



**Secondary Market  
Disclosure Information**

September 30, 2020

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

Consolidated Financial Statements and Supplementary Information as of September 30, 2020  
and December 31, 2019 and for the nine months ended September 30, 2020 and 2019

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**RWJ BARNABAS HEALTH, INC.**  
Secondary Market Disclosure Information  
September 30, 2020

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

**Obligations under the Master Trust Indenture**

- 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
- 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 Senior Secured Notes, Series A through D
- RWJ Barnabas Health Obligated Group Issue, Series 2019
- RWJ Barnabas Health Obligated Group Issue, Series 2019A
- RWJ Barnabas Health Obligated Group Issue, Series 2019B-1 through B-3

**Other Credit Arrangements**

- Secured revolving credit facility with JP Morgan Chase Bank that includes a sublimit for letters of credit including the self-insured worker's compensation program.
- Secured revolving promissory note for the maximum principal amount of \$100 million with JP Morgan Chase Bank

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

<b>Facility</b>	<b>Location</b>	<b>Licensed Beds</b>
<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	348
Robert Wood Johnson University Hospital Rahway	Rahway	251
Robert Wood Johnson University Hospital at Hamilton	Hamilton	248
<b>Total Acute Care Beds</b>		<b>4,930</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>185</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>405</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, 2020 and 2019**

**(In thousands)**

RWJ Barnabas Health, Inc. (the Corporation) is the largest, most comprehensive academic health care system in New Jersey, with a service area covering nine counties with five million people. The system includes eleven acute care hospitals; three acute care children's hospitals and a leading 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, a medical group, multi-site imaging centers and two accountable care organizations. In meeting its mission of creating healthier communities, the Corporation seeks to address the clinical and social determinants of health, improve health outcomes, promote health equity, and eliminate health care disparities.

The Corporation is in partnership with Rutgers University to create New Jersey's largest academic health care system. The collaboration will align the Corporation with Rutgers' education, research and clinical activities, including those at the Rutgers Cancer Institute of New Jersey (CINJ) - the state's only NCI-designated Comprehensive Cancer Center - and Rutgers University Behavioral Health Care.

#### **COVID-19**

Over the course of the past several months, the Corporation has directed nearly every resource available to combat the COVID-19 pandemic and meet the unprecedented needs of its patients, communities, employees and health care workers across our service areas. Since the pandemic began, the Corporation has cared for almost 80,000 patients that presented with COVID-19 symptoms, of which more than 9,300 were admitted to our hospitals. The Corporation also used space that was never used before for patient care, completely renovated in order to meet the unknown needs of the pandemic.

Patient volumes and the related revenue for most of the Corporation's health care services have been significantly impacted as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that caused restrictions on nonessential medical services, travel bans, social distancing and shelter-in-place orders. These policies forced the Corporation to reduce hours and temporarily close certain operations, as well as dramatically reduce surgical procedures and outpatient diagnostic and treatment services, emergency care and physician patient visits. In addition, broad economic factors resulting from the COVID-19 pandemic, including increasing unemployment rates and reduced consumer spending, are impacting service mix, revenues and patient volumes. The Corporation expects patient volumes and revenues to continue to be negatively impacted until the effects of the pandemic begin to subside, and the economy begins to stabilize.

On May 18, 2020, the Governor of New Jersey unveiled a multi-stage approach to execute the responsible and strategic economic restart to put New Jersey on the road back to recovery from COVID-19. In the first phase of the plan, elective surgeries and elective invasive procedures in hospital and ambulatory surgery centers were permitted to resume on May 26, 2020. Despite a gradual improvement to the Corporation's patient activity beginning in June, the impact of COVID-19 resulted in a \$610 million decline in net patient service revenue in the 7 month period ended September 30, 2020 including a decline of \$171 million in April 2020. COVID-19 continues to have deep and lingering financial impacts on hospitals in New Jersey. A midyear analysis of financial data showed nearly 60% of the state's hospitals were in the red with an average statewide operating margin of negative 4%.

New Jersey was once considered a "hot spot" and as of October 28, 2020, has treated over 231,000 cases which is the 10<sup>th</sup> highest in the United States. Total deaths of over 16,000, are the 5<sup>th</sup> highest in the United States, however New Jersey has the 2<sup>nd</sup> highest death rate per 100,000 people. COVID-19 positive cases have recently been increasing, and in the 14-day span ending October 27, 2020, over 16,000 new cases have been reported.

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

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

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Future financial performance will depend on many factors, including the continued ability to perform elective procedures, the effect of the economic downturn on demand for services and payer mix, the extent of federal and state advances and grants and the health care industry's ability to continue to convince patients that it is safe to return for non-COVID care.

During March 2020, the Corporation received approximately \$556 million in accelerated Medicare payments. Repayment is expected to begin in April 2021, with final payments due no later than August 2022. The Corporation also received grants provided in the Coronavirus Aid, Relief, and Economic Security (CARES) Act of approximately \$634 million through September 30, 2020. There is a potential for additional funding from a Phase 3 general distribution, however guidance associated with the recognition of the CARES Act funding continues to evolve and future changes may impact the amount of funding retained.

#### **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 the 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 recognized as a leading academic health care delivery systems, having received the following recognitions, among others:

- **Leapfrog Safety Scores** – The Spring 2020 scores recognize six of the acute care facilities as receiving an “A” grade. SBMC is one of only 32 facilities in the nation to have achieved straight “A” ratings since the program's inception.
- **Leapfrog Top Hospitals** – SBMC and Newark Beth was recognized by The Leap Frog Group as 2019 top teaching hospitals. RWJUH at Hamilton was one of only two New Jersey hospitals to be named a top general hospital.
- **LGBTQ Healthcare Equality** – In 2020, 8 of the Corporation's hospitals 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.
- **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.
- **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.
- **NCI-designated Comprehensive Cancer Center** – 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.
- **Commission on Cancer Accredited Program** – The American College of Surgeons' Commission on Cancer has rated RWJUH New Brunswick and Newark Beth among the nation's best comprehensive cancer centers.

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

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

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- **National Quality Measures for Breast Centers (NQBMC)** – The Jacqueline M. Wilentz Breast Center was certified as a quality breast center of excellence, the highest certification level offered by the NQBMC. Additionally, the Center has been designated a Breast Imaging Center of Excellence by the American College of Radiology's Commission on Quality and Safety and the Commission on Breast Imaging.
- **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, including recognition for Women's Health Programs.
- **100 Great Hospitals in America** – In 2020, 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** – The Bristol-Myers Squibb Children's Hospital (BMSCH) at RWJUH was named for the sixth time as one of the nation's best children's hospitals in 2019-2020 – recognized for Urology. Other national, regional and New Jersey recognition was received widely by the Corporation's hospitals in a great range of specialties in 2019-2020.
- **Newsweek Magazine** - Named Newark Beth one of the World's Best Hospitals and named Newark Beth and MMC Best Maternity Care Hospitals.
- **Gold Seal of Approval** – Various affiliates of the Corporation have received the Gold Seal of Approval by the Joint Commission for various programs including joint replacement, disease-specific certifications in acute coronary syndrome, cardiac rehabilitation, heart failure, advanced certification in palliative care, bariatric surgery and stroke program.
- **Magnet Designation by the American Nurses Credentialing Center** – Five 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.
- **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.
- **NICHE** – Several of our facilities have been recognized as a NICHE (Nurses Improving Care for Healthsystem Elders) hospital.

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

The partnership with Rutgers formed the largest and most comprehensive academic health system in New Jersey and has enhanced the recruitment of prominent academic, research and clinical practitioners; and strengthened the advancement of health science innovation and education, while continuing to enhance the delivery and accessibility of evidence-based health care across the state.

A key element of the transformative efforts is the formation of a comprehensive medical group composed of employed physicians and other health care professionals from the Corporation and Rutgers Health. The completion of this joint project was effective July 1, 2020, becoming one of the largest in the country and will have a unified clinical mission that complements our high quality standards of teaching and research excellence.

The Corporation has committed to invest more than one billion dollars over 20 years (commencing in 2018) 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 CINJ.

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

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This partnership has become even more important since the COVID-19 outbreak. When asked how COVID-19 affected the Corporation's ongoing relationship with Rutgers, Mr. Ostrowsky responded, "before the pandemic we were busily building this partnership in a conventional way. We've been building it, making sure we touch all the sweet spots legally. Now, along comes this pandemic and the relationship becomes more intimate overnight. The School of Public Health in Rutgers is front and center. It partnered with us to look at how we can ignite a public health program in our most significant urban area in Newark, New Jersey, to ensure that that vulnerable population is now being better evaluated for COVID. The pandemic has made the relationship with Rutgers all that much more meaningful, mutually, and much more effective for the communities we serve."

**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 91.7% of the total consolidated operating revenue and 96.2% of the total consolidated assets as of and for the nine months ended September 30, 2020. 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, 2019 for the consolidating schedules of the Corporation and the Obligated Group.

Included in the consolidated results is University Physician Associates (UPA), a non-profit NJ Corporation. Effective July 1, 2020, the Corporation became the sole corporate member of UPA. Through the creation of an Integrated Practice Agreement with Rutgers, the Corporation (via UPA) will support and provide financial, administrative and revenue cycle management services to the New Jersey Medical School. The impact of this transaction was the assumption of equal assets and liabilities, with no incremental net assets. The details of the ongoing activity are currently being evaluated.

**Financial Performance Overview**

For the nine months ended September 30, 2020, the Corporation's total operating income and operating margin were \$100,226 and 2.3%, respectively, compared to \$129,262 and 3.1% for the nine months ended September 30, 2019. Total operating revenues grew by \$163,374 or 3.9% compared to the nine months ended September 30, 2019, while operating expenses increased by \$192,410 or 4.7% during the same period.

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

The following tables portray select volumes as compared to 2019. While volumes continue to be lower than 2019, they have been steadily improving since the height of the pandemic:



Overall, net patient service revenue (NPSR) of \$3,660,574 was lower than prior year by \$336,587 or 8.4%. NPSR for the nine months ended September 30, 2020 was significantly impacted by COVID-19. During this period, the Corporation experienced significant declines in inpatient and outpatient surgery as well as most other volumes due to COVID-19 restrictions. The estimated impact of COVID-19 on NPSR is a loss of \$614,155 through September 30, 2020. The combined losses have been offset by \$500,170 of Stimulus funding recorded in CARES Act funding. For additional information, refer to the *Operating Revenue and Volume* discussion.

The increase in operating expenses was driven by increased salaries and benefits, physician fees and salaries, other expenses, depreciation and interest. The increase was partially offset by lower supplies expense compared to prior year driven by the decrease in volumes. For additional information, refer to the *Operating Expenses* discussion.

The Corporation’s excess of revenues over expenses and excess of revenues over expenses margin for the nine months ended September 30, 2020 were \$560,469 and 11.6%, respectively, compared to \$425,689 and 9.5% for the nine months ended September 30, 2019. The excess of revenues over expenses was significantly higher than prior year mainly due to investment performance. Net investment gains totaled \$462,364, compared to \$302,098 in 2019. For additional information, refer to the *Nonoperating Gains and Losses* discussion.

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

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

in the health care industry while continuing to meet the needs of patients and families in all the communities it serves.

**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>2020</b>	<b>2019</b>
Operating income	100,226	129,262
Operating margin	2.3%	3.1%
EBITDA	369,105	367,429
EBITDA margin	8.5%	8.8%
Excess of revenue	560,469	425,689
Excess of revenue margin	11.6%	9.5%

**Operating Revenue and Volume**

The following table presents consolidated operating revenue and select volume statistics for the nine months ended September 30, 2020 and 2019:

	<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating Revenue:</b>		
Inpatient net patient service revenue	2,138,044	2,180,998
Outpatient net patient service revenue	1,283,181	1,542,384
Professional building revenue	203,567	217,828
State of NJ subsidy revenue	35,782	55,951
Total net patient service revenue	3,660,574	3,997,161
CARES Act funding	500,170	-
Other operating revenue	196,713	196,922
Total operating revenue	4,357,457	4,194,083
<b>Volume &amp; utilization statistics:</b>		
Acute care licensed beds	4,930	4,910
Average acute care beds in service	3,908	3,861
Acute care occupancy based on beds in service	67.1%	71.8%
Acute care length of stay	5.78	5.44
Acute care admissions	130,520	144,396
COVID-19 positive admissions	9,271	-
Adult and pediatric admissions	84,758	97,748
Newborn and NICU admissions	18,465	17,715
Maternity and obstetric cases	18,559	18,536
Patient days	718,907	756,199
Same day surgery cases	34,383	45,854
Emergency room visits (excl. admits)	338,303	465,310
Observations	53,002	66,895
Psychiatric hospital inpatient admissions	813	1,037

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

Acute Care payor mix, based on patient days, for the nine months ended September 30, 2020 and 2019 is presented below:

<b>Payor Mix</b>	<b>Patient Days</b>	
	<b>2020</b>	<b>2019</b>
Medicare	28.9%	31.4%
Medicaid	7.0%	6.8%
Managed Medicare	16.9%	15.8%
Managed Medicaid	17.7%	17.4%
Managed Care	11.4%	11.7%
NJ Blue Cross & Commercial	11.9%	11.1%
Self-pay and Other	6.2%	5.8%
	<u>100.0%</u>	<u>100.0%</u>

Inpatient NPSR of \$2,138,044 was lower than prior year by \$42,954 or 2.0%. The acute care hospitals have experienced significant volume decreases, down by 9.6% from prior year, due to COVID-19 restrictions. Since May 2020 when restrictions began to ease, volumes have been gradually increasing. Although most inpatient services were impacted, cardiology and oncology were most affected by COVID-19. The volume decrease was primarily offset by payment rate increases as well as higher acuity cases and longer average length of stay. In addition, the effect of cost report settlements increased net patient service revenue by approximately \$3,012 and \$20,213, respectively, for the nine months ended September 30, 2020 and 2019. Additionally, state of NJ subsidy revenue of \$35,782 decreased from prior year by \$20,169 or 36%. Lower charity care, DSRIP and Quality Improvement Program funding contributed to the decrease in subsidy revenue.

Outpatient NPSR of \$1,283,181 was lower than prior year by \$259,203 or 16.8%. Outpatient volume was down approximately 19.2% due to decreased outpatient services related to COVID-19 restrictions, specifically hospital same day surgery cases were below prior year by 25%. Other significantly impacted services were cardiology, neurology, infusion and radiology. The decrease was partially offset by payment rate increases.

Professional building revenue of \$203,567 was lower than prior year by \$14,261 or 6.5%. Physician group performance was significantly impacted by the global pandemic. The physician groups experienced a significant decline in patient visits, in part related to the complete closure of certain practices on a temporary basis. In response to the pandemic, the medical groups began utilizing telemedicine options. Volumes have been improving since the restrictions were lifted in late May.

The combined NPSR shortfall, based on budgeted expectations, was approximately \$614,155. The combined losses have been offset by \$500,170 of Cares Act funding.

Other operating revenue of \$196,713 was lower than prior year by \$209 or 0.1%. Other revenue includes income from grants, pharmacy sales, equity in the income of joint ventures, contributions, net assets released from restriction, cafeteria, and parking. Essentially all categories within other revenue declined versus prior year due to COVID-19 restrictions.

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

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:

	<b>Nine months ended September 30,</b>					
	<b>2020</b>			<b>2019</b>		
	<b>Net Operating Revenue</b>	<b>Net Income</b>	<b>Net Income Attributable to RWJBH</b>	<b>Net Operating Revenue</b>	<b>Net Income</b>	<b>Net Income Attributable to RWJBH</b>
Surgical	\$ 125,170	48,772	13,371	121,941	60,906	17,134
Home Care & Hospice	131,695	19,921	10,131	124,878	11,809	5,926
Imaging	69,727	9,118	4,963	73,030	10,435	5,434
Physician Practices	15,163	4,097	1,759	-	-	-
Other	38,246	(330)	75	42,158	8,772	2,438
	<u>\$ 380,000</u>	<u>81,578</u>	<u>30,298</u>	<u>\$362,006</u>	<u>91,922</u>	<u>30,932</u>

The decrease in surgical ventures was attributable to a decrease in the volume of billable procedures due to COVID-19 as several practices were closed for a period of time; however these ventures received \$1,513 in Stimulus funds to offset these losses. The Corporation invested approximately \$78 million to continue to expand its ambulatory care division during 2020.

The increase in the home care and hospice was due to a greater demand for these services. Physician practices, new ventures established in 2020, contributed \$1,759 to net income. The Corporation invested approximately \$24 million to expand its physician practices. The decrease in imaging and other ventures was primarily due to a decrease in volumes related to COVID-19 and temporary closure of the fitness and wellness centers. Imaging ventures received \$936 of Stimulus funds to partially offset their losses.

**Operating Expenses**

Total operating expenses for the nine months ended September 30, 2020 of \$4,257,231 increased by \$192,410 or 4.7% from the nine months ended September 30, 2019.

Summarized below are the consolidated operating expenses for the nine months ended September 30, 2020 and 2019.

	<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Salaries and employee benefits	1,982,100	1,869,008
Physician fees and salaries	438,241	402,442
Supplies and other expenses	1,568,011	1,555,204
Interest	75,844	63,043
Depreciation and amortization	193,035	175,124
Total operating expenses	4,257,231	4,064,821

For the nine months ended September 30, 2020, salaries and employee benefits increased by \$113,092 or 6.1%, compared to the nine months ended September 30, 2019. The increase in salaries and employee benefits was primarily due to an increase in FTEs, the addition of new medical practices, and annual salary increases. Additionally, the Corporation granted a special recognition bonus program, appropriately named the Hero’s Bonus.

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

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The purpose of the bonus was to acknowledge the extraordinary effort of those staff providing and supporting direct patient care, and impacted more than 23,000 individuals across the organization. The total amount granted was over \$22 million.

Physician fees and salaries increased by \$35,799 or 8.9%, compared to the nine months ended September 30, 2019. The increase was driven by growth in employed physicians and the addition of new medical practices during the year. There were also increased agency fees incurred to staff respiratory care and other front line positions in the COVID-19 affected areas.

Supplies and other expenses increased by \$12,807 or 0.8%, compared to the nine months ended September 30, 2019. The unfavorable variance was attributable to the costs from merger and acquisition activity and the Epic implementation as well as higher outside laboratory service costs, higher repair, maintenance supplies and equipment rental expenses to address COVID-19. These costs were partially offset by lower supplies expense as compared to prior year. Acute care admissions were down 9.6% due to COVID-19. In mid-March, the system stopped all elective surgeries and transplant programs allowing for only emergency surgeries. Services resumed at the end of May. Since May, volumes have steadily improved but still lag behind prior year. Savings due to the drop in volume have been partially offset by the higher than expected length of stay and higher acuity cases. Additionally, personal protective equipment and other related supplies needed to treat COVID-19 patients were purchased in larger quantities and at a significantly higher cost than in previous years.

Interest expense for the nine months ended September 30, 2020 increased by \$12,801 or 20.3%, compared to the nine months ended September 30, 2019. The increase was primarily driven by additional debt incurred during October 2019.

Depreciation and amortization for the nine months ended September 30, 2020 increased by \$17,911 or 10.2%, compared to the nine months ended September 30, 2019. The increase was driven by large construction projects which were completed towards the end of 2019 and other investments in capital projects in 2020.

**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, 2020 and 2019.

	Nine months ended September 30,	
	2020	2019
Investment income	57,341	51,228
Realized (losses) gains on investments	34,278	40,597
Unrealized gains on trading investments	370,745	210,273
Net periodic benefit cost	(2,121)	(5,671)
Total nonoperating revenue, net	460,243	296,427

Net investment income and realized gains totaled \$91,619 and \$91,825 while net unrealized gains totaled \$370,745 and \$210,273 for the nine months ended September 30, 2020 and 2019, respectively. After substantial investment losses in February and March, investment markets have experienced significant gains. The net unrealized gains from investments since the first quarter totaled \$671,059, more than offsetting the losses of \$300,314 experienced during the first quarter.

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

**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.

	Nine months ended September 30,	
	2020	2019
Contributions without donor restrictions	2,003	4,095
Contributions with donor restrictions	20,073	14,374
Total contributions	22,076	18,469
Support to affiliates	40,880	18,134

Included in contributions with donor restrictions is a \$1 million gift to the Robert Wood Johnson University Hospital Foundation received in January 2020 in support of their capital campaign. Additionally, a \$3 million gift for the ICU at the New Monmouth Medical Center Campus was received in June 2020. Since March, the Foundations have experienced a large volume of gifts to help offset costs related to COVID-19. This was partially offset by the loss of revenue from the cancellation of special events as well as lower than anticipated capital campaign revenue despite the gift mentioned above. The Foundations also identified approximately \$15 million that was distributed to the hospitals in April to support their COVID-19 efforts. In addition, the Monmouth Healthcare Foundation and CSH distributed \$9,248 and \$3,262, respectively, from restricted net assets to support the Monmouth Mall ambulatory care project.

**Unrestricted Cash and Investments**

The Corporation’s financial position remains strong with \$9.8 billion in total assets and \$4.5 billion in net assets. Total cash and investments (without donor restrictions) amounted to over \$5.0 billion (or 337.7 days) at September 30, 2020, an increase of \$506,532 million over the balance at December 31, 2019, excluding the Medicare Advance of \$556 million. The increase was primarily due to the favorable investment performance since March. The Corporation continues to invest in capital with approximately \$337 million through September. Additionally, the Corporation made debt service payments of \$105 million which includes principal and interest. The Corporation also invested \$23,807 to expand its medical groups and \$78,108 to expand its ambulatory services.

Total unrestricted cash and investments (excluding Medicare Advance) for the Corporation as of September 30, 2020 and 2019 were as follows:

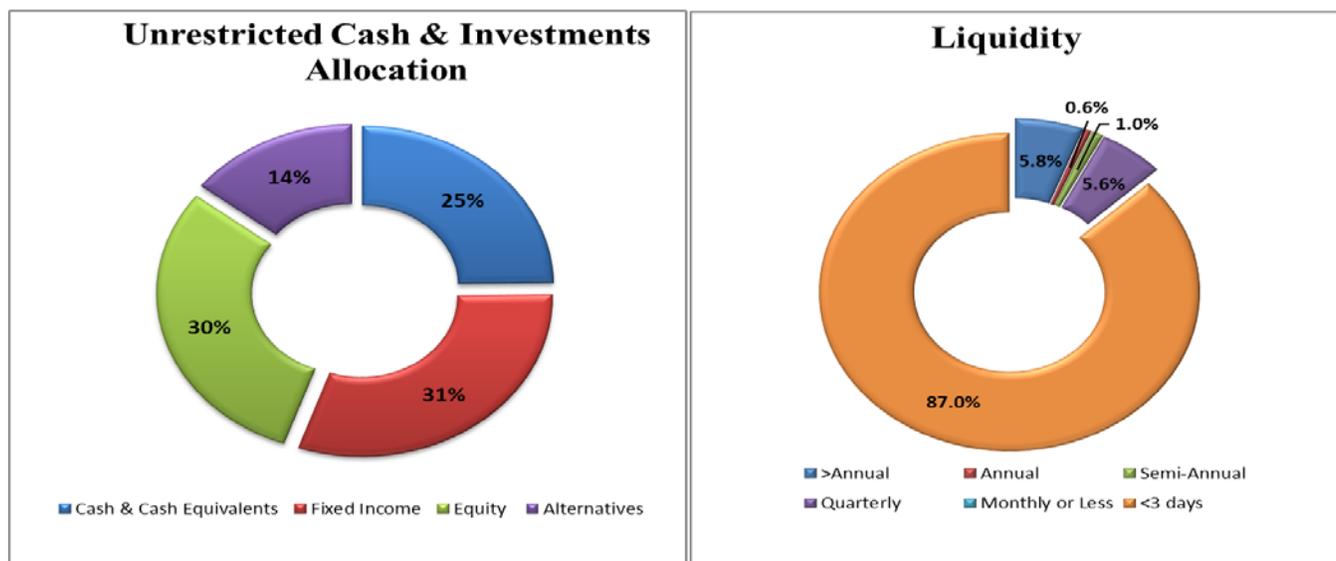
	September 30, 2020	December 31, 2019
Cash and cash equivalents	319,480	337,060
Current investments	58,305	43,443
Noncurrent investments	4,614,998	4,105,748
Total unrestricted cash and investments	4,992,783	4,486,251

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 System's cash flow needs and to stay in compliance with the indenture and credit agreements of the System. The portfolio is managed in two pools, a long term portfolio having an intermediate to long term investment horizon focused on sustaining the System’s mission,

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

and a capital reserve portfolio, having a short term investment horizon focused on preservation of capital to meet the System's near-term spending needs. 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 System’s Investment Advisor.

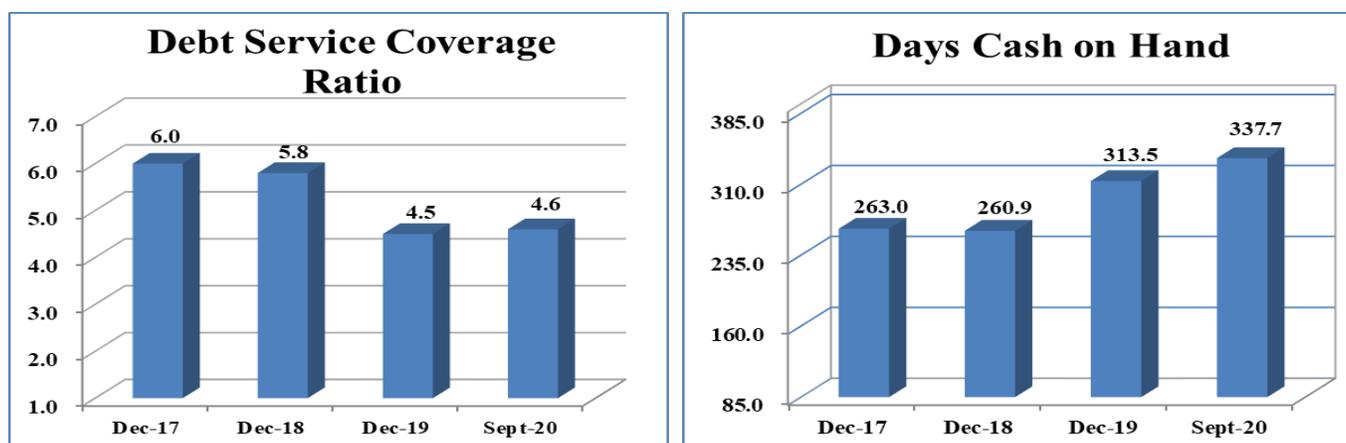
The following charts present the allocation of unrestricted cash and investments by asset type and the portfolio’s liquidity as of September 30, 2020.



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, 2020, 87% of the total unrestricted cash and investments were classified as monthly liquidity or less.

**Financial Condition**

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



Days cash on hand and the cash-to-debt ratio have been adjusted to exclude the Medicare Advance received under the CARES Act of \$556 million.

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

On March 25 and April 7, 2020, the Corporation entered into forward 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 beginning on the call date of underlying bonds in 2023 and 2024. 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 for routine working capital needs. There are no borrowings outstanding under the Note.

The following table presents key financial indicators as of September 30, 2020 and December 31, 2019 as compared to S&P’s “AA”, “AA-” and “A+” medians.

	September 30, 2020	December 31, 2019	AA	AA-	A+
Debt service coverage	4.6	4.5	6.5	4.8	4.4
Debt-to-capitalization	37.5%	41.1%	23.3%	29.2%	33.1%
Cash-to-debt	191.8%	171.3%	259.9%	187.7%	164.0%
Days cash on hand	337.7	313.5	341.8	243.2	188.6

The following table presents other select ratios as of September 30, 2020, December 31, 2019 and 2018

	September 30, 2020	December 31, 2019	December 31, 2018
Days in patient accounts receivable	41.7	37.7	36.4
Days in accounts payable	58.7	56.9	51.3
Reinvestment ratio	1.75	1.54	1.48

## RWJ BARNABAS HEALTH, INC.

### Consolidated Balance Sheets (In thousands)

<b>Assets</b>	<b>September 30, 2020</b> (unaudited)	<b>December 31, 2019</b> (audited)
Current assets:		
Cash and cash equivalents	\$ 319,480	337,060
Short-term investments	58,305	43,443
Assets limited or restricted as to use	28,111	64,300
Patient accounts receivable, net	557,056	553,108
Estimated amounts due from third party payors	-	6,344
Other current assets	228,069	213,293
Total current assets	1,191,021	1,217,548
Assets limited or restricted as to use, non-current portion	327,790	262,873
Investments	5,170,998	4,105,748
Property, plant and equipment, net	2,421,962	2,284,195
Right-of-use asset, net	260,640	231,712
Other assets, net	408,384	293,448
Total assets	9,780,795	8,395,524
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	379,320	364,628
Accrued expenses and other current liabilities	822,148	724,462
Estimated amounts due to third party payors	193,436	-
Long-term debt	8,980	11,007
Lease obligation	39,402	40,443
Self-insurance liabilities	79,903	77,610
Total current liabilities	1,523,189	1,218,150
Estimated amounts due to third party payors, net of current portion	391,314	48,131
Self insurance liabilities, net of current portion	257,522	246,168
Long-term debt, net of current portion	2,594,674	2,608,033
Lease obligation, net of current portion	228,558	195,952
Accrued pension liability	26,376	21,554
Other liabilities	255,028	124,712
Total liabilities	5,276,661	4,462,700
Net assets:		
Without donor restrictions	4,325,899	3,759,788
With donor restrictions	178,235	173,036
Total net assets	4,504,134	3,932,824
Total liabilities and net assets	\$ 9,780,795	8,395,524

See accompanying notes to consolidated financial statements.

**RWJ BARNABAS HEALTH, INC.**  
Consolidated Statements of Operations  
Nine months ended September 30, 2020 and 2019  
(In thousands)  
(Unaudited)

	<b>2020</b>	<b>2019</b>
Revenue:		
Net patient service revenue	\$ 3,660,574	3,997,161
CARES Act funding	500,170	-
Other revenue, net	196,713	196,922
Total revenue	4,357,457	4,194,083
Expenses:		
Salaries and wages	1,650,748	1,549,862
Physician fees and salaries	438,241	402,442
Employee benefits	331,352	319,146
Supplies	787,299	817,854
Other	780,712	737,350
Interest	75,844	63,043
Depreciation and amortization	193,035	175,124
Total expenses	4,257,231	4,064,821
Income from operations	100,226	129,262
Nonoperating (expenses) revenue:		
Investment income, net	462,364	302,098
Other, net	(2,121)	(5,671)
Total nonoperating revenue, net	460,243	296,427
Excess of revenue over expenses	560,469	425,689
Other changes:		
Net change in unrealized (losses) gains on available for sale investments	(600)	265
Pension changes other than net periodic benefit cost	(2,700)	10,926
Net assets released from restriction for purchases of property and equipment	6,942	7,437
Other, net	2,000	(2,577)
Increase in net assets without donor restrictions	\$ 566,111	\$ 441,740

See accompanying notes to consolidated financial statements.

**RWJ BARNABAS HEALTH, INC.**

Consolidated Statements of Changes in Net Assets

Nine months ended September 30, 2020 and 2019

(In thousands)

(unaudited)

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total net assets</b>
Net assets at December 31, 2018	\$ 3,084,128	176,474	3,260,602
Changes in net assets:			
Excess of revenues over expenses	425,689	-	425,689
Net change unrealized gains	265	281	546
Pension related 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	(16,311)	(8,874)
Restricted contributions	-	14,949	14,949
Investment income on restricted investments, net	-	251	251
Change in interest in perpetual trust	-	(892)	(892)
Other	(2,577)	126	(2,451)
Changes in net assets	441,740	(5,793)	435,947
Net assets at September 30, 2019	3,525,868	170,681	3,696,549
Net assets at December 31, 2019	3,759,788	173,036	3,932,824
Changes in net assets:			
Excess of revenues over expenses	560,469	-	560,469
Net change unrealized losses	(600)	82	(518)
Pension changes other than net periodic benefit cost	(2,700)	-	(2,700)
Change in interest in restricted net assets of unconsolidated foundations	-	(4,327)	(4,327)
Net assets released from restriction	6,942	(10,618)	(3,676)
Restricted contributions	-	20,170	20,170
Investment income on restricted investments, net	-	156	156
Other	2,000	(264)	1,736
Changes in net assets	566,111	5,199	571,310
Net assets at September 30, 2020	\$ 4,325,899	178,235	4,504,134

See accompanying notes to consolidated financial statements.

**RWJ BARNABAS HEALTH, INC.**

Consolidated Statements of Cash Flows

Nine months ended September 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 571,310	435,947
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	2,700	(10,926)
Depreciation and amortization expense	193,035	175,124
Amortization of bond financing costs, premiums and discounts	(5,730)	(3,899)
Amortization of right of use asset	43,219	41,351
Derecognition of build to suit lease	-	2,710
Net change in unrealized gains on investments	(370,145)	(210,538)
Realized gains on investments	(34,278)	(40,597)
Equity in income of joint venture	(30,298)	(30,932)
Distributions received from investments in joint ventures	24,393	30,257
Distributions to noncontrolling interests	-	245
Loss on sale of assets	793	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,948)	(19,806)
Other assets	(21,885)	(18,425)
Accounts payable, accrued expenses, and other current liabilities	117,592	(35,761)
Estimated amounts due from and to third-party payors	542,963	(30,416)
Accrued pension liability	2,122	(44)
Lease obligation, self-insurance and other long-term liabilities	48,874	1,026
Net cash provided by operating activities	<u>1,080,717</u>	<u>284,604</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment, net	(337,497)	(283,960)
Proceeds from bond escrow account	36,054	37,209
Proceeds from the sale of investments and assets limited or restricted as to use	11,215	15,428
Purchases of investments and assets limited or restricted as to use	(20,552)	(34,527)
Purchases of trading securities	(6,363,215)	(3,914,449)
Proceeds from the sale of trading securities	5,692,276	3,594,745
Investment in joint venture	(101,915)	(12,594)
Proceeds from sale of assets	688	(93)
Net cash used in investing activities	<u>(1,082,946)</u>	<u>(598,241)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(9,656)	(8,354)
Payments for deferred financing costs	-	(54)
Distributions to noncontrolling interest	-	(245)
Net cash used in financing activities	<u>(9,656)</u>	<u>(8,653)</u>
Net decrease in cash, cash equivalents, and restricted cash	(11,885)	(322,290)
Cash, cash equivalents, and restricted cash at beginning of year	<u>350,287</u>	<u>355,117</u>
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 338,402</u>	<u>32,827</u>
Cash and cash equivalents	\$ 319,480	21,932
Restricted cash included in assets limited or restricted as to use	<u>18,922</u>	<u>10,895</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 338,402</u>	<u>32,827</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 95,290	78,261
Finance lease obligations incurred	—	21,404
Supplemental disclosure of noncash investing and financing activity:		
Change in noncash acquisitions of property, plant and equipment	(5,214)	(46,742)

See accompanying notes to the consolidated financial statements.

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

### Notes to Consolidated Financial Statements

September 30, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 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 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 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, 2019 and related notes. Information for the nine months ended September 30, 2020 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, 2020.

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, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

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

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.

### **(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.

Because all of its 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.

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

### Notes to Consolidated Financial Statements

September 30, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

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 based 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 nine months ended September 30, 2020 and 2019. 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 nine months ended September 30, 2020 and 2019, 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 in 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.

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, 2020 and 2019 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

## RWJ BARNABAS HEALTH, INC.

### Notes to Consolidated Financial Statements

September 30, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

period that adjustments become known. The effect of cost report settlements increased net patient service revenue by approximately \$3,012 and \$20,213, respectively, for the nine months ended September 30, 2020 and 2019. 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 Stimulus funding under the CARES Act, grant revenue, equity in the income of joint ventures, contributions, net assets released from restriction, cafeteria, and parking. 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.

#### **(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.

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

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, 2020 and December 31, 2019:

		<b>September 30, 2020</b>				
		<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV</b>
Available for sale investments:						
Investment categories:						
Cash and cash equivalents and money market funds	\$	135,880	135,880	—	—	—
Equity mutual funds		17,819	17,819			
Fixed income mutual funds		76,777	76,777	—	—	—
Certificates of deposit		5,851	—	5,851	—	—
Corporate bonds		177	—	177	—	—
Total investments available for sale		<u>236,504</u>	<u>230,476</u>	<u>6,028</u>	<u>—</u>	<u>—</u>
Trading investments:						
Investment categories:						
Cash and cash equivalents and money market funds		458,510	458,510	—	—	—
Equity mutual funds		1,371,368	1,371,368			
Fixed income mutual funds		273,777	273,777	—	—	—
Equity securities		402,759	402,759	—	—	—
Unit investment trust		970	970	—	—	—
Commercial mortgage-backed securities		123,206	—	123,206	—	—
Corporate bonds		1,150,423	—	1,150,423	—	—
Bond funds		—	—			
Asset-backed securities		384,626	—	384,626	—	—
Government bonds		154,717	—	154,717	—	—
Government mortgage-backed securities		209,613	—	209,613	—	—
Municipal bonds		59,855	—	59,855	—	—
Sukuk		226	—	226	—	—
Alternative investments		<u>715,059</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>715,059</u>
Total trading investments		<u>5,305,109</u>	<u>2,507,384</u>	<u>2,082,666</u>	<u>—</u>	<u>715,059</u>
Total assets	\$	<u>5,541,613</u>	<u>2,737,860</u>	<u>2,088,694</u>	<u>—</u>	<u>715,059</u>

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

	<b>December 31, 2019</b>				
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV</b>
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 investments available for sale	<u>194,098</u>	<u>190,802</u>	<u>3,296</u>	<u>—</u>	<u>—</u>
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 trust	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 trading investments	<u>4,239,116</u>	<u>2,283,194</u>	<u>1,248,877</u>	<u>—</u>	<u>707,045</u>
Total assets	<u>\$ 4,433,214</u>	<u>2,473,996</u>	<u>1,252,173</u>	<u>—</u>	<u>707,045</u>

There were no transfers among Levels 1, 2 and 3 during the nine months ended September 30, 2020 and for the year ended December 31, 2019.

There are no financial liabilities reported at fair value.

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

**(5) Long-term debt**

Long-term debt consists of the following:

	<b>September 30,</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Revenue and refunding bonds	\$ 2,170,381	2,174,563
Senior secured notes	300,000	300,000
Notes payable	-	1,112
Capital lease obligations	34,003	38,365
Total long-term debt	<u>2,504,384</u>	<u>2,514,040</u>
Plus unamortized bond premium	116,800	123,530
Less:		
Unamortized bond discount	1,431	1,593
Deferred financing costs, net	16,099	16,937
Current portion	8,980	11,007
Long-term portion	<u>\$ 2,594,674</u>	<u>2,608,033</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. 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.

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

### Notes to Consolidated Financial Statements

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*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

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 are being 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.

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.

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

On March 25, 2020 and April 7, 2020, the Corporation entered into forward 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 October 30, 2020, there were no borrowings under the Note.

#### **(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, 2020 and 2019:

- 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 \$62,221 and \$58,224 for the nine months ended September 30, 2020 and 2019, 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 \$3,433 and \$3,098 for the nine months ended September 30, 2020 and 2019, respectively.

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

### Notes to Consolidated Financial Statements

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*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

- 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 in 2015 and based on the Union Benefit Plan’s actuarial calculation, RWJUH was assessed an estimated allocable share of the unfunded vested benefits. At September 30, 2019, the outstanding balance was approximately \$51,240. During February 2020, an agreement was reached whereby the outstanding liability was reduced to \$38,489. The settlement amount of \$38,489 was paid in full on February 28, 2020.
- 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.

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. Based on this evaluation \$0 and \$7,000 in contributions were made to the RWJBH Plan during the nine months ended September 30, 2020 and 2019, respectively.

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

The Corporation, Rutgers, the State University of New Jersey (Rutgers) and Rutgers Health Group (RHG) are participants in 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 are separate and distinct legal entities. The MAA requires 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 was established for strategic planning and oversight featuring equal representation from the Corporation and Rutgers.

As part of the MAA, the Corporation has invested \$100 million through September 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 nine months ended September 30, 2020 and 2019, the Corporation made payments to Rutgers in the amounts of \$27,998 and

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

### Notes to Consolidated Financial Statements

September 30, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

\$71,542, respectively, related to the MAA. As of September 30, 2020 and December 31, 2019, the Corporation owed Rutgers \$55,145 and \$45,744, 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 September 30, 2020. The estimated cost will be approximately \$750 million.

#### **(8) Potential Affiliations**

The Corporation and Saint Peter's Healthcare System (SPHCS) entered into a Definitive Agreement (the Agreement) on September 10, 2020. Under the terms of the Agreement, SPHCS – with its flagship hospital, Saint Peter's University Hospital, a 478-bed acute care teaching hospital and acute care children's hospital – will remain as a full-service provider of acute healthcare services, and would continue its mission and identity as a Catholic hospital in adherence with the standards of care stated in the Ethical and Religious Directives for Catholic Health Care Services.

The Corporation is also 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 non-binding Letter of Intent.

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

#### **(9) COVID-19**

In March 2020, the World Health Organization declared the COVID-19 outbreak, a pandemic. 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 seen significant volatility attributed to COVID-19 concerns. The Corporation's operations have been adversely affected in the near term as a result of COVID-19, but the impact to the Corporation's financial condition, including the effects on its investment portfolio as a result of market volatility, cannot be determined.

On March 27, 2020, the President signed into law the Coronavirus Aid, Relief and Economic Securities Act (CARES Act) which will provide economic assistance to a wide array of industries, including healthcare. The CARES Act provides financial relief under several programs including a funding advance of Medicare payments, deferral of the employer portion of payroll taxes and establishment of the Public Health and Social Services Emergency Fund (the PHSSEF), a \$100 billion fund to assist healthcare providers to prevent, prepare for, and respond to COVID-19

**RWJ BARNABAS HEALTH, INC.**

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

*(Information pertaining to the nine months ended September 30, 2020 and 2019 is unaudited)*

Under the PHSSEF, the Corporation has received \$634 million for its share, which is considered a grant that is not subject to repayment. As of September 30, 2020, approximately \$500 million has been recorded. The Corporation has also received approximately \$556 million in Medicare advance payments which are recorded in Estimated Amounts Due to Third-party Payors, short-term and long-term. Repayment is currently scheduled to begin in April 2021 with providers being required to pay back the loan in full 29 months after the first advance payment was received, or be subject to interest until repaid.

The Corporation has elected to defer the deposit and payment of the employer's share of Social Security taxes allowed under the CARES Act. As of September 30, 2020, the Corporation has deferred approximately \$56 million of such payments with the related liability recorded in Other Long-term Liabilities.

Any of the above amounts are subject to change and the ultimate amount the Corporation may receive cannot be ascertained at this time.

**(10) Subsequent Events**

Management evaluated all events and transactions that occurred after September 30, 2020 and through October 30, 2020. 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, 2020 (unaudited) and December 31, 2019 (audited) and for the nine months ended September 30, 2020 and 2019 (unaudited) on pages 31 and 32 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, 2020</u> (unaudited)	<u>December 31, 2019</u> (audited)
Current assets:		
Cash and cash equivalents	\$ 402,833	780,608
Short-term investments	58,305	43,443
Assets limited or restricted as to use	1,911	37,874
Patient accounts receivable, net	498,299	503,903
Estimated amounts due from third party payors	-	6,079
Other current assets	225,485	196,453
Total current assets	1,186,833	1,568,360
Assets limited or restricted as to use, non-current portion	123,536	108,872
Investments	5,141,643	4,072,821
Property, plant and equipment, net	2,298,490	2,156,264
Right-of-use asset	189,848	169,456
Other assets, net	430,494	345,847
Total assets	9,370,844	8,421,620
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	349,869	326,611
Accrued expenses and other current liabilities	749,594	631,548
Estimated amounts due to third party payors	178,728	-
Long-term debt	11,682	12,629
Lease obligation	25,443	28,561
Due to affiliates, net	207,365	596,076
Self-insurance liabilities	31,937	29,644
Total current liabilities	1,554,618	1,625,069
Estimated amounts due to third party payors, net of current portion	390,803	48,131
Self insurance liabilities, net of current portion	101,035	92,493
Long-term debt, net of current portion	2,531,206	2,544,242
Lease obligation, net of current portion	162,540	137,529
Accrued pension liability	26,376	21,554
Other liabilities	145,887	74,468
Due to affiliates, long term, net	19,813	19,813
Total liabilities	4,932,278	4,563,299
Net assets	4,438,566	3,858,321
Total liabilities and net assets	\$ 9,370,844	8,421,620

See accompanying note 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, 2020 and 2019

(In thousands)

(Unaudited)

	<u>2020</u>	<u>2019</u>
Revenue:		
Net patient service revenue	\$ 3,366,990	3,693,107
CARES Act Funding	451,065	-
Other revenue, net	177,696	169,596
Total revenue	<u>3,995,751</u>	<u>3,862,703</u>
Expenses:		
Salaries and wages	1,517,576	1,408,440
Physician fees and salaries	406,929	350,233
Employee benefits	307,115	291,545
Supplies	720,996	758,689
Other	686,030	675,757
Interest	75,151	62,314
Depreciation and amortization	182,506	164,530
Total expenses	<u>3,896,303</u>	<u>3,711,508</u>
Income from operations	<u>99,448</u>	<u>151,195</u>
Nonoperating (expenses) revenue:		
Investment income, net	461,383	297,080
Other, net	(2,090)	(6,312)
Total nonoperating revenue, net	<u>459,293</u>	<u>290,768</u>
Excess of revenue over expenses	558,741	441,963
Other changes in net assets:		
Net change in unrealized losses on investments	(621)	247
Pension changes other than net periodic benefit cost	(2,700)	10,926
Net assets released from restriction for purchases of property and equipment	6,942	7,437
Net assets transferred from non-obligated group	9,668	-
Other, net	8,215	(680)
Increase in net assets	<u>\$ 580,245</u>	<u>459,893</u>

See accompanying note to consolidated financial statements - obligated group.