

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

January 31, 2016

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**UNIVERSITY HOSPITAL**  
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Balance Sheet  
(In thousands)

<b>Assets</b>	Business-Type Activities - UH January 31, 2016	Business-Type Activities - UH June 30, 2015	Increase/(Decrease)
Current assets:			
Cash	\$83,800	\$97,915	(\$14,115)
Restricted investments	-	625	(625)
Patient accounts receivable, net	68,505	65,320	3,185
Due from State of New Jersey	6,465	4,832	1,633
Supplies	17,458	16,268	1,190
Grants receivable	-	1,856	(1,856)
Other current assets	15,480	9,608	5,872
Total current assets	<u>191,708</u>	<u>196,424</u>	<u>(4,716)</u>
Noncurrent assets:			
Restricted investments, net	131,998	34,876	97,122
Prepaid Bond Insurance	17,561	-	17,561
Capital assets, net	202,864	203,397	(533)
Total noncurrent assets	<u>352,423</u>	<u>238,273</u>	<u>114,150</u>
Total assets	<u>544,131</u>	<u>434,697</u>	<u>109,434</u>
<b>Deferred Outflows of Resources</b>			
Change in pension plan assumptions and deferred contributions	26,079	28,814	(2,735)
	<u>570,210</u>	<u>463,511</u>	<u>106,699</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	18,789	27,848	(9,059)
Accrued salaries and related payroll taxes	21,427	19,251	2,176
Accrued vacation and sick pay	12,513	12,293	220
Due to Rutgers University	22,484	26,702	(4,218)
Current portion of accrued claims liability	7,105	7,105	0
Estimated third-party payor settlements, net	5,735	4,864	871
Current portion of long-term debt and capital lease obligation	45	41,830	(41,785)
Other current liabilities	3,192	1,167	2,025
Total current liabilities	<u>91,290</u>	<u>141,060</u>	<u>(49,770)</u>
Noncurrent liabilities:			
Resident funds payable	-	-	-
Accrued claims liability, net of current portion	21,218	21,205	13
Capital lease obligation, net of current portion	76,727	76,747	(20)
Long-term debt	271,266	108,769	162,497
Pension liability	356,476	346,611	9,865
Total noncurrent liabilities	<u>725,687</u>	<u>553,332</u>	<u>172,355</u>
Total liabilities	<u>816,977</u>	<u>694,392</u>	<u>122,585</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	8,986	10,520	(1,534)
	<u>8,986</u>	<u>10,520</u>	<u>(1,534)</u>
Commitments and contingencies			
<b>Net Position</b>			
Net position:			
Net investment in capital assets	28,005	48,489	(20,484)
Restricted for debt service	6,334	1,723	4,611
Unrestricted	(290,092)	(291,613)	1,521
Total net position	<u>(255,753)</u>	<u>(241,401)</u>	<u>(14,352)</u>
Total liabilities and net position	<u>\$570,210</u>	<u>\$463,511</u>	<u>\$106,699</u>

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**Statement of Revenues, Expenses, and Changes in Net Position**  
**(In thousands)**

	<u>Business-Type Activities - UH Year ended January 31, 2016</u>	<u>Business-Type Activities - UH Year ended January 31, 2015</u>
Operating revenues:		
Net patient service revenue	\$276,378	\$265,841
Grants revenue	5,195	3,589
Other revenue	<u>10,394</u>	<u>9,653</u>
Total operating revenues	<u>291,968</u>	<u>279,083</u>
Operating expenses:		
Personnel services	141,590	138,863
Contracted physician and resident fees	42,528	42,622
Fringe benefits	55,722	54,997
Pension	11,065	13,590
Supplies and other expenses	117,855	107,846
Depreciation	<u>11,529</u>	<u>10,912</u>
Total operating expenses	<u>380,289</u>	<u>368,830</u>
Operating (loss) income	(88,321)	(89,747)
Nonoperating income (expenses):		
Appropriations from State of New Jersey	79,824	80,315
Interest income	71	34
Interest expense	(7,133)	(6,383)
Forgiveness of long-term debt	-	-
(Loss) income before other changes in net position	<u>(15,559)</u>	<u>(15,781)</u>
Other changes in net position:		
Capital contributions funded by grantors and donors	<u>2,576</u>	-
Total other changes in net position	<u>2,576</u>	-
(Decrease) increase in net position	(12,984)	(15,781)
Net position at beginning of year	(241,401)	80,615
Effect of adoption of GASB 68 and 71	-	<u>(308,245)</u>
Net position at 12/31/15	<u>(\$254,385)</u>	<u>(\$243,411)</u>

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**(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. 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.

**(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 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 (loss).

Restricted investments at June 30, 2015 are invested in the State of New Jersey Cash Management Fund (Cash Management Fund). Amounts contributed in to Cash Management Fund are recorded at amortized cost, which approximately fair value. Restricted investments at December 31, 2015 are invested in U.S. Treasury Obligations and are recorded at fair value based on quoted market prices.

**(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.

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**(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 non-operating income 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 payers, and others for services rendered, including estimated third-party payer settlements resulting from audits, reviews, and investigations. These estimated third-party payer 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.

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.

**(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 non-operating 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.

The State pays on behalf of the Hospital for fringe benefits of employees, medical malpractice settlements, negligence, and other torts. In 2016 and 2015 for the seven months ending January 31, the fringe benefits of employees paid by the State were \$54.3 million and \$54.7 million. The State also

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paid the Hospital appropriations of \$25.6 million for each of the seven month periods ending January 31, 2016 and 2015 to support the operations of the Hospital.

(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.

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.

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**(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 6. *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) 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.

**(r) Accrued Claims Liability**

Accrued claims liability represents estimated amounts payable related to workers compensation claims.

**(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 January 31, 2016, the actual amount of cash and cash equivalents in the Hospital's bank accounts was \$83.8 million. 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.



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**(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 following information measures the level of charity care provided during the six month period ended:

	<b>January 31, 2016</b>	<b>January 31, 2015</b>
Charges foregone, based upon established rates	126,725	114,125
Estimated cost incurred to provide charity care	32,823	31,065

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 \$31.2 million and \$44.5 million from the State's Charity Care Subsidy Fund for the seven months ended January 31, 2016 and 2015, respectively, of reimbursement associated with cost of bad debt and charity care.

**(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 payers 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 payer 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.

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Net patient service revenue for the six months ended December 31 are as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Medicaid and Medicaid HMO	81,642	72,120
Medicare	44,061	48,161
Other third-party payers	75,765	59,277
Self-Pay	3,652	3,323
	<u>205,120</u>	<u>182,881</u>
Health Care Subsidy Revenues	33,352	43,036
	<u><u>238,472</u></u>	<u><u>225,917</u></u>

❖ Schedule will be updated quarterly

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

	<b>December 31, 2015</b>		<b>June 30, 2015</b>	
Medicaid and Medicaid HMO	22,501	33.6%	24,674	37.8%
Medicare	5,337	8.0%	7,185	11.0%
Other third-party payers	33,152	49.6%	28,385	43.4%
Self-Pay	5,891	8.8%	5,076	7.8%
	<u>66,881</u>	<u>100.0%</u>	<u>65,320</u>	<u>100.0%</u>

❖ Schedule will be updated quarterly

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**(6) Restricted Investments**

Restricted investments consist of the following:

	<b>January 31, 2016</b>	<b>June 30, 2015</b>
Working Capital funds	603	8
Capital reserve funds	107,800	18,770
Debt service reserve funds	17,257	15,000
Debt service funds	6,334	1,723
	<u>131,994</u>	<u>35,501</u>
Less: Current portion of restricted investments	1,307	625
	<u><u>130,687</u></u>	<u><u>34,876</u></u>

Restricted investments under the terms of the bond resolutions 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.

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**(7) Long-Term Debt and Capital Lease Obligations**

Long-term debt consists of the following:

	<b>January 31, 2016</b>	<b>June 30, 2015</b>
Bonds payable:		
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series A 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	-
NJHCFFA Series A Bond Net Premium and amortized over the 30 year life of the bond (a)	15,782	-
NJHCFFA Revenue Bond Anticipation Notes (BAN), series 2013, bearing interest at a variable rate set daily with principal payments commencing February 1, 2016 and maturing over the following 18 months (b)	-	150,000
New Jersey Educational Facilities Authority (NJEFA) Higher Education Capital Improvement Fund, Series 2000 annual principal payments (c)	471	506
Capital lease obligations (d)	76,764	76,840
	347,992	227,346
Less current installments	45	41,830
Total	\$ 347,947	185,516

- (a) On December 22, 2015 University 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 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 including \$20 million for IS&T capital, \$10 million for HVAC improvements, \$15 million for operating room renovations, \$10 million for Cancer Center expansion as well as \$52.8 million to address routine and emergency capital needs; (iv) funding bond insurance costs of \$17.6 million, to be amortized over the life of the bond; (v) and paying bond issuance costs of \$2.7 million. The Series 2015A Notes were issued under and secured by a Trust Agreement (the Trust Agreement) 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.

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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) \$65,250,000 in serial bonds at 5.000%; (ii) \$78,220,000 in term bonds at 4.125% and (iii) \$111,505,000 in term bonds at 5.000%.

- (b) 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 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 by and between the Authority and The Bank of New York Mellon, as Trustee. The Hospital entered into a Loan Agreement with the 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% (5.07% at June 30, 2015). 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%. The BANs were fully defeased with proceeds from Series 2015A bonds.

- (c) 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.
- (d) 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.

**(8) 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.

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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.

***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.

**(9) 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, 2006 and 2010. The Hospital's Medicaid cost report have been audited and settled with the Medicaid fiscal intermediary through June 30, 2013.

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 did not recognize an increase in net patient service revenues for the seven month ending January 31, 2016. However \$5.3 million in additional revenue was recognized for the same period the prior year ending January 31, 2015, as the result of a favorable decision involving a hospital appeal of prior year Medicare reimbursement.

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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.

**(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. 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

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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 January 31, 2016 and June 30, 2015, 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 \$28.3 million and \$28.3 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.

**(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 \$1.7 million and \$1.8 million for the seven months ended January 31, 2016 and 2015, respectively.

**(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.

**(10) *Subsequent Event***

Management evaluated all events and transactions that occurred after January 31, 2015 and through February 24, 2016. The Hospital did not have any known material recognizable subsequent events during the period.



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

Operating Utilization Data

January 31, 2015

	Jan 2016 Budget	Jan 2016 Actual	Mo. Budget Variance	Jan 2015 Variance
Discharges	1,386	1,487	101	118
Average Length of Stay	6.00	6.57	(.57)	.31
Patient Days	8,316	9,768	1452	347
Emergency Room Visits (net of admissions)	6,570	6,302	(268)	(455)
Clinic Visits	12,650	13,696	1,046	1,454
Surgical – Inpatients	320	379	59	56
Surgical – Outpatients	720	756	36	36
Full Time Equivalents	3,200	3,276	(76)	(55)

	Jan 2016 YTD Budget	Jan 2016 YTD Actual	YTD Budget Variance	Jan 2015 YTD Variance
Discharges	9,698	10,085	387	381
Average Length of Stay	6.00	6.20	(.20)	.04
Patient Days	58,188	62,494	4,306	1,985
Emergency Room Visits (net of admissions)	46,650	46,574	(76)	(775)
Clinic Visits	93,460	99,152	5,692	9,897
Surgical – Inpatients	2,370	2,763	393	342
Surgical – Outpatients	5,240	5,460	220	197
Full Time Equivalents	3,200	3,211	(11)	(71)
Revenue/Adjusted Discharge	\$25,643	\$25,802	\$159	\$138
Expense/Adjusted Discharge (not including Pension)	\$26,178	\$26,114	\$64	(\$196)




**University Hospital  
Benchmark Dashboard  
Period Ending January 31, 2016**

	Indicator	Goal For the Period Ending January 31, 20165	Actual for the Period Ending January 31, 20165	YTD Variance vs. Goal	YTD Performance against Goal
Discharges	↑	9,698	10,085	387	
Surgical Cases - Inpatient	↑	2,370	2,763	393	
Surgical Cases - Outpatient	↑	5,240	5,460	220	
Average Daily Census (ADC)	↑	270.6	290.7	20.1	
ED Visits (net of admissions)	↑	46,650	46,574	(76)	
Clinic Visits	↑	93,460	99,152	5,692	
FTE's	↓	3,200	3,225	(25)	
Average Length of Stay	↓	6.00	6.20	(0.20)	
Medicare Case Mix Index	↑	1.860	1.851	(0.009)	
Total Case Mix Index	↑	1.670	1.649	(0.021)	
Revenue Per Adjusted Discharge *	↑	\$ 25,643	\$ 25,802	\$ 159	
Expense Per Adjusted Discharge**	↓	\$ 26,178	\$ 26,114	\$ 64	
FTE per CMI Adjusted Occupied Bed	↓	4.93	4.71	0.22	
Net Days in Account Receivable	↓	56.0	52.9	3.1	
Days Cash on Hand	↑	55.0	49.4	-5.6	

**Goal Indicator Arrows show desired direction of movement**

\* Revenue per adjusted discharges does not include impact of Higher education Grant

\*\* Expense per adjusted discharges does not include impact of GASB #68 Pension expense

Performance against Goals:	
	Performance more than 5% below goal
	Performance is within 5% of goal
	Performance meets or exceeds goal

**University Hospital**  
**Worksheet- Statement of Revenue and Expenses**  
**For the Seven Month Period Ending January 31, 2016**

UNAUDITED

Current Month				Year To Date				
Budget	Actual	Variance	January 2015 Actual	<u>University Hospital</u>	Budget	Actual	Variance	YTD January 31, 2015
				<u>Revenues</u>				
\$ 134,552	\$ 153,085	\$ 18,533	\$ 142,501	Inpatient	\$ 941,474	\$ 1,008,130	\$ 66,656	\$ 923,930
56,440	54,874	(1,566)	46,106	Outpatient	388,876	402,118	13,242	372,572
3,459	3,519	60	5,569	Ambulance (Nwk & Camden)	23,989	29,868	5,879	23,851
\$ 194,451	# 211,478	17,027	194,176	Gross Charges	\$ 1,354,339	1,440,116	85,777	1,320,353
(146,580)	# (161,643)	(15,063)	(144,498)	Contractual Allowances	(1,024,028)	(1,086,587)	(62,559)	(1,001,158)
(15,314)	# (16,925)	(1,611)	(16,925)	Bad debt provisions	(106,866)	(115,500)	(8,634)	(103,563)
32,557	# 32,910	353	32,753	Net Patient Service Revenues	223,445	238,029	14,584	215,632
5,646	# 4,996	(650)	7,173	Patient Subsidies	39,527	38,348	(1,179)	50,209
38,203	# 37,906	(297)	39,926	Net Patient Service Revenues	262,972	276,377	13,405	265,841
7,822	# 7,822	-	7,893	State Appropriation - Fringe Benefits	54,250	54,250	-	54,741
3,653	# 3,653	-	3,653	Special State Appropriation	25,571	25,574	3	25,574
2,398	# 3,432	1,034	1,242	Miscellaneous Income	15,061	15,661	600	13,276
52,076	52,813	737	52,714	Total Revenues	357,854	371,862	14,008	359,432
				<u>Expenses</u>				
20,599	# 20,683	(84)	22,101	Salaries & Wages	141,178	141,590	(412)	138,863
4,586	# 4,564	22	4,810	Contracted MDs	32,102	31,937	165	32,149
1,537	# 1,527	10	1,557	Contracted Residents	10,759	10,590	169	10,473
8,051	# 8,249	(198)	8,160	Fringe Benefits	55,837	55,722	115	54,997
13,821	# 14,825	(1,004)	12,711	Supplies and Other	95,761	105,496	(9,735)	94,475
982	# 1,285	(303)	662	Interest Expense	6,810	7,133	(323)	6,383
1,554	# 953	601	1,858	Facilities Service/Lease Agreements	10,848	10,190	658	13,371
1,750	# 1,255	495	1,438	Depreciation / Amortization	12,250	11,529	721	10,912
52,880	53,341	(461)	53,297	Total Expenses	365,545	374,187	(8,642)	361,623
<b>(804)</b>	<b>(528)</b>	<b>276</b>	<b>(583)</b>	Surplus/(Deficit) from Operations (excluding Bond Issue Cost)	<b>(7,691)</b>	<b>(2,325)</b>	<b>5,366</b>	<b>(2,191)</b>
-	-	-	-	Bond Related expense (cost of issuance and discount)	-	(2,169)	(2,169)	-
\$ (804)	\$ (528)	\$ 276	\$ (583)	Surplus/(Deficit) from Operations	\$ (7,691)	\$ (4,494)	\$ 3,197	\$ (2,191)
-	-	-	-	Higher Education Grant	-	2,576	2,576	-
\$ (804)	(528)	276	(583)	Surplus/(Deficit) from Operations and Capital Projects	\$ (7,691)	(1,918)	5,773	(2,191)
-	(1,580)	(1,580)	(1,949)	GASB #68 Pension expense	-	(11,065)	(11,065)	(13,590)
<b>\$ (804)</b>	<b>\$ (2,108)</b>	<b>\$ (1,304)</b>	<b>\$ (2,532)</b>	Surplus/(Deficit) After Capital Projects & Pension expense	<b>\$ (7,691)</b>	<b>\$ (12,983)</b>	<b>\$ (5,292)</b>	<b>\$ (15,781)</b>