

**University of Medicine and Dentistry of New Jersey**  
**(A Component Unit of the State of New Jersey)**  
**Consolidated Financial Statements**  
**June 30, 2007 and 2006**

# University of Medicine and Dentistry of New Jersey

## Index

June 30, 2007 and 2006

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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, 2007 and 2006, 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 92% and 92% and total discrete net assets of 100% and 101% of the related discrete totals as of June 30, 2007 and 2006, respectively, and total operating revenues of 36% and 36% of the related discrete totals for the years ended June 30, 2007 and 2006, 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.

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.

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, 2007 and 2006, 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 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, 2007 and 2006, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the basic financial statements, on December 30, 2005, the University entered into a Deferred Prosecution Agreement with the United States Attorney's Office for the District of New Jersey related to a criminal complaint charging the University with receiving improper Medicaid reimbursements.

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 amount of the loss, if any, resulting from these allegations cannot be reasonably estimated.

Management's Discussion and Analysis on pages 3 through 12 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.

A handwritten signature in black ink, reading "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

December 18, 2007

# **Management's Discussion and Analysis**

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2007

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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, 2007 and its results of operations for the year then ended, with comparative information as of and for the years ended June 30, 2006 and 2005. 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 5,800 full and part time students, 1,400 medical interns and residents and 12,700 faculty and staff.

#### Financial Highlights

The University's financial position reflects assets of \$1.8 billion and liabilities of \$1.1 billion as of June 30, 2007. 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 \$32.0 million, or 4%, to \$698.9 million in 2007. This decrease is primarily related to the operating results of University Hospital ("UH").

Operating revenues increased by \$14.8 million, or 1%, to \$1.1 billion in 2007, reflecting growth in tuition and fees and revenues from professional services and contracts. Operating expenses remained level with 2006.

State appropriations – operations decreased by \$23.9 million, or 8%, to \$272.8 million in 2007, reflecting the reduction in support by the State to all higher education institutions. Fringe benefits paid by the State increased by \$4.8 million, or 3%, to \$173.2 million in 2007, primarily due to an increase in the State's fringe benefit rate.

During 2007, the University incurred \$66.8 million in capital expenditures.

#### 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, 2007

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The consolidated financial statements include the 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, and the Faculty Practice Plan for the UMDNJ-New Jersey Medical School – University Physician Associates of New Jersey, Inc. ("UPA") meet the criteria qualifying them as component units of the University.

The 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 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 and capital project funds that are subject to donor or University restrictions governing their use and government grants for student loans. Restricted nonexpendable net assets represent endowment funds, which are used primarily for investment purposes. 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, 2007**

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A summary of the University's assets, liabilities and net assets as of June 30, 2007, 2006, and 2005 follows:

<i>(In millions)</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 142.0	\$ 119.4	\$ 176.4
Receivables	243.5	272.0	240.0
Assets held by trustees and other	53.7	81.0	144.8
Noncurrent assets:			
Endowment and other investments	144.1	151.0	159.0
Assets held by trustees and other	97.0	84.8	86.0
Capital assets, net	<u>1,083.5</u>	<u>1,094.4</u>	<u>1,013.0</u>
Total assets	<u>1,763.8</u>	<u>1,802.6</u>	<u>1,819.2</u>
<b>Liabilities</b>			
Current liabilities	358.6	353.7	343.7
Noncurrent liabilities	<u>706.3</u>	<u>718.0</u>	<u>728.4</u>
Total liabilities	<u>1,064.9</u>	<u>1,071.7</u>	<u>1,072.1</u>
<b>Net assets</b>			
Invested in capital, net of related debt	459.1	471.8	440.5
Restricted expendable	249.5	273.2	260.8
Restricted nonexpendable	57.8	56.3	59.5
Unrestricted	<u>(67.5)</u>	<u>(70.4)</u>	<u>(13.7)</u>
Total net assets	<u>\$ 698.9</u>	<u>\$ 730.9</u>	<u>\$ 747.1</u>

Current liabilities consist primarily of accounts payable, accrued compensation and other liabilities and include \$61.7 million and \$59.7 million of amounts due to third party payors as of June 30, 2007 and 2006, respectively, related to cost report adjustments. Noncurrent liabilities consist primarily of long-term debt and capital lease obligations.

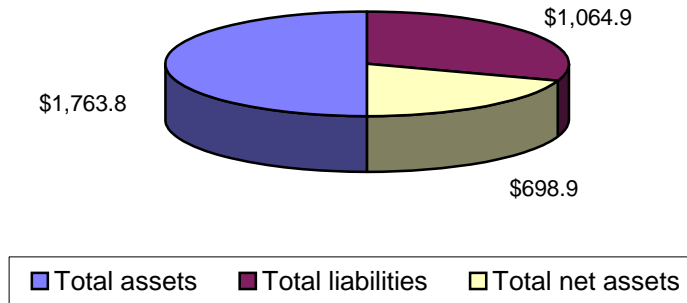
The increase in cash is primarily due to a decrease in receivables and the maturity of investments.



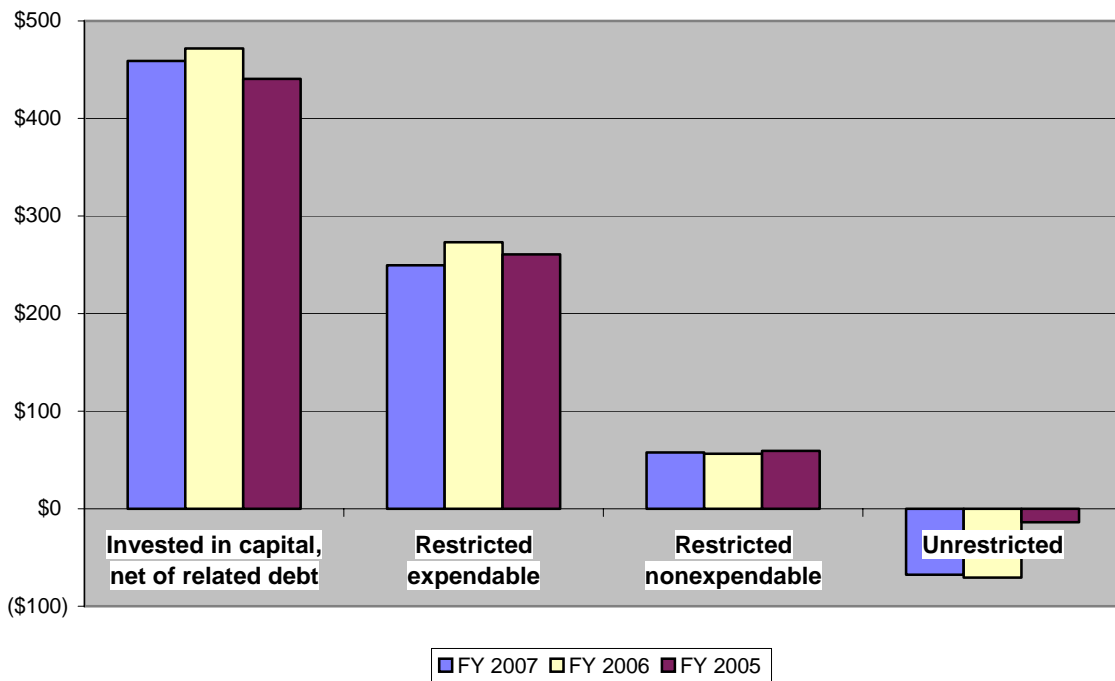
**University of Medicine and Dentistry of New Jersey  
Management's Discussion and Analysis  
June 30, 2007**

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**Summary of Consolidated Statement of Net Assets  
June 30, 2007  
(In millions)**



**Net Assets  
June 30, 2007, 2006 and 2005  
(In millions)**



**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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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, 2007, 2006 and 2005 follows:

<i>(In millions)</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Operating revenues</b>			
Tuition and fees, net	\$ 69.2	\$ 62.0	\$ 55.9
Governmental and private grants and contracts	289.2	288.0	286.1
Net patient service revenues	506.5	501.2	512.9
Professional services and contracts	227.8	221.2	174.5
Other	43.1	48.6	59.9
Total operating revenues	<u>1,135.8</u>	<u>1,121.0</u>	<u>1,089.3</u>
<b>Operating expenses</b>	<u>1,610.8</u>	<u>1,616.3</u>	<u>1,515.4</u>
Operating loss	<u>(475.0)</u>	<u>(495.3)</u>	<u>(426.1)</u>
<b>Nonoperating revenues (expenses)</b>			
State appropriations - operations	272.8	296.7	266.1
Fringe benefits paid by the State	173.2	168.4	159.8
Interest expense and other	(6.3)	(14.3)	(10.7)
Total nonoperating revenues, net	<u>439.7</u>	<u>450.8</u>	<u>415.2</u>
<b>Other revenues</b>			
State appropriations - capital	3.3	4.1	4.0
Capital grants	-	24.2	-
Total other revenues	<u>3.3</u>	<u>28.3</u>	<u>4.0</u>
<b>Decrease in net assets</b>	<u>(32.0)</u>	<u>(16.2)</u>	<u>(6.9)</u>
Net assets - beginning of year	<u>730.9</u>	<u>747.1</u>	<u>754.0</u>
<b>Net assets - end of year</b>	<u>\$ 698.9</u>	<u>\$ 730.9</u>	<u>\$ 747.1</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, investment income and capital grants. 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, 2007**

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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.

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

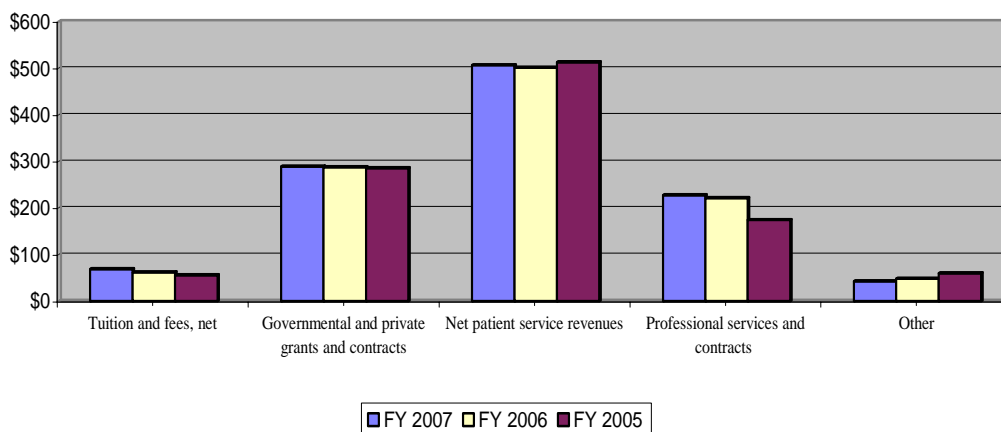
Governmental and private grants and contracts totaled \$289.2 million in 2007 and are comparable to 2006.

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 increased by 1% in 2007. The healthcare units received State appropriations of \$192.3 million in 2007, which included \$110.0 million of fringe benefits paid by the State.

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 2007 and 2006 was primarily related to a contract with the State of New Jersey Department of Corrections, which generated revenues of \$41.7 million and \$39.8 million in 2007 and 2006, respectively.

Capital grants of \$24.2 million were received in 2006 through the Foundation for specific capital projects.

**Operating Revenues**  
**Years Ended June 30, 2007, 2006 and 2005**  
**(In millions)**



**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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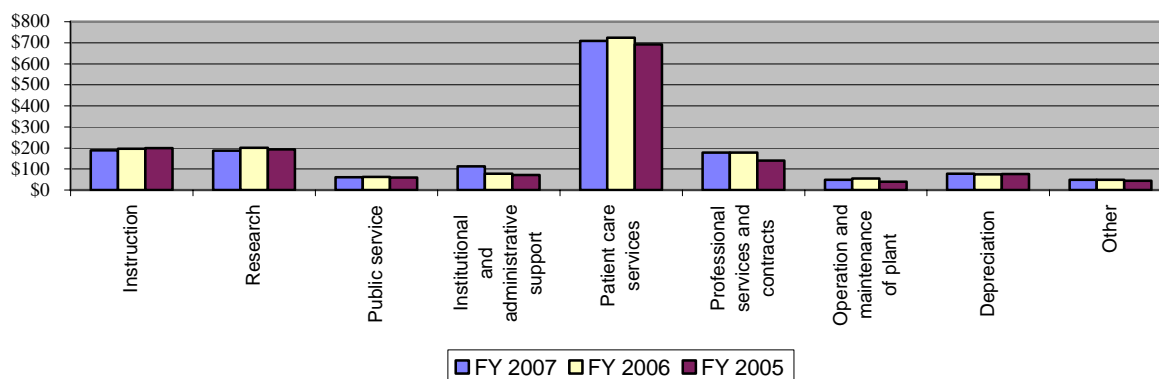
**Operating Expenses**

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, 2007, 2006 and 2005, follows:

<i>(In millions)</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Instruction	\$ 188.1	\$ 195.9	\$ 198.7
Research	187.5	200.8	193.6
Public service	61.3	62.8	59.6
Institutional and administrative support	112.2	77.1	71.3
Patient care services	708.1	723.5	692.2
Professional services and contracts	178.2	177.9	140.1
Operation and maintenance of plant	48.9	54.6	39.2
Depreciation	77.1	74.3	76.3
Other	49.4	49.4	44.4
Total	<u>\$ 1,610.8</u>	<u>\$ 1,616.3</u>	<u>\$ 1,515.4</u>

**Operating Expenses**  
**Years Ended June 30, 2006 and 2005**  
**(In millions)**



Institutional and administrative support expenses increased by 46% in 2007, due to higher insurance, technology and debt service costs.

Patient care services expenses decreased by 2% in 2007, primarily due to cost control efforts at UH and University Behavioral HealthCare ("UBHC").

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2007

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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. These ratings reflect downgrades from the rating agencies in 2006, due to concerns about UH's financial performance, the reduction in the level of unrestricted net assets and the potential financial consequences of recent investigations.

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 \$66.8 million in 2007, as compared to \$162.1 million in 2006. The major capital activities in 2007 were the Cancer Center, Regional Biocontainment Lab and University Housing projects on the Newark campus. Capital expenditures are estimated to be \$50 million in 2008.

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.

A summary of the University's cash flows for the years ended June 30, 2007, 2006 and 2005 follows:

<i>(In millions)</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Cash (used in) provided by:			
Operating activities	\$ (208.7)	\$ (268.4)	\$ (178.9)
Noncapital financing activities	275.8	305.8	255.4
Capital financing activities	(91.5)	(185.9)	(111.3)
Investing activities	47.0	91.5	76.9
Net increase (decrease) in cash	22.6	(57.0)	42.1
Cash - beginning of year	119.4	176.4	134.3
Cash - end of year	<u>\$ 142.0</u>	<u>\$ 119.4</u>	<u>\$ 176.4</u>

During 2007, the University's cash increased by \$22.6 million, primarily due to a decrease in receivables and the maturity of investments.

#### 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

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2007

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growth in academic activities to continue, while its research growth is dependent upon the national trend of Federal research activity.

State appropriations - operations for the academic activities of the University are expected to remain strong at an estimated level of \$200 million in 2008, 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 may 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.

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 research funding, due to recent reductions in the National Institutes of Health budget, while it expands its collaborative efforts with other state universities.

UH is faced with financial challenges, as its expenses have exceeded its revenues by approximately \$25 million in 2007, \$40 million in 2006 and \$10 million in 2005, respectively. Since it is a safety net hospital and has a high level of Medicaid patients, 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 20% of its patient volumes, at an estimated value of approximately \$140 million, while charity care funding from the State totaled \$90 million and \$90.8 million in 2007 and 2006, respectively, and is expected to total \$96 million in 2008. UH's operating budget for 2008 expects to attain a breakeven result due to revenue initiatives and cost containment efforts derived from the operational reviews performed by outside consultants engaged in 2006.

The University recorded liabilities to third parties associated with cost report adjustments, which totaled \$61.7 million and \$59.7 million as of June 30, 2007 and 2006, 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, 2007 and 2006, respectively. The University has self disclosed to the Centers for Medicare and Medicaid Services ("CMS") and the related fiscal intermediary these items and CMS has issued a notice of intent to re-open cost reports for 2001 through 2003. Although the ultimate outcome of CMS's audit of the 2001-2003 cost reports is unknown at this time, 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.

UBHC and the Cancer Institute of New Jersey are expected to maintain financial stability in the future. State appropriations - operations for these units totaled \$53 million in 2007, and are projected to remain at the same level in 2008 based upon the final State budget.

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 \$27 million in 2008.

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2007

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Management believes that the University has the structure in place to stabilize its financial condition and deal with the financial challenges facing UH, which will ensure 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. If the University fulfills its obligations under the DPA, the Office will dismiss the criminal complaint twenty-four (24) to thirty-six (36) months from the filing date of the criminal complaint.

Under the DPA, the Federal Monitor has 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. As a result, no amounts have been recorded in the 2007 or 2006 financial statements.

Other matters referenced in the periodic Federal Monitor reports have been investigated by the University. Where necessary, the University engaged external experts to assess various healthcare matters and the related liabilities that have been estimated and recorded within the 2007 and 2006 financial statements, respectively.

On December 13, 2007, the Office announced that an extension of the DPA and retention of the Federal Monitor were not necessary, and that it intended to terminate the DPA on December 31, 2007 and seek dismissal with prejudice of the criminal complaint no later than January 10, 2008.

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 it 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,	
	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 142,012	\$ 119,430
Short-term investments	5,056	1,158
Accounts receivable, net of allowance for doubtful accounts of \$161,483 in 2007 and \$172,924 in 2006	125,797	113,855
Appropriations receivable	4,197	6,563
Other receivables, net of allowance for doubtful accounts of \$9,913 in 2007 and \$10,774 in 2006	49,772	63,480
Grants receivable, net of allowance for doubtful accounts of \$8,179 in 2007 and \$8,188 in 2006	63,760	88,103
Prepaid expenses and other assets	15,482	20,773
Assets held by trustees - current portion	33,069	58,966
Total current assets	<u>439,145</u>	<u>472,328</u>
Noncurrent assets		
Endowment investments	27,793	31,924
Other long-term investments	116,316	119,124
Loans to students	27,299	22,561
Deferred financing costs and other	17,866	10,199
Assets held by trustees	51,839	52,033
Capital assets, net	<u>1,083,529</u>	<u>1,094,446</u>
Total noncurrent assets	<u>1,324,642</u>	<u>1,330,287</u>
Total assets	<u>1,763,787</u>	<u>1,802,615</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	136,454	150,876
Estimated third party payors settlements	111,431	84,907
Accrued vacation expense	45,017	45,320
Deferred revenues	48,579	55,259
Long-term debt and capital lease obligations - current portion	17,114	17,395
Total current liabilities	<u>358,595</u>	<u>353,757</u>
Noncurrent liabilities		
Accrued claims liability and other	20,992	16,157
Long-term debt and capital lease obligations	685,342	701,807
Total noncurrent liabilities	<u>706,334</u>	<u>717,964</u>
Total liabilities	<u>1,064,929</u>	<u>1,071,721</u>
<b>Net Assets</b>		
Invested in capital, net of related debt	459,138	471,832
Restricted expendable	249,488	273,184
Restricted nonexpendable	57,797	56,276
Unrestricted	(67,565)	(70,398)
Total net assets	<u>\$ 698,858</u>	<u>\$ 730,894</u>

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

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

	June 30, 2007			June 30, 2006		
	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc. ("UPA")	Total	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total
Assets						
Cash and cash equivalents	\$ 64	\$ 6,803	\$ 6,867	\$ 593	\$ 15,564	\$ 16,157
Cash and cash equivalents whose use is limited	-	2,546	2,546	-	4,425	4,425
Contributions receivable, net	27,058	-	27,058	30,618	-	30,618
Investments	212,623	10,470	223,093	204,512	181	204,693
Physician reserve fund	-	745	745	-	711	711
Other assets	-	623	623	-	290	290
Capital assets, net	2,184	244	2,428	2,313	681	2,994
Total assets	\$ 241,929	\$ 21,431	\$ 263,360	\$ 238,036	\$ 21,852	\$ 259,888
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 1,188	\$ 413	\$ 1,601	\$ 1,217	\$ 463	\$ 1,680
Grants payable	25,624	-	25,624	45,189	-	45,189
Payable to New Jersey Medical School ("NJMS") department funds	-	2,651	2,651	-	3,695	3,695
Payable to NJMS dean's funds	-	3,335	3,335	-	5,407	5,407
Payable to physician reserve fund	-	664	664	-	664	664
Payable to physician overhead funds	-	483	483	-	450	450
Payable to participant division fund	-	13,380	13,380	-	12,334	12,334
Funds held in custody for others	4,465	-	4,465	4,803	-	4,803
Total liabilities	31,277	20,926	52,203	51,209	23,013	74,222
Net Assets						
Board designated - unrestricted	60,612	505	61,117	55,042	(1,161)	53,881
Temporarily restricted	23,967	-	23,967	22,298	-	22,298
Permanently restricted	126,073	-	126,073	109,487	-	109,487
Total net assets	210,652	505	211,157	186,827	(1,161)	185,666
Total liabilities and net assets	\$ 241,929	\$ 21,431	\$ 263,360	\$ 238,036	\$ 21,852	\$ 259,888

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>2007</b>	<b>2006</b>
<b>Operating revenues</b>		
Tuition and fees, net	\$ 69,165	\$ 62,010
Governmental grants and contracts	224,414	222,160
Private grants and contracts	64,797	65,825
Net patient service revenues	506,518	501,178
Professional services and contracts	227,832	221,186
Auxiliary sales and services	17,740	15,095
Other operating revenues	25,346	33,502
Total operating revenues	<u>1,135,812</u>	<u>1,120,956</u>
<b>Operating expenses</b>		
Instruction	188,064	195,920
Research	187,534	200,782
Public service	61,311	62,777
Academic and student support	31,547	28,562
Institutional and administrative support	112,184	77,072
Patient care services	708,068	723,489
Professional services and contracts	178,162	177,914
Operation and maintenance of plant	48,952	54,574
Depreciation	77,146	74,269
Auxiliary enterprises and other	17,860	20,897
Total operating expenses	<u>1,610,828</u>	<u>1,616,256</u>
Operating loss	<u>(475,016)</u>	<u>(495,300)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations - operations	272,784	296,701
Fringe benefits paid by the State	173,244	168,381
Miscellaneous grants and gifts	17,360	10,470
Investment income	16,977	14,657
Unrealized appreciation (depreciation) on investments	2,901	(7,117)
Interest expense	(32,017)	(25,671)
Other	(11,530)	(6,651)
Total nonoperating revenues, net	<u>439,719</u>	<u>450,770</u>
<b>Other revenues</b>		
State appropriations - capital	3,261	4,140
Capital grants	-	24,168
Total other revenues	<u>3,261</u>	<u>28,308</u>
<b>Decrease in net assets</b>	<u>(32,036)</u>	<u>(16,222)</u>
Net assets - beginning of year	730,894	747,116
<b>Net assets - end of year</b>	<u>\$ 698,858</u>	<u>\$ 730,894</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)

	Year Ended June 30, 2007			Year Ended June 30, 2006		
	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	\$ 21,608	\$ -	\$ 21,608	\$ 33,036	\$ -	\$ 33,036
Net physician billings	-	84,911	84,911	-	79,638	79,638
Net unrealized and realized gains on investments	28,248	47	28,295	13,199	12	13,211
Interest and dividend income	3,862	-	3,862	3,501	-	3,501
Investment management & cost recovery fees	(5,009)	-	(5,009)	(5,020)	-	(5,020)
Other revenues, net	165	850	1,015	854	467	1,321
Total revenue and gains	<u>48,874</u>	<u>85,808</u>	<u>134,682</u>	<u>45,570</u>	<u>80,117</u>	<u>125,687</u>
<b>Operating expenses</b>						
Grants	21,144	-	21,144	18,760	-	18,760
Distributions to UPA physicians	-	30,250	30,250	-	27,360	27,360
Distributions to NJMS department funds	-	9,049	9,049	-	7,923	7,923
Distributions to participant division fund	-	18,086	18,086	-	18,311	18,311
Distributions to NJMS dean's fund	-	5,837	5,837	-	5,475	5,475
Distributions to University medical malpractice fund	-	2,528	2,528	-	2,373	2,373
Fund raising	2,244	-	2,244	3,475	-	3,475
General and administrative	(314)	18,392	18,078	(301)	17,566	17,265
Total expenses	<u>23,074</u>	<u>84,142</u>	<u>107,216</u>	<u>21,934</u>	<u>79,008</u>	<u>100,942</u>
Increase in net assets	25,800	1,666	27,466	23,636	1,109	24,745
<b>Other changes in net assets</b>						
Refunded to Grantor	(1,975)	-	(1,975)	(1,844)	-	(1,844)
Transfer of net assets	-	-	-	667	-	667
Total other changes in net assets	<u>(1,975)</u>	<u>-</u>	<u>(1,975)</u>	<u>(1,177)</u>	<u>-</u>	<u>(1,177)</u>
Net assets - beginning of year	186,827	(1,161)	185,666	164,368	(2,270)	162,098
Net assets - end of year	<u>\$ 210,652</u>	<u>\$ 505</u>	<u>\$ 211,157</u>	<u>\$ 186,827</u>	<u>\$ (1,161)</u>	<u>\$ 185,666</u>

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>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 69,164	\$ 61,701
Research grants and contracts	286,647	299,397
Services to patients	495,738	501,758
Professional services and contracts	226,669	217,909
Other receipts	62,881	61,009
Loan repayments from students	4,128	6,554
Loans to students	(6,574)	(6,537)
Payments to employees	(928,704)	(956,686)
Payments to vendors	(418,677)	(453,447)
Net cash used in operating activities	<u>(208,728)</u>	<u>(268,342)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	275,150	293,738
Affiliate contributions, net of transfers to the State	8,395	8,382
Other (payments) receipts, net	(7,704)	3,637
Net cash provided by noncapital financing activities	<u>275,841</u>	<u>305,757</u>
<b>Cash flows from capital financing activities</b>		
Proceeds from issuance of capital debt	530	336
Capital grants received	27,609	5,407
Purchases of capital assets	(67,973)	(152,445)
Principal payments on debt and capital lease obligations	(16,180)	(14,106)
Interest payments on debt and capital lease obligations	(35,470)	(25,141)
Net cash used in capital financing activities	<u>(91,484)</u>	<u>(185,949)</u>
<b>Cash flows from investing activities</b>		
Deposits with assets held by trustees	559	(887)
Receipts from assets held by trustees	25,532	74,728
Proceeds from sales and maturities of investments	7,954	5,366
Purchases of investments	(5,765)	(2,295)
Interest on investments	18,673	14,607
Net cash provided by investing activities	<u>46,953</u>	<u>91,519</u>
Net increase (decrease) in cash and cash equivalents	22,582	(57,015)
Cash and cash equivalents - beginning of year	119,430	176,445
Cash and cash equivalents - end of year	<u>\$ 142,012</u>	<u>\$ 119,430</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (475,016)	\$ (495,300)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Fringe benefits paid by the State	173,244	168,381
Depreciation expense	77,146	74,269
Provision for bad debts	150,282	117,721
Change in assets and liabilities		
Receivables, net	(152,960)	(128,664)
Prepaid expenses and other assets	5,056	(12,740)
Loans to students	(4,738)	1,161
Accounts payable and accrued expenses	24,938	(6,254)
Deferred revenues	(6,680)	13,084
Net cash used in operating activities	<u>\$ (208,728)</u>	<u>\$ (268,342)</u>
<b>Non Cash transactions</b>		
Capital assets acquired through capital leases, business acquisition and transfers	\$ 597	\$ 4,342

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

**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**  
**Years Ended 2007 and 2006**  
**(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
- 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

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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, and the Faculty Practice Plan for the UMDNJ-New Jersey Medical School – University Physician Associates of New Jersey, Inc. (“UPA”) meet the criteria qualifying them as component units of the University.

The 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 2007 and 2006, the Foundation distributed \$21,144 and \$18,760, respectively, to fund University programs and operations. Included in the Foundation’s financial statements are \$25,624 and \$45,189 of grants payable to the University as of June 30, 2007 and 2006, 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 2007 and 2006, UPA distributed \$17,414 and \$15,771, respectively, to NJMS, which included contributions towards the medical malpractice fund. Included in UPA’s financial statements are \$6,399 and \$9,565 of distributions payable to the University as of June 30, 2007 and 2006, 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.

## 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

# University of Medicine and Dentistry of New Jersey

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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 is a nonprofit organization that reports 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 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 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 notes. 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 contractual allowances and allowances for doubtful accounts for net patient service revenues and the related patient accounts receivable, reserves for other and grants 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.

## **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.



# University of Medicine and Dentistry of New Jersey

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## 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 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:

	2007	2006
One year or less	\$ 15,530	\$ 17,994
One year to five years	13,443	14,698
Present value discount ranging from 3% to 6%	(1,754)	(2,074)
Allowance for uncollectible contributions	(161)	-
	<u>\$ 27,058</u>	<u>\$ 30,618</u>

## Inventories

Inventories, which are included in prepaid expenses and other current assets, are stated at the lower of cost or market using the first-in, first-out method. In 2007, the University recorded approximately \$4,000 of inventory as a result of inventorying certain supplies that were previously expensed as they were considered to be immaterial.

## 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 and depreciation on endowment investments is included in restricted nonexpendable net assets within the consolidated statements of 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 at fair value at the date of acquisition in the case of donated assets. 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**

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for the University's fiscal year beginning July 1, 2006. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. The University adopted this statement for fiscal year 2006. There were no impairment losses in 2007 and 2006.

## **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 \$9,765 and \$10,199, net of accumulated amortization of \$2,711 and \$2,277 as of June 30, 2007 and 2006, 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 will be amortized over a ten year period. Management is currently evaluating the purchase price allocation.

## **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 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, or contributors external to the University, including amounts deposited with trustees as required by revenue bond indentures, as 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 (historical value) of gifts and the University's permanent endowment fund. *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*.

# University of Medicine and Dentistry of New Jersey

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## **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), miscellaneous gifts and grants, 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.

## **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.

## **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 being reported by the State.

## **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 2007, the University has revised its presentation of certain components of net assets at June 30, 2006 by increasing restricted expendable net assets by \$5,944 and decreasing restricted nonexpendable and unrestricted net assets by \$1,208 and \$4,736, respectively, for student loans previously reported within restricted nonexpendable and unrestricted. These revisions had no impact on total net assets as of June 30, 2006.

### **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

# University of Medicine and Dentistry of New Jersey

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making payments on the student's behalf. Scholarship allowances totaled \$5,150 and \$5,310 in 2007 and 2006, 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 reimbursable items at a tentative rate with final settlement determined after submission of the 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, 2003 and UBHC has settled its cost reports through June 30, 2005.
- 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 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 the amounts settled are recorded in the year of settlement. The University recognized revenues in 2007 and 2006 of approximately \$2,600 and \$2,000, respectively, as a result of changes in estimated third party settlements.

# University of Medicine and Dentistry of New Jersey

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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 \$61.7 million and \$59.7 million as of June 30, 2007 and 2006, 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, 2007 and 2006. The University has self disclosed to the Centers for Medicare and Medicaid Services (“CMS”) and the related fiscal intermediary these errors and CMS has issued a notice of intent to re-open cost reports for 2001 through 2003. Although the ultimate outcome of CMS audit of the 2001-2003 cost reports is unknown at this time, 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 \$331,345 and \$374,693 in 2007 and 2006, 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>2007</b>	<b>2006</b>
Gross charges	<u>\$ 1,863,116</u>	<u>\$ 1,859,704</u>
Net additions (deductions) from gross charges		
Health Care Subsidy Fund payments		
Charity care	89,998	90,803
Hospital relief	16,662	16,567
Contractual and other allowances	(1,343,562)	(1,366,368)
Provision for bad debts	<u>(119,696)</u>	<u>(99,528)</u>
Subtotal	<u>(1,356,598)</u>	<u>(1,358,526)</u>
Net patient service revenues	<u>\$ 506,518</u>	<u>\$ 501,178</u>

## 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 \$14,616 and \$7,341 as of June 30, 2007 and 2006, respectively, and is partially insured by Federal Deposit Insurance Corporation in the amount of \$100 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.

# University of Medicine and Dentistry of New Jersey

Investments consist of the following:

	<b>Cost</b>	<b>Fair Value</b>	<b>Unrealized (Losses) Gains</b>
<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>
<b>June 30, 2006</b>			
U.S. government agencies	\$ 129,143	\$ 123,431	\$ (5,712)
Common stock	624	18,562	17,938
Corporate bonds	10,003	10,052	49
Mutual funds	152	161	9
	<u>\$ 139,922</u>	<u>\$ 152,206</u>	<u>\$ 12,284</u>

Investment maturities consist of the following:

	<b>Fair Value</b>	<b>Less Than 1 Year</b>	<b>1 - 5 Years</b>	<b>6 - 10 Years</b>	<b>More Than 10 Years</b>
<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>
<b>June 30, 2006</b>					
U.S. government agencies	\$ 123,431	\$ 997	\$ 44,537	\$ 76,971	\$ 926
Corporate bonds	10,052	4,985	-	5,067	-
Mutual funds	161	161	-	-	-
	<u>\$ 133,644</u>	<u>\$ 6,143</u>	<u>\$ 44,537</u>	<u>\$ 82,038</u>	<u>\$ 926</u>

# University of Medicine and Dentistry of New Jersey

Assets held by trustees consist of the following:

	<b>Cost</b>	<b>Fair Value</b>	<b>Unrealized (Losses) Gains</b>
<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>
<b>June 30, 2006</b>			
U.S. treasuries	\$ 11,411	\$ 11,365	\$ (46)
Commercial paper	11,954	11,953	(1)
Repurchase agreements	47,811	47,811	-
Cash management funds	39,268	39,268	-
Accrued interest	602	602	-
	<u>\$ 111,046</u>	<u>\$ 110,999</u>	<u>\$ (47)</u>

Assets held by trustees maturities consist of the following:

	<b>Fair Value</b>	<b>Less Than 1 Year</b>	<b>1 - 5 Years</b>	<b>6 - 10 Years</b>	<b>More Than 10 Years</b>
<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>
<b>June 30, 2006</b>					
U.S. treasuries	\$ 11,365	\$ 11,365	\$ -	\$ -	\$ -
Commercial paper	11,953	11,953	-	-	-
Repurchase agreements	47,811	20,030	1,161	6,777	19,843
Cash management funds	39,268	39,268	-	-	-
Accrued interest	602	602	-	-	-
	<u>\$ 110,999</u>	<u>\$ 83,218</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 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 on 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

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Investment income consists of the following:

	Year Ended June 30,	
	2007	2006
Interest income	\$ 16,493	\$ 14,226
Dividend income	484	431
	<u>\$ 16,977</u>	<u>\$ 14,657</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:

	Year Ended June 30,	
	2007	2006
U.S. government agencies	3.00% - 5.75%	3.00% - 5.75%
Corporate bonds	6.13%	4.89% - 6.13%

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

	Year Ended June 30,	
	2007	2006
U.S. treasuries	2.32% - 2.38%	2.14% - 6.50%
Commercial paper	5.19% - 5.66%	2.29% - 5.84%
Repurchase agreements	2.50% - 7.80%	2.50% - 7.80%
Cash management funds	4.26% - 5.22%	4.02% - 4.91%

## 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, 2007 and 2006, 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 \$60,154, Federal National Mortgages Association totaling \$11,883, Federal Home Loan Mortgage Corporation totaling \$46,721 and Federal Farm Credit Bank totaling \$5,833. These securities are not guaranteed by the United States government.

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

Investments are recorded in the financial statements at fair value, based upon quoted market values or investment advisors. The estimated fair value of alternative investments is based on valuations



## University of Medicine and Dentistry of New Jersey

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provided by the 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 investments existed. Such differences could be material.

Investments consist of the following as of June 30:

	<b>Year Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Money market funds	\$ 30,127	\$ 37,718
Bonds and notes	6,218	11,111
Fixed income funds	26,102	17,804
Equity		
Large-mid cap	71,971	64,569
Small cap	18,104	20,508
International	25,413	19,824
Alternative investments	34,688	32,978
	<u>\$212,623</u>	<u>\$204,512</u>

Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Alternative assets are less liquid than the Foundation's other investments. Alternative investments include limited partnerships and off-shore investment funds. As of June 30, 2007 the alternative investment strategies of the four funds in this category are multistrategy, fund of funds and absolute return.

# University of Medicine and Dentistry of New Jersey

## 6. Capital Assets

The historical cost of capital assets and capital asset activities for the years ended June 30, 2007 and 2006 are as follows:

	June 30, 2006	Additions	Retirements/ Capitalization	June 30, 2007
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>
	June 30, 2005	Additions	Retirements/ Capitalization	June 30, 2006
Depreciable assets				
Land improvements	\$ 9,067	\$ 1,479	\$ -	\$ 10,546
Buildings and leasehold improvements	1,089,733	111,303	(7,006)	1,194,030
Equipment	566,315	31,950	(5,387)	592,878
Capital assets for investment in joint ventures	35,532	87	-	35,619
Capitalized interest	10,864	5,116	-	15,980
	<u>1,711,511</u>	<u>149,935</u>	<u>(12,393)</u>	<u>1,849,053</u>
Accumulated depreciation				
Land improvements	(4,551)	(151)	-	(4,702)
Buildings and leasehold improvements	(407,975)	(34,848)	165	(442,658)
Equipment	(423,284)	(38,159)	5,800	(455,643)
Capital assets for investment in joint ventures	(21,240)	(1,111)	-	(22,351)
	<u>(857,050)</u>	<u>(74,269)</u>	<u>5,965</u>	<u>(925,354)</u>
Accumulated Amortization				
Capitalized interest	(415)	(203)	-	(618)
Non-depreciable assets				
Land	15,734	78	-	15,812
Construction in progress	143,268	147,725	(135,440)	155,553
	<u>\$ 1,013,048</u>	<u>\$ 223,266</u>	<u>\$ (141,868)</u>	<u>\$ 1,094,446</u>

# University of Medicine and Dentistry of New Jersey

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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. The University has acquired certain fixed assets relating to the joint ventures totaling \$35,619 as of June 30, 2007 and 2006, respectively. Total accumulated depreciation related to these assets was \$23,439 and \$22,351 as of June 30, 2007 and 2006, respectively.

Included in the University's capital asset balances are assets acquired under capital leases totaling \$116,610 and \$116,599 as of June 30, 2007 and 2006, respectively. Total accumulated depreciation related to these assets was \$36,971 and \$31,724 as of June 30, 2007 and 2006, respectively.

Included in the University's capital asset balances are capitalized interest costs of \$1,252 and \$5,115 as of June 30, 2007 and 2006, respectively. These amounts consists of \$1,524 and \$3,643 in interest income and \$2,776 and \$8,758 in interest expense as of June 30, 2007 and 2006, 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 \$21,266 and \$24,593 in 2007 and 2006, respectively. Contributions to the Fund from the University's affiliates totaled \$8,328 and \$8,211 in 2007 and 2006, respectively. State contributions totaled \$19,322 and \$18,000 in 2007 and 2006, respectively. Net assets in the Fund amounted to \$11,545 and \$4,494 as of June 30, 2007 and 2006, respectively.

# University of Medicine and Dentistry of New Jersey

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

As of June 30, 2007 and 2006, long-term debt, including bonds and capital lease obligations consists of the following:

	2007	2006
University of Medicine and Dentistry of New Jersey Series 1995 B Tax Exempt Revenue Bonds of December 1995 issued in the amount of \$143,645. Serial bonds in the amount of \$60,180 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.	\$ 97,750	\$ 105,930
University of Medicine and Dentistry of New Jersey Series 1999 C Tax Exempt Revenue Bonds of June 1999 issued in the amount of \$15,720. Serial bonds in the amount of \$2,645 bearing interest at rates of 4.6%-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.	13,810	14,120
University of Medicine and Dentistry of New Jersey Bonds, 2002 Series A of May 2002 issued in the amount of \$224,130. Serial bonds in the amount of \$104,130 bearing interest rates of 3.6% 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.	219,775	219,775
University of Medicine and Dentistry of New Jersey Variable Rate Demand Bonds, 2002 Series B of May 2002 issued in the amount of \$95,025. Interest is payable monthly. As of June 30, 2007, the interest rate on the bonds was 3.6%. 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)	57,240	57,475
Certificates of Participation, Series 2004 (3)	84,300	87,440
Certificates of Participation, Series D (4)	2,860	3,690
Capitalized building leases (5)	62,504	63,678
Capitalized equipment leases (6)	1,541	1,850
Capital improvement fund obligation (7)	25,270	26,467
Equipment leasing fund obligation (8)	494	964
Mortgages payable (9)	248	288
Notes payable (10)	4,634	4,600
University Care Corporation		
University Lease Revenue Certificates, Series 2001A (11)	34,250	35,050
	699,701	716,352
Unamortized bond premium	2,755	2,850
Total long-term debt and capital lease obligations	<u>\$ 702,456</u>	<u>\$ 719,202</u>

# University of Medicine and Dentistry of New Jersey

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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 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 \$24,250 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 \$32,335 bearing interest 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 \$2,860 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 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%.

## University of Medicine and Dentistry of New Jersey

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- (6) The University entered into 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 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 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 will be made through August 2007, at which time title to the equipment will pass 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 Hudson United Bank, 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 an interest rate 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, 2007, 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 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, 2007, \$4,000 was drawn on the promissory note.

## University of Medicine and Dentistry of New Jersey

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 \$34,250, bearing an interest rate of 4.88%, will be made through June 2031.

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 are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2008	\$ 15,316	\$ 27,019	\$ 42,335
2009	14,984	26,130	41,114
2010	15,747	25,477	41,224
2011	15,092	24,933	40,025
2012	15,535	24,115	39,650
2013-2017	85,256	109,062	194,318
2018-2022	105,596	85,247	190,843
2023-2027	148,440	58,096	206,536
2028-2032	184,200	27,602	211,802
2033-2037	35,490	3,712	39,202
	<u>635,656</u>	<u>411,393</u>	<u>1,047,049</u>
Plus: Unamortized bond premium	2,755	-	2,755
	<u>\$ 638,411</u>	<u>\$ 411,393</u>	<u>\$ 1,049,804</u>

Capital lease payments are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2008	\$ 1,798	\$ 3,556	\$ 5,354
2009	1,940	3,470	5,410
2010	2,015	3,374	5,389
2011	1,606	3,274	4,880
2012	1,689	3,190	4,879
2013-2017	11,349	14,404	25,753
2018-2022	16,288	10,721	27,009
2023-2027	12,795	6,456	19,251
2028-2032	14,565	2,723	17,288
	<u>\$ 64,045</u>	<u>\$ 51,168</u>	<u>\$ 115,213</u>

## University of Medicine and Dentistry of New Jersey

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

	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>

	June 30, 2005	Additions	Reductions	June 30, 2006	Amounts Due Within One Year
Bonds and notes payable					
Revenue bonds	\$ 471,533	\$ -	\$ (10,216)	\$ 461,317	\$ 9,687
Certificates of participation	186,666	-	(2,047)	184,619	5,475
Mortgages payable	318	-	(30)	288	224
Notes payable	700	4,000	(100)	4,600	400
Unamortized bond premium	2,944	-	(94)	2,850	-
	<u>662,161</u>	<u>4,000</u>	<u>(12,487)</u>	<u>653,674</u>	<u>15,786</u>
Capital lease obligations					
Building leases	64,794	-	(1,116)	63,678	1,174
Equipment leases	278	2,269	(697)	1,850	435
	<u>65,072</u>	<u>2,269</u>	<u>(1,813)</u>	<u>65,528</u>	<u>1,609</u>
Accrued claims liability & other	16,686	7,664	(7,325)	17,025	868
	<u>\$ 743,919</u>	<u>\$ 13,933</u>	<u>\$ (21,625)</u>	<u>\$ 736,227</u>	<u>\$ 18,263</u>

Based on an actuarial valuation, the University recorded an accrued claims liability of \$20,823 and \$15,998 at June 30, 2007 and 2006, 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.



# University of Medicine and Dentistry of New Jersey

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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 \$54,000 in 2007 and \$49,000 in 2006 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 being reported by the State.

Total payroll of the University’s plan participants was \$773,556 and \$786,083 for 2007 and 2006, 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>2007</b>	<b>2006</b>
Employee contributions	\$ 27,586	\$ 26,917
Employer contributions (paid by the State)	43,502	43,902
Basis for determining contributions - participating employee salaries	543,776	548,776

### 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 years of service required. Members who have 25 years or more of credited service may also select

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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 2007 and 2006, 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>2007</b>	<b>2006</b>
Employee contributions	\$ 11,931	\$ 11,979
Employer contributions (paid by the State)	10,968	5,054
Employer contributions as a percentage of salary expense	5%	2%
Basis for determining contributions - participating employee salaries	229,780	237,307

## 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, 2007 and 2006 are due from the following payors:

	<b>2007</b>	<b>2006</b>
Medicare and Medicaid	32%	37%
Blue Cross	1%	1%
Other third-party payors	32%	30%
Self-pay patients	35%	32%
	<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, 2007, the carrying amount and fair value of the bonds were approximately \$644,880 and \$661,337, respectively. As of June 30, 2006 the carrying amount and fair value of the bonds were approximately \$658,160 and \$680,895, respectively.

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

## 12. Commitments and Contingencies

Effective March 2002, the University extended the existing ten year contract with SunGard SCT Software and Resource Management Corporation for an additional term of six years and five months through July 23, 2008, 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.

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The University had several major construction contracts in process for construction and renovation projects. As of June 30, 2007 and 2006, the remaining balance on these contracts was \$35,035 and \$33,079, 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,**

2008	\$ 7,118
2009	5,890
2010	4,310
2011	3,620
2012	3,168
2013-2017	8,574
2018-2022	8,118
2023-2027	6,713
2028-2032	6,325
2033-2037	633
	<u>\$ 54,469</u>

Total rent expense for all operating leases was \$7,024 and \$10,593 in 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, \$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.

## 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. If the University fulfills its obligations under the DPA, the Office will dismiss the criminal complaint twenty-four (24) to thirty-six (36) months from the filing date of the criminal complaint.

Under the DPA, the Federal Monitor has 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. As a result, no amounts have been recorded in the 2007 or 2006 financial statements.

Other matters referenced in the periodic Federal Monitor reports have been investigated by the University. Where necessary, the University engaged external experts to assess various healthcare matters and the related liabilities that have been estimated and recorded within the 2007 and 2006 financial statements, respectively.

On December 13, 2007, the Office announced that an extension of the DPA and retention of the Federal Monitor were not necessary, and that it intended to terminate the DPA on December 31, 2007 and seek dismissal with prejudice of the criminal complaint no later than January 10, 2008.

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 it will have a material effect on the University's financial position, operating results or cash flows.

# University of Medicine and Dentistry of New Jersey

## 14. Natural Expenses By Functional Classification

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

	<b>Year Ended June 30, 2007</b>				
	<b>Salaries and Wages</b>	<b>Fringe Benefits</b>	<b>Supplies and Services</b>	<b>Depreciation</b>	<b>Total</b>
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	43,416	-	112,184
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
Auxiliary enterprises and other	3,274	638	13,948	-	17,860
<b>Total operating expenses</b>	<b>\$ 870,779</b>	<b>\$ 233,941</b>	<b>\$ 428,962</b>	<b>\$ 77,146</b>	<b>\$ 1,610,828</b>

	<b>Year Ended June 30, 2006</b>				
	<b>Salaries and Wages</b>	<b>Fringe Benefits</b>	<b>Supplies and Services</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 141,736	\$ 37,698	\$ 16,486	-	\$ 195,920
Research	79,563	20,857	100,362	-	200,782
Public service	48,863	7,626	6,288	-	62,777
Academic and student support	16,107	3,738	8,717	-	28,562
Institutional and administrative support	46,432	9,880	20,760	-	77,072
Patient care services	396,399	110,117	216,973	-	723,489
Professional services and contracts	133,024	24,373	20,517	-	177,914
Operation and maintenance of plant	23,372	7,702	23,500	-	54,574
Depreciation	-	-	-	74,269	74,269
Auxiliary enterprises and other	2,909	553	17,435	-	20,897
<b>Total operating expenses</b>	<b>\$ 888,405</b>	<b>\$ 222,544</b>	<b>\$ 431,038</b>	<b>\$ 74,269</b>	<b>\$ 1,616,256</b>