

**Robert Wood Johnson
University Hospital**

Financial Statements

December 31, 2015 and 2014



BAKER TILLY

Candor. Insight. Results.

Robert Wood Johnson University Hospital

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December 31, 2015 and 2014

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Independent Auditors' Report

Board of Directors
Robert Wood Johnson University Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of Robert Wood Johnson University Hospital (the "Hospital"), which comprise the balance sheet as of December 31, 2015 and 2014, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 financial position of Robert Wood Johnson University Hospital as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As noted in Note 1 to the financial statements, Robert Wood Johnson University Hospital and Somerset Medical Center agreed to merge operations on June 1, 2014. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on pages 48 through 55 is presented for purposes of additional analysis rather than to present the financial position, results of operations or changes in net assets of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Viechow Krause, LLP

Clark, New Jersey
April 7, 2016

Robert Wood Johnson University Hospital

Balance Sheet

December 31, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 31,071	\$ 56,008
Investments	2,773	2,796
Assets limited or restricted as to use, required for current obligations	9,831	8,407
Accounts receivable:		
Patient (net of estimated allowance for doubtful collections of \$81,252 in 2015 and \$67,045 in 2014)	166,475	142,749
Other (net of estimated allowance for doubtful collections of \$2,404 in 2015 and \$2,333 in 2014)	4,510	1,509
Due from related parties, net	6,344	9,497
Other current assets	50,141	42,764
Total current assets	271,145	263,730
Assets Limited or Restricted as to Use		
Board-designated	582,037	614,681
Held by trustee and self-insurance	136,179	167,125
Total assets limited or restricted as to use	718,216	781,806
Less amounts required to meet current obligations	9,831	8,407
	708,385	773,399
Property and Equipment, Net	579,832	537,236
Long-Term Restricted Investments	2,332	2,487
Interest in Net Assets of Foundations	58,111	54,379
Due from Related Parties	33,744	25,585
Other Noncurrent Assets, Net	14,047	12,859
Total assets	<u>\$ 1,667,596</u>	<u>\$ 1,669,675</u>

See notes to financial statements

Robert Wood Johnson University Hospital

Balance Sheet

December 31, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Liabilities and Net Assets		
Current Liabilities		
Current installments of long-term debt	\$ 9,984	\$ 7,773
Accounts payable	84,019	96,276
Accrued expenses	99,723	94,156
Accrued bond interest payable	6,971	6,466
Estimated third-party payor settlements	<u>15,220</u>	<u>15,566</u>
Total current liabilities	215,917	220,237
Long-Term Liabilities		
Estimated third-party payor settlements, excluding current portion	29,278	29,858
Other long-term liabilities	116,162	68,364
Long-term debt, excluding current installments	<u>417,965</u>	<u>428,391</u>
Total liabilities	779,322	746,850
Net Assets		
Unrestricted	843,375	882,731
Temporarily restricted	40,706	35,920
Permanently restricted	<u>4,193</u>	<u>4,174</u>
Total net assets	<u>888,274</u>	<u>922,825</u>
Total liabilities and net assets	<u>\$ 1,667,596</u>	<u>\$ 1,669,675</u>

See notes to financial statements

Robert Wood Johnson University Hospital

Statement of Operations

Years Ended December 31, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014 *</u>
Unrestricted Revenues and Other Support		
Patient service revenues, net of contractual allowances and discounts	\$ 1,310,152	\$ 1,062,971
Less provision for doubtful collections	79,879	51,085
Net patient service revenues	1,230,273	1,011,886
Other revenues	30,906	23,137
Net assets released from restrictions for operations	3,568	7,747
Total unrestricted revenues and other support	<u>1,264,747</u>	<u>1,042,770</u>
Expenses		
Salaries and wages, and contracted labor	465,031	386,001
Employee benefits	113,015	92,745
Physician fees	65,940	59,534
Supplies and expenses	489,044	417,133
Depreciation and amortization	60,783	52,464
Interest	12,136	9,707
Total expenses	<u>1,205,949</u>	<u>1,017,584</u>
Operating income	58,798	25,186
Nonoperating Activities		
Investment (loss) return, net	(19,658)	11,885
Change in unrestricted net assets of RWJ University Hospital Foundation, Inc.	691	464
Inherent contribution of Somerset Medical Center	-	83,157
Provision for doubtful RWJ Physician Enterprise, PA and related-party collections	(37,643)	(39,436)
Pension settlements	(1,777)	-
Settlement loss on withdrawal from Union Benefit Plan	(51,765)	-
Other gains, net	4,444	741
Revenues (less than) in excess of expenses	(46,910)	81,997
Change in net unrealized gains and losses on investments, other than trading securities	5,629	2,014
Pension liability adjustment	2,181	(13,160)
Transfers to affiliates	(256)	-
Net assets released from restrictions for capital purchases	-	734
(Decrease) increase in unrestricted net assets	<u>\$ (39,356)</u>	<u>\$ 71,585</u>

* Includes seven months of Somerset Campus activity (Note 3)

See notes to financial statements

Robert Wood Johnson University Hospital

Statement of Changes in Net Assets

Years Ended December 31, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014 *</u>
Unrestricted Net Assets		
Revenues (less than) in excess of expenses	\$ (46,910)	\$ 81,997
Change in net unrealized gains and losses on investments, other than trading	5,629	2,014
Pension liability adjustment	2,181	(13,160)
Transfers to affiliates	(256)	-
Net assets released from restrictions for capital purchases	-	734
	<u>(39,356)</u>	<u>71,585</u>
(Decrease) increase in unrestricted net assets		
Temporarily Restricted Net Assets		
Contributions, gifts, grants, and bequests	113	1,505
Inherent contribution of Somerset Medical Center	-	1,781
Investment (losses) gains	(1)	209
Change in unrealized (losses) gains on investments	(11)	31
Net assets released from restrictions used for operations	(3,568)	(7,747)
Net assets released from restrictions for capital purchases	-	(734)
Change in net assets of Foundations	8,253	10,314
	<u>4,786</u>	<u>5,359</u>
Increase in temporarily restricted net assets		
Permanently Restricted Net Assets		
Inherent contribution of Somerset Medical Center	-	1,140
Change in net assets of RWJ University Hospital Foundation, Inc.	19	339
	<u>19</u>	<u>1,479</u>
Increase in permanently restricted net assets		
(Decrease) increase in net assets	(34,551)	78,423
Net Assets, Beginning	<u>922,825</u>	<u>844,402</u>
Net Assets, Ending	<u>\$ 888,274</u>	<u>\$ 922,825</u>

* Includes seven months of Somerset Campus activity (Note 3)

Robert Wood Johnson University Hospital

Statement of Cash Flows

Years Ended December 31, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (34,551)	\$ 78,423
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	60,783	52,464
Amortization/accretion of bond premium/discount	(442)	(297)
Change in net realized and unrealized gains and losses on trading and other than trading securities	13,816	12,534
Realized loss (gain) on sale of securities, net	7,774	(18,590)
Provision for doubtful collections	79,879	51,085
Provision for doubtful RWJ Physician Enterprise, PA and related-party collections	37,643	39,436
Pension settlements	1,777	-
Settlement loss on withdrawal from Union Benefit Plan	51,765	-
Transfers to affiliates	256	-
Pension liability adjustment	(2,181)	13,160
Change in interest in net assets of Foundations	(3,732)	(1,690)
Inherent contribution of Somerset Medical Center	-	(86,078)
Changes in assets and liabilities:		
Increase in patient accounts receivable	(103,605)	(58,941)
Increase in other receivables, due from related parties, and other current assets	(15,384)	(17,538)
(Decrease) increase in accounts payable, accrued expenses, and accrued bond interest payable	(6,185)	39,917
Decrease in estimated third-party payor settlements	(926)	(3,711)
Decrease in other long-term liabilities	(3,563)	(19,860)
Net cash provided by operating activities	<u>83,124</u>	<u>80,314</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(103,379)	(94,550)
Purchase of investments and assets limited or restricted as to use	(88,365)	(172,694)
Proceeds from sale of investments and assets limited or restricted as to use	130,388	238,071
Increase in other noncurrent assets	(38,831)	(28,958)
Decrease (increase) in long-term restricted investments	155	(101)
Cash acquired in affiliation with Somerset Medical Center	-	6,773
Net cash used in investing activities	<u>(100,032)</u>	<u>(51,459)</u>
Cash Flows from Financing Activities		
Repayment of long-term debts	(7,240)	(6,267)
Repayment of capital lease obligations	(533)	(508)
Transfers to affiliates	(256)	-
Proceeds from issuance of long-term debt	-	91,865
Payment of short-term debt for Somerset Medical Center	-	(92,284)
Payment of financing costs	-	(763)
Net cash used in financing activities	<u>(8,029)</u>	<u>(7,957)</u>
(Decrease) increase in cash and cash equivalents	(24,937)	20,898
Cash and Cash Equivalents, Beginning	<u>56,008</u>	<u>35,110</u>
Cash and Cash Equivalents, Ending	<u>\$ 31,071</u>	<u>\$ 56,008</u>
Supplemental Disclosure of Cash Flow Information,		
Cash paid for interest	<u>\$ 12,191</u>	<u>\$ 7,639</u>

See notes to financial statements

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

1. Organization and Summary of Significant Accounting Policies

Robert Wood Johnson University Hospital (the "Hospital"), the principal teaching hospital for Rutgers, the State University of New Jersey ("Rutgers"), is a nonprofit health care institution. Robert Wood Johnson Health Care Corporation ("RWJHCC") is the sole member of the Hospital.

Effective June 1, 2014, Somerset Medical Center ("Somerset") was merged into the Hospital which created a 965-bed hospital with campuses in New Brunswick and Somerville. As part of the merger, Somerset dissolved as of June 1, 2014, and transferred its assets to the Hospital and the Hospital became the sole member and/or parent corporation of Somerset.

As a result of the actions taken, this transaction is considered to be an acquisition under accounting principles generally accepted in the United States of America. The Hospital did not transfer any consideration as part of this transaction and the net assets acquired by the Hospital have been recognized as inherent contributions in the statement of operations and changes in net assets (Note 3).

In July 2013, the Hospital initiated an affiliation agreement which established the Hospital as the principal teaching hospital for Rutgers. Principal hospital designation indicates the highest level of relationship bestowed by Rutgers to a non owned hospital.

The following items comprise the significant accounting policies which are followed by the Hospital:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

Cash Equivalents

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less and money market funds. The carrying amount of cash equivalents approximates fair value because of the short-term maturity of those instruments, and may include investments in certificates of deposit, commercial paper, repurchase agreements, or highly liquid U.S. Government, and agency obligations.

The Hospital has balances with financial institutions that exceed federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectibility of patient accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue. For receivables associated with services provided to patients who have third-party coverage (which includes patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital analyzes contractual amounts due and provides an allowance for doubtful collections and a provision for doubtful collections, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and insured patients with deductible and copayment balances), the Hospital records a significant provision for doubtful collections in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful collections.

The Hospital's allowance for doubtful collections for self-pay patients was 73% and 71% of self-pay accounts receivable at December 31, 2015 and December 31, 2014, respectively. In addition, the Hospital's self-pay account write-offs (net of recoveries) increased to \$74,682 in 2015 from \$56,844 in 2014. The increase was the result of a full year of write-off activity being recorded in 2015 for the Somerset campus. The Hospital has not changed its financial assistance policy in 2015 or 2014.

Robert Wood Johnson University Hospital

Notes to Financial Statements
December 31, 2015 and 2014
(In Thousands)

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and contracted amounts. The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenues on the basis of its standard rates, discounted in accordance with the Hospital's policy. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision of bad debts related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision of bad debts), recognized in 2015 and 2014 from these major payor sources, are as follows:

	December 31, 2015			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
Patient service revenues (net of contractual allowances and discounts)	\$ 437,905	\$ 867,159	\$ 5,088	\$ 1,310,152
	December 31, 2014			
Patient service revenues (net of contractual allowances and discounts)	\$ 371,832	\$ 686,816	\$ 4,323	\$ 1,062,971

Investments and Investment Risks

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet and are considered trading securities. Investments in alternative investments, which include real estate investments, are recorded at fair value based upon net asset values provided by external investment managers, which are reviewed and evaluated by Hospital management for reasonableness. These estimated fair values of alternative investments may differ significantly from the values that would have been used had a ready market for these investments existed. Alternative investments are considered other than trading securities.

Unrealized gains and losses on investments are excluded from the determination of revenues (less than) in excess of expenses unless the investments are trading securities. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

The Hospital's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the balance sheet are exposed to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash Equivalents

The carrying amounts reported in the balance sheet for cash equivalents approximate fair value.

Investments

Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Assets Limited or Restricted as to Use

Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Long-Term Debt

Fair values of the Hospital's Revenue Bonds are based on current traded values of the respective bonds.

Other Current Assets

Other current assets includes inventories which are stated at cost, which approximates market and is determined principally using an average cost method, using the FIFO (first-in, first-out) method.

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

Assets Limited or Restricted as to Use

Assets limited or restricted as to use include assets held by trustees under indenture and self-insurance agreements and assets set aside by the board of directors for designated purposes over which the board of directors retains control and may at its discretion subsequently use for other purposes. Amounts available to meet current liabilities of the Hospital have been reclassified as current assets in the accompanying balance sheet.

Assets limited or restricted as to use consist of equities, mutual funds, US Government and agency obligations, fixed income securities, mortgage and asset backed securities, real estate investments, partnerships, corporate bonds and other investments and are carried at fair value.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight line method (ranging from 3 to 40 years). Equipment under capital lease obligations is amortized on the straight line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the revenues (less than) in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The Hospital reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Interest in Net Assets of Foundations

The RWJ University Hospital Foundation, Inc. ("RWJ Foundation") and Somerset Medical Center Foundation (collectively, the "Foundations") are nonprofit organizations which were formed to raise, hold, and invest assets on behalf of the Hospital and Somerset. The Hospital recognizes its rights to the assets held by the Foundations when the Foundations raise or hold contributions on behalf of the Hospital. RWJHCC is the sole member of the RWJ Foundation.

Robert Wood Johnson University Hospital

Notes to Financial Statements
December 31, 2015 and 2014
(In Thousands)

Deferred Bond Financing Costs

Deferred bond financing costs (which are included in other noncurrent assets) are amortized over the period in which the obligation is outstanding using the effective interest method. The costs include legal, financing, and placement fees associated with the issuance of long-term debt. During 2014, costs associated with the issuance of long-term debt of \$763 were deferred. No costs associated with the issuance of long-term debt were deferred in 2015. Amortization expense on deferred financing costs of \$177 and \$147 was recognized in interest expense in the statement of operations for the years ended December 31, 2015 and 2014, respectively. Accumulated amortization of deferred financing costs at December 31, 2015 and 2014 totaled \$1,155 and \$978, respectively.

Self-Insured Benefits

The Hospital is self-insured for the majority of employee medical and worker's compensation benefits. The provision for estimated employee medical benefits and worker's compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported and is included in accrued expenses in the accompanying balance sheet.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. Temporarily restricted net assets are restricted primarily for construction, certain departments and other services. Income on permanently restricted net assets is restricted for certain departments and other services.

Charity Care

The Hospital provides care to patients who meet the strict charity care criteria of the New Jersey State Department of Health (the "Department") without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

In accordance with guidelines established by the Department, the Hospital maintains records to identify and monitor the level of charity care it provides. The estimated costs of providing charity care are based upon the direct and indirect costs identified with the specific charity care services provided. The level of charity care provided by the Hospital amounted to approximately \$23,341 in 2015 and \$25,830 in 2014.

The State provides certain subsidy payments to qualified hospitals to partially fund uncompensated care and certain other costs. Subsidy payments recognized as revenue amounted to approximately \$11,799 and \$10,256 for 2015 and 2014, respectively, and are included in net patient service revenue.

Advertising Costs

Advertising costs are expensed as incurred. Such costs amounted to approximately \$6,056 in 2015 and \$5,128 in 2014.

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Hospital's balance sheet at net realizable value.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations, and changes in net assets, as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted gifts and bequests in the accompanying financial statements.

Revenues (Less Than) in Excess of Expenses

The statement of operations includes revenues (less than) in excess of expenses as the performance indicator. Changes in unrestricted net assets which are excluded from revenues (less than) in excess of expenses, consistent with industry practice, include transfers to affiliates, net assets released from restrictions for capital purchases, pension liability adjustments and change in net unrealized gains and losses on investments other than trading.

The Hospital differentiates its operating activities through the use of operating income as an intermediate measure of operations. For purposes of display, certain investment (loss) returns and other transactions, which management does not consider to be components of the Hospital's normal operating activities, are excluded from operating income and reported as nonoperating activities in the statement of operations.

Functional Expenses

The Hospital provides general health care services to residents within its geographic area. Expenses related to providing these services for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 1,085,067	\$ 921,136
General and administrative	120,882	96,448
Total	<u>\$ 1,205,949</u>	<u>\$ 1,017,584</u>

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

Federal Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state and local taxes.

The Hospital follows the provisions of the authoritative guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The guidance also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure. Management has determined that the guidance did not have a material impact on the financial statements.

The Hospital's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Hospital's federal tax-exempt organization business income tax returns are no longer subject to examination by the Internal Revenue Service for years before 2012.

Subsequent Events

The Hospital evaluated events for recognition or disclosure subsequent to December 31, 2015 and through April 7, 2016, the date on which the financial statements were issued.

2. New Accounting Standards

Services Received from Personnel of an Affiliate

In April 2013, the Financial Accounting Standards Board ("FASB") issued guidance to provide consistency in accounting for shared costs by not-for-profit organizations with multiple affiliates, including health care systems. Under this guidance, direct personnel costs (salaries and wages and payroll-related employee benefits) have been recognized by entities that receive services from affiliates. The guidance is effective for the year ended December 31, 2015 and requires prospective adjustment of the statements of operations and changes in net assets and related disclosures. The impact of adoption is not deemed to be material to the Hospital's financial statements (Note 9).

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

Revenue from Contracts with Customers

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Hospital will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017. The Hospital has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

Leases

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Hospital’s leasing activities. The Hospital will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. The Hospital has not yet determined the impact of adoption of ASU No. 2016-02 on its financial statements.

3. Acquisition of Somerset

Effective June 1, 2014, Somerset was merged into the Hospital in an effort to expand operations into the healthcare market in Somerville, New Jersey. As part of the merger, Somerset dissolved as of June 1, 2014, and transferred its assets and liabilities to the Hospital and the Hospital became the sole member and/or parent corporation of Somerset.

Robert Wood Johnson University Hospital

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In accordance with authoritative guidance, the Hospital recorded the fair value of the assets acquired and liabilities assumed from Somerset as of the acquisition date as follows:

	<u>May 31, 2014</u>
Assets:	
Cash and cash equivalents	\$ 6,773
Investments and assets whose use is limited	28,998
Patients accounts receivable, net	27,933
Other assets	12,392
Property and equipment, net	123,289
Adjustment of property and equipment to fair market value per appraisal	<u>56,361</u>
Total assets acquired	255,746
Liabilities:	
Long-term debt	2,176
Accounts payable and accrued expenses	19,585
Other liabilities	21,872
Deferred gain on sale of property	4,126
Accrued pension and other liabilities	31,800
Due to the Hospital	<u>90,109</u>
Total liabilities assumed	<u>169,668</u>
Inherent contribution of Somerset Medical Center	<u>\$ 86,078</u>

The classification of inherent contribution of Somerset Medical Center is as follows:

Unrestricted	\$ 83,157
Temporarily restricted	1,781
Permanently restricted	<u>1,140</u>
Total inherent contribution of Somerset Medical Center	<u>\$ 86,078</u>

On May 30, 2014, Somerset received funds from the Hospital sufficient to redeem the Series 2003 Bonds and the Series 2008 Bonds. The Hospital funded the redemption of the bonds with a line of credit. The redemption occurred in June 2014. Somerset's bond counsel provided Somerset with a legal opinion that the Series 2003 Bonds and the Series 2008 Bonds were considered to be defeased as of May 31, 2014. Therefore, Somerset derecognized the Series 2003 Bonds and Series 2008 Bonds as of May 31, 2014 and recorded a due to the Hospital in the amount the Hospital incurred on the line of credit. The Hospital refinanced the amount outstanding on the line of credit by issuing Series 2014 Bonds (Note 5).

Beginning June 1, 2014, the operations of Somerset have been reported in the Hospital's statement of operations. In 2014, total unrestricted revenue and other support of \$146,791, decrease in unrestricted net assets of \$8,642, and increase in temporarily restricted net assets of \$1,177 was attributed to the acquisition of Somerset.

Robert Wood Johnson University Hospital

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4. Property and Equipment

The items comprising such accounts as of December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Depreciable assets:		
Land improvements	\$ 1,782	\$ 1,782
Buildings	630,194	584,684
Building service equipment	63,095	59,677
Fixed equipment	59,460	54,411
Major movable equipment	453,640	424,349
Capitalized leases	10,464	10,471
	<u>1,218,635</u>	<u>1,135,374</u>
Total	1,218,635	1,135,374
Less accumulated depreciation and amortization (including accumulated amortization of capitalized leases of \$7,443 and \$6,296 as of December 31, 2015 and 2014, respectively)	<u>782,674</u>	<u>721,791</u>
	<u>435,961</u>	<u>413,583</u>
Nondepreciable assets:		
Land	13,564	12,321
Construction in progress	<u>130,307</u>	<u>111,332</u>
	<u>143,871</u>	<u>123,653</u>
Property and equipment, net	<u>\$ 579,832</u>	<u>\$ 537,236</u>

Depreciation and amortization expense totaled \$60,783 and \$52,464 in 2015 and 2014, respectively (includes amortization of capitalized leases of \$1,147 in 2015 and 2014).

Construction in progress at December 31, 2015 consists primarily of construction costs, development fees, architect fees and other costs related to construction of the East Tower and the South Building Expansion projects ("the Projects"). The estimated costs to complete construction of the Projects are \$89 million.

Robert Wood Johnson University Hospital

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5. Long-Term Debt

A summary of long-term debt as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Robert Wood Johnson University Hospital, Series 2003 Revenue Bonds less unaccreted bond discount of \$12 and \$15 as of December 31, 2015 and 2014, respectively	\$ 7,988	\$ 9,885
Robert Wood Johnson University Hospital, Series 2004 Revenue Bonds less unaccreted bond discount of \$60 and \$69 as of December 31, 2015 and 2014, respectively	33,810	35,591
Robert Wood Johnson University Hospital, Series 2010 Revenue Bonds plus unamortized bond premium of \$1,721 and \$1,925 as of December 31, 2015 and 2014, respectively	111,026	114,780
Robert Wood Johnson University Hospital, Series 2013 Revenue Bonds less unaccreted bond discount and plus unamortized premium of \$947 and \$1,250, respectively, as of December 31, 2015 and less unaccreted bond discount and plus unamortized premium of \$999 and \$1,324, respectively, as of December 31, 2014.	180,478	180,500
Robert Wood Johnson University Hospital, Series 2014 Revenue Bonds plus unamortized bond premium of \$5,634 and \$5,862 as of December 31, 2015 and 2014, respectively.	91,559	91,787
Capital lease obligations	<u>3,088</u>	<u>3,621</u>
	427,949	436,164
Less current installments	<u>9,984</u>	<u>7,773</u>
Long-term debt, excluding current installments	<u>\$ 417,965</u>	<u>\$ 428,391</u>

Robert Wood Johnson University Hospital

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(In Thousands)

Series 2003 Bonds

On June 20, 2003, the New Jersey Healthcare Facilities Financing Authority (“Authority”) issued \$25,000 principal amount tax exempt revenue bonds through a variable rate composite program to the Hospital (2003 Bonds). The 2003 Bonds are scheduled to mature on July 1, 2023.

The Hospital utilized the proceeds of the 2003 Bonds to 1) refund \$14,165 in outstanding bonds (New Jersey Health Care Facilities Financing Authority \$27,130 Revenue Bonds, Robert Wood Johnson University Hospital Issue, Series B), 2) pay the cost of constructing and equipping an inpatient oncology unit, 3) replace certain elevators, ventilators and information technology hardware and 4) to pay a portion of the related financing costs.

The 2003 Bonds are special and limited obligations of the Authority, payable solely from and secured by the revenues and other monies pledged by the Hospital pursuant to a Loan Agreement with the Authority and a Reimbursement Agreement with the trustee bank. The 2003 Bonds are also collateralized by a \$20,463 unsecured irrevocable letter of credit which is financed by the Hospital and held by, and for the benefit of, the bond trustee. The letter of credit expires on September 30, 2018 and must be renewed and maintained throughout the life of the 2003 Bonds.

The 2003 Bonds initially bore interest at a weekly variable rate and are subject to conversion to a term rate (0.01% at December 31, 2015). The maximum rate of interest on the bonds is 12% per annum.

Series 2004 Bonds

On September 22, 2004, the Authority issued \$50,000 principal amount variable rate tax exempt revenue bonds, Robert Wood Johnson University Hospital Issue, Series 2004 (Series 2004 Bonds), pursuant to the Authority’s General Health Care Facilities Bond Resolution. The proceeds received from the Series 2004 Bonds were utilized to provide for constructing and equipping a three story vertical expansion of the Bristol Myers Squibb Children’s Hospital at Robert Wood Johnson University Hospital and renovating and equipping obstetrics space in adjacent Hospital buildings. A portion of the bond proceeds was also used to enhance pediatric special procedure and surgical facilities as well as to pay for financing and issuance costs. The 2004 Bonds are scheduled to mature on July 1, 2029.

The Series 2004 Bonds are special and limited obligations of the Authority, payable solely from and secured by revenues and other monies pledged by the Hospital pursuant to a Loan Agreement with the Authority and a Reimbursement Agreement with the trustee. The Series 2004 Bonds are also fully collateralized by a \$45,900 unsecured irrevocable letter of credit which is financed by the Hospital and held by, and for the benefit of, the bond trustee. The letter of credit expires on September 30, 2018 and must be renewed and maintained throughout the life of the Series 2004 Bonds.

The Series 2004 Bonds initially bore interest at a variable weekly rate and are subject to conversion to a term bond at a maximum annual interest rate of 12% (0.01% at December 31, 2015).

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(In Thousands)

Series 2010 Bonds

On September 9, 2010, the Authority issued \$126,415 principal amount of Revenue Bonds, Robert Wood Johnson University Hospital Issue, Series 2010 (Series 2010 bonds), pursuant to the Authority's General Health Care Facilities Registered Bond Resolution. The proceeds received from the Series 2010 bonds were utilized for the current refunding of the Series 2000 bonds in the amount of \$126,640. In addition, the proceeds were used to establish a debt service reserve fund, to pay certain costs incidental to the issuance and sale of the Series 2010 bonds.

Monthly payments must be made to the trustee in amounts sufficient to pay interest to the bondholders. The Hospital is required to pay to the trustee monthly amounts for a debt service fund. This fund will be used by the trustee to make payments toward debt service and to provide a fund sufficient to retire the total debt. The Hospital is required to maintain debt service reserve funds for the Series 2010 bonds in an amount equal to the maximum annual debt service.

The Series 2010 Bond Issue includes serial bonds aggregating \$55,795 which mature in annual amounts between 2011 and 2022 and bear interest at varying rates from 2.0% to 5.0%. The Series 2010 bonds also include two term bonds aggregating \$70,620, which are due in 2025 and 2031, and which bear interest at rates of 4.38% and 5.00%, respectively. The Series 2000 bonds maturing on or after July 1, 2021 are subject to redemption prior to maturity.

Series 2013 Bonds

In September 2013, the Authority issued \$180,175 principal amount of tax exempt revenue bonds, Robert Wood Johnson University Hospital Issue, Series 2013A and Series 2013B bonds (Series 2013 Bonds), pursuant to the Authority's General Health Care Facilities Registered Bond Resolution. The proceeds received from the Series 2013 Bonds will be used to provide for constructing a parking and office facility, constructing and/or renovating the expansion of patient floors and four new operating rooms.

The Series 2013A Bonds are fixed rate bonds issued for \$110,175. These bonds include serial bonds aggregating \$16,890, which mature in annual amounts between 2016 and 2023 and bear interest at varying rates from 3.0% to 5.0%. The Series 2013A bonds also include three term bonds aggregating \$93,285, which are due in 2028, 2035, and 2043 and which bear interest at varying rates from 5.25% to 5.50%. The 2013A Bonds are scheduled to mature on July 1, 2043.

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The Series 2013B Bonds are variable rate bonds issued in the amount of \$70,000. These bonds are special and limited obligations of the Authority, payable solely from and secured by revenues and other monies pledged by the Hospital pursuant to a Loan Agreement with the Authority and a Reimbursement Agreement with the trustee. The Series 2013B Bonds are also fully collateralized by a \$70,000 unsecured irrevocable letter of credit which is financed by the Hospital and held by, and for the benefit of, the bond trustee. The letter of credit expires on September 12, 2018 and must be renewed and maintained throughout the life of the Series 2013B Bonds. The 2013B Bonds are scheduled to mature on July 1, 2043.

The Series 2013B Bonds initially bore interest at a variable weekly rate and are subject to conversion to a term bond at a maximum annual interest rate of 12% (0.01% at December 31, 2015).

Series 2014 Bonds

In September 2014, the Authority issued \$85,925 principal amount of tax exempt revenue bonds, Robert Wood Johnson University Hospital Issue, Series 2014A and Series 2014B bonds (Series 2014 Bonds) with an original issue premium of \$5,940. The proceeds received from the Series 2014 Bonds were used to repay the line of credit taken out in order to pay off Somerset Medical Center's Series 2003 and Series 2008 Bonds (Note 3).

The Series 2014A Bonds are fixed rate bonds issued for \$55,925. These bonds include serial bonds aggregating \$11,075, which mature in annual amounts between 2032 and 2034 and bear interest of 5.0%. These bonds also include two term bonds for \$22,480, due July 1, 2039 and \$22,370, due July 1, 2043 and bear interest of 5.0%.

The Series 2014B Bonds are variable rate bonds issued in the amount of \$30,000. These bonds are special and limited obligations of the Authority, payable solely from and secured by revenues and other monies pledged by the Hospital pursuant to a Loan Agreement with the Authority and a Reimbursement Agreement with the trustee. The Series 2014B Bonds are also fully collateralized by a \$30,000 unsecured irrevocable letter of credit which is financed by the Hospital and held by, and for the benefit of, the bond trustee. The letter of credit expires on September 8, 2017 and must be renewed and maintained throughout the life of the Series 2014B Bonds. The 2014B Bonds are scheduled to mature on July 1, 2043.

The Series 2014B Bonds initially bore interest at a variable weekly rate and are subject to conversion to a term bond at a maximum annual interest rate of 12% (0.01% at December 31, 2015).

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Sinking Fund Requirements

Amounts anticipated to be deposited in the debt service funds for the purpose of paying the principal on the Series 2003, Series 2004, Series 2010, Series 2013 and Series 2014 bonds over the next five years and thereafter are as follows as of December 31, 2015:

	<u>Series 2003 Principal Sinking Fund Requirements</u>	<u>Series 2004 Principal Sinking Fund Requirements</u>	<u>Series 2010 Principal Sinking Fund Requirements</u>	<u>Series 2013 Principal Sinking Fund Requirements</u>	<u>Series 2014 Principal Sinking Fund Requirements</u>	<u>Total Principal Requirements</u>
2016	\$ 900	\$ 1,860	\$ 4,850	\$ 1,815	\$ -	\$ 9,425
2017	900	1,935	5,075	1,865	-	9,775
2018	900	2,010	5,280	1,940	-	10,130
2019	1,000	2,090	5,500	2,040	-	10,630
2020	1,000	2,170	5,720	2,140	-	11,030
Thereafter	<u>3,300</u>	<u>23,805</u>	<u>82,880</u>	<u>170,375</u>	<u>85,925</u>	<u>366,285</u>
Total	<u>\$ 8,000</u>	<u>\$ 33,870</u>	<u>\$ 109,305</u>	<u>\$ 180,175</u>	<u>\$ 85,925</u>	<u>\$ 417,275</u>

The debt agreements of the above bonds require the Hospital to meet certain financial covenants and ratios.

Capital Lease Obligations

The Housing and Urban Development Authority of the City of New Brunswick (the Development Authority) issued \$55,295 principal amount of Lease Revenue Bonds, Series 1993 in connection with a redevelopment project consisting of the construction of a combined use structure which includes, among other things, a 959 unit parking deck (the Project). The Development Authority appointed Rutgers as developer of the Project. On July 23, 1992, the Hospital, Rutgers and the Development Authority entered into a three way participation agreement whereby the Hospital agreed to sublet from Rutgers a portion of the Project consisting of 600 parking spaces together with the common space within the Project applicable thereto for an initial term of five years. The lease includes six separate consecutive options to renew the sublease for five year terms.

On December 11, 1998, the Development Authority issued \$54,505 principal amount of Housing Authority of the City of New Brunswick Lease Revenue Refunding Bonds, Series 1998. The proceeds received from the Series 1998 bonds were utilized to provide financing for the refunding of Series 1993 bonds.

On March 25, 2011, the Development Authority issued \$31,345 principal amount of Housing Authority of the City of New Brunswick Lease Revenue Refunding Bonds, Series 2011. The proceeds received from the Series 2011 bonds were utilized to provide financing for the refunding of Series 1998 bonds. The lease is now payable through July 1, 2020.

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The following is a schedule of future minimum lease payments subsequent to December 31, 2015:

2016	\$	719
2017		719
2018		719
2019		719
2020		719
		<hr/>
Total minimum payments		3,595
		<hr/>
Less amounts representing interest		507
		<hr/>
		3,088
		<hr/>
Less current installments		559
		<hr/>
Total	\$	<u>2,529</u>

6. Retirement Plans

Defined Benefit Pension Plan

As of June 1, 2014, the Hospital assumed a noncontributory defined benefit pension plan (the "Plan") covering all eligible employees as part of the Somerset acquisition. The Hospital's policy is to make contributions sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Effective January 1, 2002, the Somerset Board of Trustees approved the freezing of all benefit accruals under the defined benefit pension plan.

Effective September 1, 2015, the Plan was amended to allow during a temporary period the payment of lump sums and immediate annuities to terminated vested plan participants electing to commence under the program. As a result, a settlement loss of \$1,777 was recorded in nonoperating activities in the statement of operations. The settlements also reduced plan assets and the benefit obligation by \$13,422.

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The following table provides a reconciliation of benefit obligations, plan assets, funding status, amounts recognized in the Hospital's financial statements for the year ended December 31, 2015 and 2014 as follows:

	<u>2015</u>	<u>2014</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 102,148	\$ -
Benefit obligation assumed from Somerset Medical Center	-	90,787
Interest cost	3,759	2,085
Actuarial (gain) loss	(5,290)	11,765
Benefits paid	(4,290)	(2,489)
Settlements	(13,422)	-
	<u>82,905</u>	<u>102,148</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	71,005	-
Fair value of plan assets acquired	-	71,037
Actual return on plan assets	(720)	1,511
Employer contributions	1,817	1,385
Expenses	(843)	(439)
Benefits paid	(4,290)	(2,489)
Settlements	(13,422)	-
	<u>53,547</u>	<u>71,005</u>
Funded status	<u>\$ (29,358)</u>	<u>\$ (31,143)</u>
Accumulated benefit obligation	<u>\$ 82,905</u>	<u>\$ 102,148</u>
Components of net periodic pension cost (income):		
	<u>2015</u>	<u>2014</u>
Interest cost	\$ 3,759	\$ 2,085
Service cost	496	299
Expected return on plan assets	(4,327)	(2,766)
Amortization of net loss	507	-
	<u>435</u>	<u>(382)</u>
Total net periodic pension cost (income)	<u>435</u>	<u>(382)</u>
Settlement loss	<u>1,777</u>	<u>-</u>
Total net periodic pension cost (income) after settlement loss	<u>\$ 2,212</u>	<u>\$ (382)</u>

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The contribution to the Plan for calendar year 2016 is expected to be approximately \$1,448.

At December 31, 2015 and 2014, \$29,358 and \$31,143, respectively, of accrued pension cost is recorded in other long-term liabilities in the balance sheet.

A net loss of \$10,979 and \$13,160 represents the unrecognized component of net periodic benefit cost included in unrestricted net assets at December 31, 2015 and 2014, respectively.

The weighted-average assumptions used in computing the Plan's benefit obligation at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Discount rate	4.00 %	3.75 %

The weighted-average assumptions used in the measurement of the Plan's net periodic pension cost for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Discount rate	3.75 %	4.00 %
Expected long-term rate of return on plan assets	6.25 %	6.25 %

The expected long-term rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall capital markets.

The following table sets forth the actual asset allocation and target asset allocation for plan assets at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Target Asset Allocation</u>
Asset category:			
Equity securities	31 %	33 %	15-40 %
Fixed income	49 %	46 %	35-70 %
Alternative investments	14 %	15 %	0-20 %
Cash equivalents	6 %	6 %	0-20 %

The plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with the Hospital's risk tolerance. This is achieved through the utilization of asset managers and systemic allocation to investment management styles, providing a broad exposure to different segments of the fixed income and equity markets.

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The following tables summarize instruments measured at fair value on a recurring basis:

	December 31, 2015		
	Level 1	Level 2	Assets at Fair Value
Cash equivalents	\$ 1,228	\$ -	\$ 1,228
Money market funds	1,687	-	1,687
Assets held under separately managed trust accounts			
Fixed income account:			
Cash and cash equivalents	1,500	-	1,500
Government and agency obligations	-	10,586	10,586
Corporate bonds	-	7,455	7,455
Other	-	287	287
Mutual fund account:			
Cash and cash equivalents	33	-	33
Fidelity Investment Diversified International Fund	4,349	-	4,349
Vanguard Total Stock Market Index Fund	12,457	-	12,457
Vanguard Long-Term Investment Grade Fund	6,286	-	6,286
PIMCO All Asset Fund	7,679	-	7,679
Total	<u>\$ 35,219</u>	<u>\$ 18,328</u>	<u>\$ 53,547</u>

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	December 31, 2014		
	Level 1	Level 2	Assets at Fair Value
Cash equivalents	\$ 587	\$ -	\$ 587
Money market funds	3,703	-	3,703
Assets held under separately managed trust accounts			
Fixed income account:			
Cash and cash equivalents	3,185	-	3,185
Government and agency obligations	-	11,499	11,499
Corporate bonds	-	9,227	9,227
Other	-	34	34
Mutual fund account:			
Cash and cash equivalents	28	-	28
Fidelity Investment Diversified International Fund	5,572	-	5,572
Vanguard Total Stock Market Index Fund	17,693	-	17,693
Vanguard Long-Term Investment Grade Fund	8,738	-	8,738
PIMCO All Asset Fund	10,739	-	10,739
Total	<u>\$ 50,245</u>	<u>\$ 20,760</u>	<u>\$ 71,005</u>

The following is a description of the valuation methodologies used for assets measured at fair value:

- Cash & cash equivalents are recorded at the quoted cost which approximates fair value.
- Money market and the mutual funds are valued at the quoted net asset value of shares held by the Plan at year end.
- Government and agency obligations, corporate bonds, and other securities are valued using recently executed transactions and valuation models which factor in interest rates and other significant observable inputs for similar securities.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

Years ending December 31:		
2016	\$	4,800
2017		4,869
2018		5,001
2019		5,097
2020		5,119
2021-2025		25,866

Defined Contribution Plan - Somerset Campus

On June 1, 2014, the Hospital assumed a defined contribution pension plan (the "Retirement Plan"). The Retirement Plan provides for employer and employee contributions. Employer contributions to the Retirement Plan consist of a primary contribution and a matching contribution. The primary employer contribution is equal to two percent of participant's eligible compensation. The matching employer contribution is equal to 50 percent of the employees' elective contribution up to a maximum of two percent of a participant's contribution. As of the merger, no employee or employer contributions have been made into the Retirement Plan.

Defined Contribution Plan - New Brunswick Campus

The Hospital's retirement and sheltered savings plan is a defined contribution plan that covers substantially all of its employees. The Hospital provides a basic contribution based upon years of service ranging from 0.5% to 4%. An employee must be at least age 21 and have completed two years of eligible service to receive basic contributions. Employees may also elect to contribute 1% to 20% of their base salary, which may not exceed \$18.0 for 2015 and \$17.5 for 2014, to the savings plan, effective immediately upon employment with the Hospital. Participants who have attained age 50 before the end of the plan year are eligible to make catch-up contributions. Once the employee has met the eligibility requirements to receive the basic contribution, the Hospital will provide additional contributions to match the employee elected contributions to a maximum of 50% of each employee's contribution up to 4% as determined by the employee's years of eligible service.

Retirement and sheltered savings plan expense was approximately \$11,499 and \$6,206 for the years ended December 31, 2015 and 2014, respectively. The increase in expense is a result of a full year of employer contributions to the additional participants added to the plan as part of the merger with Somerset. In addition, during July 2015 the Plan was amended to allow union employees to participate in the plan upon the termination of the union benefit plan.

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Union Benefit Plan

In 2003, as part of the renegotiation of the collective bargaining agreement with P.A.C.E. Industry Union Local 300 (representing approximately 1000 registered nurses), the Hospital introduced a defined benefit pension plan. The Hospital participated in the PACE Industry Union - Management Pension Fund (the Union Benefit Plan) which is a multiemployer benefit program. The Union Benefit Plan is subject to the regulations of the Employee Retirement Income Security Act of 1974 and is administered by a joint Board of Trustees which consists of four union representatives and four employer representatives.

Effective July 12, 2015, the union members of the United Steelworkers Local 4-200 agreed to terminate their participation in the Union Benefit Plan and elected to participate in the Hospital's retirement plan and sheltered savings plan. Based on the Union Benefit Plan's actuarial calculation received on March 10, 2016, the Hospital's withdrawal from the Union Benefit Plan, the Hospital was assessed an estimated allocable share of the unfunded vested benefit of \$47,109 for the year ended December 31, 2015. As allowed by the Union Benefit Plan, the Hospital can pay \$291 per month over 20 years commencing on June 1, 2016. At December 31, 2015, the Hospital recorded the present value of the payments over the 20 years using a discount rate of 3.25% for an estimated withdrawal liability of \$51,765 of which \$2,041 is recorded as current in accrued expenses and \$49,724 is recorded in other long-term liabilities. A settlement loss on withdrawal from the Union Benefit Plan is included in revenues (less than) in excess of expenses for the years ended December 31, 2015.

The Hospital's contributions to the Union Benefit Plan were approximately \$2,163 and \$4,098 for the years ended December 31, 2015 and 2014, respectively, and are included in employee benefits expenses in the statement of operations.

Deferred Compensation Plan

The Hospital maintains a deferred compensation program. As of December 31, 2015 and 2014, the Hospital has recorded an aggregate liability for deferred compensation benefits of \$863 and \$588, respectively. The deferred compensation program funding is to be calculated semi-annually based upon a percentage of the participant's base salary. Contributions to the deferred compensation program for 2015 and 2014 amounted to \$427 and \$450, respectively. As of December 31, 2015 and 2014, approximately \$68 and \$104, respectively, of the aggregate deferred compensation program liability is included in accrued expenses and all other amounts are included in other long-term liabilities in the accompanying balance sheet.

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7. Investments and Assets Limited or Restricted as to Use

Assets limited or restricted as to use consist of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Board-designated	\$ 582,037	\$ 614,681
Held by trustee and self-insurance	<u>136,179</u>	<u>167,125</u>
Total	<u>\$ 718,216</u>	<u>\$ 781,806</u>

The Hospital's investment portfolio exists to meet both short-term and longer term operating and capital needs to further the mission of the Hospital. The investment philosophy combines the goal of preservation of capital net of spending and inflation with prudent risk tolerance in order to optimize income to achieve investment results consistent with the Hospital's financial objectives.

Board-Designated

The composition of board-designated assets limited as to use as of December 31, 2015 and 2014, consist of the following and are stated at fair value:

	<u>2015</u>	<u>2014</u>
Common stock	\$ 105,227	\$ 104,457
American depository receipts and U.S. held foreign stock	8,866	11,393
U.S. Treasury notes and bonds	7,318	7,138
U.S. Government mortgage pools	747	985
Partnership	88,003	88,779
Mutual funds - equity	239,752	259,539
Mutual funds - taxable bonds	49,937	49,656
Fixed income commingled funds	18,480	20,181
Mortgage backed obligations	487	607
Asset backed securities	3,638	3,142
Corporate bonds	4,403	4,114
Absolute return fund	37,787	37,821
Commodities fund	-	8,623
Real estate investments	17,107	17,405
Other fixed income securities	25	67
Other investments (Note 16)	133	467
Interest receivable	<u>127</u>	<u>307</u>
Total	<u>\$ 582,037</u>	<u>\$ 614,681</u>

Real Estate Investments

The Hospital's interests in the two real estate funds are reported at net asset value (NAV). NAV is used as a practical expedient to measure fair value.

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The Hospital can redeem the other real estate fund quarterly, with 90 days written notice. However, the fund manager can fund redemptions at its discretion.

Partnerships

The Hospital's interests in partnerships are reported at net asset value (NAV). The partnership, Berens Global Value Fund has a 1 year lock-up with liquidations allowed quarterly thereafter with 90 days prior notification. The other partnership allows for withdrawals up to 25%, semi-annually for partial withdrawals and annually for full redemptions with 90 days notice and subject to a 1 year lock-up.

Commodities Fund

The Hospital's interest in the commodities fund was reported at net asset value (NAV). The Hospital could redeem the fund monthly with 5 days prior notification required.

Held by Trustee

The net proceeds received from the sale of revenue bonds were delivered to the trustee to pay interest due on certain of the bonds during the periods required to complete the renovation and construction of hospital facilities; to establish the debt service and debt service reserve funds; to pay certain expenses incurred by the Authority and the Hospital in connection with the issuance of the bonds; to pay certain costs related to construction of various projects; and to refinance existing indebtedness of the Hospital. Under the terms of the indentures, the Hospital is required to fund the various trustee accounts on a monthly basis. Amounts held by the trustees which exceed the balances required in the individual accounts may be used by the Hospital for any lawful purpose subject to the approval of the Authority. The assets held in each of the trustee accounts for the bonds as of December 31, 2015 and 2014 are as follows:

	<u>Project Funds</u>	<u>Interest Funds</u>	<u>Debt Service Reserve Funds</u>	<u>Principal Funds</u>	<u>Safety Net Escrow</u>	<u>Total</u>
December 31, 2015:						
State of New Jersey Cash Management fund	\$ -	\$ -	\$ 9,913	\$ -	\$ -	\$ 9,913
Cash and cash equivalents	82,108	6,896	-	3,333	8,930	101,267
Total	<u>\$ 82,108</u>	<u>\$ 6,896</u>	<u>\$ 9,913</u>	<u>\$ 3,333</u>	<u>\$ 8,930</u>	<u>\$ 111,180</u>

	<u>Project Funds</u>	<u>Interest Funds</u>	<u>Debt Service Reserve Funds</u>	<u>Principal Funds</u>	<u>Cost of Issuance Funds</u>	<u>Total</u>
December 31, 2014:						
State of New Jersey Cash Management fund	\$ -	\$ -	\$ 9,913	\$ -	\$ -	\$ 9,913
Cash and cash equivalents	117,041	6,633	-	1,775	5,183	130,632
Total	<u>\$ 117,041</u>	<u>\$ 6,633</u>	<u>\$ 9,913</u>	<u>\$ 1,775</u>	<u>\$ 5,183</u>	<u>\$ 140,545</u>

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Assets for Self-Insurance Medical Malpractice Program

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 20,018	\$ 21,599
Insurance balances receivable	4,981	4,981
Total	<u>\$ 24,999</u>	<u>\$ 26,580</u>

Short-Term Investments

Short-term investments, stated at fair value, at December 31, 2015 and 2014 include:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 1,468	\$ 1,083
U.S. Government and agency obligations	435	430
Corporate bonds	870	1,283
Total	<u>\$ 2,773</u>	<u>\$ 2,796</u>

Long-Term Restricted Investments

Long-term restricted investments, stated at fair value, at December 31, 2015 and 2014 include:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 644	\$ 652
Fixed income securities	1,686	1,833
Interest receivable	2	2
Total	<u>\$ 2,332</u>	<u>\$ 2,487</u>

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Investment Return

Investment income and gains and losses relating to assets limited as to use, cash equivalents and other investments are comprised of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Nonoperating activities:		
Interest and dividend income	\$ 7,561	\$ 7,843
Realized gain on sales of investments, net	(7,774)	18,590
Change in net unrealized gains and losses on trading securities held by the Foundation	(1,945)	(1,419)
Change in net unrealized gains and losses gain on trading securities	<u>(17,500)</u>	<u>(13,129)</u>
	<u>(19,658)</u>	<u>11,885</u>
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments, other than trading securities	<u>5,629</u>	<u>2,014</u>
Total investment (loss) return	<u>\$ (14,029)</u>	<u>\$ 13,899</u>

8. Related-Party Transactions

Related-party balances at December 31, 2015 and 2014 include:

	<u>2015</u>	<u>2014</u>
Robert Wood Johnson Property Holding Corporation (a)	\$ 585	\$ 3,122
Robert Wood Johnson Health Care Corporation at Hamilton (b)	41,248	31,966
Children's Specialized Hospital (c)	242	148
Robert Wood Johnson University Hospital Rahway (d)	326	559
RWJ University Hospital Foundation, Inc. (e)	1,523	2,153
Other Affiliated Organizations (f)	<u>25,170</u>	<u>23,841</u>
	69,094	61,789
Less allowance for doubtful amounts	29,006	26,707
Less current portion	<u>6,344</u>	<u>9,497</u>
Due from related parties, noncurrent portion	<u>\$ 33,744</u>	<u>\$ 25,585</u>

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RWJHCC, whose primary purpose is to promote and support the Hospital and other affiliated and related nonprofit health care organizations, is the parent of the Hospital. Amounts due from RWJHCC at December 31, 2015 and 2014 were \$1,944 and \$787, respectively, of which \$787 have been reserved and are included in other affiliated organizations above. RWJHCC is also the parent of the following entities:

- (a) Robert Wood Johnson Property Holding Corporation (“RWJPHC”) was formed to acquire and hold real and personal property to further the mission of the Hospital and to develop the academic health center campus. The property acquired is typically held and, if appropriate, rented by the Hospital until such time that it can be converted for its intended use. The Hospital provides space and certain administrative services to RWJPHC. The net amount charged to operations for such transactions, on a cost basis, was \$63 in 2015 and 2014. At December 31, 2015 and 2014, amounts due from RWJPHC to the Hospital are \$585 and \$3,122, respectively.
- (b) Robert Wood Johnson Health Care Corporation at Hamilton (“RWJUH at Hamilton”) includes an acute care hospital, a nursing home, day care centers, a medical services organization, and a foundation. The Hospital provides certain financial and administrative services to RWJUH at Hamilton, which are charged by the Hospital based on a cost allocation of \$125 per annum for 2015 and 2014. Amounts due the Hospital from RWJUH at Hamilton at December 31, 2015 and 2014 are \$6,867. Amounts at December 31, 2015 and 2014 were fully reserved. Costs allocated for personnel services to RWJUH at Hamilton were \$333 in 2015.

On July 8, 2010, the Hospital entered into a subordinated loan agreement with RWJUH at Hamilton for \$12,000. Payments of interest, equal to the 3-Year constant maturity treasury rate in effect on the closing date (1.01%), and principal were to commence July 1, 2011 if RWJUH at Hamilton met certain financial ratios as defined by the loan agreement, which it did not. The ratios will be reevaluated as of April 30 of each year and to the extent RWJUH at Hamilton cannot make payments on the loan, the outstanding balance will continue to accrue interest until the maturity date of December 31, 2023 at which point the full remaining balance will be due plus any unpaid interest. The loan is reflected as due from related parties, non-current on the accompanying balance sheet.

On November 11, 2014, the Hospital entered into a subordinated loan agreement with RWJUH at Hamilton for an amount not to exceed \$44,000 to be advanced in principal amounts not to exceed \$21,000 in 2014, \$12,000 in 2015 and \$11,000 in 2016. Payments of interest, equal to the 3-Year constant maturity treasury rate in effect on the closing date (.95%), and principal are to commence April 30, 2017 if RWJUH at Hamilton meets certain financial ratios as defined by the loan agreement. The ratios will be reevaluated as of April 30 of each year and to the extent RWJUH at Hamilton cannot make payments on the loan, the outstanding balance will continue to accrue interest until the maturity date of December 31, 2036 at which point the full remaining balance will be due plus any unpaid interest. As of December 31, 2015, the amount drawn on the loan was \$22,381 and \$13,099 as of December 31, 2015 and 2014, respectively. The loan is reflected as due from related parties, non-current on the accompanying balance sheet.

- (c) Children’s Specialized Hospital (“CSH”) provides pediatric inpatient rehabilitation, pediatric day care, pediatric ambulatory care, and long term pediatric care. Amounts due the Hospital from CSH at December 31, 2015 and 2014 are \$242 and \$148, respectively.

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- (d) Robert Wood Johnson University Hospital at Rahway ("RWJUH at Rahway") is an acute care community hospital located approximately 15 miles from the Hospital. Amounts due the Hospital from RWJUH at Rahway at December 31, 2015 and 2014 are \$326 and \$559, respectively.
- (e) Amounts due the Hospital from the RWJ Foundation at December 31, 2015 and 2014 are \$1,523 and \$2,153, respectively. These amounts represent monies funded by the Hospital on behalf of the RWJ Foundation for various restricted purposes and operating costs consisting of salaries and rent.
- (f) The Hospital also provides administrative services to other affiliated organizations including New Brunswick Affiliated Hospitals ("NBAH"), a corporation whose essential purpose is to provide a legal basis for cooperation and agreement by and between the Hospital and St. Peter's University Hospital. The Hospital also provides management services to NBAH. Prior to January 1, 2014, the Hospital purchased services from a local blood program operated by NBAH. Effective January 1, 2014, the members of NBAH assigned the assets, operations and agreements of NBAH's blood program to the Hospital. The Hospital also assumed all of NBAH's obligations under the program. The net charge to operations for such services on a cost basis was \$11 and \$-0- in 2015 and 2014, respectively. Amounts due from these organizations are \$15 and \$121 as of December 31, 2015 and 2014, respectively.

Robert Wood Johnson Health Network (the "Network") is an organization which was formed to support the efforts of its members to develop an integrated delivery and transportation system that will best serve community needs to assist providers in reducing costs, improving patient outcomes, and developing payment arrangements. The Hospital provides certain administrative services to the Network. The net amount charged to operations for such transactions on a cost basis was \$42 in 2015 and 2014. Amounts due the Hospital from the Network at December 31, 2015 and 2014 are \$1,749 and \$1,215, respectively. The Hospital has reserved \$619 and \$830 of this receivable at December 31, 2015 and 2014, respectively.

Robert Wood Johnson Medical Associates ("RWJMA") is a professional corporation which is sponsored by the Hospital and provides physician services to the Hospital. During 2015 and 2014, the Hospital expended \$375 and \$151, respectively, in the maintenance and operation of these practices. Amounts due the Hospital from RWJMA for these services at December 31, 2015 and 2014 are \$16,068 and \$16,442, respectively, which have been fully reserved.

RWJMA holds a fifty percent ownership in two joint ventures, Robert Wood Johnson Fitness & Wellness Center of Old Bridge, LLC and Robert Wood Johnson Fitness & Wellness Center of New Brunswick, LLC (collectively the "RWJ Fitness & Wellness Centers"). The initial investments and additional operational expenses of the RWJ Fitness & Wellness Centers were funded by the Hospital and will be paid back to the Hospital as distributions are made to RWJMA. The Hospital's receivable from RWJMA for the RWJ Fitness & Wellness Centers was \$2,910 and \$2,987 as of December 31, 2015 and 2014, respectively.

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Amounts due from the Somerset Medical Center Foundation and other affiliates at December 31, 2015 and 2014 are \$2,484 and \$2,267, respectively. These amounts represent monies funded by the Hospital on behalf of the Somerset Medical Center Foundation for various restricted purposes and operating costs consisting of salaries and rent. The Hospital has reserved \$1,656 and \$1,780 of this receivable at December 31, 2015 and 2014, respectively.

As discussed in Note 1, the Hospital is the principal teaching hospital for Rutgers. Under the related affiliation agreement, Rutgers controls up to 25% of the 24 Hospital Board appointments and is responsible for providing quality oversight of the Hospital's clinical services.

9. Accrued Expenses

Accrued expenses at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 10,594	\$ 27,231
Vacation	26,133	25,858
Line of credit	30,000	20,000
Health insurance	7,769	7,145
Worker's compensation	5,124	4,780
Deferred income	4,288	2,504
Union Benefit Plan withdrawal liability	2,041	-
Other	13,774	6,638
	<u>13,774</u>	<u>6,638</u>
Total	<u>\$ 99,723</u>	<u>\$ 94,156</u>

The Hospital entered into a promissory note with a bank to obtain a revolving loan agreement with a maximum available amount of \$30,000. Outstanding amounts under the agreement bear interest at one-month LIBOR plus fifty basis points (0.77% at December 31, 2015). As of December 31, 2015 and 2014, the Hospital had drawn \$30,000 and \$20,000, respectively, of this balance. The full amount is to be paid in 2016 and is included in accrued expenses.

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10. Concentrations of Credit Risk

The Hospital is located in New Brunswick, New Jersey. The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables at December 31, 2015 and 2014 from patients and third-party payors is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	21 %	17 %
Medicaid	4	3
Blue Cross	16	16
Aetna U.S. Health Care	10	11
Other third-party payors	42	44
Patients	<u>7</u>	<u>9</u>
Total	<u>100 %</u>	<u>100 %</u>

At the present time, the Hospital participates in all dominant managed care plans' provider networks, including Aetna U.S. Healthcare and Horizon Blue Cross/HMO Blue.

11. Third-Party Payor Programs

The Hospital is paid by third-party payors for patient services rendered generally at negotiated or otherwise predetermined amounts established by the applicable coverage program. For the years ended December 31, 2015 and 2014, revenue from the Medicare and Medicaid programs accounted for approximately 36% and 37%, respectively, of the Hospital's net patient service revenue. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any material pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as tentative and final settlements are determined. It is reasonably possible that the estimates used could change in the near term. The Hospital recorded \$8,600 and \$4,069 related to changes to prior years' estimates which increased net patient service revenues for the years ended December 31, 2015 and 2014, respectively. A significant portion of the Hospital's net patient service revenues is derived from these third-party payor programs.

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A summary of the principal payment arrangements with major third-party payors follows:

- **Medicare** - Under the Medicare program, the Hospital receives reimbursement under a prospective payment system (PPS) for inpatient and outpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnostic related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. The outpatient PPS provides for payment for outpatient services based on service groups called ambulatory payment classifications (APC's).

The Hospital has recorded approximately \$11.7 million and \$14.6 million of revenues related to Medicare outliers for the years ended December 31, 2015 and 2014, respectively. These amounts represent approximately 5% of Medicare revenues and approximately 1% of total revenues for the years ended December 31, 2015 and 2014. Centers for Medicare & Medicaid Services (CMS) annually revises the outlier cost threshold, which affects the number of cases that qualify for outlier payments. Accordingly, there can be no assurances that the Hospital will continue to receive these levels of Medicare outlier payments in future periods.

Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Reimbursements for cost reimbursable items are received at tentative interim rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2011, excluding 2005 and 2010 which have not been final settled.

- **Medicaid** - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based on tentative interim rates, with final settlement determined after submission of annual cost reports by the Hospital. The Hospital's Medicaid cost reports have been settled through December 31, 2012.
- **Commercial Insurance** - The Hospital has entered into payment agreements with certain insurance carriers, health maintenance organizations, and preferred provider organizations which cover health benefits and worker's compensation for commercial, Medicare, and Medicaid members. The basis for payment to the Hospital under these agreements varies by payor, but typically includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and/or cost pass through reimbursement for certain high cost items.

There are various proposals at the federal and state levels that could, among other things, reduce reimbursement rates or modify reimbursement methods. The ultimate impact to the Hospital will vary depending on several factors including, but not limited to, Medicare and Medicaid volume and Medicare and Medicaid managed care penetration.

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As a result of recently enacted and pending federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

12. Fair Value Measurements

The Hospital measures its investments and assets limited or restricted as to use at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Hospital for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

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The following tables present the Hospital's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

	Fair Value as of December 31, 2015				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Investments:					
Cash and cash equivalents	\$ 1,468	\$ 1,468	\$ 1,468	\$ -	\$ -
U.S. Government and agency obligations	435	435	435	-	-
Corporate bonds	870	870	-	870	-
Assets limited or restricted as to use - board designated:					
Common stock	105,227	105,227	105,227	-	-
American depository receipts and U.S. held foreign stock	8,866	8,866	-	8,866	-
U.S. Treasury notes and bonds	7,318	7,318	7,318	-	-
U.S. Government mortgage pools	747	747	747	-	-
Mutual funds - equity	239,752	239,752	-	239,752	-
Mutual funds - taxable bonds	49,937	49,937	-	49,937	-
Fixed income commingled funds	18,480	18,480	-	18,480	-
Mortgage backed obligations	487	487	-	487	-
Asset backed securities	3,638	3,638	-	3,638	-
Corporate bonds	4,403	4,403	-	4,403	-
Absolute return fund	37,787	37,787	-	37,787	-
Other fixed income securities	25	25	-	25	-
Real estate investments	17,107	17,107	-	-	17,107
Partnerships	88,003	88,003	-	-	88,003
Assets limited or restricted as to use - held by trustee:					
State of New Jersey Cash Management fund	9,913	9,913	9,913	-	-
Cash and cash equivalents	101,267	101,267	101,267	-	-
Assets limited or restricted as to use - for self insurance medical malpractice program:					
Cash and cash equivalents	20,018	20,018	20,018	-	-
Long-term restricted investments:					
Cash and cash equivalents	644	644	644	-	-
Fixed income securities	1,686	1,686	1,686	-	-
Total	\$ 718,078	\$ 718,078	\$ 248,723	\$ 364,245	\$ 105,110
Disclosed at Fair Value					
Cash and cash equivalents	\$ 31,071	\$ 31,071	\$ 31,071	\$ -	\$ -
Long-term debt	\$ 424,861	\$ 457,710	\$ -	\$ 457,710	\$ -

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	Fair Value as of December 31, 2014				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Investments:					
Cash and cash equivalents	\$ 1,083	\$ 1,083	\$ 1,083	\$ -	\$ -
U.S. Government and agency obligations	430	430	430	-	-
Corporate bonds	1,283	1,283	-	1,283	-
Assets limited or restricted as to use - board designated:					
Common stock	104,457	104,457	104,457	-	-
American depository receipts and U.S. held foreign stock	11,393	11,393	-	11,393	-
U.S. Treasury notes and bonds	7,138	7,138	7,138	-	-
U.S. Government mortgage pools	985	985	985	-	-
Mutual funds - equity	259,539	259,539	-	259,539	-
Mutual funds - taxable bonds	49,656	49,656	-	49,656	-
Fixed income commingled funds	20,181	20,181	-	20,181	-
Mortgage backed obligations	607	607	-	607	-
Asset backed securities	3,142	3,142	-	3,142	-
Corporate bonds	4,114	4,114	-	4,114	-
Absolute return fund	37,821	37,821	-	37,821	-
Commodities fund	8,623	8,623	-	-	8,623
Other fixed income securities	67	67	-	67	-
Real estate investments	17,405	17,405	-	-	17,405
Partnerships	88,779	88,779	-	-	88,779
Assets limited or restricted as to use - held by trustee:					
State of New Jersey Cash Management fund	9,913	9,913	9,913	-	-
Cash and cash equivalents	130,632	130,632	130,632	-	-
Assets limited or restricted as to use - for self insurance medical malpractice program:					
Cash and cash equivalents	21,599	21,599	21,599	-	-
Long-term restricted investments:					
Cash and cash equivalents	652	652	652	-	-
Fixed income securities	1,833	1,833	1,833	-	-
Total	\$ 781,332	\$ 781,332	\$ 278,722	\$ 387,803	\$ 114,807
Disclosed at Fair Value					
Cash and cash equivalents	\$ 56,008	\$ 56,008	\$ 56,008	\$ -	\$ -
Long-term debt	\$ 432,543	\$ 467,152	\$ -	\$ 467,152	\$ -

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Cash and cash equivalents and State of New Jersey Cash Management fund (a cash equivalent): cost approximates fair value because of the short maturity of those financial instruments.

Common stock and fixed income securities: Valued at closing price reported on the active market on which the individual securities are traded.

U.S. government and agency obligations, U.S. treasury notes and bonds, and U.S government mortgage pools: Valued at closing price reported on the active market on which the individual securities are traded or for identical assets.

Corporate bonds, American depository receipts and U.S held foreign stock, mutual funds-equity, mutual funds-taxable bonds, commingled funds, fixed income commingled funds; mortgage backed obligations, asset backed securities, corporate bonds, absolute return fund, and other fixed income securities: Valued using pricing methodologies utilizing observable inputs or similar investment sold in active markets or spreads of published interest rate curves.

Partnerships, commodities fund and real estate investments are valued based on significant unobservable inputs, including option pricing models, discounted cash flows, and other similar techniques. See Note 7 for descriptions of each investment and related redemption restrictions.

The carrying amounts of cash and cash equivalents approximate fair value at December 31, 2015 and 2014.

Investments and assets limited or restricted as to use are stated at fair value, which are the amounts reported in the balance sheet. The fair value of investments and assets limited or restricted as to use is based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

Long-term debt fair value is calculated based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

The following table represents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2015 to December 31, 2015:

	<u>Real Estate Investments</u>	<u>Partnerships</u>	<u>Commodities Fund</u>	<u>Total Level 3 Assets</u>
Financial assets:				
Beginning balance				
January 1, 2015	\$ 17,405	\$ 88,779	\$ 8,623	\$ 114,807
Change in net unrealized gains and losses	(96)	1,749	3,976	5,629
Contributions, net of withdrawals	(2,308)	-	(7,240)	(9,548)
Investment income (loss)	826	983	(1,383)	426
Realized gains (losses)	1,570	(2,525)	(3,976)	(4,931)
Management fees	(290)	(983)	-	(1,273)
Ending balance				
December 31, 2015	<u>\$ 17,107</u>	<u>\$ 88,003</u>	<u>\$ -</u>	<u>\$ 105,110</u>

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The following table represents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2014 to December 31, 2014:

	<u>Real Estate Investments</u>	<u>Partnerships</u>	<u>Commodities Fund</u>	<u>Total Level 3 Assets</u>
Financial assets:				
Beginning balance January 1, 2014	\$ 14,926	\$ 87,234	\$ 10,515	\$ 112,675
Change in net unrealized gains and losses	2,359	1,546	(1,891)	2,014
Contributions, net of withdrawals	(582)	-	-	(582)
Investment income	768	949	175	1,892
Realized gains	135	-	-	135
Management fees	(201)	(950)	(176)	(1,327)
Ending balance December 31, 2014	<u>\$ 17,405</u>	<u>\$ 88,779</u>	<u>\$ 8,623</u>	<u>\$ 114,807</u>

13. Commitments and Contingencies

Operating Leases

The Hospital rents certain space and equipment under various operating lease agreements. The following is a schedule, by years, of future minimum lease payments for space and equipment under noncancelable leases, as well as rental income as of December 31, 2015:

	<u>Expense</u>	<u>Income</u>
Years ending December 31:		
2016	8,924	1,546
2017	8,542	1,556
2018	8,204	1,203
2019	8,170	540
2020	8,312	347

Rental expense charged to operations was approximately \$21,827 and \$17,823 for the years ended December 31, 2015 and 2014, respectively. Rental income received was approximately \$2,860 and \$3,032 for the years ended December 31, 2015 and 2014, respectively.

On February 16, 2007, the Hospital entered into a 25 year master lease (the "Lease") with a New Jersey developer for a 126,000 square feet professional office building adjacent to the Hospital campus.

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

Under the terms of the triple net Lease, the Hospital acquired full rights to the use of the building for 25 years subject to two 10 year renewal terms. The Lease also provides options to purchase, at fair market value, up to 50% of the leased facility at the end of year 15 of the Lease and up to 100% of the facility at the end of year 25. The rental is subject to 2% annual increases over the life of the Lease.

Malpractice Insurance

Malpractice claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through December 31, 2015 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Losses from unasserted claims and incidents that may have occurred but have not been reported to the Hospital are accrued as of December 31, 2015 and 2014 based on actuarial estimates that incorporate the Hospital's past experience, as well as other considerations, and amount to \$4,421 and \$4,199, respectively, and are included in other long-term liabilities in the accompanying balance sheet. (See Note 14 Captive Insurance Company for a description of medical malpractice and general liability insurance coverage subsequent to 2003). Based upon the advice of counsel, management believes that liabilities, if any, resulting from these actions would not have a material adverse effect on the Hospital's financial position, results of operations, or liquidity.

Contingencies

Various investigations, suits, and claims arising in the normal course of operations are pending or are on appeal against the Hospital. Such suits and claims are either specifically covered by insurance, not material, or too early to determine if they are material. While the outcome of such actions cannot be determined at this time, legal counsel and management believe that any loss which may arise from these actions will not have a material effect on the financial position or results of operations of the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements.

In November 2010, the Hospital was notified by the U.S. Department of Justice of the Department's investigation in connection with implantation of implantable cardioverter defibrillators. The matter was settled during 2014.

Robert Wood Johnson University Hospital

Notes to Financial Statements
December 31, 2015 and 2014
(In Thousands)

RWJUH at Hamilton "Safety Net"

During 2013, the Hospital created a "safety net" for the bondholders of RWJUH at Hamilton. The "safety net" provisions would apply in certain instances of covenant default as well as payment default by RWJUH at Hamilton. The "safety net" provisions will apply if RWJUH at Hamilton fails to meet one or more of the following three bond covenants at any measurement date specified by the bond documents; debt service coverage ratio, days cash on hand and debt to capitalization ratio. As of December 31, 2014, RWJUH at Hamilton failed to meet the debt service coverage ratio as defined in the bond documents and the Hospital was required to fund \$8.9 million into an escrow account in 2015 as a result of the failure. No additional amounts will be required to be funded in 2016.

Other Commitments

On April 26, 2006, RWJUH at Rahway Fitness and Wellness Center, LLC (the LLC) obtained a Construction/Term Loan (the Loan) in the amount of \$6,700 for the purpose of undertaking a project consisting of leasehold improvements and equipment for a 51,000 square foot rehabilitation and wellness center. The Hospital provided a Limited Guaranty (the Guaranty) to a bank guaranteeing the repayment by the LLC of 62.99% of the outstanding principal amount of the Loan then due. As of December 31, 2015, \$1,131 of the Loan is outstanding.

14. Captive Insurance Company

Effective January 1, 2003, the Hospital self-insured its medical malpractice and general liability insurance coverages using a captive insurance company. The captive, which is named System and Affiliate Members, LTD (SAAM), was incorporated and domiciled in Bermuda on July 22, 2002.

SAAM was formed by the Network for the benefit of its hospital members. Network hospitals that elect to participate in SAAM share the costs of administrative expenses as well as certain of the premiums for excess layers of insurance. Each hospital also maintains a segregated level of primary coverages for which there is no shared risk. Member hospitals are individually accountable and ultimately at risk for their own losses. Assets, liabilities and contributed capital related to each member hospital are accounted for individually in segregated business units. SAAM retains the services of an insurance broker/advisor, a risk manager and an actuarial consultant to assist member hospitals with evaluating coverages, understanding risk and structuring management systems. The Hospital also utilizes a separate outside consultant to provide third party claims administration services. In addition, the Hospital maintains a separate reserve within its unrestricted balance sheet for potential incurred but unreported malpractice claims. For 2015 and 2014, the Hospital elected to go at risk for the primary insurance coverages involving limits of \$1 million per individual claim and an additional \$1 million per individual claim on an excess basis. The excess amount is included in a \$1 million buffer layer shared with the Network hospitals with a premium contribution actuarially determined on an annual basis. Excess coverage up to \$50 million in 2015 and 2014, was purchased from qualified commercial insurance companies. The Hospital's aggregate SAAM funding premiums for 2015 and 2014 are \$7,171 and \$5,558, respectively.

Robert Wood Johnson University Hospital

Notes to Financial Statements
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(In Thousands)

The Hospital's assets held within SAAM are reflected as assets limited or restricted as to use in the accompanying balance sheet. The Hospital's claims liability reserves within SAAM amount to \$20,134 and \$20,352 as of December 31, 2015 and 2014, respectively, and are reflected as other long-term liabilities in the accompanying balance sheet. As of December 31, 2015 and 2014, \$3,106 and \$1,234, respectively, is recorded as a receivable for insurance recoveries and is recorded within other noncurrent assets in the balance sheet.

15. Health Insurance Benefits and Workers' Compensation

The Hospital self-insures its employee health insurance coverage and accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of their individual and aggregate stop-loss insurance coverage, based upon data provided by the third-party administrator of the programs and their historical claims experience. Approximately \$7,769 and \$7,145 are included in accrued expenses in the accompanying balance sheet as of December 31, 2015 and 2014, respectively.

Additionally, separate reserves for incurred but unreported workers' compensation claims amount to \$5,124 and \$4,780 as of December 31, 2015 and 2014, respectively, and are included in accrued expenses in the accompanying balance sheet.

16. Other Assets

During 2005, the Hospital's board of directors voted to provide a \$10.0 million line of credit to UMDNJ Robert Wood Johnson Medical School which was transferred to Rutgers as part of the transition during 2013. Drawdowns under this line of credit are to be used to provide working capital related to the provision of maternal, women's, infants and pediatric clinical services under the Enhanced Affiliation Agreement. Amounts advanced pursuant to this line of credit bear interest at the prevailing prime rate, are to be repaid on a level principal basis over a ten year term and may be repaid at any time without penalty. Amounts outstanding under the line of credit as of December 31, 2015 and 2014 are \$133 and \$467, respectively, and are recorded as board-designated investments in the accompanying balance sheet.

In July 2011, the Hospital's board of directors approved a resolution to establish and organize the Robert Wood Johnson Physician Enterprise, PA, ("RWJPE") a for-profit, New Jersey professional service corporation. In September 2012, a Loan and Security Agreement was entered into and a revolving credit note was established with a principal sum of \$10,000. This note bears interest at United States prime rate plus one-half percent (4.0% at December 31, 2015). The principal balance will be repaid beginning in 2018 with interest payable monthly. In March 2014, the agreement was amended to increase the principal sum to \$37,000 and again in July 2015 to increase the principal sum to \$71,000. The funds are to be used for strategic practice transactions and operational support. As of December 31, 2015 and 2014, \$71,000 and \$37,000, respectively, of the balance had been drawn by RWJPE and is fully reserved as of December 31, 2015 and is recorded in other noncurrent assets in the accompanying balance sheet. Additional amounts loaned to RWJPE total \$7,698 and are fully reserved as of December 31, 2015.

Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2015 and 2014

(In Thousands)

To comply with the New Jersey Professional Service Corporation Act, the New Jersey Board of Medical Examiners' regulations and the New Jersey corporate practice of medicine prohibition, RWJPE is owned and operated by a physician licensed to practice medicine in the State of New Jersey, specifically, the Hospital's Chief Medical Officer. Financial support of RWJPE through the Loan and Security Agreement and the revolving credit note is intended to be consistent with the independent nature of the professional service corporation structure.

17. Subsequent Event

On March 16, 2016, amended and restated Certificates of Incorporation for the Hospital and its sole corporate member, RWJHCC, along with amended and restated certificates of incorporation of other hospital and non-hospital affiliates, were filed with the State of New Jersey. These filings were made in accordance with the terms and conditions of the Transaction Agreement, dated July 14, 2015, by and between Barnabas Health, Inc. and RWJHCC. The amended and restated certificates name RWJ Barnabas Health, Inc. as the sole corporate member of RWJHCC, and reserve to RWJ Barnabas Health, Inc. certain enumerated corporate powers over RWJHCC, the Hospital and the other hospital and non-hospital affiliates.

Robert Wood Johnson University Hospital

Combining Balance Sheet

December 31, 2015

(In thousands)

	New Brunswick Campus	Somerset Campus	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 9,305	\$ 21,766	\$ -	\$ 31,071
Investments	1,304	1,469	-	2,773
Assets limited or restricted as to use, required for current obligations	8,375	1,456	-	9,831
Accounts receivable:				
Patient (net of estimated allowance for doubtful collections of \$81,252)	140,823	25,652	-	166,475
Other (net of estimated allowance for doubtful collections of \$2,404)	3,976	534	-	4,510
Due from related parties, net	6,733	27,593	(27,982)	6,344
Other current assets	41,040	9,101	-	50,141
Total current assets	211,556	87,571	(27,982)	271,145
Assets Limited or Restricted as to Use				
Board-designated	582,037	-	-	582,037
Held by trustee and self-insurance	127,408	8,771	-	136,179
Total assets limited or restricted as to use	709,445	8,771	-	718,216
Less amounts required to meet current obligations	8,375	1,456	-	9,831
	701,070	7,315	-	708,385
Property and Equipment, Net	406,949	172,883	-	579,832
Long-Term Restricted Investments	2,332	-	-	2,332
Interest in Net Assets of Foundations	53,939	4,172	-	58,111
Due from Related Parties	31,372	2,372	-	33,744
Other Noncurrent Assets, Net	13,327	720	-	14,047
Total assets	\$ 1,420,545	\$ 275,033	\$ (27,982)	\$ 1,667,596

Robert Wood Johnson University Hospital

Combining Balance Sheet

December 31, 2015

(In thousands)

	New Brunswick Campus	Somerset Campus	Eliminations	Total
Liabilities and Net Assets				
Current Liabilities				
Current installments of long-term debt	\$ 9,984	\$ -	\$ -	\$ 9,984
Accounts payable	64,750	19,269	-	84,019
Accrued expenses	84,916	14,807	-	99,723
Accrued bond interest payable	5,515	1,456	-	6,971
Estimated third-party payor settlements	13,651	1,569	-	15,220
Total current liabilities	178,816	37,101	-	215,917
Long-Term Liabilities				
Estimated third-party payor settlements, excluding current portion	22,683	6,595	-	29,278
Other long-term liabilities	68,725	47,437	-	116,162
Due to related parties	27,982	-	(27,982)	-
Long-term debt, excluding current installments	326,406	91,559	-	417,965
Total liabilities	624,612	182,692	(27,982)	779,322
Net Assets				
Unrestricted	755,584	87,791	-	843,375
Temporarily restricted	37,296	3,410	-	40,706
Permanently restricted	3,053	1,140	-	4,193
Total net assets	795,933	92,341	-	888,274
Total liabilities and net assets	<u>\$ 1,420,545</u>	<u>\$ 275,033</u>	<u>\$ (27,982)</u>	<u>\$ 1,667,596</u>

Robert Wood Johnson University Hospital

Combining Statement of Operations

Year Ended December 31, 2015

(In thousands)

	New Brunswick Campus	Somerset Campus	Eliminations	Total
Unrestricted Revenues and Other Support				
Patient service revenues, net of contractual allowances and discounts	\$ 1,016,903	\$ 293,249	\$ -	\$ 1,310,152
Less provision for doubtful collections	56,513	23,366	-	79,879
Net patient service revenues	960,390	269,883	-	1,230,273
Other revenues	26,113	4,793	-	30,906
Net assets released from restrictions for operations	3,528	40	-	3,568
Total unrestricted revenues and other support	990,031	274,716	-	1,264,747
Expenses				
Salaries and wages, and contracted labor	354,887	110,144	-	465,031
Employee benefits	82,923	30,092	-	113,015
Physician fees	61,279	4,661	-	65,940
Supplies and expenses	399,195	89,849	-	489,044
Depreciation and amortization	44,566	16,217	-	60,783
Interest	9,618	2,518	-	12,136
Total expenses	952,468	253,481	-	1,205,949
Operating income	37,563	21,235	-	58,798
Nonoperating Activities				
Investment (loss) return, net	(19,698)	40	-	(19,658)
Change in unrestricted net assets of RWJ University Hospital Foundation, Inc.	691	-	-	691
Provision for doubtful RWJ Physician Enterprise, PA and related-party collections	(29,221)	(8,422)	-	(37,643)
Pension settlements	-	(1,777)	-	(1,777)
Settlement loss on withdrawal from Union Benefit Plan	(51,765)	-	-	(51,765)
Other gains, net	4,425	19	-	4,444
Revenues (less than) in excess of expenses	(58,005)	11,095	-	(46,910)
Change in net unrealized gains and losses on investments, other than trading securities	5,629	-	-	5,629
Pension liability adjustment	-	2,181	-	2,181
Transfers to affiliates	(256)	-	-	(256)
(Decrease) increase in unrestricted net assets	\$ (52,632)	\$ 13,276	\$ -	\$ (39,356)

Robert Wood Johnson University Hospital

Combining Statement of Changes in Net Assets

Year Ended December 31, 2015

(In thousands)

	New Brunswick Campus	Somerset Campus	Eliminations	Total
Unrestricted Net Assets				
Revenues (less than) in excess of expenses	\$ (58,005)	\$ 11,095	\$ -	\$ (46,910)
Change in net unrealized gains and losses on investments, other than trading securities	5,629	-	-	5,629
Pension liability adjustment	-	2,181	-	2,181
Transfers to affiliates	(256)	-	-	(256)
	<u>(52,632)</u>	<u>13,276</u>	<u>-</u>	<u>(39,356)</u>
Increase in unrestricted net assets				
Temporarily Restricted Net Assets				
Contributions, gifts, grants, and bequests	113	-	-	113
Investment losses	(1)	-	-	(1)
Change in unrealized losses on investments	(11)	-	-	(11)
Net assets released from restrictions used for operations	(3,528)	(40)	-	(3,568)
Change in net assets of Foundations	7,761	492	-	8,253
	<u>4,334</u>	<u>452</u>	<u>-</u>	<u>4,786</u>
Increase in temporarily restricted net assets				
Permanently Restricted Net Assets				
Change in net assets of RWJ University Hospital Foundation, Inc.	19	-	-	19
	<u>19</u>	<u>-</u>	<u>-</u>	<u>19</u>
Increase in permanently restricted net assets				
(Decrease) increase in net assets	(48,279)	13,728	-	(34,551)
Net Assets, Beginning	<u>844,212</u>	<u>78,613</u>	<u>-</u>	<u>922,825</u>
Net Assets, Ending	<u>\$ 795,933</u>	<u>\$ 92,341</u>	<u>\$ -</u>	<u>\$ 888,274</u>

Robert Wood Johnson University Hospital

Combining Balance Sheet

December 31, 2014

(In thousands)

	New Brunswick Campus	Somerset Campus	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 13,297	\$ 42,711	\$ -	\$ 56,008
Investments	1,471	1,325	-	2,796
Assets limited or restricted as to use, required for current obligations	7,300	1,107	-	8,407
Accounts receivable:				
Patient (net of estimated allowance for doubtful collections of \$67,045)	117,163	25,586	-	142,749
Other (net of estimated allowance for doubtful collections of \$2,333)	1,509	-	-	1,509
Due from related parties, net	13,553	-	(4,056)	9,497
Other current assets	32,617	10,147	-	42,764
	<u>186,910</u>	<u>80,876</u>	<u>(4,056)</u>	<u>263,730</u>
Assets Limited or Restricted as to Use				
Board-designated	614,681	-	-	614,681
Held by trustee and self-insurance	158,816	8,309	-	167,125
	<u>773,497</u>	<u>8,309</u>	<u>-</u>	<u>781,806</u>
Less amounts required to meet current obligations	7,300	1,107	-	8,407
	766,197	7,202	-	773,399
Property and Equipment, Net	362,518	174,718	-	537,236
Long-Term Restricted Investments	2,487	-	-	2,487
Interest in Net Assets of Foundations	50,699	3,680	-	54,379
Due from Related Parties	25,099	486	-	25,585
Other Noncurrent Assets, Net	11,243	1,616	-	12,859
	<u>\$ 1,405,153</u>	<u>\$ 268,578</u>	<u>\$ (4,056)</u>	<u>\$ 1,669,675</u>

Robert Wood Johnson University Hospital

Combining Balance Sheet

December 31, 2014

(In thousands)

	New Brunswick Campus	Somerset Campus	Eliminations	Total
Liabilities and Net Assets				
Current Liabilities				
Current installments of long-term debt	\$ 7,773	\$ -	\$ -	\$ 7,773
Accounts payable	76,586	19,690	-	96,276
Accrued expenses	77,471	20,538	(3,853)	94,156
Accrued bond interest payable	5,604	862	-	6,466
Estimated third-party payor settlements	13,242	2,324	-	15,566
Total current liabilities	180,676	43,414	(3,853)	220,237
Long-Term Liabilities				
Estimated third-party payor settlements, excluding current portion	25,469	4,389	-	29,858
Other long-term liabilities	18,192	50,172	-	68,364
Due to related parties	-	203	(203)	-
Long-term debt, excluding current installments	336,604	91,787	-	428,391
Total liabilities	560,941	189,965	(4,056)	746,850
Net Assets				
Unrestricted	808,216	74,515	-	882,731
Temporarily restricted	32,962	2,958	-	35,920
Permanently restricted	3,034	1,140	-	4,174
Total net assets	844,212	78,613	-	922,825
Total liabilities and net assets	<u>\$ 1,405,153</u>	<u>\$ 268,578</u>	<u>\$ (4,056)</u>	<u>\$ 1,669,675</u>

Robert Wood Johnson University Hospital

Combining Statement of Operations

Year Ended December 31, 2014

(In thousands)

	New Brunswick Campus	Somerset Campus *	Eliminations	Total
Unrestricted Revenues and Other Support				
Patient service revenues, net of contractual allowances and discounts	\$ 915,476	\$ 147,495	\$ -	\$ 1,062,971
Less provision for doubtful collections	46,857	4,228	-	51,085
Net patient service revenues	868,619	143,267	-	1,011,886
Other revenues	20,318	2,819	-	23,137
Net assets released from restrictions for operations	7,042	705	-	7,747
Total unrestricted revenues and other support	895,979	146,791	-	1,042,770
Expenses				
Salaries and wages, and contracted labor	326,530	59,471	-	386,001
Employee benefits	76,730	16,015	-	92,745
Physician fees	56,889	2,645	-	59,534
Supplies and expenses	362,945	54,188	-	417,133
Depreciation and amortization	42,691	9,773	-	52,464
Interest	8,792	915	-	9,707
Total expenses	874,577	143,007	-	1,017,584
Operating income	21,402	3,784	-	25,186
Nonoperating Activities				
Investment return, net	11,885	-	-	11,885
Change in unrestricted net assets of RWJ University Hospital Foundation, Inc.	464	-	-	464
Inherent contribution of Somerset Medical Center	-	83,157	-	83,157
Provision for doubtful RWJ Physician Enterprise, PA and related-party collections	(39,436)	-	-	(39,436)
Other gains, net	741	-	-	741
Revenues (less than) in excess of expenses	(4,944)	86,941	-	81,997
Change in net unrealized gains and losses on investments, other than trading securities	2,014	-	-	2,014
Pension liability adjustment	-	(13,160)	-	(13,160)
Net assets released from restrictions for capital purchases	-	734	-	734
(Decrease) increase in unrestricted net assets	\$ (2,930)	\$ 74,515	\$ -	\$ 71,585

* Includes seven months of Somerset Campus activity (Note 3)

Robert Wood Johnson University Hospital

Combining Statement of Changes in Net Assets

Year Ended December 31, 2014

(In thousands)

	New Brunswick Campus	Somerset Campus *	Eliminations	Total
Unrestricted Net Assets				
Revenues (less than) in excess of expenses	\$ (4,944)	\$ 86,941	\$ -	\$ 81,997
Change in net unrealized gains and losses on investments, other than trading	2,014	-	-	2,014
Pension liability adjustment	-	(13,160)	-	(13,160)
Net assets released from restrictions for capital purchases	-	734	-	734
	<u>(2,930)</u>	<u>74,515</u>	<u>-</u>	<u>71,585</u>
(Decrease) increase in unrestricted net assets				71,585
Temporarily Restricted Net Assets				
Contributions, gifts, grants, and bequests	67	1,438	-	1,505
Inherent contribution of Somerset Medical Center	-	1,781	-	1,781
Investment income	209	-	-	209
Change in unrealized gains on investments	31	-	-	31
Net assets released from restrictions used for operations	(7,042)	(705)	-	(7,747)
Net assets released from restrictions for capital purchases	-	(734)	-	(734)
Change in net assets of Foundations	9,136	1,178	-	10,314
	<u>2,401</u>	<u>2,958</u>	<u>-</u>	<u>5,359</u>
Increase in temporarily restricted net assets				5,359
Permanently Restricted Net Assets				
Inherent contribution of Somerset Medical Center	-	1,140	-	1,140
Change in net assets of RWJ University Hospital Foundation, Inc.	339	-	-	339
	<u>339</u>	<u>1,140</u>	<u>-</u>	<u>1,479</u>
Increase in permanently restricted net assets				1,479
(Decrease) increase in net assets	(190)	78,613	-	78,423
Net Assets, Beginning	<u>844,402</u>	<u>-</u>	<u>-</u>	<u>844,402</u>
Net Assets, Ending	<u>\$ 844,212</u>	<u>\$ 78,613</u>	<u>\$ -</u>	<u>\$ 922,825</u>

* Includes seven months of Somerset Campus activity (Note 3)