KPMG

# UNIVERSITY HOSPITAL

(A Component Unit of the State of New Jersey)

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**UNIVERSITY HOSPITAL**
(A Component Unit of the State of New Jersey)

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

## Independent Auditors' Report

The Board of Directors
University Hospital:

We have audited the accompanying financial statements of University Hospital (the Hospital), a component unit of the State of New Jersey, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements for the years then ended as listed in table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC), for the year ended December 31, 2015 which represents 1.3 percent of total assets and 2.7 percent of net position as of June 30, 2016, and 1.9 percent of total revenues for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for BHCC, is based solely on report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United State of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of University Hospital as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**Emphasis of a Matter**

As discussed in note 2(t) to the financial statements, in 2017, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.* Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 13 and the Schedule of the Hospital Contributions and the Schedule of the Hospital's Proportionate Share of the Net Pension Liability on pages 51 and 52, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 30, 2017

This section of the Hospital's annual financial report presents management's discussion and analysis of the summarized assets, liabilities, and net position as of June 30, 2017 compared to June 30, 2016 balances and June 30, 2016 compared to June 30, 2015 balances. This section also presents management's discussion and analysis of the financial performance during the years ended June 30, 2017 compared to June 30, 2016 and June 30, 2016 financial performance compared to June 30, 2015. The purpose is to provide an objective analysis of the financial activities of the Hospital based on currently known facts, decisions, and conditions. Please read it in conjunction with the financial statements, which follow this section.

### New Jersey Medical and Health Sciences Education Restructuring Act

In accordance with Public Law 2012, c. 45, the New Jersey Medical and Health Sciences Education and Restructuring Act (the Restructuring Act), effective July 1, 2013, the Hospital was separated from the University of Medicine and Dentistry of New Jersey (UMDNJ) as a new stand-alone entity was formed. The Hospital will continue to be the primary teaching hospital for the Newark-based schools of the Rutgers School of Biomedical and Health Sciences.

The mission of the Hospital is to improve the quality of life for everyone who comes in contact with the Hospital through effective patient care, education, research, and community service. As the core teaching facility in Newark, the Hospital is the center of referral for many of the State's most advanced medical services and specialty care programs. The Hospital is committed to education, primary care, and specialized referral.

The Hospital shall maintain its public mission to provide a comprehensive healthcare program and services to the greater Newark community, including outreach and mobile health services as well as services in collaboration with the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. The Hospital is committed to act in accordance with the spirit and intent of the "Agreements Reached between Community and Government Negotiators Regarding New Jersey College of Medicine and Dentistry and Related Matters of April 30, 1968."

### Overview of the Financial Statements

This annual report consists of two parts – management's discussion and analysis and the basic financial statements.

The basic financial statements include statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These statements present the financial position of the Hospital at June 30, 2017 and 2016, the end of the fiscal years, and the changes in net position and its financial activities for the years then ended. The statements of net position include all of the Hospital's assets and liabilities in accordance with U.S. generally accepted accounting principles. The statements of revenues, expenses, and changes in net position, present each year's activities on the accrual basis of accounting, that is, when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements also report the Hospital's net position and how they have changed. Net position, or the difference between assets and liabilities, is a way to measure the Hospital's financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to operating, noncapital financing, capital and related financing, and investing activities. Notes to financial statements explain information in the statements and provide more detailed data.

 (Continued)

A summarized comparison of the Hospital's assets, liabilities, and net position at June 30, 2017, 2016 and 2015 are as follows (in thousands):

| | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Assets: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 79,400 | 100,512 | 99,711 |
| Patient accounts receivable, net | | 80,778 | 75,468 | 68,245 |
| Restricted investments | | 6,042 | 6,334 | 625 |
| Other current assets | | 55,858 | 37,542 | 32,722 |
| Noncurrent assets: | | | | |
| Restricted investments, net | | 104,857 | 125,323 | 34,883 |
| Prepaid bond insurance | | 16,730 | 17,317 | — |
| Capital assets, net | | 198,475 | 204,689 | 205,881 |
| Total assets | $ | 542,140 | 567,185 | 442,067 |
| Deferred outflows of resources | $ | 151,245 | 58,981 | 28,814 |
| Liabilities: | | | | |
| Current liabilities | $ | 92,550 | 102,428 | 141,874 |
| Long-term debt and capital leases, net | | 346,480 | 347,457 | 185,516 |
| Pension liability | | 552,097 | 410,860 | 346,611 |
| Other long-term liabilities | | 21,703 | 20,720 | 21,212 |
| Total liabilities | $ | 1,012,830 | 881,465 | 695,213 |
| Deferred inflows of resources | $ | — | 2,028 | 10,520 |
| Net position: | | | | |
| Net investment in capital assets | $ | 15,274 | 40,762 | 51,011 |
| Restricted | | 6,022 | 6,341 | 1,723 |
| Unrestricted | | (340,741) | (304,430) | (287,586) |
| Total net position | $ | (319,445) | (257,327) | (234,852) |

*Overall Financial Position and Operations*

The Hospital's total net position from the period June 30, 2016 to June 30, 2017, decreased by $62.1 million. Net investment in capital assets decreased by $25.5 million during 2017 as the Hospital's depreciation exceeded purchases of capital assets and decrease in capital reserve funds (unspent proceeds related to debt). The Hospital's unrestricted position decreased $36.3 million from ($304.4) million at June 30, 2016 to ($340.7) million at June 30, 2017. The decrease was due to $46.9 million of pension expense during fiscal 2017 related to GASB 68. (Pension expense, without consideration for GASB 68, was $9.2 million during 2017). Without giving effect to the pension expense for GASB 68, the Hospital's unrestricted position increased by $10.6 million in fiscal year 2017.

The Hospital's total net position from the period June 30, 2015 to June 30, 2016, decreased by $22.5 million. Net investment in capital assets decreased by $10.2 million during 2016 as the Hospital's depreciation exceeded purchases of capital assets. The Hospital's unrestricted position decreased $16.7 million from ($287.6) million at June 30, 2015 to ($304.4) million at June 30, 2016. The decrease was due to $25.6 million of pension expense during fiscal 2016 related to GASB 68 (Pension expense, without consideration for GASB 68, was $5.7 million during 2016). Without giving effect to the pension expense for GASB 68, the Hospital's unrestricted position increased by $8.9 million in fiscal year 2016.

Significant financial ratios are as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current ratio | 2.40 | 2.15 | 1.42 |
| Quick ratio | 1.53 | 1.89 | 1.30 |
| Days cash on hand | 45.45 | 59.73 | 58.77 |
| Net days revenue in patient receivables | 59.38 | 55.54 | 51.97 |

The current ratio, quick ratio, and days cash on hand are common liquidity indicators. The Hospital's current ratio increased from 2016 to 2017. However, days cash on hand decreased from 2016 to 2017 by 14.28 days and quick ratio also decreased. The net days revenue in patient receivables is an indicator of how quickly the Hospital collects its patient receivables. The Hospital's net day's revenue in patient receivables increased 3.84 days from June 30, 2016 to June 30, 2017.

The current ratio, quick ratio, and days cash on hand are common liquidity indicators. The Hospital's current ratio and quick ratio have increased from 2015 to 2016 and days cash on hand has increased slightly from 2015 to 2016 by 0.96 days. The net days revenue in patient receivables is an indicator of how quickly the Hospital collects its patient receivables. The Hospital's net day's revenue in patient receivables increased 3.57 days from June 30, 2015 to June 30, 2016.

*Variances in Financial Statements*

In this section, the Hospital explains the reasons for certain financial statement items with variances relating to 2017 amounts compared to 2016 and, where appropriate, 2016 amounts compared to 2015.

**Statement of Net Position**

*Cash and cash equivalents* – decreased by $21.1 million as compared to the prior year. This can be attributed to payments made for retroactive wage increases of $13.9 million as well as the reduction of $10 million in State Appropriation payments received during 2017. Cash and Cash equivalents remained unchanged from 2016 over 2015.

*Patient accounts receivable, net* – increased $5.3 million from June 30, 2016 to June 30, 2017 primarily due to a $4.4 million decrease in the reconciled Medicare PIP balance as compared to the prior year. Days in patient accounts receivable of 59.38 are 3.98 days more than the prior year. *Patient accounts receivable, net* increased $7.2 million from June 30, 2015 to June 30, 2016. Days in patient accounts receivable of 55.40 are 3.43 days more than 2015. This is a result of a $19.7 million increase in discharge not final billed (DNFB) accounts compared to 2015, impact of ICD-10 coding changes, as well as the Medicaid expansion and the impact of increased net patient service revenue on the calculation.

*Other current assets* – increased $18.3 million from June 30, 2016 to June 30, 2017 due to an increase in the NJDOH DSRIP program receivable of $8.2 million, an $8.4 million increase in receivables due from Rutgers University for reconciled rent payments as well as $1.4 million for EMS services provided to the City of Newark. *Other current assets* increased $4.8 million from June 30, 2015 to June 30, 2016 due to an increase in the NJDOH DSRIP program receivable of $1.4 million as well as an additional receivable of $1.0 million for the Hospital's 340B Outpatient Drug program.

*Restricted investments (current and long term)* – decreased by $20.7 million from June 30, 2016 to June 30, 2017 due to the drawdown of capital funds used in the financing of routine and emergency capital needs and technology to replace the services formerly provided by Rutgers University and capital upgrades as well as additions to various services and facilities. *Restricted investments* increased $96.1 million from June 30, 2015 to June 30, 2016 due to the issuance $255 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds of which $107.8 million was designated to fund various capital projects including routine and emergency capital needs as well as technology to replace the services currently provided by Rutgers University and capital upgrades and additions to various services and facilities.

*Prepaid bond insurance* – decreased $0.6 million from June 30, 2016 to June 30, 2017 due to amortization. The cost of the prepaid bond insurance was $17.6 million and $0.9 million has been amortized as of June 30, 2017 while $0.3 million has been amortized as of June 30, 2016.

*Capital assets, net* – decreased $6.2 million from June 30, 2016 to June 30, 2017 due to amortization. The decrease is due to $14.3 million of purchases which were offset by current year depreciation in the amount of $20.5 million. *Capital assets, net* decreased $1.2 million from June 30, 2015 to June 30, 2016. The decrease is due to $19.1 million of purchases which were offset by current year depreciation in the amount of $20.3 million.

*Accounts payable and accrued expenses* – increased by $9.8 million from June 30, 2016 to June 30, 2017 due to timing of normal operating activity. The Hospital continues with the practice of paying vendors within 45 days after providing services. The Hospital had days in accounts payable of 56.28 days as of June 30, 2017. *Accounts payable and accrued expenses* – decreased approximately $5.0 million from June 30, 2015 to June 30, 2016 due to normal operating activity. The Hospital continues with the practice of paying vendors within 45 days after providing services. The Hospital had days in accounts payable of 40.3 days as of June 30, 2016.

*Accrued salaries and related payroll taxes* – decreased by $17.3 million from June 30, 2016 to June 30, 2017 as a result of payments for retroactive wage increases of $13.9 million as well as $5.9 million change in prior years estimated retroactive wage increase. *Accrued salaries and related payroll taxes* increased approximately $10.6 million from June 30, 2015 to June 30, 2016 due to a $9.7 million reserve for potential wage increases as a result of unsettled collective bargaining agreements at June 30, 2016.



(Continued)

*Due to Rutgers University* – increased approximately $3.9 million from June 30, 2016 to June 30, 2017 as the Hospital and Rutgers University continue to work towards a collegial relationship that would allow both entities to pay within agreed timeframes. The balance at June 30, 2017 represents liabilities for both clinical and facility services. *Due to Rutgers University* decreased approximately $5.9 million from June 30, 2015 to June 30, 2016 as the Hospital and Rutgers University continue to work towards a collegial relationship that would allow both entities to pay within agreed timeframes. The balance at June 30, 2016 represents liabilities for both clinical and facility services. The payment timeframes depend on the service ranging from advanced payments to 45 days from date of invoice.

*Accrued workers' compensation* – decreased $1.2 million from June 30, 2016 to June 30, 2017 due to an updated actuarial analysis. The Hospital continues to record this liability on an undiscounted basis. *Accrued workers' compensation* decreased slightly from June 30, 2015 to June 30, 2016 and the Hospital continues to record this liability on an undiscounted basis.

*Estimated third-party payer settlements* – decreased by $0.9 from June 30, 2016 to June 30, 2017 primarily due to settlements of prior year cost reports and changes in reserve estimates. *Estimated third-party payer settlements* decreased slightly from June 30, 2015 to June 30, 2016 primarily due to settlements of prior year cost reports and changes in reserve estimates.

*Current portion of long term debt* – increased slightly from June 30, 2016 to June 30, 2017 as a result of the principal amount due the New Jersey Educational Facilities Authority (NJEFT) and capital lease obligations. Principal payments on the Series 2015A bonds are not set to commence until July 1, 2021. *Current portion of long term debt* decreased by $41.6 million from June 30, 2015 to June 30, 2016 primarily as a result of the Hospital refinancing $150.0 million of BAN debt and the issuance of $255.0 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds. Principal payments on the BAN debt were scheduled to commence on February 1, 2016 and continued through December 2016 until the debt was fully paid off with the Series 2015A bond issuance.

*Long-term debt* – decreased $1.0 million from June 30, 2016 to June 30, 2017, as a result of the amortization of the net bond premium. *Long-term debt* increased $162.0 million from June 30, 2015 to June 30, 2016, as a result of the issuance of $255 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds December 22, 2015. Total proceeds from the sale were $295.8 million and included $25.0 million from trustee-held debt service and reserve funds.

*Pension liability, deferred inflows of resources, and deferred outflows of resources* – increased $141.2 million, decreased $2.0 million and increased $92.3 million respectively, from June 30, 2016 to June 30, 2017 due to changes in assumptions and proportion. *Pension liability, deferred inflows of resources, and deferred outflows of resources* increased $64.2 million, decreased $8.5 million, and increased $30.2 million, respectively, from June 30, 2015 to June 30, 2016 due to changes in assumptions and proportion.

**Changes in Components of Net Position**

*Net investment in capital assets* – decreased $25.5 million from June 30, 2016 to June 30, 2017 as a result of fiscal 2017 purchases of capital assets of $14.3 million offset by fiscal depreciation of $20.5 million and an increase in debt associated with capital. *Net investment in capital assets* decreased $10.2 million from June 30, 2015 to June 30, 2016 as a result of fiscal 2016 purchases of capital assets of $18.9 million offset by fiscal depreciation of $19.9 million and an increase in debt associated with capital.

*Restricted* – decreased by $0.3 million during 2017 due to the decrease in debt service funds for interest payment due July 1. *Restricted* increased by $4.6 million during 2016 due to the increase in debt service funds for interest payment due July 1.

*Unrestricted – net position*, other than those mentioned above, resulted in a decrease of $36.3 million for year 2017. *Unrestricted – net position*, other than those mentioned above, resulted in a decrease of $16.8 million for year 2016.

A summarized comparison of the Hospital's revenues, expenses, and changes in net position for the years ended June 30, 2017, 2016 and 2015 are as follows (in thousands):

| | | **2017** | **2016** | **2015** |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Net patient service revenue | $ | 496,544 | 495,993 | 479,307 |
| Grants revenue | | 5,335 | 6,409 | 6,534 |
| Other revenue | | 26,587 | 20,936 | 14,686 |
| Total operating revenues | | 528,466 | 523,338 | 500,527 |
| Operating expenses: | | | | |
| Personal services, fringes benefits, pension, physician and resident fees | | 471,959 | 442,338 | 428,605 |
| Supplies and other expenses | | 214,237 | 210,566 | 194,579 |
| Depreciation | | 20,493 | 20,256 | 18,877 |
| Total operating expenses | | 706,689 | 673,160 | 642,061 |
| Operating loss | | (178,223) | (149,822) | (141,534) |
| Nonoperating income (expense): | | | | |
| Appropriations from State of New Jersey | | 129,843 | 137,348 | 139,374 |
| Interest expense, net | | (14,727) | (13,292) | (11,206) |
| Loss before other changes in net position | | (63,107) | (25,766) | (13,366) |
| Other changes in net position: | | | | |
| Capital contributions | | 989 | 3,291 | — |
| Decrease in net position | | (62,118) | (22,475) | (13,366) |
| Net position at beginning of year | | (257,327) | (234,852) | 86,759 |
| Effect of adoption of GASB 68 and 71 | | — | — | (308,245) |
| Net position at end of year | $ | (319,445) | (257,327) | (234,852) |

**Statements of Revenues, Expenses, and Changes in Net Position**

*Net patient service revenue* – Net patient service revenues relate to patient care services, under contractual arrangements with governmental payers and private insurers. Net patient service revenues, excluding subsidies, 2017 exceeded 2016 by $8.6 million, primarily due to an increase in observation volume as well as $6.5 million in additional Medicaid Graduate Medical Education (GME) reimbursement. *Net patient service revenue*, relate to patient care services, under contractual arrangements with governmental payers and private insurers. Net patient service revenues, excluding subsidies, 2016 exceeded 2015 by $41.5 million, primarily due to an increase in inpatient, observation and outpatient volumes as well as $3.2 million in additional Medicaid Graduate Medical Education (GME) reimbursement.

The Hospital's net patient service revenues totaled $496.5 million (including patient subsidies) in 2017. The Hospital is a major source of primary care and serves as the safety net hospital for the inner city municipalities of Newark, East Orange, Irvington, and Orange. The Hospital's role in the community is reflected in its payor mix and commitment to the medically indigent. It has traditionally been the largest provider of charity care services in the state, and Medicaid and uninsured patients account for almost 58% of its gross revenues. As a result, the Hospital must deal with the financial impact of revenue collections and reimbursements related to these patients and their payers.

The majority of the Hospital's admissions are initially treated in the emergency/trauma department. Emergency room visits of 90,575 in 2017 were under slightly from 2016 by 185 visits. Inpatient discharges for 2017, which account for approximately 70% of the Hospital's net patient service revenues, were under 2016 by 1.9%. Clinic visits for 2017, which generate outpatient revenues, decreased from 2016 levels by 4.2%. Emergency room visits of 90,760 in 2016 were over slightly from 2015 by 782 visits. Inpatient discharges for 2016, which account for approximately 69% of the Hospital's net patient service revenues, were over 2015 by 3.7%. Clinic visits for 2016, which generate outpatient revenues, increased from 2015 levels by 7.5%.

The level of charity care services provided by the Hospital represents nearly 9.0% of its overall patient care services. Charity care funding from the State of New Jersey (the State) totaled $40.4 million and $53.5 million in 2017 and 2016, respectively. Charity care funding is based upon Medicaid reimbursement rates, which have historically been in the range of 60 to 70% of cost. The level of charity care funding is critical to the Hospital's financial results.

*Patient subsidies* – The Hospital received a total of $57.1 million in patient subsidies payments in 2017 with the major components represented by payments of $40.4 million for the New Jersey Charity Care Subsidy Program and $15.9 million for the Delivery System Reform Incentive Payment (DSRIP) Program, which includes $3.4 million in successful appeals related to the prior year. The Hospital received a total of $65.1 million in patient subsidies payments in 2016 with the major components represented by payments of $53.5 million for the New Jersey Charity Care Subsidy Program and $10.9 million for the Delivery System Reform Incentive Payment (DSRIP) Program. The Hospitals $8.0 million overall decrease in subsidy funding from 2017 to 2016 is mainly attributable to the reduction of the charity care subsidy of $13.1 million partially offset by an increase in the Delivery System Reform Incentive Payment (DSRIP) of $5.0 million. This reduction in Charity Care funding can be attributed to the overall reduction of $200 million of the total state charity care funding pool. A result of the overall success of the Affordable Care Act in providing Medicaid coverage to those previously uninsured.


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*Other Revenue* – was $26.6 million for the year ended June 30, 2017 compared to $20.9 million for the year ended June 30, 2016 for an increase of $5.7 million. This was mainly due to the settlement of rent receivable of $5.0 million from Rutgers University.

*Personnel services, fringe benefits, pension, physician, and resident fees* – were $471.9 million for the year ended June 30, 2017 and were unfavorable by $29.6 million compared to prior year. Personnel services costs for the year ended June 30, 2017 of $245.5 million were $0.7 million over 2016, which was mainly due to an increase in 2017 fulltime equivalents (FTEs) of 3,266 compared to 3,218 for 2016. This increase in FTE's were offset by a reduction in payroll liabilities of $5.9 million related to prior year retroactive accruals. Pension costs for the year ended June 30, 2017 increased approximately $24.8 million as a result of the increase in pension costs related to GASB 68. Cost for medical staff and residents for the year ended June 30, 2017 of $78.6 million contracted with Rutgers University increased by $3.2 million as compared to the prior year.

*Personnel services, fringe benefits, pension, physician, and resident fees* were $442.3 million for the year ended June 30, 2016 and were unfavorable by $13.7 million compared to prior year. Personnel services costs for the year ended June 30, 2016 of $244.9 million were $7.5 million over 2015, which was mainly due to an increase in 2016 fulltime equivalents (FTEs) of 3,218 compared to 3,153 for 2015. Pension costs for the year ended June 30, 2016 increased approximately $7.9 million as a result of the increase in pension costs related to GASB 68. Cost for medical staff and residents for the year ended June 30, 2016 of $73.0 million contracted with Rutgers University were consistent with prior year.

*Supplies and other expenses* – were $214.2 million for the year ended June 30, 2017, an increase of $3.7 million or 1.74% as compared to the prior year. This increase in supplies can be attributed to economic factor adjustments. *Supplies and other expenses* were $210.6 million for the year ended June 30, 2016, an increase of $15.6 million as compared to the prior year. This increase in supplies can be attributed to additional patient volume, 340B drug program costs and consulting and other costs associated with ICD-10 coding changes.

*State appropriations* – The Hospital recorded $129.8 million in State Appropriations in 2017. These amounts include $96.0 million for fringe benefits of Hospital employees paid by the State, nominal malpractice costs and a special Higher Education Appropriation of $33.8 million for those expenses incurred as a result of the New Jersey Medical and Sciences Education Restructuring Act and Institutional Support. The Hospital recorded $137.3 million in State Appropriations in 2016. These amounts include $92.4 million for fringe benefits of Hospital employees paid by the State, malpractice costs of $1.2 million and a special Higher Education Appropriation of $43.8 million for those expenses incurred as a result of the New Jersey Medical and Sciences Education Restructuring Act and Institutional Support.

## Capital Assets, Net and Long-Term Debt Activity

*Capital Assets, Net*

At June 30, the Hospital had capital assets, net of accumulated depreciation, as shown in the table below (in thousands of dollars):

| | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Land and land improvements | $ | 1,598 | 1,598 | 1,598 |
| Buildings and leasehold improvements | | 391,818 | 389,456 | 389,389 |
| Equipment | | 237,516 | 226,300 | 207,303 |
| Total | | 630,932 | 617,354 | 598,290 |
| Less accumulated depreciation | | 432,457 | 412,665 | 392,409 |
| Net capital assets | $ | 198,475 | 204,689 | 205,881 |

The Hospital had 2017 additions to capital assets as follows:

- $11.9 million in major movable equipment comprised of patient furnishings and medical equipment and investments in information technology system upgrades as well as $2.4 million in plan renovations which includes building renovation projects and a sprinkler system upgrade.

The Hospital had 2016 additions to capital assets as follows:

- $19.1 million in major movable equipment comprised of patient furnishings and medical equipment and investments in information technology system upgrades.

More detailed information about the Hospital's capital assets is presented in note 6 to the financial statements.

*Long-Term Debt*

At June 30, 2017, the Hospital has approximately $270.1 million (including current portion of $89 thousand) in long-term debt financing. On December 22, 2015 the Hospital issued $255 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds. Total proceeds from the sale were $295.8 million and included a net premium of $15.8 million as well as $25.0 million from trustee-held debt service and reserve funds. Proceeds from the sale were used to; (i) defease $150.0 million of BAN debt; (ii) fund current debt service reserve requirements of $17.3 million; (iii) fund bond insurance costs of $17.6 million; (iv) paying bond issuance costs of $2.7 million and (v) fund various capital projects consisting of routine and emergency capital expenditures, information systems and technology to replace the services currently provided by Rutgers University and capital upgrades and additions to various services and facilities, including the cancer program, diagnostic imagining services and additional operating and procedure rooms and HVAC upgrades.

The Series 2015A Notes were placed by the Authority with TD Bank, National Association, as Trustee. The Hospital entered into a Loan Agreement (the Loan Agreement) with the Authority relating to the Series 2015A bonds. A security feature for this obligation is provided by a lock box arrangement with the Trustee, TD Bank, N.A. Debt service requirements will be funded by unrestricted state appropriations including state charity pools, Delivery System Reform Incentive Payments (DSRIP), Graduate Medical Education (GME) and individual state supplemental appropriations that will flow through the lock box. Any excess funds will then be released to the Hospital for operations. The Assured Guaranty insured bonds were rated A2/AA by Moody's and S&P, respectively. Additionally, the underlying credit rating for the Hospital was BBB from Fitch Ratings.

Principal payments on the bonds will be due annually and are not set to commence until July 1, 2021. Interest will be paid semi-annually on July 1 and January 1, with the first payment due July 1, 2016. The bonds are set at fixed interest rates and are as follows: (i) $65.3 million in serial bonds at 5.000%; (ii) $78.2 million in term bonds at 4.125% and (iii) $111.5 million in term bonds at 5.000%.

At June 30, 2015, the Hospital had approximately $150.5 million (including current portion of $41.7 million) in long-term debt financing.

On July 1, 2013, the Hospital issued $150 million of New Jersey Healthcare Facilities Financing Authority, Bond Anticipation Notes, Series 2013 (the 2013 Bonds). This issuance generated $150 million of proceeds and were used to: (i) defease existing debt of the Hospital in the net amount of $77.9 million; (ii) to fund debt service reserve funds of $15.0 million; (iii) capital projects in the amount of $23.0 million; (iv) fund working capital in the amount of $38.2 million; (v) fund the cost of issuance for the 2013 Bonds in the amount of $4.6 million. If the bonds were not refinanced, the principal payments were due in equal installments over 18 months starting February 1, 2016. Principal payments commenced February 1, 2016 and continued until December 2016 until the debt was fully paid off with the Series 2015A bond issuance. The bonds were at an interest rate of 5% plus the current Securities Industry and Financial Markets Association (SIFMA) rate from July 1, 2013 through December 31, 2015 and at 6.5% from January 1, 2016 through December 2016 when the bonds were paid in full.

In addition, the Hospital assumed a portion of UMDNJ, New Jersey Educational Facilities Authority's, Higher Education Capital Improvement Fund, Series A (as revised) in the amount of $0.7 million. The debt bears interest at fixed rates and requires annual principal payments until August, 2020. More detailed information about the Hospital's long-term debt is presented in note 8 to the financial statements.

### Legal Matters

In connection with the settlement of two cases that initially resulted in a Deferred Prosecution Agreement with the United States Attorney for the District of New Jersey, UMDNJ, which included the Hospital, entered into a five-year Corporate Integrity Agreement (CIA) with the Office of Inspector General of the Federal Department of Health and Human Services in September 2009. Under the terms of the CIA, UMDNJ agreed to adhere to requirements that will ensure regulatory and legal compliance with all federal healthcare programs. The Hospital remained subject to the CIA upon its separation from UMDNJ. The Hospital received a letter dated March 23, 2015 from Department of Health and Human Services Office of Inspector General, which indicated that the Hospital has completed its CIA requirements and other obligations under the Settlement Agreement.

### Hospital Issues and Challenges

The Hospital continues to adapt to the ever-increasing fiscal challenges placed on health care institutions in the New Jersey metropolitan area. Specifically, these challenges include the following:

Potential reductions in Medicaid and Medicare reimbursements due to state and federal budget reductions

Continued implementation of Health Care Exchanges and its effect on the uninsured

Federal Disproportionate Share Hospital (DSH) funding cuts

Reductions in Newark EMS services reimbursement

Penetration of managed care and tiered health plans in the market place

Uncertainty of Delivery System Reform Incentive Payments (DSRIP)

The Hospital has responded to these significant challenges by managing labor and staffing more efficiently as well as eliminating waste and duplication in order to offset unanticipated operating expenses. In addition Hospital administration has developed monthly monitoring reporting tools to help management target and use benchmark data as a means of controlling costs and enhance productivity. Hospital administration has also identified performance initiatives intended to develop new services and revenue streams, increase patient volume as well as restructure and streamline throughput processes.

### Contacting the Hospital's Financial Management

This financial report provides the citizens of Newark, the Hospital's patients, bondholders, and creditors with a general overview of the Hospital's finances and operations. If you have questions about this report or need additional financial information, please contact Thomas Daly, Chief Financial Officer, University Hospital, 150 Bergen Street, Newark, NJ 07103.

**UNIVERSITY HOSPITAL**

(A Component Unit of the State of New Jersey)

Balance Sheet

As of June 30, 2017 and 2016

(In thousands)

| **Assets** | | **2017** | **2016** |
|---|---|---|---|
| Current assets: | | | |
| Cash (note 3) | $ | 79,400 | 100,512 |
| Restricted investments (note 7) | | 6,042 | 6,334 |
| Patient accounts receivable, net (note 5) | | 80,778 | 75,468 |
| Due from State of New Jersey | | 5,806 | 4,800 |
| Supplies | | 18,231 | 17,445 |
| Grants receivable | | 1,292 | 2,666 |
| Other current assets | | 30,529 | 12,631 |
| Total current assets | | 222,078 | 219,856 |
| Noncurrent assets: | | | |
| Restricted investments, net (notes 7 and 8) | | 104,857 | 125,323 |
| Prepaid bond insurance | | 16,730 | 17,317 |
| Capital assets, net (notes 6 and 8) | | 198,475 | 204,689 |
| Total noncurrent assets | | 320,062 | 347,329 |
| Total assets | | 542,140 | 567,185 |
| **Deferred Outflows of Resources** | | | |
| Pension liability (note 10) | | 151,245 | 58,981 |
| Total assets and deferred outflows of resources | $ | 693,385 | 626,166 |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | $ | 33,031 | 23,277 |
| Accrued salaries and related payroll taxes | | 12,855 | 30,157 |
| Accrued vacation and sick pay | | 12,614 | 12,790 |
| Due to Rutgers University (note 9) | | 24,709 | 20,848 |
| Current portion of accrued claims liability (note 11) | | 4,971 | 7,192 |
| Estimated third-party payor settlements, net (note 11) | | 3,914 | 4,816 |
| Current portion of long-term debt and capital lease obligation (note 8) | | 207 | 195 |
| Other current liabilities | | 249 | 3,153 |
| Total current liabilities | | 92,550 | 102,428 |
| Noncurrent liabilities: | | | |
| Resident funds payable | | 8 | 10 |
| Accrued claims liability, net of current portion (note 11) | | 21,695 | 20,710 |
| Capital lease obligation, net of current portion (note 8) | | 76,497 | 76,615 |
| Long-term debt (note 8) | | 269,983 | 270,842 |
| Pension liability (note 10) | | 552,097 | 410,860 |
| Total noncurrent liabilities | | 920,280 | 779,037 |
| Total liabilities | | 1,012,830 | 881,465 |
| **Deferred Inflows of Resources** | | | |
| Pension liability (note 10) | | — | 2,028 |
| Total liabilities and deferred inflows of resources | | — | 2,028 |
| Commitments and contingencies (note 11) | | | |
| **Net Position** | | | |
| Net investment in capital assets | | 15,274 | 40,762 |
| Restricted for debt service | | 6,022 | 6,341 |
| Unrestricted | | (340,741) | (304,430) |
| Total net position | | (319,445) | (257,327) |
| Total liabilities and net position | $ | 693,385 | 626,166 |

See accompanying notes to financial statements.

**UNIVERSITY HOSPITAL**

(A Component Unit of the State of New Jersey)

Statement of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2017 and 2016

(In thousands)

| | | 2017 | 2016 |
|---|---|---|---|
| Operating revenues: | | | |
| Net patient service revenue (notes 4, 5 and 11) | $ | 496,544 | 495,993 |
| Grants revenue | | 5,335 | 6,409 |
| Other revenue | | 26,587 | 20,936 |
| Total operating revenues | | 528,466 | 523,338 |
| Operating expenses: | | | |
| Personnel services | | 245,523 | 244,871 |
| Contracted physician and resident fees (note 9) | | 78,555 | 75,370 |
| Fringe benefits (notes 2 and 10) | | 91,765 | 90,816 |
| Pension (note 10) | | 56,116 | 31,281 |
| Supplies and other expenses (note 9) | | 214,237 | 210,566 |
| Depreciation (note 6) | | 20,493 | 20,256 |
| Total operating expenses | | 706,689 | 673,160 |
| Operating loss | | (178,223) | (149,822) |
| Nonoperating income (expenses): | | | |
| Appropriations from the State of New Jersey (notes 10 and 11) | | 129,843 | 137,348 |
| Interest income | | 463 | 156 |
| Interest expense | | (15,190) | (13,448) |
| Loss before other changes in net position | | (63,107) | (25,766) |
| Other changes in net position: | | | |
| Capital contributions funded by grantors and donors | | 989 | 3,291 |
| Total other changes in net position | | 989 | 3,291 |
| Decrease in net position | | (62,118) | (22,475) |
| Net position at beginning of year | | (257,327) | (234,852) |
| Net position at end of year | $ | (319,445) | (257,327) |

See accompanying notes to financial statements.

**UNIVERSITY HOSPITAL**
(A Component Unit of the State of New Jersey)

Statement of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

| | | 2017 | 2016 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received from patients and third-party payors | $ | 490,332 | 488,623 |
| Receipts from grants | | 6,709 | 5,599 |
| Other receipts | | 26,587 | 20,936 |
| Cash paid for personnel services | | (262,979) | (233,755) |
| Cash paid for contracted physician and resident fees | | (82,446) | (79,827) |
| Cash paid for fringe benefits | | (7,380) | (4,483) |
| Cash paid for other than personnel services | | (217,258) | (223,286) |
| Net cash used in operating activities | | (46,435) | (26,193) |
| Cash flows from noncapital financing activities: | | | |
| Cash appropriations received from state of New Jersey | | 33,841 | 43,800 |
| Net cash provided by noncapital financing activities | | 33,841 | 43,800 |
| Cash flows from capital and related financing activities: | | | |
| Purchase of capital assets | | (14,279) | (19,064) |
| Capital contributions by grantors | | 989 | 3,291 |
| Payments of capital lease obligation | | (112) | (110) |
| Payments of long-term debt | | (83) | (150,000) |
| Proceeds from issuance of long-term debt | | — | 270,416 |
| Cash paid for bond insurance | | — | (17,610) |
| Cash paid for bond financing costs | | — | (2,756) |
| Interest paid | | (16,252) | (7,739) |
| Net cash (used in) provided by capital and related financing Activities | | (29,737) | 76,428 |
| Cash flows from investing activities: | | | |
| Purchases of investments | | — | (131,647) |
| Sales of investments | | 20,756 | 38,257 |
| Interest received | | 463 | 156 |
| Net cash provided by (used in) investing activities | | 21,219 | (93,234) |
| Net (decrease) increase in cash | | (21,112) | 801 |
| Cash at beginning of year | | 100,512 | 99,711 |
| Cash at end of year | $ | 79,400 | 100,512 |
| Supplemental disclosures: | | | |
| Appropriation paid on behalf of the Hospital | $ | 96,002 | 93,556 |



(Continued)

**UNIVERSITY HOSPITAL**

(A Component Unit of the State of New Jersey)

Statement of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

| | | 2017 | 2016 |
|---|---|---|---|
| Reconciliation of operating loss to net cash used in operating activities: | | | |
| Operating loss | $ | (178,223) | (149,822) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | |
| Amortization of prepaid bond insurance | | 587 | 293 |
| Depreciation | | 20,493 | 20,256 |
| Provision for bad debts | | 143,092 | 164,258 |
| State paid expenses | | 96,002 | 93,556 |
| Changes in assets and liabilities: | | | |
| Patient accounts receivable, net | | (148,402) | (171,481) |
| Due from State of New Jersey | | (1,209) | 24 |
| Grants receivable | | 1,374 | (810) |
| Supplies and other current assets | | (18,503) | (4,042) |
| Accounts payable and accrued expenses | | 10,046 | (10,708) |
| Accrued salaries and related payroll taxes | | (17,280) | 10,619 |
| Accrued vacation and sick | | (176) | 497 |
| Due to Rutgers University | | 3,861 | (5,854) |
| Accrued claims liability | | (1,236) | (408) |
| Estimated third-party payer settlements, net | | (902) | (147) |
| Pension liability | | 46,945 | 25,590 |
| Other liabilities | | (2,904) | 1,986 |
| Net cash used in operating activities | $ | (46,435) | (26,193) |

See accompanying notes to financial statements.

## (1) Organization

In accordance with Public Law 2012, c. 45, the New Jersey Medical and Health Sciences Education and Restructuring Act (the Restructuring Act), effective July 1, 2013, University Hospital (UH), a public institution of healthcare and a body politic of the State of New Jersey (the State) was separated from University of Medicine and Dentistry of New Jersey (UMDNJ) as a new stand-alone entity and will continue to be the primary teaching hospital for the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. UH shall maintain its public mission to provide a comprehensive healthcare program and services to the greater Newark community, including outreach and mobile health services as well as services in collaboration with the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. UH is committed to act in accordance with the spirit and intent of the "Agreements Reached between Community and Government Negotiators Regarding New Jersey College of Medicine and Dentistry and Related Matters of April 30, 1968."

UH is a component unit of the State of New Jersey, and accordingly, its financial statements are included in the State of New Jersey's Comprehensive Annual Financial Report.

Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC) was incorporated in April 1992. BHCC and its consolidated subsidiary are exempt from federal, state, and local income taxes as 501(c) (3) organizations under the Internal Revenue Code. BHCC is a blended component unit of the Hospital as a result of UH being the sole corporate member.

BHCC issues separate annual financial statement as of December 31, which are available through Jim Hub, Director of Finance, Broadway House, 298 Broadway, Newark, NJ 07104-4003.

The reporting entity which results from blending UH and BHCC is collectively referred to as the "Hospital".

## (2) Summary of Significant Accounting Policies

The Hospital's significant accounting policies are as follows:

### *(a) Basis of Presentation*

The financial statements have been prepared on the accrual basis using the economic resources measurement focus.

### *(b) Cash*

Cash represent operating cash that is unrestricted with original maturities of three months or less at the date of purchase. The carrying amount of cash approximates fair value due to short-term nature.

### *(c) Restricted Investments*

Restricted investment primarily include assets held by a trustee, TD Bank, National Association under bond resolution. Amounts required to meet current liabilities of the Hospital have been classified as current assets in the statement of net position. Interest income earned on restricted investments is included in nonoperating income (expenses).

Restricted investments are invested in U.S. Treasury Obligations and are recorded at fair value based on quoted market prices, which are Level 1 investments in the FV hierarchy.

### *(d) Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy at amounts less than its charges or established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care, and they are not reported as revenue (note 4).

### *(e) Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Included in the operating loss for the year ended June 30, 2017 is approximately a $5.9 million change in prior year estimate which decreased the operating loss. The change in estimate does not include changes related to third-party payors or accrued claims liability, which are disclosed in notes 11(a) and 11(c), respectively.

### *(f) Classifications of Revenues and Expenses*

All transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are considered to be operating activities and are reported as operating revenues and operating expenses. Appropriations from the State of New Jersey, interest income, and interest expense are reported as nonoperating income and expenses. Other changes in net position, which are excluded from income before other changes in net position, consist of capital contributions funded by grantors or donors.

### *(g) Patient Accounts Receivable, Net and Net Patient Service Revenue*

The Hospital has agreements with certain third-party payers that provide for payments at amounts different from its charges or established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated third-party payor settlements resulting from audits, reviews, and investigations. These estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods as revised information becomes known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue is reported net of the provision for bad debts of $143.1 million in 2017 and $164.3 million in 2016.

The allowance for doubtful patient accounts is the Hospital’s estimate of the amount of probable credit losses in its patient accounts receivable. The Hospital determines the allowance based on collection studies and historical write-off experience. Past-due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for estimated doubtful accounts at June 30, 2017 is $230.0 million and at June 30, 2016 is $226.5 million.



(Continued)

### *(h) Appropriations from the State of New Jersey*

State appropriation revenues are recognized in the fiscal year during which the State appropriates the funds for the Hospital. The Hospital is fiscally dependent upon these appropriations. Funds appropriated from the State are payments, either directly or indirectly, for services rendered by the Hospital. The Hospital classifies them as nonoperating revenues.

The Hospital records both revenues and expenses in an amount equal to expenditures made on its behalf by the State, that is, fringe benefits of the Hospital's employees, settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts (see notes 10 and 11).

The State pays on behalf of the Hospital for fringe benefits of employees, medical malpractice settlements, negligence, and other torts. In 2017 and 2016, the fringe benefits of employees paid by the State were $96.0 million and $92.4 million, the medical malpractice and general liability settlements paid by the State were negligible in 2017 and $1.2 million in 2016. The Hospital is indemnified by the State for the Hospital's malpractice settlements (see note 11). The State also paid the Hospital $33.8 million in 2017 and $43.8 million in 2016 to support the Hospital operations.

All State aid to the Hospital is subject to and dependent upon appropriations being made for such purpose by the New Jersey State Legislature (the State Legislature). The State Legislature has no legal obligation to make such appropriations.

### *(i) Government and Private Grants and Contracts*

Grants and contracts revenues comprise mainly funds received from grants and contracts from federal, state, other governments and private sources and are recognized when all eligibility requirements for revenue recognition are met, which is generally the period in which the related expenses are incurred.

### *(j) Prepaid Bond Insurance*

Prepaid bond insurance costs of $17.6 million represent costs incurred in connection with the issuance of Series 2015A bonds and are amortized on a straight-line method over the life of the bonds. Accumulated amortization of prepaid bond insurance costs amounted to $0.9 million at June 30, 2017 and $0.3 million at June 30, 2016.

### *(k) Capital Assets and Depreciation*

Capital assets are recorded at cost or in the case of donated assets at fair value at the date of acquisition. Major renewals and improvements are capitalized while maintaining repairs are expensed when incurred.

The State retains legal title to the land, buildings and improvements as of July 1, 2013 and thereafter and subleases them to the Hospital for $1 until June 30, 2089. The Hospital is the sole beneficiary as to the use of the capital assets and is responsible for their control and maintenance. Accordingly, the capital assets have been capitalized in the accompanying statement of net position.



(Continued)

Depreciation is computed on a straight-line basis using estimated useful lives in accordance with American Hospital Association guidelines:

| | |
|---|---|
| Land improvements | 2 to 25 years |
| Buildings and leasehold improvements | 5 to 40 years |
| Equipment | 3 to 25 years |

Capital assets under capital lease obligations are depreciated over either the lease term or the estimated useful life.

***(l) Supplies***

Supplies are stated at the lower of cost (first-in, first-out method) or market (net realizable value).

***(m) Income Taxes***

The Hospital qualifies as a governmental entity not subject to federal income tax, by reason of the organization being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof; or, an entity all of whose income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code of 1986. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

***(n) Due from State of New Jersey***

Due from State of New Jersey represents reimbursements due for fringe benefits paid by the Hospital for employees covered by the State of New Jersey benefit plans.

***(o) Grants Receivable***

Grants receivable relate to various healthcare provision programs under contract with the State and other grantors. Grants receivable, which are reimbursed to the Hospital for providing such services, relate to the Urban Security Initiative, North Star, and School Based Youth Service grants.

***(p) Net Position***

Net positions of the Hospital are classified in various components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustee as required by bond indentures, discussed in note 7. *Unrestricted net position* is remaining net position that does not meet the definition of *Net investment in capital assets or restricted*. The Hospital first applies restricted resources when unrestricted resources are available for the same purpose.

***(q) Compensated Absences***

The Hospital's employees earn vacation and holiday days at varying rates depending on years of service and title. Generally, vacation and holiday time may accumulate up to specified maximums, depending on title. Upon resignation or retirement, employees are paid for unused vacation and holiday days, most at the current rate. Employees accrue sick leave at a fixed rate and there is no accumulation limit on sick leave. Upon retirement employees can opt for partial payment of accumulated sick leave.

***(r) Retirement Plans***

Under GASB 68, *Accounting and Financial Reporting for Pensions,* the Hospital recorded pension expense, pension liability, deferred outflows of resources and deferred inflows of resources related to cost sharing multi-employer pension plan for its proportionate share of collective pension expense, collective pension liability, and collective deferred outflows of resources and deferred inflows of resources.

***(s) Accrued Claims Liability***

Accrued claims liability represents estimated amounts payable related to workers compensation claims (see note 11(c)).

***(t) Accounting Standard Adopted***

In fiscal year 2017, the Hospital adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* (GASB 80). GASB 80 amended the blending requirements for the financial statement presentation of component units. GASB 80 added the criterion requiring blending of a component unit incorporated as a not-for-profit corporation in which the primary government entity is the sole corporate member. The adoption of GASB 80 resulted in BHCC being reported as a blended component unit (i.e. combined with UH instead of being presented in a separate column).

***(u) Fair Value***

Management determines fair value of financial instruments 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. Management utilizes valuation techniques that maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3) within the fair value hierarchy established by GASB. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following categories:

Level 1: Fair value measurements using unadjusted quoted market prices in active markets for identical, unrestricted assets or liabilities.

Level 2: Fair value measurements using observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially that full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that traded less frequently than exchange-traded instruments.

(In thousands)

Level 3: Fair value measurements using significant inputs that are not readily observable in the market and are based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable.

### (3) Cash

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. At June 30, 2017, the actual amount of cash in the Hospital's bank accounts was $83.6 million (with $4.2 million in outstanding checks). As of May 29, 2015 a Tri-Party collateral agreement was established between the Hospital, the Bank of America, N.A. and the Bank of New York Mellon to collateralize the Hospital's cash.

### (4) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services furnished under its charity care policy and the estimated cost of those services. The amount of uncompensated care provided to indigent and the broader community for the years ended June 30:

| | 2017 | 2016 |
|---|---|---|
| Charity care: | | |
| Charges foregone, based on established rates | $ 233,374 | 215,988 |
| Estimated cost incurred to provide charity care | 61,298 | 58,099 |

| | 2017 | 2016 |
|---|---|---|
| Provision for bad debt: | | |
| Charges foregone, based on established rates | $ 143,092 | 164,259 |
| Estimated cost incurred to provide bad debt | 37,584 | 43,873 |

The Hospital only includes charges for patient services in this category for individuals who complied with the New Jersey Department of Health's criteria for qualification into the Charity Care Subsidy formula. These criteria require a patient's cooperation and documentation to participate. The Hospital believes that a large number of its patient accounts that default to bad debts are in fact charity care cases, but due to a patients' unwillingness or inability to provide the documentation such cases do not qualify.

The Hospital recorded $40.4 million and $53.5 million from the State's Charity Care Subsidy Fund in 2017 and 2016, respectively, of reimbursement associated with cost of bad debt and charity care.


(Continued)

(In thousands)

### (5) Patient Accounts Receivable, net and Net Patient Service Revenues

Most of the Hospital's net patient service revenue is from funds received on behalf of patients under governmental health insurance plans. Revenue from these governmental plans is based upon relevant reimbursement principles and is subject to audit by the applicable payers. Certain payors have performed audits and have proposed various disallowances, which other payers may similarly assert.

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements that were originally recorded in the period the related services were rendered. The adjustments to prior year estimates and other third-party reimbursement receipts or recoveries that relate to prior years resulted in an increases to net patient service revenues (see note 11(a)).

The components of net patient service revenue for the years ended June 30 are as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Gross charges | $ | 2,662,148 | 2,477,438 |
| Additions (deductions) from gross charges: | | | |
| Health Care Subsidy Fund payments | | 57,072 | 65,109 |
| Contractual and other allowances | | (2,079,583) | (1,882,296) |
| Provision for bad debts | | (143,092) | (164,258) |
| Subtotal | | (2,165,603) | (1,981,445) |
| Net patient service revenues | $ | 496,544 | 495,993 |

Net patient service revenue for the years ended June 30 are as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Medicaid and Medicaid HMO | $ | 186,118 | 192,521 |
| Medicare | | 111,571 | 106,899 |
| Other third-party payors | | 131,914 | 125,150 |
| Self-pay | | 9,869 | 6,314 |
| Net Patient Service Revenue by Payor | | 439,472 | 430,884 |
| Health Care Subsidy Fund Revenues | | 57,072 | 65,109 |
| Net Patient Service Revenue | $ | 496,544 | 495,993 |



(Continued)

(In thousands)

The Hospital provides services to its patients, most of who are insured under third-party payer agreements. Patient accounts receivable, net were as follows as of June 30:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Medicaid and Medicaid HMO | $ 29,198 | 36.1 % | 30,224 | 40.0 % |
| Medicare | 9,265 | 11.5 | 9,342 | 12.4 |
| Other third-party payors | 36,340 | 45.0 | 30,210 | 40.0 |
| Self-pay | 5,975 | 7.4 | 5,692 | 7.6 |
| | $ 80,778 | 100.0 % | 75,468 | 100.0 % |

Allowance for doubtful accounts activity for the years ended was as follows:

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | $ 226,475 | 172,970 |
| Provision for bad debts | 143,092 | 164,258 |
| Write-off, net of recoveries | (139,591) | (110,753) |
| Ending balance | $ 229,976 | 226,475 |

## (6) Capital Assets

Capital assets activity for the years ended June 30 was as follows:

| | June 30, 2016 balance | Acquisitions, net of transfers | Sales, retirements, and adjustments | June 30, 2017 balance |
|---|---|---|---|---|
| Land and land improvements | $ 1,598 | — | — | 1,598 |
| Buildings and leasehold improvements | 389,456 | 2,362 | — | 391,818 |
| Equipment | 226,300 | 11,906 | (690) | 237,516 |
| | $ 617,354 | 14,268 | (690) | 630,932 |

(In thousands)

| | | June 30, 2015 balance | Acquisitions, net of transfers | Sales, retirements, and adjustments | June 30, 2016 balance |
|---|---|---|---|---|---|
| Land and land improvements | $ | 1,598 | — | — | 1,598 |
| Buildings and leasehold improvements | | 389,389 | 67 | — | 389,456 |
| Equipment | | 207,303 | 18,997 | — | 226,300 |
| Total | $ | 598,290 | 19,064 | — | 617,354 |

Related information on accumulated depreciation for the years ended June 30 was as follows:

| | | June 30, 2016 balance | Depreciation and amortization | Disposals retirement, and adjustments | June 30, 2017 balance |
|---|---|---|---|---|---|
| Land and land improvements | $ | — | — | — | — |
| Buildings and leasehold improvements | | 249,788 | 8,870 | — | 258,658 |
| Equipment | | 162,877 | 11,623 | (701) | 173,799 |
| Total | $ | 412,665 | 20,493 | (701) | 432,457 |

| | | June 30, 2015 balance | Depreciation and amortization | Disposals retirement, and adjustments | June 30, 2016 balance |
|---|---|---|---|---|---|
| Land and land improvements | $ | — | — | — | — |
| Buildings and leasehold improvements | | 238,302 | 11,486 | — | 249,788 |
| Equipment | | 154,107 | 8,770 | — | 162,877 |
| Total | $ | 392,409 | 20,256 | — | 412,665 |

The Hospital capitalizes interest costs incurred in connection with construction projects. During 2017 and 2016, no interest was capitalized relating to construction projects.

(In thousands)

## (7) Restricted Investments

Restricted investments consist of the following as of June 30:

| | | 2017 | 2016 |
|---|---|---|---|
| Under bond resolutions: | | | |
| Working capital funds | $ | 248 | 297 |
| Capital reserve funds | | 87,337 | 107,752 |
| Debt service reserve funds | | 17,264 | 17,257 |
| Debt service funds | | 6,042 | 6,341 |
| | | 110,891 | 131,647 |
| Plus resident funds | | 8 | 10 |
| Less current portion of restricted investments | | 6,042 | 6,334 |
| | $ | 104,857 | 125,323 |

Restricted investments under the terms of the bond resolutions (see note 8) are to provide for debt service requirements and the acquisition of capital assets. Terms of the bond resolutions provide that assets be maintained in separate funds held by the trustee, TD Bank, National Association.

(In thousands)

## (8) Long-Term Debt and Capital Lease Obligations

Long-term debt consists of the following as of June 30:

| | 2017 | 2016 |
|---|---|---|
| Bonds payable: | | |
| New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2015A Bond, bearing interest at fixed rates to be paid semi-annually; with principal payments to be paid annually and set to commence on July 1, 2021 (a) | $ 254,975 | 254,975 |
| NJHCFFA Series 2015A Net Premium and amortized over the 30 year life of the bond (a) | 14,671 | 15,441 |
| New Jersey Educational Facilities Authority (NJEFA) Higher Education Capital Improvement Fund, Series 2000 A annual principal payments (b) | 426 | 509 |
| Capital lease obligations (c) | 76,615 | 76,727 |
| | 346,687 | 347,652 |
| Less current installments | 207 | 195 |
| | $ 346,480 | 347,457 |

Long-term debt activity for the years ended June 30 was as follows:

| | June 30, 2016 balance | Additions | Reductions | June 30, 2017 balance | Amounts due within 1 year |
|---|---|---|---|---|---|
| Long-term debt: | | | | | |
| Bonds payable 2015A | $ 270,416 | — | (770) | 269,646 | — |
| Bonds payable NJEFA | 509 | — | (83) | 426 | 89 |
| Capital lease obligations | 76,727 | — | (112) | 76,615 | 118 |
| Net long term debt | $ 347,652 | — | (965) | 346,687 | 207 |

(In thousands)

| | | June 30, 2015 balance | Additions | Reductions | June 30, 2016 balance | Amounts due within 1 year |
|---|---|---|---|---|---|---|
| Long-term debt: | | | | | | |
| Bonds payable 2015A | $ | — | 270,416 | — | 270,416 | — |
| Bonds payable NJEFA | | 506 | 3 | — | 509 | 83 |
| BAN | | 150,000 | — | (150,000) | — | — |
| Capital lease obligations | | 76,840 | — | (113) | 76,727 | 112 |
| Net long term debt | $ | 227,346 | 270,419 | (150,113) | 347,652 | 195 |

(a) On December 22, 2015, the Hospital issued $255 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds (2015A Bonds). Total proceeds from the sale were $295.8 million and included a net premium of $15.8 million as well as $25.0 million from trustee-held debt service and reserve funds. Proceeds from the sale were used for the purpose of: (i) the defeasance of $150 million of BAN debt (ii) funding current debt service reserve requirements of $17.3 million; (iii) funding capital projects of $102.8 million, including Information Services & Technology capital, Heating, Ventilation and Air Conditioning improvements, operating room renovations, Cancer Center expansion and routine and emergency capital needs; (iv) funding bond insurance costs of $17.6 million; (v) and paying bond issuance costs of $2.7 million. The Series 2015A Notes were placed by and between the Authority and TD Bank, National Association, as Trustee. The Hospital entered into a Loan Agreement (the Loan Agreement) with the Authority relating to the Series 2015A bond. A security feature for this obligation is provided by a lock box arrangement with the Trustee, TD Bank, N.A. Debt service requirements will be funded by unrestricted state appropriations including state charity pools, Delivery System Reform Incentive Payments (DSRIP), Graduate Medical Education (GME) and individual state supplemental appropriations that will flow through the lock box. Any excess funds will then be released to the Hospital for operations.

Principal payments on the bonds will be due annually and are not set to commence until July 1, 2021. Interest will be paid semi-annually on July 1 and January 1, with the first payment due July 1, 2016. The bonds are set at fixed interest rates and are as follows: (i) $65,250 in serial bonds at 5.000%; (ii) $78,220 in term bonds at 4.125% and (iii) $111,505 in term bonds at 5.000%.

On July 1, 2013, the Hospital issued $150 million of New Jersey Health Care Facilities Financing Authority (the Authority), Revenue Bond Anticipation Notes, University Hospital Issue, Series 2013A (the Series 2013A Notes) and its Revenue Bond Anticipation Notes, University Hospital Issue, Series 2013B (Federally Taxable) (the Series 2013B Notes) and together with the Series 2013A Notes, the (Series 2013 Notes) for the purpose of (a) the defeasance of the Hospital’s allocable share of certain bonds issued by or for the benefit of UMDNJ in the amount of $77.9 million; (b) financing capital assets in the Hospital’s budget (the Series 2013 Project) in the amount of $23.0 million; (c) funding the debt service reserve requirements of the Series 2013 Notes in the amount of $15 million; (d) funding working capital in the amount of $38.2 million; and (e) paying the costs of issuance of the Series 2013 Notes. If the bonds were not refinanced by February 1, 2016 the principal payments were due over the



(Continued)

(In thousands)

following 18 months. Principal payments commenced February 1, 2016 and continued until December 2016 until the debt was fully paid off with the Series 2015A bond issuance.

(b) In addition on July 1, 2013, the Hospital assumed a portion of the UMDNJ obligation of the New Jersey Educational Authority's, Higher Education Capital Improvement fund, Series 2000A (as revised) in the amount of $0.7 million. The debt bears interest at a fixed rate of 5.0% and requires principal payments until August 2020.

(c) On July 1, 2013, the Hospital entered into five capital lease agreements with Rutgers, the State University of New Jersey for space in various locations on its Newark campus. The agreements are for 76 years and require monthly rent payments in advance. The Hospital has capitalized the present value of the lease payments using a discount factor of 5.1%, based on Hospital's incremental borrowing rate, and will amortize the asset over the estimated useful life of each of the buildings.

The following table summarizes debt service requirements for 2015A Bonds and NJEFA as of June 30, 2017:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 89 | 12,072 | 12,161 |
| 2019 | 93 | 12,070 | 12,163 |
| 2020 | 95 | 12,068 | 12,163 |
| 2021 | 5,289 | 12,066 | 17,355 |
| 2022 | 5,495 | 11,805 | 17,300 |
| 2023–2027 | 31,600 | 54,657 | 86,257 |
| 2028–2032 | 40,265 | 46,000 | 86,265 |
| 2033–2037 | 49,755 | 36,512 | 86,267 |
| 2038–2042 | 61,540 | 24,719 | 86,259 |
| 2043–2046 | 61,180 | 7,833 | 69,013 |
| | $ 255,401 | 229,802 | 485,203 |

(In thousands)

The following table summarizes future minimum lease payments under capitalized leases as of June 30,

| | | |
|---|---|---|
| Year: | | |
| 2018 | $ | 3,992 |
| 2019 | | 3,992 |
| 2020 | | 3,992 |
| 2021 | | 3,992 |
| 2022 | | 3,992 |
| 2023–2027 | | 19,958 |
| 2028–2032 | | 19,958 |
| 2033–2037 | | 19,958 |
| 2038–2042 | | 19,958 |
| 2043–2047 | | 19,958 |
| Thereafter | | 167,645 |
| Total | | 287,395 |
| Less amount representing interest | | (210,780) |
| Net | $ | 76,615 |

## (9) Due to Rutgers University

Amounts due to Rutgers University (Rutgers) consist of the following at June 30:

| | | 2016 Balance due to Rutgers | Charges | Hospital payments | 2017 Balance due to Rutgers |
|---|---|---|---|---|---|
| Information technology services (a) | $ | 237 | 1,760 | 1,510 | 487 |
| Contracted physicians (b) | | 12,443 | 56,396 | 63,802 | 5,037 |
| Contracted residents (c) | | 4,216 | 19,247 | 16,068 | 7,395 |
| Facilities service agreements (d) | | 2,536 | 13,168 | 8,073 | 7,631 |
| Other (e) | | 1,416 | 7,925 | 5,182 | 4,159 |
| | $ | 20,848 | 98,496 | 94,635 | 24,709 |

(In thousands)

| | 2015 Balance due to Rutgers | Charges | Hospital payments | 2016 Balance due to Rutgers |
|---|---|---|---|---|
| Information technology services (a) | $ 268 | 2,957 | 2,988 | 237 |
| Contracted physicians (b) | 16,578 | 54,845 | 58,980 | 12,443 |
| Contracted residents (c) | 4,538 | 18,129 | 18,451 | 4,216 |
| Facilities service agreements (d) | 2,844 | 12,515 | 12,823 | 2,536 |
| Other (e) | 2,474 | 1,530 | 2,588 | 1,416 |
| | $ 26,702 | 89,976 | 95,830 | 20,848 |

The Hospital and Rutgers executed a Master Affiliation Agreement on July 1, 2013 (the effective date) in support of and connection with the New Jersey Medical and Health Sciences Education Restructuring Act, N.J.S.A. 18A:64M-1. The Agreement acknowledged that the parties were entering into multiple agreements simultaneously all of which arose out of the Act. The Master Agreement is for a term of five years with provisions for successive five-year renewals. The agreements provide for services delivered by and between the parties and outline the compensation to be remunerated. Among these agreements are the following:

Information technology services are in support of the Hospital's clinical and business systems. The agreement includes licensing of some software as well as system support. In addition, the agreement provides for the Hospital's continued use of the Rutgers' network. The term was for two years and was renewed for a year at the Hospital's option. Rutgers is providing provisional support currently during the Hospital's transition to its own network and financial database.

(a) The parties executed a clinical services agreement wherein Rutgers physicians were contracted to provide clinical and administrative services to the Hospital. The amount of the contract is primarily fixed with a variable portion based upon the amount of charity care patient volume provided. The agreement is for five years and will expire in July 2018. The agreement calls for the parties to annually have a fair market value analysis prepared by an independent organization.

(b) A Graduate Medical Education affiliation agreement was executed to govern the medical and dental activities of residents and non-Rutgers residents rendering medical and dental services at the Hospital and the compensation of such residents.

(c) A continuing services agreement was executed that provided for a number of campus infrastructure needs including energy and utilities, police and security, landscaping and grounds maintenance as well as parking and snow removal. Rates are determined by an annual review by both parties for utilities and maintenance. Police and security are based upon usage with predetermined hourly rates.

(d) A transition services agreement that provided for the temporary provision of "Other Services," between the parties. Among these services are included hazardous waste storage, medical license and radiation safety, engineering controls, financial administrative technical support as well as a support in helping the Hospital achieve independence in these functions. The arrangements were for a period of three to twenty-four months and various extensions have been made on these arrangements. Amounts payable are for the most part based upon fixed predetermined rates.

## (10) Employee Benefits

*Retirement Plans*

The Hospital has primarily two retirement plans available to its employees, the State of New Jersey Public Employees Retirement System, a defined benefit plan, and the Alternate Benefit Program, a defined contribution plan. Under these plans, participants make annual contributions, and the State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the Hospital for these plans. Pension expense paid directly by the State of New Jersey for 2017 and 2016 aggregated $16.6 million and $12.7 million, respectively. The Hospital is charged for contributions on behalf of employees through a fringe benefits charge assessed by the State which is included within fringe benefits in the accompanying statement of revenues, expenses, and changes in net position. Summary information regarding these plans is provided below.

*Public Employees Retirement System (PERS)*

**Plan Description** – PERS is a multiple-employer, public cost-sharing retirement system which is administered by the State of New Jersey under the provisions of N.J.S.A. 43:15A. The payroll for employees covered by PERS for the years ended June 30, 2017 and 2016 was $114.5 million and $95.9 million, respectively.

Hospital employees of a certain classification are required as a condition of employment to be members of PERS. The formula for benefits is an annual allowance in the amount equal to years of service, divided by 55, times the final average salary. Final average salary means the average of the salaries received by the member for the last three years of membership service or the three highest fiscal years, whichever provides the largest benefit. Pension benefits fully vest on reaching ten years of credited service. Members enrolled in PERS prior to November 2, 2008, are eligible for retirement at age 60 with no minimum years of service required. Members enrolled in PERS on or after November 2, 2008, are eligible for retirement at age 62 with no minimum years of service required. Members enrolled in PERS prior to July 1, 2007, who have 25 years or more of credited service may also select early retirement without penalty at age 55 and receive full retirement benefits. Members enrolled in PERS on or after July 1, 2007, may select early retirement with an allowance reduction for each month prior to the normal retirement age as specified by the NJ Division of Pensions and Benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

Members enrolled in PERS after May 21, 2010, must work 35 hours or more per week. An employee is eligible for PERS membership based upon only one position and requires the retirement system to designate the position providing the higher or highest compensation for the member from among any concurrently held positions. This position will be used as the basis for eligibility for membership, service credit, the compensation base for pension contributions, and for other pension calculations. The formula and definition of compensation to be used to calculate service, early and deferred retirement for these members changes as well. The formula for service, early and deferred retirement will be calculated as years of service, divided by 60, times the final average salary. Final average salary means the average annual compensation for the last five years of service, or any five fiscal years of membership that provide the largest possible benefit to the member or the member's beneficiary. This definition will also be used to calculate survivor pension benefits and death benefit payments, when available, to beneficiaries. The PERS members are eligible for retirement at age 62 with no minimum years of service required.

Members enrolled in PERS on or after June 28, 2011, are eligible for retirement at age 65 with no minimum years of service. The annual allowance is equal to years of service divided by 60, times the final annual average salary. Final average salary means the average salaries received by the member for the last five years (50 months for 10-month employees) of membership or the five highest fiscal years, whichever provides the largest benefit. Pension benefits fully vest on reaching 10 years of credited service.

**Contributions** – Covered Hospital employees were required by PERS to contribute 7.20% and 7.06% of their annual compensation during fiscal years 2017 and 2016, respectively. The PERS contribution rate will increase by 0.14% each year until the 7.5% contribution rate is reached by July 1, 2018. The State's pension contribution is based on statutory determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. The state made contributions in 2017 and 2016. The contribution requirements of the plan members and the Hospital are established and may be amended by the State.

Employees can also make voluntary contributions to two optional State of New Jersey tax-deferred investment plans, the Supplemental Annuity Collective Trust (SACT) and the Additional Contributions Tax Sheltered (ACTS) programs. Both plans are subject to limits within the Internal Revenue Code.

The State issues publicly available financial reports that include financial statements and required supplementary information for PERS. These reports may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits, PO Box 295, Trenton, NJ 08625-0295.

Effective July 1, 2014, the Hospital adopted GASB 68 and GASB 71, resulting in the Hospital recording their net pension liability, deferred inflows and outflows of resources, and pension expense associated with the PERS plan. The PERS' net pension liability, deferred inflows and outflows of resources, and pension expense is calculated by an external actuary.

At June 30, 2017, the Hospital reported a liability of $552.1 million, for its proportionate share of the PERS net pension liability. The total pension liability is based on measurement date as of June 30, 2016. The Hospital's proportion for the net pension liability was based on the Hospital's share of the actual contributions paid by the State to PERS relative to the total contributions of all participating state group employers for 2016 which was 1.878%.


(Continued)

(In thousands)

At June 30, 2016, the Hospital reported a liability of $410.9 million, for its proportionate share of the PERS net pension liability. The total pension liability is based on measurement date as of June 30, 2015. The Hospital's proportion for the net pension liability was based on the Hospital's share of the actual contributions paid by the State to PERS relative to the total contributions of all participating state group employers for 2015 which was 1.732%.

***(a) Actuarial Assumptions***

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016, and was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation rate | 3.08 % |
| Salary increases: | |
| Through 2026 | 1.65–4.15% based on age |
| Thereafter | 2.65–5.15% based on age |
| Investment rate of return | 7.65 % |
| Discount rate | 3.98 % |

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015, and was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation rate | 3.04 % |
| Salary increases: | |
| 2012 - 2021 | 2.15–4.40% based on age |
| Thereafter | 3.15–5.40% based on age |
| Investment rate of return | 7.90 % |
| Discount rate | 4.90 % |

*(i) Mortality Tables*

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Table (setback 3 years for males and setforward 1 year for females) are used to value disabled retirees.

***(b) Expected Rate of Return on Investments***

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

(In thousands)

| Asset class | 2016 Target allocation | 2016 Long-term expected real rate of return | 2015 Target allocation | 2015 Long-term expected real rate of return |
|---|---|---|---|---|
| Cash | 5.00 % | 0.87 % | 5.00 % | 1.04 % |
| U.S. Treasuries | 1.50 | 1.74 | 1.75 | 1.64 |
| Investment grade credit | 8.00 | 1.79 | 10.00 | 1.79 |
| Mortgages | 2.00 | 1.67 | 2.10 | 1.62 |
| High yield bonds | 2.00 | 4.56 | 2.00 | 4.03 |
| Inflation-indexed bonds | 1.50 | 3.44 | 1.50 | 3.25 |
| Broad US equities | 26.00 | 8.53 | 27.25 | 8.52 |
| Developed foreign equities | 13.25 | 6.83 | 12.00 | 6.88 |
| Emerging market equities | 6.50 | 9.95 | 6.40 | 10.00 |
| Private equity | 9.00 | 12.40 | 9.25 | 12.41 |
| Hedge funds/absolute return | 12.50 | 4.68 | 12.00 | 4.72 |
| Real estate (property) | 2.00 | 6.91 | 2.00 | 6.83 |
| Commodities | 0.50 | 5.45 | 1.00 | 5.32 |
| Global debt ex US | 5.00 | -0.25 | 3.50 | -0.40 |
| REIT | 5.25 | 5.63 | 4.25 | 5.12 |

### *(c) Discount Rate*

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and 7.90%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. For the June 30, 2016 measurement date, the projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contributions rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

For the June 30, 2015 measurement date, the projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan s fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

The following presents the Hospital’s proportionate share of the net pension liabilities, measured as of June 30, 2016 and 2015, calculated using the discount rate as disclosed above, as well as what the Hospital’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (in millions):

| | | 2016 | | |
|---|---|---|---|---|
| | | **1% Decrease (2.98%)** | **Discount rate (3.98%)** | **1% Increase (4.98%)** |
| Hospital’s proportionate share of the net pension liability | $ | 646.5 | 552.1 | 474.1 |

| | | 2015 | | |
|---|---|---|---|---|
| | | **1% Decrease (3.90%)** | **Discount rate (4.90%)** | **1% Increase (5.90%)** |
| Hospital’s proportionate share of the net pension liability | $ | 481.5 | 410.9 | 351.9 |

### *(d) Collective Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2017 and 2016, the Hospital reported $82.5 million and $31.3 million as deferred outflows of resources for changes in assumptions. At June 30, 2017 and 2016, the Hospital reported $38.7 million and $16.2 million as deferred outflows of resources for changes in proration. At June 30, 2017 and 2016, the Hospital reported $11.8 million and $5.7 million as deferred outflows of resources for the difference between expected and actual experience. At June 30, 2017, the Hospital reported $9.1 million as deferred outflows of resources for the net difference between projected and actual investment earnings on pension plan investments. At June 30, 2016, the Hospital reported $2.0 million as deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments. The deferred inflows and outflows of resources at June 30, 2017 will be recognized in expense as follows:

(In thousands)

| | | Amount |
|---|---|---|
| Years ended June 30: | | |
| 2017 | $ | 32,863 |
| 2018 | | 32,863 |
| 2019 | | 35,493 |
| 2020 | | 29,476 |
| 2021 | | 11,378 |
| | $ | 142,073 |

Contributions made after the measurement date of the net pension liability have been reported as deferred outflows of resources at June 30, 2017 and 2016 in the amount of approximately $9.2 million and $5.7 million, respectively. Contributions are estimated by the State based on information available at the time.

***(e) Annual Pension Expense***

The Hospital's annual pension expense for fiscal year ending 2017, was approximately $56.1 million and for the fiscal year ending 2016, was approximately $31.3 million.

*(i) Alternate Benefit Program (ABP)*

**Plan Description** – ABP is an employer, defined contribution State retirement plan established as an alternative to PERS. The payroll for employees covered by ABP for the years ended June 30, 2017 and 2016 was $92.3 million and $86.9 million, respectively.

Professional and administrative staff, and certain other salaried employees hired prior to July 1, 2013 are eligible to participate in ABP. Employer (State) contributions vest on reaching one year of credited service. The program also provides long-term disability and life insurance benefits. Benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in ABP.

**Contributions** – The employee mandatory contribution rate for ABP is 5.0% of base salary and is matched by the State at 8.0% of base salary. Contributions can be invested with up to seven investment carriers available under the plan for fiscal year 2017. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code. Employer contributions for the years ended June 30, 2017 and 2016 were $7.4 million and $7.0 million, respectively. Employee contributions for the years ended June 30, 2017 and 2016 were $4.8 million and $4.4 million, respectively.



(Continued)

*(ii) Deferred Compensation Plan*

Hospital employees with membership in PERS or ABP are eligible to participate in the State of New Jersey's Employees Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to elect pre-tax and/or after-tax Roth contributions to invest a portion of their base salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by Prudential Financial. The plan does not include any matching employer (State) contributions. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights, are held in trust by the State for the exclusive benefit of the participating employees and their beneficiaries.

*(iii) Postemployment Benefits Other Than Pension*

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for the Hospital's retired employees, in accordance with State statutes. Full health coverage is provided to eligible employees retiring with 25 years of service credited on or before June 30, 1997 in one of the State of New Jersey's mandatory pension plans. Employees retiring with 25 years of service credited after June 30, 1997 may share in the cost of the health care provided under the State Plan according to the terms specified in the appropriate bargaining unit agreement in effect at the time the employee reaches 25 years of credited service. The rules governing the contribution rate are the same as that for active employees. Since the costs of these programs are the responsibility of the State and the retired employees, the amounts are not available to the Hospital and no expenses or liabilities for these benefits are reflected in the Hospital's financial statements.

## (11) Commitments and Contingencies

### *(a) Reimbursement*

The Hospital derives significant third-party revenues from the Medicare and Medicaid programs. Medicare reimburses most inpatient acute services on a prospectively determined rate per discharge, based on diagnosis-related groups (DRGs) of illnesses, i.e., the Prospective Payment System (PPS). For outpatient services, Medicare payments are based on service groups called ambulatory payment classifications (APCs).

Medicare adjusts the reimbursement rates for capital, medical education, costs related to treating a disproportionate share of indigent patients, and some physician services are reimbursed on a cost basis. Due to these adjustments and other factors, final determination of the reimbursement settlement for a given year is not known until Medicare performs its annual audit. The Hospital's costs reports have been settled by the Medicare fiscal intermediary through June 30, 2012, except for years 2005 and 2010. The Hospital's Medicaid cost report have been audited and settled with the Medicaid fiscal intermediary through June 30, 2014.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the

Hospital under these agreements includes prospectively determined rates per day/case and discounts from established charges.

Revenues received under the various reimbursement systems and agreements are subject to audit and adjustment. Accordingly, provisions for estimated adjustments resulting from audit, final settlement, and changes in estimates have been recorded. Differences between the provisions and the amounts settled are recorded in the year of settlement. The Hospital recognized increases in net patient service revenues of $1.6 million and $2.0 million in 2017 and 2016, respectively, as a result of changes in estimated third-party settlements.

The Hospital is in varying stages of appeals relating to third-party payers' reimbursement rates. Management routinely provides for the effects of all determinable prior year appeals, settlements, and audit adjustments and records estimates based upon existing regulations, past experience, and discussions with third-party payers. However, since the ultimate outcomes for various appeals are not presently determinable, no provision has been made in the accompanying financial statements for such issues.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, Health Reform Law), which was signed into law on March 23, 2010, will change how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reduction in Medicaid Disproportionate Share Hospital payments, overall reduction and significant redistribution of Medicare Disproportionate Share Hospital payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement.

There are various proposals at the federal and state levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, or increase managed care penetration, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Laws and regulations governing Medicaid and Medicare are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable regulations and that any pending or possible investigations involving allegations of potential wrongdoing will not materially impact the accompanying financial statements. While certain regulatory inquiries have been made, compliance with the regulations can be subject to future government review and interpretation as well as significant regulatory action, i.e., fines, penalties, and possible exclusion from Medicaid and Medicare, in the event of noncompliance. In accordance with recent trends in healthcare financial operations, the Hospital has established a Corporate Compliance Committee and appointed a Corporate Compliance Officer to monitor adherence to laws and regulations.



(Continued)

(In thousands)

### *(b) Legal Matters*

There are outstanding legal claims against the Hospital for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract. Pursuant to the Agreement, the Hospital is indemnified by the State for such costs, which were $1.2 million for 2016. There were no such cost indemnified by the State during 2017. The Hospital records these costs when settled by the State as appropriations from the State and as other than personal services expenses in the accompanying financial statements. Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or not.

In connection with the settlement of two cases that initially resulted in a Deferred Prosecution Agreement with the United States Attorney for the District of New Jersey, UMDNJ, which included the Hospital, entered into a five-year Corporate Integrity Agreement (CIA) with the Office of Inspector General of the Federal Department of Health and Human Services in September 2009. Under the terms of the CIA, UMDNJ agreed to adhere to requirements that will ensure regulatory and legal compliance with all federal healthcare programs. The Hospital remained subject to the CIA upon its separation from UMDNJ. The Hospital received a letter dated March 23, 2015 from Department of Health and Human Services Office of Inspector General, which indicated that the Hospital has completed its CIA requirements and other obligations under the Settlement Agreement.

### *(c) Accrued Claims Liability*

The Hospital is self-insured for workers' compensation benefits. At June 30, 2017 and 2016, the accrual for estimated workers' compensation claims, based on an independent actuary's estimate, includes undiscounted estimate of ultimate costs for both reported claims and claims incurred but not reported totaled approximately $26.7 million and $27.9 million, respectively, and is included in accrued claims liability in the accompanying statement of net position. In addition, the Hospital maintains an excess Workers Compensation Policy with a commercial insurance company. In 2017 and 2016, no claims were presented against the policy.

Activity in the liability for accrued claims payable, which includes workers' compensation claims, and included in supplies and other expenses, is summarized as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Balances at July 1 | $ | 27,902 | 28,310 |
| Claims incurred | | 6,164 | 5,463 |
| Claims paid | | (3,400) | (5,871) |
| Change in prior year estimate | | (4,000) | — |
| Balances at June 30 | $ | 26,666 | 27,902 |

### *(d) Operating Leases*

The Hospital leases equipment, off-site clinic space, and office space under various operating leases. Total rental expense for operating leases was approximately $3.8 million in 2017.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2017:

| | | Amount |
|---|---|---|
| Year: | | |
| 2018 | $ | 1,556 |
| 2019 | | 506 |
| 2020 | | 31 |
| | $ | 2,093 |

### *(e) Rutgers University and the State*

The Hospital entered into a master affiliation agreement, various real estate agreements, transition service agreement, continuing service agreement, various operational agreements with Rutgers University and the State. The agreements include various real estate leases, information technology services, clinical services, research affiliation, medical education, and other services (see note 9).

(In thousands)

## (12) Condensed Combining Information

The condensed combining balance sheet at June 30, 2017 are as follows:

| | | UH June 30, 2017 | BHCC December 31, 2016 | Elimination | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ | 76,211 | 3,189 | — | 79,400 |
| Patient accounts receivable, net | | 78,814 | 1,964 | — | 80,778 |
| Restricted investments | | 6,042 | — | | 6,042 |
| Other current assets | | 55,628 | 252 | (22) | 55,858 |
| Noncurrent assets: | | | | | |
| Restricted investments, net | | 104,849 | 8 | — | 104,857 |
| Prepaid bond insurance | | 16,730 | — | — | 16,730 |
| Capital assets, net | | 196,299 | 2,176 | — | 198,475 |
| Subtotal | | 534,573 | 7,589 | (22) | 542,140 |
| Deferred outflows of resources | | 151,245 | — | — | 151,245 |
| Total assets and deferred outflows of resources | $ | 685,818 | 7,589 | (22) | 693,385 |
| Liabilities: | | | | | |
| Current liabilities | $ | 91,907 | 665 | (22) | 92,550 |
| Long-term debt and capital leases, net | | 346,480 | — | — | 346,480 |
| Pension liability | | 552,097 | — | — | 552,097 |
| Other long-term liabilities | | 21,695 | 8 | — | 21,703 |
| Total liabilities | | 1,012,179 | 673 | (22) | 1,012,830 |
| Deferred inflows of resources | | — | — | — | — |
| Total liabilities and deferred inflows of resources | | 1,012,179 | 673 | (22) | 1,012,830 |
| Net position: | | | | | |
| Net investment in capital assets | | 12,558 | 2,716 | — | 15,274 |
| Restricted | | 6,022 | — | — | 6,022 |
| Unrestricted | | (344,941) | 4,200 | — | (340,741) |
| Total net position | | (326,361) | 6,916 | — | (319,445) |
| Total liabilities and net position | $ | 685,818 | 7,589 | (22) | 693,385 |



(Continued)

(In thousands)

The condensed combining balance sheet at June 30, 2016 are as follows:

| | UH June 30, 2016 | BHCC December 31, 2015 | Elimination | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 97,920 | 2,592 | — | 100,512 |
| Patient accounts receivable, net | 72,870 | 2,598 | — | 75,468 |
| Restricted investments | 6,334 | — | — | 6,334 |
| Other current assets | 37,132 | 410 | — | 37,542 |
| Noncurrent assets: | | | | |
| Restricted investments, net | 125,313 | 10 | — | 125,323 |
| Prepaid bond insurance | 17,317 | — | — | 17,317 |
| Capital assets, net | 202,356 | 2,333 | | 204,689 |
| Subtotal | 559,242 | 7,943 | — | 567,185 |
| Deferred outflows of resources | 58,981 | — | — | 58,981 |
| Total assets and deferred outflows of resources | $ 618,223 | 7,943 | — | 626,166 |
| Liabilities: | | | | |
| Current liabilities | $ 101,675 | 753 | — | 102,428 |
| Long-term debt and capital leases, net | 347,457 | — | — | 347,457 |
| Pension liability | 410,860 | — | — | 410,860 |
| Other long-term liabilities | 20,710 | 10 | — | 20,720 |
| Total liabilities | 880,702 | 763 | — | 881,465 |
| Deferred inflows of resources | 2,028 | — | — | 2,028 |
| Total liabilities and deferred inflows of resources | 882,730 | 763 | — | 883,493 |
| Net position: | | | | |
| Net investment in capital assets | 38,429 | 2,333 | — | 40,762 |
| Restricted | 6,341 | — | — | 6,341 |
| Unrestricted | (309,277) | 4,847 | — | (304,430) |
| Total net position | (264,507) | 7,180 | — | (257,327) |
| Total liabilities and net position | $ 618,223 | 7,943 | — | 626,166 |

(In thousands)

The condensed combining statement of revenues, expenses and changes in net position at June 30, 2017 are as follows:

| | UH June 30, 2017 | BHCC December 31, 2016 | Elimination | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Net patient service revenue | $ 487,131 | 9,413 | — | 496,544 |
| Grants revenue | 5,016 | 319 | — | 5,335 |
| Other revenue | 26,580 | 7 | — | 26,587 |
| Total operating revenues | 518,727 | 9,739 | — | 528,466 |
| Operating expenses: | | | | |
| Personnel services | 242,172 | 3,351 | — | 245,523 |
| Contracted physician and resident fees | 75,679 | 2,876 | — | 78,555 |
| Fringe benefits | 91,170 | 595 | — | 91,765 |
| Pension | 56,117 | | — | 56,117 |
| Supplies and other expenses | 211,357 | 2,880 | — | 214,237 |
| Depreciation | 20,174 | 319 | — | 20,493 |
| Total operating expenses | 696,669 | 10,021 | — | 706,690 |
| Operating loss | (177,942) | (282) | — | (178,224) |
| Nonoperating income (expenses): | | | | |
| Appropriations from the State of New Jersey | 129,843 | — | — | 129,843 |
| Interest income | 446 | 18 | — | 464 |
| Interest expense | (15,190) | — | — | (15,190) |
| Loss before other changes in net position | (62,843) | (264) | — | (63,107) |
| Other changes in net position: | | | | |
| Capital contributions funded by grantors and donors | 989 | — | — | 989 |
| Total other changes in net position | 989 | — | — | 989 |
| Decrease in net position | (61,854) | (264) | — | (62,118) |
| Net position at beginning of year | (264,507) | 7,180 | — | (257,327) |
| Net position at end of year | $ (326,361) | 6,916 | — | (319,445) |

(In thousands)

The condensed combining statement of revenues, expenses and changes in net position at June 30, 2016 are as follows:

| | UH June 30, 2016 | BHCC December 31, 2015 | Elimination | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Net patient service revenue | $ 486,199 | 9,794 | — | 495,993 |
| Grants revenue | 5,948 | 461 | — | 6,409 |
| Other revenue | 20,919 | 17 | — | 20,936 |
| Total operating revenues | 513,066 | 10,272 | — | 523,338 |
| Operating expenses: | | | | |
| Personnel services | 241,455 | 3,416 | — | 244,871 |
| Contracted physician and resident fees | 73,006 | 2,364 | — | 75,370 |
| Fringe benefits | 90,191 | 625 | — | 90,816 |
| Pension | 31,281 | — | — | 31,281 |
| Supplies and other expenses | 207,639 | 2,927 | — | 210,566 |
| Depreciation | 19,941 | 315 | — | 20,256 |
| Total operating expenses | 663,513 | 9,647 | — | 673,160 |
| Operating (loss) gain | (150,447) | 625 | — | (149,822) |
| Nonoperating income (expenses): | | | | |
| Appropriations from the State of New Jersey | 137,348 | — | — | 137,348 |
| Interest income | 150 | 6 | — | 156 |
| Interest expense | (13,448) | — | — | (13,448) |
| (Loss) gain before other changes in net position | (26,397) | 631 | — | (25,766) |
| Other changes in net position: | | | | |
| Capital contributions funded by grantors and donors | 3,291 | — | — | 3,291 |
| Total other changes in net position | 3,291 | — | — | 3,291 |
| (Decrease) increase in net position | (23,106) | 631 | — | (22,475) |
| Net position at beginning of year | (241,401) | 6,549 | — | (234,852) |
| Net position at end of year | $ (264,507) | 7,180 | — | (257,327) |

(In thousands)

The condensed combining statement of cash flows for the year ended June 30, 2017 are as follows:

| | | UH June 30, 2017 | BHCC December 31, 2016 | Elimination | Total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Cash received from patients and third-party payors | $ | 480,285 | 10,047 | — | 490,332 |
| Receipts from grants | | 6,390 | 319 | — | 6,709 |
| Other receipts | | 26,580 | 7 | — | 26,587 |
| Cash paid for personnel services | | (259,654) | (3,325) | — | (262,979) |
| Cash paid for contracted physician and resident fees | | (79,570) | (2,876) | — | (82,446) |
| Cash paid for fringe benefits | | (6,582) | (798) | — | (7,380) |
| Cash paid for other than personnel services | | (214,626) | (2,632) | — | (217,258) |
| Net cash (used in) provided by operating activities | | (47,177) | 742 | — | (46,435) |
| Cash flows from noncapital financing activities: | | | | | |
| Cash appropriations received from state of New Jersey | | 33,841 | — | — | 33,841 |
| Net cash provided by noncapital financing activities | | 33,841 | — | — | 33,841 |
| Cash flows from capital and related financing activities: | | | | | |
| Purchase of capital assets | | (14,117) | (162) | — | (14,279) |
| Capital contributions by grantors | | 989 | — | — | 989 |
| Payments of capital lease obligation | | (112) | — | — | (112) |
| Payments of long-term debt | | (83) | — | — | (83) |
| Interest paid | | (16,252) | — | — | (16,252) |
| Net cash used in capital and related financing activities | | (29,575) | (162) | — | (29,737) |
| Cash flows from investing activities: | | | | | |
| Purchases of investments | | — | — | — | — |
| Sales of investments | | 20,756 | — | — | 20,756 |
| Interest received | | 446 | 17 | — | 463 |
| Net cash provided by investing activities | | 21,202 | 17 | — | 21,219 |
| Net (decrease) increase in cash | | (21,709) | 597 | — | (21,112) |
| Cash at beginning of year | | 97,920 | 2,592 | — | 100,512 |
| Cash at end of year | $ | 76,211 | 3,189 | — | 79,400 |
| Supplemental disclosures: | | | | | |
| Appropriation paid on behalf of the Hospital | $ | 96,002 | — | — | 96,002 |

(In thousands)

The condensed combining statement of cash flows for the year ended June 30, 2016 are as follows:

| | UH June 30, 2016 | BHCC December 31, 2015 | Elimination | Total |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Cash received from patients and third-party payors | $ 478,601 | 10,022 | — | 488,623 |
| Receipts from grants | 5,138 | 461 | — | 5,599 |
| Other receipts | 20,919 | 17 | — | 20,936 |
| Cash paid for personnel services | (230,205) | (3,550) | — | (233,755) |
| Cash paid for contracted physician and resident fees | (77,463) | (2,364) | — | (79,827) |
| Cash paid for fringe benefits | (3,858) | (625) | — | (4,483) |
| Cash paid for other than personnel services | (220,279) | (3,007) | — | (223,286) |
| Net cash (used in) provided by operating activities | (27,147) | 954 | — | (26,193) |
| Cash flows from noncapital financing activities: | | | | |
| Cash appropriations received from state of New Jersey | 43,800 | — | — | 43,800 |
| Net cash provided by noncapital financing activities | 43,800 | — | — | 43,800 |
| Cash flows from capital and related financing activities: | | | | |
| Purchase of capital assets | (18,900) | (164) | — | (19,064) |
| Capital contributions by grantors | 3,291 | — | — | 3,291 |
| Payments of capital lease obligation | (110) | — | — | (110) |
| Payments of long-term debt | (150,000) | — | — | (150,000) |
| Proceeds from issuance of long-term debt | 270,416 | — | — | 270,416 |
| Cash paid for bond insurance | (17,610) | — | — | (17,610) |
| Cash paid for bond financing costs | (2,756) | — | — | (2,756) |
| Interest paid | (7,739) | — | — | (7,739) |
| Net cash provided by (used in) capital and related financing activities | 76,592 | (164) | — | 76,428 |
| Cash flows from investing activities: | | | | |
| Purchases of investments | (131,647) | — | — | (131,647) |
| Sales of investments | 38,257 | — | — | 38,257 |
| Interest received | 150 | 6 | — | 156 |
| Net cash (used in) provided by investing activities | (93,240) | 6 | — | (93,234) |
| Net increase in cash | 5 | 796 | — | 801 |
| Cash at beginning of year | 97,915 | 1,796 | — | 99,711 |
| Cash at end of year | $ 97,920 | 2,592 | — | 100,512 |
| Supplemental disclosures: | | | | |
| Appropriation paid on behalf of the Hospital | $ 93,556 | — | — | 93,556 |



(Continued)

(In thousands)

The condensed combining statement of cash flows for the year ended June 30, 2017 and June 30, 2016 are as follows:

| | | UH June 30, 2017 | BHCC December 31, 2016 | Elimination | Total |
|---|---|---|---|---|---|
| Reconciliation of operating loss to net cash (used in) provided by operating activities: | | | | | |
| Operating loss | $ | (177,942) | (281) | — | (178,223) |
| Adjustments to reconcile operating loss to net cash (used in) provided by operating activities | | 258,997 | 1,177 | — | 260,174 |
| Net change in assets and liabilities | | (128,232) | (154) | — | (128,386) |
| Net cash (used in) provided by operating activities | $ | (47,177) | 742 | — | (46,435) |

| | | UH June 30, 2016 | BHCC December 31, 2015 | Elimination | Total |
|---|---|---|---|---|---|
| Reconciliation of operating loss to net cash (used in) provided by operating activities: | | | | | |
| Operating loss | $ | (150,447) | 625 | — | (149,822) |
| Adjustments to reconcile operating loss to net cash (used in) provided by operating activities | | 276,886 | 1,477 | — | 278,363 |
| Net change in assets and liabilities | | (153,586) | (1,148) | — | (154,734) |
| Net cash (used in) provided by operating activities | $ | (27,147) | 954 | — | (26,193) |



(Continued)

### (13) Subsequent Event

Management evaluated all events and transactions that occurred after June 30, 2017 and through November 30, 2017. The Hospital did not have any material recognizable subsequent events during the period.

**UNIVERSITY HOSPITAL**
(A Component Unit of the State of New Jersey)

Schedule of the Hospital's Contributions
PERS Pension Plan

(Unaudited)

June 30, 2017, 2016, and 2015

(Dollar amounts in thousands)

| | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ | 9,173 | 7,233 | 3,906 |
| Contributions in relation to the contractually required contribution | | (9,173) | (7,233) | (3,906) |
| Contribution deficiency (excess) | $ | — | — | — |
| Covered-employee payroll | $ | 114,464 | 95,926 | 88,210 |
| Contributions as a percentage of covered-employee payroll | | 8.0 % | 7.5 % | 4.4 % |

Note: Contributed by State on behalf of the Hospital

**UNIVERSITY HOSPITAL**

(A Component Unit of the State of New Jersey)

Schedule of the Hospital's Proportionate Share of the Net Pension Liability
PERS Pension Plan

(Unaudited)

June 30, 2016, 2015, and 2014

(Dollar amounts in thousands)

| | Measurement date | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Proportion of the pension liability | 1.878% | 1.732% | 1.722% |
| Proportionate share of the net pension liability | $ 552,097 | 410,860 | 346,611 |
| Covered-employee payroll | 95,926 | 88,210 | 79,796 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 575.55% | 465.77% | 434.37% |
| Plan fiduciary net position as a percentage of the total pension liability | 19.02% | 24.96% | 30.06% |

Note 1: The State is nonemployer contributing entity for 100% of the proportionate share of the net pension liability

Note 2: The Hospital uses a measurement date with a one year lag in recording the liability.