RWJ BARNABAS HEALTH, INC.

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

RWJ BARNABAS HEALTH, INC.

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

Independent Auditors' Report

To the Board of Trustees
RWJ Barnabas Health, Inc.:

We have audited the accompanying consolidated financial statements of RWJ Barnabas Health Inc. (the Corporation), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statement of operations, changes in net assets, and cash flows for the year ended December 31, 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RWJ Barnabas Health, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the year ended December 31, 2017, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

May 4, 2018

RWJ BARNABAS HEALTH, INC.

Consolidated Balance Sheets

December 31, 2017 and 2016

(In thousands)

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	85,786	36,136
Investments		37,315	64,873
Assets limited or restricted as to use		65,339	137,979
Patient accounts receivable, net of allowance for doubtful accounts of $219,417 in 2017 and $222,774 in 2016		500,377	494,929
Other current assets		174,239	164,763
Total current assets		863,056	898,680
Assets limited or restricted as to use, noncurrent portion		239,020	260,984
Investments		3,206,160	2,549,536
Property, plant, and equipment, net		2,040,076	1,977,544
Other assets, net		233,599	188,369
Total assets	$	6,581,911	5,875,113
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	293,354	265,914
Accrued expenses and other current liabilities		631,582	571,178
Estimated amounts due to third-party payors, net		9,633	9,400
Long-term debt		16,701	49,278
Self-insurance liabilities		65,285	65,041
Total current liabilities		1,016,555	960,811
Estimated amounts due to third-party payors, net of current portion		48,571	47,311
Self-insurance liabilities, net of current portion		235,822	205,758
Long-term debt, less current portion		1,803,497	1,830,316
Accrued pension liability		79,076	115,173
Other liabilities		159,107	134,661
Total liabilities		3,342,628	3,294,030
Commitments and contingencies			
Net assets:			
Unrestricted		3,074,321	2,433,305
Temporarily restricted		131,468	117,439
Permanently restricted		33,494	30,339
Total net assets		3,239,283	2,581,083
Total liabilities and net assets	$	6,581,911	5,875,113

See accompanying notes to consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Consolidated Statement of Operations

Year ended December 31, 2017

(In thousands)

Revenue:	
Patient service revenue (net of contractual allowances and discounts)	$ 4,747,393
Provision for bad debts	(165,499)
Net patient service revenue less provision for bad debts	4,581,894
Other revenue, net	490,341
Total revenue	5,072,235
Expenses:	
Salaries and wages	1,872,037
Physician fees and salaries	461,174
Employee benefits	378,924
Supplies	935,268
Other	895,974
Interest	64,320
Depreciation and amortization	210,534
Total expenses	4,818,231
Income from operations	254,004
Nonoperating revenue (expenses):	
Investment income, net	335,082
Other, net	(18,075)
Total nonoperating revenue, net	317,007
Excess of revenue over expenses	571,011
Other changes:	
Net change in unrealized gains on available for sale investments	380
Pension changes other than net periodic benefit cost	32,519
Net assets released from restriction for purchases of property and equipment	32,129
Other, net	4,977
Increase in unrestricted net assets	$ 641,016

See accompanying notes to consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2017

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Net assets at December 31, 2016	$ 2,433,305	117,439	30,339	2,581,083
Changes in net assets:				
Excess of revenue over expenses	571,011	—	—	571,011
Net change in unrealized losses on investments	380	(75)	—	305
Pension changes other than net periodic benefit cost	32,519	—	—	32,519
Change in interest in restricted net assets of unconsolidated foundations	—	1,770	—	1,770
Net assets released from restriction	32,129	(42,953)		(10,824)
Restricted contributions	—	56,008	44	56,052
Investment income on restricted investments, net	—	508	—	508
Change in interest in perpetual trust	—	—	3,111	3,111
Other	4,977	(1,229)	—	3,748
Change in net assets	641,016	14,029	3,155	658,200
Net assets at December 31, 2017	$ 3,074,321	131,468	33,494	3,239,283

See accompanying notes to consolidated financial statements.

RWJ BARNABAS HEALTH, INC.

Consolidated Statement of Cash Flows

Year ended December 31, 2017

(In thousands)

Cash flows from operating activities:		
Change in net assets	$	658,200
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension changes other than net periodic benefit cost		(32,519)
Depreciation and amortization expense		210,534
Amortization of bond financing costs, premiums and discounts		(5,355)
Provision for bad debts		165,499
Net change in unrealized gains on investments		(223,108)
Realized gains on investments		(63,970)
Equity in income of joint ventures		(26,652)
Distributions received from investments in joint ventures		22,589
Distributions to noncontrolling interests		767
Gain on sale of assets		(508)
Contributions restricted for long-term use		(36,053)
Changes in operating assets and liabilities:		
Patient accounts receivable		(170,947)
Other assets		(21,865)
Accounts payable, accrued expenses, and other current liabilities		78,186
Estimated amounts due from and to third-party payors		1,493
Accrued pension liability		(3,578)
Self-insurance and other long-term liabilities		54,754
Net cash provided by operating activities		607,467
Cash flows from investing activities:		
Purchases of property, plant, and equipment, net		(264,577)
Proceeds from bond funds		104,250
Proceeds from the sale of investments and assets limited or restricted as to use		26,522
Purchases of investments and assets limited or restricted as to use		(52,247)
Purchases of trading securities		(3,861,664)
Proceeds from the sale of trading securities		3,515,137
Investment in joint venture		(28,778)
Proceeds from sale of assets		896
Net cash used in investing activities		(560,461)
Cash flows from financing activities:		
Repayments of long-term debt		(54,041)
Distributions to noncontrolling interests		(767)
Proceeds from contributions restricted for long-term use		36,053
Proceeds from contributions and grants		781
Net cash used in financing activities		(17,974)
Net increase in cash and cash equivalents		29,032
Cash, cash equivalents and restricted cash at beginning of year		75,779
Cash, cash equivalents and restricted cash at end of year	$	104,811
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	47,727
Supplemental disclosures of noncash investing and financing activities:		
Change in noncash acquisitions of property, plant, and equipment		8,877

See accompanying notes to consolidated financial statements.

(1) Organization

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

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

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

(In thousands)

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

		RWJ	Barnabas Health	Total
Assets:				
Cash and investments	$	746,866	1,533,221	2,280,087
Assets limited or restricted as to use		209,044	271,734	480,778
Patient accounts receivable, net		203,133	305,677	508,810
Property and equipment, net		826,780	991,331	1,818,111
Other assets		150,179	241,745	391,924
Total assets	$	2,136,002	3,343,708	5,479,710
Liabilities:				
Accounts payable	$	113,021	202,109	315,130
Accrued expenses and other current liabilities		166,890	370,046	536,936
Long-term debt		612,712	1,137,452	1,750,164
Other liabilities		183,299	304,856	488,155
Total liabilities		1,075,922	2,014,463	3,090,385
Net assets:				
Unrestricted		990,194	1,232,404	2,222,598
Temporarily restricted		55,473	82,980	138,453
Permanently restricted		14,413	13,861	28,274
Total net assets		1,060,080	1,329,245	2,389,325
Total liabilities and net assets	$	2,136,002	3,343,708	5,479,710

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

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

(Continued)

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

(2) Significant Accounting Policies

(a) Basis of Accounting of Financial Statement Presentation

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

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(d) Patient Accounts Receivable and Patient Service Revenue

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

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

(Continued)

(In thousands)

The following table sets forth the components of the change in the allowance for doubtful accounts for the year ended December 31, 2017:

Balance, beginning of year	$	222,774
Provision for bad debts		165,499
Write-offs, net of recoveries		(168,856)
Balance, end of year	$	219,417

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The percentages of patient accounts receivable from patients, and third-party payors as of December 31, 2017 and 2016 were as follows:

	December 31	
	2017	2016
Medicare	17 %	18 %
Managed Medicare	8	8
Medicaid	5	6
Managed Medicaid	9	11
Blue Cross	15	17
Commercial and other managed care	35	31
Self-pay patients and other	11	9
	100 %	100 %

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

The estimated percentages of patient service revenue by inpatient and outpatient services, net of the provision for bad debts, for the year ended December 31, 2017 are as follows:

Inpatient services	59 %
Outpatient services	41

(In thousands)

The following table reflects the estimated percentages of patient service revenue, net of the provision for bad debts, for the year ended December 31, 2017:

Medicare	26 %
Managed Medicare	8
Medicaid	4
Managed Medicaid	14
Blue Cross	22
Commercial and other managed care	21
Self-pay patients and other	5
	100 %

(e) Supplies

Supplies are carried at the lower of cost or net realizable value, determined principally on an average cost basis. Supplies, totaling $81,096 and $77,735, are included in other current assets in the consolidated balance sheets at December 31, 2017 and 2016.

(f) Assets Limited or Restricted as to Use

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

(g) Investments and Investment Income

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

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

Most investment income and realized gains and losses are recorded as nonoperating revenue. Unrealized gains and losses on trading securities are recorded as nonoperating revenue. Unrealized

(Continued)

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

(h) Property, Plant and Equipment

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

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

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

(i) Deferred Financing Costs

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

During 2016, the Corporation incurred $8,979 of deferred financing costs related to the issuance of Series 2016 and Series 2016A bonds (note 8). No deferred financing costs were incurred by the Corporation during the year ended December 31, 2017.

(j) Donor-Restricted Gifts

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

(In thousands)

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

(k) Temporarily and Permanently Restricted Net Assets

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

Temporarily restricted net assets are available for the following purposes:

		December 31	
		2017	**2016**
Healthcare services	$	51,084	34,174
Capital purchases		62,655	58,731
Health education and other services		17,729	24,534
	$	131,468	117,439

(l) Fair Value of Financial Instruments

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

(m) Performance Indicator

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

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

(In thousands)

(n) Charity Care

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

(o) Other Revenue

Other revenue consists of the following for the year ended December 31, 2017:

Physician practice income, net	$	254,096
Grants		41,831
Pharmacy sales		46,465
Cafeteria and vending		9,011
Parking income		5,173
Equity in the income of joint ventures		26,652
Net assets released from restrictions for operations		17,925
Contributions		12,397
Rental income		14,645
Education and training		12,054
Other		50,093
	$	490,342

(p) Income Taxes

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

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

Certain for-profit subsidiaries have federal net operating loss (NOL) carryforwards of approximately $96,164 that expire through 2037 and State of New Jersey NOL carryforwards of approximately $50,969 that also expire through 2037. During the year ended December 31, 2017, a for-profit affiliate of the Corporation reduced certain tax attributes that included $66,399 and $62,024, respectively, of federal and State of New Jersey NOL carryforwards.

At December 31, 2017 and 2016, all deferred tax assets related to these NOL carryforwards have been fully reserved due to the uncertainty of realizing the tax benefits associated with these amounts.

The Corporation does not have any significant uncertain tax positions as of December 31, 2017 and 2016.

(q) Self-Insurance

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

(r) Impairment of Long-Lived Assets

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

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining useful lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining useful lives. In estimating the future cash flows for determining whether an asset is impaired, the Corporation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. No impairment charge was recorded during the year ended December 31, 2017.

(s) Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net assets acquired in business combinations. It has an indefinite useful life and is not amortized, but is subjected to impairment tests. The Corporation performs impairment testing at least annually or more frequently if events or circumstances change creating a reasonable possibility that an impairment may exist. No impairment of goodwill was deemed necessary during the year ended December 31, 2017. At December 31, 2017 and 2016, other assets, net include approximately $5,717 of goodwill.

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(t) Accounting Pronouncements

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

In November 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-18, *Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash and restricted cash equivalents. Therefore, the amounts classified as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Corporation has elected to early adopt the standard for the year ended December 31, 2017. As required by the standard, the retrospective transition method has been applied. Restricted cash and cash equivalents of $19,025 and $39,643 as of December 31, 2017 and 2016, respectively, have been included on the cash, cash equivalents and restricted cash and cash equivalents, end of year and beginning of year balances on the consolidated statement of cash flows. Restricted cash is included in assets limited or restricted as to use, noncurrent portion in the consolidated balance sheets.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance amends ASC Topic 715, *Compensation – Retirement Benefits*, to require employers that present a measure of operating income in their statement of operations to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost or credit, are to be included in nonoperating revenue (expenses). This ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted and the Corporation has adopted this standard as of December 31, 2017. As a result, the net periodic benefit cost other than service costs of $11,485 was recorded in other nonoperating activities and no service costs were recorded in fringe benefit expense in the consolidated statement of operations, as the plans are frozen.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017. The Corporation does not expect the adoption of ASU 2014-09 to have a material impact on the consolidated financial statements for the year ended December 31, 2018.

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

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

- Reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions;
- Requires NFPs to present expenses by their functional and their natural classifications in one location in the financial statements;
- Requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date;
- Retains the option to present operating cash flows in the statement of cash flows using either the direct or indirect method;
- Requires allocation methodology of allocating expenses; and
- Requires investment expenses to be recorded net against returns, both internal and external.

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

(u) Reclassifications

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

(3) Charity Care and Community Benefit

In accordance with the Corporation's mission and philosophy, the Corporation's hospitals commit substantial resources to both the indigent population and the broader community. The Corporation's charity care policy is to provide care without regard to the patient's ability to pay for services rendered. To the extent that patients do not have the ability to pay, services rendered to those patients are reported as charity care. The Corporation's hospitals and affiliates also provide other benefits through a broad range of community service programs and charitable activities. The amount of charity care, community service programs, and charitable activities, at estimated cost, provided to the indigent population and broader community for the year ended December 31, 2017 is as follows:

(In thousands)

Cost of charity care and community benefit programs:		
Net estimated cost of charity care provided, less state subsidy funding	$	83,563
Unpaid cost of public programs, Medicaid, and other means – tested programs		201,584
Other programs:		
Cash and in-kind donations	$	4,675
Education and research		83,717
Subsidized departments		53,593
Other community benefits		9,914

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

The State of New Jersey's regulations provide for the distribution of funds from a Charity Care Fund, which is intended to partially offset the cost of services provided to the uninsured. For the year ended December 31, 2017, the Corporation's hospitals received distributions from the Charity Care Fund of $35,412, which are included in net patient service revenue.

(4) Healthcare Reimbursement System

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

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

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

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

During the year ended December 31, 2017, certain of the Corporation's prior year third-party cost reports were audited and settled, or tentatively settled by third-party payors. Adjustments resulting from such audits, settlements, and management reviews are reflected as adjustments to patient service revenue in the period that the adjustments becomes known. Accordingly, the Corporation evaluated the results of these settlements on its open cost reports. The effect of cost report settlements and other adjustments increased patient service revenue by approximately $17,294 for the year ended December 31, 2017. Although certain other prior-year cost reports submitted to third-party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements. Medicare cost reports for all years prior to 2014, except for 2011, have been audited and settled. Medicaid cost reports for all years prior to 2014 have been audited and settled for all acute care hospitals. For the pediatric rehabilitation hospital, Medicaid cost reports have been audited by the fiscal intermediary through December 31, 2014, though the settlement has not been finalized for the year 2014.

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

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

(b) The Corporation and others in the healthcare industry are subject to certain inherent risks, including the following:

- Substantial dependence on revenue derived from reimbursement by the Federal Medicare and State Medicaid programs that have been reduced in recent years and which entail exposure to various healthcare fraud statutes
- Government regulations, government budgetary constraints, and proposed legislative and regulatory changes

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

(In thousands)

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

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

		December 31	
		2017	2016
Investments and assets limited or restricted as to use:			
Cash and cash equivalents and money market funds	$	192,201	420,269
U.S. government obligations/municipal bonds		286,978	410,161
Corporate bonds		313,159	413,852
Certificates of deposit		755	8,817
Mutual funds		1,735,902	1,175,076
Equity securities		52,002	—
Asset backed securities		62,005	79,070
Mortgage-backed securities		41,074	52,247
Alternative investments		826,067	426,240
Pledges receivable, net		21,002	14,026
Other investments		11,285	7,904
Accrued interest		5,404	5,710
Total investments and assets limited or restricted as to use	$	3,547,834	3,013,372

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

		December 31	
		2017	2016
Current portion:			
Investments	$	37,315	64,873
Assets limited or restricted as to use		65,339	137,979
Noncurrent assets limited or restricted as to use		239,020	260,984
Investments		3,206,160	2,549,536
	$	3,547,834	3,013,372

(In thousands)

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

		December 31	
		2017	2016
Investments	$	3,243,475	2,614,409
Self-insurance funds		18,603	22,194
Donor-restricted funds and pledges receivable, net		136,096	141,970
Funds held by bond trustees under bond indenture agreements		71,288	175,539
Other limited use funds		78,372	59,260
	$	3,547,834	3,013,372

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

		December 31	
		2017	2016
Capital project funds	$	32,015	153,204
Interest funds		36,330	18,735
Principal funds		2,943	3,600
	$	71,288	175,539

The Corporation’s investment return is as follows for the year ended December 31, 2017:

Investment return included in other revenue:		
Interest and dividend income	$	911
Investment return included in nonoperating revenue:		
Interest and dividend income		48,384
Net realized gains		63,970
Net unrealized gains on trading investments		222,728
		335,082
Net change in unrealized gains on available for sale investments		380
Restricted investment income and unrealized losses, net		433
Total investment return	$	336,806

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

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

The Corporation has incorporated an Investment Policy Statement (IPS) into its investment program. The IPS, which has been formally adopted by the Board of Trustees, contains standards designed to ensure adequate diversification by asset category and geography. The IPS also limits fixed income investments by credit rating, which serves to further mitigate the risk associated with the investment program. At December 31, 2017 and 2016, management believes that its investment positions are in accordance with guidelines established by the IPS.

(6) Fair Value Measurements

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

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

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

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

(In thousands)

The following tables present the Corporation's fair value hierarchy for those assets measured at fair value on a recurring basis, and exclude pledges receivable, net, other investments, and accrued interest receivable as of December 31, 2017 and 2016:

	December 31, 2017			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Available for sale investments:				
Investment categories:				
Cash and cash equivalents and money market funds	$ 132,804	132,804	—	—
Equity mutual funds	10,261	10,261	—	—
Fixed income mutual funds	45,119	45,119	—	—
Certificates of deposit	755	—	755	—
Corporate bonds	499	—	499	—
Total available for sale investments	189,438	188,184	1,254	—
Trading investments:				
Investment categories:				
Cash and cash equivalents and money market funds	59,397	59,397	—	—
Equity securities	52,002	52,002	—	—
Equity mutual funds	1,106,383	1,106,383	—	—
Fixed income mutual funds	574,139	350,736	223,403	—
Commercial mortgage-backed securities	41,074	—	41,074	—
Corporate bonds	312,660	—	312,660	—
Asset-backed securities	62,005	—	62,005	—
Government bonds	167,908	—	167,908	—
Government mortgage-backed securities	97,499	—	97,499	—
Municipal bonds	21,571	—	21,571	—
Total investments trading	2,494,638	1,568,518	926,120	—
Total	2,684,076	$ 1,756,702	927,374	—
Investments measured at net asset value (a)	826,067			
	$ 3,510,143			

(In thousands)

	December 31, 2016			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Available for sale investments:				
Investment categories:				
Cash and cash equivalents and money market funds	$ 255,875	255,875	—	—
Equity mutual funds	25,764	25,764	—	—
Fixed income mutual funds	13,533	13,533	—	—
Certificates of deposit	2,582	—	2,582	—
Corporate bonds	1,732	—	1,732	—
Total available for sale investments	299,486	295,172	4,314	—
Trading investments:				
Investment categories:				
Cash and cash equivalents and money market funds	164,394	164,394	—	—
Equity mutual funds	697,004	697,004	—	—
Fixed income mutual funds	438,775	438,775	—	—
Certificates of deposit	6,235	—	6,235	—
Commercial mortgage-backed securities	52,247	—	52,247	—
Corporate bonds	412,120	—	412,120	—
Asset-backed securities	79,070	—	79,070	—
Government bonds	195,017	—	195,017	—
Government mortgage-backed securities	151,126	—	151,126	—
Municipal bonds	64,018	—	64,018	—
Total investments trading	2,260,006	1,300,173	959,833	—
Total	2,559,492	$ 1,595,345	964,147	—
Investments measured at net asset value (a)	426,240			
	$ 2,985,732			

(a) In accordance with the adoption of ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, certain investments that were measured at net asset value (NAV) per share (or its Equivalent) have not been classified in the fair value hierarchy.

There were no transfers among Levels 1, 2, and 3 during the year ended December 31, 2017. There are no financial liabilities reported at fair value.

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

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

Fair values for the Corporation’s fixed income securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Inputs include direct or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities in inactive markets; other inputs that may be considered in fair value determination include interest rates and yield curves, volatilities, and credit risk. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit rating, duration, and yields. Each designate specific pricing services or indexes for each sector of the market based upon the provider’s expertise. The Corporation’s fixed income securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

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

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

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

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

(In thousands)

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

The following summarizes redemption terms and Corporation's commitments for the hedge funds and others as of December 31, 2017 and 2016:

Description of investment	2017 Carrying value	Unfunded commitment	Redemption frequency	Redemption notice required	Audit reserve
Hedge funds	$ 588,857	—	Monthly – Annually	30–90 days written notice	0% to 10%
Private equity	123,336	68,523	—	—	—
Real Estate	113,874	—	Quarterly	60–90 days written notice	—

Description of investment	2016 Carrying value	Unfunded commitment	Redemption frequency	Redemption notice required	Audit reserve
Hedge funds	$ 325,133	—	Quarterly – Annually	45–90 days written notice	0% to 10%
Private equity	101,107	33,540	—	—	—

Investments in hedge funds, interests in investment funds with complex portfolio-construction and risk management techniques, are typically carried at estimated fair value. Fair value is estimated based on the NAV of the shares in each investment company or partnership. Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the investment at the beginning of the year, as adjusted for contributions and redemptions made during the year. The Corporation holds $95,000 of investments in hedge funds, which are subject to a 50% gate holdback. Generally, no dividends or other distributions are paid.

Investments in private equity funds, typically structured as limited partnership interests, are carried at fair value and estimated using NAV or equivalent as determined by the general partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. Voluntary redemptions are generally not permitted by limited partners and investments in these partnership interests are through the life of the fund. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment.

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

(In thousands)

Investments in other alternative investments such as a private debt fund structured as a limited partnership interest with ability to invest in short term opportunities, are carried at fair value and estimated using NAV or equivalent as determined by the general partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. Voluntary redemptions are not permitted and investment is through the life of the fund.

(7) Property, Plant, and Equipment

Property, plant, and equipment consist of the following as of December 31, 2017 and 2016:

		2017	2016
Land and improvements	$	146,426	144,522
Buildings and leasehold improvements		2,696,244	2,483,630
Fixed equipment		373,888	364,301
Major movable equipment		1,635,316	1,450,344
Capitalized leases		34,174	103,242
		4,886,048	4,546,039
Less accumulated depreciation and amortization (including accumulated amortization of capitalized leases of $22,334 and $83,136)		2,961,065	2,839,374
		1,924,983	1,706,665
Construction in progress		115,093	270,879
Property, plant, and equipment, net	$	2,040,076	1,977,544

The West Wing Project at Saint Barnabas Medical Center was substantially completed in 2017 for approximately $160,685. This project consisted of a 220,000-square-foot facility, which included private patient rooms, a neonatal intensive care unit, same day surgery expansion and outpatient diagnostic testing areas. A parking garage was completed during 2016 and is attached to the new wing. As of December 31, 2017, the Corporation committed $107,635 to complete significant construction projects. The commitments include the costs to complete various renovation and expansion projects at Robert Wood Johnson University Hospital and other affiliate projects.

(In thousands)

(8) Long Term Debt

Long term debt consists of the following:

	December 31	
	2017	**2016**
Master Trust Indebtedness:		
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Revenue and Refunding Bonds:		
RWJBarnabas Health Obligated Group Issue, Series 2016A $399,565 serial bonds maturing through July 1, 2036 with interest rates ranging from 3.5% to 5%; $279,570 of term bonds maturing July 1, 2043 with interest rates ranging from 4% to 5%	$ 679,135	679,135
Barnabas Health Issue, Series 2014A term bonds, $100,000 maturing July 1, 2044 with an interest rate of 5%; $29,925 maturing July 1, 2044 with an interest rate of 4.25%	129,925	129,925
Robert Wood Johnson University Hospital Issue, Series 2014A $11,075 serial bonds maturing through 2034 with an interest rate of 5%; $45,210 term bonds maturing from 2039 to 2043 with an interest rate of 5%	55,925	55,925
Robert Wood Johnson University Hospital Issue, Series 2014B (Variable Rate) maturing on July 1, 2043 bearing interest at a weekly rate, 1.62% and 0.68% at December 31, 2017 and 2016 (see b)	30,000	30,000
Robert Wood Johnson University Hospital Issue, Series 2013A $13,210 serial bonds maturing through 2023 with interest rates ranging from 3% to 5%; $93,285 term bonds maturing from 2028 to 2043 with interest rates ranging from 5.25% to 5.50%	106,495	108,360
RWJBarnabas Health Obligated Group Issue, Series 2017A (previously Children’s Specialized Hospital Issue, Series 2013A) maturing on July 1, 2036 with an interest rate of 3.03%	8,880	9,244
RWJBarnabas Health Obligated Group Issue, Series 2017B (variable rate) (previously Children’s Specialized Hospital Issue, Series 2013B) maturing on July 1, 2036 with an interest rate of 2.20% and 1.06% at December 31, 2017 and 2016.	4,591	4,736
Barnabas Health Issue, Series 2012A serial bonds maturing through 2026 with interest rates ranging from 4.00% to 5.00%.	94,195	97,955

(In thousands)

		December 31	
		2017	**2016**
Barnabas Health Issue, Series 2011B (Variable Rate) term bonds maturing through July 1, 2038, initially bearing interest at a weekly rate (0.71% at December 31, 2016), secured by an irrevocable direct pay letter of credit (see c)	$	24,510	28,110
Robert Wood Johnson Health Care Corp. at Hamilton Obligated Group Issue, Series 2002 (Variable Rate) maturing on July 1, 2032, initially bearing interest at a weekly rate, 0.70% at December 31, 2016 (see d)		18,710	19,845
RWJBarnabas Health Taxable Revenue Bonds, Series 2016; $100,000 maturing July 1, 2026 with an interest rate of 2.954%; $394,952 maturing July 1, 2046 with an interest rate of 3.949%.		494,952	494,952
Barnabas Health System Taxable Revenue Bonds, Series 2012 term bonds maturing on July 1, 2028 with an interest rate of 4.00%.		81,240	81,240
Total Master Trust Indebtedness		1,728,558	1,739,427
Other:			
Capital leases with various interest rates		12,306	20,365
Note payable, matures August 31, 2017, bearing interest at a weekly rate, 1.20% at December 31, 2017		—	30,000
Other		—	5,113
Total long-term debt		1,740,864	1,794,905
Plus unamortized bond premium		95,062	101,617
Less:			
Unamortized bond discount		2,024	2,241
Deferred finance costs (net)		13,704	14,687
Current portion		16,701	49,278
Long-term portion	$	1,803,497	1,830,316

On September 14, 2016, Barnabas Health entered into a Bridge Loan Agreement (Bridge Loan), with Citibank, N.A. Barnabas Health issued a promissory note in the amount of $395,548, which was secured by a note issued under the Barnabas Health Master Trust Indenture payable to Citibank. The proceeds were used to finance (i) the legal defeasance of (a) Barnabas Health, Series 2011A; (b) Robert Wood Johnson University Hospital, Series 2010; and (ii) fund certain expenses and costs of issuance.

(Continued)

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

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

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

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

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

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

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

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

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

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

The Corporation also has credit arrangements as follows:

(a) On September 1, 2017, the Corporation entered into a secured $60 million revolving credit facility with JP Morgan. The two year facility will be used for general corporate purposes and includes a $15 million sublimit for letters of credit, of which $11,050 is used to support the Corporation's self-insured workers' compensation programs. There were no amounts outstanding at December 31, 2017.

(b) An irrevocable direct pay letter of credit (LOC) with TD Bank that provides liquidity support for the Series 2014B bonds. If RWJUH were to draw on the letter of credit, the amounts would be payable at the expiration date, which is April 1, 2020.

(c) An Irrevocable direct pay LOC with JPMorgan that provides liquidity support for the Series 2011B bonds. Series 2011B, while subject to long term amortization periods, may be put to the Corporation at the option of the bondholders. At such point, JPMorgan would advance funds on behalf of the Corporation to the bondholders under the direct pay LOC, which expires on April 1, 2020. If the Corporation were to draw upon the LOC, the amounts would be payable in equal quarterly installments over one year from the date of the initial draw.

(d) An irrevocable direct pay LOC with TD Bank that provides liquidity support for the Series 2002 bonds. If Hamilton Hospital were to draw on the letter of credit, the amounts would be payable at the expiration date, which is April 1, 2020.

(In thousands)

Scheduled maturities on long term debt and future minimum payments on capital lease obligations at December 31, 2017 are as follows:

		Long-term debt	Capital leases	Total
2018	$	11,273	5,923	17,196
2019		4,972	3,194	8,166
2020		4,716	2,532	7,248
2021		5,299	1,376	6,675
2022		23,026	394	23,420
Thereafter		1,679,272	—	1,679,272
Total		1,728,558	13,419	1,741,977
Add:				
Unamortized bond premium		95,062	—	95,062
Less:				
Amount representing interest on capital lease obligations		—	1,113	1,113
Unamortized bond discount		2,024	—	2,024
Deferred finance costs, net		13,704	—	13,704
Current portion		11,273	5,428	16,701
Long-term portion	$	1,796,619	6,878	1,803,497

(9) Employee Benefit Plans

Prior to December 31, 2017, the Corporation maintained the following noncontributory defined-benefit plans, which covered substantially all employees of the Corporation: Barnabas Health Retirement Income Plan (Barnabas Plan), Jersey City Medical Center Pension Plan (JCMC Plan), Greenville Hospital Pension Plan (GH Plan), Employees' Retirement Plan of Robert Wood Johnson University Hospital Rahway (Rahway Plan), and the Somerset Medical Center Pension Plan (Somerset Plan) (collectively referred to as the Pension Plans). The Corporation has effectively merged the Pension Plans into a single noncontributory defined benefit plan, the RWJBarnabas Health Retirement Income Plan (the RWJBH Plan) as of December 31, 2017.

Participation in the Pension Plans has been closed to new entrants and all plans are frozen to future benefit accruals. Benefits under the Pension Plans were substantially based on years of service and employee's career earnings. The Corporation contributed to the Pension Plans and will contribute to the RWJBH Plan based on actuarially determined amounts necessary to provide assets sufficient to meet anticipated benefit payments to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, and Internal Revenue Service regulations.

(In thousands)

During 2017, the Society of Actuaries published updated mortality tables MP-2017. The Corporation utilized the updated mortality tables resulting in a decrease in projected benefit obligation in the amount of $7,000 for the year ended December 31, 2017.

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

The following are deferred pension costs, which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets as of December 31, 2017. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into nonoperating activities over the expected future lifetime for active employees with frozen benefits.

The net actuarial loss included in unrestricted net assets at December 31, 2017 is $285,779 of which $7,311 will be recognized in 2018.

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

		December 31	
		2017	2016
Changes in benefit obligation:			
Benefit obligation at beginning of period	$	1,058,874	1,011,266
Administrative expenses		—	1,608
Interest cost		45,883	53,102
Actuarial losses		30,672	74,498
Plan change		2,908	—
Benefits paid and expenses		(64,711)	(72,734)
Settlements		—	(8,866)
Benefit obligation at end of year		1,073,626	1,058,874
Change in plan assets:			
Fair value of plan assets at beginning of period		943,701	950,659
Actual return on plan assets		100,496	62,094
Employer contributions		15,064	12,548
Benefits paid and expenses		(64,711)	(72,734)
Settlements		—	(8,866)
Fair value of plan assets at end of year		994,550	943,701
Funded status – accrued pension liability	$	(79,076)	(115,173)

(In thousands)

During January 2018, the Corporation contributed $27,000 to the RWJBH Plan.

The actuarially computed net periodic pension cost for the year ended December 31, 2017 included the following components:

Interest costs	$	45,883
Expected return on plan assets		(42,759)
Amortization of actuarial loss		8,361
Net periodic pension cost	$	11,485

As described in note 2(t), the RWJBH Plan adopted ASU No. 2017-07 as of December 31, 2017. As a result of this adoption, the net pension cost of $11,485 was recorded in other nonoperating activities, net in the consolidated statement of operations for the year ended December 31, 2017.

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

The weighted average assumptions used in determining the net periodic pension costs were a discount rate that ranged from 4.49% to 4.53% and an expected long-term rate of return on plan assets that ranged from 4.49% to 6.25%.

The weighted average assumption used in the accounting for the projected benefit obligation was a discount rate of 3.99%.

Expected benefit payments by year as of December 31, 2017 are as follows:

2018	$	61,131
2019		63,528
2020		65,594
2021		68,413
2022		71,952
2023–2027		347,295

Effective December 31, 2017, the assets of the Pension Plans were also merged. The consolidated assets of the RWJBH Plan are managed under a liability-driven investment (LDI) strategy. Under the LDI strategy, the expected rate of return on plan assets at December 31, 2017 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.

(In thousands)

The following tables present the Corporation's fair value hierarchy for those pension plan assets measured at fair value as of December 31, 2017 and 2016. At December 31, 2017 and 2016, the Corporation held no Level 3 assets.

	December 31, 2017			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 271,475	271,475	—	—
Corporate bonds	286,327	—	286,327	—
Government bonds	81,315	—	81,315	—
Bond funds	202,251	—	202,251	—
Bank loans	28,334	—	28,334	—
Asset-backed securities	5,866	—	5,866	—
Other investments	9,823	229	9,594	—
	885,391	$ 271,704	613,687	—
Investments measured at net asset value (a)	109,159			
	$ 994,550			

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

(a) In accordance with the adoption of ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, certain investments that were measured at NAV per share (or its Equivalent) have not been classified in the fair value hierarchy.

There were no transfers among Levels 1, 2, and 3 during the year ended December 31, 2017.

(In thousands)

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

Alternative investments include private equity investments, hedge funds, and other

The following summarizes redemption and commitment terms for the alternative investment vehicles held in the RWJBH Plan at December 31, 2017 and the Barnabas Plan at December 31, 2016:

	2017					
Description of investment		**Carrying value**	**Unfunded commitment**	**Redemption frequency**	**Audit reserve**	**Potential gates**
Hedge fund	$	36,269	—	Semi-annually	—	—
Private equity		37,545	43,457	—	—	—
Other		35,345	—	—	—	—

	2016					
Description of investment		**Carrying value**	**Unfunded commitment**	**Redemption frequency**	**Audit reserve**	**Potential gates**
Hedge fund	$	33,208	—	Semi-annually Annually	0%–up to 5%	5% if redeemed within 18 months
Private equity		43,518	55,135	—	—	—

The Corporation maintains multiple defined contribution retirement plans for their employees. Benefit expense for these plans for the year ended December 31, 2017 was $70,507.

The Corporation has several supplemental executive retirement plans for certain key individuals. The plans were funded during 2017 based upon the benefit formula as outlined in the plan documents. In addition, Monmouth Medical Center, Southern Campus maintains the Kimball Medical Center Supplemental Plan (the Kimball Plan). The Kimball Plan is a frozen defined benefit plan.

At December 31, 2017, the Corporation participates in two multi-employer pension plans established under collective bargaining agreements that cover certain groups of employees at certain affiliates, as outlined in the table below. These groups of employees are not eligible to participate in certain benefit plans sponsored by the Corporation. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available for Local 68 Engineers Union Pension Plan (Local 68 Plan) was June 30, 2017 and for District 1199J – New Jersey Healthcare Employers Pension Plan (District 1199J Plan) was December 31, 2016. The zone status is based on information received by the plan sponsors and, as required by PPA, is certified by each plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

(In thousands)

The "FIP/RP Status Pending Implemented" column indicates plans for which a funding improvement plan (FIP) or rehabilitation plan (RP), as required by PPA, is either pending or has been implemented by the plan's sponsor. The last column of the table lists the expiration dates of the collective bargaining agreements requiring contributions to the plans. RWJ Barnabas Health's contributions to the Local 68 Engineers Plan for the year ended June 30, 2016 and to the District 1199J Plan for the year ended December 31, 2015 represented 1.91% and 38.64%, respectively, of the total contributions to each plan. Participants in the Local 68 Plan and District 1199J Plan changed by (0.65)% and 0.17%, respectively, from December 31, 2016 to December 31, 2017.

At the date the consolidated financial statements were issued, Forms 5500 were not available beyond the year ended June 30, 2017 for Local 68 Plan and December 31, 2016 for the 1199J Plan.

Pension fund	EIN/Pension plan number	Pension protection act zone status	FIP/RP status pending/ implemented	Contributions of RWJBH	Surcharge paid as of 12/31/17	Expiration date of collective-bargaining agreement
Local 68 Engineers Union Pension Plan	51-0176618-001	As of 6/30/2017 Yellow	Yes	$ 346	N/A	3/20/2018
District 1199J-New Jersey Healthcare Employers Pension Plan	22-3095464-001	As of 12/31/2016 Green	No	3,086	N/A	6/30/2018

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

RWJUH terminated its participation in the Union Benefit Plan and based on the Union Benefit Plan's actuarial calculation, RWJUH was assessed an estimated allocable share of the unfunded vested benefits. Payments are scheduled to begin April 1, 2018 for a period of 20 years. At December 31, 2017, RWJUH has recorded the present value of the estimated withdrawal liability of $53,419 of which $1,586 is recorded in other current liabilities and $51,833 is recorded in other long-term liabilities. The unfunded liability has not been finalized as of December 31, 2017.

(10) Commitments and Contingencies

(a) Professional and General Liabilities

The Corporation formed Commercial Professional Insurance Co. Ltd. (CPIC), an off-shore captive insurance company located in Bermuda, which writes professional liability, comprehensive general liability, and other casualty lines of business for the Corporation and its affiliates. CPIC is a wholly owned subsidiary of Saint Barnabas Medical Center (the Medical Center) and is consolidated in the accompanying consolidated financial statements. Investments and other assets maintained by CPIC are reported in assets limited as to use under externally designated or restricted assets in the consolidated balance sheets. In addition, CPIC maintains a contract with Professional Liability Insurance Company (ProQual), a risk retention group, which is domiciled in the state of Vermont and was initially capitalized by the Corporation in December 2006, to reinsure 95% of the losses and expenses of ProQual. The accounts of ProQual are included in the consolidated financial statements of the Corporation. ProQual has offered professional liability insurance to private attending physicians on the Monmouth Medical Center Medical Staff with limits of $1 million per occurrence/$3 million in the aggregate. ProQual ceased marketing and renewing policies in 2015 and has converted to runoff status. The Corporation has estimated a range of losses for its potential liability for professional liability, comprehensive general liability, and other casualty lines of business related to CPIC and ProQual based upon its own past experience and industry experience data. These estimates include reserves for unreported incidents and losses not covered by current insurance limits on a present value basis.

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

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

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

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

On December 31, 2016, each Cell owner agreed to accept, in full satisfaction for all losses under the insurance agreements in effect, a commutation fee as consideration for the assumption of such liabilities as full and final settlement. CPIC extended coverage, effective December 31, 2016, for all existing SAAML policies that were commuted and terminated. CPIC's coverage insured each of the previous Cell owners for the risks previously insured by SAAML.

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

The total accrued liability at December 31, 2017 and 2016 of approximately $235,700 and $207,718, which includes tail coverage, has been discounted at 2.5% and is included in self-insurance liabilities in the consolidated balance sheets. The accrual at December 31, 2017 and 2016 includes $18,022 and $12,842 of claims, which are expected to be reimbursed by the insurance carrier. Such amounts are included in other assets, net in the consolidated balance sheets at December 31, 2017 and 2016.

(b) Workers' Compensation

The Corporation is self-insured for the majority of workers' compensation benefits. At December 31, 2017 and 2016, the accrual for estimated workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported and totaled $47,350 and $43,059. The accrual at December 31, 2017 and 2016 includes $13,826 and $12,395 of claims, which are expected to be reimbursed by the insurance carrier. Such amounts are included in other assets, net. The Corporation's obligation to pay workers' compensation benefits is secured by a LOC under the $60 million revolving credit facility in the amount of $11,050 at December 31, 2017 (note 8a).

(c) Employee Health Insurance

The Corporation maintains self-insured employee health benefit programs to provide coverage for its employees. At December 31, 2017 and 2016, the accrual for estimated employee health insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported of approximately $18,057 and $20,022 and are included in self-insurance liabilities in the consolidated balance sheets.

(In thousands)

(d) Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rent expense was $66,310 for the year ended December 31, 2017. Future rental payments under noncancelable operating leases with durations in excess of one year are as follows:

Period		Minimum lease payments	Sublease income	Net
2018	$	38,302	2,832	35,470
2019		28,980	1,843	27,137
2020		21,413	1,725	19,688
2021		17,970	1,119	16,851
2022		12,992	421	12,571
Thereafter		75,782	151	75,631
	$	195,439	8,091	187,348

(e) Litigation

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

(f) Other

Approximately 24% of the Corporation's employees were covered by collective bargaining agreements for the year ended December 31, 2017; of which 16% expire in the next year.

(11) Endowment Funds Net Asset Classification

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

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets as of year-end. These deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. No such deficiencies existed at December 31, 2017 and 2016.

(In thousands)

(b) Interpretation of Relevant Law

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

(c) Spending Policy

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

(d) Return Objectives and Risk Parameters

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

Donor-restricted and board designated endowment net assets consist of the following as of December 31, 2017 and 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2017	$	1,000	9,816	33,494	44,310
2016		1,000	8,809	30,339	40,148

(In thousands)

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 1,000	8,809	30,339	40,148
Investment return:				
Investment income	62	367	—	429
Net appreciation (realized and unrealized)	26	1,367	—	1,393
Total investment return	88	1,734	—	1,822
Contributions	—	210	44	254
Change in interest in perpetual trust	—	—	3,111	3,111
Appropriation of endowment assets for expenditure	(88)	(937)	—	(1,025)
Endowment net assets, end of year	$ 1,000	9,816	33,494	44,310

(12) Functional Expenses

The Corporation provides general healthcare services to residents within its geographic area. Expenses from operations related to providing these services are as follows for the year ended December 31, 2017:

Healthcare services	$ 4,336,862
General and administrative	481,369
	$ 4,818,231

(13) Investments in Joint Ventures

The Corporation has invested in a number of joint ventures to provide specialty healthcare services. These services include surgical, diagnostic imaging, home care and hospice, rehabilitation and fitness and wellness programs. The investments range from 25% to 51% ownership. The Corporation does not exercise operating control over these investments; accordingly they are recorded under the equity method of accounting, and report only our share of net income attributable to the investee as equity in earnings of unconsolidated affiliates in the accompanying consolidated statement of operations. Financial information for the equity method investees for the year ended December 31, 2017 includes net operating revenues of $407,209, net income of $76,654 and net income attributable to the investees of $26,652, respectively.

Total investments in joint ventures amounted to $149,086 and $116,245 at December 31, 2017 and 2016, respectively. These amounts are included in other assets in the consolidated balance sheets.

(14) Partnership

Effective June 30, 2017, the Corporation and Rutgers, the State University of New Jersey (Rutgers) and Rutgers Health Group (RHG) signed a nonbinding Letter of Intent 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 proposed partnership will create a joint committee for strategic planning and oversight. The clinical delivery of services will be managed and led by the Corporation in coordination with Rutgers and RHG, and the academic and research functions will be managed and led by Rutgers in coordination with the Corporation and RHG. It is anticipated that the partnership will be finalized in 2018.

In addition to the above partnership, RWJUH and Rutgers had entered into an academic affiliation agreement and various other management agreements whereby the primary purpose is the development of a world class Academic Medical Center that promotes the education of health care professionals, advances the health sciences through research programs and public service, supports the faculty physicians of the Academic Medical Center, and provides high quality patient care for the community.

(15) Subsequent Events

Management evaluated all events and transactions that occurred after December 31, 2017 and through May 4, 2018. The Corporation did not have any material recognizable subsequent events during the period.