

**Robert Wood Johnson  
University Hospital**

Financial Statements

December 31, 2014 and 2013



**BAKER TILLY**

Candor. Insight. Results.

# Robert Wood Johnson University Hospital

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December 31, 2014 and 2013

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## Independent Auditors' Report

Board of Directors  
Robert Wood Johnson University Hospital

### Report on the Financial Statements

We have audited the accompanying financial statements of Robert Wood Johnson University Hospital (the "Hospital"), which comprise the balance sheet as of December 31, 2014 and 2013, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 control. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Robert Wood Johnson University Hospital as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As noted in Note 1 to the financial statements, Robert Wood Johnson University Hospital and Somerset Medical Center agreed to merge operations on June 1, 2014. Our opinion is not modified with respect to this matter.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on pages 48 through 51 is presented for purposes of additional analysis rather than to present the financial position, results of operations or changes in net assets of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Baker Tilly Viechow Krause, LLP*

Clark, New Jersey  
April 13, 2015

# Robert Wood Johnson University Hospital

## Balance Sheet

December 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 56,008	\$ 35,110
Investments	2,796	2,465
Assets limited or restricted as to use, required for current obligations	8,407	6,288
Accounts receivable:		
Patient (net of estimated allowance for doubtful collections of \$67,045 in 2014 and \$59,862 in 2013)	142,749	106,960
Other (net of estimated allowance for doubtful collections of \$2,333 in 2014 and \$6,439 in 2013)	1,509	2,638
Due from related parties, net	9,497	12,315
Other current assets	42,764	26,152
	<u>263,730</u>	<u>191,928</u>
<b>Assets Limited or Restricted as to Use</b>		
Board-designated	614,681	604,336
Held by trustee and self-insurance	167,125	208,125
	<u>781,806</u>	<u>812,461</u>
Less amounts required to meet current obligations	8,407	6,288
	773,399	806,173
<b>Property and Equipment, Net</b>	537,236	315,500
<b>Long-Term Restricted Investments</b>	2,487	2,386
<b>Interest in Net Assets of Foundations</b>	54,379	49,009
<b>Due from Related Parties</b>	25,585	12,000
<b>Other Noncurrent Assets, Net</b>	12,859	23,337
	<u>12,859</u>	<u>23,337</u>
Total assets	<u>\$ 1,669,675</u>	<u>\$ 1,400,333</u>

See notes to financial statements

# Robert Wood Johnson University Hospital

## Balance Sheet

December 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current installments of long-term debt	\$ 7,773	\$ 7,538
Accounts payable	96,276	69,198
Accrued expenses	94,156	63,675
Accrued bond interest payable	6,466	4,523
Estimated third-party payor settlements	<u>15,566</u>	<u>22,230</u>
Total current liabilities	220,237	167,164
<b>Long-Term Liabilities</b>		
Estimated third-party payor settlements, excluding current portion	29,858	26,905
Other long-term liabilities	68,364	17,266
Long-term debt, excluding current installments	<u>428,391</u>	<u>344,596</u>
Total liabilities	746,850	555,931
<b>Net Assets</b>		
Unrestricted	882,731	811,146
Temporarily restricted	35,920	30,561
Permanently restricted	<u>4,174</u>	<u>2,695</u>
Total net assets	<u>922,825</u>	<u>844,402</u>
Total liabilities and net assets	<u>\$ 1,669,675</u>	<u>\$ 1,400,333</u>

See notes to financial statements

# Robert Wood Johnson University Hospital

## Statement of Operations

Years Ended December 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
<b>Unrestricted Revenues and Other Support</b>		
Patient service revenues, net of contractual allowances and discounts	\$ 1,062,971	\$ 860,658
Less provision for doubtful collections	<u>51,085</u>	<u>51,446</u>
Net patient service revenues	1,011,886	809,212
Other revenues	23,137	22,752
Net assets released from restrictions for operations	<u>7,747</u>	<u>7,034</u>
Total unrestricted revenues and other support	<u>1,042,770</u>	<u>838,998</u>
<b>Expenses</b>		
Salaries and wages, and contracted labor	386,001	307,648
Employee benefits	92,745	70,651
Physician fees	59,534	54,086
Supplies and expenses	417,133	332,399
Depreciation and amortization	52,464	41,077
Interest	<u>9,707</u>	<u>6,503</u>
Total expenses	<u>1,017,584</u>	<u>812,364</u>
Operating income	25,186	26,634
<b>Nonoperating Activities</b>		
Investment return, net	11,885	77,205
Change in unrestricted net assets of RWJ University Hospital Foundation, Inc.	464	(663)
Inherent contribution of Somerset Medical Center	83,157	-
Provision for doubtful RWJ Physician Enterprise, PA and related-party collections	(39,436)	-
Other gains, net	<u>741</u>	<u>126</u>
Revenues in excess of expenses	81,997	103,302
Transfers to affiliates	-	(2,515)
Net assets released from restrictions for capital purchases	734	974
Pension liability adjustment	(13,160)	-
Change in net unrealized gains and losses on investments, other than trading	<u>2,014</u>	<u>6,165</u>
Increase in unrestricted net assets	<u>\$ 71,585</u>	<u>\$ 107,926</u>

See notes to financial statements

# Robert Wood Johnson University Hospital

## Statement of Changes in Net Assets

Years Ended December 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
<b>Unrestricted Net Assets</b>		
Revenues in excess of expenses	\$ 81,997	\$ 103,302
Transfers to affiliates	-	(2,515)
Net assets released from restrictions for capital purchases	734	974
Pension liability adjustment	(13,160)	-
Change in net unrealized gains and losses on investments, other than trading	2,014	6,165
	<u>71,585</u>	<u>107,926</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions, gifts, grants, and bequests	1,505	83
Inherent contribution of Somerset Medical Center	1,781	-
Interest income	209	191
Change in unrealized gains on investments	31	(54)
Net assets released from restrictions used for operations	(7,747)	(7,034)
Net assets released from restrictions for capital purchases	(734)	(974)
Change in net assets of Foundations	10,314	8,673
	<u>5,359</u>	<u>885</u>
<b>Permanently Restricted Net Assets</b>		
Inherent contribution of Somerset Medical Center	1,140	-
Change in net assets of RWJ University Hospital Foundation, Inc.	339	36
	<u>1,479</u>	<u>36</u>
Increase in permanently restricted net assets	<u>1,479</u>	<u>36</u>
Increase in net assets	78,423	108,847
<b>Net Assets, Beginning</b>	<u>844,402</u>	<u>735,555</u>
<b>Net Assets, Ending</b>	<u>\$ 922,825</u>	<u>\$ 844,402</u>

See notes to financial statements

# Robert Wood Johnson University Hospital

## Statement of Cash Flows

Years Ended December 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 78,423	\$ 108,847
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	52,464	41,077
Amortization/accretion of bond discount/premium	(297)	143
Change in net unrealized gains and losses on trading and other than trading investments	12,534	(47,218)
Realized gain on sale of securities, net	(18,590)	(29,642)
Provision for doubtful collections	51,085	51,446
Provision for doubtful RWJ Physician Enterprise, PA and related-party collections	39,436	-
Transfers to affiliates	-	2,515
Change in interest in net assets of Foundations	(1,690)	(4,420)
Inherent contribution of Somerset Medical Center	(86,078)	-
Changes in assets and liabilities:		
Increase in patient accounts receivable	(58,941)	(54,228)
Increase in other receivables, due from related parties, and other current assets	(17,538)	(12,294)
Increase in accounts payable, accrued expenses, and accrued bond interest payable	39,917	27,750
Decrease in estimated third-party payor settlements	(3,711)	(7,018)
(Decrease) increase in other long-term liabilities	(6,700)	586
Net cash provided by operating activities	<u>80,314</u>	<u>77,544</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(94,550)	(55,296)
Purchase of investments and assets limited or restricted as to use	(172,694)	(486,967)
Proceeds from sale of investments and assets limited or restricted as to use	238,071	289,391
Cash acquired in affiliation with Somerset Medical Center	6,773	-
Increase in long-term restricted investments	(101)	(46)
Decrease (increase) in other noncurrent assets	(28,958)	(15,496)
Net cash provided by (used in) investing activities	<u>(51,459)</u>	<u>(268,414)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of long-term debt	91,865	179,934
Payment of short-term debt for Somerset Medical Center	(92,284)	-
Payment of financing costs	(763)	608
Repayment of long-term debts	(6,267)	(7,166)
Repayment of capital lease obligations	(508)	(1,564)
Transfers to affiliates	-	(2,515)
Net cash (used in) provided by financing activities	<u>(7,957)</u>	<u>169,297</u>
Increase (decrease) in cash and cash equivalents	20,898	(21,573)
<b>Cash and Cash Equivalents, Beginning</b>	<u>35,110</u>	<u>56,683</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 56,008</u>	<u>\$ 35,110</u>
<b>Supplemental Disclosure of Cash Flow Information,</b>		
Cash paid for interest	<u>\$ 7,639</u>	<u>\$ 4,864</u>

See notes to financial statements

# Robert Wood Johnson University Hospital

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Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

## 1. Organization and Summary of Significant Accounting Policies

Robert Wood Johnson University Hospital (the "Hospital"), the principal teaching hospital for Rutgers, the State University of New Jersey ("Rutgers"), is a nonprofit health care institution. Robert Wood Johnson Health Care Corporation ("RWJHCC") is the sole member of the Hospital.

Effective June 1, 2014, Somerset Medical Center ("Somerset") was merged into the Hospital which created a 965-bed hospital with campuses in New Brunswick and Somerville. As part of the merger, Somerset dissolved as of June 1, 2014, and transferred its assets to the Hospital and the Hospital became the sole member and/or parent corporation of Somerset.

As a result of the actions taken, this transaction is considered to be an acquisition under accounting principles generally accepted in the United States of America. The Hospital did not transfer any consideration as part of this transaction and the net assets acquired by the Hospital have been recognized as inherent contributions in the statement of operations and changes in net assets (Note 3).

A formal relationship between the Hospital and the University of Medicine and Dentistry of New Jersey ("UMDNJ") was initiated in 1977, when the Hospital and UMDNJ entered into an affiliation agreement which established the Hospital as the primary teaching hospital for the Robert Wood Johnson Medical School Division of UMDNJ. A new affiliation agreement was entered into on February 8, 1990. In 1998, UMDNJ formally acknowledged the Hospital as the principal teaching hospital for the Robert Wood Johnson Medical School. Principal hospital designation indicates the highest level of relationship bestowed by UMDNJ to a non owned hospital. Effective July 1, 2013, the Hospital's agreement with UMDNJ transferred to Rutgers. This transition comes as a result of the enactment of the New Jersey Medical and Health Sciences Education Restructuring Act which transferred the majority of schools and institutes under UMDNJ, as well as underlying agreements, to Rutgers.

The following items comprise the significant accounting policies which are followed by the Hospital:

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# Robert Wood Johnson University Hospital

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Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

## Cash Equivalents

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less and money market funds. The carrying amount of cash equivalents approximates fair value because of the short-term maturity of those instruments, and may include investments in certificates of deposit, commercial paper, repurchase agreements, or highly liquid U.S. Government, and agency obligations.

The Hospital has balances with financial institutions that exceed federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

## Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectibility of patient accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue. For receivables associated with services provided to patients who have third-party coverage (which includes patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital analyzes contractual amounts due and provides an allowance for doubtful collections and a provision for doubtful collections, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and insured patients with deductible and copayment balances), the Hospital records a significant provision for doubtful collections in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful collections.

The Hospital's allowance for doubtful collections for self-pay patients was 71% and 76% of self-pay accounts receivable at December 31, 2014 and December 31, 2013, respectively. In addition, the Hospital's self-pay account write-offs (net of recoveries) increased to \$56,844 in 2014 from \$49,432 in 2013. The increase was the result of increases in self-pay volume due to the Somerset merger in 2014. The Hospital has not changed its financial assistance policy in 2014 or 2013.

# Robert Wood Johnson University Hospital

Notes to Financial Statements  
December 31, 2014 and 2013  
(In Thousands)

## Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and contracted amounts. The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenues on the basis of its standard rates, discounted in accordance with the Hospital's policy. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision of bad debts related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision of bad debts), recognized in 2014 and 2013 from these major payor sources, are as follows:

	December 31, 2014			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
Patient service revenues (net of contractual allowances and discounts)	\$ 371,832	\$ 686,816	\$ 4,323	\$ 1,062,971
	December 31, 2013			
Patient service revenues (net of contractual allowances and discounts)	\$ 294,388	\$ 564,123	\$ 2,147	\$ 860,658

## Investments and Investment Risks

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet and are considered trading securities. Investments in alternative investments, which include real estate investments, are recorded at fair value based upon net asset values provided by external investment managers, which are reviewed and evaluated by Hospital management for reasonableness. These estimated fair values of alternative investments may differ significantly from the values that would have been used had a ready market for these investments existed. Alternative investments are considered other than trading securities.

Unrealized gains and losses on investments are excluded from the determination of revenues in excess of expenses unless the investments are trading securities. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

# **Robert Wood Johnson University Hospital**

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Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

The Hospital's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the balance sheet are exposed to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

## **Fair Value of Financial Instruments**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

### **Cash Equivalents**

The carrying amounts reported in the balance sheet for cash equivalents approximate fair value.

### **Investments**

Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

### **Assets Limited or Restricted as to Use**

Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

### **Long-Term Debt**

Fair values of the Hospital's Revenue Bonds are based on current traded values of the respective bonds.

### **Other Current Assets**

Other current assets includes inventories which are stated at cost, which approximates market and is determined principally using an average cost method, using the FIFO (first-in, first-out) method.

# Robert Wood Johnson University Hospital

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Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

## **Assets Limited or Restricted as to Use**

Assets limited or restricted as to use include assets held by trustees under indenture and self-insurance agreements and assets set aside by the board of directors for designated purposes over which the board of directors retains control and may at its discretion subsequently use for other purposes. Amounts available to meet current liabilities of the Hospital have been reclassified as current assets in the accompanying balance sheet.

Assets limited or restricted as to use consist of equities, mutual funds, US Government and agency obligations, fixed income securities, mortgage and asset backed securities, real estate investments, partnerships, corporate bonds, hedged equity funds and other investments and are carried at fair value.

## **Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight line method (ranging from 3 to 40 years). Equipment under capital lease obligations is amortized on the straight line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the revenues in excess of expenses, 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 support. Absent explicit donor 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.

## **Impairment of Long-Lived Assets**

The Hospital reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

## **Interest in Net Assets of Foundations**

The RWJ University Hospital Foundation, Inc. ("RWJ Foundation") and Somerset Medical Center Foundation (collectively, the "Foundations") are nonprofit organizations which were formed to raise, hold, and invest assets on behalf of the Hospital and Somerset. The Hospital recognizes its rights to the assets held by the Foundations when the Foundations raise or hold contributions on behalf of the Hospital. RWJHCC is the sole member of the RWJ Foundation.

# **Robert Wood Johnson University Hospital**

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Notes to Financial Statements  
December 31, 2014 and 2013  
(In Thousands)

## **Deferred Bond Financing Costs**

Deferred bond financing costs (which are included in other noncurrent assets) are amortized over the period in which the obligation is outstanding using the effective interest method. The costs include legal, financing, and placement fees associated with the issuance of long-term debt. During 2014, costs associated with the issuance of long-term debt of \$763 were deferred. Accumulated amortization of deferred financing costs at December 31, 2014 and 2013 totaled \$978 and \$820, respectively.

## **Self-Insured Benefits**

The Hospital is self-insured for the majority of employee medical and worker's compensation benefits. The provision for estimated employee medical benefits and worker's compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported and is included in accrued expenses in the accompanying balance sheet.

## **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. Temporarily restricted net assets are restricted primarily for construction, certain departments and other services. Income on permanently restricted net assets is restricted for certain departments and other services.

## **Charity Care**

The Hospital provides care to patients who meet the strict charity care criteria of the New Jersey State Department of Health (the "Department") without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

In accordance with guidelines established by the Department, the Hospital maintains records to identify and monitor the level of charity care it provides. The estimated costs of providing charity care are based upon the direct and indirect costs identified with the specific charity care services provided. The level of charity care provided by the Hospital amounted to approximately \$25,830 in 2014 and \$38,957 in 2013.

The State provides certain subsidy payments to qualified hospitals to partially fund uncompensated care and certain other costs. Subsidy payments recognized as revenue amounted to approximately \$10,256 and \$8,478 for 2014 and 2013, respectively, and are included in net patient service revenue.

## **Advertising Costs**

Advertising costs are expensed as incurred. Such costs amounted to approximately \$5,128 in 2014 and \$3,905 in 2013.

# Robert Wood Johnson University Hospital

Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

## Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Hospital's balance sheet at net realizable value.

## Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift 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 or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations, and 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 gifts and bequests in the accompanying financial statements.

## Revenues in Excess of Expenses

The statements of operations include revenues in excess of expenses. Changes in unrestricted net assets which are excluded from revenues in excess of expenses, consistent with industry practice, include change in net unrealized gains and losses on investments other than trading, permanent transfers of assets to and from affiliates for other than goods and services, and contributions and grants of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

## Functional Expenses

The Hospital provides general health care services to residents within its geographic area. Expenses related to providing these services for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 921,136	\$ 758,126
General and administrative	<u>96,448</u>	<u>54,238</u>
Total	<u>\$ 1,017,584</u>	<u>\$ 812,364</u>

# Robert Wood Johnson University Hospital

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Notes to Financial Statements  
December 31, 2014 and 2013  
(In Thousands)

## **Federal Income Taxes**

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state and local taxes.

The Hospital follows the provisions of the authoritative guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The guidance also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure. Management has determined that the guidance did not have a material impact on the financial statements.

The Hospital's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Hospital's federal tax-exempt organization business income tax returns are no longer subject to examination by the Internal Revenue Service for years before 2011.

## **Subsequent Events**

The Hospital evaluated events for recognition or disclosure subsequent to December 31, 2014 and through April 13, 2015, the date on which the financial statements were issued.

## **Reclassification**

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

## **2. New Accounting Standards**

### **Services Received from Personnel of an Affiliate**

In April 2013, the Financial Accounting Standards Board ("FASB") issued guidance to provide consistency in accounting for shared costs by not-for-profit organizations with multiple affiliates, including health care systems. Under this guidance, direct personnel costs (salaries and wages and payroll-related employee benefits) will be recognized by entities that receive services from affiliates. These costs will be recognized at cost as equity transfers and will be excluded from revenues in excess of expenses. The guidance is effective for periods beginning after June 15, 2014. The amended guidance will require prospective adjustment of the statement of changes in net assets and related disclosures.

# Robert Wood Johnson University Hospital

Notes to Financial Statements  
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### 3. Acquisition of Somerset

Effective June 1, 2014, Somerset was merged into the Hospital in an effort to expand operations into the healthcare market in Somerville, New Jersey. As part of the merger, Somerset dissolved as of June 1, 2014, and transferred its assets and liabilities to the Hospital and the Hospital became the sole member and/or parent corporation of Somerset.

In accordance with authoritative guidance, the Hospital recorded the fair value of the assets acquired and liabilities assumed from Somerset as of the acquisition date as follows:

	<u>May 31, 2014</u>
Assets:	
Cash and cash equivalents	\$ 6,773
Investments and assets whose use is limited	28,998
Patients accounts receivable, net	27,933
Other assets	12,392
Property and equipment, net	123,289
Adjustment of property and equipment to fair market value per appraisal	<u>56,361</u>
Total assets acquired	255,746
Liabilities:	
Long-term debt	2,176
Accounts payable and accrued expenses	19,585
Other liabilities	21,872
Deferred gain on sale of property	4,126
Accrued pension and other liabilities	31,800
Due to the Hospital	<u>90,109</u>
Total liabilities assumed	<u>169,668</u>
Inherent contribution of Somerset Medical Center	<u>\$ 86,078</u>

The classification of inherent contribution of Somerset Medical Center is as follows:

Unrestricted	\$ 83,157
Temporarily restricted	1,781
Permanently restricted	<u>1,140</u>
Total inherent contribution of Somerset Medical Center	<u>\$ 86,078</u>

# Robert Wood Johnson University Hospital

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## Notes to Financial Statements

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On May 30, 2014, Somerset received funds from the Hospital sufficient to redeem the Series 2003 Bonds and the Series 2008 Bonds. The Hospital funded the redemption of the bonds with a line of credit. The redemption occurred in June 2014. Somerset's bond counsel provided Somerset with a legal opinion that the Series 2003 Bonds and the Series 2008 Bonds were considered to be defeased as of May 31, 2014. Therefore, Somerset derecognized the Series 2003 Bonds and Series 2008 Bonds as of May 31, 2014 and recorded a due to the Hospital in the amount the Hospital incurred on the line of credit. The Hospital refinanced the amount outstanding on the line of credit by issuing Series 2014 Bonds (Note 5).

Beginning June 1, 2014, the operations of Somerset have been reported in the Hospital's statement of operations. In 2014, total unrestricted revenue and other support of \$146,791, decrease in unrestricted net assets of \$8,642, and increase in temporarily restricted net assets of \$1,177 was attributed to the acquisition of Somerset.

The following summarized information represents the combined amounts of the Hospital and Somerset as if the acquisition occurred as of January 1, 2013:

	<u>2014</u>	<u>2013</u>
Total revenue	\$ 1,150,036	\$ 1,089,888
Change in unrestricted net assets	\$ 47,695	\$ 118,330
Change in temporarily restricted net assets	\$ 5,147	\$ 1,935
Change in permanently restricted net assets	\$ 1,479	\$ 36

# Robert Wood Johnson University Hospital

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## 4. Property and Equipment

The items comprising such accounts as of December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Depreciable assets:		
Land improvements	\$ 1,782	\$ 441
Buildings	584,684	371,356
Building service equipment	59,677	57,468
Fixed equipment	54,411	24,423
Major movable equipment	424,349	282,485
Capitalized leases	10,471	10,471
	<hr/>	<hr/>
Total	1,135,374	746,644
Less accumulated depreciation and amortization (including amortization of capitalized leases of \$6,296 and \$5,149 as of December 31, 2014 and 2013, respectively)	<hr/>	<hr/>
	721,791	490,270
	<hr/>	<hr/>
	413,583	256,374
Nondepreciable assets:		
Land	12,321	7,921
Construction in progress	111,332	51,205
	<hr/>	<hr/>
	123,653	59,126
	<hr/>	<hr/>
Property and equipment, net	<u>\$ 537,236</u>	<u>\$ 315,500</u>

Construction in progress at December 31, 2014 consists primarily of construction of the Proton Beam Facility and construction costs, development fees, architect fees and other costs related to construction of the East Tower and the South Building Expansion projects ("the Projects"). The estimated costs to complete construction of the Proton Beam Facility and the Projects are \$7.7 million and \$116.7 million, respectively.

# Robert Wood Johnson University Hospital

Notes to Financial Statements

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(In Thousands)

## 5. Long-Term Debt

A summary of long-term debt as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Robert Wood Johnson University Hospital, Series 2003 Revenue Bonds less unamortized bond discount of \$15 and \$19 as of December 31, 2014 and 2013, respectively	\$ 9,885	\$ 11,881
Robert Wood Johnson University Hospital, Series 2004 Revenue Bonds less unamortized bond discount of \$69 and \$83 as of December 31, 2014 and 2013, respectively	35,591	37,302
Robert Wood Johnson University Hospital, Series 2010 Revenue Bonds plus unamortized bond premium of \$1,925 and \$2,136 as of December 31, 2014 and 2013, respectively	114,780	118,296
Robert Wood Johnson University Hospital, Series 2013 Revenue Bonds less unamortized bond discount and plus premium of \$999 and \$1,324, respectively, as of December 31, 2014 and less unamortized bond discount and plus premium of \$1,324 and \$1,397, respectively, as of December 31, 2013	180,500	180,521
Robert Wood Johnson University Hospital, Series 2014 Revenue Bonds plus unamortized bond premium of \$5,862 as of December 31, 2014	91,787	-
Capital lease obligations	<u>3,621</u>	<u>4,134</u>
	436,164	352,134
Less current installments	<u>7,773</u>	<u>7,538</u>
Long-term debt, excluding current installments	<u>\$ 428,391</u>	<u>\$ 344,596</u>

# Robert Wood Johnson University Hospital

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Notes to Financial Statements  
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## Series 2003 Bonds

On June 20, 2003, the New Jersey Healthcare Facilities Financing Authority (“Authority”) issued \$25,000 principal amount tax exempt revenue bonds through a variable rate composite program to the Hospital (2003 Bonds). The 2003 Bonds are scheduled to mature on July 1, 2023.

The Hospital utilized the proceeds of the 2003 Bonds to 1) refund \$14,165 in outstanding bonds (New Jersey Health Care Facilities Financing Authority \$27,130 Revenue Bonds, Robert Wood Johnson University Hospital Issue, Series B), 2) pay the cost of constructing and equipping an inpatient oncology unit, 3) replace certain elevators, ventilators and information technology hardware and 4) to pay a portion of the related financing costs.

The 2003 Bonds are special and limited obligations of the Authority, payable solely from and secured by the revenues and other monies pledged by the Hospital pursuant to a Loan Agreement with the Authority and a Reimbursement Agreement with the trustee bank. The 2003 Bonds are also collateralized by a \$20,463 unsecured irrevocable letter of credit which is financed by the Hospital and held by, and for the benefit of, the bond trustee. The letter of credit expires on September 30, 2018 and must be renewed and maintained throughout the life of the 2003 Bonds.

The 2003 Bonds initially bore interest at a weekly variable rate and are subject to conversion to a term rate (.01% at December 31, 2014). The maximum rate of interest on the bonds is 12% per annum.

## Series 2004 Bonds

On September 22, 2004, the Authority issued \$50,000 principal amount variable rate tax exempt revenue bonds, Robert Wood Johnson University Hospital Issue, Series 2004 (Series 2004 Bonds), pursuant to the Authority’s General Health Care Facilities Bond Resolution. The proceeds received from the Series 2004 Bonds were utilized to provide for constructing and equipping a three story vertical expansion of the Bristol Myers Squibb Children’s Hospital at Robert Wood Johnson University Hospital and renovating and equipping obstetrics space in adjacent Hospital buildings. A portion of the bond proceeds was also used to enhance pediatric special procedure and surgical facilities as well as to pay for financing and issuance costs. The 2004 Bonds are scheduled to mature on July 1, 2029.

The Series 2004 Bonds are special and limited obligations of the Authority, payable solely from and secured by revenues and other monies pledged by the Hospital pursuant to a Loan Agreement with the Authority and a Reimbursement Agreement with the trustee. The Series 2004 Bonds are also fully collateralized by a \$45,900 unsecured irrevocable letter of credit which is financed by the Hospital and held by, and for the benefit of, the bond trustee. The letter of credit expires on September 30, 2018 and must be renewed and maintained throughout the life of the Series 2004 Bonds.

The Series 2004 Bonds initially bore interest at a variable weekly rate and are subject to conversion to a term bond at a maximum annual interest rate of 12% (.01% at December 31, 2014).

# Robert Wood Johnson University Hospital

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Notes to Financial Statements  
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## Series 2010 Bonds

On September 9, 2010, the Authority issued \$126,415 principal amount of Revenue Bonds, Robert Wood Johnson University Hospital Issue, Series 2010 (Series 2010 bonds), pursuant to the Authority's General Health Care Facilities Registered Bond Resolution. The proceeds received from the Series 2010 bonds were utilized for the current refunding of the Series 2000 bonds in the amount of \$126,640 resulting in a loss on the defeasance of debt in the amount of \$2,840 which is recorded in the 2010 statement of operations. In addition, the proceeds were used to establish a debt service reserve fund, to pay certain costs incidental to the issuance and sale of the Series 2010 bonds.

Monthly payments must be made to the trustee in amounts sufficient to pay interest to the bondholders. The Hospital is required to pay to the trustee monthly amounts for a debt service fund. This fund will be used by the trustee to make payments toward debt service and to provide a fund sufficient to retire the total debt. The Hospital is required to maintain debt service reserve funds for the Series 2010 bonds in an amount equal to the maximum annual debt service.

The Series 2010 Bond Issue includes serial bonds aggregating \$55,795 which mature in annual amounts between 2011 and 2022 and bear interest at varying rates from 2.0% to 5.0%. The Series 2010 bonds also include two term bonds aggregating \$70,620, which are due in 2025 and 2031, and which bear interest at rates of 4.38% and 5.00%, respectively. The Series 2000 bonds maturing on or after July 1, 2021 are subject to redemption prior to maturity.

## Series 2013 Bonds

In September 2013, the Authority issued \$180,175 principal amount of tax exempt revenue bonds, Robert Wood Johnson University Hospital Issue, Series 2013A and Series 2013B bonds (Series 2013 Bonds), pursuant to the Authority's General Health Care Facilities Registered Bond Resolution. The proceeds received from the Series 2013 Bonds will be used to provide for constructing a parking and office facility, constructing and/or renovating the expansion of patient floors and four new operating rooms.

The Series 2013A Bonds are fixed rate bonds issued for \$110,175. These bonds include serial bonds aggregating \$16,890, which mature in annual amounts between 2016 and 2023 and bear interest at varying rates from 3.0% to 5.0%. The Series 2013A bonds also include three term bonds aggregating \$93,285, which are due in 2028, 2035, and 2043 and which bear interest at varying rates from 5.25% to 5.50%. The 2013A Bonds are scheduled to mature on July 1, 2043.

# **Robert Wood Johnson University Hospital**

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Notes to Financial Statements

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(In Thousands)

The Series 2013B Bonds are variable rate bonds issued in the amount of \$70,000. These bonds are special and limited obligations of the Authority, payable solely from and secured by revenues and other monies pledged by the Hospital pursuant to a Loan Agreement with the Authority and a Reimbursement Agreement with the trustee. The Series 2013B Bonds are also fully collateralized by a \$70,000 unsecured irrevocable letter of credit which is financed by the Hospital and held by, and for the benefit of, the bond trustee. The letter of credit expires on September 30, 2018 and must be renewed and maintained throughout the life of the Series 2013B Bonds. The 2013B Bonds are scheduled to mature on July 1, 2043.

The Series 2013B Bonds initially bore interest at a variable weekly rate and are subject to conversion to a term bond at a maximum annual interest rate of 12% (.02% at December 31, 2014).

## **Series 2014 Bonds**

In September 2014, the Authority issued \$85,925 principal amount of tax exempt revenue bonds, Robert Wood Johnson University Hospital Issue, Series 2014A and Series 2014B bonds (Series 2014 Bonds) with an original issue premium of \$5,940. The proceeds received from the Series 2014 Bonds were used to repay the line of credit taken out in order to pay off Somerset Medical Center's Series 2003 and Series 2008 Bonds (Note 3).

The Series 2014A Bonds are fixed rate bonds issued for \$55,925. These bonds include serial bonds aggregating \$11,075, which mature in annual amounts between 2032 and 2034 and bear interest of 5.0%. These bonds also include two term bonds for \$22,480, due July 1, 2039 and \$22,370, due July 1, 2043 and bear interest of 5.0%.

The Series 2014B Bonds are variable rate bonds issued in the amount of \$30,000. These bonds are special and limited obligations of the Authority, payable solely from and secured by revenues and other monies pledged by the Hospital pursuant to a Loan Agreement with the Authority and a Reimbursement Agreement with the trustee. The Series 2014B Bonds are also fully collateralized by a \$30,000 unsecured irrevocable letter of credit which is financed by the Hospital and held by, and for the benefit of, the bond trustee. The letter of credit expires on September 8, 2017 and must be renewed and maintained throughout the life of the Series 2014B Bonds. The 2014B Bonds are scheduled to mature on July 1, 2043.

The Series 2014B Bonds initially bore interest at a variable weekly rate and are subject to conversion to a term bond at a maximum annual interest rate of 12% (.04% at December 31, 2014).

# Robert Wood Johnson University Hospital

## Notes to Financial Statements

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### Sinking Fund Requirements

Amounts anticipated to be deposited in the debt service funds for the purpose of paying the principal on the Series 2003, Series 2004, Series 2010, Series 2013 and Series 2014 bonds over the next five years and thereafter are as follows as of December 31, 2014:

	<u>Series 2003 Principal Sinking Fund Requirements</u>	<u>Series 2004 Principal Sinking Fund Requirements</u>	<u>Series 2010 Principal Sinking Fund Requirements</u>	<u>Series 2013 Principal Sinking Fund Requirements</u>	<u>Series 2014 Principal Sinking Fund Requirements</u>	<u>Total Principal Requirements</u>
2015	\$ 1,900	\$ 1,790	\$ 3,550	\$ -	\$ -	\$ 7,240
2016	900	1,860	4,850	1,815	-	9,425
2017	900	1,935	5,075	1,865	-	9,775
2018	900	2,010	5,280	1,940	-	10,130
2019	1,000	2,090	5,500	2,040	-	10,630
Thereafter	<u>4,300</u>	<u>25,975</u>	<u>88,600</u>	<u>172,515</u>	<u>85,925</u>	<u>377,315</u>
Total	<u>\$ 9,900</u>	<u>\$ 35,660</u>	<u>\$ 112,855</u>	<u>\$ 180,175</u>	<u>\$ 85,925</u>	<u>\$ 424,515</u>

The debt agreements of the above bonds require the Hospital to meet certain financial covenants and ratios.

### Capital Lease Obligations

The Housing and Urban Development Authority of the City of New Brunswick (the Development Authority) issued \$55,295 principal amount of Lease Revenue Bonds, Series 1993 in connection with a redevelopment project consisting of the construction of a combined use structure which includes, among other things, a 959 unit parking deck (the Project). The Development Authority appointed Rutgers as developer of the Project. On July 23, 1992, the Hospital, Rutgers and the Development Authority entered into a three way participation agreement whereby the Hospital agreed to sublet from Rutgers a portion of the Project consisting of 600 parking spaces together with the common space within the Project applicable thereto for an initial term of five years. The lease includes six separate consecutive options to renew the sublease for five year terms.

On December 11, 1998, the Development Authority issued \$54,505 principal amount of Housing Authority of the City of New Brunswick Lease Revenue Refunding Bonds, Series 1998. The proceeds received from the Series 1998 bonds were utilized to provide financing for the refunding of Series 1993 bonds.

On March 25, 2011, the Development Authority issued \$31,345 principal amount of Housing Authority of the City of New Brunswick Lease Revenue Refunding Bonds, Series 2011. The proceeds received from the Series 2011 bonds were utilized to provide financing for the refunding of Series 1998 bonds. The lease is now payable through July 1, 2020.

# Robert Wood Johnson University Hospital

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## Notes to Financial Statements

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The following is a schedule of future minimum lease payments subsequent to December 31, 2014:

2015	\$	719
2016		719
2017		719
2018		719
2019		719
Thereafter		<u>719</u>
Total minimum payments		4,314
Less amounts representing interest		<u>693</u>
		3,621
Less current installments		<u>533</u>
Total	\$	<u><u>3,088</u></u>

## 6. Retirement Plans

### Defined Benefit Pension Plan

As of June 1, 2014, the Hospital assumed a noncontributory defined benefit pension plan (the "Plan") covering all eligible employees as part of the Somerset acquisition. The Hospital's policy is to make contributions sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Effective January 1, 2002, the Somerset Board of Trustees approved the freezing of all benefit accruals under the defined benefit pension plan.

## Robert Wood Johnson University Hospital

### Notes to Financial Statements

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The following table provides a reconciliation of benefit obligations, plan assets, funding status, amounts recognized in the Hospital's financial statements for the year ended December 31, 2014 as follows:

	<u>2014</u>
Change in benefit obligation:	
Benefit obligation, beginning of year	\$ -
Benefit obligation assumed from Somerset Medical Center	90,787
Interest cost	2,085
Actuarial loss (gain)	11,765
Benefits paid	<u>(2,489)</u>
Benefit obligation, end of year	<u>102,148</u>
Change in plan assets:	
Fair value of plan assets - beginning of year	\$ -
Fair value of plan assets acquired	71,037
Actual return on plan assets	1,511
Employer contributions	1,385
Expenses	(439)
Benefits paid	<u>(2,489)</u>
Fair value of plan assets, end of year	<u>71,005</u>
Funded status	<u>\$ (31,143)</u>
Accumulated benefit obligation	<u>\$ 102,148</u>
Components of net periodic pension cost:	
	<u>2014</u>
Interest cost	\$ 2,085
Service cost	299
Expected return on plan assets	<u>(2,766)</u>
Total net periodic pension cost	<u>\$ (382)</u>

The contribution to the Plan for calendar year 2015 is expected to be approximately \$4,855.

At December 31, 2014, \$31,143 of accrued pension cost is recorded in other long-term liabilities in the balance sheet.

## Robert Wood Johnson University Hospital

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Notes to Financial Statements  
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A net loss of \$13,160 represents the unrecognized component of net periodic benefit cost included in unrestricted net assets at December 31, 2014.

The weighted-average assumptions used in computing the Plan's benefit obligation at December 31, 2014:

Discount rate	3.75 %
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The weighted-average assumptions used in the measurement of the Plan's net periodic pension cost for the year ended December 31, 2014:

Discount rate	3.75 %
Expected long-term rate of return on plan assets	6.25 %

The expected long-term rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall capital markets.

The following table sets forth the actual asset allocation and target asset allocation for plan assets at December 31, 2014:

Asset category:	<u>2014</u>	<u>Target Asset Allocation</u>
Equity securities	33 %	15-40 %
Fixed income	46 %	35-70 %
Alternative investments	15 %	0-20 %
Cash equivalents	6 %	0-20 %

The plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with the Hospital's risk tolerance. This is achieved through the utilization of asset managers and systemic allocation to investment management styles, providing a broad exposure to different segments of the fixed income and equity markets.

# Robert Wood Johnson University Hospital

## Notes to Financial Statements

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The following tables summarize instruments measured at fair value on a recurring basis:

	December 31, 2014		
	Level 1	Level 2	Assets at Fair Value
Cash equivalents	\$ 587	\$ -	\$ 587
Money market funds	3,703	-	3,703
Assets held under separately managed trust accounts			
Fixed income account:			
Cash and cash equivalents	3,185	-	3,185
Government and agency obligations	-	11,499	11,499
Corporate bonds	-	9,227	9,227
Other	-	34	34
Mutual fund account:			
Cash and cash equivalents	28	-	28
Fidelity Investment Diversified International Fund	5,572	-	5,572
Vanguard Total Stock Market Index Fund	17,693	-	17,693
Vanguard Long-Term Investment Grade Fund	8,738	-	8,738
PIMCO All Asset Fund	10,739	-	10,739
Total	<u>\$ 50,245</u>	<u>\$ 20,760</u>	<u>\$ 71,005</u>

The following is a description of the valuation methodologies used for assets measured at fair value:

- Cash & cash equivalents are recorded at the quoted cost which approximates fair value.
- Money market and the mutual funds are valued at the quoted net asset value of shares held by the Plan at year end.
- Government and agency obligations, corporate bonds, and other securities are valued using recently executed transactions and valuation models which factor in interest rates and other significant observable inputs for similar securities.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# Robert Wood Johnson University Hospital

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## Notes to Financial Statements

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(In Thousands)

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

Years ending December 31:		
2015	\$	4,855
2016		5,008
2017		5,130
2018		5,384
2019		5,549
2020-2024		29,163

### Defined Contribution Plan - Somerset Campus

On June 1, 2014, the Hospital assumed a defined contribution pension plan (the "Retirement Plan"). The Retirement Plan provides for employer and employee contributions. Employer contributions to the Retirement Plan consist of a primary contribution and a matching contribution. The primary employer contribution is equal to two percent of participant's eligible compensation. The matching employer contribution is equal to 50 percent of the employees' elective contribution up to a maximum of two percent of a participant's contribution. As of the merger, no employee or employer contributions have been made into the Retirement Plan.

### Defined Contribution Plan - New Brunswick Campus

The Hospital's retirement and sheltered savings plan is a defined contribution plan that covers substantially all of its employees. The Hospital provides a basic contribution based upon years of service ranging from 0.5% to 4%. An employee must be at least age 21 and have completed two years of eligible service to receive basic contributions. Employees may also elect to contribute 1% to 20% of their base salary, which may not exceed \$17.5 for 2014 and 2013, respectively, to the savings plan, effective immediately upon employment with the Hospital. Once the employee has met the eligibility requirements to receive the basic contribution, the Hospital will provide additional contributions to match the employee elected contributions to a maximum of 50% of each employee's contribution up to 4% as determined by the employee's years of eligible service.

Retirement and sheltered savings plan expense was approximately \$6,206 and \$5,242 for the years ended December 31, 2014 and 2013, respectively.

### Union Benefit Plan

Effective October 1, 2003, as part of the renegotiation of the collective bargaining agreement with P.A.C.E. Industry Union Local 300 (representing approximately 1000 registered nurses), the Hospital introduced a defined benefit pension plan. The Hospital participates in the PACE Industry Union - Management Pension Fund (the Pension Fund) which is a multiemployer benefit program. The Pension Fund is subject to the regulations of the Employee Retirement Income Security Act of 1974 and is administered by a joint Board of Trustees which consists of four union representatives and four employer representatives.

## Robert Wood Johnson University Hospital

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Notes to Financial Statements

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The risks of participating in a multiemployer plan such as the Pension Fund are different from single-employer plans in the following aspects:

- (a) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- (b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- (c) If the Hospital chooses to stop participating in some its multiemployer benefit program, the Hospital may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The multiemployer benefit program was established in 1963 and presently consists of approximately 250 employers. The more significant elements of this program that affect the Hospital are as follows:

- (a) Contribution amounts are based upon the benefit levels that have been agreed to in the collective bargaining agreement with the Paper, Allied Industrial, Chemical and Energy International Unions, and the AFL CIO. The collective bargaining agreement requires contributions to the fund at a fixed rate of \$1.375 per hour in 2014 and 2013, up to a maximum of 2,200 hours per year for each employee.
- (b) An employee who is engaged in covered employment, as defined, shall become a participant in the Pension Fund on the earliest of January 1 or July 1 following completion of a 12 month period during which the employee has at least 1,000 hours of service in covered employment and is age 21 or older.
- (c) A participating employee's years of pension credit are based on years of service for which the employer is required to contribute (future service) and on years of eligible employment in the industry before the employer started contributing to the Fund for individual participants (past service). Payments to retirees are based on the product of the pension credit multiplied by the eligible benefit level.

Since this plan includes full past service credit for each covered employee's eligible employment in the industry prior to the Hospital contributing to the fund, an unfunded past service liability was created. This past service liability would only become effective upon the Hospital's withdrawal from the Pension Fund. Accordingly, the Hospital has no present responsibility for this past service credit liability during the current three (3) year term of the contract, which expires on June 30, 2015. As of January 1, 2014, the impact of the past service credit on the Hospital is estimated to be \$49,056. The Hospital's contributions to the Pension Fund were approximately \$4,098 and \$3,496 for the years ended December 31, 2014 and 2013, respectively, and are included in employee benefits expenses in the statement of operations.

During 2010, the Hospital was notified that the Pension fund was certified to be in the critical status under the Pension Protection Act of 2006. Effective with the most recent collective bargaining agreement dated June 16, 2012, the Hospital increased the fixed rate contribution per hour and is not obligated to fund a separate surcharge.

# Robert Wood Johnson University Hospital

## Notes to Financial Statements

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The Hospital was not listed in the plan's Form 5500 as providing more than 5% of the plan's total contributions. The Hospital's participation in a significant plan for the years ended December 31, 2014 and 2013 is outlined in the table below. The status is based on the latest information that we received from the plan and is certified by the plan's actuary. Among other factors, plans in the critical status are generally projecting a funding deficiency for ten years. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The "Surcharge Imposed" column includes plans in a critical status that require a payment of a surcharge in excess or regular contributions. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject.

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Status		FIP/RP Status Pending of Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2013	2012			
PACE Industry Union - Management Pension Fund	11-6166763	Critical	Critical	Implemented	Yes	06/30/2015

### Deferred Compensation Plan

The Hospital maintains a deferred compensation program. As of December 31, 2014 and 2013, the Hospital has recorded an aggregate liability for deferred compensation benefits of \$588 and \$327, respectively. Effective in 2008, the deferred compensation program was modified and funding is to be calculated semi-annually based upon a percentage of the participant's base salary. Contributions to the deferred compensation program for 2014 and 2013 amounted to \$450 and \$348, respectively. As of December 31, 2014 and 2013, approximately \$104 and \$94, respectively, of the aggregate deferred compensation program liability is included in accrued expenses and all other amounts are included in other long-term liabilities in the accompanying balance sheet.

## 7. Investments and Assets Limited or Restricted as to Use

Assets limited or restricted as to use consist of the following as of December 31, 2014 and 2013:

	2014	2013
Board-designated	\$ 614,681	\$ 604,336
Held by trustee and self-insurance	167,125	208,125
Total	<u>\$ 781,806</u>	<u>\$ 812,461</u>

The Hospital's investment portfolio exists to meet both short-term and longer term operating and capital needs to further the mission of the Hospital. The investment philosophy combines the goal of preservation of capital net of spending and inflation with prudent risk tolerance in order to optimize income to achieve investment results consistent with the Hospital's financial objectives.

# Robert Wood Johnson University Hospital

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## Board-Designated

The composition of board-designated assets limited as to use as of December 31, 2014 and 2013, consist of the following and are stated at fair value:

	<u>2014</u>	<u>2013</u>
Common stock	\$ 104,457	\$ 56,327
American depository receipts and U.S. held foreign stock	11,393	6,279
U.S. Treasury notes and bonds	7,138	7,573
U.S. Government mortgage pools	985	1,471
Partnership	47,071	44,671
Mutual funds - equity	259,539	315,591
Mutual funds - taxable bonds	49,656	46,036
Fixed income commingled funds	20,181	22,492
Mortgage backed obligations	607	1,369
Asset backed securities	3,142	3,430
Corporate bonds	4,114	6,521
Absolute return fund	37,821	23,280
Commodities fund	8,623	10,515
Real estate investments	17,405	14,926
Hedged equity fund	41,708	42,563
Other fixed income securities	67	27
Other investments (Note 8)	467	1,133
Interest receivable	307	132
	<u>307</u>	<u>132</u>
Total	<u>\$ 614,681</u>	<u>\$ 604,336</u>

## Real Estate Investments

The Hospital's interests in the two real estate funds are reported at net asset value (NAV). NAV is used as a practical expedient to measure fair value.

The Hospital committed \$8,000 to a real estate investment, AEW Partners V L.P. As of December 31, 2014, AEW has called \$7,177 of the \$8,000 investment. AEW has three years from the final close of the L.P. to draw the remaining committed capital, and until the close, the fund is locked up with no redemptions permitted. The Hospital will fund these capital calls with existing cash or other liquid investments from its operating funds.

The Hospital can redeem the other real estate fund quarterly, with 90 days written notice. However, the fund manager can fund redemptions at its discretion.

## Hedged Equities Funds and Partnerships

The Hospital's interests in the hedged equities fund and partnership are reported at net asset value (NAV). The hedged equity fund, Berens Global Value Fund has a 1 year lock-up with liquidations allowed quarterly thereafter with 90 days prior notification. The partnership allows for withdrawals up to 25%, semi-annually for partial withdrawals and annually for full redemptions with 90 days notice and subject to a 1 year lock-up.

# Robert Wood Johnson University Hospital

## Notes to Financial Statements

December 31, 2014 and 2013

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### Commodities Fund

The Hospital's interest in the commodities fund is reported at net asset value (NAV). The Hospital can redeem the fund monthly with 5 days prior notification required.

### Held by Trustee

The net proceeds received from the sale of revenue bonds were delivered to the trustee to pay interest due on certain of the bonds during the periods required to complete the renovation and construction of hospital facilities; to establish the debt service and debt service reserve funds; to pay certain expenses incurred by the Authority and the Hospital in connection with the issuance of the bonds; to pay certain costs related to construction of various projects; and to refinance existing indebtedness of the Hospital. Under the terms of the indentures, the Hospital is required to fund the various trustee accounts on a monthly basis. Amounts held by the trustees which exceed the balances required in the individual accounts may be used by the Hospital for any lawful purpose subject to the approval of the Authority. The assets held in each of the trustee accounts for the bonds as of December 31, 2014 and 2013 are as follows:

	<u>Project Funds</u>	<u>Interest Funds</u>	<u>Debt Service Reserve Funds</u>	<u>Principal Funds</u>	<u>Safety Net Escrow</u>	<u>Total</u>
December 31, 2014:						
State of New Jersey Cash Management fund	\$ -	\$ -	\$ 9,913	\$ -	\$ -	\$ 9,913
Cash and cash equivalents	<u>117,041</u>	<u>6,633</u>	<u>-</u>	<u>1,775</u>	<u>5,183</u>	<u>130,632</u>
Total	<u>\$ 117,041</u>	<u>\$ 6,633</u>	<u>\$ 9,913</u>	<u>\$ 1,775</u>	<u>\$ 5,183</u>	<u>\$ 140,545</u>

	<u>Project Funds</u>	<u>Interest Funds</u>	<u>Debt Service Reserve Funds</u>	<u>Principal Funds</u>	<u>Cost of Issuance Funds</u>	<u>Total</u>
December 31, 2013:						
State of New Jersey Cash Management fund	\$ -	\$ -	\$ 9,913	\$ -	\$ -	\$ 9,913
Cash and cash equivalents	<u>173,267</u>	<u>4,446</u>	<u>-</u>	<u>1,704</u>	<u>139</u>	<u>179,556</u>
Total	<u>\$ 173,267</u>	<u>\$ 4,446</u>	<u>\$ 9,913</u>	<u>\$ 1,704</u>	<u>\$ 139</u>	<u>\$ 189,469</u>

### Assets for Self-Insurance Medical Malpractice Program

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 21,599	\$ 18,656
Insurance balances receivable	<u>4,981</u>	<u>-</u>
Cash and cash equivalents	<u>\$ 26,580</u>	<u>\$ 18,656</u>

# Robert Wood Johnson University Hospital

Notes to Financial Statements  
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## Short-Term Investments

Short-term investments, stated at fair value, at December 31, 2014 and 2013 include:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,083	\$ -
U.S. Government and agency obligations	430	2,313
Corporate bonds	<u>1,283</u>	<u>152</u>
Total	<u>\$ 2,796</u>	<u>\$ 2,465</u>

## Long-Term Restricted Investments

Long-term restricted investments, stated at fair value, at December 31, 2014 and 2013 include:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 652	\$ 827
Fixed income securities	1,833	1,548
Interest receivable	<u>2</u>	<u>11</u>
Total	<u>\$ 2,487</u>	<u>\$ 2,386</u>

## Investment Return

Investment income and gains and losses relating to assets limited as to use, cash equivalents and other investments are comprised of the following for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Nonoperating activities:		
Interest and dividend income	\$ 7,843	\$ 6,510
Realized gain on sales of investments, net	18,590	29,642
Change in net unrealized gains and losses on trading investments held by the Foundation	(1,419)	4,194
Change in net unrealized gains and losses gain on trading investments	<u>(13,129)</u>	<u>36,859</u>
	<u>11,885</u>	<u>77,205</u>
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments other than trading	<u>2,014</u>	<u>6,165</u>
Total investment return	<u>\$ 13,899</u>	<u>\$ 83,370</u>

# Robert Wood Johnson University Hospital

Notes to Financial Statements  
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## 8. Related-Party Transactions

Related-party balances at December 31, 2014 and 2013 include:

	<u>2014</u>	<u>2013</u>
Robert Wood Johnson Property Holding Corporation (a)	\$ 3,122	\$ (37)
Robert Wood Johnson Health Care Corporation at Hamilton (b)	31,966	13,989
Children's Specialized Hospital (c)	148	213
Robert Wood Johnson University Hospital Rahway (d)	559	304
RWJ University Hospital Foundation, Inc. (e)	2,153	4,695
Other Affiliated Organizations (f)	<u>23,841</u>	<u>22,913</u>
	61,789	42,077
Less allowance for doubtful amounts	26,707	17,762
Less current portion	<u>9,497</u>	<u>12,315</u>
Due from related parties, noncurrent portion	<u>\$ 25,585</u>	<u>\$ 12,000</u>

RWJHCC, whose primary purpose is to promote and support the Hospital and other affiliated and related nonprofit health care organizations, is the parent of the Hospital. Amounts due from RWJHCC at December 31, 2014 and 2013 were \$788 and have been fully reserved and are included in other affiliated organizations above. RWJHCC is also the parent of the following entities:

- (a) Robert Wood Johnson Property Holding Corporation ("RWJPHC") was formed to acquire and hold real and personal property to further the mission of the Hospital and to develop the academic health center campus. The property acquired is typically held and, if appropriate, rented by the Hospital until such time that it can be converted for its intended use. The Hospital provides space and certain administrative services to RWJPHC. The net amount charged to operations for such transactions, on a cost basis, was \$63 in 2014 and \$26 in 2013. At December 31, 2014 and 2013, amounts due (to) from RWJPHC to the Hospital are \$3,122 and \$(37), respectively.
- (b) Robert Wood Johnson Health Care Corporation at Hamilton ("RWJUH at Hamilton") includes an acute care hospital, a nursing home, day care centers, a medical services organization, and a foundation. The Hospital provides certain financial and administrative services to RWJUH at Hamilton, which are charged by the Hospital based on a cost allocation of \$125 per annum for 2014 and 2013. Amounts due the Hospital from RWJUH at Hamilton at December 31, 2014 and 2013 are \$6,867 and \$1,989, respectively. Amounts at December 31, 2014 were fully reserved.

On July 8, 2010, the Hospital entered into a subordinated loan agreement with RWJUH at Hamilton for \$12,000. Payments of interest, equal to the 3-Year constant maturity treasury rate in effect on the closing date (1.01%), and principal were to commence July 1, 2011 if RWJUH at Hamilton met certain financial ratios as defined by the loan agreement, which it did not. The ratios will be reevaluated as of April 30 of each year and to the extent RWJUH at Hamilton cannot make payments on the loan, the outstanding balance will continue to accrue interest until the maturity date of December 31, 2023 at which point the full remaining balance will be due plus any unpaid interest. The loan is reflected as due from related parties, non-current on the accompanying balance sheet.

## Robert Wood Johnson University Hospital

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### Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

On November 11, 2014, the Hospital entered into a subordinated loan agreement with RWJUH at Hamilton for an amount not to exceed \$44,000 to be advanced in principal amounts not to exceed \$21,000 in 2014, \$12,000 in 2015 and \$11,000 in 2016. Payments of interest, equal to the 3-Year constant maturity treasury rate in effect on the closing date (.95%), and principal are to commence April 30, 2017 if RWJUH at Hamilton meets certain financial ratios as defined by the loan agreement. The ratios will be reevaluated as of April 30 of each year and to the extent RWJUH at Hamilton cannot make payments on the loan, the outstanding balance will continue to accrue interest until the maturity date of December 31, 2036 at which point the full remaining balance will be due plus any unpaid interest. As of December 31, 2014, the amount drawn on the loan was \$13,099. The loan is reflected as due from related parties, non-current on the accompanying balance sheet.

- (c) Children's Specialized Hospital ("CSH") provides pediatric inpatient rehabilitation, pediatric day care, pediatric ambulatory care, and long term pediatric care. Amounts due the Hospital from CSH at December 31, 2014 and 2013 are \$148 and \$213, respectively.
- (d) Robert Wood Johnson University Hospital at Rahway ("RWJUH at Rahway") is an acute care community hospital located approximately 15 miles from the Hospital. Amounts due the Hospital from RWJUH at Rahway at December 31, 2014 and 2013 are \$559 and \$304, respectively.
- (e) Amounts due the Hospital from the RWJ Foundation at December 31, 2014 and 2013 are \$2,153 and \$4,695, respectively. These amounts represent monies funded by the Hospital on behalf of the RWJ Foundation for various restricted purposes and operating costs consisting of salaries and rent.
- (f) The Hospital also provides administrative services to other affiliated organizations including New Brunswick Affiliated Hospitals ("NBAH"), a corporation whose essential purpose is to provide a legal basis for cooperation and agreement by and between the Hospital and St. Peter's University Hospital. The Hospital also provides management services to NBAH. Prior to January 1, 2014, the Hospital purchased services from a local blood program operated by NBAH. Effective January 1, 2014, the members of NBAH assigned the assets, operations and agreements of NBAH's blood program to the Hospital. The Hospital also assumed all of NBAH's obligations under the program. The net charge to operations for such services on a cost basis was \$0 and \$3,783 in 2014 and 2013, respectively. Amounts due from these organizations are \$121 and \$359 as of December 31, 2014 and 2013, respectively.

Robert Wood Johnson Health Network (the "Network") is an organization which was formed to support the efforts of its members to develop an integrated delivery and transportation system that will best serve community needs to assist providers in reducing costs, improving patient outcomes, and developing payment arrangements. The Hospital provides certain administrative services to the Network. The net amount charged to operations for such transactions on a cost basis was \$42 in 2014 and 2013. Amounts due the Hospital from the Network at December 31, 2014 and 2013 are \$1,215 and \$2,294, respectively. The Hospital has reserved \$830 and \$684 of this receivable at December 31, 2014 and 2013, respectively.

# Robert Wood Johnson University Hospital

## Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

Robert Wood Johnson Medical Associates ("RWJMA") is a professional corporation which is sponsored by the Hospital and provides physician services to the Hospital. During 2014 and 2013, the Hospital expended \$151 and \$132, respectively, in the maintenance and operation of these practices. Amounts due the Hospital from RWJMA for these services at December 31, 2014 and 2013 are \$16,442 and \$16,291, respectively, which have been fully reserved.

RWJMA holds a fifty percent ownership in two joint ventures, Robert Wood Johnson Fitness & Wellness Center of Old Bridge, LLC and Robert Wood Johnson Fitness & Wellness Center of New Brunswick, LLC (collectively the "RWJ Fitness & Wellness Centers"). The initial investments and additional operational expenses of the RWJ Fitness & Wellness Centers were funded by the Hospital and will be paid back to the Hospital as distributions are made to RWJMA. The Hospital's receivable from RWJMA for the RWJ Fitness & Wellness Centers was \$2,987 and \$3,181 as of December 31, 2014 and 2013, respectively.

Amounts due the Hospital from the Somerset Medical Center Foundation and other affiliates at December 31, 2014 are \$2,267. These amounts represent monies funded by the Hospital on behalf of the Somerset Medical Center Foundation for various restricted purposes and operating costs consisting of salaries and rent. The Hospital has reserved \$1,780 of this receivable as of December 31, 2014.

As discussed in Note 1, the Hospital is the principal teaching hospital for Rutgers. Under the related affiliation agreement, Rutgers controls up to 25% of the 24 Hospital Board appointments and is responsible for providing quality oversight of the Hospital's clinical services.

### 9. Accrued Expenses

Accrued expenses at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 27,231	\$ 17,646
Vacation	25,858	19,891
Line of credit	20,000	15,000
Health insurance	7,145	4,294
Worker's compensation	4,780	1,952
Deferred income	2,504	2,292
Other	<u>6,638</u>	<u>2,600</u>
Total	<u>\$ 94,156</u>	<u>\$ 63,675</u>

In 2011, the Hospital entered into a promissory note with a bank to obtain a revolving loan agreement with a maximum available amount of \$25,000. Outstanding amounts under the agreement bear interest at one-month LIBOR plus fifty basis points (.65% at December 31, 2014). As of December 31, 2014, the Hospital had drawn \$20,000 of this balance. The full amount is to be paid in 2015 and is included in accrued expenses.

# Robert Wood Johnson University Hospital

Notes to Financial Statements  
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## 10. Concentrations of Credit Risk

The Hospital is located in New Brunswick, New Jersey. The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables at December 31, 2014 and 2013 from patients and third-party payors is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	17 %	21 %
Medicaid	3	3
Blue Cross	16	17
Aetna U.S. Health Care	11	9
Other third-party payors	44	41
Patients	<u>9</u>	<u>9</u>
Total	<u>100 %</u>	<u>100 %</u>

At the present time, the Hospital participates in all dominant managed care plans' provider networks, including Aetna U.S. Healthcare and Horizon Blue Cross/HMO Blue.

## 11. Third-Party Payor Programs

The Hospital is paid by third-party payors for patient services rendered generally at negotiated or otherwise predetermined amounts established by the applicable coverage program. For the years ended December 31, 2014 and 2013, revenue from the Medicare and Medicaid programs accounted for approximately 37% and 33%, respectively, of the Hospital's net patient service revenue. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any material pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as tentative and final settlements are determined. It is reasonably possible that the estimates used could change in the near term. The Hospital recorded \$4,069 and \$5,628 related to changes to prior years' estimates which increased net patient service revenues for the years ended December 31, 2014 and 2013, respectively. A significant portion of the Hospital's net patient service revenues is derived from these third-party payor programs.

# Robert Wood Johnson University Hospital

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Notes to Financial Statements  
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A summary of the principal payment arrangements with major third-party payors follows:

- **Medicare** - Under the Medicare program, the Hospital receives reimbursement under a prospective payment system (PPS) for inpatient and outpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnostic related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. The outpatient PPS provides for payment for outpatient services based on service groups called ambulatory payment classifications (APC's).

The Hospital has recorded approximately \$14.6 million and \$12.0 million of revenues related to Medicare outliers for the years ended December 31, 2014 and 2013, respectively. These amounts represent approximately 5% of Medicare revenues and approximately 1% of total revenues for the years ended December 31, 2014 and 2013. Centers for Medicare & Medicaid Services (CMS) annually revises the outlier cost threshold, which affects the number of cases that qualify for outlier payments. Accordingly, there can be no assurances that the Hospital will continue to receive these levels of Medicare outlier payments in future periods.

Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Reimbursements for cost reimbursable items are received at tentative interim rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2011, excluding 2005 and 2010 which have not been final settled.

- **Medicaid** - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based on tentative interim rates, with final settlement determined after submission of annual cost reports by the Hospital. The Medicaid cost reports have been settled through December 31, 2011 for the New Brunswick campus and December 31, 2012 for the Somerset campus.
- **Commercial Insurance** - The Hospital has entered into payment agreements with certain insurance carriers, health maintenance organizations, and preferred provider organizations which cover health benefits and worker's compensation for commercial, Medicare, and Medicaid members. The basis for payment to the Hospital under these agreements varies by payor, but typically includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and/or cost pass through reimbursement for certain high cost items.

There are various proposals at the federal and state levels that could, among other things, reduce reimbursement rates or modify reimbursement methods. The ultimate impact to the Hospital will vary depending on several factors including, but not limited to, Medicare and Medicaid volume and Medicare and Medicaid managed care penetration.

# Robert Wood Johnson University Hospital

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Notes to Financial Statements

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(In Thousands)

As a result of recently enacted and pending federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

## 12. Fair Value Measurements

The Hospital measures its investments and assets limited or restricted as to use at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Hospital for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

# Robert Wood Johnson University Hospital

## Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

The following tables present the Hospital's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

	Fair Value as of December 31, 2014				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>					
Investments:					
Cash and cash equivalents	\$ 1,083	\$ 1,083	\$ 1,083	\$ -	\$ -
U.S. Government and agency obligations	430	430	430	-	-
Corporate bonds	1,283	1,283	-	1,283	-
Assets limited or restricted as to use - board designated:					
Common stock	104,457	104,457	104,457	-	-
American depository receipts and U.S. held foreign stock	11,393	11,393	-	11,393	-
U.S. Treasury notes and bonds	7,138	7,138	7,138	-	-
U.S. Government mortgage pools	985	985	985	-	-
Partnership	47,071	47,071	-	-	47,071
Mutual funds - equity	259,539	259,539	-	259,539	-
Mutual funds - taxable bonds	49,656	49,656	-	49,656	-
Fixed income commingled funds	20,181	20,181	-	20,181	-
Mortgage backed obligations	607	607	-	607	-
Asset backed securities	3,142	3,142	-	3,142	-
Corporate bonds	4,114	4,114	-	4,114	-
Absolute return fund	37,821	37,821	-	37,821	-
Commodities fund	8,623	8,623	-	-	8,623
Other fixed income securities	67	67	-	67	-
Real estate investments	17,405	17,405	-	-	17,405
Hedged equity fund	41,708	41,708	-	-	41,708
Assets limited or restricted as to use - held by trustee:					
State of New Jersey Cash Management fund	9,913	9,913	9,913	-	-
Cash and cash equivalents	130,632	130,632	130,632	-	-
Assets limited or restricted as to use - for self insurance medical malpractice program:					
Cash and cash equivalents	21,600	21,600	21,600	-	-
Long-term restricted investments:					
Cash and cash equivalents	652	652	652	-	-
Fixed income securities	1,833	1,833	1,833	-	-
<b>Total</b>	<b>\$ 781,333</b>	<b>\$ 781,333</b>	<b>\$ 278,723</b>	<b>\$ 387,803</b>	<b>\$ 114,807</b>
<b>Disclosed at Fair Value</b>					
Cash and cash equivalents	\$ 56,008	\$ 56,008	\$ 56,008	\$ -	\$ -
Long-term debt	\$ 432,543	\$ 467,152	\$ -	\$ 467,152	\$ -

# Robert Wood Johnson University Hospital

## Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

	Fair Value as of December 31, 2013				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>					
Investments:					
U.S. Government and agency obligations	\$ 2,313	\$ 2,313	\$ 2,313	\$ -	\$ -
Corporate bonds	152	152	-	152	-
Assets limited or restricted as to use - board designated:					
Common stock	56,327	56,327	56,327	-	-
American depository receipts and U.S. held foreign stock	6,279	6,279	-	6,279	-
U.S. Treasury notes and bonds	7,573	7,573	7,573	-	-
U.S. Government mortgage pools Partnership	1,471	1,471	1,471	-	-
Mutual funds - equity	44,671	44,671	-	-	44,671
Mutual funds - taxable bonds	315,591	315,591	-	315,591	-
Fixed income commingled funds	46,036	46,036	-	46,036	-
Mortgage backed obligations	22,492	22,492	-	22,492	-
Asset backed securities	1,369	1,369	-	1,369	-
Corporate bonds	3,430	3,430	-	3,430	-
Absolute return fund	6,521	6,521	-	6,521	-
Commodities fund	23,280	23,280	-	23,280	-
Other fixed income securities	10,515	10,515	-	-	10,515
Real estate investments	27	27	-	27	-
Hedged equity fund	14,926	14,926	-	-	14,926
	42,563	42,563	-	-	42,563
Assets limited or restricted as to use - held by trustee:					
State of New Jersey Cash Management fund	9,913	9,913	9,913	-	-
Cash and cash equivalents	179,556	179,556	179,556	-	-
Assets limited or restricted as to use - for self insurance medical malpractice program:					
Cash and cash equivalents	18,656	18,656	18,656	-	-
Long-term restricted investments:					
Cash and cash equivalents	827	827	827	-	-
Fixed income securities	1,548	1,548	1,548	-	-
<b>Total</b>	<b>\$ 816,036</b>	<b>\$ 816,036</b>	<b>\$ 278,184</b>	<b>\$ 425,177</b>	<b>\$ 112,675</b>
<b>Disclosed at Fair Value</b>					
Cash and cash equivalents	\$ 35,110	\$ 35,110	\$ 35,110	\$ -	\$ -
Long-term debt	\$ 348,000	\$ 356,310	\$ -	\$ 356,310	\$ -

## Robert Wood Johnson University Hospital

### Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

Cash and cash equivalents and State of New Jersey Cash Management fund (a cash equivalent): cost approximates fair value because of the short maturity of those financial instruments.

Common stock and fixed income securities: Valued at closing price reported on the active market on which the individual securities are traded.

U.S. government and agency obligations, U.S. treasury notes and bonds, and U.S government mortgage pools: Valued at closing price reported on the active market on which the individual securities are traded or for identical assets.

Corporate bonds, American depository receipts and U.S held foreign stock, mutual funds-equity, mutual funds-taxable bonds, commingled funds, fixed income commingled funds; mortgage backed obligations, asset backed securities, corporate bonds, absolute return fund, and other fixed income securities: Valued using pricing methodologies utilizing observable inputs or similar investment sold in active markets or spreads of published interest rate curves.

Partnership, commodities fund, real estate investments, and hedged equity fund are valued based on significant unobservable inputs, including option pricing models, discounted cash flows, and other similar techniques. See Note 7 for descriptions of each investment and related redemption restrictions.

The carrying amounts of cash and cash equivalents approximate fair value at December 31, 2014 and 2013.

Investments and assets limited or restricted as to use are stated at fair value, which are the amounts reported in the consolidated balance sheet. The fair value of investments and assets limited or restricted as to use is based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

Long-term debt fair value is calculated based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

The following table represents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2014 to December 31, 2014:

	<u>Real Estate Investments</u>	<u>Hedged Equity Fund</u>	<u>Partnership</u>	<u>Commodities Fund</u>	<u>Total Level 3 Assets</u>
Financial assets:					
Beginning balance					
January 1, 2014	\$ 14,926	\$ 42,563	\$ 44,671	\$ 10,515	\$ 112,675
Change in net unrealized gains and losses	2,359	(855)	2,401	(1,891)	2,014
Contributions, net of withdrawals	(582)	-	-	-	(582)
Investment income	768	371	578	175	1,892
Realized losses	135	-	-	-	135
Management fees	(201)	(371)	(579)	(176)	(1,327)
Ending balance					
December 31, 2014	<u>\$ 17,405</u>	<u>\$ 41,708</u>	<u>\$ 47,071</u>	<u>\$ 8,623</u>	<u>\$ 114,807</u>

# Robert Wood Johnson University Hospital

Notes to Financial Statements  
December 31, 2014 and 2013  
(In Thousands)

The following table represents a reconciliation for all Level 3 assets measured at fair value for the period January 1, 2013 to December 31, 2013:

	<u>Real Estate Investments</u>	<u>Hedged Equity Fund</u>	<u>Partnership</u>	<u>Commodities Fund</u>	<u>Total Level 3 Assets</u>
Financial assets:					
Beginning balance					
January 1, 2013	\$ 14,170	\$ 16,347	\$ 17,794	\$ 9,518	\$ 57,829
Change in net unrealized gains and losses	827	2,216	4,126	(1,004)	6,165
Contributions, net of withdrawals	(1,227)	24,000	22,750	2,000	47,523
Investment income	675	244	84	50	1,053
Realized losses	703	-	-	-	703
Management fees	(222)	(244)	(83)	(49)	(598)
Ending balance					
December 31, 2013	<u>\$ 14,926</u>	<u>\$ 42,563</u>	<u>\$ 44,671</u>	<u>\$ 10,515</u>	<u>\$ 112,675</u>

## 13. Commitments and Contingencies

### Operating Leases

The Hospital rents certain space and equipment under various operating lease agreements. The following is a schedule, by years, of future minimum lease payments for space and equipment under noncancelable leases, as well as rental income as of December 31, 2014:

	<u>Expense</u>	<u>Income</u>
Years ending December 31:		
2015	8,828	1,252
2016	8,464	1,276
2017	7,735	1,201
2018	7,417	956
2019	7,520	960

Rental expense charged to operations was approximately \$17,823 and \$11,250 for the years ended December 31, 2014 and 2013, respectively. Rental income received was approximately \$2,725 and \$2,070 for the years ended December 31, 2014 and 2013, respectively.

On February 16, 2007, the Hospital entered into a 25 year master lease (the "Lease") with a New Jersey developer for a 126,000 square feet professional office building adjacent to the Hospital campus.

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Under the terms of the triple net Lease, the Hospital acquired full rights to the use of the building for 25 years subject to two 10 year renewal terms. The Lease also provides options to purchase, at fair market value, up to 50% of the leased facility at the end of year 15 of the Lease and up to 100% of the facility at the end of year 25. The rental is subject to 2% annual increases over the life of the Lease.

## Malpractice Insurance

Malpractice claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through December 31, 2014 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Losses from unasserted claims and incidents that may have occurred but have not been reported to the Hospital are accrued as of December 31, 2014 and 2013 based on actuarial estimates that incorporate the Hospital's past experience, as well as other considerations, and amount to \$4,199 and \$2,627, respectively, and are included in other long-term liabilities in the accompanying balance sheet. (See Note 14 Captive Insurance Company for a description of medical malpractice and general liability insurance coverage subsequent to 2003). Based upon the advice of counsel, management believes that liabilities, if any, resulting from these actions would not have a material adverse effect on the Hospital's financial position, results of operations, or liquidity.

## Contingencies

Various investigations, suits, and claims arising in the normal course of operations are pending or are on appeal against the Hospital. Such suits and claims are either specifically covered by insurance, not material, or too early to determine if they are material. While the outcome of such actions cannot be determined at this time, legal counsel and management believe that any loss which may arise from these actions will not have a material effect on the financial position or results of operations of the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements.

In November 2010, the Hospital was notified by the U.S. Department of Justice of the Department's investigation in connection with implantation of implantable cardioverter defibrillators. The matter was settled during 2014.

# Robert Wood Johnson University Hospital

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Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

## **RWJUH at Hamilton "Safety Net"**

During 2013, the Hospital created a "safety net" for the bondholders of RWJUH at Hamilton. The "safety net" provisions would apply in certain instances of covenant default as well as payment default by RWJUH at Hamilton. The "safety net" provisions will apply if RWJUH at Hamilton fails to meet one or more of the following three bond covenants at any measurement date specified by the bond documents; debt service coverage ratio, days cash on hand and debt to capitalization ratio. As of December 31, 2013, RWJUH at Hamilton failed to meet the debt service coverage ratio as defined in the bond documents and the Hospital funded \$5.2 million which is included in assets limited or restricted as to use - held by trustee as of December 31, 2014. As of December 31, 2014, RWJUH at Hamilton failed to meet the debt service coverage ratio as defined in the bond documents and the Hospital will be required to fund \$2.3 million into an escrow account in 2015 as a result of the failure.

## **Other Commitments**

On April 26, 2006, RWJUH at Rahway Fitness and Wellness Center, LLC (the LLC) obtained a Construction/Term Loan (the Loan) in the amount of \$6,700 for the purpose of undertaking a project consisting of leasehold improvements and equipment for a 51,000 square foot rehabilitation and wellness center. The Hospital provided a Limited Guaranty (the Guaranty) to a bank guaranteeing the repayment by the LLC of 62.99% of the outstanding principal amount of the Loan then due. As of December 31, 2014, \$1,530 of the Loan is outstanding.

On May 4, 2006, the Hospital executed a System Build Contract (the "Contract") with Still River System, Inc. ("SRS") for the construction and delivery of a new generation of proton beam linear accelerator. The technology, which is named the Clinatron 250 Proton Beam Radiotherapy System (the "System"), is being developed and built by SRS using contracted intellectual capital from the Massachusetts Institute of Technology.

The price of the System is \$11,000. The contract stipulates a series of progress payments to be made by the Hospital based upon performance build milestones. In addition, the contract requires the Hospital to build a facility to house the System. The estimated cost of the facility is approximately \$12,600.

As of December 31, 2014, the Hospital has paid SRS a total of \$3,300 towards the \$11,000 purchase price. Such payments are included in construction in progress in the accompanying balance sheet. The anticipated progress payments to be made during 2015 are not expected to exceed an additional \$7,700.

# Robert Wood Johnson University Hospital

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Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

## 14. Captive Insurance Company

Effective January 1, 2003, the Hospital self-insured its medical malpractice and general liability insurance coverages using a captive insurance company. The captive, which is named System and Affiliate Members, LTD (SAAM), was incorporated and domiciled in Bermuda on July 22, 2002.

SAAM was formed by the Network for the benefit of its hospital members. Network hospitals that elect to participate in SAAM share the costs of administrative expenses as well as certain of the premiums for excess layers of insurance. Each hospital also maintains a segregated level of primary coverages for which there is no shared risk. Member hospitals are individually accountable and ultimately at risk for their own losses. Assets, liabilities and contributed capital related to each member hospital are accounted for individually in segregated business units. SAAM retains the services of an insurance broker/advisor, a risk manager and an actuarial consultant to assist member hospitals with evaluating coverages, understanding risk and structuring management systems. The Hospital also utilizes a separate outside consultant to provide third party claims administration services. In addition, the Hospital maintains a separate reserve within its unrestricted balance sheet for potential incurred but unreported malpractice claims. For 2014 and 2013, the Hospital elected to go at risk for the primary insurance coverages involving limits of \$1 million per individual claim and an additional \$1 million per individual claim on an excess basis. The excess amount is included in a \$1 million buffer layer shared with the Network hospitals with a premium contribution actuarially determined on an annual basis. Excess coverage up to \$50 million in 2014 and 2013, was purchased from qualified commercial insurance companies. The Hospital's aggregate SAAM funding premiums for 2014 and 2013 are \$5,558 and \$3,555, respectively.

The Hospital's assets held within SAAM are reflected as assets limited or restricted as to use in the accompanying balance sheet. The Hospital's claims liability reserves within SAAM amount to \$20,352 and \$11,489 as of December 31, 2014 and 2013, respectively, and are reflected as other long-term liabilities in the accompanying balance sheet. As of December 31, 2014 and 2013, \$1,234 and \$0, respectively, is recorded as a receivable for insurance recoveries and is recorded within other noncurrent assets in the balance sheet.

## 15. Health Insurance Benefits and Workers' Compensation

The Hospital self-insures its employee health insurance coverage and accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of their individual and aggregate stop-loss insurance coverage, based upon data provided by the third-party administrator of the programs and their historical claims experience. Approximately \$7,145 and \$4,294 are included in accrued expenses in the accompanying balance sheet as of December 31, 2014 and 2013, respectively.

Additionally, separate reserves for incurred but unreported workers' compensation claims amount to \$4,780 and \$1,952 as of December 31, 2014 and 2013, respectively, and are included in accrued expenses in the accompanying balance sheet.

# Robert Wood Johnson University Hospital

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Notes to Financial Statements

December 31, 2014 and 2013

(In Thousands)

## 16. Other Assets

During 2005, the Hospital's board of directors voted to provide a \$10.0 million line of credit to UMDNJ Robert Wood Johnson Medical School which was transferred to Rutgers as part of the transition during 2013. Drawdowns under this line of credit are to be used to provide working capital related to the provision of maternal, women's, infants and pediatric clinical services under the Enhanced Affiliation Agreement. Amounts advanced pursuant to this line of credit bear interest at the prevailing prime rate, are to be repaid on a level principal basis over a ten year term and may be repaid at any time without penalty. Amounts outstanding under the line of credit as of December 31, 2014 and 2013 are \$467 and \$1,133, respectively, and are recorded as board-designated investments in the accompanying balance sheet.

In July 2011, the Hospital's board of directors approved a resolution to establish and organize the Robert Wood Johnson Physician Enterprise, PA, ("RWJPE") a for-profit, New Jersey professional association. In September 2012, a Loan and Security agreement was entered into and a revolving credit note was established with a principal sum of \$10,000 and bears interest at United States prime rate plus one-half percent (3.75% at December 31, 2014). The principal balance will be repaid beginning in 2018 with interest payable monthly. In March 2014, the agreement was amended to increase the principal sum to \$37,000. The funds are to be used for strategic practice transactions. As of December 31, 2014 and 2013, \$37,000 and \$10,000, respectively, of the balance had been drawn by RWJPE and is fully reserved as of December 31, 2014 and is recorded in other noncurrent assets in the accompanying balance sheet.

## Robert Wood Johnson University Hospital

Combining Balance Sheet

December 31, 2014

(In thousands)

	New Brunswick Campus	Somerset Campus	Eliminations	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 13,297	\$ 42,711	\$ -	\$ 56,008
Investments	1,471	1,325	-	2,796
Assets limited or restricted as to use, required for current obligations	7,300	1,107	-	8,407
Accounts receivable:				
Patient (net of estimated allowance for doubtful collections of \$67,045 in 2014)	117,163	25,586	-	142,749
Other (net of estimated allowance for doubtful collections of \$46,801 in 2014)	1,509	-	-	1,509
Due from related parties, net	13,553	-	(4,056)	9,497
Other current assets	32,617	10,147	-	42,764
<b>Total current assets</b>	<b>186,910</b>	<b>80,876</b>	<b>(4,056)</b>	<b>263,730</b>
<b>Assets Limited or Restricted as to Use</b>				
Board-designated	614,681	-	-	614,681
Held by trustee and self-insurance	158,816	8,309	-	167,125
<b>Total assets limited or restricted as to use</b>	<b>773,497</b>	<b>8,309</b>	<b>-</b>	<b>781,806</b>
Less amounts required to meet current obligations	7,300	1,107	-	8,407
	766,197	7,202	-	773,399
<b>Property and Equipment, Net</b>	<b>362,518</b>	<b>174,718</b>	<b>-</b>	<b>537,236</b>
<b>Long-Term Restricted Investments</b>	<b>2,487</b>	<b>-</b>	<b>-</b>	<b>2,487</b>
<b>Interest in Net Assets of Foundations</b>	<b>50,699</b>	<b>3,680</b>	<b>-</b>	<b>54,379</b>
<b>Due from Related Parties</b>	<b>25,099</b>	<b>486</b>	<b>-</b>	<b>25,585</b>
<b>Other Noncurrent Assets, Net</b>	<b>11,243</b>	<b>1,616</b>	<b>-</b>	<b>12,859</b>
<b>Total assets</b>	<b>\$ 1,405,153</b>	<b>\$ 268,578</b>	<b>\$ (4,056)</b>	<b>\$ 1,669,675</b>

**Robert Wood Johnson University Hospital**

Combining Balance Sheet

December 31, 2014

(In thousands)

	<b>New Brunswick Campus</b>	<b>Somerset Campus</b>	<b>Eliminations</b>	<b>Total</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current installments of long-term debt	\$ 7,773	\$ -	\$ -	\$ 7,773
Accounts payable	76,586	19,690	-	96,276
Accrued expenses	77,471	20,538	(3,853)	94,156
Accrued bond interest payable	5,604	862	-	6,466
Estimated third-party payor settlements	13,242	2,324	-	15,566
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	180,676	43,414	(3,853)	220,237
<b>Long-Term Liabilities</b>				
Estimated third-party payor settlements, excluding current portion	25,469	4,389	-	29,858
Other long-term liabilities	18,192	50,172	-	68,364
Due to related parties	-	203	(203)	-
Long-term debt, excluding current installments	336,604	91,787	-	428,391
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	560,941	189,965	(4,056)	746,850
<b>Net Assets</b>				
Unrestricted	808,216	74,515	-	882,731
Temporarily restricted	32,962	2,958	-	35,920
Permanently restricted	3,034	1,140	-	4,174
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	844,212	78,613	-	922,825
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,405,153</u>	<u>\$ 268,578</u>	<u>\$ (4,056)</u>	<u>\$ 1,669,675</u>

## Robert Wood Johnson University Hospital

Combining Statement of Operations

Year Ended December 31, 2014

(In thousands)

	New Brunswick Campus	Somerset Campus	Eliminations	Total
<b>Unrestricted Revenues and Other Support</b>				
Patient service revenues, net of contractual allowances and discounts	\$ 915,476	\$ 147,495	\$ -	\$ 1,062,971
Less provision for doubtful collections	46,857	4,228	-	51,085
Net patient service revenues	868,619	143,267	-	1,011,886
Other revenues	20,318	2,819	-	23,137
Net assets released from restrictions for operations	7,042	705	-	7,747
Total unrestricted revenues and other support	895,979	146,791	-	1,042,770
<b>Expenses</b>				
Salaries and wages, and contracted labor	326,530	59,471	-	386,001
Employee benefits	76,730	16,015	-	92,745
Physician fees	56,889	2,645	-	59,534
Supplies and expenses	362,945	54,188	-	417,133
Depreciation and amortization	42,691	9,773	-	52,464
Interest	8,792	915	-	9,707
Total expenses	874,577	143,007	-	1,017,584
Operating income	21,402	3,784	-	25,186
<b>Nonoperating Activities</b>				
Investment return, net	11,885	-	-	11,885
Change in unrestricted net assets of RWJ University Hospital Foundation, Inc.	464	-	-	464
Inherent contribution of Somerset Medical Center	-	83,157	-	83,157
Provision for doubtful RWJ Physician Enterprise, PA and related-party collections	(39,436)	-	-	(39,436)
Other gains, net	741	-	-	741
Revenues (less than) in excess of expenses	(4,944)	86,941	-	81,997
Net assets released from restrictions for capital purchases	-	734	-	734
Pension liability adjustment	-	(13,160)	-	(13,160)
Change in net unrealized gains and losses on investments, other than trading	2,014	-	-	2,014
(Decrease) increase in unrestricted net assets	\$ (2,930)	\$ 74,515	\$ -	\$ 71,585

**Robert Wood Johnson University Hospital**

Combining Statement of Changes in Net Assets

Year Ended December 31, 2014

(In thousands)

	<u>New Brunswick Campus</u>	<u>Somerset Campus</u>	<u>Eliminations</u>	<u>Total</u>
<b>Unrestricted Net Assets</b>				
Revenues in excess of expenses	\$ (4,944)	\$ 86,941	\$ -	\$ 81,997
Net assets released from restrictions for capital purchases	-	734	-	734
Pension liability adjustment	-	(13,160)	-	(13,160)
Change in net unrealized gains and losses on investments, other than trading	<u>2,014</u>	<u>-</u>	<u>-</u>	<u>2,014</u>
Increase in unrestricted net assets	<u>(2,930)</u>	<u>74,515</u>	<u>-</u>	<u>71,585</u>
<b>Temporarily Restricted Net Assets</b>				
Contributions, gifts, grants, and bequests	67	1,438	-	1,505
Inherent contribution of Somerset Medical Center	-	1,781	-	1,781
Interest income	209	-	-	209
Change in unrealized gains on investments	31	-	-	31
Net assets released from restrictions used for operations	(7,042)	(705)	-	(7,747)
Net assets released from restrictions for capital purchases	-	(734)	-	(734)
Change in net assets of Foundations	<u>9,136</u>	<u>1,178</u>	<u>-</u>	<u>10,314</u>
Increase in temporarily restricted net assets	<u>2,401</u>	<u>2,958</u>	<u>-</u>	<u>5,359</u>
<b>Permanently Restricted Net Assets</b>				
Inherent contribution of Somerset Medical Center	-	1,140	-	1,140
Change in net assets of RWJ University Hospital Foundation, Inc.	<u>339</u>	<u>-</u>	<u>-</u>	<u>339</u>
Increase in permanently restricted net assets	<u>339</u>	<u>1,140</u>	<u>-</u>	<u>1,479</u>
(Decrease) increase in net assets	(190)	78,613	-	78,423
<b>Net Assets, Beginning</b>	<u>844,402</u>	<u>-</u>	<u>-</u>	<u>844,402</u>
<b>Net Assets, Ending</b>	<u>\$ 844,212</u>	<u>\$ 78,613</u>	<u>\$ -</u>	<u>\$ 922,825</u>