RWJ BARNABAS HEALTH, INC.

Consolidated Financial Statements and
Supplementary Information

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

RWJ BARNABAS HEALTH, INC.

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KPMG LLP
New Jersey Headquarters
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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 sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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, 2019 and 2018, and the results of its operations, changes in net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(b) to the consolidated financial statements, the Corporation adopted Accounting Standards Update No. 2016-02, *Leases,* on a modified retrospective basis. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

KPMG LLP

April 30, 2020

RWJ BARNABAS HEALTH, INC.

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands)

Assets		2019	2018
Current assets:			
Cash and cash equivalents	$	337,060	340,495
Short-term investments		43,443	26,662
Assets limited or restricted as to use		64,300	57,322
Patient accounts receivable		553,108	507,856
Estimated amounts due from third-party payors		6,344	—
Other current assets		213,293	201,664
Total current assets		1,217,548	1,133,999
Assets limited or restricted as to use, noncurrent portion		262,873	240,142
Investments		4,105,748	3,147,905
Property, plant, and equipment, net		2,284,195	2,164,391
Right of use asset		231,712	—
Other assets, net		293,448	280,876
Total assets	$	8,395,524	6,967,313
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	364,628	308,232
Accrued expenses and other current liabilities		724,462	684,835
Estimated amounts due to third-party payors		—	6,368
Long-term debt		11,007	8,442
Lease obligations		40,443	—
Self-insurance liabilities		77,610	65,585
Total current liabilities		1,218,150	1,073,462
Estimated amounts due to third-party payors, net of current portion		48,131	41,711
Self-insurance liabilities, net of current portion		246,168	254,786
Long-term debt, net of current portion		2,608,033	2,089,281
Lease obligations, net of current portion		195,952	—
Accrued pension liability		21,554	78,020
Other liabilities		124,712	169,451
Total liabilities		4,462,700	3,706,711
Net assets:			
Without donor restrictions		3,759,788	3,084,128
With donor restrictions		173,036	176,474
Total net assets		3,932,824	3,260,602
Total liabilities and net assets	$	8,395,524	6,967,313

See accompanying notes to the consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Consolidated Statements of Operations

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Revenue:			
Net patient service revenue	$	5,359,955	5,100,225
Other revenue, net		264,915	250,908
Total revenue		5,624,870	5,351,133
Expenses:			
Salaries and wages		2,092,842	1,968,956
Physician fees and salaries		550,329	499,275
Employee benefits		408,097	412,406
Supplies		1,104,910	1,015,002
Other		979,278	942,090
Interest		87,227	71,178
Depreciation and amortization		240,681	227,067
Total expenses		5,463,364	5,135,974
Income from operations		161,506	215,159
Nonoperating revenue (expenses):			
Investment income (loss), net		449,542	(132,629)
Research and education		—	(55,000)
Other, net		(8,152)	(5,240)
Total nonoperating revenue (expenses), net		441,390	(192,869)
Excess of revenue over expenses		602,896	22,290
Other changes:			
Net change in unrealized gains (losses) on available for sale investments		611	(1,019)
Pension changes other than net periodic benefit cost		58,739	(19,231)
Net assets released from restriction for purchases of property and equipment		16,059	12,804
Other, net		(2,645)	(5,037)
Increase net assets without donor restrictions	$	675,660	9,807

See accompanying notes to the consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2019 and 2018

(In thousands)

		Without donor restrictions	With donor restrictions	Total net assets
Net assets at December 31, 2017	$	3,074,321	164,962	3,239,283
Changes in net assets:				
Excess of revenue over expenses		22,290	—	22,290
Net change in unrealized losses on available for sale investments		(1,019)	(463)	(1,482)
Pension changes other than net periodic benefit cost		(19,231)	—	(19,231)
Change in interest in restricted net assets of unconsolidated foundations		—	(944)	(944)
Net assets released from restriction		12,804	(23,379)	(10,575)
Restricted contributions		—	35,372	35,372
Investment income on restricted investments, net		—	653	653
Change in interest in perpetual trust		—	(130)	(130)
Other		(5,037)	403	(4,634)
Change in net assets		9,807	11,512	21,319
Net assets at December 31, 2018		3,084,128	176,474	3,260,602
Changes in net assets:				
Excess of revenue over expenses		602,896	—	602,896
Net change in unrealized gains on available for sale investments		611	287	898
Pension changes other than net periodic benefit cost		58,739	—	58,739
Change in interest in restricted net assets of unconsolidated foundations		—	(907)	(907)
Net assets released from restriction		16,059	(27,217)	(11,158)
Restricted contributions		—	24,566	24,566
Investment income on restricted investments, net		—	626	626
Change in interest in perpetual trust		—	(892)	(892)
Other		(2,645)	99	(2,546)
Change in net assets		675,660	(3,438)	672,222
Net assets at December 31, 2019	$	3,759,788	173,036	3,932,824

See accompanying notes to the consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	672,222	21,319
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Contributions received in acquisitions		(712)	—
Pension changes other than net periodic benefit cost		(58,739)	19,231
Depreciation and amortization expense		240,681	227,067
Amortization of bond financing costs, premiums, and discounts		(5,592)	(5,315)
Amortization of right of use asset		56,067	—
Derecognition of build to suit lease		2,710	—
Net change in unrealized (gains) losses on investments		(264,121)	320,826
Realized gains on investments		(105,240)	(133,630)
Equity in income of joint ventures		(42,528)	(35,304)
Distributions received from investments in joint ventures		42,712	48,472
Distributions to noncontrolling interests		437	628
Gain on sale of assets		(680)	(170)
Contributions restricted for long-term use		(8,934)	(17,360)
Purchase of noncontrolling interest		—	5,887
Loss on early extinguishment of debt, net		164	—
Changes in operating assets and liabilities:			
Patient accounts receivable		(45,252)	(7,479)
Other assets		(13,928)	(70,200)
Accounts payable, accrued expenses, and other current liabilities		117,659	50,981
Estimated amounts due from and to third-party payors		(6,194)	(10,125)
Accrued pension liability		2,273	(20,287)
Lease obligation, self-insurance, and other long-term liabilities		(72,989)	29,608
Net cash provided by operating activities		510,016	424,149
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(369,491)	(335,125)
Proceeds from bond funds		1,207	33,960
Proceeds from the sale of investments and assets limited or restricted as to use		19,466	21,068
Purchases of investments and assets limited or restricted as to use		(40,788)	(35,500)
Purchases of trading securities		(5,188,534)	(3,184,354)
Proceeds from the sale of trading securities		4,572,283	3,053,314
Investment in joint venture		(12,594)	(26,214)
Cash and restricted cash (paid) received in acquisition		(93)	5,838
Proceeds from sale of assets		778	896
Net cash used in investing activities		(1,017,766)	(466,117)
Cash flows from financing activities:			
Proceeds from issuance of debt		574,414	300,000
Repayments of long-term debt		(80,709)	(17,225)
Payments for deferred financing costs		(3,888)	(1,784)
Distributions to noncontrolling interests		(437)	(628)
Purchase of noncontrolling interest		—	(5,887)
Proceeds from contributions restricted for long-term use		8,934	17,360
Proceeds from contributions and grants		4,606	438
Net cash provided by financing activities		502,920	292,274
Net (decrease) increase in cash and cash equivalents		(4,830)	250,306
Cash, cash equivalents, and restricted cash at beginning of year		355,117	104,811
Cash, cash equivalents, and restricted cash at end of year	$	350,287	355,117
Cash and cash equivalents	$	337,060	340,495
Restricted cash included in assets limited or restricted as to use		13,227	14,622
Total cash, cash equivalents, and restricted cash	$	350,287	355,117
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	77,961	70,706
Finance lease obligations incurred		35,716	1,849
Supplemental disclosures of noncash investing and financing activities:			
Change in noncash acquisitions of property, plant, and equipment		(26,453)	15,134

See accompanying notes to the consolidated financial statements.

(1) Organization

RWJ Barnabas Health, Inc. (the Corporation) is a not for profit, tax-exempt corporation located in West Orange, New Jersey. RWJ Barnabas Health, Inc. is the sole corporate member or sole shareholder of the Corporation's affiliated organizations. The Corporation was organized to develop and operate a multihospital healthcare system providing a comprehensive spectrum of healthcare services, principally to the residents of New Jersey and surrounding areas.

The services and facilities of the Corporation include 11 acute care hospitals, 3 acute care children's hospitals, a pediatric rehabilitation hospital with a network of outpatient centers, a freestanding 100-bed behavioral health center, two trauma centers, a satellite emergency department, ambulatory care centers, geriatric centers, the state's largest behavioral health network, comprehensive home care and hospice programs, fitness and wellness centers, retail pharmacy services, medical groups, multi-site imaging centers, accountable care organizations, a burn treatment facility, comprehensive cancer services, and breast centers and comprehensive cardiac surgery services, including a heart transplant center, a lung transplant center, and kidney transplant centers.

(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) Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles (GAAP) and is intended to improve and converge with international standards the financial reporting requirements for recognizing revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue, and cash flows arising from customer contracts, including significant judgments and changes in judgments. Effective January 1, 2018, the Corporation has elected the full retrospective application for the adoption of the guidance to all contracts under the scope of the guidance and there was no material impact to the Corporation related to its existing revenue streams.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires not-for-profit entities to revise its financial presentation to include net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk and expanded disclosures on functional expenses. The Corporation adopted the new standard as of December 31, 2018 on a retrospective basis. There were no material changes to the consolidated balance sheets, statements of operations, and changes in net assets or cash flows as a result of the adoption.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The Corporation elected to early adopt ASU 2018-08 for the year ended December 31, 2018 and applied the standard on a modified prospective basis. The amendments in this update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. There were no material changes to the consolidated financial statements as a result of the adoption.

The Corporation adopted ASU 2016-02, *Leases (Topic 842),* on January 1 2019. The update required the recognition of right-of-use (ROU) lease assets and liabilities on the consolidated balance sheet and the disclosure of qualitative and quantitative information about leasing arrangements. The Corporation elected the effective date method to adopt this standard. All leases that existed at the effective date were recognized and measured using a modified retrospective approach without restating prior comparative periods. The Corporation elected to utilize the practical expedients made available, including the package of practical expedients to not reassess whether a contract is, or contains, a lease, the lease classification and initial direct costs.

As a result of the adoption, the Corporation recognized ROU assets and lease liabilities of approximately $222 million and $228 million, respectively, as of the transition date.

Under the new standard, the Corporation derecognized its build to suit asset and liability as of the transition date, which resulted in a reduction to net assets without donor restrictions of $2,710 and is included in other changes in unrestricted net assets. The related leases were evaluated under the new guidance and recorded as a finance lease obligation amounting to $19,848.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with 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.

(d) Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid debt instruments with original maturities of three months or less, excluding assets limited or restricted as to use.

(e) Patient Accounts Receivable

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

(Continued)

(In thousands)

reviews accounts and contracts and provides appropriate contractual allowances and discounts that are netted against patient accounts receivable in the consolidated balance sheets. 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 receivable from patients and third-party payors as of December 31, 2019 and 2018 were as follows:

	December 31	
	2019	2018
Medicare	15 %	17 %
Managed Medicare	10	9
Medicaid	5	6
Managed Medicaid	9	10
Blue Cross	18	17
Commercial and other managed care	33	32
Self-pay patients and other	10	9
	100 %	100 %

(f) Revenue

(i) Net Patient Service Revenue

The Corporation's net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and include an estimate of variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility.

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to inpatient services. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Corporation does not believe it is required to provide additional goods or services to the patient.

Because all of it performance obligations related to contracts with a duration of less than one year, the Corporation has elected to apply the option exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at year-end, which primarily relate to acute care patients (in-house). The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of year-end.

The majority of the Corporation’s services are rendered to patients with third-party coverage. Reimbursement under these programs for all payors is based on a combination of prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Amounts received under Medicare and Medicaid programs are subject to review and final determination by program intermediaries or their agents and the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims. Agreements with third-party payors typically provide for payments at amounts less than established charges. For further discussion on third-party reimbursement, refer to note 4. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Implicit price concessions are determined on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments arising from a change in the transaction price were not significant for the years ended December 31, 2019 or 2018. Subsequent changes that are determined to be the result of an adverse change in the patient’s ability to pay are recorded as bad debt expense. There was no bad debt expense for the years ended December 31, 2019 and 2018, respectively.

Consistent with the Corporation’s mission, care is provided to patients regardless of their ability to pay. The Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g. copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients. Patients who meet the Corporation’s criteria for charity care are provided care without charge or at amounts less than established rates. The Corporation has determined that it has provided sufficient implicit price concessions for these accounts. Price concessions, including charity care, are not reported as revenue.

The Corporation has elected the financing component practical expedient and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation’s expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payors pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. The Corporation has determined that the nature, amount, timing and uncertainty of net patient service revenue, and cash flows are affected by payors and service lines.

(In thousands)

The following tables reflect net patient service revenue from third-party payors, government subsidies, and others (including uninsured patients) for the years ended December 31, 2019 and 2018:

		2019		
		Inpatient	**Outpatient**	**Total**
Medicare	$	812,569	391,690	1,204,259
Managed Medicare		370,575	218,965	589,540
Medicaid		119,244	59,372	178,616
Managed Medicaid		378,233	380,340	758,573
Blue Cross		542,827	650,224	1,193,051
Commercial and managed care		575,260	517,850	1,093,110
Self-pay patients and other		128,815	146,503	275,318
State of New Jersey subsidy revenue		67,488	—	67,488
Total net patient service revenue	$	2,995,011	2,364,944	5,359,955

		2018		
		Inpatient	**Outpatient**	**Total**
Medicare	$	858,663	399,589	1,258,252
Managed Medicare		281,102	166,196	447,298
Medicaid		138,717	37,291	176,008
Managed Medicaid		356,872	358,943	715,815
Blue Cross		490,436	629,748	1,120,184
Commercial and managed care		567,960	499,054	1,067,014
Self-pay patients and other		106,517	133,446	239,963
State of New Jersey subsidy revenue		75,691	—	75,691
Total net patient service revenue	$	2,875,958	2,224,267	5,100,225

(ii) *Other Revenue*

Other revenue includes income from grant revenue, equity in the income of joint ventures, contributions, net assets released from restriction, cafeteria sales, and parking receipts. Grant revenue and contributions of the Corporation are nonexchange transactions in which no commensurate value is exchanged. In such cases, contribution accounting is applied under

ASC Topic 958, *Not-for-Profit Entities*. Equity in the income of joint ventures continues to be evaluated under ASC Topic 323, *Investments – Equity Method and Joint Ventures*.

Additionally, pharmacy sales and other contracts related to health care services are included in other revenue and consist of contracts, which vary in duration and in performance. Revenue is recognized when the performance obligations identified within the individual contracts are satisfied and collections can be reasonably assured.

(g) Supplies

Supplies are carried at the lower of cost or net realizable value, determined principally on an average cost basis. Supplies, totaling $108,157 and $94,019, are included in other current assets in the consolidated balance sheets at December 31, 2019 and 2018, respectively.

(h) 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. Restricted cash of $13,227 and $14,622 as of December 31, 2019 and 2018, respectively, is included in assets limited or restricted as to use, noncurrent portion, in the consolidated balance sheets.

(i) 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. 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. 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 (NAV) 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.

Unrealized gains and losses on trading securities are recorded as nonoperating revenue. Unrealized gains and losses on debt securities classified available for sale investments are recorded as other changes in net assets. Changes in the fair value of alternative investments are included in nonoperating revenue. Investment income and realized gains and losses on assets restricted by donors for specific purposes or endowment are included in net assets with donor restrictions. 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.

(Continued)

(j) 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 finance leases and leasehold improvements is 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 net assets without donor restrictions and are excluded from the excess of revenue over expenses in the consolidated statements 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 net assets with donor restrictions. 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.

(k) Leases

The Corporation determines if an arrangement is a lease at inception. Leases are included in ROU assets, other current liabilities, and long-term liabilities in the consolidated balance sheet. ROU assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term using the Corporation’s incremental borrowing rate. The ROU asset also includes any prepaid rent, while excluding lease incentives and initial direct costs incurred.

Lease expense for operating minimum lease payments is recognized on a straight-line basis over the full lease term. Finance leases are included in property, plant, and equipment, long-term debt, and long-term debt, net of current portion in the consolidated balance sheet. Finance lease assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term using the explicit interest rate when available. If an explicit interest rate is not available, the Corporation applies its incremental borrowing rate. Finance lease assets are amortized on a straight-line basis over the full lease term and presented in depreciation and amortization in the consolidated statement of operations. Interest expense on lease payments is calculated using the effective interest method and presented in interest in the consolidated statement of operations.

(l) 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. Deferred financing costs are presented as a reduction of the related debt.

(Continued)

During 2019 and 2018, the Corporation incurred approximately $3,888 and $1,784, respectively, of deferred financing costs related to the issuance of the tax-exempt Series 2019A and Series 2019B and taxable Series 2019 bonds in 2019 and the senior secured taxable fixed rate debt in 2018 (note 9).

In connection with the refunding and refinancing that occurred during 2019, $358 of unamortized deferred financing costs were written off and are included in within nonoperating revenue (expenses) in the accompanying consolidated statement of operations.

(m) 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 donor-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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements 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 statements of operations.

Pledges receivable represent an unconditional promise to give cash and other assets to the Corporation's affiliates 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 sheets.

(n) Net Assets

Resources are classified for reporting purposes as net assets without donor restrictions and net assets with donor restrictions, according to the absence or existence of donor-imposed restrictions. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor-restricted. Net assets with donor restrictions represent funds, including contributions and accumulated investment returns, whose use has been restricted by donors to a specific period or purpose or that have been restricted by donors to be maintained in perpetuity to provide a permanent source of income. Generally, the donors of these donor-restricted assets permit the use of part of the income earned on related investments for specific purposes.

(Continued)

(In thousands)

Net assets without and with donor restrictions are available for the following purposes:

		December 31	
		2019	2018
Without donor restrictions:			
Designated by the board	$	1,000	1,000
Undesignated		3,758,788	3,083,128
With donor restrictions:			
Perpetual in nature		32,513	33,394
Purpose restricted		140,196	135,160
Time restricted		327	7,920
Net assets	$	3,932,824	3,260,602

(o) Fair Value of Financial Instruments

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

(p) Performance Indicator

The consolidated statements of operations include a performance indicator, which is the excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, include unrealized gains and losses on investments that are classified as available for sale, certain changes in pension obligations, capital contributions, and other transactions.

The Corporation differentiates its ongoing operating activities by providing income from operations as a sub performance indicator. Investment income, net, net periodic benefit costs other than service costs, research and education, 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 statements of operations. Investment income earned on assets limited as to use under bond indenture agreements is included in other revenue in the consolidated statements of operations.

(q) 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. Since the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as patient service revenue.

(Continued)

(r) Income Taxes

The Corporation and its affiliates, excluding its for-profit affiliates and nominee owned captive professional medical services corporation, 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 affiliates 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 sheets as appropriate. In addition, the provision for income taxes recorded by the Corporation's for-profit affiliates 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 affiliates have federal net operating loss (NOL) carryforwards of approximately $60,158 that expire through 2037 and State of New Jersey NOL carryforwards of approximately $59,713 that expire through 2039. Certain for-profit affiliates have federal NOL carryforwards of approximately $575 that never expire.

At December 31, 2019 and 2018, all deferred tax assets related to NOL carryforwards have been fully reserved due to the uncertainty of realizing the tax benefits associated with these amounts.

The Corporation does not have any significant uncertain tax positions as of December 31, 2019 and 2018.

(s) 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 (note 12a, b, and c).

(t) 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 a 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 years ended December 31, 2019 and 2018.

(Continued)

(In thousands)

(u) Goodwill and Intangible Assets

Goodwill and intangible assets are accounted for under ASC Topic 350, *Intangibles – Goodwill and Other*. Goodwill represents the excess of the aggregate purchase price over the fair value of net assets acquired in business combinations. Intangible assets represent the acquisition of the Rutgers Health brand name. Identifiable intangible assets are initially recorded at fair market value at the time of acquisition using the income approach. Goodwill and intangible assets have indefinite useful lives and are not amortized, but are 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 or intangible assets was deemed necessary during the years ended December 31, 2019 and 2018. Included in other assets are goodwill and intangible assets of approximately $52,000 and $51,000 at December 31, 2019 and 2018, respectively.

(v) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(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 years ended December 31, 2019 and 2018 is as follows:

		2019	2018
Cost of charity care and community benefit programs:			
Estimated cost of charity care provided, less state subsidy funding	$	137,848	98,632
Unpaid cost of public programs, Medicaid, and other means – tested programs		282,807	233,193
Other programs:			
Cash and in-kind donations	$	3,687	3,200
Education and research		116,786	88,758
Subsidized departments		60,244	59,762
Other community benefits		15,342	10,150

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 years ended December 31, 2019 and 2018, the Corporation's hospitals received distributions from the Charity Care Fund of $22,383 and $27,981, respectively, which are included in net patient service revenue.

(4) Healthcare Reimbursement System

(a) The Corporation records net patient service revenue at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. 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 years ended December 31, 2019 and 2018, 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 become 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 $20,565 and $18,256 for the years ended December 31, 2019 and 2018, respectively. 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 2015, except for 2011, have been audited and settled. Medicaid cost reports for all years prior to 2016 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, 2017, though the settlement has not been finalized for the year 2014.

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. Management of 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.

(In thousands)

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

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

		December 31 2019	December 31 2018
Investments and assets limited or restricted as to use:			
Cash and cash equivalents and money market funds	$	452,599	270,263
U.S. government obligations/municipal bonds		344,958	303,424
Corporate bonds		529,932	334,815
Certificates of deposit		2,835	2,779
Mutual funds		1,714,603	1,530,337
Bond funds		11,350	—
Equity securities		305,765	99,683
Unit investment trusts		1,029	870
Asset-backed securities		276,810	91,128
Mortgage-backed securities		86,288	39,356
Alternative investments		707,045	759,446
Pledges receivable, net		30,113	29,358
Other investments		2,499	3,219
Accrued interest		10,538	7,353
Total investments and assets limited or restricted as to use	$	4,476,364	3,472,031

These amounts are reflected in the consolidated balance sheets as follows:

		December 31 2019	December 31 2018
Current portion:			
Investments	$	43,443	26,662
Assets limited or restricted as to use		64,300	57,322
Noncurrent assets limited or restricted as to use		262,873	240,142
Investments		4,105,748	3,147,905
	$	4,476,364	3,472,031

(In thousands)

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

		December 31	
		2019	2018
Investments	$	4,149,191	3,174,567
Self-insurance funds		25,520	17,479
Donor-restricted funds and pledges receivable, net		151,993	153,867
Funds held by bond trustees under bond indenture agreements		36,122	37,214
Other limited use funds		113,538	88,904
	$	4,476,364	3,472,031

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

		December 31	
		2019	2018
Interest funds	$	36,108	36,185
Principal funds		14	1,029
	$	36,122	37,214

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. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is a risk that a financial asset may not be readily sold.

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, 2019 and 2018, management believes that its investment positions are in accordance with guidelines established by the IPS.

(In thousands)

(6) Liquidity and Availability of Resources

Financial assets available within one year of the balance sheet date for general expenditures such as operating expenses and construction costs not financed with debt are as follows:

	December 31	
	2019	2018
Cash and cash equivalents	$ 337,060	340,495
Short-term investments	43,443	26,662
Patient accounts receivable	553,108	507,856
Other current assets	48,774	52,935
	$ 982,385	927,948

Current financial assets not available for general use because of contractual or donor-imposed restrictions were $64,300 and $57,322 at December 31, 2019 and 2018, respectively. Amounts not available for general use include amounts set aside for scheduled principal payments on debt, self-insurance funds, and perpetual, time, and purpose restricted assets.

As of December 31, 2019, the Corporation has liquid assets on hand to cover 313.5 days of operating expenses. The Corporation's practice is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Corporation invests cash in excess of daily requirements in short-term investments.

(7) Fair Value Measurements

ASC Topic 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.

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.

(Continued)

(In thousands)

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, 2019 and 2018:

	December 31, 2019				
	Fair value	Level 1	Level 2	Level 3	NAV
Available for sale investments:					
Investment categories:					
Cash and cash equivalents and money market funds	$ 104,396	104,396	—	—	—
Equity mutual funds	18,574	18,574	—	—	—
Fixed income mutual funds	67,832	67,832	—	—	—
Certificates of deposit	2,835	—	2,835	—	—
Corporate bonds	461	—	461	—	—
Total available for sale investments	194,098	190,802	3,296	—	—
Trading investments:					
Investment categories:					
Cash and cash equivalents and money market funds	348,203	348,203	—	—	—
Equity securities	305,765	305,765	—	—	—
Equity mutual funds	1,292,048	1,292,048	—	—	—
Fixed income mutual funds	336,149	336,149	—	—	—
Unit investment trusts	1,029	1,029	—	—	—
Commercial mortgage-backed securities	86,288	—	86,288	—	—
Corporate bonds	529,471	—	529,471	—	—
Asset-backed securities	276,810	—	276,810	—	—
Bond funds	11,350	—	11,350	—	—
Government bonds	155,768	—	155,768	—	—
Government mortgage-backed securities	165,898	—	165,898	—	—
Municipal bonds	23,292	—	23,292	—	—
Alternative investments	707,045	—	—	—	707,045
Total investments trading	4,239,116	2,283,194	1,248,877	—	707,045
Total	$ 4,433,214	2,473,996	1,252,173	—	707,045

(In thousands)

	December 31, 2018				
	Fair value	Level 1	Level 2	Level 3	NAV
Available for sale investments:					
Investment categories:					
Cash and cash equivalents and money market funds	$ 97,854	97,854	—	—	—
Equity mutual funds	12,053	12,053	—	—	—
Fixed income mutual funds	50,063	50,063	—	—	—
Certificates of deposit	2,779	—	2,779	—	—
Corporate bonds	193	—	193	—	—
Government bonds	301	—	301	—	—
Total available for sale investments	163,243	159,970	3,273	—	—
Trading investments:					
Investment categories:					
Cash and cash equivalents and money market funds	172,409	172,409	—	—	—
Equity securities	99,683	99,683	—	—	—
Equity mutual funds	840,592	840,592	—	—	—
Fixed income mutual funds	627,629	421,712	205,917	—	—
Unit investment trusts	870	870	—	—	—
Commercial mortgage-backed securities	39,356	—	39,356	—	—
Corporate bonds	334,622	—	334,622	—	—
Asset-backed securities	91,128	—	91,128	—	—
Government bonds	204,226	—	204,226	—	—
Government mortgage-backed securities	78,852	—	78,852	—	—
Municipal bonds	20,045	—	20,045	—	—
Alternative investments	759,446	—	—	—	759,446
Total investments trading	3,268,858	1,535,266	974,146	—	759,446
Total	$ 3,432,101	1,695,236	977,419	—	759,446

There were no transfers among Levels 1, 2, and 3 during the years ended December 31, 2019 and 2018. 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 consolidated 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 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 and unit investment trusts are valued at the NAV of shares held at year-end, based on published market quotations on active markets.

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.

Fair values of bank loans are determined by the Corporation using quoted prices of securities with similar coupon rates and maturity dates or discounted cash flows.

(In thousands)

The following tables summarize redemption terms and the Corporation's commitments for the hedge funds and others as of December 31, 2019 and 2018:

	2019				
Description of investment		**Carrying value**	**Unfunded commitment**	**Redemption frequency**	**Redemption notice required**
Hedge funds	$	314,164	—	Monthly – Annually	30–90 days written notice
Private equity		96,118	91,918	—	—
Real estate		162,096	13,461	Quarterly	60–90 days written notice
Other		134,667	7,753	—	—
	$	707,045	113,132		

	2018				
Description of investment		**Carrying value**	**Unfunded commitment**	**Redemption frequency**	**Redemption notice required**
Hedge funds	$	416,149	—	Monthly – Annually	30–90 days written notice
Private equity		147,980	38,657	—	—
Real estate		120,669	—	Quarterly	60–90 days written notice
Other		74,648	9,917	Monthly – Quarterly	30–90 days written notice
	$	759,446	48,574		

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. The Corporation holds $86,900 of investments in hedge funds, which are subject to a 50% gate holdback. 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 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.

(In thousands)

Real estate funds invest primarily in institutional quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts. Fair value is estimated based on the NAV of the shares in each partnership. The Partnership distributes current income to the partners on a quarterly basis based on each partners' interest. Partners can choose to participate in a reinvestment plan in which all distributions are automatically invested in additional units. Redemptions can generally be made quarterly with 90 days' prior written notice after the lock-up period expires.

Investments in other alternative investments consist of private debt funds structured as a limited partnership interest with ability to invest in short-term opportunities, and 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 through the liquidation of the underlying assets. Voluntary redemptions are not permitted and investment is through the life of the fund. The Corporation also invests in certain venture capital funds. Investments in venture capital funds, typically structured as limited partnerships, consist of ownership stakes in small to medium sized start-up firms. These firms generally have high growth potential and are characterized by higher risk/reward profiles. Distributions under this investment structure are typically made to investors 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.

(8) Property, Plant, and Equipment

Property, plant, and equipment consist of the following as of December 31, 2019 and 2018:

		2019	2018
Land and improvements	$	150,556	148,408
Buildings and leasehold improvements		3,006,175	2,847,732
Fixed equipment		393,519	376,458
Major movable equipment		1,882,761	1,754,597
Finance leases		57,210	23,124
		5,490,221	5,150,319
Less accumulated depreciation and amortization (including accumulated amortization of capitalized leases of $18,657 and $15,559)		3,381,690	3,146,943
		2,108,531	2,003,376
Construction in progress		175,664	161,015
Property, plant, and equipment, net	$	2,284,195	2,164,391

(In thousands)

As of December 31, 2019, the Corporation had committed $249,241 to complete renovation and expansion projects at various affiliates of the Corporation as well as amounts committed for the EPIC project (note 12e).

(9) Long-Term Debt

Long-term debt consists of the following:

		December 31	
		2019	**2018**
Master Trust Indebtedness:			
New Jersey Health Care Facilities Financing Authority			
(NJHCFFA) Revenue and Refunding Bonds:			
RWJBarnabas Health Obligated Group Issue, Series 2019A Serial Bonds maturing on July 1, 2029 with an interest rate of 5.00%	$	19,250	—
RWJBarnabas Health Obligated Group Issue, Series 2019B-1 Five Year Put Bonds maturing on July 1, 2043 with an interest rate of 5.00%		69,725	—
RWJBarnabas Health Obligated Group Issue, Series 2019B-2 Six Year Put Bonds maturing on July 1, 2042 with an interest rate of 5.00%		70,555	—
RWJBarnabas Health Obligated Group Issue, Series 2019B-3 Seven Year Put Bonds maturing on July 1, 2045 with an interest rate of 5.00%		70,550	—
RWJBarnabas Health Obligated Group Issue, Series 2017A (previously Children's Specialized Hospital Issue, Series 2013A) maturing on July 1, 2036 with an interest rate of 3.03%		8,208	8,575
RWJBarnabas Health Obligated Group Issue, Series 2017B (variable rate) (previously Children's Specialized Hospital Issue, Series 2013B) maturing on July 1, 2036 with an interest rate of 2.94% at December 31, 2018		—	4,438
RWJBarnabas Health Obligated Group Issue, Series 2016A $399,565 serial bonds maturing through July 1, 2036 with interest rates ranging from 3.50% to 5.00%; $279,570 of term bonds maturing July 1, 2043 with interest rates ranging from 4.00% to 5.00%		679,135	679,135
Barnabas Health Issue, Series 2014A term bonds $100,000 maturing July 1, 2044 with an interest rate of 5.00%; $29,925 maturing July 1, 2044 with an interest rate of 4.25%		129,925	129,925

(In thousands)

		December 31	
		2019	**2018**
Robert Wood Johnson University Hospital Issue, Series 2014A $11,075 serial bonds maturing through 2034 with an interest rate of 5.00%; $45,210 term bonds maturing from 2039 to 2043 with an interest rate of 5.00%	$	55,925	55,925
Robert Wood Johnson University Hospital Issue, Series 2014B (variable rate) maturing on July 1, 2043 bearing interest at a weekly rate, 1.70% at December 31, 2018. This was refinanced with Series 2019A and B.		—	30,000
Robert Wood Johnson University Hospital Issue, Series 2013A $9,230 serial bonds maturing through 2023 with interest rates ranging from 3.00% to 5.00%; $93,285 term bonds maturing from 2024 to 2043 with interest rates ranging from 5.25% to 5.50%		102,515	104,555
Barnabas Health Issue, Series 2012A serial bonds maturing through 2026 with interest rates ranging from 4.00% to 5.00%		90,250	90,250
Barnabas Health Issue, Series 2011B (variable rate) term bonds maturing through July 1, 2038, bearing interest at a weekly rate, 1.7% at December 31, 2018. This was refinanced with Series 2019A and B.		—	20,810
Robert Wood Johnson Health Care Corp. at Hamilton Obligated Group Issue, Series 2002 (variable rate) maturing on July 1, 2032, bearing interest at a weekly rate, 0.70% at December 31, 2018. This was refinanced with Series 2019A and B.		—	17,550
RWJBarnabas Health, Series 2019 serial bonds maturing July 1, 2049 with an interest rate of 3.48%		302,333	—
RWJBarnabas Health Private Placement Taxable Notes, Series 2018 maturing through July 1, 2044 with interest rates ranging from 4.04% to 4.40%		300,000	300,000
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	494,952

(In thousands)

		December 31	
		2019	2018
Barnabas Health System Taxable Revenue Bonds, Series 2012 term bonds maturing on July 1, 2028 with an interest rate of 4.00%	$	81,240	81,240
Total Master Trust Indebtedness		2,474,563	2,017,355
Note Payable, matures September 1, 2040 with an interest rate of 3.75%		1,112	—
Finance leases with various interest rates		38,365	8,133
Total long-term debt		2,514,040	2,025,488
Plus unamortized bond premium		123,530	88,636
Less:			
Unamortized bond discount		1,593	1,809
Deferred financing costs, net		16,937	14,592
Current portion		11,007	8,442
Long-term portion	$	2,608,033	2,089,281

Under the terms of the Master Trust Indenture (MTI), 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), Newark Beth Israel Medical Center, RWJ Barnabas Health, Inc., Robert Wood Johnson University Hospital (RWJUH), Robert Wood Johnson University Hospital at Hamilton, Robert Wood Johnson University Hospital Rahway, and Saint Barnabas Medical Center (SBMC) are members of an Obligated Group. During 2018, Robert Wood Johnson Health Care Corp. and RWJ Health Care Corp. at Hamilton, which were previously members of the Obligated Group, were dissolved. There were no assets or liabilities at the time of dissolution. Substantially all of the Corporation's debt is subject to the provisions of the MTI.

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

Obligated Group members are jointly and severally liable under the 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 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 MTI, including payment of the outstanding obligations.

The Corporation's Obligated Group is required to maintain certain financial covenants in connection with the NJHCFFA revenue and refunding bonds.

On December 18, 2018, the Corporation completed a $300 million private taxable note offering under the MTI to a consortium of purchasers. The transaction was structured in four bullet maturity tranches of promissory notes: $70,000 maturing July 1, 2029 with an interest rate of 4.04%, $100,000 maturing July 1, 2034 with an interest rate of 4.17%, $60,000 maturing July 1, 2039 with an interest rate of 4.31%, and $70,000 maturing July 1, 2044 with an interest rate of 4.40%. The proceeds are to be used for general corporate purposes.

On October 24, 2019, the Obligated Group issued its taxable bonds, RWJ Barnabas Health Taxable Revenue Bonds, Series 2019 (Series 2019) in the amount of $302,333 as obligations under the MTI. The proceeds of Series 2019 will be used for general corporate purposes and the payment of the costs of issuance.

Concurrent with the issuance of Series 2019, the NJHCFFA issued its Revenue and Refunding bonds, RWJ Barnabas Health Obligated Group Issue, Series 2019A, in the amount of $19,250, and Series 2019B put bonds in the amount of $210,830, (collectively, Series 2019AB). The proceeds of the Series 2019AB were used to provide funds to finance (i) the refunding or defeasance of (a) Barnabas Health Issue, Series 2011B; (b) RWJ Barnabas Health Obligated Group Issue, Series 2017B; (c) Robert Wood Johnson Health Care Corp. at Hamilton Obligated Group Issue, Series 2002; and (d) Robert Wood Johnson University Hospital Issue, Series 2014B; (ii) reimbursement for various capital improvements; and (iii) the payment of the costs of issuance. The Series 2019B bonds have mandatory purchase dates in July 2024, 2025 and 2026.

As a result of the issuance of Series 2019 and Series 2019AB, the Corporation, as a joint and several member of the Obligated Group, recorded total debt in the amount of $532,413 and also incurred a loss on extinguishment of debt totaling $164, which is included within nonoperating revenue (expenses) in the consolidated statement of operations.

The Corporation also has a credit arrangement in the form of a stand by letter of credit (LOC) with JP Morgan Chase Bank (JPM) that provides liquidity support for the Corporation’s self-insured workers’ compensation programs. If the Corporation were to draw on the letter of credit, the amounts would be payable at the expiration date, which is September 16, 2020.

On February 3, 2020, the Corporation retired the note payable of $1,112.

On March 25, 2020 and April 7, 2020, the Corporation entered into interest rate swap agreements with JPM and Bank of America, respectively. Under the terms of these agreements, the Corporation is paying fixed interest rates ranging from 0.90275% to 1.01250% in exchange for variable rate payments equal to 70% of the effective Federal funds rate. The notional amounts on these swap agreements are also tied to the outstanding principal on the underlying bond series. The Corporation has the option to terminate either of the interest rate swap agreements on or before July 1, 2034.

On March 31, 2020, the Corporation entered into a secured revolving promissory note (the Note) for the maximum principal amount of $100 million with JPM for routine working capital needs. The terms of the Note include a commitment fee of .08% and a LIBOR spread at .55%. As of April 30, 2020, there were no borrowings under the Note.

(In thousands)

Scheduled maturities on long-term debt and future minimum payments on finance lease obligations at December 31, 2019 are as follows:

		Long-term debt	Finance leases	Total
2020	$	5,390	7,169	12,559
2021		4,662	5,412	10,074
2022		22,490	4,419	26,909
2023		27,154	4,086	31,240
2024		34,576	3,804	38,380
Thereafter		2,381,403	24,627	2,406,030
Total		2,475,675	49,517	2,525,192
Plus unamortized bond premium		123,530	—	123,530
Less:				
Amount representing interest on capital lease obligations		—	11,152	11,152
Unamortized bond discount		1,593	—	1,593
Deferred financing costs, net		16,937	—	16,937
Current portion		5,390	5,617	11,007
Long-term portion	$	2,575,285	32,748	2,608,033

(10) Employee Benefit Plans

The Corporation maintains a single noncontributory defined-benefit plan, the RWJBarnabas Health Retirement Income Plan (the RWJBH Plan). Participation in the RWJBH Plan is closed to new entrants and is currently frozen to future benefit accruals. Benefits under the RWJBH Plan are substantially based on years of service and employee’s career earnings. The Corporation will contribute to the RWJBH Plan 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.

During 2019 and 2018, the Society of Actuaries published updated mortality table MP-2019 and MP-2018. The Corporation utilized the updated mortality tables resulting in decreases in projected benefit obligations in the amount of $11,000 and $2,200, respectively, as of December 31, 2019 and 2018.

GAAP requires recognition on the balance sheet of the funded status of defined-benefit pension plans and the recognition in net assets without donor restrictions 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 RWJBH Plan’s assets and the projected benefit obligation of the RWJBH Plan.

(In thousands)

Included in net assets without donor restriction at December 31, 2019 and 2018 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost of approximately $2,670 and $2,800, respectively, and unrecognized actuarial losses of approximately $243,601 and $302,200, respectively. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. 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. Using the measurement date of December 31, the following table sets forth the funded status of the RWJBH Plan and the amounts recognized in the Corporation's consolidated financial statements:

		December 31	
		2019	**2018**
Changes in benefit obligation:			
Benefit obligation at beginning of period	$	1,004,428	1,073,626
Interest cost		43,812	41,672
Actuarial (gains) losses		64,461	(48,628)
Benefits paid and expenses		(62,472)	(62,242)
Benefit obligation at end of year		1,050,229	1,004,428
Change in plan assets:			
Fair value of plan assets at beginning of period		926,408	994,550
Actual return on plan assets		157,739	(32,900)
Employer contributions		7,000	27,000
Benefits paid and expenses		(62,472)	(62,242)
Fair value of plan assets at end of year		1,028,675	926,408
Funded status – accrued pension liability	$	(21,554)	(78,020)

The actuarially computed net periodic pension cost for the years ended December 31, 2019 and 2018 included the following components, which are included in other nonoperating revenue, net:

		2019	**2018**
Interest costs	$	43,812	41,672
Expected return on plan assets		(42,866)	(42,417)
Amortization of actuarial loss		8,328	7,458
Net periodic pension cost	$	9,274	6,713

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

(In thousands)

The weighted average assumptions used in determining the net periodic pension cost was a discount rate of 4.54% and 3.99% and an expected long-term rate of return on plan assets of 4.80% and 4.30% for the years ended December 31, 2019 and 2018, respectively.

The weighted average assumption used in the accounting for the projected benefit obligation was a discount rate of 3.59% and 4.54% as of December 31, 2019 and 2018, respectively.

Expected benefit payments by year as of December 31, 2019 are as follows:

2020	$ 64,520
2021	67,809
2022	69,651
2023	71,148
2024	72,280
2025–2029	330,572

The consolidated assets of the RWJBH 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, 2019 is based upon the assumption that 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 following tables present the Corporation's fair value hierarchy for those pension plan assets measured at fair value as of December 31, 2019 and 2018. At December 31, 2019 and 2018, the Corporation held no Level 3 assets.

	December 31, 2019				
	Fair value	Level 1	Level 2	Level 3	NAV
Cash and cash equivalents	$ 23,464	23,464	—	—	—
Corporate bonds	417,512	—	417,512	—	—
Government bonds	155,088	—	155,088	—	—
Bond funds	261,480	—	261,480	—	—
Bank loans	16,708	—	16,708	—	—
Other investments	1,599	—	1,599	—	—
Alternative investments	152,824	—	—	—	152,824
	$ 1,028,675	23,464	852,387	—	152,824

(In thousands)

	December 31, 2018				
	Fair value	Level 1	Level 2	Level 3	NAV
Cash and cash equivalents	$ 19,576	19,576	—	—	—
Corporate bonds	336,879	—	336,879	—	—
Government bonds	137,213	—	137,213	—	—
Bond funds	269,925	—	269,925	—	—
Bank loans	31,851	—	31,851	—	—
Other investments	466	—	466	—	—
Alternative investments	130,498	—	—	—	130,498
	$ 926,408	19,576	776,334	—	130,498

There were no transfers among Levels 1, 2, and 3 during the years ended December 31, 2019 and 2018.

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, hedge funds, and other.

The following tables summarize redemption and commitment terms for the alternative investment vehicles held in the RWJBH Plan at December 31, 2019 and 2018:

	2019			
Description of investment	Carrying value	Unfunded commitment	Redemption frequency	Redemption notice required
Hedge fund	$ 50,540	—	Semi-annually	90 days
Private equity	63,181	16,619	—	—
Other	39,103	—	—	—
	$ 152,824	16,619		

	2018			
Description of investment	Carrying value	Unfunded commitment	Redemption frequency	Redemption notice required
Hedge fund	$ 46,856	—	Semi-annually	90 days
Private equity	45,330	35,031	—	—
Other	38,312	—	—	—
	$ 130,498	35,031		

The Corporation maintains multiple defined contribution retirement plans for their employees. Benefit expense for these plans for the years ended December 31, 2019 and 2018 was $79,366 and $73,388, respectively. The Corporation also has several supplemental executive retirement plans for certain key individuals. The plans were funded during 2019 and 2018 based upon the benefit formula as outlined in the plan documents.

(In thousands)

At December 31, 2019 and 2018, the Corporation participates in two multiemployer 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, 2019 and for District 1199J – New Jersey Healthcare Employers Pension Plan (District 1199J Plan) was December 31, 2018. The zone status is based on information received by 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, plans 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, 2018 and to the District 1199J Plan for the year ended December 31, 2018 represented 1.83% and 42.01%, respectively, of the total contributions to each plan. Participants in the Local 68 Plan and District 1199J Plan changed by 2.0% and 4.7%, respectively, from December 31, 2018 to December 31, 2019.

At the date the consolidated financial statements were issued, Forms 5500 were not available beyond the year ended June 30, 2018 for Local 68 Plan and December 31, 2018 for the 1199J Plan.

Pension fund	EIN/Pension plan number	Pension protection act zone status	FIP/RP status pending/ implemented	Contributions of RWJBH	Surcharge paid as of 12/31/17	Expiration date of collective-bargaining agreement
Local 68 Engineers Union Pension Plan	51-0176618-001	As of 6/30/2018 Yellow	Yes	$ 443	N/A	3/20/2020
District 1199J-New Jersey Healthcare Employers Pension Plan	22-3095464-001	As of 12/31/2018 Green	No	3,814	N/A	6/30/2020

Due to Local 68 Plan's endangered status (yellow zone), a funding improvement plan was required and was adopted on June 26, 2019. The funding improvement plan increased annual employer contributions beginning September 1, 2017 and continued through September 1, 2019.

Although the audited financial statements were not available beyond the RWJBH Plan year ended December 31, 2018 for the District 1199J Plan, as of March 29, 2019 the plan actuary certified that the RWJBH Plan is in critical status (red zone) for the Plan year beginning January 1, 2019. Pension plans are required to adopt a rehabilitation plan aimed at restoring the financial health of the plan through benefit reductions and surcharge payments made by plan sponsors. In 2018, certain reductions and adjustments were made and if necessary further benefit reductions will be considered. In 2019, no additional reductions were implemented.

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. At December 31, 2018, RWJUH had recorded the present value of the estimated withdrawal liability of $52,230, of which $1,994 was recorded in other current liabilities $50,236 was recorded in other long-term liabilities.

On February 28, 2020, the Corporation and the Union Benefit Plan entered into an agreement to settle all remaining liabilities for $38,489. In connection with this settlement, the Corporation recognized a gain of $11,900, which amount is included in employee benefits in the consolidated statement of operations.

(In thousands)

(11) Leases

The following table presents the components of the ROU assets and liabilities related to leases and their classification in the consolidated balance sheet at December 31, 2019:

Components of lease balances	Classification in consolidated balance sheet		
Assets:			
Operating lease assets	ROU asset	$	231,712
Finance lease assets	Property plant and equipment, net		38,553
Total leased assets		$	270,265
Liabilities:			
Operating lease liabilities:			
Current	Lease obligation	$	40,443
Long term	Lease obligation, net of current portion		195,952
Total operating lease liabilities			236,395
Finance lease liabilities:			
Current	Long-term debt		5,617
Long term	Long-term debt, net of current portion		32,748
Total finance lease liabilities			38,365
Total lease liabilities		$	274,760

Components of lease expense	Classification in consolidated statement of operations		
Operating lease expense	Other operating expenses	$	56,067
Finance lease expense:			
Amortization of leased assets	Depreciation and amortization		3,098
Interest on lease liabilities	Interest		1,566
Total finance lease expense			4,664
Variable and short-term lease expense	Other operating expenses		15,539
Total lease expense		$	76,270

The Corporation determines if an arrangement is a lease at the inception of the contract. The ROU assets represent our right to use the underlying assets for the lease term and the lease liabilities represent our obligation to make lease payments arising from the leases. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. An estimated incremental borrowing rate, which is derived from information available at the lease commencement date, is used to determine the present value of lease payments. The incremental borrowing rates for our portfolio of leases are based upon indicative borrowing rates for taxable debt with terms that correspond to our various lease terms.

The Corporation's operating leases are primarily for real estate, including medical office buildings, and corporate and other administrative offices, as well as medical and office equipment. Finance leases are primarily for real estate and medical equipment. Real estate lease agreements typically have initial terms of 5 to 10 years, and equipment lease agreements typically have initial terms between two and five years. The Corporation has certain long-term land leases whose original terms range from 50 to 98 years. Leases with an initial term of 12 months or less (short-term leases) are not recorded in the consolidated balance sheets.

Real estate leases may include one or more options to renew, with renewals that can extend the lease term from 1 to 20 years. The Corporation has the option to renew its land leases that can extend the lease term significantly. The exercise of lease renewal options is at our sole discretion. Renewal options are assessed at the commencement date, modification date and when a reassessment event has occurred. The renewal option is included in the lease term when it is reasonably certain to be exercised. Certain leases also include options to purchase the leased property. The useful life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain lease agreements for real estate include payments based on actual common area maintenance expenses. These variable lease payments are recognized in other operating expenses, net, but are not included in the ROU asset or liability balances. Real estate leases generally include rental escalation clauses that are factored into our determination of lease expense when appropriate. Escalations based on an index, such as the Consumer Price Index, are estimated at the commencement date and differences to the initial estimate are treated as variable lease payments. The lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

The Corporation has elected the practical expedient that allows lessees to choose to not separate lease and nonlease components by class of underlying asset and is applying this expedient to all real estate asset classes. The Corporation has also elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial indirect costs for existing leases.

The following table presents the components of lease expense and their classification in the consolidated statement of operations for the year ended December 31, 2019:

Sublease income is included in other revenue in the consolidated statement of operations and amounted to $5,484 for the year ended December 31, 2019.

(In thousands)

The weighted average lease terms and discount rates for operating and finance leases at December 31, 2019 are presented in the following table:

Weighted average remaining lease term (years):	
Operating leases	10.7 years
Finance leases	11.4 years
Weighted average discount rate:	
Operating leases	3.97 %
Finance leases	4.03

Cash flow and other information related to leases is included in the following table for the year ended December 31, 2019:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	$	57,102
Operating cash outflows from finance leases		1,566
Financing cash outflows from finance leases		5,484
ROU assets obtained in exchange for lease obligations:		
Operating leases	$	56,659
Finance leases		35,716

Future maturities of lease liabilities at December 31, 2019 are presented in the following table:

		Operating leases	Finance leases	Total
2020	$	48,700	7,169	55,869
2021		41,362	5,412	46,774
2022		32,650	4,419	37,069
2023		26,230	4,086	30,316
2024		22,072	3,804	25,876
Thereafter		140,754	24,627	165,381
Total lease payments		311,768	49,517	361,285
Less imputed interest		75,373	11,152	86,525
Total lease obligations		236,395	38,365	274,760
Less current obligations		40,443	5,617	46,060
Long-term lease obligations	$	195,952	32,748	228,700

(Continued)

(In thousands)

Future minimum rental payments under noncancelable operating leases with durations in excess of one year and capital leases at December 31, 2018, prior to adoption of ASU 2016-02, are presented in the following table:

Period		Operating leases	Sublease income	Operating leases, net	Finance leases	Total
2019	$	47,832	1,346	46,486	3,846	50,332
2020		39,047	1,204	37,843	3,184	41,027
2021		31,775	1,006	30,769	1,376	32,145
2022		25,038	681	24,357	394	24,751
2023		18,555	235	18,320	—	18,320
Thereafter		121,750	45	121,705	—	121,705
	$	283,997	4,517	279,480	8,800	288,280

Rental expense under operating leases, including short-term leases, was approximately $69,000 for the year ended December 31, 2018.

(12) Commitments and Contingencies

(a) Professional and General Liabilities

Commercial Professional Insurance Co. Ltd. (CPIC), is 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 its affiliates. CPIC is a wholly owned affiliate of SBMC and is consolidated in the accompanying consolidated 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 sheets. 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 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.

For policy years beginning July 1, 2004, CPIC provides payment of claims on a reimbursement basis for the Corporation’s self-insurance program. For professional liability, the limits are $1M for each and every claim at Children’s Specialized Hospital, $7M for all other facilities, $10M for each batch Medical Incident, with a buffer layer of $2M for each nonbatch and batch medical incident and in aggregate and an annual aggregate limit of $60 million for the program. For general liability, the limit is $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. From 2018, the excess coverage is purchased through CPIC and reinsured by various carriers.

Prior to December 31, 2016, certain affiliates of the Corporation were insured through Systems and Affiliated Members Limited (SAAML). Those affiliates 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.

On December 31, 2016, those affiliates 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. CPIC extended coverage, effective December 31, 2016, for all existing SAAML policies that were commuted and terminated. CPIC's coverage insured each of those affiliates for the risks previously insured by SAAML. In February 2017, CPIC and SAAML finalized a merger, with CPIC as the surviving company. CPIC issued policies providing professional liability and comprehensive general liability coverage for self-insured retention for all the Corporation's entities under a combined insurance program.

For the period January 1, 2007 through November 1, 2018 CPIC was 95% reinsurer of Professional Quality Liability Insurance Company (ProQual), a Vermont Risk Retention Group. ProQual was initially capitalized by Barnabas Health, Inc. in December 2006 to provide professional liability insurance to physicians on staff at Monmouth Medical Center. The accounts of ProQual are included in the consolidated financial statements of the Corporation. ProQual ceased writing new policies in 2015 and operated in run-off status until dissolution on November 1, 2018.

Effective November 1, 2018, ProQual and the Corporation entered into an agreement whereby the Corporation accepted assignment of the rights and obligations of ProQual under the reinsurance agreement, including all endorsements thereto, with CPIC. CPIC as reinsurer, issued a policy endorsement amending the reinsurance limits from 95% to 100%.

The total accrued liability at December 31, 2019 and 2018 of approximately $251,522 and $249,966, which includes tail coverage, has been discounted at 2.5% and is included in self-insurance liabilities in the accompanying consolidated balance sheet. The accrual at December 31, 2019 and 2018 includes $14,455 and $18,841 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, 2019 and 2018.

(b) Workers' Compensation

The Corporation is self-insured for the majority of workers' compensation benefits. At December 31, 2019 and 2018, 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 $51,049 and $48,735, respectively, and includes $10,558 and $11,064 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 from the runoff of a legacy workers compensation program, which ended in 2013, is supported by an unsecured letter of credit in the amount of $6,900 (note 8).

(c) Employee Health Insurance

The Corporation maintains self-insured employee health benefit programs to provide coverage for its employees. At December 31, 2019 and 2018, 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 $21,207 and $21,670, respectively, and is included in self-insurance liabilities in the consolidated balance sheets.

(d) 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.

(e) EHR Platform

The Corporation entered into an agreement with EPIC to deploy an integrated Electronic Health Record (EHR) with supporting revenue cycle, data analytics, and consumer-facing digital capabilities. When completed, this integration will, among other things, establish one EHR across all ambulatory sites to support the ability to manage physicians as one integrated practice and support the consolidation of the various revenue cycle systems to an integrated solution.

The implementation will be done in phases. The anticipated completion date is 2023, with a cost of approximately $750 million over 10 years.

(f) Other

Approximately 24% of the Corporation’s employees were covered by collective bargaining agreements for the years ended December 31, 2019 and 2018; of which 12% expire in the next year.

(13) Endowment Funds Net Asset Classification

The Corporation’s endowment funds consist 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 net assets without and with donor restrictions. 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) Underwater Endowment Funds

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 net assets without donor restrictions as of year-end. These deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. No material deficiencies existed at December 31, 2019 and 2018.

(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 net assets with donor restrictions (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 restricted endowment funds is classified based on donor stipulations as net assets with donor restrictions 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.

(In thousands)

Changes in endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	Without donor restrictions	With donor restrictions: Original gift	With donor restrictions: Accumulated gains	Total
Endowment net assets, end of year, December 31, 2017	$ 1,000	33,494	9,816	44,310
Investment return, net	57	—	941	998
Contributions	—	1	—	1
Change in interest in perpetual trust	—	(130)	—	(130)
Net assets transferred	—	29	(1,181)	(1,152)
Appropriation of endowment assets for expenditure	(57)	—	(2,345)	(2,402)
Endowment net assets, end of year, December 31, 2018	1,000	33,394	7,231	41,625
Investment return, net	104	—	3,239	3,343
Contributions	—	11	—	11
Change in interest in perpetual trust	—	(892)	—	(892)
Net assets transferred	—	—	—	—
Appropriation of endowment assets for expenditure	(104)	—	(1,599)	(1,703)
Endowment net assets, end of year, December 31, 2019	$ 1,000	32,513	8,871	42,384

(14) Functional Expenses

The Corporation provides general healthcare services primarily to residents within its geographic area and supports research and educational programs. Expenses are allocated based on estimated time and effort contingent upon the location and/or specialty the expense was incurred.

(In thousands)

Expenses related to providing these services and supporting functions are as follows for the years ended December 31, 2019 and 2018:

	2019		
	Healthcare services	**General and administrative**	**Total**
Salaries and wages	$ 1,800,496	292,346	2,092,842
Physician fees and salaries	495,296	55,033	550,329
Employee benefits	350,963	57,134	408,097
Supplies	1,103,428	1,482	1,104,910
Other	741,872	237,406	979,278
Interest	74,608	12,619	87,227
Depreciation and amortization	192,967	47,714	240,681
Total	$ 4,759,630	703,734	5,463,364

	2018		
	Healthcare services	**General and administrative**	**Total**
Salaries and wages	$ 1,720,326	248,630	1,968,956
Physician fees and salaries	449,347	49,928	499,275
Employee benefits	358,793	53,613	412,406
Supplies	1,007,709	7,293	1,015,002
Other	719,122	222,968	942,090
Interest	58,582	12,596	71,178
Depreciation and amortization	201,632	25,435	227,067
Total	$ 4,515,511	620,463	5,135,974

(15) 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, medical transportation and fitness, and wellness programs. The investments range from 25% to 51% ownership. The Corporation does not exercise operating control over these investments; accordingly, they are recorded under the equity method of accounting and report only the Corporation's share of net income attributable to the investee as equity in earnings of unconsolidated affiliates in the accompanying consolidated statements of operations. Financial information for the equity method investees for the years ended December 31, 2019 and 2018 includes net operating revenue of $495,772 and $438,114, net income of $123,280 and $97,513 and net income attributable to the Corporation of $42,528 and $35,304, respectively.

Total investments in joint ventures amounted to $174,403 and $162,132 at December 31, 2019 and 2018, respectively. These amounts are included in other assets in the consolidated balance sheets.

(16) Partnership

Effective July 1, 2018, the Corporation, Rutgers, the State University of New Jersey (Rutgers) and Rutgers Health Group (RHG) entered into a Master Affiliation Agreement (MAA) to partner and create the state's largest academic health care system with the goal of integrating medical education, advanced research, and healthcare delivery to produce world-class clinical services and outcomes.

The Corporation, Rutgers, and RHG continue to remain as separate and distinct legal entities. The MAA will require reciprocal commitments and the alignment of each party's respective strategic, operational and financial interests, and activities as part of a coordinated and mutually supportive academic health system. A Joint Committee has been established for strategic planning and oversight featuring equal representation from the Corporation and Rutgers.

The Corporation has invested $100 million through June 30, 2019. In connection with this investment, the Corporation capitalized $45,000 for the acquisition of the Rutgers Health brand name. In addition, more than one billion dollars over 20 years will be invested to expand the education and research mission of the integrated academic health system. During the years ended December 31, 2019 and 2018, the Corporation made payments to Rutgers in the amounts of $78,031 and $56,719, respectively, related to the MAA. As of December 31, 2019 and 2018, the Corporation owed Rutgers $45,744 and $72,952, respectively.

The Corporation will also fund the construction of a new clinical and research building for the Rutgers Cancer Institute of New Jersey, the states only National Cancer Institute designated comprehensive cancer center. The new building will be adjacent to, and integrated with, the Corporation's medical center in New Brunswick. No commitments have been entered into as of December 31, 2019; however, the estimated cost will be approximately $750 million.

(17) Potential Affiliations

The Corporation is currently engaged in potential affiliation discussions with Trinitas Regional Medical Center (Trinitas) headquartered in Elizabeth, New Jersey. The Corporation and Trinitas have entered into a Non-disclosure Agreement and a Letter of Intent. The Corporation and CarePoint Health announced on October 22, 2019 that they have entered into a Non-disclosure Agreement and a nonbinding Letter of Intent. In addition, the Corporation and Saint Peter's Healthcare System announced on December 16, 2019 that they have entered into a Nondisclosure Agreement and a nonbinding Letter of Intent.

Approvals will be necessary from state and federal officials, and others, before the transactions are considered complete. It is not currently possible to determine if, or when, the transactions will be completed.

(18) Subsequent Events

The Corporation's operations are subject to certain significant additional risks regarding the outbreak of COVID-19. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the President declared a national emergency. The federal and state governments, including New Jersey, have imposed strict measures to curtail certain aspects of public life in an effort to contain the virus. Despite these efforts, incidents of COVID-19 infection cases in the United States, the Northeast and in the Corporation's service area have risen sharply throughout March and April 2020.

Although the Corporation has activated plans to address the COVID-19 threat and is operating pursuant to infectious disease protocols and an emergency plan, the impact of a pandemic, epidemic or outbreak of an infectious disease is difficult to predict. In addition to the direct impact on the health care industry, financial markets in the United States and globally have recently seen significant declines attributed to COVID-19 concerns and, collectively, these impacts could adversely impact the business, financial condition or results of operations, and, accordingly, may materially impact the financial condition of the Corporation.

As of the date of issuance, the Corporation experienced a significant operating loss and investments experienced a significant decrease in fair value from the consolidated balance sheet date. Additionally, Congress passed, and the President signed, several bills aimed at easing the financial burden of COVID-19 on the health care community, most notably the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). At this point the Corporation is not able to determine the ultimate impact of the pandemic or the extent the CARES Act or other similar programs will mitigate these impacts.

Management evaluated all events and transactions that occurred after December 31, 2019 and through April 30, 2020. The Corporation did not have any material recognizable subsequent events during the period, except as previously disclosed.

RWJ BARNABAS HEALTH, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2019

(In thousands)

Assets	Barnabas Health, Inc.	Children's Specialized Hospital	Clara Maass Medical Center	Community Medical Center	Jersey City Medical Center	Monmouth Medical Center	Newark Beth Israel Medical Center	Robert Wood Johnson University Hospital
Current assets:								
Cash and cash equivalents	$ 777,613	467	7	9	16	101	1,407	824
Investments	43,443	—	—	—	—	—	—	—
Assets limited or restricted as to use	31,975	6	—	—	61	—	—	5,404
Patient accounts receivable	—	12,655	24,430	36,540	39,919	51,208	64,539	153,794
Due from affiliates	61,524	76,162	106,879	334,592	83,919	559,107	304,128	814,922
Estimated amounts due from third-party payors	—	—	1,141	—	2,112	3,875	2,146	—
Other current assets	40,926	6,134	6,594	9,784	11,632	19,631	23,062	43,820
Total current assets	955,481	95,424	139,051	380,925	137,659	633,922	395,282	1,018,764
Assets limited or restricted as to use, noncurrent portion:	14,599	2,982	2,276	2,189	2,347	5,633	28,135	12,229
Investments	4,063,362	—	—	—	—	—	3,653	(223)
Property, plant, and equipment, net	143,798	68,555	133,194	146,135	277,003	130,498	120,342	632,560
Right of use asset	28,778	7,316	1,506	5,593	29,249	3,995	5,481	68,848
Due from affiliates	—	—	—	—	—	—	—	—
Other assets, net	312,603	27,732	1,079	7,639	3,633	47,873	123	68,578
	$ 5,518,621	202,009	277,106	542,481	449,891	821,921	553,016	1,800,756
Liabilities and Net Assets								
Current liabilities:								
Accounts payable	$ 78,617	3,559	15,317	14,442	17,135	25,891	27,783	75,383
Accrued expenses and other current liabilities	168,447	14,370	24,150	23,065	29,405	43,345	74,595	169,193
Estimated amounts due to third-party payors	642	73	—	1,879	—	—	—	5,101
Long-term debt and notes payable	169	1,026	710	231	218	403	385	3,498
Lease obligation	2,692	1,618	705	2,388	5,444	1,713	1,417	8,324
Due to affiliates	4,047,286	—	—	—	—	150,832	—	330
Self-insurance liabilities	29,644	—	—	—	—	—	—	—
Total current liabilities	4,327,497	20,646	40,882	42,005	52,202	222,184	104,180	261,829
Estimated amounts due to third-party payors, net of current portion	—	—	2,563	6,424	5,127	2,297	10,139	8,541
Self-insurance liabilities, net of current portion	92,493	—	—	—	—	—	—	—
Long-term debt, less current portion	307,687	43,094	161,534	102,020	224,870	250,183	239,390	616,852
Lease obligation, less current portion	22,535	5,729	799	3,112	23,955	2,263	4,211	60,453
Accrued pension liability	21,554	—	—	—	—	—	—	—
Other liabilities	14,984	3,045	2,414	2,582	5,122	5,782	20,819	16,206
Due to affiliates	—	—	—		—	—	—	—
Total liabilities	4,786,750	72,514	208,192	156,143	311,276	482,709	378,739	963,881
Net assets	731,871	129,495	68,914	386,338	138,615	339,212	174,277	836,875
Total liabilities and net assets	$ 5,518,621	202,009	277,106	542,481	449,891	821,921	553,016	1,800,756

RWJ BARNABAS HEALTH, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2019

(In thousands)

Assets		Robert Wood Johnson University Hospital at Hamilton	Robert Wood Johnson University Hospital Rahway	Saint Barnabas Medical Center	Consolidating entries and eliminations	Total obligated group	Other entities	Consolidating entries and eliminations	Consolidated balance
Current assets:									
Cash and cash equivalents	$	35	583	(454)	—	780,608	(443,548)	—	337,060
Investments		—	—	—	—	43,443	—	—	43,443
Assets limited or restricted as to use		182	246	—	—	37,874	26,426	—	64,300
Patient accounts receivable		15,666	12,103	93,049	—	503,903	49,205	—	553,108
Due from affiliates		106,510	62,907	1,091,740	(3,599,550)	2,840	879,411	(882,251)	—
Estimated amounts due from third-party payors		—	—	5,271	(8,466)	6,079	265	—	6,344
Other current assets		5,741	3,759	25,370	—	196,453	44,730	(27,890)	213,293
Total current assets		128,134	79,598	1,214,976	(3,608,016)	1,571,200	556,489	(910,141)	1,217,548
Assets limited or restricted as to use, noncurrent portion:		1,785	2,371	34,326	—	108,872	154,001	—	262,873
Investments		205	16	5,808	—	4,072,821	32,927	—	4,105,748
Property, plant, and equipment, net		93,066	26,654	384,459	—	2,156,264	127,931	—	2,284,195
Right of use asset		6,397	1,130	11,163	—	169,456	62,256	—	231,712
Due from affiliates		—	—	—	—	—	19,813	(19,813)	—
Other assets, net		2,378	847	5,850	(132,488)	345,847	102,217	(154,616)	293,448
	$	231,965	110,616	1,656,582	(3,740,504)	8,424,460	1,055,634	(1,084,570)	8,395,524
Liabilities and Net Assets									
Current liabilities:									
Accounts payable	$	13,829	8,306	46,349	—	326,611	38,017	—	364,628
Accrued expenses and other current liabilities		10,737	9,905	64,336	—	631,548	116,558	(23,644)	724,462
Estimated amounts due to third-party payors		689	81	—	(8,465)	—	—	—	—
Long-term debt and notes payable		1,308	84	4,597	—	12,629	1,320	(2,942)	11,007
Lease obligation		1,231	387	2,642	—	28,561	11,882	—	40,443
Due to affiliates		—	11	8	(3,599,551)	598,916	283,335	(882,251)	—
Self-insurance liabilities		—	—	—	—	29,644	47,966		77,610
Total current liabilities		27,794	18,774	117,932	(3,608,016)	1,627,909	499,078	(908,837)	1,218,150
Estimated amounts due to third-party payors, net of current portion		2,358	8,313	2,369	—	48,131	—	—	48,131
Self-insurance liabilities, net of current portion		—	—	—	—	92,493	153,675	—	246,168
Long-term debt, net of current portion		122,765	13,860	461,987	—	2,544,242	82,622	(18,831)	2,608,033
Lease obligation, less current portion		5,087	741	8,644	—	137,529	58,423	—	195,952
Accrued pension liability		—	—	—	—	21,554	—	—	21,554
Other liabilities		2,313	933	7,756	(7,488)	74,468	50,244	—	124,712
Due to affiliates		—	—	19,813	—	19,813	—	(19,813)	—
Total liabilities		160,317	42,621	618,501	(3,615,504)	4,566,139	844,042	(947,481)	4,462,700
Net assets		71,648	67,995	1,038,081	(125,000)	3,858,321	211,592	(137,089)	3,932,824
Total liabilities and net assets	$	231,965	110,616	1,656,582	(3,740,504)	8,424,460	1,055,634	(1,084,570)	8,395,524

See accompanying independent auditors' report.

RWJ BARNABAS HEALTH, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2018

(In thousands)

Assets	Barnabas Health, Inc.	Children's Specialized Hospital	Clara Maass Medical Center	Community Medical Center	Jersey City Medical Center	Monmouth Medical Center	Newark Beth Israel Medical Center	Robert Wood Johnson University Hospital
Current assets:								
Cash and cash equivalents	$ 626,484	2,054	8	9	18	23	605	1,768
Investments	26,662	—	—	—	—	—	—	—
Assets limited or restricted as to use	31,951	13	—	136	115	—	—	6,168
Patient accounts receivable	—	13,019	26,308	34,648	35,999	48,723	64,545	141,791
Due from affiliates	141,619	72,012	132,073	325,072	97,022	523,389	297,376	818,003
Estimated amounts due from third-party payors	—	—	—	—	2,604	1,506	—	—
Other current assets	38,808	8,734	6,714	10,501	13,188	21,569	26,851	41,898
Total current assets	865,524	95,832	165,103	370,366	148,946	595,210	389,377	1,009,628
Assets limited or restricted as to use, noncurrent portion:	157	4,050	1,695	3,669	2,161	4,125	21,736	9,053
Investments	3,104,197	314	—	—	—	—	4,191	(654)
Property, plant, and equipment, net	99,454	63,531	124,740	139,317	254,358	128,422	107,581	640,465
Due from affiliates	14,120	—	—	—	—	—	—	—
Other assets, net	320,384	28,702	1,102	8,738	5,585	42,847	30	69,630
	$ 4,403,836	192,429	292,640	522,090	411,050	770,604	522,915	1,728,122
Liabilities and Net Assets								
Current liabilities:								
Accounts payable	$ 74,460	2,684	11,817	13,920	14,622	19,848	25,808	66,096
Accrued expenses and other current liabilities	134,339	18,870	30,552	30,388	28,657	52,928	71,881	146,039
Estimated amounts due to third-party payors	642	337	349	1,270	—	—	253	8,865
Long-term debt and notes payable	376	936	74	68	132	848	218	2,834
Due to affiliates	3,980,566	102	1,613	247	—	141,056	4	354
Self-insurance liabilities	29,401	—	—	—	—	—	—	—
Total current liabilities	4,219,784	22,929	44,405	45,893	43,411	214,680	98,164	224,188
Estimated amounts due to third-party payors, net of current portion	—	—	1,594	1,634	5,189	2,436	7,691	10,054
Self-insurance liabilities, net of current portion	99,410	—	—	—	—	—	—	—
Long-term debt, less current portion	196,916	36,763	112,047	71,422	178,707	220,358	197,543	502,367
Accrued pension liability	78,020	—	—	—	—	—	—	—
Other liabilities	3,863	4,144	17,233	4,260	4,904	4,554	12,546	61,444
Due to affiliates	—	—	—	—	—	—	—	—
Total liabilities	4,597,993	63,836	175,279	123,209	232,211	442,028	315,944	798,053
Net assets (deficit)	(194,157)	128,593	117,361	398,881	178,839	328,576	206,971	930,069
Total liabilities and net assets	$ 4,403,836	192,429	292,640	522,090	411,050	770,604	522,915	1,728,122

(Continued)

RWJ BARNABAS HEALTH, INC.

Consolidating Schedule – Balance Sheet Information

December 31, 2018

(In thousands)

Assets		Robert Wood Johnson University Hospital at Hamilton	Robert Wood Johnson University Hospital Rahway	Saint Barnabas Medical Center	Consolidating entries and eliminations	Total obligated group	Other entities	Consolidating entries and eliminations	Consolidated balance
Current assets:									
Cash and cash equivalents	$	79	598	871	—	632,517	(292,022)	—	340,495
Investments		—	—	—	—	26,662	—	—	26,662
Assets limited or restricted as to use		222	234	—	—	38,839	18,483	—	57,322
Patient accounts receivable		15,211	10,533	86,791	—	477,568	30,288	—	507,856
Due from affiliates		107,794	66,699	1,083,350	(3,662,530)	1,879	781,484	(783,363)	—
Estimated amounts due from third-party payors		—	—	2,893	(7,003)	—	—	—	—
Other current assets		5,703	5,027	23,385	—	202,378	21,564	(22,278)	201,664
Total current assets		129,009	83,091	1,197,290	(3,669,533)	1,379,843	559,797	(805,641)	1,133,999
Assets limited or restricted as to use, noncurrent portion:		1,247	2,253	37,596	—	87,742	152,400	—	240,142
Investments		291	9	5,890	—	3,114,238	33,667	—	3,147,905
Property, plant, and equipment, net		95,818	27,736	360,352	—	2,041,774	122,617	—	2,164,391
Due from affiliates		—	—	—	—	14,120	33,581	(47,701)	—
Other assets, net		3,033	871	5,830	(137,689)	349,063	91,672	(159,859)	280,876
	$	229,398	113,960	1,606,958	(3,807,222)	6,986,780	993,734	(1,013,201)	6,967,313
Liabilities and Net Assets									
Current liabilities:									
Accounts payable	$	10,891	8,304	39,816	—	288,266	19,966	—	308,232
Accrued expenses and other current liabilities		13,878	12,259	67,691	—	607,482	96,212	(18,859)	684,835
Estimated amounts due to third-party payors		1,471	25	—	(7,003)	6,209	159	—	6,368
Long-term debt and notes payable		1,375	32	3,198	—	10,091	464	(2,113)	8,442
Due to affiliates		—	2	28	(3,662,529)	461,443	321,921	(783,364)	—
Self-insurance liabilities		—	—	—	—	29,401	36,184	—	65,585
Total current liabilities		27,615	20,622	110,733	(3,669,532)	1,402,892	474,906	(804,336)	1,073,462
Estimated amounts due to third-party payors, net of current portion		2,613	8,278	2,222	—	41,711	—	—	41,711
Self-insurance liabilities, net of current portion		—	—	—	—	99,410	155,376	—	254,786
Long-term debt, net of current portion		115,401	10,885	385,797	—	2,028,206	82,848	(21,773)	2,089,281
Accrued pension liability		—	—	—	—	78,020	—	—	78,020
Other liabilities		2,018	724	6,987	(12,690)	109,987	59,464	—	169,451
Due to affiliates		—	—	33,581	—	33,581	14,120	(47,701)	—
Total liabilities		147,647	40,509	539,320	(3,682,222)	3,793,807	786,714	(873,810)	3,706,711
Net assets		81,751	73,451	1,067,638	(125,000)	3,192,973	207,020	(139,391)	3,260,602
Total liabilities and net assets	$	229,398	113,960	1,606,958	(3,807,222)	6,986,780	993,734	(1,013,201)	6,967,313

See accompanying independent auditors' report.

RWJ BARNABAS HEALTH, INC.

Consolidating Schedule – Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2019

(In thousands)

		Barnabas Health, Inc.	Children's Specialized Hospital	Clara Maass Medical Center	Community Medical Center	Jersey City Medical Center	Monmouth Medical Center	Newark Beth Israel Medical Center	Robert Wood Johnson University Hospital
Revenue:									
Net patient service revenue	$	375	138,047	260,782	391,908	381,388	539,464	620,626	1,414,510
Other revenue, net		793,554	20,307	5,696	3,250	18,462	17,332	40,112	36,588
Total revenue		793,929	158,354	266,478	395,158	399,850	556,796	660,738	1,451,098
Expenses:									
Salaries and wages		147,262	80,872	111,991	140,201	144,801	185,065	218,683	502,887
Physician fees and salaries		30,533	11,086	16,623	20,597	42,559	47,315	84,266	124,652
Employee benefits		299,337	18,518	26,404	28,640	29,067	32,512	56,658	69,367
Supplies		4,290	4,810	44,802	76,302	63,944	101,039	124,474	333,886
Other		259,355	27,384	64,956	95,376	86,761	128,040	147,056	296,528
Interest		9,606	1,497	5,340	2,933	8,112	8,619	7,839	21,394
Depreciation and amortization		24,884	7,455	11,705	14,344	16,641	20,254	16,242	69,927
Total expenses		775,267	151,622	281,821	378,393	391,885	522,844	655,218	1,418,641
Income (loss) from operations		18,662	6,732	(15,343)	16,765	7,965	33,952	5,520	32,457
Nonoperating revenue (expenses), net:									
Investment income (loss), net		442,266	7	—	—	—	—	73	51
Other, net		(142)	(36)	(672)	(1,438)	(741)	(1,166)	(1,491)	(685)
Total nonoperating revenue (expenses), net		442,124	(29)	(672)	(1,438)	(741)	(1,166)	(1,418)	(634)
Excess (deficiency) of revenue over expenses		460,786	6,703	(16,015)	15,327	7,224	32,786	4,102	31,823
Net change in unrealized gains on available for sale investments		—	—	—	—	—	—	—	575
Pension changes other than net periodic benefit cost		58,739	—	—	—	—	—	—	—
Net assets released from restriction for purchases of property and equipment		—	2,465	288	116	20	328	1,021	3,799
Net assets transferred		—	—	—	—	—	—	—	—
Other, net		406,503	(7,358)	(32,673)	(28,858)	(48,047)	(27,528)	(38,616)	(125,961)
Total other changes in net assets		465,242	(4,893)	(32,385)	(28,742)	(48,027)	(27,200)	(37,595)	(121,587)
Increase (decrease) in net assets without donor restrictions		926,028	1,810	(48,400)	(13,415)	(40,803)	5,586	(33,493)	(89,764)
Change in net assets with donor restrictions		—	(908)	(47)	872	579	5,050	799	(3,430)
Net assets (deficit), beginning of year		(194,157)	128,593	117,361	398,881	178,839	328,576	206,971	930,069
Net assets, end of year	$	731,871	129,495	68,914	386,338	138,615	339,212	174,277	836,875

(Continued)

RWJ BARNABAS HEALTH, INC.

Consolidating Schedule – Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2019

(In thousands)

		Robert Wood Johnson University Hospital at Hamilton	Robert Wood Johnson University Hospital Rahway	Saint Barnabas Medical Center	Consolidating entries and eliminations	Total obligated group	Other entities	Consolidating entries and eliminations	Consolidated balance
Revenue:									
Net patient service revenue	$	193,266	109,233	895,336	—	4,944,935	415,020	—	5,359,955
Other revenue, net		1,594	6,230	17,445	(775,888)	184,682	321,001	(240,768)	264,915
Total revenue		194,860	115,463	912,781	(775,888)	5,129,617	736,021	(240,768)	5,624,870
Expenses:									
Salaries and wages		67,711	48,058	253,753	—	1,901,284	191,558	—	2,092,842
Physician fees and salaries		12,520	8,025	81,540	—	479,716	191,612	(120,999)	550,329
Employee benefits		10,473	8,710	54,139	(261,581)	372,244	56,141	(20,288)	408,097
Supplies		43,631	21,275	203,277	—	1,021,730	88,416	(5,236)	1,104,910
Other		49,654	26,989	227,184	(514,307)	894,976	176,495	(92,193)	979,278
Interest		4,092	448	16,323	—	86,203	3,076	(2,052)	87,227
Depreciation and amortization		9,425	4,735	32,400	—	228,012	12,669	—	240,681
Total expenses		197,506	118,240	868,616	(775,888)	4,984,165	719,967	(240,768)	5,463,364
Income (loss) from operations		(2,646)	(2,777)	44,165	—	145,452	16,054	—	161,506
Nonoperating revenue (expenses), net:									
Investment income (loss), net		(60)	9	145	—	442,491	7,051	—	449,542
Other, net		(114)	(827)	(1,318)	—	(8,630)	478	—	(8,152)
Total nonoperating revenue (expenses), net		(174)	(818)	(1,173)	—	433,861	7,529	—	441,390
Excess (deficiency) of revenue over expenses		(2,820)	(3,595)	42,992	—	579,313	23,583	—	602,896
Net change in unrealized gains on available for sale investments		—	—	—	—	575	36	—	611
Pension changes other than net periodic benefit cost		—	—	—	—	58,739	—	—	58,739
Net assets released from restriction for purchases of property and equipment		725	317	6,980	—	16,059	—	—	16,059
Net assets transferred		—	—	—	—	—	—	—	—
Other, net		(7,353)	(1,965)	(74,279)	—	13,865	(17,876)	1,366	(2,645)
Total other changes in net assets		(6,628)	(1,648)	(67,299)	—	89,238	(17,840)	1,366	72,764
Increase (decrease) in net assets without donor restrictions		(9,448)	(5,243)	(24,307)	—	668,551	5,743	1,366	675,660
Change in net assets with donor restrictions		(655)	(213)	(5,250)	—	(3,203)	(1,171)	936	(3,438)
Net assets (deficit), beginning of year		81,751	73,451	1,067,638	(125,000)	3,192,973	207,020	(139,391)	3,260,602
Net assets, end of year	$	71,648	67,995	1,038,081	(125,000)	3,858,321	211,592	(137,089)	3,932,824

See accompanying independent auditors' report.

RWJ BARNABAS HEALTH, INC.

Consolidating Schedule – Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2018

(In thousands)

	Barnabas Health, Inc.	Children's Specialized Hospital	Clara Maass Medical Center	Community Medical Center	Jersey City Medical Center	Monmouth Medical Center	Newark Beth Israel Medical Center	Robert Wood Johnson University Hospital
Revenue:								
Net patient service revenue	$ (1,400)	126,042	267,987	388,094	383,706	529,876	600,716	1,308,207
Other revenue, net	731,431	20,507	4,620	3,587	18,789	17,000	44,767	28,857
Total revenue	730,031	146,549	272,607	391,681	402,495	546,876	645,483	1,337,064
Expenses:								
Salaries and wages	126,036	74,324	109,322	140,586	154,049	178,210	209,447	464,712
Physician fees and salaries	15,885	11,373	12,736	19,688	37,201	43,962	76,505	130,229
Employee benefits	289,020	17,915	26,913	28,715	28,627	32,821	56,991	80,298
Supplies	2,691	4,298	42,439	72,385	60,972	96,266	121,561	310,193
Other	252,068	24,718	63,995	94,101	84,068	125,016	139,111	265,744
Interest	9,610	1,484	3,125	2,196	7,132	7,038	6,273	16,442
Depreciation and amortization	19,809	7,974	9,957	13,433	16,335	18,997	15,142	69,676
Total expenses	715,119	142,086	268,487	371,104	388,384	502,310	625,030	1,337,294
Income (loss) from operations	14,912	4,463	4,120	20,577	14,111	44,566	20,453	(230)
Nonoperating (expenses) revenue, net:								
Investment (loss) income, net	(135,493)	(13)	—	—	—	—	21	(4)
Other, net	(54,481)	—	(482)	(1,036)	(536)	(838)	(1,077)	233
Total nonoperating (expenses) revenue, net	(189,974)	(13)	(482)	(1,036)	(536)	(838)	(1,056)	229
Excess (deficiency) of revenue over expenses	(175,062)	4,450	3,638	19,541	13,575	43,728	19,397	(1)
Net change in unrealized (losses) gains on available for sale investments	—	—	—	—	—	—	(2)	(909)
Pension changes other than net periodic benefit cost	(19,231)	—	—	—	—	—	—	—
Net assets released from restriction for purchases of property and equipment	—	1,591	75	221	343	466	263	1,846
Net assets transferred	59,919	—	—	—	—	—	—	—
Other, net	3,194	—	(440)	(379)	(667)	(389)	284	(3,975)
Total other changes in net assets	43,882	1,591	(365)	(158)	(324)	77	545	(3,038)
Increase (decrease) in net assets without donor restrictions	(131,180)	6,041	3,273	19,383	13,251	43,805	19,942	(3,039)
Change in net assets with donor restrictions	—	(943)	(24)	91	962	9,148	529	(1,829)
Net assets (deficit), beginning of year	(62,977)	123,495	114,112	379,407	164,626	275,623	186,500	934,937
Net assets (deficit), end of year	$ (194,157)	128,593	117,361	398,881	178,839	328,576	206,971	930,069

(Continued)

RWJ BARNABAS HEALTH, INC.

Consolidating Schedule – Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2018

(In thousands)

	Robert Wood Johnson University Hospital at Hamilton	Robert Wood Johnson University Hospital Rahway	Saint Barnabas Medical Center	Consolidating entries and eliminations	Total obligated group	Other entities	Consolidating entries and eliminations	Consolidated balance
Revenue:								
Net patient service revenue	$ 190,439	113,082	852,123	—	4,758,872	341,353	—	5,100,225
Other revenue, net	1,891	6,088	21,111	(728,628)	170,020	302,795	(221,907)	250,908
Total revenue	192,330	119,170	873,234	(728,628)	4,928,892	644,148	(221,907)	5,351,133
Expenses:								
Salaries and wages	63,658	46,671	242,645	—	1,809,660	159,296	—	1,968,956
Physician fees and salaries	13,576	7,547	76,929	—	445,631	162,171	(108,527)	499,275
Employee benefits	11,090	8,396	52,665	(248,218)	385,233	47,140	(19,967)	412,406
Supplies	41,988	19,489	182,196	—	954,478	73,007	(12,483)	1,015,002
Other	47,653	26,706	213,359	(480,410)	856,129	164,826	(78,865)	942,090
Interest	3,041	337	13,577	—	70,255	2,988	(2,065)	71,178
Depreciation and amortization	9,303	5,163	30,355	—	216,144	10,923	—	227,067
Total expenses	190,309	114,309	811,726	(728,628)	4,737,530	620,351	(221,907)	5,135,974
Income (loss) from operations	2,021	4,861	61,508	—	191,362	23,797	—	215,159
Nonoperating (expenses) revenue, net:								
Investment (loss) income, net	(67)	17	61	—	(135,478)	2,849	—	(132,629)
Other, net	—	(455)	(947)	—	(59,619)	(621)	—	(60,240)
Total nonoperating (expenses) revenue, net	(67)	(438)	(886)	—	(195,097)	2,228	—	(192,869)
Excess (deficiency) of revenue over expenses	1,954	4,423	60,622	—	(3,735)	26,025	—	22,290
Net change in unrealized (losses) gains on available for sale investments	—	—	—	—	(911)	(108)	—	(1,019)
Pension changes other than net periodic benefit cost	—	—	—	—	(19,231)	—	—	(19,231)
Net assets released from restriction for purchases of property and equipment	—	—	7,763	—	12,568	236	—	12,804
Net assets transferred	—	—	—	—	59,919	(59,919)	—	—
Other, net	684	821	(4)	—	(871)	(8,932)	4,766	(5,037)
Total other changes in net assets	684	821	7,759	—	51,474	(68,723)	4,766	(12,483)
Increase (decrease) in net assets without donor restrictions	2,638	5,244	68,381	—	47,739	(42,698)	4,766	9,807
Change in net assets with donor restrictions	358	196	(771)	—	7,717	18,029	(14,234)	11,512
Net assets (deficit), beginning of year	78,755	68,011	1,000,028	(125,000)	3,137,517	231,689	(129,923)	3,239,283
Net assets (deficit), end of year	$ 81,751	73,451	1,067,638	(125,000)	3,192,973	207,020	(139,391)	3,260,602

See accompanying independent auditors' report.