UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

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

Independent Auditors' Report

The Board of Directors
University Hospital:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of University Hospital (the Hospital or UH), a component unit of the State of New Jersey, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC), which represents 100% of the Hospital's discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for BHCC, are based solely on report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United State 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 auditors' 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, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of June 30, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in note 2(s) to the financial statements, in 2015, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pension* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 13 and the Schedule of the Hospital Contributions and the Schedule of the Hospital's Proportionate Share of the Net Pension Liability on pages 44 and 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 15, 2016

This section of University Hospital's (the Hospital) annual financial report presents management's discussion and analysis of the summarized assets, liabilities, and net position as of June 30, 2016 compared to June 30, 2015 balances and June 30, 2015 compared to June 30, 2014 balances. This section also presents management's discussion and analysis of the financial performance during the years ended June 30, 2016 compared to June 30, 2015 and June 30, 2015 financial performance compared to June 30, 2014. The purpose is to provide an objective analysis of the financial activities of the Hospital based on currently known facts, decisions, and conditions. Please read it in conjunction with the financial statements, which follow this section.

The financial statements of the Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC), a component unit of the Hospital, are presented discretely from the Hospital; however, the MD&A focuses on the Hospital.

New Jersey Medical and Health Sciences Education Restructuring Act

In accordance with Public Law 2012, c. 45, the New Jersey Medical and Health Sciences Education and Restructuring Act (the Restructuring Act), effective July 1, 2013, the Hospital was separated from the University of Medicine and Dentistry of New Jersey (UMDNJ) as a new stand-alone entity was formed. The Hospital will continue to be the primary teaching hospital for the Newark-based schools of the Rutgers School of Biomedical and Health Sciences.

The mission of the Hospital is to improve the quality of life for everyone who comes in contact with the Hospital through effective patient care, education, research, and community service. As the core teaching facility in Newark, the Hospital is the center of referral for many of the State's most advanced medical services and specialty care programs. The Hospital is committed to education, primary care, and specialized referral.

The Hospital shall maintain its public mission to provide a comprehensive healthcare program and services to the greater Newark community, including outreach and mobile health services as well as services in collaboration with the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. The Hospital is committed to act in accordance with the spirit and intent of the "Agreements Reached Between Community and Government Negotiators Regarding New Jersey College of Medicine and Dentistry and Related Matters of April 30, 1968."

Overview of the Financial Statements

This annual report consists of two parts – management's discussion and analysis and the basic financial statements.

The basic financial statements include statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These statements present the financial position of the Hospital at June 30, 2016 and 2015, the end of the fiscal years, and the changes in net position and its financial activities for the years then ended. The statements of net position include all of the Hospital's assets and liabilities in accordance with U.S. generally accepted accounting principles. The statements of revenues, expenses, and changes in net position, present each year's activities on the accrual basis of accounting, that is, when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements also report the Hospital's net position and how they have changed. Net position, or the difference between assets and liabilities, is a way to measure the Hospital's financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to operating, noncapital financing, capital and related financing, and investing activities. Notes to financial statements explain information in the statements and provide more detailed data.

A summarized comparison of the Hospital's assets, liabilities, and net position at June 30, 2016, 2015 and 2014 are as follows (in thousands):

		2016	2015	2014
Assets:				
Current assets:				
Cash and cash equivalents	$	97,920	97,915	40,318
Patient accounts receivable, net		72,870	65,320	74,746
Restricted investments		6,334	625	603
Other current assets		37,132	32,564	29,829
Noncurrent assets:				
Restricted investments, net		125,313	34,876	46,915
Prepaid bond insurance		17,317	—	—
Capital assets, net		202,356	203,397	213,616
Total assets		559,242	434,697	406,027
Deferred outflows:				
Changes in pension plan assumptions and deferred contributions		58,981	28,814	—
Liabilities:				
Current liabilities		101,675	141,060	77,884
Long-term debt and capital leases, net		347,457	185,516	227,348
Pension liability		410,860	346,611	—
Other long-term liabilities		20,710	21,205	20,180
Total liabilities		880,702	694,392	325,412
Deferred inflows:				
Net difference between projected and actual earnings on plan investments		2,028	10,520	—
Net position:				
Net investment in capital assets		39,737	48,489	58,050
Restricted		6,341	1,723	1,599
Unrestricted		(310,585)	(291,613)	20,966
Total net position	$	(264,507)	(241,401)	80,615

Overall Financial Position and Operations

The Hospital's total net position from the period June 30, 2015 to June 30, 2016, decreased by $23.1 million, net investment in capital assets decreased by $8.8 million during 2016 as the Hospital's depreciation exceeded purchases of capital assets. The Hospital's unrestricted position decreased $19.0 million from ($291.6) million at

June 30, 2015 to ($310.6) million at June 30, 2016. The decrease was due to $25.6 million of pension expense during fiscal 2016 related to GASB 68. Without giving effect to the pension expense for GASB 68, the Hospital's unrestricted position increased by $11.9 million in fiscal year 2016.

The Hospital's total net position from the period June 30, 2014 to June 30, 2015, decreased by $322.0 million, net investment in capital assets decreased by $9.6 million during 2015 as the Hospital's depreciation exceeded purchases of capital assets. The Hospital's unrestricted position decreased $312.6 million from $21.0 million at June 30, 2014 to ($291.6) million at June 30, 2015. The decrease was due to adoption of GASB 68 and 71 resulting in $308.2 million adjustment to opening net position and $20.1 million of additional pension expense during fiscal 2015. Without giving effect to the adjustments required to adopt GASB 68 and 71, the Hospital's unrestricted position increased by $15.7 million in fiscal year 2015.

Significant financial ratios are as follows:

	2016	2015	2014
Current ratio	2.11	1.39	1.87
Quick ratio	1.68	1.16	1.48
Days cash on hand	58.00	60.12	25.32
Net days revenue in patient receivables	54.85	50.69	54.35

The current ratio, quick ratio, and days cash on hand are common liquidity indicators. The Hospital's current ratio and quick ratio have increased from 2015 to 2016. However, days cash on hand has decreased slightly from 2015 to 2016 by 2.12 days. The net days revenue in patient receivables is an indicator of how quickly the Hospital collects its patient receivables. The Hospital's net day's revenue in patient receivables increased 4.16 days from June 30, 2015 to June 30, 2016. The Hospital's current ratio and quick ratio decreased from 2014 to 2015. However, days cash on hand have increased from 2014 to 2015 by 34.8 days. The Hospital's net days revenue in patient receivables decreased 3.7 days from June 30, 2014 to June 30, 2015.

Variances in Financial Statements

In this section, the Hospital explains the reasons for certain financial statement items with variances relating to 2016 amounts compared to 2015 and, where appropriate, 2015 amounts compared to 2014.

Statement of Net Position

Cash and cash equivalents – remained unchanged from the prior year despite significant investments in capital. This can be attributed to an increase in collections as a result of increase in patient volume as well as expanded Medicaid coverage as provided by the Affordable Care Act. *Cash and cash equivalents* increased $57.6 million from June 30, 2014 to June 30, 2015 due to transfers from proceeds of the bond offering available for operations in the amount of $12 million, $5.3 million in prior year settlements as well as an increase in collections as evidenced by the 3.7 day decrease in net days revenue in patient accounts receivable.

Patient accounts receivable, net – increased $7.6 million from June 30, 2015 to June 30, 2016. Days in patient accounts receivable of 54.85 are 4.16 days more than the prior year. This is a result of a $19.7 million increase in discharge not final billed (DNFB) accounts compared to the prior year, impact of ICD-10 coding changes, as well as the Medicaid expansion and the impact of increased net patient service revenue on the calculation. *Patient*

(Continued)

accounts receivable, net decreased $9.4 million from June 30, 2014 to June 30, 2015. Days in patient accounts receivable of 50.7 are 3.7 days less than the prior year. This is a result of increased collections offset by a $5.9 million increase in discharge not final billed (DNFB) accounts and the impact of increased net patient service revenue on the calculation.

Other current assets – increased $4.6 million from June 30, 2015 to June 30, 2016 due to an increase in the NJDOH DSRIP program receivable of $1.4 million as well as an additional receivable of $1.0 million for the Hospital's 340B Outpatient Drug program. *Other current assets* increased $2.7 million from June 30, 2014 to June 30, 2015 primarily due to a $3.9 million increase in amounts due from Rutgers University for facility service receivables, cash collections, as well as $3.9 million due from the NJDOH DSRIP program. These amounts however were partially offset by a $2.2 million decrease in the City of Newark receivable for the Hospital's supplied EMS services and by the $3.6 million decrease in grants receivable due to collections during the year.

Restricted investments, net – increased $96.1 million from June 30, 2015 to June 30, 2016 due to the issuance $255 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds of which $107.8 million was designated to fund various capital projects including routine and emergency capital needs as well as technology to replace the services currently provided by Rutgers University and capital upgrades and additions to various services and facilities. *Restricted investments* decreased $12.0 million from June 30, 2014 to June 30, 2015 due to the transfer of $12 million to the Hospital's operations for working capital.

Prepaid bond insurance – increased $17.3 million from June 30, 2015 to June 30, 2016 due to the issuance of the Series 2015A bonds. The cost of the prepaid bond insurance was $17.6 million and $0.3 million has been amortized as of June 30, 2016.

Capital assets, net – decreased $1.0 million from June 30, 2015 to June 30, 2016. The decrease is due to $18.9 million of purchases which were offset by current year depreciation in the amount of $19.9 million. *Capital assets, net* decreased $10.2 million from June 30, 2014 to June 30, 2015. The decrease is due to $8.4 million of purchases which were offset by current year depreciation in the amount of $18.6 million.

Accounts payable and accrued expenses – decreased approximately $5.2 million from June 30, 2015 to June 30, 2016 due to normal operating activity. The Hospital continues with the practice of paying vendors within 45 days after providing services. The Hospital had days in accounts payable of 40 days as of June 30, 2016. *Accounts payable and accrued expenses* increased approximately $1.0 million from June 30, 2014 to June 30, 2015 due to normal operating activity. The Hospital continues with the practice of paying vendors within 45 days after providing services. The Hospital had days in accounts payable of 53 days as of June 30, 2015.

Accrued salaries and related payroll taxes – increased approximately $10.8 million from June 30, 2015 to June 30, 2016 due to a $9.7 million reserve for potential wage increases as a result of unsettled collective bargaining agreements at June 30, 2016. *Accrued salaries and related payroll taxes* increased approximately $5.0 million from June 30, 2014 to June 30, 2015 primarily due to a $4.6 million reserve for potential wage increases as a result of unsettled collective bargaining agreements at June 30, 2015.

Due to Rutgers University – decreased approximately $5.9 million from June 30, 2015 to June 30, 2016 as the Hospital and Rutgers University have worked to develop a cohesive exchange of information and data allowing the Hospital to pay within agreed timeframes. The balance at June 30, 2016 represents liabilities for both clinical and facility services. The payment timeframes depend on the service ranging from advanced payments to 45 days

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from date of invoice. *Due to Rutgers University* increased approximately $15.6 million from June 30, 2014 to June 30, 2015 as the Hospital delayed payments to Rutgers. The balance at June 30, 2015 represents liabilities for both clinical and facility services. The two parties continue to discuss payments delays as they develop new agreements. The payment timeframes depend on the service ranging from advanced payments to 45 days from date of invoice.

Accrued workers’ compensation – decreased slightly from June 30, 2015 to June 30, 2016 and the Hospital continues to record this liability on an undiscounted basis. *Accrued workers’ compensation*, the liability has decreased slightly from June 30, 2014 to June 30, 2015 and the Hospital continues to record this liability on an undiscounted basis.

Estimated third-party payer settlements – decreased slightly from June 30, 2015 to June 30, 2016 primarily due to settlements of prior year cost reports and changes in reserve estimates. *Estimated third-party payer settlements* decreased by approximately $1.0 million from June 30, 2014 to June 30, 2015 primarily due to the Hospital’s Medicare fiscal intermediary recent settlement of the Hospital’s 2013 Medicaid Cost Report. However, six of the last eleven years of the Hospital’s cost reports remain open.

Current portion of long term debt – decreased by $41.6 million from June 30, 2015 to June 30, 2016 primarily as a result of the Hospital refinancing $150.0 million of BAN debt and the issuance of $255.0 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds. Principal payments on the Series 2015A bonds are not set to commence until July 1, 2021. Principal payments on the BAN debt were scheduled to commence on February 1, 2016 and continued through December 2016 until the debt was fully paid off with the Series 2015A bond issuance. *Current portion of long term debt* increased by $41.7 million from June 30, 2014 to June 30, 2015 as a result of recording the 5 month period (February 2016 – June 2016) as the current portion of principal payments due on $150.0 million BAN.

Long-term debt – increased $162.0 million from June 30, 2015 to June 30, 2016, as a result of the issuance of $255 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds December 22, 2015. Total proceeds from the sale were $295.8 million and included $25.0 million from trustee-held debt service and reserve funds. On July 1, 2013, the Hospital entered into five capital lease agreements with Rutgers for space in various locations on the Newark campus. The leases are for 76 years and the Hospital has capitalized the present value of $77.0 million. *Long-term debt* decreased $41.7 million from June 30, 2014 to June 30, 2015, which is the current portion (five months) of principal. On July 1, 2013, the Hospital entered into five capital lease agreements with Rutgers for space in various locations on the Newark campus. The leases are for 76 years and the Hospital has capitalized the present value of $77.0 million.

Pension liability, deferred inflows of resources, and deferred outflows of resources – increased $64.2 million, decreased $8.5 million, and increased $30.2 million, respectively, from June 30, 2015 to June 30, 2016 due to changes in assumptions and proportion. *Pension liability, deferred inflows of resources, and deferred outflows of resources* increased $346.6 million, $10.5 million, and $28.8 million, respectively, during fiscal 2015 as a result of the Hospital adopting GASB 68 and 71.

Changes in Components of Net Position

Net investment in capital assets – decreased $8.8 million from June 30, 2015 to June 30, 2016 as a result of fiscal 2016 purchases of capital assets of $18.9 million offset by fiscal depreciation of $19.9 million and an increase in debt associated with capital. *Net investment in capital assets* decreased $9.6 million from June 30, 2014 to June 30, 2015 primarily due to fiscal 2015 purchases of capital assets of $8.4 million which were offset by fiscal 2015 depreciation of $18.6 million.

Restricted – increased by $4.6 million during 2016 due to the increase in debt service funds for interest payment due July 1. *Restricted* increased slightly by $0.1 million during 2015.

Unrestricted – net position, other than those mentioned above, resulted in a decrease of $19.0 million for year 2016. *Unrestricted – net position*, other than those mentioned above, resulted in a decrease of $312.6 million for year 2015. Please see the statement of revenues, expenses and changes in net position.

A summarized comparison of the Hospital's revenues, expenses, and changes in net position for the years ended June 30, 2016, 2015 and 2014 are as follows (in thousands):

		2016	2015	2014
Operating revenues:				
Net patient service revenue	$	486,199	470,369	501,989
Grants revenue		5,948	6,153	15,946
Other revenue		20,919	14,630	12,193
Total operating revenues		513,066	491,152	530,128
Operating expenses:				
Personal services, fringes benefits, pension, physician and resident fees		435,933	422,630	390,719
Supplies and other expenses		207,639	191,895	199,505
Depreciation		19,941	18,564	18,426
Total operating expenses		663,513	633,089	608,650
Operating loss		(150,447)	(141,937)	(78,522)
Nonoperating income (expense):				
Appropriations from State of New Jersey		137,348	139,374	115,466
Interest expense, net		(13,298)	(11,208)	(11,524)
(Loss) income before other changes in net position		(26,397)	(13,771)	25,420
Other changes in net position:				
Capital contributions		3,291	—	436
(Decrease) increase in net position		(23,106)	(13,771)	25,856
Net position at beginning of year		(241,401)	80,615	54,759
Effect of adoption of GASB 68 and 71		—	(308,245)	—
Net position at end of year	$	(264,507)	(241,401)	80,615

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Statements of Revenues, Expenses, and Changes in Net Position

Net patient service revenue – Net patient service revenues relate to patient care services, under contractual arrangements with governmental payers and private insurers. Net patient service revenues, excluding subsidies, 2016 exceeded 2015 by $40.7 million, primarily because of an increase in inpatient, observation and outpatient volumes as well as $3.2 million in additional Medicaid Graduate Medical Education (GME) reimbursement. *Net patient service revenues,* excluding subsidies and $49.4 million in the forgiveness of prior years Medicaid liability, 2015 exceeded 2014 by $41.3 million, primarily because of an increase in inpatient volumes as well as $5.3 million realized in prior years settlements.

The Hospital's net patient service revenues totaled $486.2 million (including patient subsidies) in 2016. The Hospital is a major source of primary care and serves as the safety net hospital for the inner city municipalities of Newark, East Orange, Irvington, and Orange. The Hospital's role in the community is reflected in its payor mix and commitment to the medically indigent. It has traditionally been the largest provider of charity care services in the state, and Medicaid and uninsured patients account for almost 58% of its gross revenues. As a result, the Hospital must deal with the financial impact of revenue collections and reimbursements related to these patients and their payers.

The majority of the Hospital's admissions are initially treated in the emergency/trauma department. Emergency room visits of 90,760 in 2016 were over slightly from 2015 by 782 visits. Inpatient discharges for 2016, which account for approximately 69% of the Hospital's net patient service revenues, were over 2015 by 3.7%. Clinic visits for 2016, which generate outpatient revenues, increased from 2015 levels by 7.5%. Emergency room visits of 89,978 in 2015 were under slightly from 2014 by 1.2%. Inpatient discharges for 2015, which account for approximately 70% of the Hospital's net patient service revenues, were over 2014 by 5.7%. Clinic visits for 2015, which generate outpatient revenues, decreased from 2014 levels by 6.7%.

The level of charity care services provided by the Hospital represents nearly 9.0% of its overall patient care services. Charity care funding from the State of New Jersey (the State) totaled $53.5 million and $76.2 million in 2016 and 2015, respectively. Charity care funding is based upon Medicaid reimbursement rates, which have historically been in the range of 60 to 70% of cost. The level of charity care funding is critical to the Hospital's financial results.

Patient subsidies – The Hospital received a total of $65.1 million in patient subsidies payments in 2016 with the major components represented by payments of $53.5 million for the New Jersey Charity Care Subsidy Program and $10.9 million for the Delivery System Reform Incentive Payment (DSRIP) Program. The Hospital received a total of $90.0 million in patient subsidies payments in 2015 with the major components represented by payments of $76.2 million for the New Jersey Charity Care Subsidy Program and $13.0 million for the Delivery System Reform Incentive Payment (DSRIP) Program. The Hospitals $24.9 million overall decrease in subsidy funding from 2016 to 2015 is mainly attributable to the reduction of the charity care subsidy of $22.7 million. This reduction can be attributed to the overall reduction of $148 million of the total state charity care funding pool. The overall success of the Affordable Care Act in providing Medicaid coverage to those previously uninsured.

Other Revenue – was $20.9 million for the year ended June 30, 2016 compared to $14.6 million for the year ended June 30, 2015 for an increase of $6.3 million. This was mainly due to the settlement of receivable of $3.8 million from Newark EMS.

Personnel services, fringe benefits, pension, physician, and resident fees – were $435.9 million for the year ended June 30, 2016 and were unfavorable by $13.3 million compared to prior year. Personnel services costs for the year ended June 30, 2016 of $241.5 million were $7.5 million over 2015, which was mainly due to an increase in 2016 fulltime equivalents (FTEs) of 3,218 compared to 3,153 for 2015. Pension costs for the year ended June 30, 2016 increased approximately $7.9 million as a result of the increase in pension costs related to GASB 68. Cost for medical staff and residents for the year ended June 30, 2016 of $73.0 million contracted with Rutgers University were consistent with prior year. *Personnel services, fringe benefits, pension, physician, and resident fees* were $422.6 million for the year ended June 30, 2015 and were unfavorable compared to prior year. Personnel services costs for the year ended June 30, 2015 of $234.0 million were $12.3 million over 2014, which was mainly due to an increase in 2015 fulltime equivalents (FTEs) of 3,153 compared to 3,060 for 2014. Pension costs for the year ended June 30, 2015 increased approximately $20.1 million due to the adoption of GASB 68. Cost for medical staff and residents for the year ended June 30, 2015 of $73.1 million contracted with Rutgers University were consistent with prior year.

Supplies and other expenses – were $207.6 million for the year ended June 30, 2016, an increase of $15.7 million as compared to the prior year. This increase in supplies can be attributed to additional patient volume, 340B drug program costs and consulting and other costs associated with ICD-10 coding changes. *Supplies and other expenses* were $191.9 million for the year ended June 30, 2015 and lower by $7.6 million as compared to the prior year primarily due to efficiencies in operations implemented during the year as a result of Cost Per Unit of Service (CPUOS) budget meetings and $4.6 million charge in prior year for financing fees.

State appropriations – The Hospital recorded $137.3 million in State Appropriations in 2016. These amounts include $92.4 million for fringe benefits of Hospital employees paid by the State, malpractice costs of $1.2 million and a special Higher Education Appropriation of $43.8 million for those expenses incurred as a result of the New Jersey Medical and Sciences Education Restructuring Act and Institutional Support. The Hospital recorded $139.4 million in State Appropriations in 2015. These amounts include $93.0 million for fringe benefits of Hospital employees paid by the State, malpractice costs of $2.6 million and a special Higher Education Appropriation of $43.8 million for those expenses incurred as a result of the New Jersey Medical and Sciences Education Restructuring Act and Institutional Support.

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

At June 30, the Hospital had capital assets, net of accumulated depreciation, as shown in the table below (in thousands of dollars):

		2016	2015	2014
Land and land improvements	$	1,598	1,598	1,598
Buildings and leasehold improvements		383,648	383,648	383,648
Equipment		224,202	205,302	196,957
Total		609,448	590,548	582,203
Less accumulated depreciation		407,092	387,151	368,587
Net capital assets	$	202,356	203,397	213,616

The Hospital had 2016 additions to capital assets as follows:

- $18.9 million in major movable equipment comprised of patient furnishings and medical equipment and investments in information technology system upgrades.

The Hospital had 2015 additions to capital assets as follows:

- $8.4 million in major movable equipment comprised of patient furnishings and medical equipment and investments in information technology system upgrades.

The Hospital had 2014 additions to capital assets as follows:

- Five capital lease agreements with Rutgers for space in various locations on the Newark campus capitalized in the amount of $77.0 million.
- $9.8 million in major movable equipment comprised of patient furnishings and medical equipment and investments in information technology system upgrades.

More detailed information about the Hospital's capital assets is presented in note 6 to the financial statements.

Long-Term Debt

At June 30, 2016, the Hospital has approximately $270.9 million (including current portion of $0.2 million) in long-term debt financing. On December 22, 2015 the Hospital issued $255 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds. Total proceeds from the sale were $295.8 million and included a net premium of $15.8 million as well as $25.0 million from trustee-held debt service and reserve funds. Proceeds from the sale were used to; (i) defease $150.0 million of BAN debt; (ii) fund current debt service reserve requirements of $17.3 million; (iii) fund bond insurance costs of $17.6 million; (iv) paying bond issuance costs of $2.7 million and (v) fund various capital projects consisting of routine and emergency capital expenditures, information systems and technology to replace the services currently provided by Rutgers University and capital upgrades and additions to various services and facilities, including the cancer program, diagnostic imagining services and additional operating and procedure rooms and HVAC upgrades.

The Series 2015A Notes were placed by the Authority with TD Bank, National Association, as Trustee. The Hospital entered into a Loan Agreement (the Loan Agreement) with the Authority relating to the Series 2015A bonds. A security feature for this obligation is provided by a lock box arrangement with the Trustee, TD Bank, N.A. Debt service requirements will be funded by unrestricted state appropriations including state charity pools, Delivery System Reform Incentive Payments (DSRIP), Graduate Medical Education (GME) and individual state supplemental appropriations that will flow through the lock box. Any excess funds will then be released to the Hospital for operations. The Assured Guaranty insured bonds were rated A2/AA by Moody's and S&P, respectively. Additionally, the underlying credit rating for the Hospital was BBB from Fitch Ratings.

Principal payments on the bonds will be due annually and are not set to commence until July 1, 2021. Interest will be paid semi- annually on July 1 and January 1, with the first payment due July 1, 2016. The bonds are set at fixed interest rates and are as follows: (i) $65.3 million in serial bonds at 5.000%; (ii) $78.2 million in term bonds at 4.125% and (iii) $111.5 million in term bonds at 5.000%.

At June 30, 2015, the Hospital had approximately $150.5 million (including current portion of $41.7 million) in long-term debt financing. The Hospital's debt was not rated by any of the rating agencies.

On July 1, 2013, the Hospital issued $150 million of New Jersey Healthcare Facilities Financing Authority, Bond Anticipation Notes, Series 2013 (the 2013 Bonds). This issuance generated $150 million of proceeds and were used to: (i) defease existing debt of the Hospital in the net amount of $77.9 million; (ii) to fund debt service reserve funds of $15.0 million; (iii) capital projects in the amount of $23.0 million; (iv) fund working capital in the amount of $38.2 million; (v) fund the cost of issuance for the 2013 Bonds in the amount of $4.6 million. If the bonds were not refinanced, the principal payments were due in equal installments over 18 months starting February 1, 2016. Principal payments commenced February 1, 2016 and continued until December 2016 until the debt was fully paid off with the Series 2015A bond issuance. The bonds were at an interest rate of 5% plus the current Securities Industry and Financial Markets Association (SIFMA) rate from July 1, 2013 through December 31, 2015 and at 6.5% from January 1, 2016 through December 2016 when the bonds were paid in full.

In addition, the Hospital assumed a portion of UMDNJ, New Jersey Educational Facilities Authority's, Higher Education Capital Improvement Fund, Series A (as revised) in the amount of $0.7 million. The debt bears interest at fixed rates and requires annual principal payments until August, 2020. More detailed information about the Hospital's long-term debt is presented in note 8 to the financial statements.

Legal Matters

In connection with the settlement of two cases that initially resulted in a Deferred Prosecution Agreement with the United States Attorney for the District of New Jersey, UMDNJ, which included the Hospital, entered into a five-year Corporate Integrity Agreement (CIA) with the Office of Inspector General of the Federal Department of Health and Human Services in September 2009. Under the terms of the CIA, UMDNJ agreed to adhere to requirements that will ensure regulatory and legal compliance with all federal healthcare programs. The Hospital remained subject to the CIA upon its separation from UMDNJ. The Hospital received a letter dated March 23, 2015 from Department of Health and Human Services Office of Inspector General, which indicated that the Hospital has completed its CIA requirements and other obligations under the Settlement Agreement.

Hospital Issues and Challenges

The Hospital continues to adapt to the ever-increasing fiscal challenges placed on health care institutions in the New Jersey metropolitan area. Specifically, these challenges include the following:

- Potential reductions in Medicaid and Medicare reimbursements due to state and federal budget reductions
- Continued implementation of Health Care Exchanges and its effect on the uninsured
- Federal DSH funding cuts
- Reductions in Newark EMS services reimbursement
- Penetration of managed care and tiered health plans in the market place
- Reduction of $13.0 million in Charity Subsidy funding in FY 2017
- Uncertainty of Delivery System Reform Incentive Payments (DSRIP)

The Hospital has responded to these significant challenges by managing labor and staffing more efficiently as well as eliminating waste and duplication in order to offset unanticipated operating expenses. In addition Hospital administration has developed monitoring reporting tools to help management target and use benchmark data as a means of controlling costs and enhance productivity. Hospital administration has also identified performance initiatives intended to develop new services and revenue streams, increase patient volume as well as restructure and streamline throughput processes.

Contacting the Hospital's Financial Management

This financial report provides the citizens of Newark, the Hospital's patients, bondholders, and creditors with a general overview of the Hospital's finances and operations. If you have questions about this report or need additional financial information, please contact Thomas Daly, Chief Financial Officer, University Hospital, 150 Bergen Street, Newark, NJ 07103.

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Balance Sheets

(In thousands)

Assets	Business-Type Activities – UH June 30, 2016	Discretely Presented Component Unit-BHCC December 31, 2015	Business-Type Activities – UH June 30, 2015	Discretely Presented Component Unit-BHCC December 31, 2014
Current assets:				
Cash (note 3)	$ 97,920	2,592	97,915	1,796
Restricted investments (note 7)	6,334	—	625	—
Patient accounts receivable, net (note 5)	72,870	2,598	65,320	2,925
Due from State of New Jersey	4,800	—	4,832	—
Supplies	17,445	—	16,268	—
Grants receivable	2,666	—	1,856	—
Other current assets	12,221	410	9,608	158
Total current assets	214,256	5,600	196,424	4,879
Noncurrent assets:				
Restricted investments, net (notes 7 and 8)	125,313	10	34,876	7
Prepaid bond insurance	17,317	—	—	—
Capital assets, net (notes 6 and 8)	202,356	2,333	203,397	2,484
Total noncurrent assets	344,986	2,343	238,273	2,491
Total assets	559,242	7,943	434,697	7,370
Deferred Outflows of Resources				
Change in pension plan assumptions and deferred contributions (note 10)	58,981	—	28,814	—
	$ 618,223	7,943	463,511	7,370
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	$ 22,677	600	27,848	428
Accrued salaries and related payroll taxes	30,004	153	19,251	287
Accrued vacation and sick pay	12,790	—	12,293	—
Due to Rutgers University (note 9)	20,848	—	26,702	—
Current portion of accrued claims liability (note 11)	7,192	—	7,105	—
Estimated third-party payor settlements, net (note 11)	4,816	—	4,864	99
Current portion of long-term debt and capital lease obligation (note 8)	195	—	41,830	—
Other current liabilities	3,153	—	1,167	—
Total current liabilities	101,675	753	141,060	814
Noncurrent liabilities:				
Resident funds payable	—	10	—	7
Accrued claims liability, net of current portion (note 11)	20,710	—	21,205	—
Capital lease obligation, net of current portion (note 8)	76,615	—	76,747	—
Long-term debt (note 8)	270,842	—	108,769	—
Pension liability (note 10)	410,860	—	346,611	—
Total noncurrent liabilities	779,027	10	553,332	7
Total liabilities	880,702	763	694,392	821
Deferred Inflows of Resources				
Net difference between projected and actual earnings on pension plan investments (note 10)	2,028	—	10,520	—
	2,028	—	10,520	—
Commitments and contingencies (note 11)				
Net Position				
Net position:				
Net investment in capital assets	39,737	2,333	48,489	2,484
Restricted for debt service	6,341	—	1,723	—
Unrestricted	(310,585)	4,847	(291,613)	4,065
Total net position	(264,507)	7,180	(241,401)	6,549
Total liabilities and net position	$ 618,223	7,943	463,511	7,370

See accompanying notes to financial statements.

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Statement of Revenues, Expenses, and Changes in Net Position

(In thousands)

		Business-Type Activities – UH Year ended June 30, 2016	Discretely Presented Component Unit – BHCC Year ended December 31, 2015	Business-Type Activities – UH Year ended June 30, 2015	Discretely Presented Component Unit – BHCC Year ended December 31, 2014
Operating revenues:					
Net patient service revenue (notes 4, 5 and 11)	$	486,199	10,956	470,369	9,325
Grants revenue		5,948	461	6,153	381
Other revenue		20,919	23	14,630	58
Total operating revenues		513,066	11,440	491,152	9,764
Operating expenses:					
Personnel services		241,455	3,460	233,982	3,403
Contracted physician and resident fees (note 9)		73,006	2,285	73,100	1,956
Fringe benefits (notes 2 and 10)		90,191	613	92,166	616
Pension (note 10)		31,281	—	23,382	—
Supplies and other expenses (note 9)		207,639	4,136	191,895	3,071
Depreciation (note 6)		19,941	315	18,564	313
Total operating expenses		663,513	10,809	633,089	9,359
Operating (loss) income		(150,447)	631	(141,937)	405
Nonoperating income (expenses):					
Appropriations from the State of New Jersey (notes 10 and 11)		137,348	—	139,374	—
Interest income		150	—	255	—
Interest expense		(13,448)	—	(11,463)	—
(Loss) income before other changes in net position		(26,397)	631	(13,771)	405
Other changes in net position:					
Capital contributions funded by grantors and donors		3,291	—	—	—
Total other changes in net position		3,291	—	—	—
(Decrease) increase in net position		(23,106)	631	(13,771)	405
Net position at beginning of year		(241,401)	6,549	80,615	6,144
Effect of adoption of GASB 68 and 71 (note 2)		—	—	(308,245)	—
Net position at end of year	$	(264,507)	7,180	(241,401)	6,549

See accompanying notes to financial statements.

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Statement of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016 Business-Type Activities – UH	2015 Business-Type Activities – UH
Cash flows from operating activities:			
Cash received from patients and third-party payors	$	478,601	478,810
Receipts from grants		5,138	9,704
Other receipts		20,919	14,630
Cash paid for personnel services		(230,205)	(228,314)
Cash paid for contracted physician and resident fees		(77,463)	(59,499)
Cash paid for fringe benefits		(3,858)	(1,320)
Cash paid for other than personnel services		(220,279)	(192,527)
Net cash (used in) provided by operating activities		(27,147)	21,484
Cash flows from noncapital financing activities:			
Cash appropriations received from state of New Jersey		43,800	43,800
Net cash (used in) provided by noncapital financing activities		43,800	43,800
Cash flows from capital and related financing activities:			
Purchase of capital assets		(18,900)	(8,345)
Capital contributions by grantors		3,291	—
Payments of capital lease obligation		(110)	(93)
Payments of long-term debt		(150,000)	(80)
Proceeds from issuance of long-term debt		270,416	—
Cash paid for bond insurance		(17,610)	—
Cash paid for bond financing costs		(2,756)	—
Interest paid		(7,739)	(11,441)
Net cash provided by (used in) capital and related financing activities		76,592	(19,959)
Cash flows from investing activities:			
Purchases of investments		(131,647)	—
Sales of investments		38,257	12,017
Interest received		150	255
Net cash (used in) provided by investing activities		(93,240)	12,272
Net increase in cash		5	57,597
Cash at beginning of year		97,915	40,318
Cash at end of year	$	97,920	97,915
Supplemental disclosures:			
Appropriations paid on behalf of the Hospital	$	93,556	95,574

(Continued)

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Statement of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016 Business-Type Activities – UH	2015 Business-Type Activities – UH
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(150,447)	(141,937)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Amortization of prepaid bond insurance		293	—
Depreciation		19,941	18,564
Provision for bad debts		163,096	177,181
State paid expenses		93,556	95,574
Changes in assets and liabilities:			
Patient accounts receivable, net		(170,646)	(167,755)
Due from State of New Jersey		24	76
Grants receivable		(810)	3,551
Supplies and other current assets		(3,790)	(6,362)
Accounts payable and accrued expenses		(10,880)	935
Accrued salaries and related payroll taxes		10,753	4,971
Accrued vacation and sick		497	697
Due to Rutgers University		(5,854)	15,617
Accrued claims liability		(408)	1,080
Estimated third-party payer settlements, net		(48)	(985)
Pension liability		25,590	20,072
Other liabilities		1,986	205
Net cash (used in) provided by operating activities	$	(27,147)	21,484

See accompanying notes to financial statements.

(1) Organization

In accordance with Public Law 2012, c. 45, the New Jersey Medical and Health Sciences Education and Restructuring Act (the Restructuring Act), effective July 1, 2013, University Hospital (the Hospital or UH), a public institution of healthcare and a body politic of the State of New Jersey (the State) was separated from University of Medicine and Dentistry of New Jersey (UMDNJ) as a new stand-alone entity and will continue to be the primary teaching hospital for the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. The Hospital shall maintain its public mission to provide a comprehensive healthcare program and services to the greater Newark community, including outreach and mobile health services as well as services in collaboration with the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. The Hospital is committed to act in accordance with the spirit and intent of the "Agreements Reached between Community and Government Negotiators Regarding New Jersey College of Medicine and Dentistry and Related Matters of April 30, 1968."

The Hospital is a component unit of the State of New Jersey, and accordingly, its financial statements are included in the State of New Jersey's Comprehensive Annual Financial Report.

The financial statements include Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC), which is presented as a discretely presented component unit of the Hospital (note 13). BHCC was incorporated in April 1992. BHCC and its consolidated subsidiary are exempt from federal, state, and local income taxes as 501(c)(3) organizations under the Internal Revenue Code. The Hospital is the sole corporate member and appoints a voting majority of the governing board of BHCC. The Hospital has the ability to impose its will on BHCC.

BHCC issues separate annual financial statement as of December 31, which are available through Jim Hub, Director of Finance, Broadway House, 298 Broadway, Newark, NJ 07104-4003.

(2) Summary of Significant Accounting Policies

The Hospital's significant accounting policies are as follows:

(a) Basis of Presentation

The financial statements have been prepared on the accrual basis using the economic resources measurement focus.

(b) Cash

Cash represent operating cash that is unrestricted with original maturities of three months or less at the date of purchase. The carrying amount of cash approximates fair value due to short-term nature.

(c) Restricted Investments

Restricted investment primarily include assets held by a trustee, TD Bank, National Association under bond resolution. Amounts required to meet current liabilities of the Hospital have been classified as current assets in the statement of net position. Interest income earned on restricted investments is included in nonoperating income (loss).

Restricted investments at June 30, 2016 are invested in U.S. Treasury Obligations and are recorded at fair value based on quoted market prices, which are Level 1 investments in the FV hierarchy. Restricted investments at June 30, 2015 were invested in the State of New Jersey Cash Management Fund (Cash Management Fund). Amounts contributed into the Cash Management Fund were recorded at amortized cost, which approximated fair value.

(d) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy at amounts less than its charges or established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care, and they are not reported as revenue (note 4).

(e) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(f) Classifications of Revenues and Expenses

All transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are considered to be operating activities and are reported as operating revenues and operating expenses. Appropriations from the State of New Jersey, interest income, and interest expense are reported as nonoperating income and expenses. Other changes in net position, which are excluded from income before other changes in net position, consist of capital contributions funded by grantors or donors.

(g) Patient Accounts Receivable, Net and Net Patient Service Revenue

The Hospital has agreements with certain third-party payers that provide for payments at amounts different from its charges or established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated third-party payor settlements resulting from audits, reviews, and investigations. These estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods as revised information becomes known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue is reported net of the provision for bad debts of $163.1 million in 2016 and $177.2 million in 2015.

The allowance for doubtful patient accounts is the Hospital’s estimate of the amount of probable credit losses in its patient accounts receivable. The Hospital determines the allowance based on collection studies and historical write-off experience. Past-due balances are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for estimated doubtful accounts at June 30, 2016 is $226.1 million and at June 30, 2015 was $172.5 million.

(h) Appropriations from the State of New Jersey

State appropriation revenues are recognized in the fiscal year during which the State appropriates the funds for the Hospital. The Hospital is fiscally dependent upon these appropriations. Funds appropriated from the State are payments, either directly or indirectly, for services rendered by the Hospital. The Hospital classifies them as nonoperating revenues.

The Hospital records both revenues and expenses in an amount equal to expenditures made on its behalf by the State, that is, fringe benefits of the Hospital's employees, settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts (see notes 10 and 11).

The State pays on behalf of the Hospital for fringe benefits of employees, medical malpractice settlements, negligence, and other torts. In 2016 and 2015, the fringe benefits of employees paid by the State were $92.4 million and $93.0 million, the medical malpractice and general liability settlements paid by the State were $1.2 million and $2.6 million. The Hospital is indemnified by the State for the Hospital's malpractice settlements (see note 11). The State also paid the Hospital $43.8 million in 2016 and 2015 to support the Hospital operations.

All State aid to the Hospital is subject to and dependent upon appropriations being made for such purpose by the New Jersey State Legislature (the "State Legislature"). The State Legislature has no legal obligation to make such appropriations.

(i) Government and Private Grants and Contracts

Grants and contracts revenues comprise mainly funds received from grants and contracts from federal, state, other governments and private sources and are recognized when all eligibility requirements for revenue recognition are met, which is generally the period in which the related expenses are incurred.

(j) Prepaid Bond Insurance

Prepaid bond insurance costs of $17.6 million represent costs incurred in connection with the issuance of Series 2015A bonds and are amortized on a straight-line method over the life of the bonds. Accumulated amortization of prepaid bond insurance costs amounted to $0.3 million at June 30, 2016.

(k) Capital Assets and Depreciation

Capital assets are recorded at cost or in the case of donated assets at fair value at the date of acquisition. Major renewals and improvements are capitalized while maintaining repairs are expensed when incurred.

The State retains legal title to the land, buildings and improvements as of July 1, 2013 and thereafter and subleases them to the Hospital for $1 until June 30, 2089. The Hospital is the sole beneficiary as to the use of the capital assets and is responsible for their control and maintenance. Accordingly, the capital assets have been capitalized in the accompanying statement of net position.

Depreciation is computed on a straight-line basis using estimated useful lives in accordance with American Hospital Association guidelines:

Land improvements	2 to 25 years
Buildings and leasehold improvements	5 to 40 years
Equipment	3 to 25 years

Capital assets under capital lease obligations are depreciated over either the lease term or the estimated useful life.

(l) Supplies

Supplies are stated at the lower of cost (first-in, first-out method) or market (net realizable value).

(m) Income Taxes

The Hospital qualifies as a governmental entity not subject to federal income tax, by reason of the organization being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof; or, an entity all of whose income is excluded from gross income for federal income tax purposes under section 115 of the Internal Revenue Code of 1986. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(n) Due from State of New Jersey

Due from State of New Jersey represents reimbursements due for fringe benefits paid by the Hospital for employees covered by the State of New Jersey benefit plans.

(o) Grants Receivable

Grants receivable relate to various healthcare provision programs under contract with the State and other grantors. Grants receivable, which are reimbursed to the Hospital for providing such services, relate to the Urban Security Initiative, North Star, and School Based Youth Service grants.

(p) Net Position

Net positions of the Hospital are classified in various components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustee as required by bond indentures, discussed in note 7. *Unrestricted net position* is remaining net position that does not meet the definition of *Net investment in capital assets or restricted*. The Hospital first applies restricted resources when unrestricted resources are available for the same purpose.

(q) Compensated Absences

The Hospital's employees earn vacation and holiday days at varying rates depending on years of service and title. Generally, vacation and holiday time may accumulate up to specified maximums, depending on title. Upon resignation or retirement, employees are paid for unused vacation and holiday days, most at the current rate. Employees accrue sick leave at a fixed rate and there is no accumulation limit on sick leave. Upon retirement employees can opt for partial payment of accumulated sick leave.

(r) Retirement Plans

Under GASB 68, *Accounting and Financial Reporting for Pensions*, the Hospital recorded pension expense, pension liability, deferred outflows of resources and deferred inflows of resources related to cost sharing multi-employer pension plan for its proportionate share of collective pension expense, collective pension liability, and collective deferred outflows of resources and deferred inflows of resources.

(s) Accrued Claims Liability

Accrued claims liability represents estimated amounts payable related to workers compensation claims (see note 11(c)).

(t) New Accounting Standards Adopted

In 2016, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application (GASB 72). This guidance requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The guidance only requires additional disclosures and did not have an impact on the financial statements.

In fiscal year 2015, the Hospital adopted two new accounting standards:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68) replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trust or equivalent arrangements. The Public Employees Retirement System is a multiple-employer, public cost sharing retirement system which is administered by the State of New Jersey. The effect of adoption of GASB 68 resulted in restating the Hospital's net position.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. GASB 68* (GASB 71) addresses an issue related to amounts associated with contributions, if any, made by a state of local government employer or nonemployer contributing entity to a defined benefit pension or after the measurement date of the government's beginning net pension liability. The effect of adoption of GASB 71 resulted in restating the Hospital's net position.

(In thousands)

The following is a reconciliation of total net position at June 30, 2014 as previously presented and the restated July 1, 2014 net position for the Hospital:

Net Position		Amount
June 30, 2014 net position, as previously reported	$	80,615
Effect of adoption of GASB 68		(311,200)
Effect of adoption of GASB 71		2,955
July 1, 2014 net position, as restated	$	(227,630)

(u) Fair Value

Management determines fair value of financial instruments 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. Management utilizes valuation techniques that maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3) within the fair value hierarchy established by GASB. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following categories:

Level 1: Fair value measurements using unadjusted quoted market prices in active markets for identical, unrestricted assets or liabilities.

Level 2: Fair value measurements using observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially that full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that traded less frequently than exchange-traded instruments.

Level 3: Fair value measurements using significant inputs that are not readily observable in the market and are based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable.

(In thousands)

(3) Cash

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. At June 30, 2016, the actual amount of cash and cash equivalents in the Hospital's bank accounts was $100.6 million (with $2.7 million in outstanding checks). As of May 29, 2015 a Tri-Party collateral agreement was established between the Hospital, the Bank of America, N.A. and the Bank of New York Mellon to collateralize the Hospital's cash.

(4) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services furnished under its charity care policy and the estimated cost of those services. The amount of uncompensated care provided to indigent and the broader community for the years ended June 30:

		2016	2015
Charity Care:			
Charges foregone, based on established rates	$	215,988	198,865
Estimated cost incurred to provide charity care		58,099	54,393

		2016	2015
Provision for bad debt:			
Charges foregone, based on established rates	$	163,096	177,181
Estimated cost incurred to provide bad debt		43,873	49,163

The Hospital only includes charges for patient services in this category for individuals who complied with the New Jersey Department of Health's criteria for qualification into the Charity Care Subsidy formula. These criteria require a patient's cooperation and documentation to participate. The Hospital believes that a large number of its patient accounts that default to bad debts are in fact charity care cases, but due to a patients' unwillingness or inability to provide the documentation such cases do not qualify.

The Hospital received $53.5 million and $76.2 million from the State's Charity Care Subsidy Fund in 2016 and 2015, respectively, of reimbursement associated with cost of bad debt and charity care.

(5) Patient Accounts Receivable, net and Net Patient Service Revenues

Most of the Hospital's net patient service revenue is from funds received on behalf of patients under governmental health insurance plans. Revenue from these governmental plans is based upon relevant reimbursement principles and is subject to audit by the applicable payers. Certain payors have performed audits and have proposed various disallowances, which other payers may similarly assert.

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements that were originally recorded in the period the related services were rendered. The adjustments to prior year estimates and other third-party reimbursement receipts or recoveries that relate to prior years resulted in an increases to net patient service revenues (see note 11(a)).

(In thousands)

The components of net patient service revenue for the years ended June 30 are as follows:

		2016	2015
Gross charges	$	2,466,934	2,241,241
Additions (deductions) from gross charges:			
Health Care Subsidy Fund payments		65,109	89,949
Contractual and other allowances		(1,882,748)	(1,683,640)
Provision for bad debts		(163,096)	(177,181)
Subtotal		(1,980,735)	(1,770,872)
Net patient service revenues	$	486,199	470,369

Net patient service revenue for the years ended June 30 are as follows:

		2016	2015
Medicaid and Medicaid HMO	$	183,476	150,019
Medicare		106,244	100,182
Other third-party payors		125,150	123,306
Self-pay		6,220	6,913
		421,090	380,420
Health Care Subsidy Fund Revenues		65,109	89,949
	$	486,199	470,369

The Hospital provides services to its patients, most of who are insured under third-party payer agreements. Patient accounts receivable, net were as follows as of June 30:

		2016		2015	
Medicaid and Medicaid HMO	$	27,689	38.0%	24,674	37.8%
Medicare		9,297	12.8	7,185	11.0
Other third-party payors		30,210	41.4	28,385	43.4
Self-pay		5,674	7.8	5,076	7.8
	$	72,870	100.0%	65,320	100.0%

(In thousands)

Allowance for doubtful accounts activity for the years ended was as follows:

		2016	2015
Beginning balance	$	172,500	145,886
Provision for bad debts		163,096	177,181
Write-off, net of recoveries		(109,521)	(150,567)
Ending balance	$	226,075	172,500

(6) Capital Assets

Capital assets activity for the years ended June 30 was as follows:

		June 30, 2015 balance	Acquisitions, net of transfers	Sales, retirements, and adjustments	June 30, 2016 balance
Land and land improvements	$	1,598	—	—	1,598
Buildings and leasehold improvements		383,648	—	—	383,648
Equipment		205,302	18,900	—	224,202
Total	$	590,548	18,900	—	609,448

		June 30, 2014 balance	Acquisitions, net of transfers	Sales, retirements, and adjustments	June 30, 2015 balance
Land and land improvements	$	1,598	—	—	1,598
Buildings and leasehold improvements		383,648	—	—	383,648
Equipment		196,957	8,345	—	205,302
Total	$	582,203	8,345	—	590,548

(Continued)

(In thousands)

Related information on accumulated depreciation for the years ended June 30 was as follows:

		June 30, 2015 balance	Depreciation and amortization	Sales, retirements, and adjustments	June 30, 2016 balance
Land and land improvements	$	—	—	—	—
Buildings and leasehold improvements		235,119	11,295	—	246,414
Equipment		152,032	8,646	—	160,678
Total	$	387,151	19,941	—	407,092

		June 30, 2014 balance	Depreciation and amortization	Sales, retirements, and adjustments	June 30, 2015 balance
Land and land improvements	$	—	—	—	—
Buildings and leasehold improvements		222,973	12,146	—	235,119
Equipment		145,614	6,418	—	152,032
Total	$	368,587	18,564	—	387,151

The Hospital capitalizes interest costs incurred in connection with construction projects. During 2016 and 2015, no interest was capitalized relating to construction projects.

(7) Restricted Investments

Restricted investments consist of the following as of June 30:

		2016	2015
Under bond resolutions:			
Working capital funds	$	297	8
Capital reserve funds		107,752	18,770
Debt service reserve funds		17,257	15,000
Debt service funds		6,341	1,723
		131,647	35,501
Less current portion of restricted investments		6,334	625
	$	125,313	34,876

Restricted investments under the terms of the bond resolutions (see note 8) are to provide for debt service requirements and the acquisition of capital assets. Terms of the bond resolutions provide that assets be maintained in separate funds held by the trustee, TD Bank, National Association.

(In thousands)

(8) Long-Term Debt and Capital Lease Obligations

Long-term debt consists of the following as of June 30:

	2016	2015
Bonds payable:		
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2015A Bond, bearing interest at fixed rates to be paid semi-annually; with principal payments to be paid annually and set to commence on July 1, 2021 (a)	$ 254,975	—
NJHCFFA Series 2015A Net Premium and amortized over the 30 year life of the bond (a)	15,441	—
NJHCFFA Revenue Bond Anticipation Notes (BAN), series 2013, bearing interest at a variable rate set daily with principal payments commencing on February 1, 2016 and maturing over the following 18 months (b)	—	150,000
New Jersey Educational Facilities Authority (NJEFA) Higher Education Capital Improvement Fund, Series 2000 A annual principal payments (c)	509	506
Capital lease obligations (d)	76,727	76,840
	347,652	227,346
Less current installments	195	41,830
	$ 347,457	185,516

Long-term debt activity for the years ended June 30 was as follows:

	June 30, 2015 balance	Additions	Reductions	June 30, 2016 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable 2015A	$ —	270,416	—	270,416	—
Bonds payable NJEFA	506	3	—	509	83
BAN	150,000	—	(150,000)	—	—
Capital lease obligations	76,840	—	(113)	76,727	112
	$ 227,346	270,419	(150,113)	347,652	195

(Continued)

(In thousands)

		June 30, 2014 balance	Additions	Reductions	June 30, 2015 balance	Amounts due within 1 year
Long-term debt:						
Bonds payable NJEFA	$	586	—	(80)	506	70
BAN		150,000	—	—	150,000	41,667
Capital lease obligations		76,933	—	(93)	76,840	93
	$	227,519	—	(173)	227,346	41,830

(a) On December 22, 2015, the Hospital issued $255 million of New Jersey Healthcare Facilities Financing Authority Series 2015A Bonds (2015A Bonds). Total proceeds from the sale were $295.8 million and included a net premium of $15.8 million as well as $25.0 million from trustee-held debt service and reserve funds. Proceeds from the sale were used for the purpose of: (i) the defeasance of $150 million of BAN debt (ii) funding current debt service reserve requirements of $17.3 million; (iii) funding capital projects of $102.8 million, including Information Services & Technology capital, Heating, Ventilation and Air Conditioning improvements, operating room renovations, Cancer Center expansion and routine and emergency capital needs; (iv) funding bond insurance costs of $17.6 million; (v) and paying bond issuance costs of $2.7 million. The Series 2015A Notes were placed by and between the Authority and TD Bank, National Association, as Trustee. The Hospital entered into a Loan Agreement (the Loan Agreement) with the Authority relating to the Series 2015A bond. A security feature for this obligation is provided by a lock box arrangement with the Trustee, TD Bank, N.A. Debt service requirements will be funded by unrestricted state appropriations including state charity pools, Delivery System Reform Incentive Payments (DSRIP), Graduate Medical Education (GME) and individual state supplemental appropriations that will flow through the lock box. Any excess funds will then be released to the Hospital for operations.

Principal payments on the bonds will be due annually and are not set to commence until July 1, 2021. Interest will be paid semi- annually on July 1 and January 1, with the first payment due July 1, 2016. The bonds are set at fixed interest rates and are as follows: (i) $65,250 in serial bonds at 5.000%; (ii) $78,220 in term bonds at 4.125% and (iii) $111,505 in term bonds at 5.000%.

(b) On July 1, 2013, the Hospital issued $150 million of New Jersey Health Care Facilities Financing Authority (the Authority), Revenue Bond Anticipation Notes, University Hospital Issue, Series 2013A (the Series 2013A Notes) and its Revenue Bond Anticipation Notes, University Hospital Issue, Series 2013B (Federally Taxable) (the Series 2013B Notes) and together with the Series 2013A Notes, the (Series 2013 Notes) for the purpose of (a) the defeasance of the Hospital's allocable share of certain bonds issued by or for the benefit of UMDNJ in the amount of $77.9 million; (b) financing capital assets in the Hospital's budget (the Series 2013 Project) in the amount of $23.0 million; (c) funding the debt service reserve requirements of the Series 2013 Notes in the amount of $15 million; (d) funding working capital in the amount of $38.2 million; and (e) paying the costs of issuance of the Series 2013 Notes. If the bonds were not refinanced by February 1, 2016 the principal payments were due over the following 18 months. Principal payments commenced February 1, 2016 and continued

(Continued)

(In thousands)

until December 2016 until the debt was fully paid off with the Series 2015A bond issuance. The Series 2013 Notes were issued under and secured by a Trust Agreement (the Trust Agreement) by and between the Authority and The Bank of New York Mellon, as Trustee. The Hospital entered into a Loan Agreement (the Loan Agreement) with the Authority relating to the Series 2013 Notes. The Hospital's obligations under the Loan Agreements were evidenced by Promissory Notes. The Hospital's obligations under the Loan Agreements were secured by a pledge of the Hospital's revenues.

The interest rate for the Series 2013 Notes from July 1, 2013 through and including December 31, 2015 was SIFMA rate plus 5.0%. The interest rate on the Series 2013 Notes from January 1, 2016 through December 2016 when the bonds were paid in full was SIFMA rate plus 6.5%.

(c) In addition on July 1, 2013, the Hospital assumed a portion of the UMDNJ obligation of the New Jersey Educational Authority's, Higher Education Capital Improvement fund, Series 2000A (as revised) in the amount of $0.7 million. The debt bears interest at a fixed rate of 5.0% and requires principal payments until August 2020.

(d) On July 1, 2013, the Hospital entered into five capital lease agreements with Rutgers, the State University of New Jersey for space in various locations on its Newark campus. The agreements are for 76 years and require monthly rent payments in advance. The Hospital has capitalized the present value of the lease payments using a discount factor of 5.1%, based on Hospital's incremental borrowing rate, and will amortize the asset over the estimated useful life of each of the buildings.

The following table summarizes debt service requirements for 2015A Bonds and NJEFA as of June 30, 2016:

	Principal	Interest	Total
Year:			
2017	$ 83	12,070	12,153
2018	89	12,072	12,161
2019	93	12,071	12,164
2020	95	12,068	12,163
2021	5,339	12,067	17,406
2022-2026	30,095	56,162	86,257
2027-2031	38,420	47,847	86,267
2032-2036	47,780	38,483	86,263
2037-2041	58,795	27,466	86,261
2042-2046	74,695	11,565	86,260
	$ 255,484	241,871	497,355

(In thousands)

The following table summarizes future minimum lease payments under capitalized leases as of June 30, 2016:

Year:		
2017	$	3,991
2018		3,991
2019		3,991
2020		3,991
2021		3,991
2022–2026		19,958
2027–2031		19,958
2032–2036		19,958
2037–2041		19,958
2042–2046		19,958
Thereafter		171,640
Total		291,385
Less amount representing interest		214,658
	$	76,727

(9) Due to Rutgers University

Amounts due to Rutgers University (Rutgers) consist of the following at June 30:

		2015 Balance due to Rutgers	Charges	Hospital payments	2016 Balance due to Rutgers
Information technology services (a)	$	268	2,957	2,988	237
Contracted physicians (b)		16,578	54,845	58,980	12,443
Contracted residents (c)		4,538	18,129	18,451	4,216
Facilities service agreements (d)		2,844	12,515	12,823	2,536
Other (e)		2,474	1,530	2,588	1,416
	$	26,702	89,976	95,830	20,848

(In thousands)

		2014 Balance due to Rutgers	Charges	Hospital payments	2015 Balance due to Rutgers
Information technology services (a)	$	378	3,141	3,251	268
Contracted physicians (b)		4,729	55,329	43,480	16,578
Contracted residents (c)		2,786	17,986	16,234	4,538
Facilities service agreements (d)		2,316	12,084	11,556	2,844
Other (e)		876	2,352	754	2,474
	$	11,085	90,892	75,275	26,702

The Hospital and Rutgers executed a Master Affiliation Agreement on July 1, 2013 (the effective date) in support of and connection with the New Jersey Medical and Health Sciences Education Restructuring Act, N.J.S.A. 18A:64M-1. The Agreement acknowledged that the parties were entering into multiple agreements simultaneously all of which arose out of the Act. The Master Agreement is for a term of five years with provisions for successive five-year renewals. The agreements provide for services delivered by and between the parties and outline the compensation to be remunerated. Among these agreements are the following:

(a) Information technology services are in support of the Hospital's clinical and business systems. The agreement includes licensing of some software as well as system support. In addition, the agreement provides for the Hospital's continued use of the Rutgers' network. The term was for two years and was renewed for a year at the Hospital's option. Rutgers is providing provisional support currently during the Hospital's transition to its own network and financial database.

(b) The parties executed a clinical services agreement wherein Rutgers physicians were contracted to provide clinical and administrative services to the Hospital. The amount of the contract is primarily fixed with a variable portion based upon the amount of charity care patient volume provided. The agreement is for five years and will expire in July 2018. The agreement calls for the parties to annually have a fair market value analysis prepared by an independent organization.

(c) A Graduate Medical Education affiliation agreement was executed to govern the medical and dental activities of residents and non-Rutgers residents rendering medical and dental services at the Hospital and the compensation of such residents.

(d) A continuing services agreement was executed that provided for a number of campus infrastructure needs including energy and utilities, police and security, landscaping and grounds maintenance as well as parking and snow removal. Rates are determined by an annual review by both parties for utilities and maintenance. Police and security are based upon usage with predetermined hourly rates.

(e) A transition services agreement that provided for the temporary provision of "Other Services," between the parties. Among these services are included hazardous waste storage, medical license and radiation safety, engineering controls, financial administrative technical support as well as a support in helping the Hospital achieve independence in these functions. The arrangements were for a period

(Continued)

of three to twenty-four months and various extensions have been made on these arrangements. Amounts payable are for the most part based upon fixed predetermined rates.

(10) Employee Benefits

Retirement Plans

The Hospital has primarily two retirement plans available to its employees, the State of New Jersey Public Employees Retirement System, a defined benefit plan, and the Alternate Benefit Program, a defined contribution plan. Under these plans, participants make annual contributions, and the State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the Hospital for these plans. Pension expense paid directly by the State of New Jersey for 2016 and 2015 aggregated $12.7 million and $11.0 million, respectively. The Hospital is charged for contributions on behalf of employees through a fringe benefits charge assessed by the State which is included within fringe benefits in the accompanying statement of revenues, expenses, and changes in net position. Summary information regarding these plans is provided below.

Public Employees Retirement System (PERS)

Plan Description – PERS is a multiple-employer, public cost-sharing retirement system which is administered by the State of New Jersey under the provisions of N.J.S.A. 43:15A. The payroll for employees covered by PERS for the years ended June 30, 2016 and 2015 was $95.9 million and $88.2 million, respectively.

Hospital employees of a certain classification are required as a condition of employment to be members of PERS. The formula for benefits is an annual allowance in the amount equal to years of service, divided by 55, times the final average salary. Final average salary means the average of the salaries received by the member for the last three years of membership service or the three highest fiscal years, whichever provides the largest benefit. Pension benefits fully vest on reaching ten years of credited service. Members enrolled in PERS prior to November 2, 2008, are eligible for retirement at age 60 with no minimum years of service required. Members enrolled in PERS on or after November 2, 2008, are eligible for retirement at age 62 with no minimum years of service required. Members enrolled in PERS prior to July 1, 2007, who have 25 years or more of credited service may also select early retirement without penalty at age 55 and receive full retirement benefits. Members enrolled in PERS on or after July 1, 2007, may select early retirement with an allowance reduction for each month prior to the normal retirement age as specified by the NJ Division of Pensions and Benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

Members enrolled in PERS after May 21, 2010, must work 35 hours or more per week. An employee is eligible for PERS membership based upon only one position and requires the retirement system to designate the position providing the higher or highest compensation for the member from among any concurrently held positions. This position will be used as the basis for eligibility for membership, service credit, the compensation base for pension contributions, and for other pension calculations. The formula and definition of compensation to be used to calculate service, early and deferred retirement for these members changes as well. The formula for service, early and deferred retirement will be calculated as years of service, divided by 60, times the final average salary. Final average salary means the average annual compensation for the last five years of service, or any five fiscal years of membership that provide the largest possible benefit to the member or the member's beneficiary. This definition will also be used to calculate survivor pension benefits and death benefit payments, when available, to beneficiaries. The PERS members are eligible for retirement at age 62 with no minimum years of service required.

Members enrolled in PERS on or after June 28, 2011, are eligible for retirement at age 65 with no minimum years of service. The annual allowance is equal to years of service divided by 60, times the final annual average salary. Final average salary means the average salaries received by the member for the last five years (50 months for 10-month employees) of membership or the five highest fiscal years, whichever provides the largest benefit. Pension benefits fully vest on reaching 10 years of credited service.

Contributions – Covered Hospital employees were required by PERS to contribute 7.06% and 6.92% of their annual compensation during fiscal years 2016 and 2015, respectively. The PERS contribution rate will increase by 0.14% each year until the 7.5% contribution rate is reached by July 1, 2018. The State's pension contribution is based on statutory determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. The state made required contributes in 2016 and 2015. The contribution requirements of the plan members and the Hospital are established and may be amended by the State.

Employees can also make voluntary contributions to two optional State of New Jersey tax-deferred investment plans, the Supplemental Annuity Collective Trust (SACT) and the Additional Contributions Tax Sheltered (ACTS) programs. Both plans are subject to limits within the Internal Revenue Code.

The State issues publicly available financial reports that include financial statements and required supplementary information for PERS. These reports may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits, PO Box 295, Trenton, NJ 08625-0295.

Effective July 1, 2014, the Hospital adopted GASB 68 and GASB 71, resulting in the Hospital recording their net pension liability, deferred inflows and outflows of resources, and pension expense associated with the PERS plan (note 2). The PERS' net pension liability, deferred inflows and outflows of resources, and pension expense is calculated by an external actuary.

At June 30, 2016, the Hospital reported a liability of $410.9 million, for its proportionate share of the PERS net pension liability. The total pension liability is based on measurement date as of June 30, 2015. The Hospital's proportion for the net pension liability was based on the Hospital's share of the actual contributions paid by the State to PERS relative to the total contributions of all participating state group employers for 2015 which was 1.732%.

The Hospital's contribution required by PERS and contributed by the State of $3.3 million for the year ended June 30, 2015 was recorded in fringe benefits expense. The Hospital's covered payroll for the year ended June 30, 2015 was $88.2 million. The Hospital's proportionate share of the net pension liability was $346.6 million at June 30, 2015 based on a June 30, 2014 measurement date. The Hospital's covered payroll as a percentage of proportionate share of pension liability was 25.5%. Plan fiduciary net position as a percentage of the total pension liability was 30.06%. The Hospital's proportion for the net pension liability based on the

(In thousands)

Hospital's share of the actual contribution paid by the State to PERS relative to the total contributions of all participating state group employers for 2014 was 1.722%.

At June 30, 2015, the Hospital reported a liability of $346.6 million, for its proportionate share of the PERS net pension liability. The total pension liability is based on measurement date as of June 30, 2014. The Hospital's proportion for the net pension liability was based on the Hospital's share of the actual contributions paid by the State to PERS relative to the total contributions of all participating state group employers for 2014 which was 1.722%.

The Hospital's contribution required by PERS and contributed by the State of $2.9 million for the year ended June 30, 2014 was recorded in fringe benefits expense. The Hospital's covered payroll for the year ended June 30, 2014 was $79.8 million. The Hospital's proportionate share of the net pension liability was $311.2 million at June 30, 2014 based on a June 30, 2013 measurement date. The Hospital's covered payroll as a percentage of proportionate share of pension liability was 25.6%. Plan fiduciary net position as a percentage of the total pension liability was 29.86%. The Hospital's proportion for the net pension liability based on the Hospital's share of the actual contribution paid by the State to PERS relative to the total contributions of all participating state group employers for 2013 was 1.61%.

(a) Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015, and was determined using the following actuarial assumptions:

Inflation rate	3.04%
Salary increases:	
2012 - 2021	2.15 - 4.40% based on age
Thereafter	3.15 - 5.40% based on age
Investment rate of return	7.90%
Discount rate	4.90%

Mortality Tables

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disables Mortality Table (setback 3 years for males and setback 1 year for females) are used for value disabled retirees.

(b) Expected Rate of Return on Investments

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

(In thousands)

Asset class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment grade credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High yield bonds	2.00%	4.03%
Inflation-indexed bonds	1.50%	3.25%
Broad US equities	27.25%	8.52%
Developed foreign equities	12.00%	6.88%
Emerging market equities	6.40%	10.00%
Private equity	9.25%	12.41%
Hedge funds / absolute return	12.00%	4.72%
Real estate (property)	2.00%	6.83%
Commodities	1.00%	5.32%
REIT and Global debt ex US	7.75%	4.72%

(c) Discount Rate

The discount rate used to measure the total pension liability was 4.9% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.8% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan s fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

The following presents the Hospital's proportionate share of the net pension liabilities calculated using the discount rate of 4.90%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.90%) or 1-percentage-point higher (5.90%) than the current rate (in millions):

		1% Decrease (3.90%)	Discount rate (4.90%)	1% Increase (5.90%)
Hospital's proportionate share of the net pension liability	$	481.5	410.9	351.9

(d) Collective Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2016, the Hospital reported $2.0 million as deferred inflows of resources from the accumulated net difference between projected and actual earnings on PERS investments. The deferred inflows of resources are amortized over a period of 5 years. At June 30, 2016, the Hospital reported $59.0 million as deferred outflows of resources from change in assumptions and proportion. The deferred outflows of resources are amortized over a period of 5.7 years. The deferred inflows and outflows of resources at June 30, 2016 will be recognized in expense as follows:

2016	$	10,404
2017		10,404
2018		10,404
2019		13,033
2020		7,017
	$	51,262

Contributions made after the measurement date of the net pension liability have been reported as deferred outflows of resources at June 30, 2016 in the amount of approximately $5.7 million.

(e) Annual Pension Expense

The Hospital's annual pension expense for fiscal year ending 2016, was approximately $31.3 million and for the fiscal year ending 2015, was approximately $23.4 million.

Alternate Benefit Program (ABP)

Plan Description – ABP is an employer, defined contribution State retirement plan established as an alternative to PERS. The payroll for employees covered by ABP for the years ended June 30, 2016 and 2015 was $86.9 million and $95.6 million, respectively.

Professional and administrative staff, and certain other salaried employees hired prior to July 1, 2013 are eligible to participate in ABP. Employer (State) contributions vest on reaching one year of credited service. The program also provides long-term disability and life insurance benefits. Benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in ABP.

Contributions – The employee mandatory contribution rate for ABP is 5.0% of base salary and is matched by the State at 8.0% of base salary. Contributions can be invested with up to seven investment carriers available under the plan for fiscal year 2016. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code. Employer contributions for the years ended June 30, 2016 and 2015 were $7.0 million and $7.7 million, respectively. Employee contributions for the years ended June 30, 2016 and 2015 were $4.4 million and $6.1 million, respectively.

Deferred Compensation Plan

Hospital employees with membership in PERS or ABP are eligible to participate in the State of New Jersey's Employees Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to elect pre-tax and/or after-tax Roth contributions to invest a portion of their base salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by Prudential Financial. The plan does not include any matching employer (State) contributions. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights, are held in trust by the State for the exclusive benefit of the participating employees and their beneficiaries.

Postemployment Benefits Other Than Pension

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for the Hospital's retired employees, in accordance with State statutes. Full health coverage is provided to eligible employees retiring with 25 years of service credited on or before June 30, 1997 in one of the State of New Jersey's mandatory pension plans. Employees retiring with 25 years of service credited after June 30, 1997 may share in the cost of the health care provided under the State Plan according to the terms specified in the appropriate bargaining unit agreement in effect at the time the employee reaches 25 years of credited service. The rules governing the contribution rate are the same as that for active employees. Since the costs of these programs are the responsibility of the State and the retired employees, the amounts are not available to the Hospital and no expenses or liabilities for these benefits are reflected in the Hospital's financial statements.

(11) Commitments and Contingencies

(a) Reimbursement

The Hospital derives significant third-party revenues from the Medicare and Medicaid programs. Medicare reimburses most inpatient acute services on a prospectively determined rate per discharge, based on diagnosis-related groups (DRGs) of illnesses, i.e., the Prospective Payment System (PPS). For outpatient services, Medicare payments are based on service groups called ambulatory payment classifications (APCs).

Medicare adjusts the reimbursement rates for capital, medical education, costs related to treating a disproportionate share of indigent patients, and some physician services are reimbursed on a cost basis. Due to these adjustments and other factors, final determination of the reimbursement settlement for a given year is not known until Medicare performs its annual audit. The Hospital’s costs reports have been settled by the Medicare fiscal intermediary through June 30, 2012, except for years 2005 and 2010. The Hospital’s Medicaid cost report have been audited and settled with the Medicaid fiscal intermediary through June 30, 2014.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per day/case and discounts from established charges.

Revenues received under the various reimbursement systems and agreements are subject to audit and adjustment. Accordingly, provisions for estimated adjustments resulting from audit, final settlement, and changes in estimates have been recorded. Differences between the provisions and the amounts settled are recorded in the year of settlement. The Hospital recognized increases in net patient service revenues of $2.0 million and $5.3 million in 2016 and 2015, respectively, as a result of changes in estimated third-party settlements.

The Hospital is in varying stages of appeals relating to third-party payers’ reimbursement rates. Management routinely provides for the effects of all determinable prior year appeals, settlements, and audit adjustments and records estimates based upon existing regulations, past experience, and discussions with third-party payers. However, since the ultimate outcomes for various appeals are not presently determinable, no provision has been made in the accompanying financial statements for such issues.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, Health Reform Law), which was signed into law on March 23, 2010, will change how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reduction in Medicaid Disproportionate Share Hospital payments, overall reduction and significant redistribution of Medicare Disproportionate Share Hospital payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement.

There are various proposals at the federal and state levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, or increase managed care penetration, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Laws and regulations governing Medicaid and Medicare are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable regulations and that any pending or possible investigations involving allegations of potential wrongdoing will not materially impact the accompanying financial statements. While certain regulatory inquiries have been made, compliance with the regulations can be subject to future government review and interpretation as well as significant regulatory action, i.e., fines, penalties, and possible exclusion from Medicaid and Medicare, in the event of noncompliance. In accordance with recent trends in healthcare financial operations, the Hospital has established a Corporate Compliance Committee and appointed a Corporate Compliance Officer to monitor adherence to laws and regulations.

(b) Legal Matters

There are outstanding legal claims against the Hospital for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract. Pursuant to the Agreement, the Hospital is indemnified by the State for such costs, which were $1.2 million and $2.6 million for 2016 and 2015, respectively. The Hospital records these costs when settled by the State as appropriations from the State and as other than personal services expenses in the accompanying financial statements. Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or not.

In connection with the settlement of two cases that initially resulted in a Deferred Prosecution Agreement with the United States Attorney for the District of New Jersey, UMDNJ, which included the Hospital, entered into a five-year Corporate Integrity Agreement (CIA) with the Office of Inspector General of the Federal Department of Health and Human Services in September 2009. Under the terms of the CIA, UMDNJ agreed to adhere to requirements that will ensure regulatory and legal compliance with all federal healthcare programs. The Hospital remained subject to the CIA upon its separation from UMDNJ. The Hospital received a letter dated March 23, 2015 from Department of Health and Human Services Office of Inspector General, which indicated that the Hospital has completed its CIA requirements and other obligations under the Settlement Agreement.

(c) Accrued Claims Liability

The Hospital is self-insured for workers' compensation benefits. At June 30, 2016 and 2015, the accrual for estimated workers' compensation claims, based on an independent actuary's estimate, includes undiscounted estimate of ultimate costs for both reported claims and claims incurred but not reported totaled approximately $27.9 million and $28.3 million, respectively, and is included in accrued claims liability in the accompanying statement of net position. In addition, the Hospital maintains an excess Workers Compensation Policy with a commercial insurance company. In 2016 and 2015, no claims were presented against the policy.

(In thousands)

Activity in the liability for accrued claims payable, which includes workers' compensation claims, and included in supplies and other expenses, is summarized as follows:

		2016	2015
Balances at July 1	$	28,310	27,230
Claims incurred		5,463	8,040
Claims paid		(5,871)	(6,960)
Balances at June 30	$	27,902	28,310

(d) Operating Leases

The Hospital leases equipment, off-site clinic space, and office space under various operating leases. Total rental expense for operating leases was approximately $3.8 million in 2016.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016:

		Amount
Year:		
2017	$	3,891
2018		1,131
2019		187
2020		31
	$	5,240

(e) Rutgers University and the State

The Hospital entered into a master affiliation agreement, various real estate agreements, transition service agreement, continuing service agreement, various operational agreements with Rutgers University and the State. The agreements include various real estate leases, information technology services, clinical services, research affiliation, medical education, and other services (see note 9).

(12) Subsequent Event

Management evaluated all events and transactions that occurred after June 30, 2016 and through November 15, 2016. The Hospital did not have any material recognizable subsequent events during the period.

(13) Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care) and Subsidiary (BHCC)

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds, and certificates of deposits with original maturities of three months or less.

(b) Patient Accounts Receivable

Accounts receivable consists of net patient service revenue billed to Medicaid and private paying individuals and/or their insurance carriers. These amounts are recorded at net realizable amounts and adjustments made by Medicaid and/or to individuals' balances are treated as reductions in revenue and receivables. Delinquency is determined based on the nature of the receivable. Initial claims may take up to ninety days to collect while recurring Medicaid receivables are usually collected within 30 days and private pay and/or private insurance reimbursements are usually collected within 60 days. Interest is not charged on past-due balances.

BHCC extends credit to its patients for the services provided without collateral. Most of the related patients' accounts receivable represents obligations that are generally paid by Medicaid and other third-party payers. The accounts receivable, due from Medicaid is 86% and 79% of total receivables for BHCC for the years ended December 31, 2015 and 2014, respectively.

BHCC provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The BHCC's estimate is based on historical collection experience and a review of the current status of receivables. Accounts receivable are presented net of an allowance for doubtful accounts of $400 and $470 at December 31, 2015 and 2014, respectively.

(c) Net Patient Service Revenues and Third-Party Rate Adjustments

Net patient service revenue is recorded at the established rates, with contractual and other allowances deducted to arrive at net patient service revenue. Revenues received under cost-based reimbursement agreements represent a substantial portion of BHCC's revenue. Such revenues are subject to audit and possible adjustment by third-party payers. Retroactive receivables and payables, if any, applicable to contractual revenue adjustments are accrued when they first become known. Since these adjustments are estimated, any differences between the amounts accrued and the amounts settled are recorded in the year of interim or final settlement.

 (Continued)

(d) Capital Assets, Net

Property and equipment are carried at cost, except donated assets, which are recorded at fair market value at the date of donation. Following Medicaid guidelines, BHCC capitalizes all assets or groups of assets whose value is one thousand dollars or greater. Depreciation expense is calculated on all depreciable assets, using the straight-line method, utilizing estimated lives. Leasehold improvements are amortized over the lesser of the life of the related lease, including the option periods for renewal, or the estimated useful life of the improvements.

Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts.

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Schedule of the Hospital's Contributions
PERS Pension Plan

(Unaudited)

June 30, 2016, 2015, and 2014

(Dollar amounts in thousands)

		2016	2015	2014
Contractually required contribution	$	5,691	3,310	2,955
Contributions in relation to the contractually required contribution		(5,691)	(3,310)	(2,955)
Contribution deficiency (excess)	$	—	—	—
Covered-employee payroll	$	95,926	88,210	79,796
Contributions as a percentage of covered-employee payroll		5.9%	3.8%	3.7%

Note: Contributed by State on behalf of the Hospital

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Schedule of the Hospital's Proportionate Share of the Net Pension Liability
PERS Pension Plan

(Unaudited)

June 30, 2015, 2014, and 2013

(Dollar amounts in thousands)

	Measurement Date		
	2015	**2014**	**2013**
Proportion of the pension liability	1.732%	1.722%	1.613%
Proportionate share of the net pension liability	$ 410,860	346,611	311,200
Covered-employee payroll	88,210	79,796	*
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	465.77%	434.37%	*
Plan fiduciary net position as a percentage of the total pension liability	24.96%	30.06%	29.86%

* Information not available as the Hospital was part of UMDNJ

Note 1: The State is nonemployer contributing entity for 100% of the proportionate share of the net pension liability
Note 2: The Hospital uses a measurement date with a one year lag in recording the liability.