KPMG

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

Financial Statements

June 30, 2014

(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 the business-type activities and the discretely presented component unit of University Hospital (the Hospital or UH), a component unit of the State of New Jersey, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements 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 audit. We did not audit the financial statements of the Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC), which represents 100% of the Hospital's discretely presented component unit. 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, are based solely on report of the other auditors. We conducted our audit 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in notes 1 and 3 to the financial statements, on July 1, 2013, the New Jersey Medical and Health Sciences Education and Restructuring Act (the Act) went into effect and the hospital operations of University of Medicine and Dentistry of New Jersey were transferred to the Hospital. Our opinions are not modified with respect to this matter.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 10 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

December 12, 2014

This section of University Hospital's (the Hospital) annual financial report presents management's discussion and analysis of the summarized assets, liabilities, and net position as of June 30, 2014 compared to June 30, 2013 balances transferred to the Hospital. This section also presents management's discussion and analysis of the financial performance during the year ended June 30, 2014 compared to the Hospital's budget. 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.

The financial statements of the Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC), a component unit of the Hospital, are presented discretely from the Hospital; however, the MD&A focuses on the Hospital.

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, 2014, the end of the fiscal year, and the changes in net position and its financial activities for the year 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 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 cash receipts and cash payments and classify them as to operating, noncapital

(Continued)

financing, capital and related financing, and investing activities. Notes to financial statements explain information in the statements and provide more detailed data.

A summarized comparison of the Hospital's assets, liabilities, and net position at June 30, 2014 and 2013 is as follows (in thousands):

		2014	2013
Assets:			
Current assets:			
Cash and cash equivalents	$	40,318	10,975
Patient accounts receivable, net		74,746	76,448
Restricted investments		603	—
Other current assets		29,829	22,414
Noncurrent assets:			
Restricted investments, net		46,915	9,354
Capital assets, net		213,616	145,246
Total assets		406,027	264,437
Liabilities:			
Current liabilities		77,884	114,705
Long-term debt and capital leases, net		227,348	77,261
Other long-term liabilities		20,180	17,712
Total liabilities		325,412	209,678
Net position:			
Net investment in capital assets		58,050	67,372
Restricted		1,599	11,269
Unrestricted		20,966	(23,882)
Total net position	$	80,615	54,759

Overall Financial Position and Operations

The Hospital's total net position from the period June 30, 2013 to June 30, 2014, increased by $25.9 million, net investment in capital assets decreased by $9.3 million during 2014 as the Hospital's depreciation exceeded purchases of capital assets. The Hospital's unrestricted position increased to $21 million at June 30, 2014 from ($23.9) million at June 30, 2013. The Hospital incurred a decrease in net position of $23.5 million in 2014, before the benefit of a forgiveness of certain liabilities totaling $49.4 million owed to the State of New Jersey.

Significant financial ratios are as follows:

Current ratio	1.87
Quick ratio	1.48
Days cash on hand	25.32
Net days revenue in patient receivables	54.35

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The current ratio, quick ratio, and days cash on hand are common liquidity indicators. The Hospital's current ratio, quick ratio, and days cash on hand have increased from 2013 to 2014. 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 decreased 8.2 days from June 30, 2013 to June 30, 2014.

Variances in Financial Statements

In this section, the Hospital explains the reasons for certain financial statement items with variances relating to 2014 amounts compared to 2013.

Statement of Net Position

Cash and cash equivalents – increased $29.3 million from June 30, 2013 to June 30, 2014 due to transfers from proceeds of the bond offering available for operations in the amount of $30.3 million.

Patient accounts receivable, net – decreased $1.7 million from June 30, 2013 to June 30, 2014. Days in patient accounts receivable of 54.3 are 8.2 days less than the prior year. This is a result of increased collections and decreased volume offset by an increase in discharge not final billed (DNFB) accounts and the impact of increased net patient service revenue on the calculation.

Other current assets – increased $7.4 million from June 30, 2013 to June 30, 2014 primarily due to the recording of grants receivable of $5.4 million and $4.9 million receivable due from State of New Jersey for fringe benefits, which were offset by $3.2 million decrease in supplies.

Restricted investments – increased $38.2 million from June 30, 2013 to June 30, 2014 due to Hospital issuing bonds during 2014. The funds held at June 30, 2014 are comprised of $15.0 million for debt service reserve requirements, $1.6 million for payment of current interest, $18.8 million for capital acquisitions, and $12.2 million for working capital.

Capital assets, net – increased $68.4 million from June 30, 2013 to June 30, 2014. The increase is due to $9.8 million of purchases and $77.0 million of capital lease obligations, which were offset by current year depreciation in the amount of $18.4 million.

Accounts payable and accrued expenses – increased $5.5 million from June 30, 2013 to June 30, 2014 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 49.2 as of June 30, 2014.

Accrued salaries and related payroll taxes – increased $4.3 million from June 30, 2013 to June 30, 2014 due to timing differences.

Due to Rutgers University – increased $11.1 million from June 30, 2013 to June 30, 2014 as the Hospital entered into various continuing service agreements and temporary service agreements with Rutgers University on July 1, 2013 as part of the Hospital's separation from UMDNJ. The balance at June 30, 2014 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 – increased $3.0 million from June 30, 2013 to June 30, 2014 due to updated actuarial analysis. The Hospital records the projected liability on an undiscounted basis.

Estimated third-party payer settlements – decreased $57.9 million for June 30, 2013 to June 30, 2014 primarily due to forgiveness by the State of New Jersey of $49.4 million for prior period Medicaid liabilities, updated estimates of final settlements and repayments by the Hospital to CMS of prior period Medicare liabilities. The forgiveness was part of the separation plan from UMDNJ.

Long-term debt – increased $149.0 million from June 30, 2013 to June 30, 2014. On July 1, 2013, the Hospital issued $150.0 million of New Jersey Healthcare Facilities Finance Authority, Bond Anticipation Notes (BAN), Series 2013. A portion of the proceeds were used to defease $77.9 million of debt apportioned to the Hospital as part of the dissolution of UMDNJ. The entire amount of the BAN is classified as long term since no principal payments are due until February 1, 2016. If the BAN is not refinanced prior to that time, the Hospital will be required to pay the principal balance over the following 18 months. On July 1, 2013, the Hospital entered into five capital lease agreements with Rutgers for space in various locations on the Newark campus. The leases are for 76 years and the Hospital has capitalized the present value of $77.0 million.

Changes in Components of Net Position

Net investment in capital assets – decreased $9.3 million from June 30, 2013 to June 30, 2014 primarily due to fiscal 2014 purchases of capital assets of $9.8 million which were offset by fiscal 2014 depreciation of $18.4 million.

Restricted – decreased $9.7 million as the amount restricted for repayment of long-term debt held by Trustees decreased with the refinance of outstanding debt transferred to the Hospital from UMDNJ.

Unrestricted – net position activities, other than those mentioned above, resulted in an increase of $44.8 million for year 2014. Please see the statements of revenues, expenses, and changes in net position.

A summarized comparison of the Hospital's revenues, expenses, and changes in net position for the year ended June 30, 2014 is as follows (in thousands):

		2014
Operating revenues:		
Net patient service revenue	$	501,989
Grants revenue		15,946
Other revenue		12,193
Total operating revenues		530,128
Operating expenses:		
Personal services, fringes benefits, physician and resident fees		390,719
Supplies and other expenses		199,505
Depreciation		18,426
Total operating expenses		608,650
Operating income		(78,522)
Nonoperating income (expense):		
Appropriations from State of New Jersey		115,466
Interest expense, net		(11,524)
Income before other changes in net position		25,420
Other changes in net position:		
Capital contributions		436
Increase in net position		25,856
Net position at beginning of year		54,759
Net position at end of year	$	80,615

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. These revenues exceeded budget by $53.0 million in 2014, due primarily to the forgiveness of $49.4 million of prior period Medicaid liabilities by the State of New Jersey. The Hospital experienced a significant decrease in inpatient volume during the year; however, the resultant negative revenue impact was offset by the increase in previously uninsured patients who obtained coverage beginning in January 2014, by the Medicaid program as a result of the Affordable Care Act.

The Hospital's net patient service revenues totaled $502.0 million (including patient subsidies) in 2014. 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 60% of its gross revenues. As a result, the

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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 91,026 in 2014 were under budget by 5.3%. Inpatient discharges, which account for approximately 70% of the Hospital's net patient service revenues, were under budget by 7.1%. Clinic visits, which generate outpatient revenues, exceeded budget by 2.9% in 2014.

The level of charity care services provided by the Hospital represents in excess of 10% of its overall patient care services. Charity care funding from the State of New Jersey (the State) totaled $98.3 million in 2014. 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 $113.4 in Patient Subsidies payments in FY 2014 with the major components represented by payments of $98.3 million for the New Jersey Charity Care Subsidy Program and $14.3 for the Delivery System Reform Incentive Payment (DSRIP) Program.

Personnel services, fringe benefits, physician, and resident fees – were $390.7 million for the year ended June 30, 2014 and were favorable compared to budget of $393.3 million. Personnel services costs for the year ended June 30, 2014 of $221.7 million were $3.0 million under budget, which was mainly due to actual full-time equivalents (FTEs) of 3,060 compared to budgeted FTEs of 3,100. Cost for medical staff and residents for the year ended June 30, 2014 of $73.0 million contracted with Rutgers University were $0.2 million under budget.

Supplies and other expenses were $199.5 million for the year ended June 30, 2014 and were $2.8 million under budget, excluding $4.6 million of financing fees incurred and $4.3 million of malpractice cases settled and paid by the State, due to lower patient volumes and efficiencies in operations implemented during the year.

State appropriations – The Hospital recorded $115.5 million in State Appropriations in FY 2014. These amounts include $92.4 million for fringe benefits of Hospital employees paid by the State, a special Higher Education Appropriation of $18.8 million for those expenses incurred as a result of the New Jersey Medical and Sciences Education Restructuring Act, and $4.3 million of malpractice cases settled and paid by the State.

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):

		2014	2013
Land and land improvements	$	1,598	1,598
Buildings and leasehold improvements		383,661	306,618
Equipment		196,944	187,191
Total		582,203	495,407
Less accumulated depreciation		368,587	350,161
Net capital assets	$	213,616	145,246

The Hospital had FY 2014 additions to capital assets as follows:

- Five capital lease agreements with Rutgers for space in various locations on the Newark campus capitalized in the amount of $77.0 million.
- $9.8 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 7 to the financial statements.

Long-Term Debt

At June 30, 2014, the Hospital has approximately $150.6 million in long-term debt financing. The Hospital's debt is not rated by any of the Rating agencies.

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 $69.2 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 BANS in the amount of $4.6 million. The entire balance of these bonds is due February 1, 2016. If the bonds are not refinanced the principal payments are due in equal installments over the following 18 months. The bonds are at an interest rate of 5% plus the current Securities Industry and Financial Markets Association (SIFMA) rate.

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 principle payments until August, 2020. More detailed information about the Hospital's long-term debt is presented in note 9 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.

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 cuts
- Ability of State of New Jersey to increase capital and expense funding
- Implementation of the new Health Care Exchanges and its effect on the uninsured
- Continued penetration of managed care and accountable care in the market place

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. Hospital administration continues to develop monitoring tools to help directors and managers target and use benchmark data as a means of controlling costs and enhance productivity. Hospital administration has also identified additional initiatives intended to increase revenues 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 Sheets

(In thousands)

Assets		**Business-Type Activities – UH June 30, 2014**	**Discretely Presented Component Unit-BHCC December 31, 2013**
Current assets:			
Cash (note 4)	$	40,318	1,991
Restricted investments (note 8)		603	—
Patient accounts receivable, net (note 6)		74,746	2,305
Due from State of New Jersey		4,908	—
Supplies		15,123	—
Grants receivable		5,407	—
Other current assets		4,391	171
Total current assets		145,496	4,467
Noncurrent assets:			
Restricted investments, net (notes 8 and 9)		46,915	17
Capital assets, net (notes 7 and 9)		213,616	2,611
Total noncurrent assets		260,531	2,628
Total assets	$	406,027	7,095
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	26,891	432
Accrued salaries and related payroll taxes		14,280	206
Accrued vacation and sick pay		11,596	—
Due to Rutgers University (note 10)		11,085	—
Current portion of accrued claims liability (note 12)		7,050	—
Estimated third-party payor settlements, net (note 12)		5,849	296
Current portion of long-term debt and capital lease obligation (note 9)		171	—
Other current liabilities		962	—
Total current liabilities		77,884	934
Noncurrent liabilities:			
Resident funds payable		—	17
Accrued claims liability, net of current portion (note 12)		20,180	—
Capital lease obligation, net of current portion (note 9)		76,832	—
Long-term debt (note 9)		150,516	—
Total noncurrent liabilities		247,528	17
Total liabilities		325,412	951
Commitments and contingencies (note 12)			
Net position:			
Net investment in capital assets		58,050	2,610
Restricted for debt service		1,599	—
Unrestricted		20,966	3,534
Total net position		80,615	6,144
Total liabilities and net position	$	406,027	7,095

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

(In thousands)

		Business-Type Activities – UH Year ended June 30, 2014	Discretely Presented Component Unit – BHCC Year ended December 31, 2013
Operating revenues:			
Net patient service revenue (notes 6 and 12)	$	501,989	9,190
Grants revenue		15,946	447
Other revenue		12,193	213
Total operating revenues		530,128	9,850
Operating expenses:			
Personnel services		221,713	3,610
Contracted physician and resident fees (note 10)		72,964	2,132
Fringe benefits (notes 2 and 11)		96,042	752
Supplies and other expenses (note 10)		199,505	2,723
Depreciation (note 7)		18,426	364
Total operating expenses		608,650	9,581
Operating (loss) income		(78,522)	269
Nonoperating income (expenses):			
Appropriations from State of New Jersey (notes 11 and 12)		115,466	—
Interest income		29	—
Interest expense		(11,553)	—
Forgiveness of long-term debt		—	12,440
Income before other changes in net position		25,420	12,709
Other changes in net position:			
Capital contributions funded by grantors and donors		436	—
Total other changes in net position		436	—
Increase in net position		25,856	12,709
Net position at beginning of year (note 3)		54,759	(6,565)
Net position at end of year	$	80,615	6,144

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2014

(In thousands)

		2014 Business-Type Activities – UH
Cash flows from operating activities:		
Cash received from patients and third-party payors	$	445,806
Receipts from grants		10,539
Other receipts		11,886
Cash paid for personnel services		(217,405)
Cash paid for contracted physician and resident fees		(64,974)
Cash paid for fringe benefits		(670)
Cash paid for other than personnel services		(183,306)
Net cash provided by operating activities		1,876
Cash flows from noncapital financing activities:		
Cash appropriations received from state of New Jersey		13,895
Net cash provided by noncapital financing activities		13,895
Cash flows from capital and related financing activities:		
Purchase of capital assets		(9,766)
Capital contributions by grantors		436
Payments of capital lease obligation		(97)
Proceeds from issuance of long-term debt		150,000
Refunding of long-term debt		(77,916)
Cash paid for bond financing costs		(4,632)
Interest paid		(10,950)
Net cash provided by capital and related financing activities		47,075
Cash flows from investing activities:		
Purchases of investments		(47,518)
Sales of investments		13,986
Interest received		29
Net cash used in investing activities		(33,503)
Net increase in cash		29,343
Cash at beginning of year (note 3)		10,975
Cash at end of year	$	40,318
Supplemental disclosures:		
Capital lease obligations incurred	$	77,030
Appropriations paid on behalf of the Hospital		96,663

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

Statement of Cash Flows

Year ended June 30, 2014

(In thousands)

		2014 Business-Type Activities – UH
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(78,522)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		18,426
Provision for bad debts		169,110
State paid expenses		101,571
Changes in assets and liabilities:		
Patient accounts receivable, net		(167,408)
Due from State of New Jersey		(4,908)
Grants receivable		(5,407)
Supplies and other current assets		2,900
Accounts payable and accrued expenses		4,882
Accrued salaries and related payroll taxes		4,263
Accrued vacation and sick		45
Due to Rutgers University		11,085
Accrued claims liability		2,972
Estimated third-party payer settlements, net		(57,885)
Other liabilities		752
Net cash provided by operating activities	$	1,876

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 (the Hospital or 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 (see note 3). 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."

The Hospital 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.

The financial statements include Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC), which is presented as a discretely presented component unit of the Hospital (note 13). 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. The Hospital is the sole corporate member and appoints a voting majority of the governing board of BHCC. The Hospital has the ability to impose its will on BHCC.

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.

(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.

(c) Restricted Investments

Restricted Investments primarily include assets held by a trustee under bond resolutions. Amounts required to meet current liabilities of the Hospital have been classified as current assets in the statement of net position. Restricted Investments are invested in the State of New Jersey Cash

Management Fund (Cash Management Fund) wherein amounts are contributed by the Hospital and other units of government and are combined into a large-scale investment program. Amounts contributed to the Cash Management Fund investment pool are recorded at amortized cost, which approximates fair value. Any differences between cost and fair value for the Cash Management Fund investment pool investments are immaterial. Interest income earned on Cash Management Fund is included in nonoperating income (expense). Interest income on Cash Management Fund is calculated daily and funds may be withdrawn at any time. The Cash Management Fund is not rated.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the Cash Management Fund. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625.

(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 5).

(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.

(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 State of New Jersey, interest income, and interest expense are reported as nonoperating revenues and expenses. Other changes in net position, which are excluded from income before other changes in net position, consist of grants for capital assets.

(g) Patient Accounts Receivable 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 $169.1 million in 2014.

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 collectibility. 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, 2014 is $145.9 million.

(h) Appropriations from 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 11 and 12).

The State pays on behalf of the Hospital for fringe benefits of employees, medical malpractice settlements, negligence, and other torts. In 2014, the fringe benefits of employees paid by the State were $92.4 million, the medical malpractice and general liability settlements paid by the State were $4.3 million. The Hospital is indemnified by the State for the Hospital's malpractice settlements (see notes 11 and 12). The State also paid the Hospital $18.8 million to support the operations of the Hospital during fiscal 2014.

(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) 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.

(Continued)

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 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.

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.

(k) Supplies

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

(l) 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.

(m) 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.

(n) 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 Urban Security Initiative, North Star, and School Based Youth Service grants.

(o) 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 8. *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.

(p) 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.

(q) Accrued Claims Liability

Accrued claims liability represents estimated amounts payable related to workers compensation claims (see note 12(c)).

(r) New Accounting Standard Adopted

During 2014, the Hospital adopted one accounting standards as follows:

Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* (GASB 65), amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either property classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). There was no impact as a result of adoption of this standard to the Hospital's financial statements.

(In thousands)

(3) Transfer of Operations from University of Medicine and Dentistry of New Jersey (UMDNJ) to University Hospital

Through June 30, 2013, the Hospital was a department of UMDNJ. Effective July 1, 2013, the assets and liability of the Hospital were transferred to University Hospital as a newly established component unit of the State of New Jersey. The assets, liabilities and net position transferred on July 1, 2013 is as follows:

		July 1, 2013
Assets:		
Current assets	$	109,837
Capital assets, net		145,246
Other assets		9,354
Total assets		264,437
Liabilities:		
Current liabilities		114,705
Long-term debt, net		77,261
Other liabilities		17,712
Total liabilities		209,678
Net position:		
Net investment in capital assets		67,372
Restricted expendable for specific operating activities		11,269
Unrestricted		(23,882)
Total net position	$	54,759

The Hospital's policy is to record accrued workers' compensation liability on an undiscounted basis. The amounts above reflect an adjustment of approximately $5.3 million representing the different between discounted and undiscounted liability.

(4) 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, 2014, the actual amount of cash on deposit in the Hospital's bank accounts was $45.8 million, of which, $250 thousand was insured by the Federal Deposit Insurance Corporation and no cash was collateralized.

(In thousands)

(5) 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 following information measures the level of charity care provided during the year ended June 30, 2014:

Charges foregone, based on established rates	$	240,229
Estimated cost incurred to provide charity care		71,694

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 received $98.3 million from the State's Charity Care Subsidy Fund in 2014.

(6) Patient Accounts Receivable, net and Revenue

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 increase to net patient service revenue for the year ended June 30, 2014 (see note 12(a)).

The components of net patient service revenue for the year ended June 30, 2014 is as follows:

Gross charges	$	2,024,743
Additions (deductions) from gross charges:		
Health Care Subsidy Fund payments		113,389
Contractual and other allowances		(1,516,472)
Provision for bad debts		(169,110)
Reduction of Medicaid cost report liability		49,439
Subtotal		(1,522,754)
Net patient service revenues	$	501,989

(In thousands)

Net patient service revenue for the year ended June 30, 2014 is as follows:

Medicaid and Medicaid HMO	$	142,596
Medicare		109,714
Other third-party payors		123,922
Self-pay		12,368
		388,600
Subsidies		113,389
	$	501,989

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, 2014:

Medicaid and Medicaid HMO	$	21,082	28.2%
Medicare		3,988	5.3
Other third-party payors		40,416	54.1
Self-pay		9,260	12.4
	$	74,746	100.0%

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

Beginning balance	$	137,090
Provision for bad debts		169,110
Write-off, net of recoveries		(160,314)
Ending balance	$	145,886

(7) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

		June 30, 2013 balance	Acquisitions, net of transfers	Sales, retirements, and adjustments	June 30, 2014 balance
Land and land improvements	$	1,598	—	—	1,598
Buildings and leasehold improvements		306,618	77,030	—	383,648
Equipment		187,191	9,766	—	196,957
Total	$	495,407	86,796	—	582,203

(In thousands)

Related information on accumulated depreciation for the year ended June 30, 2014 was as follows:

		June 30, 2013 balance	Depreciation and amortization	Sales, retirements, and adjustments	June 30, 2014 balance
Land and land improvements	$	—	—	—	—
Buildings and leasehold improvements		209,632	13,341	—	222,973
Equipment		140,529	5,085	—	145,614
Total	$	350,161	18,426	—	368,587

The Hospital capitalizes interest costs incurred in connection with construction projects. During 2014, no interest was capitalized relating to construction projects.

(8) Restricted Investments

Restricted investments consist of the following as of June 30, 2014:

Under bond resolutions:		
Working capital funds	$	12,166
Capital reserve funds		18,753
Debt service reserve funds		15,000
Debt service funds		1,599
		47,518
Less current portion of restricted investments		603
	$	46,915

Restricted investments under the terms of the bond resolutions (see note 9) 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. The funds are invested in the interest-bearing New Jersey Cash Management Fund, which is fully collateralized.

(In thousands)

(9) Long-Term Debt and Capital Lease Obligations

Long-term debt consists of the following as of June 30, 2014:

Bonds payable:		
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Revenue Bond Anticipation Notes (BAN), series 2013, bearing interest at a variable rate set daily with principal payments commencing on February 1, 2016 and maturing over the following 18 months (a)	$	150,000
New Jersey Educational Facilities Authority (NJEFA) Higher Education Capital Improvement Fund, Series 2000 A annual principal payments (b)		586
Capital lease obligations (c)		76,933
		227,519
Less current installments		171
	$	227,348

Long-term debt activity for the years ended June 30, 2014 was as follows:

	June 30, 2013 balance	Additions	Reductions	June 30, 2014 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 78,502	—	(77,916)	586	70
BAN	—	150,000	—	150,000	—
Capital lease obligations	—	77,030	(97)	76,933	101
	$ 78,502	227,030	(78,013)	227,519	171

(a) 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 are not refinanced by February 1, 2016 the principal payments are due over the following 18 months. No principal payments are due until February 1, 2016. The Series 2013 Notes were issued under and secured by a Trust Agreement (the Trust Agreement) by and between the Authority and The Bank of New York Mellon, as Trustee. The Hospital ended into a Loan Agreement (the Loan Agreement) with the

(In thousands)

Authority relating to the Series 2013 Notes. The Hospital's obligations under the Loan Agreements were evidenced by Promissory Notes. The Hospital's obligations under the Loan Agreements were secured by a pledge of the Hospital's revenues.

The interest rate for the Series 2013 Notes from July 1, 2013 through and including December 31, 2015 is SIFMA rate plus 5.0% (5.05% at June 30, 2014). The interest rate on the Series 2013 Notes from January 1, 2016 and thereafter until the bonds are paid in full is SIFMA rate plus 6.5%.

(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 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 BAN and NJEFA as of June 30, 2014:

	Principal	Interest	Total
Year:			
2015	$ 70	7,916	7,986
2016	41,744	8,225	49,969
2017	100,079	4,089	104,168
2018	8,413	65	8,478
2019	88	13	101
2020–2024	192	10	202
Total	$ 150,586	20,318	170,904

(In thousands)

The following table summarizes future minimum lease payments under capitalized leases as of June 30, 2014:

Year:		
2015	$	3,991
2016		3,991
2017		3,991
2018		3,991
2019		3,991
2020–2024		19,958
2025–2029		19,958
2030–2034		19,958
2035–2039		19,958
2040–2044		19,958
Thereafter		179,622
Total		299,367
Less amount representing interest		222,434
	$	76,933

(10) Due to Rutgers University

Amounts due to Rutgers University (Rutgers) consist of the following at June 30, 2014:

		Charges	Hospital payments	Balance due to Rutgers
Information technology services (a)	$	2,661	2,283	378
Contracted physicians (b)		54,729	50,000	4,729
Contracted residents (c)		18,400	15,614	2,786
Facilities service agreements (d)		13,657	11,341	2,316
Other (e)		7,008	6,132	876
	$	96,455	85,370	11,085

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:

(a) 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 is for two years with an additional term of one year at the Hospital's option. The agreement contains both a fixed and a variable component (based upon usage).

(b) 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 calls for the parties to annually have a fair market value analysis prepared by an independent organization.

(c) 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.

(d) 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.

(e) 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 provided for various extensions. Amounts payable are for the most part based upon fixed predetermined rates.

(11) 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 2014 aggregated $51.8 million. 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. The Hospital has no direct pension obligation associated with the State plans, and no liability for such costs has been reflected in the accompanying financial statements. 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 year ended June 30, 2014 was $118.2 million.

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 6.78% of their annual compensation during fiscal year 2014. 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 contributes the remaining amounts necessary to pay benefits when due. The State contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State's annual contribution approximates the actuarially determined pension cost for the year. Employers were not required to contribute in 2014 due to legislation enacted in 1997 by the State, which fully funded previously existing unfunded accrued liabilities of PERS through State of New Jersey bonds. 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.

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 year ended June 30, 2014 was $103.5 million.

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 2014. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code. Employer contributions for the year ended June 30, 2014 were $8.3 million. Employee contributions for the year ended June 30, 2014 were $5.2 million.

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

(Continued)

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.

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.

(12) 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, 2004. The Hospital's Medicaid cost report have been audited and settled with the Medicaid fiscal intermediary through June 30, 2012.

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 an increase in net patient service revenue $49.9 million in 2014 as a result of changes in estimated third-party settlements.

Under settlement agreements with the State in 2012 and 2009, the Hospital established a long-term repayment plan for Medicaid liabilities of $49.4 million. On June 25, 2013, the Hospital and the State entered into an agreement, under which the State agreed to waive recovery of the balance upon the Hospital's separation from UMDNJ as required by the Act on July 1, 2013. The Hospital wrote off the Medicaid liability balance in 2014. The Hospital recognized $49.4 million as a result of the forgiveness, included in the above change in estimate.

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 $4.3 million for 2014. 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.

(c) Accrued Claims Liability

The Hospital is selfinsured for workers' compensation benefits. At June 30, 2014, 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 $27.2 million 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 2014, 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:

Balances, July 1, 2013	$	24,258
Claims incurred		9,523
Claims paid		(6,551)
Balances, June 30, 2014	$	27,230

(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 $4.0 million in 2014.

(In thousands)

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, 2014:

		Amount
Year:		
2015	$	3,825
2016		3,784
2017		2,342
	$	9,951

(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 10).

(13) Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC)

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds, and certificates of deposits with original maturities of three months or less.

(b) Patient Accounts Receivable

Accounts receivable consists of net patient service revenue billed to Medicaid and private paying individuals and/or their insurance carriers. These amounts are recorded at net realizable amounts and adjustments made by Medicaid and/or to individuals' balances are treated as reductions in revenue and receivables. Delinquency is determined based on the nature of the receivable. Initial claims may take up to ninety days to collect while recurring Medicaid receivables are usually collected within 30 days and private pay and/or private insurance reimbursements are usually collected within 60 days. Interest is not charged on past-due balances.

BHCC extends credit to its patients for the services provided without collateral. Most of the related patients' accounts receivable represents obligations that are generally paid by Medicaid and other third-party payers. The accounts receivable, due from Medicaid is 98% of total receivables for BHCC for the year ended December 31, 2013.

(Continued)

BHCC provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The BHCC's estimate is based on historical collection experience and a review of the current status of receivables. Accounts receivable are presented net of an allowance for doubtful accounts of $803 at December 31, 2013.

(c) Net Patient Service Revenues and Third-Party Rate Adjustments

Net patient service revenue is recorded at the established rates, with contractual and other allowances deducted to arrive at net patient service revenue. Revenues received under cost-based reimbursement agreements represent a substantial portion of BHCC's revenue. Such revenues are subject to audit and possible adjustment by third-party payers. Retroactive receivables and payables, if any, applicable to contractual revenue adjustments are accrued when they first become known. Since these adjustments are estimated, any differences between the amounts accrued and the amounts settled are recorded in the year of interim or final settlement.

(d) Capital Assets, Net

Property and equipment are carried at cost, except donated assets, which are recorded at fair market value at the date of donation. Following Medicaid guidelines, BHCC capitalizes all assets or groups of assets whose value is one thousand dollars or greater. Depreciation expense is calculated on all depreciable assets, using the straight-line method, utilizing estimated lives. Leasehold improvements are amortized over the lesser of the life of the related lease, including the option periods for renewal, or the estimated useful life of the improvements.

Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts.

(e) Forgiveness of Long-Term Debt

BHCC had an outstanding note payable and accrued interest payable with UMDNJ, an affiliated organization. In May 2013, the balances as of March 31, 2013 were forgiven by UMDNJ. The note payable and accrued interest payable, totaling $12.4 million was forgiven by resolution of the Board of Trustees of UMDNJ dated May 14, 2013, which is included in other changes in net position.