

**University of Medicine and Dentistry of New Jersey**  
**(A Component Unit of the State of New Jersey)**  
**Consolidated Financial Statements**  
**June 30, 2008 and 2007**

# University of Medicine and Dentistry of New Jersey

## Index

June 30, 2008 and 2007

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## Report of Independent Auditors

To Board of Trustees  
University of Medicine and Dentistry of New Jersey

We have audited the accompanying consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets, and of cash flows of the business-type activities, and the statements of net assets and the related statements of revenue, expenses and changes in net assets of the aggregate discretely presented component units of the University of Medicine and Dentistry of New Jersey, a component unit of the State of New Jersey (the "University"), as of and for the years ended June 30, 2008 and 2007, which collectively comprise the University's basic financial statements. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the New Jersey Health Foundation, Inc., a discrete component unit of the University, which statements reflect total assets of 86% and 92% and total discrete net assets of 93% and 100% of the related discrete totals as of June 30, 2008 and 2007, respectively, and total operating revenues of 14% and 36% of the related discrete totals for the years ended June 30, 2008 and 2007, respectively, of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the New Jersey Health Foundation, Inc., is based solely on the report of the other auditors. The Aggregate Discretely Presented Component Units Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets appearing on pages 16 and 18 respectively include unaudited balances at June 30, 2008 and changes in net assets for the six months ended June 30, 2008 for the Cancer Institute of New Jersey Foundation. Those statements reflect total assets of 5% and total discrete net assets of 7% of the related discrete totals as of June 30, 2008 and total operating revenues of .8% of the related discrete totals for the year ended June 30, 2008.

Except as discussed in the fourth paragraph below, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 2 to the basic financial statements, the financial statements of the University Physician Associates of New Jersey, Inc. and Affiliates, a discretely presented component unit of the University, were prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, the effects of which are not practicable to quantify; however, the departures from generally accepted accounting principles are material to the aggregate discretely presented component units.

We were unable to obtain audited financial statements supporting the balances for the Cancer Institute of New Jersey Foundation as presented within the Aggregate Discretely Presented Component Units Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets at June 30, 2008 and for the six months ended June 30, 2008.

In our opinion, the consolidated financial statements of the business-type activities of the University referred to above present fairly, in all material respects, the financial position of the business-type activities of the University at June 30, 2008 and 2007, and their changes in financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, based on our audits and the report of other auditors, except for the departure from accounting principles generally accepted in the United States of America described in the third paragraph, and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain audited financial statements relating to the Cancer Institute of New Jersey Foundation as described in the preceding paragraph the financial statements of the aggregate discretely presented component units of the University referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the University at June 30, 2008 and 2007, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 13 to the basic financial statements, in November 2006 the federal monitor issued a report alleging that the University violated certain billing and anti-kickback laws. The ultimate outcome remains uncertain at this time.



December 12, 2008

**Management's Discussion and Analysis**

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2008

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#### Introduction

The following discussion and analysis provides an overview of the financial position of the University of Medicine and Dentistry of New Jersey (the "University") as of June 30, 2008 and its results of operations for the year then ended, with comparative information as of and for the years ended June 30, 2007 and 2006. This discussion and analysis has been prepared by management and should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

The University is the State's university of the health sciences, with programs at five academic health center campuses and a network of more than 200 educational and healthcare affiliates throughout the State. The University operates the State's only three medical schools, a dental school, a teaching hospital, behavioral healthcare centers, and schools of biomedical sciences, health related professions, nursing and public health.

The University is dedicated to the pursuit of excellence in:

- The undergraduate, graduate, postgraduate and continuing education of health professionals and scientists;
- The conduct of biomedical, psychosocial, clinical and public health research;
- Health promotion, disease prevention and the delivery of health care; and
- Service to its communities and the State.

The University has approximately 5,600 full and part time students, 1,400 medical interns and residents and 13,900 faculty and staff.

#### Financial Highlights

The University's financial position reflects assets of \$1.7 billion and liabilities of \$1.1 billion as of June 30, 2008. Net assets, which represent the residual interest in the University's assets less liabilities and indicate the resources available to continue the operations of the University in accordance with the designation of the assets, decreased by \$102.6 million, or 14.7%, to \$596.3 million in 2008. This decrease is primarily related to the operating results of University Hospital ("UH") and the return of unexpended State appropriations.

Operating revenues increased by \$26.8 million, or 2.3%, to \$1.2 billion in 2008, reflecting growth in tuition and fees, governmental and private grants and contracts and revenues from professional services and contracts. Operating expenses increased by \$71.1 million, or 4.4%, to \$1.7 billion in 2008.

State appropriations – operations increased by \$8.6 million, or 3.2%, to \$281.4 million in 2008, reflecting an increase in support for salary costs and cancer programs. Fringe benefits paid by the State increased by \$9.3 million, or 5.4%, to \$182.5 million in 2008, consistent with the increase in salary expense.

#### Consolidated Financial Statements

The University's audited consolidated financial statements include the statements of net assets, statements of revenues, expenses and changes in net assets and statements of cash flows, which have been prepared in accordance with Governmental Accounting Standards Board ("GASB") accounting principles.

# **University of Medicine and Dentistry of New Jersey**

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

### **June 30, 2008**

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The consolidated financial statements include the University schools, health care units, faculty practice plans, the lease holding corporation and auxiliary enterprises.

#### **Component Units**

As defined by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No 14, *The Financial Reporting Entity*, the New Jersey Health Foundation, Inc. (the "Foundation"), which includes the Foundation of the University of Medicine and Dentistry of New Jersey, the Cancer Institute of New Jersey Foundation, Inc. ("CINJ Foundation") and the Faculty Practice Plan for the UMDNJ-New Jersey Medical School – University Physician Associates of New Jersey, Inc. ("UPA") meet the criteria to be reported as component units of the University.

The Foundation's, CINJ Foundation's and UPA's results are reported in the aggregate discretely presented component units as separate statements within the basic financial statements because of the differences in their reporting models. Accordingly, the following discussion and analysis does not include the Foundation's, CINJ Foundation's and UPA's financial condition and activities.

#### **Consolidated Statements of Net Assets**

The Consolidated Statements of Net Assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University. Net assets represent the residual interest in the University's assets after liabilities are deducted. Net assets is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

Net assets are divided into four categories. Net assets invested in capital, net of related debt, represent the University's equity in capital assets owned by the University. Restricted expendable net assets primarily include research grants, appropriations and capital project funds that are subject to donor or University restrictions governing their use. Restricted nonexpendable net assets represent endowment funds, which are used primarily for investment purposes and government grants for student loans. Unrestricted net assets are available to the University for general purposes, but are internally designated for various academic and healthcare programs.

**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
**June 30, 2008**

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A summary of the University's assets, liabilities and net assets as of June 30, 2008, 2007, and 2006 follows:

<i>(In millions)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 178.2	\$ 142.0	\$ 119.4
Receivables	242.4	243.5	272.0
Assets held by trustees and other	52.5	53.7	81.0
Noncurrent assets			
Endowment and other investments	54.8	144.1	151.0
Assets held by trustees and other	97.1	97.0	84.8
Capital assets, net	<u>1,056.0</u>	<u>1,083.5</u>	<u>1,094.4</u>
Total assets	<u>1,681.0</u>	<u>1,763.8</u>	<u>1,802.6</u>
<b>Liabilities</b>			
Current liabilities			
	417.8	358.6	353.7
Noncurrent liabilities			
	<u>666.9</u>	<u>706.3</u>	<u>718.0</u>
Total liabilities	<u>1,084.7</u>	<u>1,064.9</u>	<u>1,071.7</u>
<b>Net assets</b>			
Invested in capital, net of related debt			
	445.3	459.1	471.8
Restricted expendable			
	183.8	249.5	273.2
Restricted nonexpendable			
	59.7	57.8	56.3
Unrestricted			
	<u>(92.5)</u>	<u>(67.5)</u>	<u>(70.4)</u>
Total net assets	<u>\$ 596.3</u>	<u>\$ 698.9</u>	<u>\$ 730.9</u>

In 2008, the decrease in endowment and other investments of \$89.3 million is due to maturities of investments and the use of funds to support the operating deficit of UH and other operating activities, and is partially offset by the increase of \$36.2 million in cash. In 2007, endowment and other investments decreased by \$6.9 million.

Current liabilities consist primarily of accounts payable, accrued compensation and other liabilities and include \$53.1 million and \$61.7 million of amounts due to third party payors as of June 30, 2008 and 2007, respectively, related to cost report adjustments. Current liabilities as of June 30, 2008 includes \$22.6 million of long term debt that was classified as non-current liabilities as of June 30, 2007. Noncurrent liabilities consist primarily of long-term debt and capital lease obligations.

In 2008, the decrease in restricted expendable net assets is primarily related to the return of unexpended State appropriations totaling \$37.5 million. The University reclassified \$27.4 million from net assets to accounts payable and accrued expenses as of June 30, 2008, in accordance with the 2009 State budget. This balance resulted from the receipt in 2005 through 2008 of State appropriations that were designated for debt service costs. In September 2008, the University transferred the funds to the State. In 2007, restricted expendable net assets decreased by \$23.7 million.

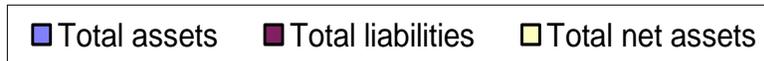
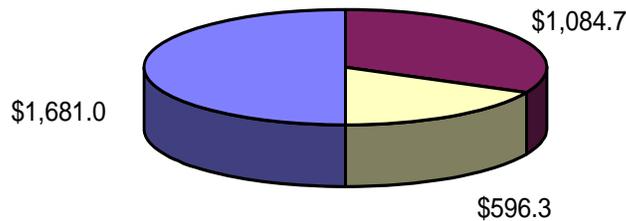
The second return of unexpended State appropriations involved a State decision in 2008 to assume administrative responsibilities for child autism programs. The University transferred its balance of \$10.1 million in autism funds to the State in March 2008, which resulted from the receipt in 2004 through 2007 of State appropriations that were designated for autism programs.

**University of Medicine and Dentistry of New Jersey  
Management's Discussion and Analysis  
June 30, 2008**

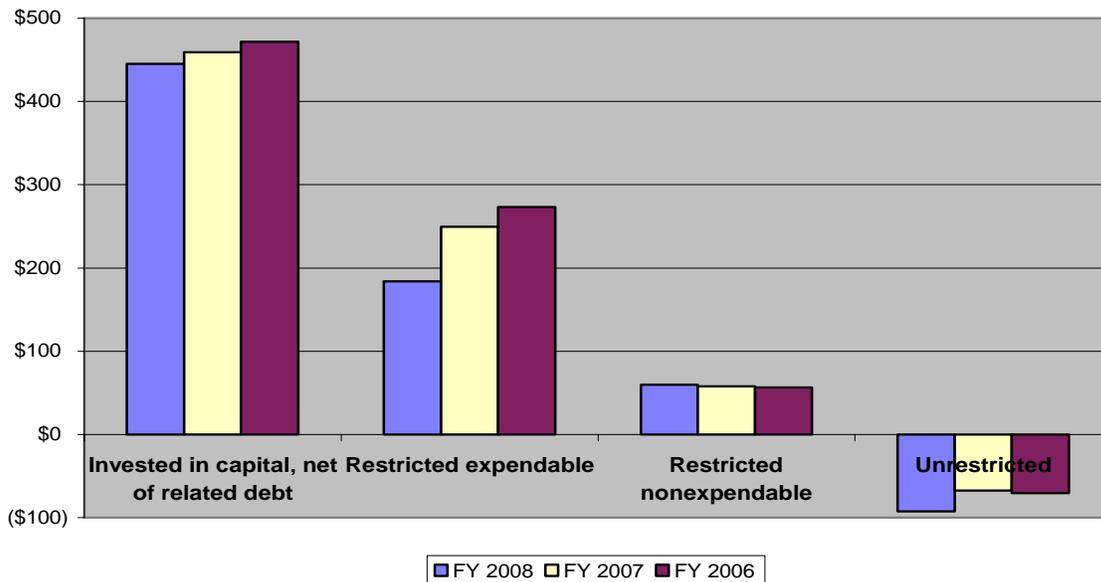
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In 2008, the decrease of \$25 million in unrestricted net assets is primarily due to UH's operating deficit (excluding depreciation) of \$34.6 million, partially offset by the favorable operating results of the academic programs. In 2007, there was an increase of \$2.9 million in unrestricted net assets.

**Summary of Consolidated Statement of Net Assets  
June 30, 2008  
(In millions)**



**Net Assets  
June 30, 2008, 2007 and 2006  
(In millions)**



**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
**June 30, 2008**

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**Consolidated Statements of Revenues, Expenses and Changes in Net Assets**

The Consolidated Statements of Revenues, Expenses and Changes in Net Assets present the University's results of operations.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2008, 2007 and 2006 follows:

<i>(In millions)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Operating revenues</b>			
Tuition and fees, net	\$ 75.1	\$ 69.2	\$ 62.0
Governmental and private grants and contracts	305.5	289.2	288.0
Net patient service revenues	503.0	506.5	501.2
Professional services and contracts	236.5	227.8	221.2
Other	56.3	56.9	57.6
Total operating revenues	<u>1,176.4</u>	<u>1,149.6</u>	<u>1,130.0</u>
<b>Operating expenses</b>	<u>1,680.5</u>	<u>1,609.4</u>	<u>1,616.3</u>
Operating loss	<u>(504.1)</u>	<u>(459.8)</u>	<u>(486.3)</u>
<b>Nonoperating revenues (expenses)</b>			
State appropriations - operations	281.4	272.8	296.7
Fringe benefits paid by the State	182.5	173.2	168.4
Refunds to State	(37.5)	-	-
Interest expense and other	(25.1)	(21.5)	(23.3)
Total nonoperating revenues, net	<u>401.3</u>	<u>424.5</u>	<u>441.8</u>
<b>Other revenues</b>			
State appropriations - capital	0.2	3.3	4.1
Capital grants	-	-	24.2
Total other revenues	<u>0.2</u>	<u>3.3</u>	<u>28.3</u>
<b>Decrease in net assets</b>	<u>(102.6)</u>	<u>(32.0)</u>	<u>(16.2)</u>
Net assets - beginning of year	698.9	730.9	747.1
<b>Net assets - end of year</b>	<u>\$ 596.3</u>	<u>\$ 698.9</u>	<u>\$ 730.9</u>

**Revenues**

To achieve its mission, the University receives revenues from a variety of sources in addition to its student tuition and fees, including research grants and contracts, patient services, professional services and contracts, state appropriations and investment income. The University will continue to aggressively seek funding from all possible sources and to manage these resources to fund its operating activities.

Operating revenues are revenues recognized by the University for providing goods and services directly to its customers and constituencies.

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2008

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Nonoperating revenues are defined by GASB as those revenues recognized by the University for which goods and services are not provided in return for the revenues received. State appropriations, excluding State appropriations for capital, are nonoperating revenues because the State legislature provides the appropriations to the University without directly receiving commensurate goods and services for those revenues.

#### **Academic Programs**

Tuition and State appropriations are the primary sources of revenue for the University's academic programs. Tuition revenues increased by 8.6% and 12% in 2008 and 2007, respectively, due to a 4% average rate increase and an increase in student enrollment, which reflects the strong demand for the University's health related academic programs. The schools received State appropriations of \$264.5 million and \$253.7 million in 2008 and 2007, respectively, which included \$69.9 million and \$63.2 million of fringe benefits paid by the State.

#### **Research Activities**

Governmental and private grants and contracts revenues increased by \$16.3 million, or 5.6%, to \$305.5 million in 2008. This increase was attributable to completion of the regional biocontainment lab project and an increase in state grant activities, which offset a slight decline in Federal research grant activities. In 2007, governmental and private grants revenues remained relatively constant to 2006.

#### **Net Patient Service Revenues**

Net patient service revenues relate to patient care services, which are generated within the University's hospital, behavioral healthcare and cancer activities, under contractual arrangements with governmental payors and private insurers. These revenues decreased slightly in 2008 as a result of lower patient volumes, whereas in 2007, these revenues increased by \$5.3 million. The healthcare units received State appropriations of \$199.4 million and \$192.3 million in 2008 and 2007, respectively, which included \$112.6 million and \$110 million of fringe benefits paid by the State.

UH's revenues totaled \$449 million in 2008, as compared to revenues of \$451 million in 2007. UH 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. UH's role in the community is reflected in its payor mix and commitment to the medically indigent. It is by far the largest provider of charity care services in the state, and Medicaid and uninsured patients account for approximately 75% of its patient case volume. As a result, UH must deal with the financial impact of revenue collections and reimbursements from these patients and their payors.

The majority of UH's admissions are initially treated in the emergency/trauma department, and emergency room visits increased by 3% in 2008 to 95,013. Inpatient discharges, which account for approximately 70% of UH's net patient service revenues, decreased by 2% to 21,801 in 2008. Clinic visits, which generate outpatient revenues, decreased by 4% in 2008 to 170,101.

The level of charity care services provided by UH represents approximately 25% of its patient case volume, at an estimated value of \$126 million, while charity care funding from the State totaled \$90.0 million in 2007 and \$95.7 million in 2008, and is projected to total \$96 million in 2009. The level of charity care funding is critical to UH's financial results.

**University of Medicine and Dentistry of New Jersey  
Management's Discussion and Analysis  
June 30, 2008**

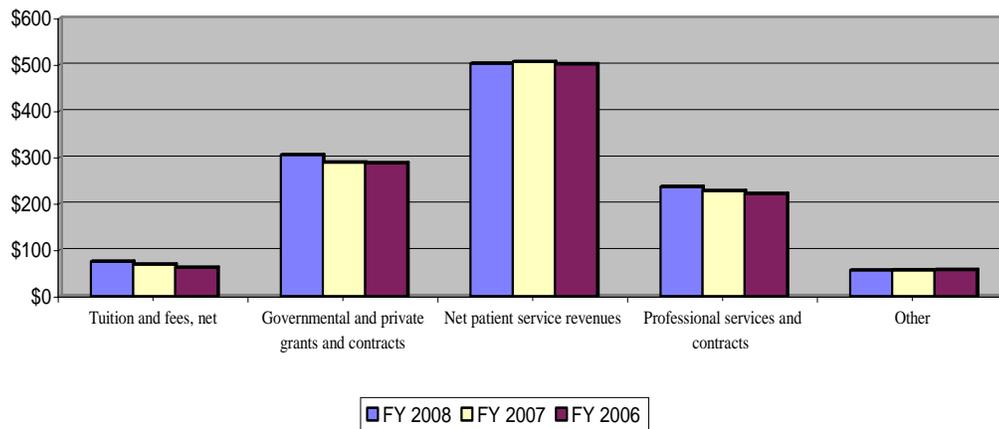
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**Professional Services and Contracts**

Professional services and contracts revenues relate to services provided by the faculty practice plans, and services under training and other contracts. The increase in revenues for 2008 was primarily related to services provided by University Medical Group.

These revenues include approximately \$42 million annually in 2008 and 2007, respectively, related to a contract with the State of New Jersey Department of Corrections (“DOC”) for mental health services for inmates. The University has entered into a new agreement with the DOC to provide expanded services including medical and dental healthcare services to the inmate population effective October 2008, with expected annual revenues of \$104 million.

**Operating Revenues**  
**Years Ended June 30, 2008, 2007 and 2006**  
**(In millions)**



**University of Medicine and Dentistry of New Jersey  
Management's Discussion and Analysis  
June 30, 2008**

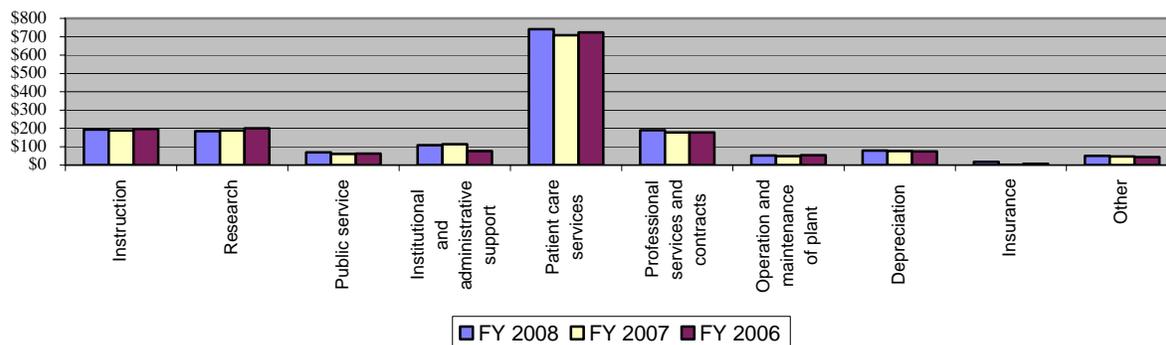
**Operating Expenses**

Operating expenses are incurred by the University to acquire or produce goods and services in return for operating revenues generated to carry out its mission.

A summary of the University's operating expenses for the years ended June 30, 2008, 2007 and 2006, follows:

<i>(In millions)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Instruction	\$ 192.4	\$ 188.1	\$ 195.9
Research	183.5	187.5	200.8
Public service	69.9	61.3	62.8
Institutional and administrative support	104.1	110.8	77.1
Patient care services	740.8	708.1	723.5
Professional services and contracts	190.2	178.2	177.9
Operation and maintenance of plant	52.2	48.9	54.6
Depreciation	78.3	77.1	74.3
Insurance	18.2	1.9	6.6
Other	50.9	47.5	42.8
<b>Total</b>	<b>\$ 1,680.5</b>	<b>\$ 1,609.4</b>	<b>\$ 1,616.3</b>

**Operating Expenses  
Years Ended June 30, 2008, 2007 and 2006  
(In millions)**



The overall increase of \$71.1 million, or 4.4%, in 2008, reflects increases in salary and wages of \$31 million, fringe benefit costs of \$6 million, supplies and services costs for patient care services of \$17.8 million, insurance costs of \$16 million, and utility costs of \$4 million. In 2007, operating expenses decreased by \$6.9 million.

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2008

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#### Capital Assets and Debt Activities

It is the University's objective to manage its financial resources effectively and maintain adequate financial flexibility to access the capital markets as needed. The University maintains debt ratings of BBB from Standard and Poor's and Baa2 for its revenue bonds and Baa3 for its certificates of participation from Moody's Investors Service. The ratings reflect concerns about UH's financial performance, the level of unrestricted net assets, and the potential financial consequences of recent investigations.

In 2009, the University plans to refinance approximately \$128 million of its variable rate bonds and auction rate securities and convert them into fixed rate debt agreements. All of the University's remaining long-term bonds and certificates are fixed rate agreements and their fair value approximates their carrying amounts. Some of them may also be refinanced if the 2009 market conditions generate savings and lower debt service costs.

As part of its mission, the University is committed to the development and renewal of its capital assets in order to meet the needs of its academic, research and clinical programs.

Total capital expenditures were \$51.2 million in 2008, as compared to \$66.8 million in 2007. The major capital activities in 2008 were the regional biocontainment lab project on the Newark campus and various equipment purchases.

As of June 30, 2008, the University had \$2,132.2 million invested in capital assets, which was reduced by \$1,076.2 million of accumulated depreciation and \$610.7 million of expended debt to determine net assets of \$445.3 million.

As of June 30, 2007, the University had \$2,083.2 million invested in capital assets, which was reduced by \$999.7 million of accumulated depreciation and \$624.4 million of expended debt to determine net assets of \$459.1 million.

#### Consolidated Statements of Cash Flows

The Consolidated Statements of Cash Flows provide additional information about the University's financial results by reporting the major sources and uses of cash. The statements display net cash provided by or used in operating activities, noncapital financing activities, capital financing activities and investing activities.

**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
**June 30, 2008**

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A summary of the University's cash flows for the years ended June 30, 2008, 2007 and 2006 follows:

<i>(In millions)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Cash and cash equivalents (used in) provided by:			
Operating activities	\$ (245.9)	\$ (193.5)	\$ (268.4)
Noncapital financing activities	268.3	260.6	305.8
Capital financing activities	(100.8)	(91.5)	(185.9)
Investing activities	114.6	47.0	91.5
Net increase (decrease) in cash	<u>36.2</u>	<u>22.6</u>	<u>(57.0)</u>
Cash and cash equivalents - beginning of year	<u>142.0</u>	<u>119.4</u>	<u>176.4</u>
Cash and cash equivalents - end of year	<u><u>\$ 178.2</u></u>	<u><u>\$ 142.0</u></u>	<u><u>\$ 119.4</u></u>

Cash used in operating activities increased by \$52.4 million in 2008 due to increases in payments to employees for higher salaries and wages and payments to vendors for higher supplies, services, insurance and utility costs. The increase in payments offset an increase in cash receipts from revenue sources. In 2007, cash used in operating activities decreased by \$74.9 million.

Cash provided by investing activities increased by \$67.6 million in 2008 due to maturities of investments. In 2007, cash provided by investing activities decreased by \$44.5 million.

**Cash, Cash Equivalents, Investments and Assets Held by Trustees**

The University's cash equivalents balance includes \$166 million of funds which are invested in the State's cash management fund.

Even though the capital markets have adversely affected the value of many investments and securities over the last few months, the fair value of the University's investments and assets held by trustees as of September 30, 2008 remains comparable to their fair value as of June 30, 2008. The majority of investments and assets held by trustees consist of U.S. government agencies, U.S. treasuries and repurchase agreements, which are collateralized by U.S. government agencies, and cash management funds.

**Economic Outlook**

The financial position of the University related to its academic and research missions remains strong and reflects growth in student demand, enrollment, tuition and research activities. The University expects this growth in academic activities to continue, while its research growth is dependent upon the national trend of Federal research activity.

State appropriations - operations are expected to decrease by approximately \$17 million in 2009, based upon the final State budget.

State appropriations will remain an important source of funding for the schools of the University and State budgetary issues will impact the level of appropriations received in the future. The University continues to focus on cost control efforts and revenue enhancement initiatives in order to address any prospective budgetary challenges that may occur.

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2008

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Growth in governmental and private grants and contracts is critical to the University's ability to attract faculty and scientists and enhance its academic reputation. Research funds are received from Federal, State and local governments and private sources, which generally provide for the recovery of direct and indirect costs. The University is challenged to maintain its growth in Federal research funding, due to recent reductions in the National Institutes of Health budget, while it expands its collaborative efforts with other state universities. State research funding involving nursing programs is expected to increase in 2009.

UH is faced with financial challenges, as its expenses have exceeded its revenues by approximately \$57 million in 2008, \$25 million in 2007 and \$40 million in 2006, respectively. Since it is a safety net hospital and has a high level of uninsured and Medicaid patients representing 60% of its gross revenues, UH must deal with the financial impact of revenue collections and reimbursement issues related to its payors. The level of charity care services and related expenses has been increasing each year to approximately 25% of its patient case volume, at an estimated value of approximately \$126 million, while charity care funding from the State totaled \$96 million and \$90 million in 2008 and 2007, respectively, and is expected to total \$96 million in 2009. UH also provides the highest level of graduate medical education ("GME") in the State, for which it will receive \$9.1 million in 2009 as reimbursement from the Medicaid program. The University continues to advocate with State officials regarding increasing reimbursement levels for GME activities.

UH's operating budget for 2009 projects a \$23 million deficit, as it implements revenue initiatives and cost containment projects. These initiatives include a reduction in the average length of stay per patient, a review of all service lines, a renegotiation of managed care contracts, improved productivity and supply efficiencies. The 2009 budget also projects that patient volumes, such as discharges, surgeries and clinic visits, are level with 2008 volumes.

The University recorded liabilities to third parties associated with cost report adjustments, which totaled \$53.1 million and \$61.7 million as of June 30, 2008 and 2007, respectively. The University does not believe that any penalties and interest will be assessed, and accordingly, has not accrued an estimate for interest and penalties as of June 30, 2008 and 2007, respectively. The University self disclosed these items to the Centers for Medicare and Medicaid Services ("CMS") and the related fiscal intermediary and CMS issued a notice of intent to re-open cost reports for 2001 through 2003. Medicare reviewed and settled on these years, and, Medicaid remains unresolved. Management believes it has appropriately accrued for the amounts owed to Medicare and Medicaid and that any additional adjustments that may arise from these audits will not have a material effect on the University's financial position, operating results or cash flows. The ultimate payment of these liabilities will be subject to discussions and negotiations with the relevant authorities, which the University continues to pursue.

UBHC and the Cancer Institute of New Jersey ("CINJ") are expected to maintain financial stability in the future. State appropriations - operations for these units totaled \$54.0 million in 2008, and are projected to decrease by \$5.2 million for CINJ. UBHC's new contract with the State Department of Corrections effective October 2008 to provide medical and dental healthcare services to inmates of state prisons is expected to generate \$104 million of annual revenues.

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. Approximately 80% of the University's employees are represented by collective bargaining agreements, which are expected to increase labor costs by approximately \$24.6 million in 2009.

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2008

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Efforts continue to implement strategies to stabilize the University's financial condition and to collaborate with the State to jointly address the financial challenges of University Hospital. These efforts are focused on securing the resources necessary to provide New Jersey's citizens with world-class education, leading-edge research and the highest quality healthcare.

#### **Legal Matters**

On December 30, 2005, the United States Attorney's Office for the District of New Jersey (the "Office") filed a criminal complaint charging the University with receiving improper Medicaid reimbursements. In connection with the filing of that complaint, the University and the Office entered into a Deferred Prosecution Agreement ("DPA"). Pursuant to the agreement, the University agreed to undertake remedial actions, retain an independent monitor ("Federal Monitor") and continue to cooperate with the Office, including with respect to any ongoing investigations, and make repayment of \$4.9 million relating to physician services in outpatient clinics. This amount was repaid by the University in 2006.

On December 13, 2007, the Office announced that an extension of the DPA and retention of the Federal Monitor were not necessary, and terminated the DPA on January 10, 2008 and dismissed with prejudice the criminal complaint. The University is engaged in negotiations with the Department of Justice to settle the civil component of the criminal complaint and has recorded a legal reserve in that regard.

Under the DPA, the Federal Monitor had certain investigative and other authority related to the University's operations. As a result of one of the investigations, the Federal Monitor issued a report in November 2006 which alleged that the University had violated certain billing and anti-kickback laws and regulations. The report indicated that the University could be liable for as much as \$84 million in restitution, fines and penalties as a result of these potential violations. The University engaged external counsel to review the issues, who concluded that it was reasonably possible that a liability had been incurred, but that the amount of the liability could not be reasonably estimated. The University is currently engaged in negotiations with the Office regarding this matter and in fiscal year 2008 has recorded a legal reserve in that regard. No amounts have been recorded in the 2007 financial statements.

Other matters referenced in the periodic Federal Monitor reports have been and continue to be investigated by the University. Where necessary, the University has engaged external experts to assess various healthcare matters, and the related liabilities have been estimated and recorded within the 2008 and 2007 financial statements, respectively.

Since 2005, the University has become aware of Federal and State inquiries and investigations and received subpoenas and other requests for information. The University has cooperated with the agencies and provided the information and data requested. Although the ultimate outcome of these investigations is unknown at this time, management does not believe they will have a material effect on the University's financial position, operating results or cash flows.

# **Basic Financial Statements**

**University of Medicine and Dentistry of New Jersey**  
**Consolidated Statements of Net Assets**  
(In thousands of dollars)

	June 30,	
	2008	2007
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 178,221	\$ 142,012
Short-term investments	2,220	5,056
Accounts receivable, net of allowance for doubtful accounts of \$192,968 in 2008 and \$161,483 in 2007	111,465	125,797
Appropriations receivable	-	4,197
Other receivables, net of allowance for doubtful accounts of \$9,612 in 2008 and \$9,913 in 2007	53,002	49,772
Grants receivable, net of allowance for doubtful accounts of \$7,124 in 2008 and \$8,179 in 2007	77,950	63,760
Inventory and other assets	20,909	15,482
Assets held by trustees - current portion	29,362	33,069
Total current assets	<u>473,129</u>	<u>439,145</u>
Noncurrent assets		
Endowment investments	21,964	27,793
Other long-term investments	32,819	116,316
Loans to students	28,405	27,299
Deferred financing costs and other	16,621	17,866
Assets held by trustees	52,133	51,839
Capital assets, net	1,055,970	1,083,529
Total noncurrent assets	<u>1,207,912</u>	<u>1,324,642</u>
Total assets	<u>1,681,041</u>	<u>1,763,787</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	171,557	136,454
Estimated third party payors settlements	104,997	111,431
Accrued vacation expense	46,828	45,017
Deferred revenues	54,648	48,579
Long-term debt and capital lease obligations - current portion	39,753	17,114
Total current liabilities	<u>417,783</u>	<u>358,595</u>
Noncurrent liabilities		
Accrued claims liability and other	21,253	20,992
Long-term debt and capital lease obligations	645,686	685,342
Total noncurrent liabilities	<u>666,939</u>	<u>706,334</u>
Total liabilities	<u>1,084,722</u>	<u>1,064,929</u>
<b>Net Assets</b>		
Invested in capital, net of related debt	445,303	459,138
Restricted expendable	183,762	249,488
Restricted nonexpendable	59,726	57,797
Unrestricted	(92,472)	(67,565)
Total net assets	<u>\$ 596,319</u>	<u>\$ 698,858</u>

The accompanying notes are an integral part of these financial statements.

**University of Medicine and Dentistry of New Jersey**  
**Statements of Net Assets – Aggregate Discretely Presented Component Units**  
(In thousands of dollars)

	June 30, 2008				June 30, 2007		
	New Jersey Health Foundation, Inc.	Cancer Institute of New Jersey Foundation, Inc. (unaudited)	University Physician Associates of New Jersey, Inc. ("UPA")	Total	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc. ("UPA")	Total
<b>Assets</b>							
Cash and cash equivalents	\$ 231	\$ 2,540	\$ 8,506	\$ 11,277	\$ 64	\$ 6,803	\$ 6,867
Cash and cash equivalents whose use is limited	-	-	513	513	-	2,546	2,546
Contributions receivable, net	22,661	11,114	-	33,775	27,058	-	27,058
Investments	189,121	143	10,256	199,520	212,623	10,470	223,093
Physician reserve fund	-	-	775	775	-	745	745
Other assets	43	36	651	730	-	623	623
Capital assets, net	2,238	-	169	2,407	2,184	244	2,428
<b>Total assets</b>	<b>\$ 214,294</b>	<b>\$ 13,833</b>	<b>\$ 20,870</b>	<b>\$ 248,997</b>	<b>\$ 241,929</b>	<b>\$ 21,431</b>	<b>\$ 263,360</b>
<b>Liabilities and Net Assets</b>							
<b>Liabilities</b>							
Accounts payable and accrued expenses	\$ 816	\$ 107	\$ 414	\$ 1,337	\$ 1,188	\$ 413	\$ 1,601
Grants payable	27,706	-	-	27,706	25,624	-	25,624
Payable to New Jersey Medical School ("NJMS") department funds	-	-	2,462	2,462	-	2,651	2,651
Payable to NJMS dean's funds	-	-	1,417	1,417	-	3,335	3,335
Payable to physician reserve fund	-	-	664	664	-	664	664
Payable to physician overhead funds	-	-	303	303	-	483	483
Payable to participant division fund	-	-	14,427	14,427	-	13,380	13,380
Funds held in custody for others	339	-	-	339	4,465	-	4,465
<b>Total liabilities</b>	<b>28,861</b>	<b>107</b>	<b>19,687</b>	<b>48,655</b>	<b>31,277</b>	<b>20,926</b>	<b>52,203</b>
<b>Net Assets</b>							
Board designated - unrestricted	50,505	694	1,183	52,382	60,612	505	61,117
Temporarily restricted	21,617	12,992	-	34,609	23,967	-	23,967
Permanently restricted	113,311	40	-	113,351	126,073	-	126,073
<b>Total net assets</b>	<b>185,433</b>	<b>13,726</b>	<b>1,183</b>	<b>200,342</b>	<b>210,652</b>	<b>505</b>	<b>211,157</b>
<b>Total liabilities and net assets</b>	<b>\$ 214,294</b>	<b>\$ 13,833</b>	<b>\$ 20,870</b>	<b>\$ 248,997</b>	<b>\$ 241,929</b>	<b>\$ 21,431</b>	<b>\$ 263,360</b>

The accompanying notes are an integral part of these financial statements.

**University of Medicine and Dentistry of New Jersey**  
**Consolidated Statements of Revenues, Expenses and Changes in Net Assets**  
(In thousands of dollars)

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating revenues</b>		
Tuition and fees, net	\$ 75,140	\$ 69,165
Governmental grants and contracts	238,521	224,414
Private grants and contracts	66,965	64,797
Net patient service revenues	502,981	506,518
Professional services and contracts	236,505	227,832
Auxiliary sales and services	19,793	17,740
Other operating revenues	36,518	39,169
Total operating revenues	<u>1,176,423</u>	<u>1,149,635</u>
<b>Operating expenses</b>		
Instruction	192,415	188,064
Research	183,523	187,534
Public service	69,928	61,311
Academic and student support	32,814	31,547
Institutional and administrative support	104,054	110,746
Patient care services	740,741	708,068
Professional services and contracts	190,230	178,162
Operation and maintenance of plant	52,167	48,952
Depreciation	78,297	77,146
Insurance	18,246	1,952
Auxiliary enterprises and other	18,066	15,908
Total operating expenses	<u>1,680,481</u>	<u>1,609,390</u>
Operating loss	<u>(504,058)</u>	<u>(459,755)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations - operations	281,427	272,784
Fringe benefits paid by the State	182,504	173,244
Return of unexpended State appropriations	(37,543)	-
Investment income	13,654	16,977
Unrealized appreciation on investments	4,629	2,901
Net interest expense	(39,295)	(32,017)
Other	(4,134)	(9,431)
Total nonoperating revenues, net	<u>401,242</u>	<u>424,458</u>
<b>Other revenues</b>		
State appropriations - capital	277	3,261
<b>Decrease in net assets</b>	<u>(102,539)</u>	<u>(32,036)</u>
Net assets - beginning of year	698,858	730,894
<b>Net assets - end of year</b>	<u>\$ 596,319</u>	<u>\$ 698,858</u>

The accompanying notes are an integral part of these financial statements.

**University of Medicine and Dentistry of New Jersey**  
**Statements of Revenues, Expenses and Changes in Net Assets – Aggregate Discretely Presented Component Units**  
(In thousands of dollars)

	Six Months Ended June 30, 2008 Cancer Institute of New Jersey Foundation, Inc. (unaudited)	Year Ended June 30, 2008			Year Ended June 30, 2007		
		New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total
<b>Operating revenues</b>							
Contributions, net	\$ 446	\$ 32,026	\$ -	\$ 32,472	\$ 21,608	\$ -	\$ 21,608
Net physician billings	-	-	86,318	86,318	-	84,911	84,911
Net unrealized and realized (losses) gains on investments	(2)	(16,982)	(25)	(17,009)	28,248	47	28,295
Interest and dividend income	33	3,972	-	4,005	3,862	-	3,862
Investment management and cost recovery fees	-	(5,074)	-	(5,074)	(5,009)	-	(5,009)
Other revenues, net	310	47	150	507	165	850	1,015
Total revenue and gains	<u>787</u>	<u>13,989</u>	<u>86,443</u>	<u>101,219</u>	<u>48,874</u>	<u>85,808</u>	<u>134,682</u>
<b>Operating expenses</b>							
Grants	549	25,441	-	25,990	21,144	-	21,144
Distributions to UPA physicians	-	-	31,242	31,242	-	30,250	30,250
Distributions to NJMS department funds	-	-	8,929	8,929	-	9,049	9,049
Distributions to participant division fund	-	-	18,823	18,823	-	18,086	18,086
Distributions to NJMS dean's fund	-	-	5,962	5,962	-	5,837	5,837
Distributions to University medical malpractice fund	-	-	2,579	2,579	-	2,528	2,528
Fund raising	522	1,757	-	2,279	2,244	-	2,244
General and administrative	137	(518)	18,230	17,849	(314)	18,392	18,078
Total expenses	<u>1,208</u>	<u>26,680</u>	<u>85,765</u>	<u>113,653</u>	<u>23,074</u>	<u>84,142</u>	<u>107,216</u>
(Decrease) Increase in net assets	(421)	(12,691)	678	(12,434)	25,800	1,666	27,466
<b>Other changes in net assets</b>							
Refunded to Grantor	-	(680)	-	(680)	(1,975)	-	(1,975)
Transfer of net assets (A)	11,848	(11,848)	-	-	-	-	-
Other transfers	2,299	-	-	2,299	-	-	-
Total other changes in net assets	<u>14,147</u>	<u>(12,528)</u>	<u>-</u>	<u>1,619</u>	<u>(1,975)</u>	<u>-</u>	<u>(1,975)</u>
Net assets - beginning of year	-	210,652	505	211,157	186,827	(1,161)	185,666
Net assets - end of year	<u>\$ 13,726</u>	<u>\$ 185,433</u>	<u>\$ 1,183</u>	<u>\$ 200,342</u>	<u>\$ 210,652</u>	<u>\$ 505</u>	<u>\$ 211,157</u>

(A) The transfer of net assets primarily represented the balance of a grant awarded to the Cancer Institute of New Jersey Foundation, which at the time of the grant award was a unit of the New Jersey Health Foundation, Inc.

The accompanying notes are an integral part of these financial statements.

**University of Medicine and Dentistry of New Jersey**  
**Consolidated Statements of Cash Flows**  
(In thousands of dollars)

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 76,772	\$ 69,164
Research grants and contracts	296,049	286,647
Services to patients	511,538	495,738
Professional services and contracts	235,846	226,669
Other receipts	52,012	76,704
Loan repayments from students	3,681	4,128
Loans to students	(4,179)	(6,574)
Payments to employees	(964,759)	(928,704)
Payments to vendors	(452,859)	(417,239)
Net cash and cash equivalents used in operating activities	<u>(245,899)</u>	<u>(193,467)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	285,624	275,150
Affiliate contributions, net of transfers to the State	8,503	8,395
Other payments, net	(25,805)	(22,965)
Net cash and cash equivalents provided by noncapital financing activities	<u>268,322</u>	<u>260,580</u>
<b>Cash flows from capital financing activities</b>		
Proceeds from issuance of capital debt	(354)	530
Capital grants received	310	27,609
Purchases of capital assets	(51,315)	(67,973)
Principal payments on debt and capital lease obligations	(16,095)	(16,180)
Interest payments on debt and capital lease obligations	(33,371)	(35,470)
Net cash and cash equivalents used in capital financing activities	<u>(100,825)</u>	<u>(91,484)</u>
<b>Cash flows from investing activities</b>		
Deposits with assets held by trustees	(1,730)	559
Change in receipts from assets held by trustees	5,276	25,532
Proceeds from sales and maturities of investments	96,719	7,954
Purchases of investments	(70)	(5,765)
Interest on investments	14,416	18,673
Net cash and cash equivalents provided by investing activities	<u>114,611</u>	<u>46,953</u>
Net increase in cash and cash equivalents	36,209	22,582
Cash and cash equivalents - beginning of year	142,012	119,430
Cash and cash equivalents - end of year	<u>\$ 178,221</u>	<u>\$ 142,012</u>
<b>Reconciliation of operating loss to net cash and cash equivalents used in operating activities</b>		
Operating loss	\$ (504,058)	\$ (459,755)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Fringe benefits paid by the State	182,504	173,244
Depreciation and amortization expense	79,107	77,146
Provision for bad debts	154,256	150,282
Changes in assets and liabilities		
Receivables, net	(158,097)	(152,960)
Inventory and other assets	(6,189)	5,056
Loans to students	(498)	(4,738)
Accounts payable and accrued expenses	1,007	24,938
Deferred revenues	6,069	(6,680)
Net cash and cash equivalents used in operating activities	<u>\$ (245,899)</u>	<u>\$ (193,467)</u>
<b>Non Cash transactions</b>		
Capital assets acquired through capital leases, business acquisition and transfers	\$ -	\$ 597

The accompanying notes are an integral part of these financial statements.

**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**  
**(In thousand of dollars)**

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**1. Organization**

The University of Medicine and Dentistry of New Jersey (the “University”), a component unit of the State of New Jersey (the “State”), was established in 1964 and operates under the provisions of the “Medical and Dental Education Act of 1970” (the “Act”). The Act provided for the combination of the Rutgers Medical School and the New Jersey College of Medicine and Dentistry into a single entity known as the College of Medicine and Dentistry of New Jersey, which was subsequently renamed the University of Medicine and Dentistry of New Jersey. The Act also provides for the appointment of a Board of Trustees by the Governor of New Jersey. The Board of Trustees has general supervision over and is vested with the conduct of the University. The University receives appropriations for operations, fringe benefits and capital from the State, which are determined annually through the State’s legislative process.

The University is a body corporate and politic of the State. Accordingly, the University’s consolidated financial statements are included in the State’s Comprehensive Annual Financial Report.

The University’s consolidated financial statements include the following units:

Schools of the University:

- UMDNJ-New Jersey Medical School (“NJMS”)
- UMDNJ-Robert Wood Johnson Medical School
- UMDNJ-School of Osteopathic Medicine
- UMDNJ-New Jersey Dental School
- UMDNJ-Graduate School of Biomedical Sciences
- UMDNJ-School of Health Related Professions
- UMDNJ-School of Nursing
- UMDNJ-School of Public Health

University Health Care Units:

- UMDNJ-University Hospital (“UH”)
- UMDNJ-University Behavioral HealthCare (“UBHC”)
- Eric B. Chandler Health Center
- The Cancer Institute of New Jersey (“CINJ”)
- Broadway House for Continuing Care
- Child Health Institute of New Jersey
- University Correctional HealthCare

Faculty Practice Plans:

- UMDNJ-Robert Wood Johnson Medical School (University Medical Group)
- UMDNJ-School of Osteopathic Medicine
- UMDNJ-New Jersey Dental School
- UMDNJ-School of Health Related Professions
- UMDNJ-School of Nursing

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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Lease Holding Corporation:

- University Care Corporation (“UCC”)

UBHC has a contract with the New Jersey Department of Corrections to provide psychiatric services to inmates in the State prisons. As a result of this contract, the University formed University Correctional HealthCare, for the management of correctional healthcare. UBHC administers the behavioral healthcare component of this contract.

As defined by Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No 14, *The Financial Reporting Entity*, the New Jersey Health Foundation, Inc., (the “Foundation”), which includes the Foundation of the University of Medicine and Dentistry of New Jersey (“UMDNJ Foundation”), and the Faculty Practice Plan for the UMDNJ-New Jersey Medical School – University Physician Associates of New Jersey, Inc. (“UPA”) meet the criteria to be reported as component units of the University.

The Cancer Institute of New Jersey Foundation, Inc. (“CINJ Foundation”) was included in the UMDNJ Foundation until January 1, 2008, at which time it became an independent entity and met the criteria to be reported as a component unit. As a result, the Foundation transferred net assets of \$11,848 to the CINJ Foundation, primarily representing the balance of a grant awarded to the CINJ Foundation, which at the time of the grant award was a unit of the Foundation.

The Foundation’s, CINJ Foundation’s and UPA’s results are reported in the aggregate discretely presented component units as separate statements within the basic financial statements because of the differences in their reporting models, as described in Note 2.

During 2008 and 2007, the Foundation distributed \$25,441 and \$21,144, respectively, to fund University programs and operations. For the six months ended June 30, 2008, CINJ Foundation distributed \$549 to fund CINJ programs and operations. Included in the Foundation’s financial statements are \$27,706 and \$25,624 of grants payable to the University as of June 30, 2008 and 2007, respectively. Separate financial statements for the Foundation can be obtained by writing to the President, New Jersey Health Foundation, Inc., 120 Albany Street, Tower II, Suite 850, New Brunswick, New Jersey 08901-9888.

During 2008 and 2007, UPA distributed \$17,470 and \$17,414, respectively, to NJMS, which included contributions toward the medical malpractice fund. Included in UPA’s financial statements are \$4,293 and \$6,399 of distributions payable to the University as of June 30, 2008 and 2007, respectively, which are included within the University’s financial statements in other receivables. Separate financial statements for UPA can be obtained by writing to the Executive Director/Chief Executive Officer, University Physician Associates of New Jersey, Inc., 30 Bergen Street, ADMC 12, Room 1205, Newark, New Jersey 07107.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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### 2. Summary of Significant Accounting Policies

The following is a summary of the University's significant accounting policies:

#### **Basis of Presentation**

The consolidated financial statements have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles as prescribed by GASB. All significant intercompany balances are eliminated in consolidation.

#### **Basis of Accounting**

The University uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Foundation and CINJ Foundation are nonprofit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation's or CINJ Foundation's financial statements in the University's financial reporting entity for these differences.

UPA is a nonprofit organization that reports its financial statements on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The impact of the modified basis of cash receipts and disbursements on the aggregate discretely presented component units' statements of net assets and statements of revenues, expenses and changes in net assets is not reasonably determinable. However, it is material to the aggregate discretely presented component units' financial statements.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and accompanying footnotes to the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The University's significant estimates include its contractual allowances and allowances for doubtful accounts for patient service revenues and the related patient accounts receivable, reserves for grants and other receivables, amounts due to third party payors, accrued claims liability and commitments and contingencies.

#### **Cash and Cash Equivalents**

Cash and cash equivalents, excluding assets held by trustees, represent operating cash, money market investments and commercial paper that are unrestricted with maturities of three months or less at the date of purchase.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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### Investments

Investments in equity securities and debt securities are valued at fair value. Fair value is generally determined by sales prices or bid-and-asked quotations that are available on a securities exchange registered with the Securities and Exchange Commission or in the over-the-counter market. For investments in mutual funds, the fair value per share, or unit, is the value that is determined and published and the basis for current transactions. Investment income or loss, including realized gains and losses on investments, interest and dividends, is included in nonoperating revenues unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are also included in nonoperating revenues.

### Other Receivables

Other receivables represent amounts due from hospitals under affiliation agreements with the University for use of its faculty and residents, the current portion of loans to students, amounts due from UPA and amounts due from State and local municipalities and agencies for services rendered.

### Grants Receivables

Grants receivables represent amounts due from Federal, State and local governments, pharmaceutical firms, the Foundation and private agencies, for research and other sponsored programs.

### Component Unit - New Jersey Health Foundation, Inc.'s Contributions Receivable

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give, are not recognized until they become unconditional. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. Contributions to be received after one year are discounted at a discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Contributions receivable that are expected to be received subsequent to June 30 are as follows:

	2008	2007
One year or less	\$ 9,047	\$ 15,530
One year to five years	15,224	13,443
Present value discount ranging from 3% to 6%	(1,464)	(1,754)
Allowance for uncollectible contributions	(146)	(161)
	<u>\$ 22,661</u>	<u>\$ 27,058</u>

### Inventories

Inventories, which are included in inventory and other assets, are stated at the lower of cost using the first-in, first-out method or market.

### Endowments

Endowment investments are subject to the restriction of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. University management has the authority to utilize investment income, in accordance with the terms of each specific gift as approved by the Board of Trustees. Included in endowment investments is realized and unrealized appreciation on donor-restricted endowments. The unrealized net appreciation or depreciation on endowment investments is included in restricted nonexpendable net assets within the consolidated statements of

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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revenues, expenses and changes in net assets. It is the University's policy to account for endowment appreciation in accordance with donor specifications.

### **Assets Held by Trustees**

Assets held by trustees, which are recorded at fair value, represent assets whose use is limited under various bond indenture agreements. Such assets consist principally of investments in U.S. government obligations, commercial paper, repurchase agreements and cash management funds (see Note 5).

### **Capital Assets, Net**

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 maintenance repairs are expensed when incurred. Depreciation is provided on a straight-line basis over the shorter of the estimated useful lives of the related assets or lease terms, ranging from 2 to 40 years. Amortization of assets recorded under capital leases is included with depreciation expense in the financial statements. Gains and losses resulting from the retirement of capital assets are also included in the financial statements within nonoperating revenues. The University follows the Federal Circular A-110 equipment guidelines for all equipment acquired with grant funding.

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

The University reviews the realizability of long-lived assets and certain tangible assets whenever events and circumstances occur which indicate recorded costs may not be recoverable. No impairments of long-lived assets were recognized during 2008 or 2007.

### **Deferred Financing Costs and Other**

Deferred financing costs represent costs incurred to obtain various capital financings and are amortized over the term of the related debt using the effective interest method or the straight-line method when not materially different. Deferred financing costs totaled \$9,330 and \$9,765, net of accumulated amortization of \$3,146 and \$2,711 as of June 30, 2008 and 2007, respectively.

In December 2006, the University acquired the intellectual property of Public Health Research Institute for approximately \$8,101. This amount is included in Deferred Financing Costs and Other and is being amortized over a ten year period.

### **Deferred Revenues**

Deferred revenues include amounts received in advance from grant and contract sponsors, and amounts received from tuition and fees that relate to the subsequent fiscal year.

### **Accrued Claims Liability**

Accrued claims liability represents estimated amounts related to workers compensation claims.

### **Component Unit – New Jersey Health Foundation, Inc.'s Grants Payable**

Grants payable are recorded at the time authorized by the Foundation's Board of Trustees and communicated to the recipient and are expected to be paid within one year.

### **Net Assets**

Net assets of the University are classified in four components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, the State, or contributors external to the University, including amounts deposited with trustees as required by revenue bond indentures, as

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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discussed in Note 8. *Restricted nonexpendable net assets* are those subject to externally imposed stipulations that they be maintained permanently. Such net assets include the corpus portion (historic value) of gifts and the University's permanent endowment fund and student loans. *Unrestricted net assets* are remaining net assets that do not meet the definition of *net assets invested in capital assets, net of related debt or restricted*.

### **Revenues and Expenses**

The University's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare, education and research services which are the University's principal activities. Nonexchange revenues, including State appropriations (excluding amounts related to capital), investment income, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare, education and research services, other than financing costs. Non-operating expenses are all expenses incurred related to financing, noncapital financing and investing activities.

### **Net Patient Service Revenues and Patient Accounts Receivable**

Net patient service revenues are recorded on an accrual basis in the period in which the service is provided. These amounts are net of allowances to give recognition to differences between charges and reimbursement rates from third party payors. Reimbursement from third party payors under various methodologies is based on the level of care provided. Certain net revenues received are subject to audit and retroactive adjustments for which amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined (see Note 4).

### **Professional Services and Contracts Revenues**

Professional services and contracts revenues are recorded on an accrual basis and are reported at the estimated net realizable amounts from patients, third party payors and others for services rendered.

### **Auxiliary Sales and Services**

Auxiliary sales and services revenues include revenues from parking facilities, University's housing and dining facilities, as well as other business type activities such as the computer hardware store and the gift shop.

### **Capitalized Interest Costs**

Interest costs, net of investment income, are capitalized as part of capital expenditures and depreciated over the estimated useful life of the asset.

### **New Authoritative Pronouncements**

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefit expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. Employees of New Jersey State colleges and universities are employees of the State, therefore, the other postemployment benefits liability is the State's legal responsibility and is being reported by the State.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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### **Comparative Information and Revision**

The University's financial statements include comparative financial information. Certain prior year amounts have been revised to conform to the current year presentation. During 2008, the University revised its presentation of certain components of operating revenues, operating expenses and non operating revenues (expenses) for the year ended June 30, 2007 by increasing other operating revenues by \$13,823 and non operating revenues (expenses) other by \$2,099 and decreasing institutional and administrative support by \$1,438 and non operating revenues (expenses) miscellaneous gifts and grants by \$17,360, respectively. These revisions had no impact on total net assets as of June 30, 2007.

### **3. Tuition and Fees, Net**

Tuition and fees revenues are recorded on an accrual basis and are reported net of allowances. Scholarship allowances are the estimated difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Scholarship allowances totaled \$5,010 and \$5,150 in 2008 and 2007, respectively.

### **4. Healthcare Reimbursement System**

A summary of the payment arrangements with major third party payors is as follows:

- Medicare – inpatient acute care, inpatient behavioral health, and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The University is reimbursed for certain items at a tentative rate with final settlement determined after submission of its annual cost report by the University and audits thereof by the Medicare fiscal intermediary. The University's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the University. UH's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2004 and UBHC has settled its cost reports through June 30, 2007.
- Medicaid – inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid based upon a cost reimbursement methodology and certain services, including adult behavioral health services, are paid based on a Medicaid fee schedule. The University is paid for reimbursable costs at a tentative rate with final settlement determined after submission of the annual cost report by the University and audit thereof by the Medicaid fiscal intermediary. UH's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 2003 and UBHC has settled its cost reports through June 30, 2004.

The University has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the University 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

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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the amounts settled are recorded in the year of settlement. The University recognized revenues in 2008 and 2007 of approximately \$12,900 and \$2,600, respectively, as a result of changes in estimated third party settlements.

During 2005, the University became aware of errors in its filed Medicare and Medicaid cost reports for years 2000 through 2005, and recorded liabilities to Medicare and Medicaid, which totaled approximately \$53,100 and \$61,700 as of June 30, 2008 and 2007, respectively. These amounts are included in Estimated Third Party Payor Settlements. The University does not believe that any penalties and interest will be assessed, and accordingly, has not accrued an estimate for interest and penalties as of June 30, 2008 and 2007. The University self disclosed these errors to the Centers for Medicare and Medicaid Services (“CMS”) and the related fiscal intermediary and CMS has issued a notice of intent to re-open cost reports for 2001 through 2003. Medicare reviewed and settled on these years, and Medicaid remains unresolved. Management believes it has appropriately provided for the amounts owed to Medicare and Medicaid and that any additional adjustments that may arise from these audits will not have a material effect on the University’s financial position, operating results or cash flows.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation for which action for non-compliance includes fines, penalties, and exclusion from the Medicare and Medicaid programs. The University has established a Corporate Compliance Program to monitor and ensure compliance with these regulations (see Note 13).

UH and UBHC provide care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services and the Department of Human Services without charge or at amounts less than their established rates. These units maintain records to identify and monitor the level of charity care they provide, which include the amount of gross charges foregone for services and supplies furnished. Gross charges related to charity care totaled \$429,322 and \$331,345 in 2008 and 2007, respectively. The University receives partial reimbursement for the charity care it provides through the Health Care Subsidy Fund.

The components of net patient service revenues are as follows:

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Gross charges	<u>\$ 2,116,642</u>	<u>\$ 1,863,116</u>
Net additions (deductions) from gross charges		
Health Care Subsidy Fund payments		
Charity care	95,662	89,998
Hospital relief	18,129	16,662
Contractual and other allowances	(1,599,240)	(1,343,562)
Provision for bad debts	<u>(128,212)</u>	<u>(119,696)</u>
Subtotal	<u>(1,613,661)</u>	<u>(1,356,598)</u>
Net patient service revenues	<u>\$ 502,981</u>	<u>\$ 506,518</u>

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

### 5. Cash and Cash Equivalents, Investments and Assets Held by Trustees

Cash on deposit, which is included in cash and cash equivalents in the consolidated financial statements, is \$14,803 and \$14,616 as of June 30, 2008 and 2007, respectively, and is partially insured by Federal Deposit Insurance Corporation in the amount of \$250 in each depository. Balances above the Federal Deposit Insurance Corporation amount are insured by the Government Unit Deposit Protection Act, which insures all New Jersey government units' deposits in excess of Federal Deposit Insurance Corporation maximums.

The University's cash equivalents balance includes \$166 million of funds which are invested in the State's cash management fund.

Investments consist of the following:

	Cost	Fair Value	Unrealized Gains (Losses)
<b>June 30, 2008</b>			
U.S. government agencies	\$ 31,454	\$ 31,507	\$ 53
Common stock	624	20,143	19,519
Corporate bonds	5,003	5,133	130
Mutual funds	217	220	3
	<u>\$ 37,298</u>	<u>\$ 57,003</u>	<u>\$ 19,705</u>
<b>June 30, 2007</b>			
U.S. government agencies	\$ 128,173	\$ 124,591	\$ (3,582)
Common stock	624	19,305	18,681
Corporate bonds	5,004	5,109	105
Mutual funds	146	160	14
	<u>\$ 133,947</u>	<u>\$ 149,165</u>	<u>\$ 15,218</u>

Investment maturities consist of the following:

	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
<b>June 30, 2008</b>					
U.S. government agencies	\$ 31,507	\$ 2,000	\$ 4,003	\$ 25,504	\$ -
Corporate bonds	5,133	-	5,133	-	-
Mutual funds	220	220	-	-	-
	<u>\$ 36,860</u>	<u>\$ 2,220</u>	<u>\$ 9,136</u>	<u>\$ 25,504</u>	<u>\$ -</u>
<b>June 30, 2007</b>					
U.S. government agencies	\$ 124,591	\$ 4,896	\$ 46,287	\$ 72,469	\$ 939
Corporate bonds	5,109	-	5,109	-	-
Mutual funds	160	160	-	-	-
	<u>\$ 129,860</u>	<u>\$ 5,056</u>	<u>\$ 51,396</u>	<u>\$ 72,469</u>	<u>\$ 939</u>

**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**

Assets held by trustees consist of the following:

	Cost	Fair Value	Unrealized (Losses) Gains
<b>June 30, 2008</b>			
U.S. treasuries	\$ 11,434	\$ 11,414	\$ (20)
U.S. government agencies	4,892	4,908	16
Commercial paper	7,059	7,121	62
Repurchase agreements	27,781	27,781	-
Cash management funds	30,257	30,257	-
Accrued interest	14	14	-
	<u>\$ 81,437</u>	<u>\$ 81,495</u>	<u>\$ 58</u>
<b>June 30, 2007</b>			
U.S. treasuries	\$ 11,405	\$ 11,331	\$ (74)
Commercial paper	11,954	11,953	(1)
Repurchase agreements	27,781	27,781	-
Cash management funds	33,814	33,814	-
Accrued interest	29	29	-
	<u>\$ 84,983</u>	<u>\$ 84,908</u>	<u>\$ (75)</u>

Assets held by trustees maturities consist of the following:

	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
<b>June 30, 2008</b>					
U.S. treasuries	\$ 11,414	\$ 11,414	\$ -	\$ -	\$ -
U.S. government agencies	4,908	4,908	-	-	-
Commercial paper	7,121	7,121	-	-	-
Repurchase agreements	27,781	-	7,938	-	19,843
Cash management funds	30,257	30,257	-	-	-
Accrued interest	14	14	-	-	-
	<u>\$ 81,495</u>	<u>\$ 53,714</u>	<u>\$ 7,938</u>	<u>\$ -</u>	<u>\$ 19,843</u>
<b>June 30, 2007</b>					
U.S. treasuries	\$ 11,331	\$ 11,331	\$ -	\$ -	\$ -
Commercial paper	11,953	11,953	-	-	-
Repurchase agreements	27,781	-	1,161	6,777	19,843
Cash management funds	33,814	33,814	-	-	-
Accrued interest	29	29	-	-	-
	<u>\$ 84,908</u>	<u>\$ 57,127</u>	<u>\$ 1,161</u>	<u>\$ 6,777</u>	<u>\$ 19,843</u>

Substantially all of the University's investments, including assets held by trustees, are Category 1 investments, which are defined by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, as investments that are insured or registered and are held by the institution, or its agent, in the institution's name. The University invests in repurchase agreements, principally of government securities, which are agreements between a seller and a buyer whereby the seller agrees to repurchase the securities at an agreed upon price and time. These repurchase agreements are fully collateralized by obligations of the U.S. government and U.S. government agencies.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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Investment income consists of the following:

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Interest income	\$ 13,119	\$ 16,493
Dividend income	535	484
	<u>\$ 13,654</u>	<u>\$ 16,977</u>

### **Interest Rate Risk**

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest rate yields on investments consist of the following:

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
U.S. government agencies	3.00% - 5.00%	3.00% - 5.75%
Corporate bonds	6.13%	6.13%

Interest rate yields on assets held by trustees consist of the following:

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
U.S. treasuries	1.30% - 1.82%	2.32% - 2.38%
U.S. government agencies	4.53% - 4.60%	
Commercial paper	2.24% - 3.38%	5.19% - 5.66%
Repurchase agreements	2.50% - 7.80%	2.50% - 7.80%
Cash management funds	1.12% - 4.00%	4.26% - 5.22%

### **Credit Risk**

The University's investment policy limits investments in corporate bonds to the top rating issued by nationally recognized statistical rating organizations. As of June 30, 2008 and 2007, respectively, investments in corporate bonds were rated A1 by Standard and Poor's and P1 by Moody's Investors Service. Mutual bond fund investments are not rated.

### **Concentration of Credit Risk**

The University's investment policy places no limits on the amount that may be invested in U.S. Government securities. However, holdings other than U.S. Government securities, must be diversified so as to limit concentration in any single obligor, industry or geographic area. Investment of corporate bonds and commercial paper must be in U.S. corporations. More than 5% of investments are in U.S. government agencies securities, specifically Federal Home Loan Bank totaling \$10,002, Federal National Mortgages Association totaling \$12,407 and Federal Home Loan Mortgage Corporation totaling \$14,006. These securities are not guaranteed by the United States government.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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### Component Unit – New Jersey Health Foundation Inc.’s Investments

Investments are stated at fair value. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The estimated fair value of alternative investments is based on valuations provided by external investment managers. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. Such difference could be material.

Investments consist of the following as of June 30:

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Money market funds	\$ 31,816	\$ 30,127
Bonds and notes	2,882	6,218
Fixed income funds	26,793	26,102
Equity		
Large-mid cap	56,321	71,971
Small cap	12,554	18,104
International	21,972	25,413
Alternative investments	36,783	34,688
	<u>\$ 189,121</u>	<u>\$ 212,623</u>

The money market funds are fully-insured deposits through the FDIC. The Foundation has entered into a Deposit Placement Agreement with the Certificate of Deposit Account Registry Service on July 2, 2008 to obtain full FDIC insurance on all money market deposit amounts larger than \$100. Prior to July 2, 2008, the money market funds were secured by a U.S. Treasury note (par value \$50,000) purchased by the bank and pledged to the Foundation’s accounts.

Alternative assets are less liquid than the Foundation’s other investments. Alternative investments include limited partnership and off-shore investment funds. As of June 30, 2008 the alternative investment strategies of the five funds in this category are multistrategy, fund of funds, absolute return and distressed opportunities.

### Component Unit-Concentration of Credit Risk

The Foundation maintains a significant and diverse investment portfolio which includes money market funds, debt and equity securities and alternative assets. Alternative assets include interests in limited partnerships and offshore funds. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence on key individuals and nondisclosure of portfolio composition. The Foundation reviews the performance and risks associated with these investments on at least a monthly basis. In addition, the Foundation utilizes the services of an investment consultant who continually monitors the individual investment fund performance, any changes in management at the investment fund or any other significant matters affecting the fund and advises the Foundation of any such changes.

As the Foundation is dependent on investment return to fund a significant portion of the operations of the Foundation, a significant decrease in investment return may have a material impact on the financial position, changes in net assets, and cash flows of the Foundation.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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### **Fair Value of Financial Instruments**

The carrying amount of cash and investments in money market funds approximates fair value because of the short maturity of these financial instruments. The fair value of investments in debt and equity securities is based upon quoted market values. The fair value of alternative investments is based on valuations provided by the external investment manager.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

### 6. Capital Assets

The historical cost of capital assets and capital asset activities for the years ended June 30, 2008 and 2007 are as follows:

	June 30, 2007	Additions	Retirements/ Capitalization	June 30, 2008
Depreciable assets				
Land improvements	\$ 11,629	\$ 207	\$ -	\$ 11,836
Buildings and leasehold improvements	1,357,931	40,616	(37)	1,398,510
Equipment	623,700	17,394	(1,900)	639,194
Capital assets for investment in joint ventures	35,619	-	(2)	35,617
Capitalized interest	17,232	1,420	-	18,652
	<u>2,046,111</u>	<u>59,637</u>	<u>(1,939)</u>	<u>2,103,809</u>
Accumulated depreciation				
Land improvements	(4,922)	(287)	-	(5,209)
Buildings and leasehold improvements	(480,277)	(46,528)	35	(526,770)
Equipment	(491,093)	(30,450)	1,810	(519,733)
Capital assets for investment in joint ventures	(23,439)	(1,032)	2	(24,469)
	<u>(999,731)</u>	<u>(78,297)</u>	<u>1,847</u>	<u>(1,076,181)</u>
Accumulated amortization				
Capitalized interest	(991)	(374)	-	(1,365)
Non-depreciable assets				
Land	16,359	3,092	-	19,451
Construction in progress	21,781	41,716	(53,241)	10,256
	<u>\$ 1,083,529</u>	<u>\$ 25,774</u>	<u>\$ (53,333)</u>	<u>\$ 1,055,970</u>
	<b>June 30, 2006</b>	<b>Additions</b>	<b>Retirements/ Capitalization</b>	<b>June 30, 2007</b>
Depreciable assets				
Land improvements	\$ 10,546	\$ 1,083	\$ -	\$ 11,629
Buildings and leasehold improvements	1,194,030	163,905	(4)	1,357,931
Equipment	592,878	33,797	(2,975)	623,700
Capital assets for investment in joint ventures	35,619	-	-	35,619
Capitalized interest	15,980	1,252	-	17,232
	<u>1,849,053</u>	<u>200,037</u>	<u>(2,979)</u>	<u>2,046,111</u>
Accumulated depreciation				
Land improvements	(4,702)	(220)	-	(4,922)
Buildings and leasehold improvements	(442,658)	(37,623)	4	(480,277)
Equipment	(455,643)	(38,215)	2,765	(491,093)
Capital assets for investment in joint ventures	(22,351)	(1,088)	-	(23,439)
	<u>(925,354)</u>	<u>(77,146)</u>	<u>2,769</u>	<u>(999,731)</u>
Accumulated amortization				
Capitalized interest	(618)	(373)	-	(991)
Non-depreciable assets				
Land	15,812	547	-	16,359
Construction in progress	155,553	61,955	(195,727)	21,781
	<u>\$ 1,094,446</u>	<u>\$ 185,020</u>	<u>\$ (195,937)</u>	<u>\$ 1,083,529</u>

The University and Rutgers, the State University of New Jersey, participate in an unincorporated joint venture agreement that manages two major research facilities, the Environmental and Occupational Health Sciences Institute and the Center for Advanced Biotechnology and Medicine.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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The University has acquired certain fixed assets relating to the joint ventures totaling \$35,617 and \$35,619 as of June 30, 2008 and 2007, respectively. Total accumulated depreciation related to these assets was \$24,469 and \$23,439 as of June 30, 2008 and 2007, respectively.

Included in the University's capital asset balances are assets acquired under capital leases totaling \$116,301 and \$116,610 as of June 30, 2008 and 2007, respectively. Total accumulated depreciation related to these assets was \$40,818 and \$36,971 as of June 30, 2008 and 2007, respectively.

Included in the University's capital asset balances are capitalized interest costs of \$1,420 and \$1,252 as of June 30, 2008 and 2007, respectively. These amounts consists of \$0 and \$1,524 in interest income as of June 30, 2008 and 2007, and \$1,420 and \$2,776 in interest expense as of June 30, 2008 and 2007, respectively.

### **7. Self-Insurance Reserve Fund**

The University maintains a trust fund with the State of New Jersey Department of the Treasury known as the University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund (the "Fund"), which is used to pay claims related to professional and comprehensive general liability, directors' and officers' liability, and auto liability, as well as insurance premiums. Monies in the Fund, existing commercial excess liability insurance coverage and coverage provided by the State of New Jersey Tort Claims Act are used to meet the cost of claims assessed against the University, primarily UH and related faculty practice plans. The State has the ultimate liability for any claims in excess of the Fund's assets.

Payments of claims from the Fund totaled \$20,246 and \$21,266 in 2008 and 2007, respectively. Contributions to the Fund from the University's affiliates totaled \$8,437 and \$8,328 in 2008 and 2007, respectively. State contributions totaled \$2,000 and \$19,322 in 2008 and 2007, respectively. Net assets in the Fund amounted to \$2,045 and \$11,545 as of June 30, 2008 and 2007, respectively.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

### 8. Long-Term Debt, Capital Lease Obligations and Accrued Claims Liability & Other

As of June 30, 2008 and 2007, long-term debt, including bonds and capital lease obligations consists of the following:

	2008	2007
University of Medicine and Dentistry of New Jersey Series 1995 B Tax Exempt Revenue Bonds, December 1995 issue in the amount of \$143,645. Serial bonds in the amount of \$55,115 bearing interest at rates of 5.0%-5.25% are payable in equal installments of interest and principal through 2017; \$37,570 of 5.25% term bonds are due through 2025. The bonds are collateralized by the facility acquired, the Cancer Institute of New Jersey located in New Brunswick, New Jersey.	\$ 92,685	\$ 97,750
University of Medicine and Dentistry of New Jersey Series 1999 C Tax Exempt Revenue Bonds, June 1999 issue in the amount of \$15,720. Serial bonds in the amount of \$2,320 bearing interest at rates of 4.7%-5.5% are payable in equal installments of interest and principal through 2013; \$11,165 of 5.2% term bonds are due through 2029. The bonds are collateralized by the facility acquired, the University Doctors Pavilion located in Stratford, New Jersey.	13,485	13,810
University of Medicine and Dentistry of New Jersey Bonds, 2002 Series A, May 2002 issue in the amount of \$224,130. Serial bonds in the amount of \$101,050 bearing interest at rates of 3.8% to 5.5% are payable in installments of interest and principal through 2024: \$115,645 of 5.0% - 5.5% terms bonds are due through 2031. Principal payments are scheduled to begin 2007. The bonds are collateralized by University revenues consisting of any moneys appropriated for debt service, any and all tuition revenues and any funds available to pay operating expenses.	216,695	219,775
University of Medicine and Dentistry of New Jersey Variable Rate Demand Bonds, 2002 Series B, May 2002 issue in the amount of \$95,025. Interest is payable monthly. As of June 30, 2008, the interest rate on the bonds was 4.5%. Principal payments are scheduled to begin in 2022 through 2031. The bonds are collateralized by all University revenues except the rebate fund (1).	95,025	95,025
University of Medicine and Dentistry of New Jersey		
Certificates of Participation, Series 2003 (2)	56,000	57,240
Certificates of Participation, Series 2004 (3)	82,945	84,300
Certificates of Participation, Series D (4)	1,970	2,860
Capital building leases (5)	61,267	62,504
Capital equipment lease (6)	979	1,541
Capital improvement fund obligation (7)	24,012	25,270
Equipment leasing fund obligation (8)	-	494
Mortgages payable (9)	214	248
Notes payable (10)	4,102	4,634
University Care Corporation		
University Lease Revenue Certificates, Series 2001A (11)	33,400	34,250
	<u>682,779</u>	<u>699,701</u>
Unamortized bond premium	2,660	2,755
	<u>\$ 685,439</u>	<u>\$ 702,456</u>

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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- (1) These bonds, or a portion in authorized denominations, are subject to purchase on demand of the holder at a price equal to principal plus accrued interest in 2022.

The University entered into a Standby Bond Purchase Agreement with a bank in May 2002, which has been extended to May 2009. Under an amendment to the agreement, bonds that are not able to be remarketed by the remarketing agent and are held by the bank as of January 31, 2009 will be subject to a five year amortization beginning February 1, 2009. The bank held \$39,724 of the bonds as of June 30, 2008 and \$78,970 as of November 17, 2008. In accordance with the applicable accounting guidelines, \$22,636 of the bonds have been classified as a current liability as of June 30, 2008. Subsequent to year end and the date of the amendment, the bond insurer was downgraded, which gives the bank the right to terminate the agreement. However, the bank has indicated that it does not intend to do so.

The interest rate is determined by the agent and shall not exceed 12% per annum; provided that the Standby Bond Purchase Agreement is in effect and the maximum interest rate does not exceed the interest rate used to calculate the available interest commitment. The agent establishes the rate on the day preceding the first day of the weekly rate period. Bonds bearing interest on a daily or weekly rate will be calculated on the basis of 365 or 366 days, as appropriate, and paid for the actual number of days elapsed.

- (2) In January 2003, the University entered into a Master Lease Agreement whereby the University issued \$57,925 under Series 2003 Certificates of Participation for construction of the Child Health Institute located in New Brunswick. Serial certificates in the amount of \$23,010 bearing interest at rates of 2.7% - 5.0% are payable in equal installments of interest and principal through 2022; \$32,990 of 4.5% - 5.0% term certificates are due through 2032. These certificates are collateralized by available University revenues other than proceeds and earnings in rebate funds and grant accounts as well as insurance proceeds obtained for repair and replacement of the facility.
- (3) In December 2004, the University entered into a Master Lease Agreement whereby the University issued \$87,440 under Series 2004 Certificates of Participation for construction of the University Housing building located in Newark. Serial certificates in the amount of \$30,980 bearing interest at rates of 2.8% - 5.3% are payable in equal installments of interest and principal through 2024; \$51,965 of 5.0% term certificates are due through 2036. These certificates are collateralized by available University revenues other than proceeds and earnings in rebate fund and insurance proceeds obtained for repair and replacement of the facility.
- (4) In November 1989, the University entered into a Master Lease Agreement whereby the University borrowed \$26,270 under Series D Certificates of Participation for facilities acquisition. The term certificates of \$1,970 bearing interest at 6.75% are due through December 2009. Title to all facilities purchased under this lease agreement rests with the University and are collateralized by the assets acquired.
- (5) In July 1998, the University entered into a capital lease purchase agreement on a building in New Brunswick, New Jersey known as Liberty Plaza. The lease agreement requires an average annual payment of \$1,696 to be paid through 2023 at which time the University will obtain title to the building. The effective interest rate on the lease is 5.1%.

In January 2000, the New Jersey Economic Development Authority ("NJEDA") issued \$46,000 in lease revenue bonds to develop a project facility known as the International Center for Public Health. In addition, the State contributed approximately \$18,000 toward this project. Upon completion of construction during 2002, the NJEDA transferred its ownership

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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interest in the project facility to the University through the execution of a lease transfer agreement and the University assumed the obligations of the NJEDA. The lease agreement is collateralized by University revenues other than monies and securities in the rebate fund and requires an average annual payment of \$3,335 to be paid through 2032. The effective interest rate on the lease is 5.7%.

- (6) The University has a capital lease purchase agreement for equipment for several Newark facilities. The lease requires an annual payment of \$510 through 2010, with an effective interest rate of 4.02%.

In December 2006, the University assumed a capital equipment lease agreement for Public Health Research Institute ("PHRI"). The lease requires an annual payment of \$110. The term of the agreement is through July 2008 and the interest is determined every August 1<sup>st</sup> at the prime rate.

- (7) In July 2000, the University participated in the Capital Improvement Fund Act, P.L. 1999, c217 through a grant agreement with the New Jersey Educational Facilities Authority to fund specific construction and renovation needs. The University's allocation was \$95,000, of which 33% (\$31,667), bearing interest at rates ranging from 5.0% to 5.75%, is the obligation of the University. The remaining 67% (\$63,333) was a contribution from the State as well as the State's obligation. Average annual payments of \$2,650 of equal installments of interest and principal are due through 2020.
- (8) In September 2001, the University participated in the Equipment Leasing Fund Program through a grant agreement with the New Jersey Educational Facilities Authority to fund specific equipment needs. The University's allocation was \$10,539, of which 25% (\$2,635), bearing interest at rates ranging from 3.5% to 5.0%, is the obligation of the University. The remaining 75% (\$7,904) was a contribution from the State as well as the State's obligation. Lease payments of \$517 per year were made through August 2007, at which time title to the equipment passed to the University.
- (9) In December 1996 and March 1999, the University mortgaged \$193 and \$261 from New Jersey Housing and Mortgage Finance Agency and TD BankNorth, respectively, to purchase and renovate various properties. These properties are collateral and the title rests with the University. The mortgage terms are ten years with interest rates of 5.0% and 8.0%, respectively. The University has an option with the second mortgage to make an annual payment of \$25 or a balloon payment at the end of the mortgage term. As of June 30, 2008, the University is negotiating with New Jersey Housing and Mortgage Finance Agency to have the second mortgage forgiven.
- (10) In May 1992 and February 1998, the University entered into capital funding agreements with the New Jersey Department of Human Services for \$250 and \$450, respectively, to purchase various properties. Title to the properties rests with the University. The agreements terminate in June 2012 and 2018, respectively, at which time the University can renew the agreements or repay the debt.

In October 2005, the University increased the February 1998 capital funding agreement with the New Jersey Department of Human Services to \$522 to renovate various collateralized properties. The termination date of this agreement remains June 2018.

In December 2004, the University entered into an Enhanced Affiliation agreement with Robert Wood Johnson University Hospital, which provides for working capital requirements for

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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Robert Wood Johnson Medical School through a promissory note. The promissory note is a credit line of \$10,000 and can be drawn down for a period of five years. During 2006, the agreement was amended canceling any further draws against the line of credit. Equal monthly repayments commence thirty days after the date of draw for ten years at an interest rate of prime. As of June 30, 2008, \$4,000 was drawn on the promissory note.

In December 2006, the University assumed a loan obligation for PHRI payable to NJEDA in the amount of \$362. The loan was used to purchase certain machinery and equipment. The term of the agreement is through April 2010 and the interest is determined monthly at 3% below the Wall Street Journal prime rate, with a floor of 3% and a ceiling of 6.75%.

- (11) In May 2001, the UCC entered into a lease agreement whereby it issued Tax Exempt Lease Revenue Certificates, Select Auction Variable Rate Securities, in the amount of \$37,650 for construction of the Behavioral Health Science building in Newark. Title to the facility rests with the University and the lease is collateralized by all available University revenues. Lease payments totaling \$33,400, will be made through June 2031. The interest rate as of June 30, 2008 was 7.76%.

The University entered into an interest rate swap with the objective of lowering the cost of borrowing by synthetically fixing the interest rates on the subject bonds. The interest rate is based on the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index as of June 30, 2008. The counterparty to the swap agreement was Lehman Brothers Special Financing, Inc., whose obligations were guaranteed by Lehman Brothers Holdings, Inc. ("Lehman").

### **Credit Risk**

As of June 30, 2008, the fair value of the swaps represents the University's credit exposure to the Counterparties. Should the Counterparty fail to perform in accordance with the terms of the swap agreements, the University faces a maximum possible loss equivalent to the swaps' \$5,900 fair value, which is included in interest expense and accounts payable and accrued expenses as of June 30, 2008. As of June 30, 2008, Lehman was rated A2 by Moody's Investors Service ("Moody's") and A by Standard & Poor's ("S&P").

### **Basis Risk**

As noted in the credit risk, the swap exposes the University to basis risk should the relationship between SIFMA and the Select Auction Variable Rate Securities variable rates diverge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving in an opposite direction, the expected cost savings may not be realized.

### **Termination Risk**

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event", that is, the swap may be terminated by the University if Lehman's credit quality rating falls to or below Baa1 as issued by Moody's and BBB+ as issued by S&P. The University or the Counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the Counterparty for a payment equal to the swap's fair value. Since Lehman filed for bankruptcy on September 15, 2008, the swap agreement may be terminated. The University is reviewing its legal options with the agreement.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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Future principal and interest payments on long-term debt and future minimum payments on capital lease obligations are summarized in the following tables.

Long-term debt service requirements to maturity as of June 30, 2008 are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2009	\$ 15,177	\$ 26,252	\$ 41,429
2010	15,747	25,476	41,223
2011	15,092	24,933	40,025
2012	15,535	24,115	39,650
2013	15,628	23,536	39,164
2014-2018	89,084	104,618	193,702
2019-2023	117,645	79,996	197,641
2024-2028	150,415	52,416	202,831
2029-2033	165,355	20,692	186,047
2034-2037	20,855	2,461	23,316
	<u>620,533</u>	<u>384,495</u>	<u>1,005,028</u>
Plus: Unamortized bond premium	2,660	-	2,660
	<u>\$ 623,193</u>	<u>\$ 384,495</u>	<u>\$ 1,007,688</u>

Capital lease payments as of June 30, 2008 are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2009	\$ 1,939	\$ 3,470	\$ 5,409
2010	2,015	3,374	5,389
2011	1,606	3,274	4,880
2012	1,689	3,190	4,879
2013	1,779	3,101	4,880
2014-2018	12,394	13,788	26,182
2019-2023	17,309	9,815	27,124
2024-2028	11,535	5,751	17,286
2029-2032	11,980	1,850	13,830
	<u>\$ 62,246</u>	<u>\$ 47,613</u>	<u>\$ 109,859</u>

**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**

Long-term debt and capital lease obligations, and accrued claims liability and other activity are as follows:

	June 30, 2007	Additions	Reductions	June 30, 2008	Amounts Due Within One Year
Bonds and notes payable					
Revenue bonds	\$ 451,630	\$ -	\$ (9,728)	\$ 441,902	\$ 32,673
Certificates of participation	179,144	-	(4,829)	174,315	4,395
Mortgages payable	248	-	(34)	214	214
Notes payable	4,634	-	(532)	4,102	531
Unamortized bond premium	2,755	-	(95)	2,660	-
	<u>638,411</u>	<u>-</u>	<u>(15,218)</u>	<u>623,193</u>	<u>37,813</u>
Capital lease obligations					
Building leases	62,504	-	(1,237)	61,267	1,451
Equipment leases	1,541	-	(562)	979	489
	<u>64,045</u>	<u>-</u>	<u>(1,799)</u>	<u>62,246</u>	<u>1,940</u>
Accrued claims liability & other	21,630	7,599	(6,634)	22,595	1,342
	<u>\$ 724,086</u>	<u>\$ 7,599</u>	<u>\$ (23,651)</u>	<u>\$ 708,034</u>	<u>\$ 41,095</u>

	June 30, 2006	Additions	Reductions	June 30, 2007	Amounts Due Within One Year
Bonds and notes payable					
Revenue bonds	\$ 461,317	\$ -	\$ (9,687)	\$ 451,630	\$ 9,729
Certificates of participation	184,619	-	(5,475)	179,144	4,829
Mortgages payable	288	-	(40)	248	227
Notes payable	4,600	434	(400)	4,634	531
Unamortized bond premium	2,850	-	(95)	2,755	-
	<u>653,674</u>	<u>434</u>	<u>(15,697)</u>	<u>638,411</u>	<u>15,316</u>
Capital lease obligations					
Building leases	63,678	-	(1,174)	62,504	1,237
Equipment leases	1,850	126	(435)	1,541	561
	<u>65,528</u>	<u>126</u>	<u>(1,609)</u>	<u>64,045</u>	<u>1,798</u>
Accrued claims liability & other	17,025	14,413	(9,808)	21,630	638
	<u>\$ 736,227</u>	<u>\$ 14,973</u>	<u>\$ (27,114)</u>	<u>\$ 724,086</u>	<u>\$ 17,752</u>

Based on an actuarial valuation, the University recorded an accrued claims liability of \$21,027 and \$20,823 at June 30, 2008 and 2007, respectively, on a discounted basis assuming a 5.5% interest rate. Amounts due within one year are included in the University's accounts payable and accrued expenses. Actual losses will vary due to the uncertainty inherent in the projections used in the actuarial valuation.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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### 9. Retirement Benefits Plans

Retirement benefits for substantially all full-time employees are provided either through the Alternate Benefits Program (“ABP”) or the Public Employees’ Retirement – Social Security Integration Act (“PERS”). Under these plans, participants make annual contributions, and the State, in accordance with state statutes, makes employer contributions on behalf of the University for these plans. Pension expense paid directly by the State approximated \$56,000 in 2008 and \$54,000 in 2007 and is reflected in the consolidated statements of revenues, expenses and changes in net assets as fringe benefits paid by the State. The University has no direct pension obligation associated with the State plans and no liability for such costs has been reflected in the consolidated financial statements.

Employees of New Jersey State colleges and universities are employees of the State, therefore, the other post employment benefits liability is a liability of and recorded by the State, as the State is legally responsible for these contributions.

Total payroll of the University’s plan participants was \$779,051 and \$773,556 for 2008 and 2007, respectively. Summary information regarding these plans is provided below.

#### Alternate Benefits Program

*Plan Description*—ABP is a defined contribution plan for full-time members of the faculties of the University’s schools, plus other staff employees. This plan is underwritten by several plan participants to fund pension benefits for education institutions. ABP is administered by the State of New Jersey, Division of Pension and Benefits (the “Division”). Benefits under ABP are generally paid at retirement as a lump sum or annuity payment.

A separate financial report that includes financial statements and required supplementary information related to ABP is issued annually and can be obtained by contacting the Division.

*Contributions*—The State contributes a fixed rate of 8% of employees’ compensation and employees contribute 5%. The contribution requirements for plan members and the University are established and may be amended by the Division.

Contributions to ABP were as follows:

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Employee contributions	\$ 28,776	\$ 27,586
Employer contributions (paid by the State)	44,362	43,502
Basis for determining contributions - participating employee salaries	554,528	543,776

#### Public Employees’ Retirement System

*Plan Description*—PERS is a multiple-employer, public cost-sharing defined benefit retirement system which is administered by the State. University employees of a certain classification are required as a condition of employment to be members of PERS. Annual benefits are equal to the final average salary multiplied by years of service divided by 55. Final average salary is defined as 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 after ten years of credited service. Members are eligible for retirement at age 60 with no minimum

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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years of service required. Members who have 25 years or more of credited service may also select early retirement without penalty at or after age 55 and receive full retirement benefits. PERS also provides death and disability benefits which are established by State statute.

The State issues a financial report available to the public that includes financial statements and required supplementary information for PERS. It may be obtained from the Division.

*Contributions*—Covered University employees were required by PERS to contribute 5% of their annual compensation during 2008 and 2007, respectively. The State contributes the remaining amounts necessary to pay benefits when due, which is based upon an actuarially determined percentage of total compensation of all active members. Contributions to PERS were as follows:

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Employee contributions	\$ 11,909	\$ 11,931
Employer contributions (paid by the State)	11,631	10,968
Employer contributions as a percentage of salary expense	5%	5%
Basis for determining contributions - participating employee salaries	224,523	229,780

### 10. Concentration of Credit Risk

The healthcare units of the University extend credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. Gross accounts receivable as of June 30, 2008 and 2007 are due from the following payors:

	<b>2008</b>	<b>2007</b>
Medicare and Medicaid	36%	32%
Other third-party payors	34%	33%
Self-pay patients	30%	35%
	<u>100%</u>	<u>100%</u>

### 11. Fair Value of Financial Instruments

The University estimates the fair value of its revenue bonds through quoted market prices. As of June 30, 2008, the carrying amount and fair value of the bonds were approximately \$632,315 and \$599,619, respectively. As of June 30, 2007 the carrying amount and fair value of the bonds were approximately \$644,880 and \$661,337, respectively.

The carrying amount of all other financial instruments reported in the financial statements approximates their fair value.

### 12. Commitments and Contingencies

Effective July 2008, the University extended the existing contract with SunGard SCT Software and Resource Management Corporation for an additional term of six months through January 25, 2009, at an annual cost of \$2,813. The contract provides for software and outsourcing services needed to maintain the University's integrated administrative computer system.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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The University has several major construction contracts in process for construction and renovation projects. As of June 30, 2008 and 2007, the remaining balance on these contracts was \$6,292 and \$35,035, respectively.

The University is obligated under noncancelable operating leases for various facilities and equipment. Minimum payments for operating leases with noncancelable terms in excess of one year are as follows:

**Year Ending June 30,**

2009	\$ 6,200
2010	5,291
2011	4,765
2012	4,229
2013	3,053
2014-2018	9,344
2019-2023	8,118
2024-2028	6,355
2029-2033	5,693
	<u>\$ 53,048</u>

Total rent expense for all operating leases was \$6,283 and \$7,024 in 2008 and 2007, respectively.

The University, under various Jobs, Education and Competitiveness contracts, is required to establish a maintenance reserve fund which totaled \$4,125 as of June 30, 2008 and 2007, respectively.

During 2000, the Board of Trustees authorized the University to enter into two limited partnerships (Woodbury Mews 3, LLP and Woodbury Mews 4, LLP), which were formed to operate an assisted living facility and a dementia/Alzheimer's facility. In return for a 20% interest in each LLP, the University provided access to stand-by letters of credit totaling \$4,500. In 2004, one letter was amended downward by \$700. As of June 30, 2008 and 2007, \$3,800 was drawn on the letters of credit. The University reserved the entire \$3,800 in 2006.

The University receives funds from Federal, State and private agencies under grants and contracts for research, training and other activities. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and possible disallowance by the sponsoring agency. It is the University's belief that any disallowances or adjustments would not have a significant effect on its financial statements.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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### 13. Legal Matters

On December 30, 2005, the United States Attorney's Office for the District of New Jersey (the "Office") filed a criminal complaint charging the University with receiving improper Medicaid reimbursements. In connection with the filing of that complaint, the University and the Office entered into a Deferred Prosecution Agreement ("DPA"). Pursuant to the agreement, the University agreed to undertake remedial actions, retain an independent monitor ("Federal Monitor") and continue to cooperate with the Office, including with respect to any ongoing investigations, and make repayment of \$4.9 million relating to physician services in outpatient clinics. This amount was repaid by the University in 2006.

On December 13, 2007, the Office announced that an extension of the DPA and retention of the Federal Monitor were not necessary, and terminated the DPA on January 10, 2008 and dismissed with prejudice the criminal complaint. The University is engaged in negotiations with the Department of Justice to settle the civil component of the criminal complaint. Management has accrued its best estimate but the ultimate outcome cannot be determined.

Under the DPA, the Federal Monitor had certain investigative and other authority related to the University's operations. As a result of one of the investigations, the Federal Monitor issued a report in November 2006 which alleged that the University had violated certain billing and anti-kickback laws and regulations. The report indicated that the University could be liable for as much as \$84 million in restitution, fines and penalties as a result of these potential violations. The University engaged external counsel to review the issues, who concluded that it was reasonably possible that a liability had been incurred, but that the amount of the liability could not be reasonably estimated. The University is currently engaged in negotiations with the Office regarding this matter and in fiscal year 2008, management has accrued its best estimate but the ultimate outcome cannot be determined. No amounts have been recorded in the 2007 financial statements.

Other matters referenced in the periodic Federal Monitor reports have been and continue to be investigated by the University. Where necessary, the University has engaged external experts to assess various healthcare matters, and the related liabilities have been estimated and recorded within the 2008 and 2007 financial statements, respectively.

Since 2005, the University has become aware of Federal and State inquiries and investigations and received subpoenas and other requests for information. The University has cooperated with the agencies and provided the information and data requested. Although the ultimate outcome of these investigations is unknown at this time, management does not believe they will have a material effect on the University's financial position, operating results or cash flows.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

### 14. Natural Expenses By Functional Classification

The University reports operating expenses by functional classification. Details of these expenses by natural classification are as follows:

	Year Ended June 30, 2008				
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Total
Instruction	\$ 144,255	\$ 40,744	\$ 7,416	\$ -	\$ 192,415
Research	70,556	19,158	93,809	-	183,523
Public service	51,911	8,123	9,894	-	69,928
Academic and student support	17,721	4,967	10,126	-	32,814
Institutional and administrative support	56,172	15,090	32,792	-	104,054
Patient care services	396,792	117,859	226,090	-	740,741
Professional services and contracts	140,521	23,903	25,806	-	190,230
Operation and maintenance of plant	21,019	9,242	21,906	-	52,167
Depreciation	-	-	-	78,297	78,297
Insurance	577	-	17,669	-	18,246
Auxiliary enterprises and other	2,613	623	14,830	-	18,066
Total operating expenses	<u>\$ 902,137</u>	<u>\$ 239,709</u>	<u>\$ 460,338</u>	<u>\$ 78,297</u>	<u>\$ 1,680,481</u>

	Year Ended June 30, 2007				
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Total
Instruction	\$ 136,228	\$ 40,050	\$ 11,786	\$ -	\$ 188,064
Research	75,397	20,309	91,828	-	187,534
Public service	47,596	7,259	6,456	-	61,311
Academic and student support	15,936	6,186	9,425	-	31,547
Institutional and administrative support	59,467	9,301	41,978	-	110,746
Patient care services	383,777	116,005	208,286	-	708,068
Professional services and contracts	128,771	25,796	23,595	-	178,162
Operation and maintenance of plant	20,333	8,397	20,222	-	48,952
Depreciation	-	-	-	77,146	77,146
Insurance	612	-	1,340	-	1,952
Auxiliary enterprises and other	2,662	638	12,608	-	15,908
Total operating expenses	<u>\$ 870,779</u>	<u>\$ 233,941</u>	<u>\$ 427,524</u>	<u>\$ 77,146</u>	<u>\$ 1,609,390</u>