

UNIVERSITY HOSPITAL

FINANCIAL STATEMENTS

FOR THE NINE MONTH PERIOD

ENDED MARCH 31, 2015

**University Hospital
Financial Summary
For the Nine Month Period Ended March 31, 2015**

Results of operations for University Hospital for the nine month period ended March 31, 2015, reflects a slight excess of revenue over expenses of \$0.1 million as compared to an anticipated budgeted loss of \$12.7 million, thus resulting in a favorable variance of \$12.8 million. The actual results include the benefit of one-time revenues totaling \$6.6 million. The details of the two items that comprise these adjustments are discussed under Revenues.

Patient Volumes:

	March 2015		Variance Favorable / (Unfavorable)	
	Budget	Actual	Budget	Prior Year
Discharges	1,278	1,456	178	162
Average Length of Stay	5.86	6.24	(.38)	(.08)
Patient Days	7,466	8,970	1,504	994
Emergency Room Visits	7,662	7,536	(126)	(352)
Clinic Visits	14,760	15,071	311	666
Surgical – Inpatients	331	361	30	37
Surgical – Outpatients	719	751	32	163
Full Time Equivalents	3,000	3,139	(139)	(74)

	Year-To-Date		Variance	
	Budget	Actual	Budget	Prior Year
Discharges	11,590	12,415	825	740
Average Length of Stay	5.86	6.23	(.37)	(.19)
Patient Days	67,917	77,309	9,392	6,850
Emergency Room Visits	67,724	66,610	(1,114)	(936)
Clinic Visits	130,458	117,715	(12,743)	(12,951)
Surgical – Inpatients	2,927	3,100	173	192
Surgical – Outpatients	6,351	6,718	367	549
Full Time Equivalents	3,000	3,148	(148)	(80)
Revenue/Adjusted Discharge	\$25,267	\$25,728	\$461	\$915
Expense/Adjusted Discharge	\$26,017	\$25,721	\$296	\$319

Revenues and Expenses

Revenues:

Net patient service revenues for the nine month period before subsidies, were greater than budget by \$30.8 million or 9.9%, primarily due to an increase in patient volumes. Year-to-date discharges budgeted at 11,590 were 825 greater than budget, 66,610 Emergency Room visits were less than budget by 1,114 visits while total surgical volumes were 540 procedures greater than budget. Total actual clinic visits year-to-date was unfavorable by 12,743 visits or 9.8% as compared to budget. In addition, Net Patient Service Revenue benefited by the recording of \$3.5 million in additional revenue in December as the result of a favorable decision involving a hospital appeal of prior year Medicare reimbursement as well as \$3.1 million in February as a tentative settlement for FY 2014 Medicare activity. Other revenue, including State appropriations, is favorable by \$1.9 million for the nine month period.

The Hospital continues to record its DSRIP subsidy on a cash basis (\$6.8 million as of March 31st). If it achieves all of the performance metrics required it will qualify for an additional \$4 million for all of FY 2015.

Year to date average length of stay (ALOS) of 6.23 days was unfavorable by 0.37 days as compared to the FY 2015 budget and 0.19 days as compared to the same period last year. Based upon the most recently available UHC index of 1.17, UH is 17% greater than target. The Case Mix Intensity Index (CMI) for the nine month period is 1.865 for Medicare and 1.656 overall.

Expenses:

Salaries and wages for the nine months were \$173.6 million resulting in an unfavorable budget variance of \$10.1 million or 6.2%. The cost of Medical Staff and Residents contracted through Rutgers University remained close to budget at \$54.6 million. YTD Supplies and other costs of \$122.1 million are over budget by \$8.7 million. Other expense categories of interest, facilities services and depreciation, which total \$36.8 million, were \$0.7 million less than budget. The statements now show the imputed interest expense on capitalized leases (see long term liabilities) as interest as opposed to rental expense as it was budgeted and previously recorded. Total expenses of \$458.8 million were \$19.9 million or 4.5% greater than budget. Hospital management attributes a significant portion of the negative variance to the increase in variable cost associated with treating the increased patient volumes mentioned above.

Balance Sheet

Patient Accounts Receivable:

The net patient accounts receivable (PAR) balance of \$68.4 million reflects a decrease of \$6.3 million as compared to the June 30, 2015 balance. Days in PAR of 54.1 are 6.3 days less than year-end as a result of increased collections.

A/R – State of NJ:

The balance of \$4.7 million is comprised mainly of the net amounts for fringe benefits due from the State as of March 31, 2015.

Miscellaneous Accounts Receivable:

The balance of \$4.4 million at March 31st is comprised of three months of EMS revenues due from the City of Newark, \$2.4 million due from Rutgers University for facilities services receivable and other miscellaneous receivables totaling \$0.9 million.

Prepaid Expenses:

The balance of \$2.4 million at March 31st, relates to prepaid expenses (i.e. insurance, lease expense, maintenance agreements) which are being amortized over the useful life of the specific item.

Inventories:

The balance of \$15.0 million at March 31st is \$.1 million less than the June 30, 2014 valuation.

Assets Held by Trustee:

The Bank of New York Mellon is the Trustee for the UH indebtedness issued by the New Jersey Healthcare Facilities Financing Authority. The \$35.4 million in this category is comprised of Debt Service Reserve funds of \$16.6 million and \$18.8 million of unexpended project funds. During March the hospital received the balance of the project funds related to working capital in the amount of \$12.2 million. The balance of the available project funds are reserved for capital purchases.

Net Fixed Assets:

The balance as of March 31st of \$209.1 million reflects the book value of Property, Plant and Equipment including capitalized leases reduced by accumulated depreciation. Depreciation is computed on a straight line basis using estimated useful lives in accordance with American Hospital Association guidelines.

Accrued Payroll:

Accrued payroll of \$14.0 million reflects liabilities for salaries accrued at month-end in addition to payroll related tax liabilities.

Accounts Payable/Accrued Expenses:

The balance of \$20.7 million due vendors represents a net decrease of \$6.7 million from the balance at June 30, 2015. University Hospital continues with the practice of paying vendors within 45 days after providing services.

Due to Rutgers University:

The balance of \$24.9 million represents the liability due Rutgers for both Clinical and Facility services. The CSA/TSAs negotiated prior to the dissolution of UMDNJ required various payment timeframes to Rutgers depending on the service ranging from advanced payments (i.e. Rent) to 45 days from date of invoice. As of March 31st, the liabilities are no longer within the required timeframes detailed in those agreements. The two parties continue to discuss the issues that caused the delay in payments and many of the issues have been resolved.

Accrued Workers Compensation Liability:

At March 31, 2015 the Hospital has a total of \$27.2 million (\$7.1 million current and \$20.1 million long term) recorded as an accrual for estimated workers' compensation claims based upon our independent actuary's analysis. The Hospital has recorded this liability on an undiscounted basis.

Third Party Payor Reserves:

The balance of third party payor reserves as of March 31, 2015 is \$10.9 million, an increase from June 30, 2015 of \$5.0 million. The Hospital continues to update estimated receivables and liabilities in this category as needed. The Medicare fiscal intermediary has

settled hospital cost reports through June 30, 2004. The Hospital's Medicaid cost reports have been settled through June 30, 2012. All required reporting for Fiscal 2014 was completed and filed timely.

Deferred Revenues:

The balance at month end of \$0.4 million is the balance of unamortized meaningful use payments received from the Medicare program as incentives for the installation of the Electronic Health Record (EHR).

Long term Liabilities/Short Term Debt:

The total of \$247.6 million in this category is comprised of 4 items (in Thousands):

NJHCFFA BANS	\$150,000
NJEFA	514
Capital Lease Obligations	76,859
Accrued Workers Comp Liability	<u>20,180</u>
	247,553
Less Current Portion	16,763
Net Long Term Liabilities	<u>\$230,790</u>

The BANS require no principal payments during FY 2015. The current portion of the outstanding debt includes the first two months of principal required on the BANS in the amount of \$16.7 million (required monthly principal payments commence on February 1, 2016). The NJEFA note requires interest semi - annually, and principal annually. The capital lease obligations are result of the five leases the hospital entered into with Rutgers in July, 2013. The leases are for 76 years and the Hospital has capitalized the discounted value of the lease (\$77.0 million at inception) as well as the asset value (recorded under Property, Plant and Equipment). As the rental payments are made a portion of the payment will reduce this liability and the balance will be recorded as interest. The asset value will be amortized over the estimated useful life of each building leased. The Accrued Claim Liability is the non-current portion of the actuarially determined estimate discussed above. All required payments of the above listed obligations are current as of March 31, 2015.

**UNIVERSITY HOSPITAL
COMPARATIVE BALANCE SHEET
AS OF MARCH 31, 2015**

(In Thousands)

<u>Assets</u>	<u>3/31/2015</u>	<u>6/30/2014</u>	<u>Increase/ (Decrease)</u>	<u>Liabilities and Fund Balance</u>	<u>3/31/2015</u>	<u>6/30/2014</u>	<u>Increase/ (Decrease)</u>
Current Assets				Current Liabilities			
Cash and Investments	\$ 76,780	40,318	36,462	Liabilities - Payroll Accruals	\$ 13,979	\$ 13,750	\$ 229
Patient Accounts Receivable	494,835	475,987	18,848	Liabilities - A/P Non Labor	20,720	27,420	(6,700)
Less: Allowances	(426,407)	(401,241)	(25,166)	Due to Rutgers University	24,946	11,085	13,861
Net Patient Accounts Receivable	68,428	74,746	(6,318)	Accrued Workers Compensation Liab	7,050	7,050	-
A/R - State of NJ	4,655	4,908	(253)	Third Party Payor Reserve	10,869	5,849	5,020
Miscellaneous Accounts Receivable				Vacation Pay Accrual	11,460	11,596	(136)
A/R - EMS City of Newark	1,088	2,175	(1,087)	Deferred Revenue	388	963	(575)
A/R - Rutgers University	2,370	212	2,158	Short Term Debt	16,763	171	16,592
A/R - Other	920	933	(13)	Total Current Liabilities	106,175	77,884	28,291
Total Miscellaneous A/R	4,378	3,320	1,058	Long Term Liabilities	230,790	247,528	(16,738)
Prepaid Expenses and Other Assets	2,437	1,071	1,366	Fund Balance:			
Prepaid Bond financing costs	-	-	-	Net Investment in Capital Assets	58,120	58,050	70
Inventories	14,994	15,123	(129)	Restricted for Debt Service	1,529	1,599	(70)
Total Current Assets	171,672	139,486	32,186	Unrestricted	21,095	20,966	129
Assets Held by Trustee	35,431	47,518	(12,087)	Total Fund Balance	80,744	80,615	129
Grants Receivable	1,506	5,407	(3,901)	Total Liabilities and Fund Balance	\$ 417,709	\$ 406,027	\$ 11,682
Property, Plant and Equipment	591,439	582,203	9,236				
Less: Accumulated Depreciation	(382,339)	(368,587)	(13,752)				
Net Fixed Assets	209,100	213,616	(4,516)				
Total Assets	\$ 417,709	\$ 406,027	\$ 11,682				

University Hospital
Statement of Revenues and Expenses
FOR THE NINE MONTH PERIOD ENDING MARCH 31, 2015

Current Unrestricted Funds

(In thousands)

Month			Year To Date			
Budget	Actual	Variance From Budget Fav/(Unfav)	University Hospital	Budget	Actual	Variance From Budget Fav/(Unfav)
<u>Revenues</u>						
\$ 117,956	\$ 131,896	13,940	Inpatient	\$ 1,073,082	\$ 1,175,930	102,848
51,863	57,573	5,710	Outpatient	458,402	482,185	23,783
3,437	3,826	389	Ambulance (Nwk & Camden)	30,381	31,339	958
\$ 173,256	\$ 193,296	\$ 20,040	Gross Charges	\$ 1,561,865	1,689,453	\$ 127,588
(131,626)	(146,055)	(14,429)	Contractual Allowances	(1,186,577)	(1,277,562)	(90,985)
(14,467)	(15,403)	(936)	Bad debt provisions	(130,415)	(133,047)	(2,632)
27,163	31,838	4,675	Net Patient Service Revenues	244,873	278,845	33,972
7,523	7,152	(371)	Patient Subsidies	67,711	64,533	(3,178)
34,686	38,989	4,303	Net Patient Service Revenues	312,584	343,378	30,794
7,893	7,893	-	State Appropriation - Fringe Benefits	69,763	69,763	-
3,651	3,653	2	Special State Appropriation	32,866	32,881	15
1,223	1,410	187	Miscellaneous Income	11,013	12,883	1,870
47,453	51,945	4,492	Total Revenues	426,226	458,905	32,679
<u>Expenses</u>						
18,329	19,402	(1,073)	Salaries & Wages	163,529	173,637	(10,108)
4,676	4,636	40	Contracted MDs	41,493	41,320	173
1,400	1,357	43	Contracted Residents	13,235	13,309	(74)
7,893	7,615	278	Fringe Benefits	69,763	71,608	(1,845)
12,410	14,691	(2,281)	Supplies and Other	113,340	122,084	(8,744)
641	902	(261)	Interest Expense	5,770	8,574	(2,804)
1,986	1,576	410	Facilities Service/Lease Agreements	17,873	14,513	3,360
1,541	1,408	133	Depreciation / Amortization	13,876	13,731	145
48,876	51,587	(2,711)	Total Expenses	438,879	458,776	(19,897)
\$ (1,423)	\$ 358	\$ 1,781	Surplus/(Deficit)	\$ (12,653)	\$ 129	\$ 12,782




University Hospital
Dashboard
Period Ending March 31, 2015



	Indicator	Goal For the Nine Months Ended March 31st	Actual for the Nine Months Ended March 31st	YTD Variance vs. Goal	YTD Performance against Goal
Discharges	↑	11,590	12,415	825	Green
Surgical Cases - Inpatient	↑	2,927	3,100	173	Green
Surgical Cases - Outpatient	↑	6,351	6,718	367	Green
Average Daily Census (ADC)	↑	247.9	282.1	34	Green
ED Visits (net of admissions)	↑	60,847	59,476	(1,371)	Yellow
Clinic Visits	↑	130,458	117,715	(12,743)	Red
FTE's	↓	3,000	3,148	(148)	Yellow
Average Length of Stay	↓	5.86	6.23	(0.37)	Red
Length of Stay Index	↓	1.00	1.17	(0.17)	Red
Medicare Case Mix Index	↑	1.840	1.865	0.025	Green
Total Case Mix Index	↑	1.680	1.656	(0.024)	Yellow
Revenue Per Adjusted Discharge	↑	\$ 25,267	\$ 25,728	\$ 461	Green
Expense Per Adjusted Discharge	↓	\$ 26,017	\$ 25,721	\$ 296	Green
FTE per CMI Adjusted Occupied Bed	↓	4.95	4.69	0.26	Green
Net Days in Account Receivable	↓	64.0	54.1	9.90	Green
Days Cash on Hand	↑	30.0	47.3	17.3	Green

Goal Indicator Arrows show desired direction of movement

Performance against Goals:

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

**University Hospital
Comparison of Key Ratios
As of March 31, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Benchmark</u>
Current Ratio	1.79	1.62	(0.18)	2.02
Days Cash on Hand	30.0	47.3	17.3	55.7
Operating Margin	(2.97)	0.03	3.00	3.35
Adjusted Discharges	16,869	17,837	968	-

Benchmark is the average value for the 15 Major Teaching Hospitals as reported in the NJHCFFA Apollo reports for the period ended Dec. 31st 2014