Land and land improvements	\$ 67.6	\$ 66.1
Buildings	1,176.0	1,092.4
Equipment	1,068.8	1,001.3
Leasehold improvements	32.1	17.3
Construction in progress	270.8	159.2
	<u>2,615.3</u>	<u>2,336.3</u>
Less accumulated depreciation	<u>(1,465.6)</u>	<u>(1,350.6)</u>
	<u>\$1,149.7</u>	<u>\$ 985.7</u>

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7. Long-Term Obligations

Long-term obligations consist of the following:

	2009	2008
Jefferson Health System Revenue Bonds Series A and B of 2005 due in varying annual amounts from 2022 through 2028. Interest rate resets weekly. Average interest rates were 1.28% and 2.86% during fiscal 2009 and 2008, respectively (a)	\$ 24.6	\$ 51.4
Jefferson Health System Revenue Bonds, net of unamortized discount of \$0.3 million for both years, Series A and B of 2004 due in varying annual amounts from 2010 through 2038. Interest rate resets weekly. Average interest rates were 1.30% and 2.86% during fiscal 2009 and 2008, respectively (b)	66.9	66.9
Jefferson Health System Revenue Bonds, net of unamortized discount of \$0.1 million for 2008, Series A and B of 1999 were due in varying annual amounts through 2023. Interest rates ranging from 4.10% to 5.25% (c)	-	65.6
Jefferson Health System Revenue Bonds, net of unamortized premium of \$0.4 million for 2008, Series A of 1998 was due in varying annual amounts through 2021. Interest rates ranging from 4.55% to 5.25% (d)	-	99.7
Jefferson Health System Revenue Bonds, net of unamortized discount of \$0.4 million and \$0.5 million for 2009 and 2008, respectively, Series A of 1997 due in varying annual amounts through 2018. Interest rates ranging from 5.00% to 5.50% (e)	74.9	81.3
Jefferson Health System Revenue Bonds, net of unamortized discount of \$3.4 and \$3.5 million for 2009 and 2008, respectively, Series B of 1997 due in varying annual amounts through 2027. Interest rates ranging from 4.60% to 5.35% (e)	175.7	177.7
Other bonds and notes payable (f)	144.5	144.9
	<u>486.6</u>	<u>687.5</u>
Less current installments	<u>(10.3)</u>	<u>(19.3)</u>
	<u>\$ 476.3</u>	<u>\$ 668.2</u>

As more fully described in Note 13, upon separation of AEHN and FHCS from JHS, AEHN and FHCS repaid their allocated share of the obligated debt in accordance with the Separation Agreements in the amount of \$125.9 million and \$65.6 million, respectively.

On November 1, 1997, JHS entered into an Amended and Restated Master Trust Indenture (“1997 Master Indenture”), which provides for, among other things, the issuance from time to time of general

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unsecured debt obligations of JHS. None of the Members of JHS are directly obligated to pay the principal or interest on any bonds issued pursuant to the 1997 Master Indenture.

In addition, JHS entered into a Contribution Agreement, dated as of July 1, 1998 and amended for the fourth time on April 1, 2005, with TJUH, certain MLH entities, certain AEHN entities and FHCS (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 1997A and 1997B Bonds, the Series 2004A and 2004B Bonds, and the Series 2005A Bonds.

- (a) On April 1, 2005, the Pennsylvania Economic Development Financing Authority (“PEDFA”) issued \$54.4 million of Health System Revenue Bonds, Series 2005A and 2005B (“2005 Bonds”). The proceeds received by PEDFA were loaned to JHS and were used to (i) reimburse AEHN for costs related to the acquisition of the Corporation of Elkins Park Hospital, together with renovations, capital improvements, equipment purchases and other capital expenditures; (ii) 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 (iii) 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. The \$26.2 million of Series 2005B debt was defeased in September 2008.
- (b) On May 7, 2004 the Chester County Health and Education Facilities Authority (“Chester County Issuer”) issued \$67.1 million of Health System Revenue Bonds, Series 2004A and 2004B (“2004 Bonds”). The proceeds received by the Chester County Issuer were loaned to JHS and were used to refund the 1994 MLH Revenue Bonds Series A and Series B.
- (c) On April 1, 1999, on behalf of JHS, the Hospitals and Higher Education Facilities Authority of Philadelphia (“Philadelphia Issuer”) issued \$88.1 million of Health System Revenue Bonds, Series 1999A and 1999B (“1999 Bonds”). The proceeds received by the Philadelphia Issuer were loaned to JHS and were used to: (i) defease the FHCS Series 1993A and 1995A Hospital Revenue Bonds; (ii) reimburse FHCS for costs related to the acquisition of hospital assets of the Delaware Valley Medical Center and fund certain capital expenditures of FHCS and (iii) pay certain expenses incurred in connection with the issuance of 1999 Bonds. The \$65.6 million of Series A and B of 1999 was defeased in December 2008.
- (d) On July 21, 1998, on behalf of JHS, the Philadelphia Issuer issued \$141.6 million of Health System Revenue Bonds, Series 1998A (“1998 Bonds”). The proceeds received by the Philadelphia Issuer were loaned to JHS and provided funds for: (i) the defeasance of certain of AEHN’s outstanding bonds; (ii) fund certain capital expenditures and (iii) pay certain expenses incurred in connection with the issuance of the 1998 Bonds. The \$99.7 million of Series A of 1998 was defeased in September 2008.
- (e) On December 16, 1997, on behalf of JHS, the Philadelphia Issuer and the Chester County Issuer (collectively referred to herein as the “Authorities”) issued \$333.9 million of Health System Revenue Bonds, Series 1997A and 1997B (“1997 Bonds”). The proceeds received by the Authorities were loaned to JHS and were used to: (i) fund certain capital expenditures of MLH and TJUH, including TJUH’s purchase of the land and buildings from TJU for \$130.0 million;

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(ii) repay an outstanding loan of TJUH and (iii) pay certain expenses incurred in connection with the issuance of the 1997 Bonds.

(f) Other obligations, which are not part of the 1997 Master Indenture, are as follows:

On August 16, 2007, The Pennsylvania Economic Development Financing Authority (“PEDFA”) issued:

The Series 2007 MLH Revenue Bonds (the “2007 Bonds”), maturing on October 1, 2027, in the amount of \$34.6 million. The bondholders have a put option that can be exercised in August 2012, at which point the Bonds would be either remarketed or repurchased by MLH. The purpose of the issuance was to (i) redeem the existing Riddle Hospital Series of 1998 Bonds outstanding at June 30, 2007 in the amount of \$37.0 million; (ii) pay the costs incurred in connection with the issuance of the 2007 Bonds; and (iii) eliminate the 1998 Bond requirement to maintain a Debt Service Reserve Fund, which had an August 16, 2007 market value of \$3.4 million. The outstanding balance as of June 30, 2009 was \$34.6 million.

The Series 2007 TJUH System Revenue Bonds (the “Bonds”), maturing on October 1, 2037, in the amount of \$100.0 million. The bondholders have a put option that can be exercised in August 2012, at which point the Bonds would be either remarketed or repurchased by TJUH. Otherwise, the Bonds are subject to annual mandatory sinking fund redemption from 2027 to 2037 in amounts ranging from \$7.4 million to \$11.0 million. The bond proceeds are being used to finance the addition of critical care beds; expansion of the emergency department; upgrade and expansion of oncology infusion services; other infrastructure improvements; and, the costs of issuing the Bonds. The total estimated cost for these projects is \$137.0 million. The outstanding balance as of June 30, 2009 was \$100.0 million.

While MLH and TJUH are each solely responsible for payments to be made to PEDFA pursuant to separate loan agreements dated August 1, 2007, the payment obligations under each loan agreement will be guaranteed by the other borrower that is not party to the agreement. The guarantees are collateralized by certain real estate and are subordinate to the rights of JHS and its other Members.

The 2007 Bonds will initially bear interest at Indexed Put Rates and may be converted to bonds that bear interest at a Daily Interest Rate, Weekly Interest Rate, Long-Term Interest Rate, Bond Interest Term Rate, or an Auction Rate.

During fiscal year 2003, the Philadelphia Issuer issued the Series of 2003 Hospital Revenue Bonds, 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. 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

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tendered for purchase and not remarketed. The outstanding balance as of June 30, 2009 is \$1.9 million.

On July 1, 2003, Riddle Memorial Hospital Health Care Center III Associates (“HCC III Associates”), a Pennsylvania limited partnership issued and sold \$8.6 million of its Taxable Variable Rate Demand Bonds, Series 2003 (the “2003 Bonds”). The 2003 Bonds constitute general obligations of HCC III Associates, the payment of which is supported by the assets and credit of HCC III Associates and secured in the trust indenture. The 2003 Bonds will mature on July 1, 2013 and initially bear interest at a weekly rate, and may thereafter be converted to a medium term rate or to a fixed rate. Payment of the principal, interest, and purchase price is collateralized by an irrevocable direct pay letter of credit issued by a local bank. HCC III Associates has entered into an agreement with Bank of New York or its successor (the “2003 Bonds Trustee”) as Trustee for the holders of the 2003 Bonds. Proceeds of the Series 2003 Bonds were used to: (a) refinance existing outstanding indebtedness of \$6.0 million; (b) acquire a leasehold interest in two floors of a medical office building owned by the Hospital for a twenty-five year term after a lump sum rental payment of \$2.5 million pursuant to a lease agreement with the Hospital; (c) pay expenses related to the issuance of the 2003 Bonds. The outstanding balance as of June 30, 2009 was \$7.6 million.

The remainder of the total other debt primarily consists of small Member notes and mortgages (\$0.4 million).

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:

2010	\$ 10.3
2011	40.4
2012	42.3
2013	143.0
2014	19.4
Thereafter	<u>231.2</u>
	<u>\$ 486.6</u>

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In order to lock in current debt interest rates JHS has entered into various interest rate swap agreements with notional amounts of \$443.6 million at June 30, 2009 and June 30, 2008. All of these swap transactions had a forward starting date within fiscal year 2008. All of these swaps are marked to market and recorded as nonoperating revenues investment income and realized gains. The London InterBank Offered Rate (“LIBOR”) British Bankers' Association (“BBA”) rates for the one month ranged from 0.31 percent to 4.59 percent (average rate of 1.44 percent) in 2009. The LIBOR BBA rates for the five year ranged from 1.92 percent to 4.49 percent (average rate of 3.09 percent) in 2009.

Included in other nonoperating revenues (expenses) on the Statements of Operations and Changes in Net Assets is a loss of \$16.7 million and \$18.6 million for the years ended June 30, 2009 and 2008, respectively, related to these swap agreements. Included in other non-current liabilities on the consolidated Balance Sheets are unrealized losses of \$33.7 million and \$17.5 million as of June 30, 2009 and 2008, respectively, related to these swap agreements.

<u>Expiration Date</u>	<u>JHS Receives</u>	<u>JHS Pays</u>	<u>Notional Amount at June 30, 2009 and June 30, 2008</u>
November 1, 2037	68% of United States Dollar Libor BBA (One Month)	3.6319%	\$50.0
November 1, 2037	68% of United States Dollar Libor BBA (One Month)	3.6460%	\$50.0
May 1, 2027	68% of United States Dollar Libor BBA (One Month)	3.941%	\$67.0
May 1, 2018	68% of United States Dollar Libor BBA (One Month)	3.8570%	\$20.2

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<u>Expiration Date</u>	<u>JHS Receives</u>	<u>JHS Pays</u>	<u>Notional Amount at June 30, 2009 and June 30, 2008</u>
May 1, 2027	68% of United States Dollar Libor BBA (One Month)	3.919%	\$75.0
May 1, 2027	68% of United States Dollar Libor BBA (One Month)	3.980%	\$43.1
May 1, 2018	63.73% of United States Dollar LIBOR BBA (Five Year)	68% of United States Dollar Libor BBA (One Month)	\$20.2
May 1, 2027	68% of United States Dollar LIBOR BBA (Five Year minus 0.2930%)	68% of United States Dollar Libor BBA (One Month)	\$75.0
May 1, 2027	68% of United States Dollar LIBOR BBA (Five Year minus 0.325%)	68% of United States Dollar Libor BBA (One Month)	\$43.1

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MLH's HCC III Associates on March 7, 2003, entered into an interest rate swap agreement to convert the Series 2003 Bonds from a variable rate mode to a fixed rate mode. The swap is for a notional amount of \$8.6 million, has a fixed interest rate of 4.21 percent and a termination date of July 1, 2013. The swap transaction, plus the letter of credit enhancement fee and the bond re-marketing fee, result in a fixed interest rate of approximately 5.3 percent for the 10 year term of the Series 2003 Bonds. The risk management objective is to hedge the interest payment cash outflows on the MLH Series 2003 Bonds described above. The swap agreement is effective July 1, 2003, the date the Series 2003 Bonds were issued and the hedge became operational. The swap agreement and the Bond issue are an effective hedge, the weekly reset interest rate on the bonds is trading at an approximately 99.7 percent efficiency to the floating rate option one month LIBOR BBA rate. The LIBOR BBA rates for the one month ranged from 0.31 percent to 4.59 percent (average rate of 1.44 percent) in 2009.

In December 2008 this swap was terminated, which resulted in a realized loss of \$115,000 which is included in other non-operating income (expenses) on the Combined Statement of Operations and Changes in Net Assets for the year ended June 30, 2009. For the year ended June 30, 2008, a loss of \$486,000 was recorded related to this swap agreement.

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8. Pension Plans

Each of the Members have 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.

JHS has adopted the recognition provisions of SFAS No. 158 for the year ended June 30, 2007 for the Plans. SFAS No. 158 also requires an employer to measure defined benefit plan assets and obligations as of the date of its year-end balance sheet, with limited exceptions.

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, 2009 include:

	<u>2009</u>	<u>2008</u>
Amounts recognized in unrestricted net assets		
Unamortized net actuarial loss	\$ 219.1	\$ 12.3
Unamortized prior service (credit)	(9.6)	(7.7)
	<u>\$ 209.5</u>	<u>\$ 4.6</u>

At June 30, 2009 and 2008 amounts in unrestricted net assets that are expected to be recognized as components of net periodic pension expense during fiscal year 2010 and 2009, respectively, are as follows:

	<u>2009</u>	<u>2008</u>
Unamortized net actuarial loss	\$ (4.2)	\$ (10.6)
Unamortized prior service (credit)	\$ (2.0)	\$ (1.9)

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The following table sets forth the change in the benefit obligation and the change in the fair value of plan assets based on the measurement date, as well as the amounts recognized in the accompanying consolidated financial statements at June 30, 2009 and 2008:

	2009	2008
Change in benefit obligation:		
Benefit obligation at beginning of year -	\$747.7	\$734.6
Service cost	28.1	28.7
Interest cost	50.2	45.7
Plan amendment	0.0	0.1
Actuarial loss	55.7	(40.3)
Benefits paid	(26.8)	(21.1)
	<u>854.9</u>	<u>747.7</u>
Benefit obligation at end of year		
Change in plan assets:		
Fair value of plan assets at beginning of year -	684.5	680.9
Actual return on plan assets (net of expenses)	(111.7)	-
Employer contributions	34.7	24.5
Benefits paid	(26.8)	(20.8)
	<u>580.7</u>	<u>684.6</u>
Fair value of plan assets at end of year		
Funded status at end of year	<u>(\$274.2)</u>	<u>(\$63.1)</u>
Amounts recognized in the statement of financial position consist of:		
Current portion of accrued pension liability	(0.1)	(3.2)
Non-current portion of accrued pension liability	(274.1)	(59.9)
Net amount recognized	<u>(\$274.2)</u>	<u>(\$63.1)</u>

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

	2009	2008
Assumptions used to estimate June 30, 2009 and 2008 year end pension obligations		
Discount rate	6.32%	6.75%
Rate of compensation increase	4.25%	4.25%

The following table sets forth the periodic benefit cost activity of the applicable Plans at June 30, 2009 and 2008:

	2009	2008
Periodic Benefit Cost		
Service cost	\$ 28.1	\$ 28.7
Interest cost	50.2	45.7
Expected return on plan assets	(58.1)	(57.8)
Amortization of prior service cost	<u>(2.0)</u>	<u>(1.9)</u>
Net periodic benefit cost	<u>\$ 18.2</u>	<u>\$ 14.7</u>

Weighted-average assumptions used in
the accounting were:

Discount rate	6.75%	6.43%
Expected return on plan assets	8.08%	8.21%
Rate of compensation increase	4.25%	4.08%

The consolidated Accumulated Benefit Obligation is \$794.1 million and \$696.4 million as of June 30, 2009 and June 30, 2008, respectively.

In aggregate, JHS' Members will make contributions of approximately \$38.8 million to the plans in fiscal year 2010.

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Asset Allocation

The aggregate asset allocation for the various pension plan investments is as follows:

	Target Allocation	Percentage of Plan Assets June 30	
		<u>2009</u>	<u>2008</u>
Equity Securities	62%	60%	62%
Debt Securities	28%	30%	28%
Fixed Income	10%	10%	10%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

In selecting the expected long-term rate of return on plan 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 plan.

Projected Pension Benefit Payments

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

<u>Year</u>	<u>Amount</u>
2010	\$29.2
2011	31.8
2012	34.7
2013	38.7
2014	42.0
2015 - 2019	276.9

9. Professional and General Liability Claims

JHS, the Members and their affiliated organizations have several layers of coverage for professional liability exposures. As of June 30, 2009 and 2008 for the healthcare provider (hospital, physician, nursing home) Member organizations, 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 and \$1.5 million annual aggregate per physician. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania. In addition, a \$1.0 million per medical incident / \$3.0 million annual aggregate limit is provided per scheduled dentists as well as for scheduled physicians / residents practicing in Delaware and New Jersey. As of June 30, 2009 and 2008 JHS and the Members of JHS' non-healthcare provider entities are provided with a per Member shared \$1.0 million / \$1.0 million annual aggregate limit of liability. JHS and the Members of JHS

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and their affiliated organizations obtain their primary hospital and physician professional liability, miscellaneous professional liability and general liability coverages, from a policyholder-owned, Vermont -domiciled, risk retention group, the RRG. For the professional liability coverages the RRG is 100% reinsured by a JHS-owned, Delaware - domiciled, 501 (c) (3) sponsored protected cell insurance company, Five Pointe.

The RRG retains the general liability coverage exposure. The RRG provides a \$2.0 million per occurrence / \$5.0 million annual aggregate general liability coverage limit shared by JHS, the Members and their affiliated organizations. The premiums charged 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 and other factors, at a 65 percent confidence level and a 3 percent discount rate for fiscal year 2009 and 2008 and include a charge for premium tax and operating expenses.

The second layer of professional liability coverage for the designated healthcare providers Members is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). This second layer, required by statute, consists of coverage limits of \$500 thousand per medical incident and \$1.5 million annual aggregate per hospital and per employed physician at June 30, 2009 and June 30, 2008. 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. No provision has been made for future MCARE Fund assessments as the MCARE Fund unfunded liability cannot be reasonably estimated.

Pursuant to Act 13 of 2002, the Pennsylvania Insurance Commissioner is tasked with conducting a study regarding the availability of additional basic medical malpractice insurance coverage capacity in the Commonwealth of Pennsylvania. Based upon the study the Commissioner then shall make a decision, expected late in calendar year 2009, whether or not the statutorily provided MCARE Fund limit for this second layer of coverage will or will not decrease to limits of \$250,000 per incident and \$750,000 annual aggregate per hospital and per employed physician in 2010 (the primary layer of coverage would increase to \$750,000 per incident). Three years following a decision to modify MCARE Fund limits, the Commissioner shall conduct an additional study regarding the availability of additional basic insurance coverage capacity followed by a determination whether or not such limits would decrease again to zero dollars per incident and zero dollars annual aggregate per hospital and per employed physician (the primary layer of coverage would increase to \$1,000,000 per incident). For the purpose of calculating the actuarially determined estimates, it has been assumed that the increase in mandatory primary limits will be affirmatively approved; however, if the Commissioner does not increase the primary limits, the actuarially determined estimate would be \$4.0 million lower.

Liabilities for JHS and the Members of JHS 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 per Member 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

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reflect a discount rate of 3 percent and a 65 percent confidence level for fiscal year 2009 and 2008. 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.

During fiscal year 2009 and 2008, JHS and the Members of JHS and their affiliated organizations maintained claims made excess catastrophic professional liability insurance coverage through Five Pointe and Whitehall SPC, respectively, in the amount of \$90.0 million per medical incident / \$90.0 million annual aggregate after a \$5.0 million / \$5.0 million per Member retention 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 2009 and 2008, Five Pointe reinsured 100 percent of this risk to six currently A-rated insurers (ACE, Zurich, Allied World, Berkley, Munich American Re, Swiss Re).

10. Commitments and Contingencies

Operating Leases

JHS Members have various lease obligations for equipment, ambulatory facilities and office space. At June 30, 2009, the minimum future rental commitment is as follows:

2010	\$ 30.1
2011	25.0
2012	22.7
2013	19.3
2014	16.2
Thereafter	86.0
	<u>\$ 199.3</u>

Total rental expense was \$37.4 million in 2009 and \$34.1 million in 2008.

Line of Credit

At June 30, 2009 and 2008, JHS had available unsecured lines of credit of \$21.5 million. There was zero outstanding as of June 30, 2009 and 2008.

Letters of Credit

At June 30, 2009 and 2008, JHS had available open letters of credit aggregating \$50.4 million and \$45.7 million, respectively.

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.

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Other

The health care industry in general and the services that the Members of JHS provide are subject to extensive federal and state laws and regulations. Additionally, a portion of net revenue is from payments by government-sponsored health care programs, principally Medicare and Medicaid, and is subject to audit and adjustments by applicable governmental agencies. Failure to comply with any of these laws or regulations, the result of regulatory audits and adjustments, or reductions in the amounts payable for services under these programs, could have a material, adverse effect on JHS' financial position and results of operations.

On November 1, 2001, the Lankenau Hospital Foundation (the "Foundation") and MLH formed Main Line Health Real Estate, L.P. (the "Partnership") to manage and develop certain real estate assets held by each. In addition, MLH Realty LLC was formed to administer the general partnership interest of Main Line Health Real Estate L.P. The Partnership leases various medical office buildings under the terms of various Master Lease Agreements with the Foundation and MLH. All Master Lease Agreements cover a term of ten years, from November 1, 2001 to October 31, 2011, with the Partnership having the option to extend the Master Lease Agreements for an additional five years. Under the terms of the Master Lease Agreements, the Partnership has the option at any time during the term of the Agreements to purchase the leased property for a specified price which is equivalent to the fair market value of the property at the inception of the lease from the Foundation or MLH. Upon formation, MLH and the Foundation committed real estate assets to the Partnership. The ownership of the real estate assets remained with the Foundation and MLH. On January 1, 2008, a partial unwind of Main Line Health Real Estate, LP occurred. The effect of this unwind resulted in MLH purchasing back the right to own, manage and operate various medical office buildings that were previously committed to the Partnership. MLH acquired medical office buildings, land and a parking garage from the Partnership at the fair value of \$88,604,000. Subsequently, the Partnership distributed \$90,191,000 to its partners of which MLH received \$43,571,000. For years ended June 30, 2009 and 2008, MLH has included in non-operating investment income, its equity (loss) in earnings of the Partnership of (\$1,132,000) and \$15,737,000, respectively. As of June 30, 2009, MLH has a 48.31% partnership interest and the Foundation has a 51.69% partnership interest. Partnership profits and losses are allocated to MLH and the Foundation in accordance with their partnership interest percentage. MLH accounts for its interest in the Partnership using the equity method of accounting because MLH and the Foundation have joint control over the Partnership. MLH's investment in the Partnership as of June 30, 2009 and 2008 is \$4,393,000 and \$5,525,000, respectively.

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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 Statute:

	2009	2008
Healthcare services	\$ 104.2	\$ 126.4
Fellowship and research	16.3	14.4
Indigent care	10.9	21.3
	<u>\$ 131.4</u>	<u>\$ 162.1</u>

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

	2009	2008
Endowments to be held in perpetuity, the income of which is expendable to support:		
Healthcare services	\$ 59.7	\$ 65.3
Fellowship and research	17.8	11.8
Indigent care	30.3	40.7
	<u>\$ 107.8</u>	<u>\$ 117.8</u>

The above amounts include \$50.7 million and \$68.1 million at June 30, 2009 and 2008, respectively, of beneficial interest in perpetual trusts.

12. Relationship with Thomas Jefferson University

JHS and 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 Thomas Jefferson University

Subsequent to March 1996, TJU agreed to provide to TJUH the following services: physician and non-physician personnel and other support necessary to preserve and maintain the tertiary care capacity of TJUH. TJU also provides clinical space as well as administrative and finance, human resource, information technology, maintenance and security, temporary staffing and other ancillary services to TJUH. Expenses charged by TJU were \$130.0 million and \$107.5 million for the years ended June 30, 2009 and 2008, respectively.

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TJUH provides TJU with certain office and clinical space, information systems services, telecommunications services and ancillary services. Expenses charged to TJU for these services aggregated to \$15.3 million and \$9.1 million in 2009 and 2008, respectively.

Approximately \$136.7 million and \$173.1 million of JHS' investments represent participation by TJUH in TJU's pooled investment funds at June 30, 2009 and 2008, respectively.

13. Discontinued Operations

On May 28, 2008, AEHN and JHS entered into a Separation Agreement ("Separation Agreement") whereby JHS ceased to be the sole member of AEHN when the transaction closed on September 30, 2008.

As discussed in Note 7, AEHN is an Obligated Group Affiliate under JHS's Master Trust Indenture and is jointly and severally liable with the other JHS Members to JHS for all of the debt associated with the Contribution Agreement. As a result, AEHN was obligated to repay JHS for the portion of the debt associated with the Contribution Agreement that was used to benefit AEHN (the "AEHN debt"). On September 30, 2008 the amount repaid by AEHN in accordance with the Separation Agreement was \$125.9 million. Pursuant to the Separation Agreement, AEHN secured the financing necessary to repay the outstanding principal of the AEHN debt, together with any accrued interest on and any premiums due in connection with a refunding or defeasance of the AEHN debt.

When AEHN joined JHS, AEHN contributed \$5.0 million in capital to JHS. This same amount was returned to AEHN, less \$0.2 million, which represents AEHN's pro rata share of costs associated with the implementation of a JHS-wide information system.

As a result of the Separation Agreement AEHN is considered and is reported as a discontinued operation.

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The financial results related to the AEHN discontinued operation are as follows:

	At June 30, 2008
Assets	
Current assets	
Cash and cash equivalents	\$ 62.8
Investments	48.1
Accounts receivable, less allowance for doubtful accounts	107.4
Inventory	8.5
Other current assets	3.3
Assets whose use is limited	19.8
Total current assets	<u>249.9</u>
Long-term investments	244.2
Assets whose use is limited	72.5
Land, buildings and equipment, net	233.9
Beneficial interest in perpetual trust	38.6
Other non-current assets	42.5
Total Assets	<u>\$ 881.6</u>
Liabilities and Net Assets	
Current portion of long-term obligations	
Accounts payable and accrued expenses	\$ 6.7
Accrued vacation	97.3
Accrued vacation	26.6
Current portion of accrued professional liability claims	11.4
Other current liabilities	0.8
Total current liabilities	<u>142.8</u>
Long-term obligations	121.0
Accrued pension liability	57.4
Accrued professional liability claims	91.5
Other non-current liabilities	16.2
Total Liabilities	<u>286.1</u>
Net Assets	
Unrestricted	354.4
Temporarily restricted	51.8
Permanently restricted	46.5
Total Net Assets	<u>452.7</u>
Total Liabilities and Net Assets	<u>\$ 881.6</u>

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	For the twelve month period ending June 30, 2008
Unrestricted net assets	
Net patient service revenue	\$ 787.9
Investment income	5.5
Other revenues	30.6
Net assets released from restrictions used for operations	<u>6.5</u>
Total unrestricted operating revenues, gains and other support	<u>830.5</u>
Operating expenses	
Salaries and employee benefits	505.6
Supplies	101.9
Depreciation and amortization	30.3
External physician, clinical and professional service fees	66.7
Interest expense	6.4
Insurance	37.4
Provision for bad debts	15.1
Other	<u>43.8</u>
Total operating expenses	<u>807.2</u>
Operating (loss) income	23.3
Nonoperating revenues (expenses)	
Investment income and realized gains	6.5
Other	<u>26.5</u>
Excess of revenues over expenses	<u><u>\$ 56.3</u></u>

On November 5, 2008, FHCS and JHS entered into a Separation Agreement (“Separation Agreement”) whereby JHS ceased to be the sole member of FHCS when the transaction closed on December 31, 2008.

As discussed in note 7, FHCS is an Obligated Group Affiliate under JHS’s Master Trust Indenture and is jointly and severally liable with the other JHS Members to JHS for all of the debt associated with the Contribution Agreement. As a result, FHCS was obligated to repay JHS for the portion of the debt associated with the Contribution Agreement that was used to benefit FHCS (the “FHCS debt”). On December 31, 2008 the amount repaid by FHCS in accordance with the Separation Agreement was \$65.6 million. Pursuant to the Separation Agreement, FHCS repaid the outstanding principal of the FHCS debt, together with any accrued interest on and any premiums due in connection with a refunding or defeasance of the FHCS debt.

When FHCS joined JHS, FHCS contributed \$5.0 million in capital to JHS. This same amount was returned to FHCS, less \$0.2 million, which represents FHCS’s pro rata share of costs associated with the implementation of a JHS-wide information system.

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As a result of the Separation Agreement FHCS is considered and is reported as a discontinued operation.

The financial results related to the FHCS discontinued operation is as follows:

	At June 30, 2008
Assets	
Current assets	
Cash and cash equivalents	\$ 60.5
Investments	58.1
Accounts receivable, less allowance for doubtful accounts	40.1
Inventory	5.0
Other current assets	11.1
Assets whose use is limited	10.1
Total current assets	<u>184.9</u>
Long-term investments	123.2
Assets whose use is limited	83.9
Land, buildings and equipment, net	151.4
Assets held by affiliated foundations	47.4
Other non-current assets	0.2
Total Assets	<u>\$ 591.0</u>
Liabilities and Net Assets	
Current portion of long-term obligations	\$ 3.3
Accounts payable and accrued expenses	40.4
Accrued vacation	10.5
Current portion of accrued professional liability claims	11.1
Other current liabilities	18.8
Total current liabilities	<u>84.1</u>
Long-term obligations	72.3
Accrued pension liability	18.2
Accrued professional liability claims	49.3
Other non-current liabilities	0.7
Total Liabilities	<u>140.5</u>
Total Liabilities	<u>224.6</u>
Net Assets	
Unrestricted	361.6
Temporarily restricted	2.5
Permanently restricted	2.3
Total Net Assets	<u>366.4</u>
Total Liabilities and Net Assets	<u>\$ 591.0</u>

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	For the twelve month period ending June 30, 2008
Unrestricted net assets	
Net patient service revenue	\$ 489.8
Investment income	3.1
Other revenues	14.1
Net assets released from restrictions used for operations	<u>0.5</u>
Total unrestricted operating revenues, gains and other support	<u>507.5</u>
Operating expenses	
Salaries and employee benefits	252.5
Supplies	68.3
Depreciation and amortization	25.1
External physician, clinical and professional service fees	42.5
Interest expense	3.3
Insurance	7.2
Provision for bad debts	56.9
Other	<u>22.2</u>
Total operating expenses	<u>478.0</u>
Operating (loss) income	29.5
Nonoperating revenues (expenses)	
Investment income and realized gains	14.5
Other	<u>-</u>
Excess of revenues over expenses	<u>\$ 44.0</u>

14. Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure any financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Management has not elected the fair value option for financial assets and liabilities at July 1, 2008.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires disclosures on how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect the company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The use of derivatives by JHS is generally limited to interest rate swaps. Disclosures pertaining to these financial instruments will be expanded in accordance with SFAS 161.

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In February 2008, the FASB issued a revision to its Fair Value Measurements standard, which delays its effective date for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, to fiscal years beginning after November 15, 2008. The System's management is evaluating the impact this standard will have on the consolidated financial statements beginning in fiscal year 2010.

In December 2008, the FASB issued SFAS 132R, Employers' Disclosures about Pensions and Other Postretirement Benefits. This revised standard provides guidance on employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The purpose of this revised standard is to provide users with more transparency surrounding plan assets and associated risks. Additional required disclosures will include, but are not limited to, investment policies and strategies, major categories of plan assets, inputs and valuation techniques used to measure fair value of the plan assets, effect of fair value measurements using significant unobservable inputs on changes in plan assets, and significant concentrations of risk within plan assets. It is similar to the disclosures about fair value measurements required by FASB. This revised standard is effective for fiscal years ending after December 15, 2009. Disclosures pertaining to the System's or Member's plan assets will be expanded in accordance with this revised standard for consolidated financial statements beginning in fiscal year 2010.

In April 2009, the FASB issued SFAS 164, Mergers and Acquisitions for Not-for-profit entities. This standard provides guidance on improving the quality of information in financial reports provided by a not-for-profit organization regarding business combinations with one or more other not-for-profit entities, businesses or nonprofit activities. The guidance will distinguish mergers (carryover method) from acquisitions (acquisition method) as well as provide updated accounting for goodwill and intangibles. Additional disclosures will be required in order to enable users of financial statements to evaluate the nature and financial effects of the merger or acquisition. This standard is effective for fiscal years beginning after December 15, 2009. Disclosures pertaining to any future mergers or acquisitions occurring after July 1, 2010 will be expanded in accordance with this standard for the consolidated financial statements beginning in fiscal year 2011.

In May 2009, the FASB issued SFAS 165, Subsequent Events. This standard provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It is effective for fiscal periods ending after June 15, 2009, and was adopted by the System at the end of fiscal 2009. The System has performed an evaluation of subsequent events through September 30, 2009, which is the date the financial statements were available to be issued.