



RWJ BARNABAS HEALTH, INC.

Consolidated Financial Statements

December 31, 2016

(With Independent Auditors' Report Thereon)

RWJ BARNABAS HEALTH, INC.

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

Independent Auditors' Report

The Board of Trustees
RWJ Barnabas Health, Inc.:

We have audited the accompanying consolidated financial statements of RWJ Barnabas Health, Inc. (the Corporation), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statement of operations, changes in net assets, and cash flows for the nine months ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated 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 controls. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of RWJ Barnabas Health Inc. as of December 31, 2016, and the results of its operations and its cash flows for the nine months ended December 31, 2016, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

May 19, 2017

RWJ BARNABAS HEALTH, INC.

Consolidated Balance Sheet

December 31, 2016

(In thousands)

Assets

Current assets:

Cash and cash equivalents	\$	36,136
Investments		62,450
Assets limited or restricted as to use		137,979
Patient accounts receivable, net of allowance for doubtful accounts of \$222,774		494,929
Other current assets		159,114

Total current assets 890,608

Assets limited or restricted as to use, noncurrent portion

Investments		260,984
Property, plant, and equipment, net		2,551,959
Other assets, net		1,976,544
		189,711

\$ 5,869,806

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	272,582
Accrued expenses and other current liabilities		559,203
Estimated amounts due to third-party payors, net		9,400
Long-term debt		49,278
Self-insurance liabilities		65,041

Total current liabilities 955,504

Estimated amounts due to third-party payors, net of current portion

Self-insurance liabilities, net of current portion		47,311
Long-term debt, less current portion		205,758
Accrued pension liability		1,830,316
Other liabilities		115,173
		134,661

Total liabilities 3,288,723

Commitments and contingencies

Net assets:

Unrestricted		2,433,305
Temporarily restricted		117,439
Permanently restricted		30,339

Total net assets 2,581,083

Total liabilities and net assets \$ 5,869,806

See accompanying notes to consolidated financial statements.

RWJ BARNABAS HEALTH, INC.
Consolidated Statement of Operations
Nine months ended December 31, 2016
(In thousands)

Revenue:	
Patient service revenue (net of contractual allowances and discounts)	\$ 3,656,698
Provision for bad debts	<u>(185,227)</u>
Net patient service revenue less provision for bad debts	3,471,471
Other revenue, net	<u>380,857</u>
Total revenue	<u>3,852,328</u>
Expenses:	
Salaries and wages	1,388,763
Physician fees and salaries	342,697
Employee benefits	321,270
Supplies	696,176
Other	677,093
Interest	51,046
Depreciation and amortization	<u>146,809</u>
Total expenses	<u>3,623,854</u>
Income from operations	<u>228,474</u>
Nonoperating revenue (expenses):	
Investment income, net	98,426
Loss on early extinguishment of debt	(82,829)
Other, net	<u>(3,449)</u>
Total nonoperating revenue, net	<u>12,148</u>
Excess of revenue over expenses	240,622
Other changes:	
Net change in unrealized losses on available for sale investments	(9,156)
Pension and postretirement changes other than net periodic benefit cost	(57,050)
Net assets released from restriction for purchases of property and equipment	34,176
Other, net	<u>2,115</u>
Increase in unrestricted net assets	<u>\$ 210,707</u>

See accompanying notes to consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Consolidated Statement of Changes in Net Assets

Nine months ended December 31, 2016

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net assets</u>
Net assets at April 1, 2016	\$ 2,222,598	138,453	28,274	2,389,325
Changes in net assets:				
Excess of revenue over expenses	240,622	—	—	240,622
Net change in unrealized losses on investments	(9,156)	(1,874)	—	(11,030)
Pension and postretirement changes other than net periodic benefit cost	(57,050)	—	—	(57,050)
Net assets released from restriction	34,176	(45,501)	—	(11,325)
Restricted contributions	—	24,812	2,461	27,273
Investment income on restricted investments, net	—	2,186	—	2,186
Other	2,115	(637)	(396)	1,082
Change in net assets	<u>210,707</u>	<u>(21,014)</u>	<u>2,065</u>	<u>191,758</u>
Net assets at December 31, 2016	\$ <u><u>2,433,305</u></u>	<u><u>117,439</u></u>	<u><u>30,339</u></u>	<u><u>2,581,083</u></u>

See accompanying notes to consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Consolidated Statement of Cash Flows

Nine months ended December 31, 2016

(In thousands)

Cash flows from operating activities:	
Change in net assets	\$ 191,758
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Pension and postretirement changes other than net periodic benefit cost	57,050
Depreciation and amortization expense	145,882
Amortization of intangible assets	927
Amortization of bond financing costs, premiums and discounts	(709)
Provision for bad debts	185,227
Net change in unrealized gains on investments	301
Realized gains on investments	(56,705)
Equity in income of joint ventures	(18,497)
Distributions received from investments in joint ventures	10,875
Accretion on capital appreciation bonds	6,732
Contributions restricted for long-term use	(9,195)
Loss on early extinguishment of debt	82,829
Changes in operating assets and liabilities:	
Patient accounts receivable	(171,346)
Other assets	50,852
Accounts payable, accrued expenses, and other current liabilities	47,336
Estimated amounts due from and to third-party payors	(40,921)
Accrued pension liability	(2,382)
Self-insurance and other long-term liabilities	(21,615)
Net cash provided by operating activities	<u>458,399</u>
Cash flows from investing activities:	
Purchases of property, plant, and equipment, net	(261,239)
Proceeds from bond funds	134,830
Proceeds from the sale of investments and assets limited or restricted as to use	178,735
Purchases of investments and assets limited or restricted as to use	(67,441)
Purchases of trading securities	(3,632,379)
Proceeds from the sale of trading securities	3,006,410
Investment in joint venture	(978)
Net cash used in investing activities	<u>(642,062)</u>
Cash flows from financing activities:	
Repayments of long-term debt	(1,726,798)
Proceeds from issuance of debt	1,646,308
Payments for deferred financing costs	(8,979)
Proceeds from contributions restricted for long-term use	9,195
Proceeds from contributions and grants	3,576
Net cash used in financing activities	<u>(76,698)</u>
Net decrease in cash and cash equivalents	(260,361)
Cash and cash equivalents at beginning of period	<u>296,497</u>
Cash and cash equivalents at end of year	<u>\$ 36,136</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 37,610
Supplemental disclosures of noncash investing and financing activities:	
Change in noncash acquisitions of property, plant, and equipment	\$ 46,398
Capital lease obligations incurred	1,322

See accompanying notes to consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2016

(In thousands)

(1) Organization

Effective April 1, 2016, Robert Wood Johnson Health Care Corp. and its affiliates (collectively, RWJ) and Barnabas Health, Inc. and its affiliates (collectively, Barnabas Health) completed a transaction pursuant to a merger agreement dated March 16, 2016, to form RWJ Barnabas Health, Inc. The parent corporations of RWJ and Barnabas Health agreed to jointly sponsor a newly formed parent comprised of all entities of both systems. The merger was accomplished through the establishment of a new system parent corporation as the sole member of the former parent corporations of each system (RWJ and Barnabas Health, respectively). The parent corporation of the newly merged health care system, RWJ Barnabas Health, Inc., (the Corporation), is a not-for-profit, tax-exempt corporation. The merger was effected to create an integrated health system that would expand the scope of, and access to, health care services within communities served by both RWJ and Barnabas Health.

The services and facilities of the Corporation include 11 acute care hospitals, 3 acute care children's hospitals, a free standing behavioral health center and statewide behavioral health network, a pediatric rehabilitation hospital, ambulatory care centers, geriatric centers, comprehensive home care and hospice centers, fitness and wellness centers, retail pharmacy centers, medical groups, diagnostic imaging centers, accountable care organizations, a burn treatment facility, comprehensive cardiac surgery services, including a heart transplant center, a lung transplant center, kidney transplant centers, comprehensive cancer services and comprehensive breast centers.

Concurrent with the merger, trustees of both RWJ and Barnabas Health resigned at the effective date of the transaction, and a new board of trustees was formed. The Corporation has accounted for the combination as a merger of not-for-profit entities under Accounting Standards Codification (ASC) 958-805, *Not-for-Profit Entities: Business Combinations* resulting in a new reporting entity effective April 1, 2016, with no activities before the merger. Therefore, the consolidated assets, liabilities and net assets of RWJ and Barnabas Health are included in the accompanying consolidated financial statements as of the effective date at their historical basis under the carryover method. The application of merger accounting to the combination as of April 1, 2016 required RWJ and Barnabas Health to conform certain accounting policies for consistency, including the accounting for the valuation of patient accounts receivable and investments in joint ventures. Adjustments of \$38,600 were made to conform the policies as of March 31, 2016.

The accompanying consolidated financial statements of the Corporation present the financial position and results of operations of the merged entity as of and subsequent to the effective date.

RWJ BARNABAS HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2016

(In thousands)

The major classes of assets, liabilities and net assets for RWJ and Barnabas Health that were consolidated at March 31, 2016 are as follows:

	<u>RWJ</u>	<u>Barnabas Health</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 746,866	1,533,221	2,280,087
Assets limited or restricted as to use	209,044	271,734	480,778
Patient accounts receivable, net	203,133	305,677	508,810
Property and equipment, net	826,780	991,331	1,818,111
Other assets	138,179	253,745	391,924
Total assets	<u>\$ 2,124,002</u>	<u>3,355,708</u>	<u>5,479,710</u>
Liabilities:			
Accounts payable	\$ 113,021	202,109	315,130
Accrued expenses and other current liabilities	166,890	370,046	536,936
Long-term debt	612,712	1,137,452	1,750,164
Other liabilities	183,299	304,856	488,155
Total liabilities	<u>1,075,922</u>	<u>2,014,463</u>	<u>3,090,385</u>
Net assets:			
Unrestricted	978,194	1,244,404	2,222,598
Temporarily restricted	55,473	82,980	138,453
Permanently restricted	14,413	13,861	28,274
Total net assets	<u>1,048,080</u>	<u>1,341,245</u>	<u>2,389,325</u>
Total liabilities and net assets	<u>\$ 2,124,002</u>	<u>3,355,708</u>	<u>5,479,710</u>

RWJ BARNABAS HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2016

(In thousands)

The following table presents supplemental pro forma information for the Corporation for the year ended December 31, 2016, as if the merger had occurred on January 1, 2016. The following supplemental pro forma information is not audited, and is as follows:

	<u>Total revenue</u>	<u>Change in unrestricted net assets</u>	<u>Change in temporarily restricted net assets</u>	<u>Change in permanently restricted net assets</u>
RWJ	\$ 1,851,619	21,652	321	5,294
Barnabas Health	<u>3,238,276</u>	<u>294,035</u>	<u>(25,089)</u>	<u>(396)</u>
Total	<u>\$ 5,089,895</u>	<u>315,687</u>	<u>(24,768)</u>	<u>4,898</u>

The supplementary information above is presented only for purposes of additional analysis and not as a presentation of financial position and results of operations. This information does not reflect all eliminations and reclassifications as required by generally accepted accounting principles and is not necessarily indicative of what the financial position and results of operations would have been for the consolidated entity had the merger occurred on January 1, 2016.

(2) Significant Accounting Policies

(a) Basis of Accounting of Financial Statement Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and include all affiliates and other entities for which operating control is exercised by the Corporation. Investments in entities where the Corporation does not have operating control are recorded under the equity or cost method of accounting. The Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other operating revenue. All significant intercompany balances and transactions have been eliminated.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid debt instruments with maturities of three months or less at the time of purchase, excluding assets limited or restricted as to use. The Corporation maintains cash on deposit with major banks and invests in money market securities with multiple financial institutions. The Corporation generally limits the credit exposure to any one financial institution; however, such deposits exceed federally insured limits.

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Notes to Consolidated Financial Statements

December 31, 2016

(In thousands)

(d) Patient Accounts Receivable and Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payment at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Management regularly reviews accounts and contracts and provides appropriate contractual allowances and discounts that are netted against patient accounts receivable in the consolidated balance sheet. Patient accounts receivable are further reduced by an allowance for doubtful accounts.

The Corporation regularly reviews its past collection history and payment trends for each of its major payor sources of patient service revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Corporation records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted.

The following table sets forth the components of the change in the allowance for doubtful accounts for the nine months ended December 31, 2016:

Balance, beginning of period	\$	241,132
Provision for bad debts		185,227
Write-offs, net of recoveries		<u>(203,585)</u>
Balance, end of year	\$	<u><u>222,774</u></u>

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The percentages of patient accounts receivables from patients, and third-party payors were as follows:

Medicare	18 %
Managed Medicare	8
Medicaid	6
Managed Medicaid	11
Blue Cross	17
Commercial and other managed care	31
Self-pay patients and other	9
	<u><u>100 %</u></u>

RWJ BARNABAS HEALTH, INC.

Notes to Consolidated Financial Statements

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(In thousands)

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under payment agreements with third-party payors. Settlement with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

The estimated percentages of patient service revenue by inpatient and outpatient services, net of the provision for bad debts, for the nine months ended December 31, 2016 are as follows:

Inpatient services	60 %
Outpatient services	40

The following table reflects the estimated percentages of patient service revenue, net of the provision for bad debts, for the nine months ended December 31, 2016:

Medicare	27 %
Managed Medicare	6
Medicaid	4
Managed Medicaid	14
Blue Cross	22
Commercial and other managed care	22
Self-pay patients and other	5
	<hr/>
	100 %
	<hr/>

(e) Supplies

Supplies are carried at the lower of cost or market, determined principally on an average cost basis. Supplies, totaling \$77,735, are included in other current assets in the consolidated balance sheet at December 31, 2016.

(f) Assets Limited or Restricted as to Use

Assets limited or restricted as to use include assets held by trustees under bond indenture agreements, assets restricted for self-insurance, assets held for supplemental retirement benefits, and assets restricted by donors for specific purposes or endowment. Amounts required to meet current liabilities of the Corporation are classified as current assets.

(g) Investments and Investment Income

A significant portion of the Corporation's investments are held in an investment portfolio maintained for the benefit of the Corporation and its affiliates and subsidiaries. Investments are classified as trading investments except for certain investments, which are limited or restricted as to use, and are classified as investments available for sale. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, based on quoted market prices.

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December 31, 2016

(In thousands)

Donated investments are recorded at their fair value, based on quoted market prices at the date of receipt.

Alternative investments (nontraditional, not readily marketable asset classes) within the investment portfolio are structured such that the Corporation holds interests in private investment funds, consisting of hedge funds and private equity funds. These investments are reported at fair value as estimated and reported by general partners, based upon the underlying net asset value of the fund or partnership as a practical expedient. Because of inherent uncertainty in these valuations, those estimated values may significantly differ from the values that would have been used had a ready market for the investments existed, and differences could be material.

Investment income and realized gains and losses are recorded as nonoperating revenue. Unrealized gains and losses on trading securities are recorded as nonoperating revenue. Unrealized gains and losses on available for sale investments are included in other changes in net assets. Investment income and realized gains and losses on assets restricted by donors for specific purposes or endowment are included in temporarily restricted net assets. A decline in fair value deemed other than temporary for available for sale investments, results in a reduction in carrying amount and the related loss is included in nonoperating revenue.

(h) Property, Plant and Equipment

Property, plant, and equipment expenditures are recorded at cost. Donated assets are recorded at fair value at the date of donation. Capitalized leases are recorded at the present value of the future minimum lease payments at the inception of the lease and are included in property, plant, and equipment.

Depreciation expense is computed on a straight-line basis using estimated useful lives of the assets ranging from 2 to 40 years. Equipment held under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term. Such amortization is included in depreciation expense.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted net assets and are excluded from the excess of revenue over expenses in the consolidated statement of operations, 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 net assets. Absent explicit 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.

(i) Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain debt-financing arrangements. Amortization of these costs is provided using the effective-interest method over the terms of the applicable indebtedness.

During 2016, the Corporation incurred \$8,979 of deferred financing costs related to the issuance of Series 2016 and Series 2016A bonds (note 8).

RWJ BARNABAS HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2016

(In thousands)

In connection with the refunding and refinancing that occurred during 2016, \$10,168 of unamortized deferred financing costs were written off and are included as a loss on early extinguishment of debt in the accompanying consolidated statement of operations.

(j) Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise 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 and/or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of 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 contributions in the accompanying consolidated statement of operations.

Pledges receivable represent an unconditional promise to give cash and other assets to the Corporation's Foundations over a period not greater than 20 years. Such amounts are recorded at their present value at the date the promise is received, net of an allowance for uncollectible pledges. Such amounts are included as externally designated or restricted noncurrent assets limited as to use in the consolidated balance sheet.

(k) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets represent funds whose use has been restricted by donors to a specific period or purpose. Permanently restricted net assets represent funds that have been restricted by donors to be maintained in perpetuity. Generally, the donors of these permanently restricted assets permit the use of part of the income earned on related investments for specific purposes. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted.

Temporarily restricted net assets are available for the following purposes:

Healthcare services	\$	34,174
Capital purchases		58,731
Health education and other services		<u>24,534</u>
	\$	<u><u>117,439</u></u>

(l) Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, patient accounts receivable, net, estimated amounts due to/from third party payors, net, other current assets, accounts payable, accrued expenses, and other current liabilities approximate fair value.

RWJ BARNABAS HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2016

(In thousands)

(m) Performance Indicator

The consolidated statement of operations includes a performance indicator, which is the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, include unrealized gains and losses on investments that are classified as available for sale, changes in pension obligations, capital contributions and other transactions.

The Corporation differentiates its ongoing operating activities by providing income from operations as a subperformance indicator. Investment income, net (excluding unrealized gains and losses on available for sale investments), loss on early extinguishment of debt and other transactions, which are not considered to be components of the Corporation's ongoing activities are excluded from income from operations and reported as nonoperating revenue in the consolidated statement of operations. Investment income earned on assets limited as to use under bond indenture agreements are included in other revenue in the consolidated statement of operations.

(n) Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates (note 3). Since the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as patient service revenue.

(o) Other Revenue

Other revenue primarily includes income from physician practice services, grant revenue, pharmacy, cafeteria, parking lot, equity in the income of joint ventures, and investment income on funds held under bond indenture agreements.

(p) Income Taxes

The Corporation and its affiliates, excluding its for-profit subsidiaries, are not-for-profit corporations and are exempt from federal and state income taxes on related income under existing provisions of the Internal Revenue Code and State of New Jersey statutes.

The Corporation's for-profit subsidiaries have recorded various deferred income tax assets and liabilities that reflect temporary differences between the amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax purposes. These amounts are not material to the consolidated financial position of the Corporation and are included as other assets or other liabilities in the consolidated balance sheet as appropriate. In addition, the provision for income taxes recorded by the Corporation's for-profit subsidiaries is not material to the consolidated results of operations of the Corporation and is included as other expenses in the consolidated statement of operations.

Certain for-profit subsidiaries have federal net operating loss carryforwards of approximately \$191,146 that expire through 2036 and State of New Jersey net operating loss carryforwards of approximately \$137,285 that also expire through 2036. At December 31, 2016, all deferred tax assets related to these net operating loss carryforwards have been fully reserved due to the uncertainty of realizing the tax benefits associated with these amounts.

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December 31, 2016

(In thousands)

The Corporation does not have any significant uncertain tax positions as of and for the nine months ended December 31, 2016.

(q) Self-Insurance

Under the Corporation's self-insurance programs, claims are recorded based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments.

(r) Impairment of Long-Lived Assets

Management routinely evaluates the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of assets, or related group of assets, may not be recoverable from estimated undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds its estimated recoverability, an asset impairment charge is recognized for the difference between the fair value and carrying value of the asset.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining useful lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining useful lives. In estimating the future cash flows for determining whether an asset is impaired, the Corporation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. No impairment charge was recorded during the nine months ended December 31, 2016.

(s) Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net assets acquired in business combinations. It has an indefinite useful life and is not amortized, but is subjected to impairment tests. The Corporation performs impairment testing at least annually or more frequently if events or circumstances change creating a reasonable possibility that an impairment may exist. No impairment of goodwill was deemed necessary during the nine months ended December 31, 2016. At December 31, 2016, other assets, net include approximately \$5,717 of goodwill.

(t) Accounting Pronouncements

The Corporation has adopted Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 is intended to simplify the presentation of debt issuance costs, requiring them to be presented as a direct reduction of long-term debt, similar to the presentation of debt discounts. The guidance is effective for fiscal years beginning after December 15, 2015. The Corporation adopted ASU 2015-03 effective January 1, 2015. Accordingly, the new presentation requirements have been implemented in the accompanying consolidated balance sheet.

ASU No. 2015-07, *Disclosure for Investments in Certain Entities That Calculate New Asset Value per Share (or Its Equivalent)* (ASU 2015-07), is effective for fiscal years beginning after December 15, 2016. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient

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Notes to Consolidated Financial Statements

December 31, 2016

(In thousands)

and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The Corporation adopted ASU 2015-07 effective April 1, 2016.

In January 2016, ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)* (ASU 2016-01) was issued. ASU 2016-01 makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity instruments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. This ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted and the Corporation has adopted this standard as of April 1, 2016, the effect of which was to eliminate the disclosures of the fair value of its debt instruments.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years ending after December 15, 2017. The Corporation expects to record a decrease in net patient service revenue and a corresponding decrease in the provision for patient bad debts upon adoption of the standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which will require lessees to recognize most leases on the balance sheet, increasing their reported assets and liabilities – sometimes very significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. The adoption of ASU 2016-02 is effective for fiscal years ending after December 15, 2018 and is applied retrospectively in the year of adoption. The Corporation is currently assessing the impact of the adoption of ASU 2016-02, which is expected to have significant impact on its financial position but limited impact to the results of operations.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* (ASU 2016-14), which amends the requirements for financial statements and notes in Topic 958, *Not-for-Profit Entities* (NFP). ASU 2016-14 will have the following impact on the financial statements of NFPs:

- Reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions;
- Requires NFPs to present expenses by their functional and their natural classifications in one location in the financial statements;

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- Requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date;
- Retains the option to present operating cash flows in the statement of cash flows using either the direct or indirect method;
- Requires allocation methodology of allocating expenses; and
- Requires investment expenses to be recorded net against returns, both internal and external.

The adoption of ASU 2016-14 is effective for fiscal years ending after December 15, 2017 and is applied retrospectively in the year of adoption. The Corporation does not anticipate that the adoption of this ASU will have a significant impact on its financial position or its results of operations.

(3) Charity Care and Community Benefit

In accordance with the Corporation's mission and philosophy, the Corporation's hospitals commit substantial resources to both the indigent population and the broader community. The Corporation's charity care policy is to provide care without regard to the patient's ability to pay for services rendered. To the extent that patients do not have the ability to pay, services rendered to those patients are reported as charity care. The Corporation's hospitals and affiliates also provide other benefits through a broad range of community service programs and charitable activities. The amount of charity care, community service programs, and charitable activities, at estimated cost, provided to the indigent population and broader community for the nine months ended December 31, 2016 is as follows:

Cost of charity care and community benefit programs:	
Net estimated cost of charity care provided, less state subsidy funding	\$ 48,018
Unpaid cost of public programs, Medicaid, and other means – tested programs	150,438
Other programs:	
Cash and in-kind donations	\$ 3,829
Education and research	40,597
Subsidized departments	35,999
Other community benefits	8,108

The Corporation's hospitals utilize a cost to charge ratio methodology to convert charity care to cost. The cost to charge ratio is calculated utilizing the Corporation's cost accounting system or filed cost reports.

The State of New Jersey's regulations provide for the distribution of funds from a Charity Care Fund, which is intended to partially offset the cost of services provided to the uninsured. For the nine months ended

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December 31, 2016, the Corporation's hospitals received distributions from the Charity Care Fund of \$47,703, which are included in net patient service revenue.

(4) Healthcare Reimbursement System

- (a) The Corporation records patient service revenue at estimated net realizable value in the period in which services are performed. Patient service revenue consists of amounts charged for services rendered less estimated discounts for contractual and other allowances for patients covered by Medicare, Medicaid, and other health plans and discounts offered to patients under the Corporation's uninsured discount program.

The Medicare program currently pays for most services at predetermined rates; however, certain services and specified expenses continue to be reimbursed on a cost basis. The Medicaid program also currently reimburses the Corporation at predetermined rates for inpatient services and on a cost reimbursement methodology for outpatient services. Regulations require annual retroactive settlements for cost-based reimbursement and other payment arrangements through cost reports filed by the Corporation.

The Corporation also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These agreements have retrospective audit clauses, allowing the payor to review and adjust claims subsequent to initial payment.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates could change by a material amount. In accounting for Medicare and Medicaid cost report settlements, the Corporation records all third-party receivables and liabilities at their estimated realizable values. Management periodically reviews recorded amounts receivable from, or payable to, third-party payors and adjusts these balances as new information becomes available. In addition, revenue received under certain third-party agreements is subject to audit.

During the nine months ended December 31, 2016, certain of the Corporation's prior year third-party cost reports were audited and settled, or tentatively settled by third-party payors. Adjustments resulting from such audits, settlements, and management reviews are reflected as adjustments to patient service revenue in the period that the adjustments becomes known. Accordingly, the Corporation evaluated the results of these settlements on its open cost reports. The effect of cost report settlements and other adjustments increased patient service revenue by approximately \$44,326 for the nine months ended December 31, 2016. Although certain other prior-year cost reports submitted to third-party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements. Medicare cost reports for all years prior to 2013, except for 2011, have been audited and settled. Medicaid cost reports for all years prior to 2014 have been audited and settled for all acute care hospitals. For the pediatric rehabilitation hospital, Medicaid cost reports have been audited by the fiscal intermediary through December 31, 2013, though settlements have not been finalized for years 2009, 2011 and 2012.

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The fiscal intermediary may reopen certain years related to specific settlement items in the cost report year.

The Corporation has a compliance program to monitor conformity with applicable laws and regulations, but the possibility of future government review and interpretation exists. The Corporation is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing.

- (b) The Corporation and others in the healthcare industry are subject to certain inherent risks, including the following:
- Substantial dependence on revenue derived from reimbursement by the Federal Medicare and State Medicaid programs that have been reduced in recent years and which entail exposure to various healthcare fraud statutes;
 - Government regulations, government budgetary constraints, and proposed legislative and regulatory changes

Such inherent risks require the use of certain management estimates in the preparation of the Corporation's consolidated financial statements and it is reasonably possible that a change in such estimates may occur. The Corporation believes that adequate provision has been made in the consolidated financial statements for the matters discussed above and their ultimate resolution will not have a material effect on the consolidated financial statements.

(5) Investments and Assets Limited or Restricted as to Use

Investments and assets limited or restricted as to use consist of the following:

Investments and assets limited or restricted as to use:

Cash and cash equivalents and money market funds	\$	420,269
U.S. government obligations/municipal bonds		410,161
Corporate bonds		413,852
Certificates of deposit		8,817
Mutual funds		1,174,095
Asset backed securities		79,070
Mortgage-backed securities		52,247
Alternative investments		426,240
Pledges receivable, net		14,026
Other investments		8,885
Accrued interest		5,710
Total investments and assets limited or restricted as to use	\$	<u><u>3,013,372</u></u>

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These amounts are reflected in the accompanying consolidated balance sheet as follows:

Current portion:		
Investments	\$	62,450
Assets limited or restricted as to use		137,979
Noncurrent assets limited or restricted as to use		260,984
Investments		<u>2,551,959</u>
	\$	<u><u>3,013,372</u></u>

Investments and assets limited or restricted as to use are classified as follows:

Investments	\$	2,614,409
Self-insurance funds		22,194
Donor-restricted funds and pledges receivable, net		141,970
Funds held by bond trustees under bond indenture agreements		175,539
Other limited use funds		<u>59,260</u>
	\$	<u><u>3,013,372</u></u>

Assets held under bond indenture agreements are maintained for the following purposes:

Capital project funds	\$	153,204
Interest funds		18,735
Principal funds		<u>3,600</u>
	\$	<u><u>175,539</u></u>

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The Corporation's investment return is as follows:

Investment return included in other revenue:	
Interest and dividend income	\$ 3,431
Investment return included in nonoperating revenue:	
Interest and dividend income	30,992
Net realized gains	56,705
Net unrealized gains on trading investments	10,729
	<hr/>
	98,426
Net change in unrealized losses on available for sale investments	(9,156)
Restricted investment income and unrealized losses, net	312
	<hr/>
Total investment return	\$ 93,013
	<hr/> <hr/>

The Corporation's investments are exposed to various kinds and levels of risk. Fixed income securities, including fixed income mutual funds, expose the Corporation to interest rate risk, credit risk, and liquidity risk. As interest rates change, the values of many fixed income securities are affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.

Corporate bonds, equity mutual funds, and commercial mortgage-backed securities expose the Corporation to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a particular fund's operating performance. Liquidity risk, as previously defined, tends to be higher for international funds and small capitalization equity funds.

The Corporation has incorporated an Investment Policy Statement (IPS) into its investment program. The IPS, which has been formally adopted by the Board of Trustees, contains standards designed to ensure adequate diversification by asset category and geography. The IPS also limits fixed income investments by credit rating, which serves to further mitigate the risk associated with the investment program. At December 31, 2016, management believes that its investment positions are in accordance with guidelines established by the IPS.

(6) Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include cash and cash equivalents and debt and equity securities that are traded in an active exchange market.

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Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, and corporate bonds.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. The Corporation currently holds no Level 3 investments.

The following tables present the Corporation's fair value hierarchy for those assets measured at fair value on a recurring basis, and exclude pledges receivable, net, other investments, and accrued interest receivable, as of December 31, 2016:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available for sale investments:				
Investment categories:				
Cash and cash equivalents and money market funds	\$ 255,875	255,875	—	—
Equity mutual funds	25,494	25,494	—	—
Fixed income mutual funds	13,533	13,533	—	—
Certificates of deposit	2,582	—	2,582	—
Corporate bonds	1,732	—	1,732	—
Other	270	270	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total available for sale investments	299,486	295,172	4,314	—
	<hr/>	<hr/>	<hr/>	<hr/>
Trading investments:				
Investment categories:				
Cash and cash equivalents and money market funds	164,394	164,394	—	—
Equity mutual funds	696,293	696,293	—	—
Fixed income mutual funds	438,775	438,775	—	—
Certificates of deposit	6,235	—	6,235	—
Commercial mortgage- backed securities	52,247	—	52,247	—
Corporate bonds	412,120	—	412,120	—
Asset-backed securities	79,070	—	79,070	—

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	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Government bonds	\$ 195,017	—	195,017	—
Government mortgage-backed securities	151,126	—	151,126	—
Municipal bonds	64,018	—	64,018	—
Other	711	711	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments trading	2,260,006	1,300,173	959,833	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total	2,559,492	\$ 1,596,252	963,240	—
	<hr/>	<hr/>	<hr/>	<hr/>
Investments measured at net asset value (a)	426,240			
	<hr/>			
	\$ 2,985,732			
	<hr/>			

(a) In accordance with the adoption of ASU 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, certain investments that were measured at net asset value per share (or its Equivalent), certain investments that were measured at net asset value per share (or its Equivalent) have not been classified in the fair value hierarchy.

There were no transfers among Levels 1, 2, and 3 during the nine months ended December 31, 2016.

There are no financial liabilities reported at fair value.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Corporation's business, its value, or financial position based on the fair value information of financial assets presented.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. The disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Fair values for the Corporation's fixed income securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Inputs include direct or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar assets or liabilities exchanged in active or inactive

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markets; quoted prices for identical assets or liabilities in inactive markets; other inputs that may be considered in fair value determination include interest rates and yield curves, volatilities, and credit risk. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit rating, duration, and yields. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The Corporation's fixed income securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined by the Corporation from observable market quotations, when available.

Mutual funds are valued at the net asset value (NAV) of shares held at year-end, based on published market quotations on active markets. The NAV is classified within Level 1 of the fair value hierarchy as the unit price is quoted in an active market.

Fair values of commercial mortgage-backed securities and asset backed securities have been determined by the Corporation based on a discounted future cash flows methodology, using current market interest rate data adjusted for inherent credit risk or quoted market prices and recent transactions, when available.

Fair values of U.S. government obligations/municipal bonds and corporate bonds have been determined by the Corporation from observable market quotations, when available. Because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available.

The following summarizes redemption terms and Corporation's commitments for the Hedge funds as of December 31, 2016:

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice required</u>	<u>Audit reserve</u>
Hedge funds	\$ 325,133	—	Quarterly – Annually	45–90 days written notice	0% to 10%
Private equity	101,107	33,540	—	—	—

Investments in hedge funds, interests in investment funds with complex portfolio-construction and risk management techniques, are typically carried at estimated fair value. Fair value is estimated based on the NAV of the shares in each investment company or partnership. Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the investment at the beginning of the year, as adjusted for contributions and redemptions made during the year. Generally, no dividends or other distributions are paid.

Investments in private equity funds, typically structured as limited partnership interests, are carried at fair value and estimated using NAV or equivalent as determined by the general partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors

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through the liquidation of the underlying assets. Voluntary redemptions are generally not permitted by limited partners and investments in these partnership interests are through the life of the fund. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment.

(7) Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

Land and improvements	\$	143,522
Buildings and leasehold improvements		2,483,630
Fixed equipment		364,301
Major movable equipment		1,450,344
Capitalized leases		103,242
		<hr/>
		4,545,039
Less accumulated depreciation and amortization (including accumulated amortization of capitalized leases of \$83,136)		<hr/>
		2,839,374
		<hr/>
		1,705,665
Construction in progress		<hr/>
		270,879
Property, plant, and equipment, net	\$	<hr/> <hr/>
		1,976,544

Included in construction in progress at December 31, 2016 is the West Wing Project at Saint Barnabas Medical Center for approximately \$119,000. This project, expected to be substantially completed in 2017, consists of the construction of a 220,000-square-foot facility, which will include private patient rooms, a neonatal intensive care unit, same day surgery expansion and outpatient diagnostic testing areas. A parking garage was completed during 2016 and is attached to the new wing. Commitments to complete this project are approximately \$70,000. Total commitments at December 31, 2016 for all projects are approximately \$287,000 with the costs expected to be financed primarily by available funds, financing, future operations of the hospitals and contributions.

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(8) Long Term Debt

Long term debt consists of the following:

Master Trust Indebtedness:

New Jersey Health Care Facilities Financing Authority (NJHCFFA) Revenue and Refunding Bonds:

RWJBarnabas Health Obligated Group Issue, Series 2016A \$399,565 serial bonds maturing through July 1, 2036 with interest rates ranging from 3.5% to 5%; \$279,570 of term bonds maturing July 1, 2043 with interest rates ranging from 4% to 5%	\$ 679,135
Barnabas Health Issue, Series 2014A term bonds, \$100,000 maturing July 1, 2044 with an interest rate of 5%; \$29,925 maturing July 1, 2044 with an interest rate of 4.25%	129,925
Robert Wood Johnson University Hospital Issue, Series 2014A \$11,075 serial bonds maturing through 2034 with an interest rate of 5%; \$45,210 term bonds maturing from 2039 to 2043 with an interest rate of 5%	55,925
Robert Wood Johnson University Hospital Issue, Series 2014B (Variable Rate) maturing on July 1, 2043 bearing interest at a weekly rate, 0.68% at December 31, 2016 (see b)	30,000
Robert Wood Johnson University Hospital Issue, Series 2013A \$16,890 serial bonds maturing through 2023 with interest rates ranging from 3% to 5%; \$93,285 term bonds maturing from 2028 to 2043 with interest rates ranging from 5.25% to 5.50%	108,360
Children's Specialized Hospital Issue, Series 2013A maturing on July 1, 2036 with an interest rate of 3.23%	9,244
Children's Specialized Hospital Issue, Series 2013B (Variable Rate) maturing on July 1, 2036 with an interest rate of 1.06% at December 31, 2016	4,736
Barnabas Health Issue, Series 2012A serial bonds maturing through 2026 with interest rates ranging from 4.00% to 5.00%.	97,955
Barnabas Health Issue, Series 2011B (Variable Rate) term bonds maturing through July 1, 2038, initially bearing interest at a weekly rate (0.71% at December 31, 2016), secured by an irrevocable direct pay letter of credit (see c)	28,110

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Robert Wood Johnson Health Care Corp. at Hamilton Obligated Group Issue, Series 2002 (Variable Rate) maturing on July 1, 2032, initially bearing interest at a weekly rate, 0.70% at December 31, 2016 (see d)	\$	19,845
RWJBarnabas Health Taxable Revenue Bonds, Series 2016; \$100,000 maturing July 1, 2026 with an interest rate of 2.954%; \$394,952 maturing July 1, 2046 with an interest rate of 3.949%.		494,952
Barnabas Health System Taxable Revenue Bonds, Series 2012 term bonds maturing on July 1, 2028 with an interest rate of 4.00%.		<u>81,240</u>
Total Master Trust Indebtedness		1,739,427
Other:		
Capital leases with various interest rates		20,365
Note payable, matures August 31, 2017, bearing interest at a weekly rate, 1.20% at December 31, 2016		30,000
Other		<u>5,113</u>
Total long-term debt		1,794,905
Plus unamortized bond premium		101,617
Less:		
Unamortized bond discount		2,241
Deferred finance costs (net)		14,687
Current portion		<u>49,278</u>
Long-term portion	\$	<u><u>1,830,316</u></u>

On September 14, 2016, Barnabas Health entered into a Bridge Loan Agreement (Bridge Loan), with Citibank, N.A. Barnabas Health issued a promissory note in the amount of \$395,548, which was secured by a note issued under the Barnabas Health Master Trust Indenture payable to Citibank. The proceeds were used to finance (i) the legal defeasance of (a) Barnabas Health, Series 2011A; (b) Robert Wood Johnson University Hospital, Series 2010; and (ii) fund certain expenses and costs of issuance. As a result of the issuance of the Bridge Loan, the Corporation incurred a loss on extinguishment of debt totaling \$60,255, which amount is included within nonoperating revenue (expenses) in the consolidated statement of operations.

On November 2, 2016, the Corporation initiated a substitution of each of their existing master trust indentures (the Old MTIs) with a new Master Trust Indenture and Loan Agreement, dated November 1, 2016 (the New MTI) between RWJBH, as Combined Group Agent, and Bank of New York Mellon, as the Master Trustee (Trustee). The New MTI secures all outstanding debt previously issued by Barnabas Health and RWJ under the Old MTIs. At the time of its execution and delivery, the New MTI formed a single Obligated Group consisting of the following entities as Obligated Group members: Barnabas Health, Inc., Children's Specialized Hospital, Clara Maass Medical Center, Community Medical Center, Jersey City Medical Center, Monmouth Medical Center (including Monmouth Medical Center, Southern Campus),

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Newark Beth Israel Medical Center, RWJ Barnabas Health, Inc., Robert Wood Johnson Health Care Corp., Robert Wood Johnson University Hospital (RWJUH), Robert Wood Johnson University Hospital at Hamilton (Hamilton Hospital), Robert Wood Johnson University Hospital Rahway, RWJ Health Care Corp at Hamilton and Saint Barnabas Medical Center.

To secure its payment obligations, the Obligated Group has granted to the Trustee a first lien and security interest in the gross revenues of each member of the Obligated Group.

Obligated Group members are jointly and severally liable under the New MTI. The Corporation does have the right to name designated affiliates. Though designated affiliates are not obligated to make debt service payments on the obligations under the New MTI, the Corporation may cause each designated affiliate to transfer such amounts as necessary to enable the Obligated Group members to comply with the terms of the New MTI, including payment of the outstanding obligations.

The Corporation's Obligated Group is required to maintain certain financial covenants in connection with the NJHCFFA and Credit Arrangements with a consortium of banks, including JPMorgan Chase Bank, N.A. and TD Bank.

On November 2, 2016, the Corporation's Obligated Group issued \$494,952 RWJ Barnabas Health Taxable Revenue Bonds, Series 2016 (Series 2016) as obligations under the New MTI. The proceeds of Series 2016 were used to provide funds to finance (i) the legal defeasance of (a) Barnabas Health Issue Series 2011C; (b) Saint Barnabas Health Care System Issue Series 2006B; (c) Saint Barnabas Health Care System Issue Series 1998B; (d) Variable Rate Revenue Bonds, Robert Wood Johnson University Hospital Issue, Series 2004; (e) Variable Rate Composite Program – Rahway Hospital Project, Series 2003A-8; (f) Saint Barnabas Project Series 1997A Capital Appreciation Bonds; (g) \$135,000 term loan pursuant to a Second Amended and Restated Credit Agreement; (h) RWJ Health Care Corp. at Hamilton Obligated Group Issue, Series 2005B; (ii) \$1,023,000 to be used for general corporate purposes; and (iii) the payment of the costs of issuance.

Concurrent with the issuance of Series 2016, the NJHCFFA issued its Revenue and Refunding bonds, RWJ Barnabas Health Obligated Group Issue, Series 2016A (Series 2016A) in the amount of \$679,135. The proceeds of Series 2016A were used to provide funds to finance (i) the legal defeasance of (a) Saint Barnabas Health Care System Issue, Series 2006A; (b) Robert Wood Johnson University Hospital Issue, Series 2013B; (c) Variable Rate Composite Program – Robert Wood Johnson University Hospital Project, Series 2003A-3; and (d) RWJ Health Care Corp at Hamilton Obligated Group Issue, Series 2013; (ii) the refinancing of the Bridge Loan; (iii) the financing by, and reimbursement to, RWJBH for various capital improvements at Clara Maass Medical Center, Saint Barnabas Medical Center and Monmouth Medical Center –Southern Campus; and (iv) the payment of the costs of issuance.

As a result of the issuance of Series 2016 and Series 2016A, the Corporation incurred a loss on extinguishment of debt totaling \$22,574, which amount is included within nonoperating revenue (expenses) in the consolidated statement of operations.

Concurrent with the issuance of Series 2016 and Series 2016A, Children's Specialized Hospital Issue, Series 2015A was redeemed in full from available operating funds of the Corporation.

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Other indebtedness of the Obligated Group is secured with a substitute or replacement debt obligation issued under the New MTI.

On February 1, 2017, RWJBH completed the process to unify the security agreements for all of its outstanding indebtedness through a bond exchange for the Children's Specialized Hospital Series 2013A and Series 2013B (Series 2013). The exchange replaced the outstanding principal of Series 2013 with the RWJ Barnabas Health Obligated Group Issue, Series 2017A and Series 2017B Bonds. There was no gain or loss recorded on the transaction.

On April 27, 2017, the Corporation paid the note payable of \$30,000.

The Corporation also has credit arrangements as follows:

- (a) Irrevocable Standby Letters of Credit (LOCs) supporting the Corporation's self insured workers' compensation programs. The LOCs have available amounts of \$12,500 and \$850, respectively. At December 31, 2016, no amounts have been drawn against the LOCs. The LOCs expire five business days prior to their maturity dates of November 15, 2017 and May 30, 2017, respectively.
- (b) An Irrevocable direct pay letter of credit with TD Bank that provides liquidity support for the Series 2014B bonds. If RWJUH were to draw on the letter of credit, the amounts would be payable at the expiration date, which is March 31, 2018.
- (c) An Irrevocable direct pay letter of credit with JPMorgan that provides liquidity support for the Series 2011B bonds. Series 2011B, while subject to long term amortization periods, may be put to the Corporation at the option of the bondholders. At such point, JPMorgan would advance funds on behalf of the Corporation to the bondholders under the direct pay letter of credit, which expires on January 5, 2018.
- (d) An Irrevocable direct pay letter of credit with TD Bank that provides liquidity support for the Series 2002 bonds. If Hamilton Hospital were to draw on the letter of credit, the amounts would be payable at the expiration date, which is March 31, 2018.

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(In thousands)

Scheduled maturities on long term debt and future minimum payments on capital lease obligations at December 31, 2016 are as follows:

	<u>Long-term debt</u>	<u>Capital leases</u>	<u>Total</u>
2017	\$ 41,462	8,256	49,718
2018	11,272	6,787	18,059
2019	4,972	2,367	7,339
2020	4,716	1,729	6,445
2021	5,299	1,477	6,776
Thereafter	<u>1,706,819</u>	<u>902</u>	<u>1,707,721</u>
Total	1,774,540	21,518	1,796,058
Add:			
Unamortized bond premium	101,617	—	101,617
Less:			
Amount representing interest on capital lease obligations	—	1,153	1,153
Unamortized bond discount	2,241	—	2,241
Deferred finance costs, net	14,687	—	14,687
Current portion	<u>41,462</u>	<u>7,816</u>	<u>49,278</u>
Long-term portion	<u>\$ 1,817,767</u>	<u>12,549</u>	<u>1,830,316</u>

(9) Employee Benefit Plans

The Corporation maintains the following noncontributory defined-benefit plans, which cover substantially all employees of the Corporation: Saint Barnabas Retirement Income Plan (Barnabas Plan), Jersey City Medical Center Retirement Plan (JCMC Plan), Greenville Hospital Retirement Plan (GH Plan), Employees' Retirement Plan of Robert Wood Johnson University Hospital Rahway (Rahway Plan) and the Somerset Medical Center Retirement Plan (Somerset Plan) (collectively referred to as the Pension Plans). Participation in the Pension Plans has been closed to new entrants and all plans are frozen to future benefit accruals. Benefits under the plans are substantially based on years of service and employee's career earnings. The Corporation contributes to the plans based on actuarially determined amounts necessary to provide assets sufficient to meet anticipated benefit payments to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, and Internal Revenue Service regulations.

In May 2016, the Board of Trustees approved a plan to offer a single payment (lump sum), in lieu of the annuity benefit, to former vested employees in the JCMC Plan with accrued benefits. ASC 715, *Compensation-Retirement Benefits*, requires settlement accounting when lump sum payments exceed the sum of service cost and interest cost for the plan year. When applying settlement accounting, the plan must recognize a portion of the unrecognized gains or losses as a one-time charge in pension cost. The portion

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of the unrecognized gain/loss that was recognized in pension cost was based on the percentage of the obligation that was settled. Since the Barnabas Plan's lump sum payments of \$8,866 exceeded the 2016 service and interest cost of \$4,038, settlement accounting was required for the 2016 plan year. As a result, there was a one-time charge to pension expense of \$3,711 in 2016.

During 2016, the Society of Actuaries published updated mortality tables RP-2016. The Corporation utilized the updated mortality tables resulting in a decrease in projected benefit obligation in the amount of \$11,200 during the nine months ended December 31, 2016.

ASC 715 requires recognition on the balance sheet of the funded status of defined-benefit pension plans and the recognition in unrestricted net assets of unrecognized actuarial gains and losses and prior service costs and credits. The funded status is measured as the difference between the fair value of the Pension Plan's assets and the projected benefit obligation of the Pension Plans.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets as of December 31, 2016. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the expected future lifetime for active employees with frozen benefits.

	Amounts in unrestricted net assets to be recognized during the next fiscal year	Amounts recognized in unrestricted net assets as of December 31 2016
Net actuarial loss	\$ 8,559	318,298

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Using the measurement date of December 31, the following table sets forth the funded status of the Pension Plans and the amounts recognized in the Corporation's consolidated financial statements:

Changes in benefit obligation:	
Benefit obligation at beginning of period	\$ 1,011,266
Administrative expenses	1,608
Interest cost	53,102
Actuarial losses	74,498
Benefits paid and expenses	(72,734)
Settlements	<u>(8,866)</u>
Benefit obligation at end of year	<u>1,058,874</u>
Change in plan assets:	
Fair value of plan assets at beginning of period	950,659
Actual return on plan assets	62,094
Employer contributions	12,548
Benefits paid and expenses	(72,734)
Settlements	<u>(8,866)</u>
Fair value of plan assets at end of year	<u>943,701</u>
Funded status – accrued pension liability	\$ <u><u>(115,173)</u></u>

The Corporation expects to contribute \$3,179 to the Plan in 2017.

The actuarially computed net periodic pension cost included the following components:

Administrative expenses	\$ 1,608
Interest costs	53,102
Expected return on plan assets	(53,574)
Amortization of actuarial loss	<u>6,552</u>
Total net periodic pension cost	7,688
Effect of settlement charge	<u>3,711</u>
Total pension cost	\$ <u><u>11,399</u></u>

The projected unit credit method is the actuarial cost method used to compute pension expense.

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The weighted average assumptions used in determining the net periodic pension costs were a discount rate that ranged from 4.00% to 5.72% and an expected long-term rate of return on plan assets that ranged from 5.66% to 7.00%.

The weighted average assumption used in the accounting for the projected benefit obligation was a discount rate that ranged from 4.49% to 4.53%.

Expected benefit payments by year as of December 31, 2016 are as follows:

2017	\$	62,304
2018		63,812
2019		66,674
2020		68,320
2021		71,015
2022–2026		359,208

Assets of the BH Plan, JCMC Plan and Greenville Plan are managed under a liability-driven investment (LDI) strategy. Under the LDI strategy, the expected rate of return on plan assets at December 31, 2016 is based upon the assumption that the plan assets will be invested primarily in fixed income and other related securities based upon their ability to perform similarly to the characteristics of the plan liabilities over time.

The Rahway and Somerset Plan assets are invested to provide sufficient diversification in accordance with their respective Hospital's risk tolerance. This is achieved through the utilization of asset managers and systematic allocation to investment management styles, providing a broad exposure to different segments of the fixed income and equity markets. Under this policy, the expected rate of return on plan assets at December 31, 2016 was chosen to anticipate the long range experience of the plans.

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The following tables present the Corporation's fair value hierarchy for those pension plan assets measured at fair value as of December 31, 2016. At December 31, 2016, the Corporation held no level 3 assets.

		December 31, 2016			
		Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$	27,007	27,007	—	—
Corporate bonds		276,262	—	276,262	—
Government bonds		129,231	—	129,231	—
Mutual funds		74,997	74,997	—	—
Bond funds		320,435	—	320,435	—
Bank loans		15,637	—	15,637	—
Asset-backed securities		13,706	—	13,706	—
Other investments		9,700	—	9,700	—
		<u>866,975</u>	<u>\$ 102,004</u>	<u>764,971</u>	<u>—</u>
Investments measured at net asset value (a)		<u>76,726</u>			
	\$	<u>943,701</u>			

(a) In accordance with the adoption of ASU 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, certain investments that were measured at net asset value per share (or its Equivalent), certain investments that were measured at net asset value per share (or its Equivalent) have not been classified in the fair value hierarchy.

There were no transfers among Levels 1, 2, and 3 during the nine months ended December 31, 2016.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Alternative investments include private equity investments and hedge funds.

The following summarizes redemption and commitment terms for the alternative investment vehicles held in the Barnabas Plan at December 31, 2016:

Description of investment	Carrying value	Unfunded commitment	Redemption frequency	Audit reserve	Potential gates
Hedge funds	\$ 33,208	—	Semi-Annually	0% – up to	5% if redeemed
Private equity	43,518	55,135	Annually	5 %	within 18
			—	—	months

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The Corporation maintains multiple defined contribution retirement plans for their employees. Benefit expense for these plans for the nine months ended December 31, 2016 was \$49,630.

In addition to the retirement plans described above, the Corporation sponsors postretirement benefit plans that provide healthcare benefits to qualified retirees who meet certain eligibility requirements. Total benefit obligations of the plan at December 31, 2016 was \$1,526.

The Corporation has several supplemental executive retirement plans for certain key individuals. The plans were funded during 2016 based upon the benefit formula as outlined in the plan documents. In addition, Monmouth Medical Center, Southern Campus maintains the Kimball Medical Center Supplemental Plan (the Kimball Plan). The Kimball Plan is a frozen defined benefit plan.

Multiemployer Plan – Barnabas Health

At December 31, 2016, the Corporation participates in two multi employer pension plans established under collective bargaining agreements that cover certain groups of employees at certain affiliates, as outlined in the table below. These groups of employees are not eligible to participate in certain benefit plans sponsored by the Corporation. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available for Local 68 Engineers Union Pension Plan (Local 68 Plan) was June 30, 2016 and for District 1199J – New Jersey Healthcare Employers Pension Plan (District 1199J Plan) was December 31, 2015. The Zone status is based on information received for the plan sponsors and, as required by PPA, is certified by each plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plan in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

The "FIP/RP Status Pending Implemented" column indicates plans for which a funding improvement plan (FIP) or rehabilitation plan (RP), as required by PPA, is either pending or has been implemented by the plan's sponsor. The last column of the table lists the expiration dates of the collective bargaining agreements requiring contributions to the plans. RWJ Barnabas Health's contributions to the Local 68 Engineers Plan for the year ended June 30, 2016 and to the District 1199J Plan for the year ended December 31, 2015 represented 2.01% and 33.81%, respectively, of the total contributions to each plan. Participants in the Local 68 Plan and District 1199J Plan changed by 6.9% and 3.7%, respectively, from March 31, 2016 to December 31, 2016.

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At the date the consolidated financial statements were issued, Forms 5500 were not available beyond the year ended June 30, 2015 for Local 68 Plan and December 31, 2015 for the 1199J Plan.

<u>Pension fund</u>	<u>EN/Pension plan number</u>	<u>Pension protection act zone status</u>	<u>FIP/RP status pending/ implemented</u>	<u>Contributions of RWJBH</u>	<u>Surcharge paid as of 12/31/16</u>	<u>Expiration date of collective-bargaining agreement</u>
Local 68 Engineers Union Pension Plan	51-0176618-001	As of 6/30/2016 Yellow	Yes	\$ 242	N/A	3/20/2018
District 1199J-New Jersey Healthcare Employers Pension Plan	22-3095464-001	As of 12/31/2015 Green	No	2,152	N/A	6/30/2018

Union Benefit Plan – RWJUH

RWJUH had participated in the PACE Industry Union – Management Pension Fund (the Union Benefit Plan), which is a multiemployer benefit program.

RWJUH terminated its participation in the Union Benefit Plan and based on the Union Benefit Plan's actuarial calculation, RWJUH was assessed an estimated allocable share of the unfunded vested benefits. Payments were scheduled to begin June 1, 2016 for a period of 20 years. At December 31, 2016, RWJUH has recorded the estimated withdrawal liability of \$51,764 of which \$5,540 is recorded in other current liabilities and \$46,224 is recorded in other long-term liabilities. No payments were made during 2016 since the unfunded benefit liability has not been finalized.

(10) Commitments and Contingencies

(a) Professional and General Liabilities

Barnabas Health

The Corporation formed Commercial Professional Insurance Co. Ltd. (CPIC), an off-shore captive insurance company located in Bermuda, which writes professional liability, comprehensive general liability, and other casualty lines of business for the Corporation and the affiliates of Barnabas Health. CPIC is a wholly owned subsidiary of Saint Barnabas Medical Center (the Medical Center) and is consolidated in the accompanying financial statements. Investments and other assets maintained by CPIC are reported in assets limited as to use under externally designated or restricted assets in the consolidated balance sheet. In addition, CPIC maintains a contract with Professional Liability Insurance Company (ProQual), a risk retention group, which is domiciled in the State of Vermont and was initially capitalized by the Corporation in December 2006, to reinsure 95% of the losses and expenses of ProQual. The accounts of ProQual are included in the consolidated financial statement of the Corporation. ProQual has offered professional liability insurance to private attending physicians on the Monmouth Medical Center Medical Staff with limits of \$1 million per occurrence/\$3 million in the aggregate. ProQual ceased marketing and renewing policies in 2015 and has converted to runoff

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status. The Corporation has estimated a range of losses for its potential liability for professional liability, comprehensive general liability, and other casualty lines of business related to CPIC and ProQual based upon its own past experience and industry experience data. These estimates include reserves for unreported incidents and losses not covered by current insurance limits on a present value basis.

Prior to July 1, 2003, the Corporation and its affiliates maintained professional and general liability insurance coverage through a combination of the purchase of such coverage from commercial insurance carriers and self-insurance. The Corporation records and revises annually a liability related to the run-off of claims related to these programs based on an independent actuary's estimate.

Effective July 1, 2003, the Corporation purchased professional and general liability insurance from a commercial insurance carrier with a limit of \$7 million per claim (no aggregate) for professional liability, subject to a \$1 million per claim retention, and \$1 million per occurrence (no aggregate) for general liability for the Corporation and its affiliates. In addition, the aforementioned commercial insurance carrier reinsured its obligation to pay claims within the \$6 million layer in excess of the \$1 million retention pursuant to a Reinsurance Agreement with CPIC.

For policy years beginning July 1, 2004, CPIC provides payment of claims on a reimbursement basis for the Corporation's self-insurance program, which has limits of \$7 million for each and every professional liability claim with an annual aggregate limit of \$59 million and \$1 million for each and every general liability occurrence. In addition, for the policy years beginning July 1, 2003, the Corporation purchased excess coverage of \$150 million from various carriers for amounts in excess of the Corporation's and CPIC's retained limits.

RWJ

The affiliates of RWJ were insured through Systems and Affiliated Members Limited (SAAML or the Company) prior to December 31, 2016. SAAML, also located in Bermuda, was registered under the Segregated Accounts Companies Act 2000 (the Act), which enabled SAAML to create segregated accounts (Cells) such that the assets and liabilities of each Cell was legally separate from the assets and liabilities of any other Cell and those of SAAML. The Act also protected assets within each Cell by preventing such assets from being used to satisfy general creditors of the Company. Members that elected to participate in SAAML shared the costs of certain administrative expenses as well as the premiums for certain layers of excess liability insurance where full coverage was purchased in the commercial market. The Cell owners were RWJUH, RWJUH Hamilton, RWJUH Rahway and Children's Specialized Hospital (CSH).

On December 31, 2016, each Cell owner agreed to accept, in full satisfaction for all losses under the insurance agreements in effect, a commutation fee as consideration for the assumption of such liabilities as full and final settlement. The commutation fee was based on an actuarial analysis of estimated reserves on behalf of each Cell owner at December 31, 2016 and amounted to \$29,925. The remaining equity, which amounted to approximately \$12,700, was distributed to the respective Cell owners. The financial impact of this transaction had no impact on the operating results of any Cell owner.

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CPIC extended coverage, effective December 31, 2016, for all existing SAAML policies that were commuted and terminated. CPIC's coverage insured each of the previous Cell owners for the risks previously insured by SAAML. The Cell owners have a limit of \$1 million per occurrence with an annual aggregate limit of \$3 million (RWJUH Somerset, a campus of RWJUH, has a limit of \$2 million per occurrence with an annual aggregate limit of \$4 million). In addition, each Cell owner shared in a buffer layer with a limit of \$1 million per occurrence/\$10 million in the aggregate. The Cell owners also shared in excess coverage with various carriers with a minimum of \$50 million.

On February 13, 2017, CPIC and SAAML finalized its merger, with CPIC as the surviving company. CPIC will issue policies providing professional liability and comprehensive general liability coverage for self-insured retention for all RWJBH entities under a combined insurance program.

The total accrued liability of approximately \$207,718, which includes tail coverage at December 31, 2016, has been discounted at 2.5% and is included in self-insurance liabilities in the accompanying consolidated balance sheet. The accrual at December 31, 2016 includes \$12,842, of claims, which are expected to be reimbursed by the insurance carrier. Such amounts are included in other assets, net, in the accompanying consolidated balance sheet at December 31, 2016.

(b) Workers' Compensation

The Corporation is self-insured for the majority of workers' compensation benefits. At December 31, 2016, the accrual for estimated workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported and totaled \$43,059. The accrual at December 31, 2016 includes \$12,395 of claims, which are expected to be reimbursed by the insurance carrier. Such amounts are included in other assets, net. The Corporation's obligation to pay workers' compensation benefits are secured by two LOCs totaling \$13,350 at December 31, 2016 (note 8a).

(c) Employee Health Insurance

The Corporation maintains self-insured employee health benefit programs to provide coverage for its employees. At December 31, 2016, the accrual for estimated employee health insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported of approximately \$20,022, and are included in self-insurance liabilities in the accompanying consolidated balance sheet.

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(d) Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rent expense was \$57,075 for the nine months ended December 31, 2016. Future rental payments under noncancelable operating leases with durations in excess of one year are as follows:

<u>Period</u>	<u>Minimum lease payments</u>	<u>Sublease income</u>	<u>Net</u>
2017	\$ 35,201	3,364	31,837
2018	26,725	2,718	24,007
2019	20,737	1,737	19,000
2020	14,982	1,631	13,351
2021	12,065	1,051	11,014
Thereafter	70,193	571	69,622
	<u>\$ 179,903</u>	<u>11,072</u>	<u>168,831</u>

(e) Litigation

Various investigations, lawsuits, and claims arising in the normal course of operations are pending or on appeal against the Corporation. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management that the liabilities that may arise from such actions would not materially affect the consolidated financial position or results of operations of the Corporation.

(f) Other

Approximately 25% of the Corporation's employees were covered by collective bargaining agreements for the nine months ended December 31, 2016; of which 3.6% expire in the next year.

(11) Endowment Funds Net Asset Classification

The Corporation's endowment funds consists of funds that have been established by the Corporation to provide funding for construction and equipment purchases, as well as funding for healthcare services and health education. The Corporation's endowment funds represent a component of the Corporation's total unrestricted, temporarily restricted, and permanently restricted net assets. These funds are invested by the Corporation. As required by GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets as of year-end. These deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain

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programs that was deemed prudent by the Board of Trustees. No such deficiencies existed at December 31, 2016.

(b) Interpretation of Relevant Law

The Board of Trustees of the Corporation has interpreted the New Jersey Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The investment income earned on the accumulations to the permanently restricted endowment funds is classified based on donor stipulations as temporarily restricted net assets until the donor-imposed restrictions have been met.

(c) Spending Policy

The Corporation spends earnings on donor-restricted endowment funds as expenses have been incurred that satisfy the donor-imposed restrictions.

(d) Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income and growth, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity. Under this policy, as approved by the Corporation's Board of Trustees, the endowment assets are invested in a manner that is intended to produce moderate to high rates of return while assuming a moderate to low level of investment risk.

Donor-restricted and board designated endowment net assets consist of the following as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 1,000	8,809	30,339	40,148
Total	\$ 1,000	8,809	30,339	40,148

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Changes in endowment net assets for the nine months ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of period	\$ 1,000	9,835	28,274	39,109
Investment return:				
Investment income	51	97	—	148
Net appreciation (realized and unrealized)	52	423	—	475
Total investment return	103	520	—	623
Contributions	—	114	2,461	2,575
Appropriation of endowment assets for expenditure	(103)	(1,660)	(396)	(2,159)
Endowment net assets, end of year	<u>\$ 1,000</u>	<u>8,809</u>	<u>30,339</u>	<u>40,148</u>

(12) Functional Expenses

The Corporation provides general healthcare services to residents within its geographic area. Expenses from operations related to providing these services are as follows for the nine months ended December 31, 2016:

Healthcare services	\$ 3,261,469
General and administrative	<u>362,385</u>
	<u>\$ 3,623,854</u>

(13) Investments in Joint Ventures

The Corporation has invested in a number of joint ventures to provide specialty healthcare services. These services include surgical, diagnostic imaging, home care and hospice, rehabilitation and fitness and wellness programs. The investments range from 25% to 51% ownership. The Corporation does not exercise operating control over these investments and are, therefore, recorded under the equity or cost method of accounting. Earnings under these joint ventures for the nine months ended December 31, 2016 were \$18,497 and are included in other revenue in the consolidated statement of operations.

Total investments in joint ventures amounted to \$116,245 at December 31, 2016 and are included in other assets in the consolidated balance sheet.

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(14) Noncontrolling Interests

The Corporation accounts for noncontrolling interests in a consolidated subsidiary as a separate component of unrestricted net assets. The unrestricted net assets attributable to the Corporation's noncontrolling interest at December 31, 2016 is \$1,367. Distributions during the year ended December 31, 2016 was \$392.

(15) Subsequent Events

In January 2017, the Investment Committee approved an expansion of the Corporation's alternative investment sleeve to 25% of the Corporation's portfolio. As of April 30, 2017, the Corporation has entered into \$437,500 of new alternative investments consisting of \$160,000 in hedge funds, \$43,000 in private equity, \$67,500 in real estate funds and \$167,000 in separately managed fixed income securities. Unfunded capital commitments amounted to \$97,098 at April 30, 2017.

Management evaluated all events and transactions that occurred after December 31, 2016 and through May 19, 2017. The Corporation did not have any material recognizable subsequent events during the period, except as previously disclosed.