



**Secondary Market  
Disclosure Information**

September 30, 2019

## **RWJ BARNABAS HEALTH, INC.**

Consolidated Financial Statements and Supplementary Information as of September 30, 2019  
and December 31, 2018 and for the nine months ended September 30, 2019 and 2018

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**RWJ BARNABAS HEALTH, INC.**  
Secondary Market Disclosure Information  
September 30, 2019

Summary of Obligations under the  
Master Trust Indenture and Other Credit Arrangements

**Obligations under the Master Trust Indenture**

- Barnabas Health Issue, Series 2011B (Variable Rate)
- Barnabas Health System Taxable Revenue Bonds, Series 2012
- Barnabas Health Issue, Series 2012A
- Barnabas Health Issue, Series 2014A
- Robert Wood Johnson University Hospital Issue, Series 2013A
- Robert Wood Johnson University Hospital Issue, Series 2014A
- Robert Wood Johnson University Hospital Issue, Series 2014B (Variable Rate)
- Robert Wood Johnson Health Care Corp at Hamilton Obligated Group Issue, Series 2002 (Variable Rate)
- RWJ Barnabas Health Taxable Revenue Bonds, Series 2016
- RWJ Barnabas Health Obligated Group Issue, Series 2016A
- RWJ Barnabas Health Obligated Group Issue, Series 2017A
- RWJ Barnabas Health Obligated Group Issue, Series 2017B (Variable Rate)
- RWJ Barnabas Health Senior Secured Notes, Series A through D

**Other Credit Arrangements**

- Secured revolving credit facility with JP Morgan Chase Bank that includes a sublimit for letters of credit (the letter of credit for the self insured worker's compensation programs is included here)
- Irrevocable direct pay letter of credit with JP Morgan Chase Bank that provides liquidity support for the Series 2011B bonds
- Irrevocable direct pay letter of credit with TD Bank that provides liquidity support for the Series 2014B bonds
- Irrevocable direct pay letter of credit with TD Bank that provides liquidity support for the Series 2002 bonds

**RWJ BARNABAS HEALTH, INC.**  
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System Overview

Facility	Location	Licensed Beds
<b>Acute Care Hospitals:</b>		
Newark Beth Israel Medical Center	Newark	667 <sup>(1)</sup>
Community Medical Center	Toms River	617 <sup>(2)</sup>
Saint Barnabas Medical Center	Livingston	597
Robert Wood Johnson University Hospital, New Brunswick Campus	New Brunswick	614 <sup>(3)</sup>
Robert Wood Johnson University Hospital, Somerset Campus	Somerville	341
Monmouth Medical Center	Long Branch	514 <sup>(4)</sup>
Monmouth Medical Center, Southern Campus	Lakewood	241 <sup>(5)</sup>
Clara Maass Medical Center	Belleville	492 <sup>(2)</sup>
Jersey City Medical Center	Jersey City	328
Robert Wood Johnson University Hospital Rahway	Rahway	251
Robert Wood Johnson University Hospital at Hamilton	Hamilton	248
<b>Total Acute Care Beds</b>		<b><u>4,910</u></b>
<b>Transitional Care Beds:</b>		
Children's Specialized Hospital	New Brunswick	140 <sup>(6)</sup>
Community Medical Center Transitional Care Unit	Toms River	25 <sup>(2)</sup>
The Clara Maass Transitional Care Unit	Belleville	20 <sup>(2)</sup>
<b>Total Transitional Care Beds</b>		<b><u>185</u></b>
<b>Specialty Hospitals:</b>		
The Children's Hospital of NJ at Newark Beth Israel Medical Center	Newark	156 <sup>(1)</sup>
Barnabas Health Behavioral Health Center	Toms River	100 <sup>(5)</sup>
The Bristol-Myers Squibb Children's Hospital at Robert Wood Johnson University Hospital	New Brunswick	79 <sup>(3)</sup>
The Unterberg Children's Hospital at Monmouth Medical Center	Long Branch	70 <sup>(4)</sup>
<b>Total Specialty Hospital Beds</b>		<b><u>405</u></b>

(1) Newark Beth Israel Medical Center is licensed for 667 beds, 156 of which are licensed for Children's Hospital of New Jersey at Newark Beth Israel Medical Center. For presentation purposes, these 156 beds are included in the licensed bed complement for both Newark Beth Israel Medical Center and its designated Children's Hospital.

(2) For presentation purposes, the 45 Transitional Care beds located at the general acute care hospitals are included in the licensed bed complements for both Clara Maass Medical Center and Community Medical Center.

(3) Robert Wood Johnson University Hospital is licensed for 614 beds, 79 of which are licensed for The Bristol-Myers Squibb Children's Hospital. For presentation purposes, these 79 beds are included in the licensed bed complement for both Robert Wood Johnson University Hospital and its designated Children's Hospital. Robert Wood Johnson University Hospital has been granted temporary approval from the Department of Health to operate an additional 26 neonatal bassinets not included in the count.

(4) Monmouth Medical Center is licensed for 514 beds, 70 of which are licensed for The Unterberg Children's Hospital at Monmouth Medical Center. For presentation purposes, these 70 beds are included in the licensed bed complement for both Monmouth Medical Center and its designated Children's Hospital.

(5) Monmouth Medical Center, Southern Campus is licensed for 241 beds, 60 of which are psychiatric beds located at Barnabas Health Behavioral Health Center. For presentation purposes, these 60 beds are included in the licensed bed complements of both Monmouth Medical Center, Southern Campus and Barnabas Health Behavioral Health Center.

(6) These licensed beds represent pediatric long term care and rehabilitation beds. Children's Specialized Hospital operates at multiple locations in New Jersey, including the long term care beds in Mountainside and Toms River, New Jersey. In addition to licensed beds reported in this table, Children's Specialized Hospital operates 27 Pediatric Day slots in Roselle Park, New Jersey.

## **RWJ BARNABAS HEALTH, INC.**

### **Management's Discussion and Analysis**

**For the nine months ended September 30, 2019 and 2018**

**(In thousands)**

RWJ Barnabas Health, Inc. (the Corporation) is the largest, most comprehensive health care system in New Jersey, with a service area covering nine counties with five million people. The system includes eleven acute care hospitals – Clara Maass Medical Center in Belleville, Community Medical Center in Toms River, Jersey City Medical Center in Jersey City, Monmouth Medical Center in Long Branch, Monmouth Medical Center Southern Campus in Lakewood, Newark Beth Israel Medical Center in Newark, Robert Wood Johnson University Hospital (RWJUH) in New Brunswick, RWJUH Somerset in Somerville, RWJUH at Hamilton, RWJUH Rahway and Saint Barnabas Medical Center in Livingston; three acute care children's hospitals and a leading pediatric rehabilitation hospital with a network of outpatient centers (Children's Specialized Hospital), 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 cardiac surgery services, including a heart transplant center, a lung transplant center and kidney transplant centers, and comprehensive cancer services and breast centers.

The Corporation is one of New Jersey's largest private employers – with more than 33,000 employees, 9,000 physicians (excluding Rutgers physicians) and 1,000 residents and interns – and routinely captures national awards for outstanding quality and safety. During 2018, the Corporation announced a partnership with Rutgers, the State University of New Jersey (Rutgers) to create New Jersey's largest academic health care system. The collaboration has aligned the Corporation with Rutgers' education, research and clinical activities, including those at the Rutgers Cancer Institute of New Jersey and Rutgers University Behavioral Health Care.

#### **Awards and Distinctions**

In January 2019, S&P Global raised its long-term rating to AA- from A+ and affirmed a stable outlook. The higher rating reflects the successful integration of Robert Wood Johnson Health Corp. and Barnabas Health, Inc. and the generation of favorable operating results and cash flow since the merger in 2016. In May 2019, Moody's affirmed our A1 rating and revised the outlook to positive from stable. The positive outlook reflects expectations that liquidity and margins will remain strong. In connection with the financing transactions completed in October 2019, the rating agencies reviewed the financial outlook and performance of the Corporation. S&P affirmed the Corporation's long term rating of AA- with a stable outlook and Moody's affirmed its rating of A1 with a positive outlook.

The Corporation and its affiliates are also recognized as one of the leading health care delivery systems, having received the following recognitions, among others:

- **Chime Healthcare's Most Wired** – The Corporation continues to be named among the most wired for its use of information technology (IT) to better the patient experience. Hospitals and health systems at the forefront of using IT to improve the delivery of care have maximized the benefits of foundational technologies and are embracing new technologies that support population management and value-based care.
- **Leapfrog Total A's in 2019** - Over the 3 years since the merger of RWJ Healthcare Corp. and Barnabas Health, the scores rose significantly as evident in the Spring of 2019 with eight of its acute care facilities receiving an "A" grade.
- **Leapfrog Top Teaching Hospitals in 2019** – Three of the Corporation's acute care facilities were recognized by The Leap Frog Group as a 2019 top teaching hospital.

## RWJ BARNABAS HEALTH, INC.

### Management's Discussion and Analysis, cont.

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- **Leapfrog Top General Hospitals in 2019** – RWJUH at Hamilton was one of four New Jersey hospitals to be named a top general hospital.
- **Leapfrog Hospital Safety Grade** – Many of the Corporation's acute care facilities have been recognized with a grade of "A" for hospital safety. Saint Barnabas Medical Center (SBMC) is the only hospital in New Jersey and one of 49 in the nation to receive straight-A's in Leapfrog since the program's inception.
- **LGBTQ Healthcare Equality** – In 2019, the 8 hospitals that applied, received HEI designation as Leaders in LGBTQ Healthcare Equality by the Human Rights Campaign, the education arm of the nation's largest LGBTQ civil rights organization.
- **CEO Cancer Gold Standard employer** – The Corporation has been accredited as a CEO Cancer Gold Standard employer. This prestigious award recognizes the Corporation for its dedication and commitment to maintaining a high standard of excellence in cancer prevention, early detection and quality care for its employees and their families.
- **Top Places to Work in Healthcare** – The Corporation has been named one of the top 150 places to work in healthcare by Becker's Hospital Review.
- **100 Great Hospitals in America** – In 2019, RWJUH New Brunswick was named to this list, developed by Becker's Healthcare, which recognizes facilities for excellence in clinical care, patient outcomes, and staff and physician satisfaction.
- **U.S. News & World Report** – In 2019, SBMC has two national rankings: GYN # 25 and Diabetes/Endocrinology, # 32. SBMC is listed as # 3 in New Jersey and tied for # 12 in the NY Metro region, and noted as High Performing in GI, Geriatrics, Nephrology, and Neuro/Neurosurgery. RWJUH New Brunswick is listed as # 4 in NJ and tied for 14th in the NY Metro region, and noted as High Performing in Cancer, GI, Geriatrics, Nephrology, and Orthopedics. RWJUH Somerset is tied for 9th in NJ and tied for 22nd in the NY Metro region, and noted as High Performing in Orthopedics. The Bristol-Myers Squibb Children's Hospital (BMSCH) at RWJUH New Brunswick has been named one of America's Best Children's Hospitals by U.S. News & World Report six times. In 2019, BMSCH was ranked among the top children's hospitals in Urology.
- **Newsweek World's Best Hospitals** – Newark Beth Israel Medical Center was named to the 2019 list.
- **IBM Watson's Health Top 100 Hospitals** – Monmouth Medical Center is the only New Jersey hospital to be named one of the nation's 100 Top Hospitals by IBM Watson Health.
- **Magnet Designation by the American Nurses Credentialing Center** – Affiliates of the Corporation have received Magnet designation which recognizes organizations for creating and sustaining an environment of nursing excellence where collaborative working relationships are fostered among different departments and disciplines.
- **NCI-designated Comprehensive Cancer Center** – The Rutgers Cancer Institute of NJ (CINJ) is the State's only NCI-designated Comprehensive Cancer Center. CINJ is universally recognized for its clinical and scientific research leadership. NCI-designated cancer centers are a group of 50 cancer research institutions in the United States supported by the National Cancer Institute.
- **Protecting the Patient - Voice of the Customer Award** – Nuance Healthcare has recognized certain affiliates for a reduction of hospital acquired conditions by 73% and being Joint Commission Top Performers for national quality measures.
- **Commission on Cancer Accredited Program** – The American College of Surgeons' Commission on Cancer has rated RWJUH New Brunswick among the nation's best comprehensive cancer centers.

## **RWJ BARNABAS HEALTH, INC.**

### **Management's Discussion and Analysis, cont.**

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#### **Partnership with Rutgers, the State University of New Jersey**

In 2018, the Board of Governors of Rutgers and the Board of Trustees of the Corporation approved a resolution outlining the terms of a public-private partnership between the Corporation and Rutgers to jointly operate a world-class academic health system dedicated to life-changing research, clinical training of tomorrow's workforce, and high quality health care for all.

This partnership forms the largest and most comprehensive academic health system in New Jersey, well positioned to take our place as a national leader in patient care, health science discovery and innovation. The new partnership will enhance the recruitment of prominent academic, research and clinical practitioners; and strengthen the advancement of health science innovation and education, while enhancing the delivery and accessibility of evidence-based health care across the state.

Key among the transformative efforts of the partnership is the formation of a comprehensive medical group composed of employed physicians and other health care professionals from the Corporation and Rutgers Health. When completed, the newly formed medical group, one of the largest in the country, will have a unified clinical mission that complements our high quality standards of teaching and research excellence.

The Corporation has invested an initial \$100 million through June 30, 2019. The Corporation will also invest more than one billion dollars over 20 years to expand the education and research mission of the integrated academic health system, including:

- The recruitment of leading clinical and academic leaders and faculty to build and expand the enterprise;
- The recruitment of approximately 100 new high-caliber principal investigators by Rutgers over 10 years, to double our research portfolio;
- \$10 million in financial support earmarked to encourage Rutgers medical students to remain in, and provide care to residents of, New Jersey;
- Appropriately balancing the size of residency and fellowship programs across the state to enhance education;
- Increasing opportunities to train medical, dental, nursing, pharmacy, and other health professional students in inter-professional clinical environments;
- Expanded access to clinical trials, bringing the newest and most promising treatments to all the residents of New Jersey.

In addition, the Corporation will fund the construction of a new clinical and research building for the Rutgers CINJ, as well as a new ambulatory care center, both in New Brunswick.

The Corporation and Rutgers are separate organizations, each with its own employees, but are closely aligned, sharing capabilities to develop and sustain a high-performing academic health system dedicated to research, education and clinical excellence. The boards are also independent while taking steps to participate in the governance of the other. Additionally, a Joint Committee has been established for strategic planning and oversight of the academic health system, featuring equal representation from the Corporation and Rutgers.

#### **Management's Discussion and Analysis of Recent Financial Performance**

Management's Discussion and Analysis of Recent Financial Performance is based upon the consolidated financial results of the Corporation since the members of the Corporation's Obligated Group represent 92.2% of the total consolidated operating revenue and 99.1% of the total consolidated net assets as of and for the nine months ended September 30, 2019. Accordingly, the discussion below includes the financial results of entities that are not members of the Obligated Group. Refer to the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2018 for the consolidating schedules of the Corporation and the Obligated Group.

## **RWJ BARNABAS HEALTH, INC.**

### **Management's Discussion and Analysis, cont.**

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#### **Adoption of Accounting Standards Update (ASU) 2016-02, Leases**

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases*, which consists of a comprehensive lease accounting standard. Under the new standard, assets and liabilities arising from most leases will be recognized on the balance sheet and enhanced annual disclosures on key quantitative and qualitative information about leasing arrangements will be required. Leases will be classified as either operating or financing, and the lease classification will determine whether the expense is recognized on a straight-line basis (operating leases) or based on an effective interest method (financing leases). The new standard is effective for interim and annual periods commencing on January 1, 2019. The Corporation has applied the transitional package of practical expedients allowed by the standard relating to the identification, classification and initial direct costs of leases commencing before January 1, 2019; however, the Corporation did not elect the hindsight transitional practical expedient. The Corporation has made an accounting policy election to not apply recognition requirements of the guidance to short-term leases.

In July 2018, the FASB issued ASU 2018-11, *Leases: Targeted Improvements*, which provides an optional transition method that allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption while comparative periods presented will continue to be in accordance with current Accounting Standards Codification (ASC) 840. The Corporation is using the optional transition method to apply the lease standard as of January 1, 2019. The Corporation has made enhancements to its information systems and internal controls in response to the new rule requirements, including the implementation of a lease tracking software for reporting information related to leases.

As a result of the adoption, the Corporation recognized right-of-use assets and operating lease liabilities of approximately \$222 million and \$228 million, respectively, as of the transition date. The adoption of ASU 2016-02 did not have a material impact on the Corporation's results of operations or cash flows.

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. The related leases were evaluated under the new guidance and recorded as a capital lease obligation amounting to \$19,848.

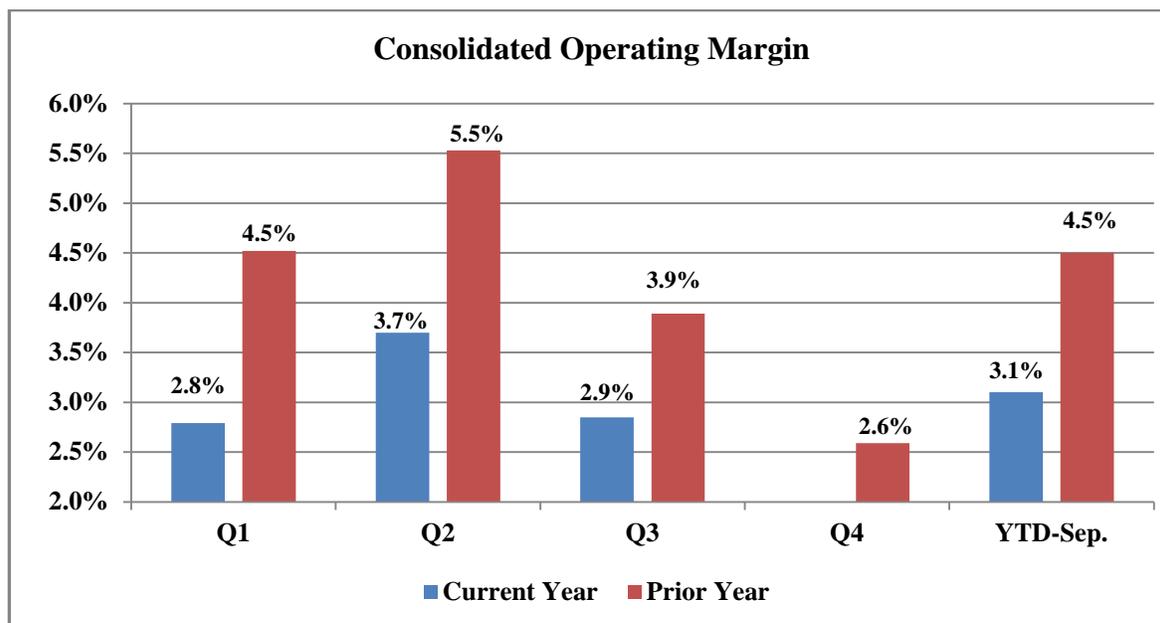
#### **Financial Performance Overview**

For the nine months ended September 30, 2019, the Corporation's total operating income and operating margin were \$130,678 and 3.1%, respectively, compared to operating income of \$179,637 and 4.5% for the nine months ended September 30, 2018. Total operating revenue grew by \$217,415 or 5.5% compared to the nine months ended September 30, 2018, while operating expenses increased by \$266,374 or 7.0%.

## RWJ BARNABAS HEALTH, INC.

### Management's Discussion and Analysis, cont.

The following chart shows the Corporation's operating margin by quarter as compared to the prior year.



Contributing factors to the increase in inpatient acute care revenue were annual rate increases from our managed care and Medicare population, growth in the higher-acuity inpatient services lines, and prior year revenue from cost report settlements. Acute care outpatient revenue was favorable to prior year by approximately 3% due to a favorable service mix with stronger volumes in outpatient surgery along with rate increases. Additionally, the Corporation experienced growth in outpatient revenue from our medical groups due to the addition of new practices as well as increases from our infusion and specialty pharmacies and ambulance services.

The increase in operating expenses was caused by increased salaries and benefits resulting from additional staff, increased physician salaries and fees due to growth in employed physicians as well as the addition of new physician practices, higher drug and implantable utilization and inflationary increases in supplies, higher interest expense due to the private taxable note offering completed in December 2018, and higher depreciation expense associated with several significant projects that became operational in late 2018 and in 2019. The Corporation continues to invest in infrastructure to support its academic and population health strategies.

The Corporation's excess of revenues over expenses and excess of revenue over expense margin for the nine months ended September 30, 2019 were \$427,105 and 9.5%, respectively, compared to \$196,442 and 4.9% for the nine months ended September 30, 2018. The excess of revenues over expenses is significantly higher than prior year due to investment performance. Net investment income totaled \$302,098, compared to \$79,226 in 2018. During the first three quarters of 2019, the Corporation experienced net unrealized gains of \$210,538, of which \$210,273 is recorded in nonoperating revenue and \$235 is recorded within changes in net assets in the consolidated statement of operations.

Management continues to focus on i) patient experience, safety and quality improvements, ii) market share growth, iii) population health management, iv) medical research and education, and v) diversifying revenue streams within the Corporation's business model, including expanding its joint venture arrangements with various partners. Maintaining the balance sheet and improving operating results also remain top management priorities so that the Corporation can continue to invest in people, programs and facilities to successfully adapt and respond to changes in the health care industry while continuing to meet the needs of patients and families in all the communities it serves.

**RWJ BARNABAS HEALTH, INC.**  
**Management's Discussion and Analysis, cont.**

**Operations and Excess of Revenue over Expenses**

The following table summarizes key operating performance results and overall performance ratios:

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Operating income	130,678	179,637
Operating margin	3.1%	4.5%
EBITDA	368,845	401,949
EBITDA margin	8.8%	10.1%
Excess of revenue	427,105	196,442
Excess of revenue margin	9.5%	4.9%

**Operating Revenue and Volume**

The following table presents consolidated operating revenue and select volume statistics for the nine months ended September 30, 2019 and 2018:

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating Revenue :</b>		
Inpatient net patient service revenue	2,180,998	2,074,334
Outpatient net patient service revenue	1,542,384	1,462,725
Physician practice income	217,828	190,227
State of NJ subsidy revenue	55,951	64,323
Total net patient service revenue	3,997,161	3,791,609
Other operating revenue	198,638	186,775
Total operating revenue	4,195,799	3,978,384
<b>Volume &amp; utilization statistics:</b>		
Acute care licensed beds	4,910	4,889
Average acute care beds in service	3,861	3,870
Acute care occupancy based on beds in service	71.8%	73.0%
Acute care length of stay	5.44	5.33
Acute care admissions	144,422	149,233
Adult and pediatric admissions	97,809	100,633
Newborn and NICU admissions	17,719	18,216
Maternity and obstetric cases	18,138	18,701
Patient days	756,498	771,266
Psychiatric hospital inpatient admissions	1,037	1,057
Same day surgery cases	46,229	44,741
Emergency room visits	465,679	468,046
Observations	66,756	69,044

**RWJ BARNABAS HEALTH, INC.**  
**Management's Discussion and Analysis, cont.**

Acute Care payor mix for the nine months ended September 30, 2019 and 2018 is presented below:

Payor Mix	Discharges		Patient Days	
	2019	2018	2019	2018
	Actual	Actual	Actual	Actual
Medicare	26.9%	28.7%	31.3%	33.9%
Medicaid	5.0%	7.9%	5.9%	9.2%
Managed Medicare	11.9%	8.5%	15.0%	10.5%
Managed Medicaid	19.6%	18.4%	17.4%	15.5%
Managed Care	14.0%	13.3%	11.0%	10.8%
NJ Blue Cross & Commercial	15.4%	16.9%	12.7%	14.4%
Self-pay and Other	7.2%	6.3%	6.7%	5.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Certain joint ventures are reported using the equity method of accounting and are not fully consolidated in the Corporation's financial statements. Additional financial information for these joint ventures is included in the table below:

	Nine months ended September 30,					
	2019			2018		
	Net Operating Revenue	Net Income	Net Income Attributable to RWJBH	Net Operating Revenue	Net Income	Net Income Attributable to RWJBH
Surgical	\$ 135,374	60,938	17,134	\$ 96,431	39,901	11,325
Home Care & Hospice	123,081	11,921	5,926	118,073	11,580	6,402
Imaging	72,725	10,747	5,434	68,867	10,183	5,662
Other	38,923	5,784	2,437	41,951	8,034	2,435
	<u>\$ 370,103</u>	<u>89,390</u>	<u>30,932</u>	<u>\$ 325,322</u>	<u>69,697</u>	<u>25,825</u>

The increase in revenue from surgical ventures was attributable to the addition of fifteen new surgical centers since September of 2018. During 2019, the Corporation invested \$4,668 to continue to expand its ambulatory care division by opening a new endoscopy center.

The decrease in the home care and hospice ventures was primarily due to a decrease in billable encounters by 2.1%, which was partially offset by an increase in average revenue per encounter due to a shift in payor mix.

The decrease in revenue from imaging ventures was due to a change in service mix which resulted in higher volumes of routine procedures versus more highly reimbursed advanced procedures.

Other ventures were flat to budget. On August 7, 2019, the Corporation purchased a 50% ownership interest in Barnabas On Time Holdings, LLC, a non-emergency medical transportation company, for approximately \$7,800 to expand its mobile health services.

**Operating Expenses**

Total operating expenses for the nine months ended September 30, 2019 increased by \$266,374 or 7.0% from the nine months ended September 30, 2018.

**RWJ BARNABAS HEALTH, INC.**  
**Management's Discussion and Analysis, cont.**

Summarized below are the consolidated operating expenses for the nine months ended September 30, 2019 and 2018.

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating Expenses:</b>		
Salaries and employee benefits	1,869,008	1,756,141
Physician fees and salaries	402,442	366,111
Supplies and other expenses	1,555,504	1,454,183
Interest	63,043	53,026
Depreciation and amortization	175,124	169,286
Total operating expenses	4,065,121	3,798,747

For the nine months ended September 30, 2019, salaries and employee benefits increased by \$112,867 or 6.4%, compared to the nine months ended September 30, 2018. The increase in salaries and employee benefits was primarily due to an increase in FTEs, annual salary increases and anticipated increases in employee health plan costs based on the composite medical trend.

Physician fees and salaries increased by \$36,331 or 9.9%, compared to the nine months ended September 30, 2018. The increase was driven by growth in employed physicians and the addition of new medical groups during the year. Additionally, physician fees increased due to the Rutgers affiliation.

Supplies and other expenses increased by \$101,321 or 7.0%, compared to the nine months ended September 30, 2018. The increase was primarily driven by higher drug and implantable utilization and inflationary increases.

Interest expense for the nine months ended September 30, 2019 increased by \$10,017 or 18.9%, compared to the nine months ended September 30, 2018. The increase was driven by the \$300 million private taxable note offering completed in December 2018.

Depreciation and amortization for the nine months ended September 30, 2019 also increased by \$5,838 or 3.4%, compared to the nine months ended September 30, 2018. The increase was driven by large construction projects which were completed towards the end of 2018 and other investments in capital projects in 2019.

**Nonoperating Gains and Losses**

The following table presents a summary of nonoperating revenue and expenses of the Corporation for the nine months ended September 30, 2019 and 2018.

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Nonoperating revenue (expenses):</b>		
Investment income	51,228	34,072
Realized gains on investments	40,597	62,077
Unrealized gains on trading investments	210,273	(16,923)
Net periodic benefit cost	(6,957)	(5,184)
Academic enrichment	-	(55,000)
Other nonoperating expenses	1,286	(2,237)
Total nonoperating revenue, net	296,427	16,805

**RWJ BARNABAS HEALTH, INC.**  
**Management's Discussion and Analysis, cont.**

Net investment income and realized gains totaled \$91,825 and \$96,149 while net unrealized gains (losses) totaled \$210,273 and (\$16,923) for the nine months ended September 30, 2019 and 2018, respectively. Changes in the investment markets during the nine months ended September 30, 2019 have significantly impacted the Corporation's investment gains.

***Fundraising***

The Foundations support the programs and services of their affiliated tax-exempt organization and support the capital campaign and other fundraising activities of the Corporation.

The following table presents contributions received by the foundations as well as capital and operating support the foundations provided to the hospitals. Conditional gifts are not included until the conditions have been met.

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Fundraising:</b>		
Contributions without donor restrictions	4,095	5,287
Contributions with donor restrictions	14,374	10,561
Total contributions	18,469	15,848
Support to affiliates	18,134	19,921

***Unrestricted Cash and Investments***

Total unrestricted cash and investments amounted to \$3,757,351 at September 30, 2019, an increase of \$242,289 over the balance at December 31, 2018. The Corporation continues to maintain its cash position at 265.3 days cash on hand despite the capital reinvestment ratio of 1.62. The Corporation continues to generate significant cash flows from its core operating activities.

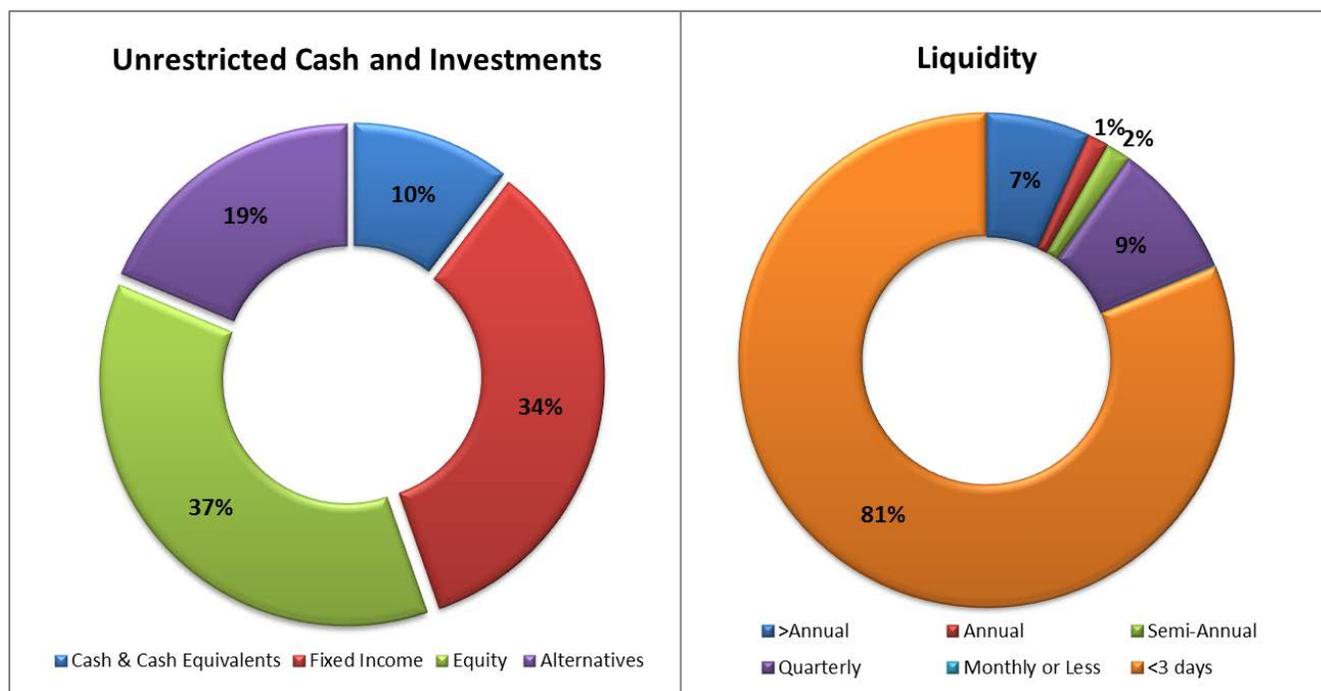
Total unrestricted cash and investments for the Corporation as of September 30, 2019 and December 31, 2018 were as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>Unrestricted Cash and Investments:</b>		
Cash and cash equivalents	21,932	340,495
Current investments	41,211	26,662
Noncurrent investments	3,694,208	3,147,905
Total unrestricted cash and investments	3,757,351	3,515,062

The Corporation maintains a highly diversified unrestricted investment portfolio that focuses on maximizing risk-adjusted returns while maintaining prudent levels of liquidity to meet the Corporation's cash flow needs and to stay in compliance with the Master Trust Indenture and other credit agreements of the Corporation. An Investment Policy Statement (IPS) has been adopted by the Investment Committee of the Board of Trustees. The Committee monitors the portfolio's compliance to the IPS and delegates the implementation of the policy to the Chief Investment Officer and the Corporation's Investment Advisor.

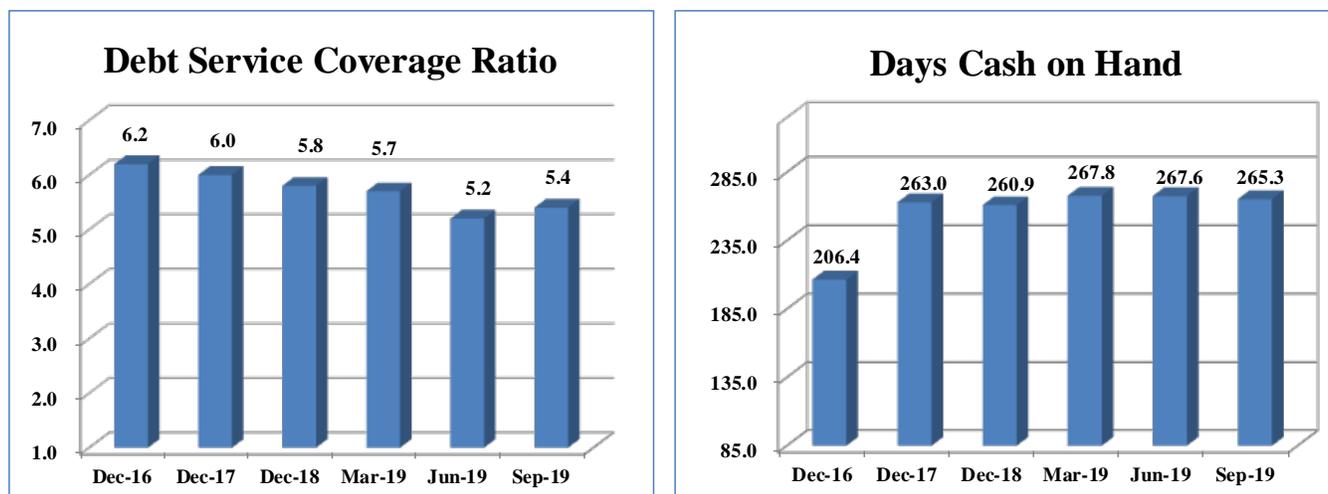
**RWJ BARNABAS HEALTH, INC.**  
**Management’s Discussion and Analysis, cont.**

The following charts present the allocation of unrestricted cash and investments by asset type and the portfolio’s liquidity as of September 30, 2019.



In accordance with the Corporation’s IPS, at least 75% of the asset value of the unrestricted portfolio must be classified as “monthly” liquidity as reported to the rating agencies. As of September 30, 2019, 81% of the total unrestricted cash and investments were classified as monthly liquidity or less.

The following charts present the debt service coverage ratio and total days cash on hand at for the selected dates below.



The drop in the debt service coverage ratio in December 2018 was due to the increase in the maximum annual debt service resulting from the \$300 million private taxable note offering.

**RWJ BARNABAS HEALTH, INC.**  
**Management’s Discussion and Analysis, cont.**

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 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; (d) Robert Wood Johnson University Hospital Issue, Series 2014B; (ii) reimbursement for various capital improvements; and (iii) the payment of the costs of issuance.

In October 2019, as a result of the issuance of Series 2019 and Series 2019AB, the Corporation, as a joint and several member, 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 in the consolidated statement of operations.

The tables on the previous page and below do not reflect the impact of the additional debt on the Corporation’s ratios. As noted previously, there were no changes to the credit ratings of the Corporation.

The following table presents key financial indicators as of September 30, 2019 and 2018 as compared to S&P’s “AA”, “AA-” and “A+” medians.

	September 30, 2019	December 31, 2018	AA	AA-	A+
Debt service coverage	5.4	5.8	6.5	4.8	4.4
Debt-to-capitalization	37.4%	40.5%	23.3%	29.2%	33.1%
Cash-to-debt	178.2%	167.6%	259.9%	187.7%	164.0%
Days cash on hand	265.3	260.9	341.8	243.2	188.6

The following table presents other select ratios as of September 30, 2019 and December 31, 2018 and 2017.

	September 30, 2019	December 31, 2018	December 31, 2017
Days in patient accounts receivable	36.0	36.3	38.2
Days in accounts payable	50.9	51.3	52.3
Reinvestment ratio	1.62	1.48	1.26

## RWJ BARNABAS HEALTH, INC.

### Consolidated Balance Sheets

(In thousands)

Assets	<u>September 30, 2019</u> (unaudited)	<u>December 31, 2018</u> (audited)
Current assets:		
Cash and cash equivalents	\$ 21,932	340,495
Investments	41,211	26,662
Assets limited or restricted as to use	27,691	57,322
Patient accounts receivable, net	527,662	507,856
Estimated amounts due from third party payors	32,900	-
Other current assets	218,644	201,664
Total current assets	870,040	1,133,999
Assets limited or restricted as to use, non-current portion		
Investments	257,936	240,142
Property, plant and equipment, net	3,694,208	3,147,905
Right-of-use asset, net	2,229,718	2,164,391
Other assets, net	213,916	-
	293,453	280,876
Total assets	7,559,271	6,967,313
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	324,725	308,232
Accrued expenses and other current liabilities	586,050	684,835
Estimated amounts due to third party payors	-	6,368
Long-term debt	8,599	8,442
Lease obligation	40,235	-
Self-insurance liabilities	68,410	65,585
Total current liabilities	1,028,019	1,073,462
Estimated amounts due to third party payors, net of current portion	50,563	41,711
Self insurance liabilities, net of current portion	260,805	254,786
Long-term debt, net of current portion	2,099,347	2,089,281
Lease obligation, net of current portion	181,448	-
Accrued pension liability	67,050	78,020
Other liabilities	175,490	169,451
Total liabilities	3,862,722	3,706,711
Net assets:		
Without donor restrictions	3,527,284	3,084,128
With donor restrictions	169,265	176,474
Total net assets	3,696,549	3,260,602
Total liabilities and net assets	\$ 7,559,271	6,967,313

See accompanying notes to consolidated financial statements.

**RWJ BARNABAS HEALTH, INC.**

## Consolidated Statements of Operations

Nine months ended September 30, 2019 and 2018

(In thousands)

(Unaudited)

	<u>2019</u>	<u>2018</u>
Revenue:		
Net patient service revenue	\$ 3,997,161	3,791,609
Other revenue, net	198,638	186,775
Total revenue	<u>4,195,799</u>	<u>3,978,384</u>
Expenses:		
Salaries and wages	1,549,862	1,447,867
Physician fees and salaries	402,442	366,111
Employee benefits	319,146	308,274
Supplies	817,854	752,879
Other	737,650	701,304
Interest	63,043	53,026
Depreciation and amortization	175,124	169,286
Total expenses	<u>4,065,121</u>	<u>3,798,747</u>
Income from operations	<u>130,678</u>	<u>179,637</u>
Nonoperating revenue (expenses):		
Investment income, net	302,098	79,226
Other, net	(5,671)	(62,421)
Total nonoperating revenue, net	<u>296,427</u>	<u>16,805</u>
Excess of revenue over expenses	427,105	196,442
Other changes:		
Net change in unrealized gains (losses) on available for sale investments	265	(37)
Pension changes other than net periodic benefit cost	10,926	5,184
Net assets released from restriction for purchases of property and equipment	7,437	10,707
Purchase of noncontrolling interest	-	(5,887)
Other, net	(2,577)	(368)
Increase in net assets without donor restrictions	<u>\$ 443,156</u>	<u>206,041</u>

See accompanying notes to consolidated financial statements.

**RWJ BARNABAS HEALTH, INC.**

Consolidated Statements of Changes in Net Assets

Nine months ended September 30, 2019 and 2018

(In thousands)

(unaudited)

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total net assets</b>
Net assets at December 31, 2017	\$ 3,074,321	164,962	3,239,283
Changes in net assets:			
Excess of revenues over expenses	196,442	-	196,442
Net change unrealized losses	(37)	68	31
Pension related changes other than net periodic benefit cost	5,184	-	5,184
Change in interest in restricted net assets of unconsolidated foundations	-	(859)	(859)
Net assets released from restriction	10,707	(19,418)	(8,711)
Restricted contributions	-	10,407	10,407
Investment income on restricted investments, net	-	148	148
Purchase of noncontrolling interest	(5,887)	-	(5,887)
Other	(368)	1,444	1,076
Changes in net assets	<u>206,041</u>	<u>(8,210)</u>	<u>197,831</u>
Net assets at September 30, 2018	3,280,362	156,752	3,437,114
Net assets at December 31, 2018	3,084,128	176,474	3,260,602
Changes in net assets:			
Excess of revenues over expenses	427,105	-	427,105
Net change unrealized gains	265	281	546
Pension changes other than net periodic benefit cost	10,926	-	10,926
Change in interest in restricted net assets of unconsolidated foundations	-	(4,197)	(4,197)
Net assets released from restriction	7,437	(15,905)	(8,468)
Restricted contributions	-	13,534	13,534
Investment income on restricted investments, net	-	251	251
Change in interest in perpetual trust	-	(892)	(892)
Other	(2,577)	(281)	(2,858)
Changes in net assets	<u>443,156</u>	<u>(7,209)</u>	<u>435,947</u>
Net assets at September 30, 2019	\$ <u>3,527,284</u>	<u>169,265</u>	<u>3,696,549</u>

See accompanying notes to consolidated financial statements.

**RWJ Barnabas Health, Inc.**

Consolidated Statements of Cash Flows

Nine months ended September 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 435,947	197,831
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution received in acquisitions	(712)	-
Pension changes other than net periodic benefit cost	(10,926)	(5,184)
Depreciation and amortization expense	175,124	169,286
Amortization of bond financing costs, premiums and discounts	(3,899)	(3,985)
Amortization of right of use asset	32,296	-
Derecognition of build to suit lease	2,710	-
Net change in unrealized (gains) losses on investments	(210,538)	16,960
Realized gains on investments	(40,597)	(62,077)
Equity in income of joint venture	(30,932)	(25,825)
Distributions received from investments in joint ventures	30,257	39,266
Distributions to noncontrolling interests	245	423
Purchase of noncontrolling interest	-	5,887
Changes in operating assets and liabilities:		
Patient accounts receivable	(19,806)	(11,144)
Other assets	(18,425)	(63,203)
Accounts payable, accrued expenses, and other current liabilities	(35,761)	23,674
Estimated amounts due from and to third-party payors	(30,416)	5,618
Accrued pension liability	(44)	(21,816)
Lease obligation, self-insurance and other long-term liabilities	10,081	31,744
Net cash provided by operating activities	<u>284,604</u>	<u>297,455</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment, net	(283,960)	(248,599)
Proceeds from bond escrow account	37,209	71,060
Proceeds from the sale of investments and assets limited or restricted as to use	15,494	18,309
Purchases of investments and assets limited or restricted as to use	(34,606)	(19,586)
Purchases of trading securities	(3,988,844)	(2,284,524)
Proceeds from the sale of trading securities	3,669,153	2,168,963
Investment in joint venture	(12,594)	(12,609)
Cash paid for acquisitions, net of cash and restricted cash acquired	(93)	5,838
Net cash used in investing activities	<u>(598,241)</u>	<u>(301,148)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(8,354)	(15,630)
Payments for deferred financing costs	(54)	-
Distributions to noncontrolling interest	(245)	(423)
Purchase of noncontrolling interest	-	(5,887)
Net cash used in financing activities	<u>(8,653)</u>	<u>(21,940)</u>
Net decrease in cash, cash equivalents and restricted cash	(322,290)	(25,633)
Cash, cash equivalents and restricted cash at beginning of year	355,117	104,811
Cash, cash equivalents and restricted cash at end of period	<u>\$ 32,827</u>	<u>79,178</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	78,261	71,013.00
Finance lease obligations incurred	21,404	-
Change in noncash acquisitions of property, plant and equipment	(46,742)	(29,759)
Cash and cash equivalents	21,932	71,760
Restricted cash included in assets limited or restricted as to use	10,895	7,418
Total cash, cash equivalents and restricted cash	<u>\$ 32,827</u>	<u>79,178</u>

See accompanying notes to consolidated financial statements.

## **RWJ BARNABAS HEALTH, INC.**

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

#### **(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 and subsidiaries. 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 cardiac surgery services including a heart transplant center, a lung transplant center, kidney transplant centers, comprehensive cancer services and comprehensive breast centers.

#### **(2) Significant Accounting Policies**

##### ***(a) Basis of Accounting of Financial Statement Presentation***

The accompanying unaudited consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting. Footnotes and other disclosures that would substantially duplicate the disclosures contained in an audited financial statement have been omitted. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements of the Corporation. Significant eliminations and reporting adjustments have been made to present the information in accordance with GAAP. The data should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 and related notes. Information for the nine months ended September 30, 2019 is not based on audited information but, in the opinion of management, is presented on a basis consistent with the audited consolidated financial statements and includes adjustments necessary for a fair presentation therein. Adjustments to these financial statements may occur as a result of a more comprehensive review undertaken as part of the audit process for the year ending December 31, 2019.

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

##### ***(b) Use of Estimates***

The preparation of the consolidated financial statements in conformity with 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.

## **RWJ BARNABAS HEALTH, INC.**

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

#### **(c) Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which replaced 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 adopted the standard and applied the full retrospective application for the adoption of the guidance to all contracts under the scope of the guidance. The application of this guidance did not have a material impact on the existing revenue streams of the Corporation.

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* (ASU 2018-08). The Corporation elected to early adopt ASU No. 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. The application of this guidance did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 *Leases*, which consists of a comprehensive lease accounting standard. Under the new standard, assets and liabilities arising from most leases will be recognized on the balance sheet and enhanced annual disclosures on key quantitative and qualitative information about leasing arrangements will be required. Leases will be classified as either operating or financing, and the lease classification will determine whether the expense is recognized on a straight-line basis (operating leases) or based on an effective interest method (financing leases). The new standard is effective for interim and annual periods commencing on January 1, 2019. The Corporation has applied the transitional package of practical expedients allowed by the standard relating to the identification, classification and initial direct costs of leases commencing before January 1, 2019; however, the Corporation did not elect the hindsight transitional practical expedient. The Corporation has made an accounting policy election to not apply recognition requirements of the guidance to short-term leases.

## **RWJ BARNABAS HEALTH, INC.**

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

In July 2018, the FASB issued ASU 2018-11, *Leases: Targeted Improvements*, which provides an optional transition method that allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption while comparative periods presented will continue to be in accordance with current Accounting Standards Codification (ASC) 840, *Leases*. The Corporation is using the optional transition method to apply the lease standard as of January 1, 2019. The Corporation has made enhancements to its information systems and internal controls in response to the new rule requirements, including the implementation of a lease tracking software for reporting information related to leases.

As a result of the adoption, the Corporation recognized right of use assets and operating lease liabilities of approximately \$222 million and \$228 million, respectively, as of the transition date. The adoption of ASU 2016-02 did not have a material impact on the Corporation's results of operations or cash flows.

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 capital lease obligation amounting to \$19,848.

### **(3) Revenue**

#### **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.

The majority of the Corporation's services are rendered to patients with third party coverage. Reimbursement under these programs for all payers is based on a combination of prospectively determined rates, discounted charges and historical costs. 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. Generally patients who are covered by third-party payors are responsible for related deductibles

## **RWJ BARNABAS HEALTH, INC.**

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

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. 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 nine months ended September 30, 2019 and 2018.

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 (for example, 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 an implicit price concession. Price concessions including charity care are not reported as revenue.

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. During the nine months ended September 30, 2019 and 2018 certain 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 adjustments become known. The effect of cost report settlements increased net patient service revenue by approximately \$20,213 and \$17,833, respectively, for the nine months ended September 30, 2019 and 2018. 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.

#### **Other Revenue**

Other revenue includes income from grant revenue, equity in the income of joint ventures, contributions, net assets released from restriction and cafeteria and parking, among others. Grant revenue and contributions of the Corporation are non-exchange transactions in which no commensurate value is exchanged. In such cases, contribution accounting is applied under ASC 958 *Not-for-Profit Entities*. Equity in the income of joint ventures continues to be evaluated under ASC 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. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collections can be reasonably assured.

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

**(4) Fair Value Measurements**

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

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

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

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

The following tables present the Corporation's fair value hierarchy for those assets measured at fair value on a recurring basis, and exclude pledges receivable, net, other investments, and accrued interest receivable, as of September 30, 2019 and 2018:

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

	<b>September 30, 2019</b>				
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Available for sale investments:					
Investment categories:					
Money Market Funds	\$ 65,109	65,109	—	—	—
Mutual funds	78,737	78,737	—	—	—
Certificates of deposit	2,811	—	2,811	—	—
Corporate bonds	202	—	202	—	—
Total investments available for sale	<u>146,859</u>	<u>143,846</u>	<u>3,013</u>	<u>—</u>	<u>—</u>
Trading investments:					
Investment categories:					
Money Market Funds	132,718	132,718	—	—	—
Mutual funds	1,510,490	1,499,733	10,757	—	—
Equity securities	236,940	236,940	—	—	—
Unit investment trust	957	957	—	—	—
Commercial mortgage-backed securities	84,197	—	84,197	—	—
Corporate bonds	536,788	—	536,788	—	—
Asset-backed securities	268,972	—	268,972	—	—
Government bonds	170,120	—	170,120	—	—
Government mortgage-backed securities	170,999	—	170,999	—	—
Municipal bonds	17,627	—	17,627	—	—
Alternative investments	701,084	—	—	—	701,084
Total trading investments	<u>3,830,892</u>	<u>1,870,348</u>	<u>1,259,460</u>	<u>—</u>	<u>701,084</u>
Total assets	<u>\$ 3,977,751</u>	<u>2,014,194</u>	<u>1,262,473</u>	<u>—</u>	<u>701,084</u>

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

	<b>December 31, 2018</b>				
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Available for sale investments:					
Investment categories:					
Money Market Funds	\$ 97,854	97,854	—	—	—
Mutual funds	62,116	62,116	—	—	—
Certificates of deposit	2,779	—	2,779	—	—
Corporate bonds	193	—	193	—	—
Government bonds	301	—	301	—	—
Total investments available for sale	<u>163,243</u>	<u>159,970</u>	<u>3,273</u>	<u>—</u>	<u>—</u>
Trading investments:					
Investment categories:					
Money Market Funds	172,409	172,409	—	—	—
Mutual funds	1,468,221	1,262,304	205,917	—	—
Equity securities	99,683	99,683	—	—	—
Unit investment trust	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 trading investments	<u>3,268,858</u>	<u>1,535,266</u>	<u>974,146</u>	<u>—</u>	<u>759,446</u>
Total assets	<u>\$ 3,432,101</u>	<u>1,695,236</u>	<u>977,419</u>	<u>—</u>	<u>759,446</u>

There were no transfers among Levels 1, 2 and 3 during the nine months ended September 30, 2019 and the year ended December 31, 2018.

There are no financial liabilities reported at fair value.

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

**(5) Long-term Debt**

Long-term debt consists of the following:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<u>                    </u>	<u>                    </u>
Revenue and refunding bonds	\$ 1,712,537	1,717,355
Senior secured notes	300,000	300,000
Notes payable	1,120	—
Capital lease obligations	26,007	8,133
	<u>                    </u>	<u>                    </u>
Total long-term debt	2,039,664	2,025,488
Plus: Unamortized bond premium	83,841	88,636
Less:		
Unamortized bond discount	1,647	1,809
Deferred financing costs, net	13,912	14,592
Current portion	8,599	8,442
	<u>                    </u>	<u>                    </u>
Long-term portion	\$ <u>2,099,347</u>	<u>2,089,281</u>

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, Newark Beth Israel Medical Center, RWJ Barnabas Health, Inc., Robert Wood Johnson University Hospital, 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 revenues 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 New Jersey Health Care Facilities Financing Authority (NJHCFFA) and credit arrangements with a consortium of banks, including JPMorgan Chase Bank, N.A.(JPMorgan) and TD Bank.

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

## **RWJ BARNABAS HEALTH, INC.**

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

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 MTL. 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 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; (d) Robert Wood Johnson University Hospital Issue, Series 2014B; (ii) reimbursement for various capital improvements; and (iii) the payment of the costs of issuance.

In October 2019, as a result of the issuance of Series 2019 and Series 2019AB, the Corporation, as a joint and several member, 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 in the consolidated statement of operations.

#### **(6) Employee Benefit Plans**

The Corporation maintains several benefit plans for its employees. The following are brief descriptions of those plans and related expenses for the nine months ended September 30, 2019 and 2018:

- The Corporation provides pension benefits to its employees through defined contribution plans. Contributions to these plans are based on percentages of annual salaries. It is the policy of the Corporation to fund accrued costs under these plans on a current basis. Pension expense related to these defined contribution plans was approximately \$58,224 and \$55,712 for the nine months ended September 30, 2019 and 2018, respectively.
- Certain affiliates of the Corporation contribute to various multiemployer defined-benefit pension plans under the terms of collective bargaining agreements that cover union-represented employees. Contributions to these plans approximated \$3,098 and \$2,875 for the nine months ended September 30, 2019 and 2018, respectively.
- Certain employees of the Corporation participate in deferred compensation plans. Eligible employees may defer compensation under a salary reduction agreement, subject to certain dollar limitations. Payments, upon retirement or termination of employment, are based on amounts credited to individual accounts. In connection with these plans, certain affiliates deposit amounts with trustees on behalf of participating employees. Under the terms of these plans, the Corporation is not responsible for investment gains or losses incurred. The assets are restricted for payments under the plans. The plans are funded based upon the benefit formula as outlined in the plan documents.

## **RWJ BARNABAS HEALTH, INC.**

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

The RWJ Barnabas Health Retirement Income Plan (the RWJBH Plan) covers substantially all employees of the Corporation. The RWJBH Plan is currently frozen and no participants accrue credited service or contribute to the RWJBH Plan.

The 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 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 policy of the Corporation is to evaluate the annual funding liability on a calendar year basis. Contributions to the RWJBH Plan were funded in accordance with regulatory requirements and approximated \$7,000 and \$27,000 for the nine months ended September 30, 2019 and 2018, respectively.

#### **(7) Partnership with Rutgers, the State University of New Jersey**

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 will remain 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 an initial \$100 million through June 30, 2019. In connection with the initial investment in 2018, 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.

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, as well as a new ambulatory care center, both in New Brunswick.

#### **(8) 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. In addition, the Corporation and CarePoint Health announced on October 22, 2019 that they have entered into a Non-disclosure Agreement and a non-binding 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.

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

*(Information pertaining to the nine months ended September 30, 2019 and 2018 is unaudited)*

**(9) Subsequent Events**

Management evaluated all events and transactions that occurred after September 30, 2019 and through November 14, 2019. The Corporation did not have any material recognizable subsequent events during the period, except as previously disclosed.

**RWJ BARNABAS HEALTH, INC.**

Note to Consolidated Financial Statements - Obligated Group

The following financial information as of September 30, 2019 (unaudited) and December 31, 2018 (audited) and for the nine months ended September 30, 2019 and 2018 (unaudited) on pages 29 and 30 of the Corporation's Obligated Group was prepared for purposes of accommodating a certain group of bond and note holders. The financial information reflects the financial position and results of operations and changes in net assets of the Obligated Group and not of the entire Corporation and is not intended to be presented in conformity with U.S. generally accepted accounting principles.

## RWJ BARNABAS HEALTH, INC.

### Consolidated Balance Sheets - Obligated Group

(In thousands)

Assets	<u>September 30, 2019</u> (unaudited)	<u>December 31, 2018</u> (audited)
Current assets:		
Cash and cash equivalents	\$ 489,139	632,517
Investments	41,211	26,662
Assets limited or restricted as to use	1,708	38,839
Patient accounts receivable, net	481,877	477,568
Estimated amounts due from third party payors	32,810	-
Other current assets	217,797	202,378
Total current assets	1,264,542	1,377,964
Assets limited or restricted as to use, non-current portion	84,594	87,742
Investments	3,656,671	3,114,238
Property, plant and equipment, net	2,100,398	2,041,774
Right-of-use asset	155,855	-
Other assets, net	364,196	349,063
Total assets	7,626,256	6,970,781
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	299,887	288,266
Accrued expenses and other current liabilities	507,711	607,482
Estimated amounts due to third party payors	-	6,209
Long-term debt	10,368	10,091
Lease obligation	29,089	-
Due to affiliates, net	569,140	459,564
Self-insurance liabilities	32,226	29,401
Total current liabilities	1,448,421	1,401,013
Estimated amounts due to third party payors, net of current portion	50,563	41,711
Self insurance liabilities, net of current portion	106,193	99,410
Long-term debt, net of current portion	2,037,503	2,028,206
Lease obligation, net of current portion	126,718	-
Accrued pension liability	67,050	78,020
Other liabilities	108,424	109,987
Due to affiliates, long term, net	19,813	19,461
Total liabilities	3,964,685	3,777,808
Net assets	3,661,571	3,192,973
Total liabilities and net assets	\$ 7,626,256	6,970,781

See accompanying notes to consolidated financial statements - obligated group.

**RWJ BARNABAS HEALTH, INC.**

Consolidated Statements of Operations and Changes in Net Assets - Obligated Group

Nine months ended September 30, 2019 and 2018

(In thousands)

(Unaudited)

	<u>2019</u>	<u>2018</u>
Revenue:		
Net patient service revenue	\$ 3,693,107	3,542,592
Other revenue, net	174,376	162,596
Total revenue	<u>3,867,483</u>	<u>3,705,188</u>
Expenses:		
Salaries and wages	1,408,440	1,335,964
Physician fees and salaries	350,233	327,835
Employee benefits	291,545	288,374
Supplies	758,689	710,010
Other	676,391	636,673
Interest	62,314	52,310
Depreciation and amortization	164,530	161,521
Total expenses	<u>3,712,142</u>	<u>3,512,687</u>
Income from operations	<u>155,341</u>	<u>192,501</u>
Nonoperating (expenses) revenue:		
Investment income, net	297,080	72,700
Other, net	<u>(6,312)</u>	<u>(61,940)</u>
Total nonoperating revenue, net	<u>290,768</u>	<u>10,760</u>
Excess of revenue over expenses	446,109	203,261
Other changes in net assets:		
Net change in unrealized losses on investments	247	-
Pension changes other than net periodic benefit cost	10,926	5,184
Net assets released from restriction for purchases of property and equipment	7,437	10,471
Net assets transferred from non obligated group	4,556	59,920
Other, net	<u>(677)</u>	<u>13,312</u>
Increase in net assets	<u>\$ 468,598</u>	<u>292,148</u>

See accompanying notes to consolidated financial statements - obligated group.