

**University of Medicine and  
Dentistry of New Jersey**  
(A Component Unit of the State of New Jersey)

**Consolidated Financial Statements**

**June 30, 2012 and 2011**

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# University of Medicine and Dentistry of New Jersey

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June 30, 2012 and 2011

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## Report of Independent Auditors

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

We have audited the consolidated statements of net assets of the University of Medicine and Dentistry of New Jersey, a component unit of the State of New Jersey (the "University"), and the related consolidated statements of revenues, expenses and changes in net assets, and of cash flows of the business-type activities as of and for the years ended June 30, 2012 and 2011, and the statements of net assets of the aggregate discretely presented component units, and the related statements of revenues, expenses and changes in net assets as of and for the years ended June 30, 2012 and 2011, which collectively comprise the University's basic financial statements (as listed in the accompanying index). 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. or the Cancer Institute of New Jersey Foundation, Inc., both discrete component units of the University, whose statements, when aggregated, reflect total discrete assets of 87% and 89% and total discrete net assets of 97% and 98% of the related aggregate discretely presented component unit totals as of June 30, 2012 and 2011, respectively, and total discrete operating revenues of 21% and 21% of the related aggregate discretely presented component unit totals for the years ended June 30, 2012 and 2011, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the New Jersey Health Foundation, Inc. and the Cancer Institute of New Jersey Foundation, Inc. is based solely on the reports 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 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 reports of other auditors provide a reasonable basis for our opinion.

As described in Note 3 to the basic financial statements, the financial statements of the University Physician Associates of New Jersey, Inc, 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, 2012 and 2011, 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 reports of other auditors, except for the departure from accounting principles generally accepted in the United States of America described in the third paragraph of this report, 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, 2012 and 2011, 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 2, the Governor of New Jersey signed the New Jersey Medical and Health Sciences Restructuring Act (the "Act") which integrates the University, except for University Hospital ("UH") and the School of Osteopathic Medicine ("SOM") into Rutgers University ("Rutgers"). The Act will take effect on July 1, 2013. The Act indicates that UH will become a free standing institution of the State of New Jersey, while SOM is to be integrated into Rowan University ("Rowan").

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements as a whole. The accompanying supplementary information for the Piscataway and Newark Centers of University Behavioral HealthCare presented on pages 60-61 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information for the Piscataway and Newark Centers of University Behavioural HealthCare is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



October 23, 2012

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**Management's Discussion and Analysis**

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

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

### **June 30, 2012**

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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" or "UMDNJ") as of June 30, 2012 and its results of operations for the year then ended, with comparative information as of and for the years ended June 30, 2011 and 2010. 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 affiliated educational and healthcare partners throughout the State. The University operates three medical schools, a dental school, a teaching hospital, behavioral healthcare centers, a cancer institute and schools of biomedical sciences, health related professions, nursing and public health and several faculty practice plans.

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 7,000 full and part time students, 1,400 medical interns and residents and 14,200 faculty and staff.

#### **UMDNJ Restructuring**

On August 22, 2012, the Governor of New Jersey signed the New Jersey Medical and Health Sciences Restructuring Act (the "Act"), which integrates the University, except for University Hospital ("UH") and School of Osteopathic Medicine ("SOM"), into Rutgers University ("Rutgers"). The Act indicates that UH will become a free standing institution of the State, while SOM is to be integrated into Rowan University ("Rowan"). All assets, liabilities and debt of the University will be transferred as part of the integration. A School of Biomedical and Health Sciences will be created at Rutgers that will include all transferred units of the University.

UH will remain the principal teaching hospital for the Newark based medical, dental and nursing schools and its community mission will be preserved, with a goal of establishing a long term public/private partnership to manage UH.

The Act shall take effect on July 1, 2013 and apply to the 2013-2014 academic year, but anticipatory administrative action may be taken in advance of the operative date as shall be necessary for the implementation of the legislation. The Act indicates that the State Treasurer shall establish a Transition Committee to advise him regarding all matters pursuant to the Act, including debt issues, the allocation of budgets, state appropriations and other matters. Upon advice of the Committee or its subcommittees, the State Treasurer shall be empowered to take all necessary administrative actions to implement the provisions of the Act.

The University, Rutgers and Rowan are working in a collaborative manner to accomplish the integration and have established teams to identify and address matters associated with the integration.



# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2012

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#### Financial Highlights

The University's financial position reflects total assets of \$1.5 billion and total liabilities of \$1.0 billion as of June 30, 2012. 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, increased by \$0.7 million, or 0.1%, to \$484.2 million in 2012. This increase is primarily related to higher tuition and fees and the discount resulting from a Medicaid settlement agreement, which offset lower appropriation revenues. In 2011, net assets increased by \$0.5 million, or 0.1%, primarily due to higher tuition and fees revenues.

Operating revenues increased by \$18.3 million, or 1.3%, to \$1.4 billion in 2012, reflecting higher tuition and fees, net patient service revenues and professional services and contracts revenues, partially offset by lower grants and contracts. Operating expenses increased by \$24.1 million, or 1.4%, to \$1.8 billion in 2012, due to higher salaries and fringe benefits.

Operating revenues increased by \$12.1 million, or 0.9%, to \$1.4 billion in 2011, reflecting higher tuition and fees, and net patient service revenues, partially offset by lower grants and contracts. Operating expenses decreased by \$44.8 million, or 2.5%, to \$1.8 billion in 2011, due to lower salaries, fringe benefits and supply costs.

State appropriations – operations decreased by \$8.7 million, or 4.0%, to \$205.9 million in 2012, reflecting a decrease in support for the educational units. Fringe benefits paid by the State increased by \$20.8 million, or 11.3%, to \$204.7 million in 2012 due to an effective 1.9% rate increase and an increase in corresponding salaries.

State appropriations – operations decreased by \$47.8 million, or 18.2%, to \$214.6 million in 2011, reflecting a decrease in support for UH operations and the educational units. Fringe benefits paid by the State decreased by \$9.0 million, or 4.7%, to \$183.9 million in 2011 due to a decrease in corresponding salaries.

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

**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
**June 30, 2012**

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**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 are 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 deteriorated during the year.

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

A summary of the University's assets, liabilities and net assets as of June 30, 2012, 2011, and 2010 follows:

<i>(In millions)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 184.4	\$ 196.6	\$ 192.8
Receivables	300.8	265.8	261.3
Assets held by trustees and other	37.9	37.7	31.3
Noncurrent assets			
Endowment and other investments	21.1	20.9	23.9
Assets held by trustees and other	108.8	109.6	107.6
Capital assets, net	862.0	895.5	933.7
Total assets	<u>1,515.0</u>	<u>1,526.1</u>	<u>1,550.6</u>
<b>Liabilities</b>			
Current liabilities	319.4	350.1	364.3
Noncurrent liabilities	711.4	692.5	703.3
Total liabilities	<u>1,030.8</u>	<u>1,042.6</u>	<u>1,067.6</u>
<b>Net assets</b>			
Invested in capital, net of related debt	282.5	304.9	336.5
Restricted expendable	162.9	155.4	158.8
Restricted nonexpendable	67.3	66.5	60.8
Unrestricted	(28.5)	(43.3)	(73.1)
Total net assets	<u>\$ 484.2</u>	<u>\$ 483.5</u>	<u>\$ 483.0</u>

In 2012, the decrease in cash and cash equivalents of \$12.2 million was primarily due to lower State appropriations and an increase in receivables.

In 2011, the increase in cash and cash equivalents of \$3.8 million was primarily due to improved financial results and tight fiscal controls, which offset the decrease in State appropriations.

Receivables increased by \$35.0 million in 2012, primarily due to amounts owed by affiliated hospitals and the State of New Jersey Department of Corrections ("DOC") for services rendered. In 2011, receivables increased by \$4.5 million.

**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
**June 30, 2012**

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Assets held by trustees and other – current and noncurrent decreased by \$0.6 million and increased by \$8.4 million in 2012 and 2011, respectively, due to deposits with trustees for debt service payments.

Capital assets, net decreased by \$33.5 million in 2012 and \$38.2 million in 2011, as depreciation expense exceeded capital additions in each year.

Current liabilities consist primarily of accounts payable, accrued compensation and other liabilities and include \$1.9 million and \$55.7 million of amounts due to third party payors as of June 30, 2012 and 2011, respectively, related to healthcare cost report adjustments. In 2012, current liabilities decreased by \$30.7 million, due to the reclassification of \$35.2 million estimated third party payor settlements to noncurrent liabilities in accordance with the Medicaid settlement agreement. In 2011, current liabilities decreased by \$14.2 million.

Noncurrent liabilities consist primarily of long-term debt and capital lease obligations. In 2012, noncurrent liabilities increased by \$18.9 million, due to the reclassification described above. In 2011, noncurrent liabilities decreased by \$10.8 million, due to long-term debt repayments.

The decreases in net assets invested in capital of \$22.4 million and \$31.6 million in 2012 and 2011, respectively, were due to depreciation expense, which exceeded capital additions and debt reductions.

In 2012, restricted expendable net assets increased by \$7.5 million, primarily due to an increase in research and designated activity. In 2011, restricted expendable net assets decreased by \$3.4 million, primarily due to debt service activity.

In 2012 and 2011, the deficit related to unrestricted net assets improved by \$14.8 million and \$29.8 million, respectively, primarily due to improved operating results.

**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
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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, 2012, 2011 and 2010 follows:

<i>(In millions)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Operating revenues</b>			
Tuition and fees, net	\$ 126.4	\$ 115.9	\$ 96.8
Governmental and private grants and contracts	296.0	318.6	329.2
Net patient service revenues	528.3	517.7	505.9
Professional services and contracts	392.5	370.8	379.7
Other	59.4	61.3	60.5
Total operating revenues	<u>1,402.6</u>	<u>1,384.3</u>	<u>1,372.1</u>
<b>Operating expenses</b>	<u>1,782.0</u>	<u>1,757.9</u>	<u>1,802.7</u>
Operating loss	<u>(379.4)</u>	<u>(373.6)</u>	<u>(430.6)</u>
<b>Nonoperating revenues (expenses)</b>			
State appropriations - operations	205.9	214.6	262.4
Fringe benefits paid by the State	204.7	183.9	192.9
Affiliate grant	-	-	(10.6)
Interest expense and other	<u>(35.3)</u>	<u>(30.5)</u>	<u>(35.7)</u>
Total nonoperating revenues, net	<u>375.3</u>	<u>368.0</u>	<u>409.0</u>
<b>Other revenues</b>			
Capital grant	<u>4.8</u>	<u>6.1</u>	<u>-</u>
<b>Increase (decrease) in net assets</b>	<u>0.7</u>	<u>0.5</u>	<u>(21.6)</u>
Net assets - beginning of year	<u>483.5</u>	<u>483.0</u>	<u>504.6</u>
<b>Net assets - end of year</b>	<u>\$ 484.2</u>	<u>\$ 483.5</u>	<u>\$ 483.0</u>

**Revenues**

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

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

Nonoperating revenues as defined by GASB are 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.

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2012

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#### Academic Programs

Tuition and State appropriations are the primary sources of revenue for the University's academic programs. Tuition revenues increased by 9.1% and 19.7% in 2012 and 2011, respectively, due to an average rate increase of 4.9% and 16.0% and an increase in student enrollment of 3.1% and 6.7% in 2012 and 2011, respectively, which reflects the strong demand for the University's health related academic programs. The schools received State appropriations of \$251.4 million and \$251.2 million in 2012 and 2011, respectively, which included \$92.1 million and \$89.5 million of fringe benefits paid by the State.

#### Research Activities

Governmental and private grants and contracts revenues decreased by \$22.6 million, or 7.1%, in 2012 due to lower recoveries of governmental grants and decreased by \$10.6 million, or 3.2%, in 2011 due to the expiration of American Reinvestment and Recovery Act ("ARRA") grants.

#### Net Patient Service Revenues

Net patient service revenues relate to patient care services, which are generated within the University's hospital, behavioral healthcare and cancer activities, under contractual arrangements with governmental payors and private insurers. These revenues increased by \$10.6 million in 2012, due primarily to the favorable impact of the June 2012 Medicaid settlement agreement with the State. The State established a long term repayment plan for \$51.7 million of liabilities from 2013 through 2021, which resulted in a \$14.5 million present value discount of the balances. The healthcare units received State appropriations of \$159.0 million and \$140.4 million in 2012 and 2011, respectively, which included \$106.9 million and \$93.5 million of fringe benefits paid by the State.

UH's net patient service revenues totaled \$472.5 million in 2012, as compared to \$461.4 million in 2011 and \$450.9 million in 2010. UH is a major source of primary care and serves as the safety net hospital for the inner city municipalities of Newark, East Orange, Irvington and Orange. UH's role in the community is reflected in its payor mix and commitment to the medically indigent. It is by far the largest provider of charity care services in the state, and Medicaid and uninsured patients account for almost 60% of its gross revenues. As a result, UH must deal with the financial impact of revenue collections and reimbursements related to these patients and their payors.

The majority of UH's admissions are initially treated in the emergency/trauma department. Emergency room visits of 97,613 in 2012 remained virtually unchanged from 97,214 in 2011 which represented a 2% decrease from 2010. Inpatient discharges, which account for approximately 70% of UH's net patient service revenues, decreased by 6% to 18,573 in 2012, after a 1.8% decrease to 19,754 in 2011. Clinic visits, which generate outpatient revenues, decreased by 5.6% to 169,541 in 2012, after a decline of 10.6% to 179,659 in 2011.

The level of charity care services provided by UH represents approximately 25% of its patient case volume. Charity care funding from the State totaled \$101.7 million in 2012, \$100.0 million in 2011 and \$92.8 million in 2010, and is projected to total \$100.7 million in 2013. Charity care funding is based upon Medicaid reimbursement rates which have historically been in the range of 60 to 70% of cost. The level of charity care funding is critical to UH's financial results.

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2012

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#### Professional Services and Contracts

Professional services and contracts revenues include the operations of faculty practice plans that generated revenues of \$223.3 million in 2012, \$216.8 million in 2011 and \$222.7 million in 2010.

The largest portion of the contract activity involves University Behavioral Healthcare's ("UBHC") contract with the DOC for mental and physical health services for inmates that generated revenues of \$138.4 million in 2012, \$134.8 million in 2011 and \$137.3 million in 2010.

#### State Appropriations-Operations

State appropriations-operations decreased by \$8.7 million in 2012, reflecting decreased support for educational units. State appropriations-operations decreased by \$47.8 million in 2011, reflecting decreased support for UH operations and the educational units.

The State's 2013 budget includes appropriations for the University totaling \$200.2 million. The decrease of \$5.7 million is related to the transfer of funding to Rowan for faculty support at an affiliated hospital.

#### Capital Grant

In 2010, the University was awarded a capital grant of \$11.4 million related to capital improvements on its cogeneration plant and recognized revenues of \$4.2 million in 2012 and \$6.1 million in 2011 for this project, with the balance of \$1.1 million expected to be recorded in 2013.

In 2010, the University was awarded an ARRA capital grant of \$14.8 million related to capital improvements on New Jersey Medical School's vivarium and recognized revenues of \$0.6 million in 2012 for this project, with the balance of \$14.2 million expected to be recorded in 2013 and 2014.

#### 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, 2012, 2011 and 2010 follows:

<i>(In millions)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Instruction	\$ 184.6	\$ 184.6	\$ 183.2
Research	169.0	185.6	186.6
Public service	108.8	109.3	115.4
Institutional and administrative support	114.4	113.6	103.1
Patient care services	666.1	646.9	685.3
Professional services and contracts	359.3	341.1	345.1
Operation and maintenance of plant	53.7	56.6	55.6
Depreciation	67.1	68.3	70.8
Insurance	10.9	5.4	10.1
Other	48.1	46.5	47.5
Total	<u>\$ 1,782.0</u>	<u>\$ 1,757.9</u>	<u>\$ 1,802.7</u>

# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

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The increase in operating expenses of \$24.1 million, or 1.4%, in 2012 is primarily attributable to the increase in costs related to patient care services and professional services and contracts, partially offset by a decrease in research activity.

The overall increase in 2012 reflects increases in salaries and wages of \$5.5 million and fringe benefits costs of \$20.2 million. The increase in fringe benefits is primarily due to an effective 1.9% rate increase and an increase in corresponding salaries. UH's operating expenses increased by \$10.2 million, or 2.0%, in 2012, due to an increase in fringe benefits expenses and supplies and services costs.

The decrease in operating expenses of \$44.8 million, or 2.5%, in 2011 is primarily attributable to the decrease in costs related to patient care services.

The overall decrease in 2011 reflects decreases in salaries and wages of \$17.2 million, fringe benefit costs of \$10.7 million, supplies and services costs of \$14.4 million and depreciation expense of \$2.5 million. UH's operating expenses decreased by \$28.3 million, or 5.2%, in 2011 as a result of operational improvements regarding staff reductions, physician compensation, supply efficiencies and lower utility costs.

#### **Capital Assets and Debt Activities**

It is the University's objective to manage its financial resources effectively. The University maintains debt ratings of Baa1 for its revenue bonds and Baa2 for its certificates of participation from Moody's Investors Service and A- from Fitch Ratings. The ratings reflect concerns about UH's financial performance and the University's level of liquidity.

All of the University's debt agreements are fixed rate agreements and their fair value approximates their carrying amounts.

As part of its mission, the University recognizes the importance of the development and renewal of its capital assets in order to meet the needs of its academic, research and clinical programs, subject to fiscal limitations due to its liquidity level.

Capital expenditures totaled \$34.7 million in 2012, \$33.5 million in 2011 and \$18.8 million in 2010. The major capital activities in 2012 and 2011 were for equipment purchases and infrastructure improvements.

As of June 30, 2012, the University had \$2,052.5 million invested in capital assets, which was reduced by \$1,190.5 million of accumulated depreciation and \$579.5 million of expended debt, resulting in net assets invested in capital of \$282.5 million.

As of June 30, 2011, the University had \$2,021.2 million invested in capital assets, which was reduced by \$1,125.7 million of accumulated depreciation and \$590.6 million of expended debt, resulting in net assets invested in capital of \$304.9 million.

**University of Medicine and Dentistry of New Jersey**  
**Management's Discussion and Analysis**  
**June 30, 2012**

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**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, 2012, 2011 and 2010 follows:

<i>(In millions)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Cash and cash equivalents (used in) provided by:</b>			
Operating activities	\$ (147.7)	\$ (137.7)	\$ (163.9)
Noncapital financing activities	209.7	216.7	238.5
Capital financing activities	(80.2)	(74.3)	(62.8)
Investing activities	6.0	(0.9)	28.4
Net (decrease) increase in cash	(12.2)	3.8	40.2
Cash and cash equivalents - beginning of year	196.6	192.8	152.6
<b>Cash and cash equivalents - end of year</b>	<b>\$ 184.4</b>	<b>\$ 196.6</b>	<b>\$ 192.8</b>

Cash used in operating activities increased by \$10.0 million in 2012 due to an increase in other receivables. Cash used in operating activities decreased by \$26.2 million in 2011 due to higher tuition and fees and patient service revenues, which offset lower grant revenues.

Cash provided by noncapital financing activities decreased by \$7.0 million and \$21.8 million in 2012 and 2011, respectively, due to lower State appropriations revenues.

Cash used in capital financing activities increased by \$5.9 million in 2012 and \$11.5 million in 2011 due to a higher level of debt repayments in 2012 and purchases of capital assets in 2011.

Cash provided by investing activities increased by \$6.9 million in 2012 due to the maturity of investments. Cash used in investing activities increased by \$29.3 million in 2011 due to the net activity with assets held by trustees.

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

The University's cash and cash equivalents balance includes \$114.5 million and \$167.5 million of funds as of June 30, 2012 and 2011, respectively, which are invested in the State's cash management fund.

The majority of investments and assets held by trustees consist of U.S. treasuries and repurchase agreements, which are collateralized by U.S. government agencies, money market funds and common stock.



# University of Medicine and Dentistry of New Jersey

## Management's Discussion and Analysis

### June 30, 2012

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#### Outlook

The financial performance of the University related to its academic and research mission's remains solid and reflects growth in student demand, enrollment and tuition and improved operating results at UH. The University expects this growth in academic activities to continue, while its research growth is dependent upon the national trend of Federal research activity. Professional services and contracts activities have also experienced growth over the last few years.

State appropriations - operations are expected to decrease by approximately \$5.7 million in 2013, based upon the final State budget, which reflects a transfer to Rowan for faculty support at an affiliated hospital. To address the budgetary uncertainty related to the level of State appropriations, the University continues to develop cost saving strategies that include reductions in the level of employees, supplies and services costs, purchasing improvements and to renegotiate affiliation agreements and commercial payor contracts. The University reassessed its tuition structure for 2013 in light of the expected level of State appropriations and increased the medical and dental school tuition rates by 5%. Tuition revenues are expected to increase by \$7.0 million in 2013 from these rate increases and a projected growth in enrollment.

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. Research revenues are expected to decrease slightly in 2013 due to lower expense activity. The University faces challenges to maintain its growth in Federal research funding, while it expands its collaborative efforts with other state universities.

As a result of the tuition increases, the implementation of cost saving strategies and revenue initiatives, the University projects breakeven operating results for its academic and research missions in 2013, excluding the impact of depreciation expense.

UH continues to be faced with financial challenges. The favorable \$14.5 million impact of the Medicaid settlement agreement with the State enabled UH to achieve a surplus from operations in 2012. In 2011 UH achieved a slight loss after a breakeven result in 2010. Since it is a safety net hospital and has a high level of uninsured and Medicaid patients UH must deal with the adverse financial impact of revenue collections and reimbursement issues related to its payors. The level of charity care services and related expenses remains high, while funding remains at a level that is insufficient to cover costs. UH also provides the highest level of graduate medical level education ("GME") in the State, for which it received \$14.8 million as reimbursement from the Medicaid program.

UH projects a breakeven budget in 2013 with little change in patient volumes, due to a projected rate increase and the continued implementation of strategies that are designed to stabilize its financial operations on both a short-term and long-term basis. The University continues to advocate with State officials regarding increasing reimbursement levels for GME activities.

UBHC and CINJ are expected to maintain financial stability in the future. State appropriations - operations for these units totaled \$39.4 million in 2012, and are projected to remain level in 2013.

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

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

### **June 30, 2012**

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UBHC has contracts with the DOC to provide mental, medical and dental healthcare services to inmates of state prisons, and these contracts are expected to generate \$139.4 million of annual revenues in 2013.

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. The University is currently negotiating with unions regarding wage and benefit issues.

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

#### **Legal Matters**

The University is a party to various legal proceedings arising in the ordinary course of its operations. In the opinion of management, the University has adequate insurance to cover the estimated potential liability for damages in these cases, or, to the extent such liability is not covered by insurance, any adverse decision would not have a material adverse effect on the University's financial position, results of operations, or cash flows

In connection with the settlement of two cases that initially resulted in a Deferred Prosecution Agreement with the United States Attorney for the District of New Jersey, the University entered into a five year Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Federal Department of Health and Human Services in September 2009. Under the terms of the CIA, the University agreed to adhere to requirements that will ensure regulatory and legal compliance with all Federal healthcare programs. Related liabilities have been estimated and recorded within the 2012 and 2011 financial statements, respectively.

From time to time, the University becomes aware of Federal and/or State inquires and investigations and may receive subpoenas and other requests for information. The University cooperates with the agencies and provides the information and data requested. Although the ultimate outcome of any such inquires may be unknown at this time, management believes they will not 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)

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 184,428	\$ 196,577
Short-term investments	96	5,191
Accounts receivable, net of allowance for doubtful accounts of \$237,973 in 2012 and \$262,953 in 2011	119,279	118,513
Other receivables, net of allowance for doubtful accounts of \$16,545 in 2012 and \$20,878 in 2011	109,214	66,738
Grants receivable, net of allowance for doubtful accounts of \$7,582 in 2012 and 2011	72,228	80,590
Inventories and other assets	21,307	16,013
Assets held by trustees - current portion	16,482	16,480
Total current assets	<u>523,034</u>	<u>500,102</u>
Noncurrent assets		
Endowment investments	20,648	20,343
Other long-term investments	473	557
Loans to students	33,605	34,027
Deferred financing costs and other	13,242	14,638
Assets held by trustees	61,968	60,908
Capital assets, net	862,027	895,537
Total noncurrent assets	<u>991,963</u>	<u>1,026,010</u>
Total assets	<u>1,514,997</u>	<u>1,526,112</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	176,516	166,366
Estimated third party payors settlements - current portion	1,914	55,736
Accrued vacation	47,003	48,098
Deferred revenues	75,717	65,923
Long-term debt and capital lease obligations - current portion	18,273	13,979
Total current liabilities	<u>319,423</u>	<u>350,102</u>
Noncurrent liabilities		
Accrued claims liability and other	33,640	32,647
Estimated third party payors settlements	47,228	11,391
Long-term debt and capital lease obligations	630,505	648,489
Total noncurrent liabilities	<u>711,373</u>	<u>692,527</u>
Total liabilities	<u>1,030,796</u>	<u>1,042,629</u>
<b>Net Assets</b>		
Invested in capital, net of related debt	282,443	304,875
Restricted expendable	162,924	155,410
Restricted nonexpendable	67,342	66,529
Unrestricted	(28,508)	(43,331)
Total net assets	<u>\$ 484,201</u>	<u>\$ 483,483</u>

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)

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	<b>Year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating revenues</b>		
Tuition and fees, net	\$ 126,363	\$ 115,870
Governmental grants and contracts	230,415	250,337
Private grants and contracts	65,545	68,234
Net patient service revenues	528,359	517,682
Professional services and contracts	392,509	370,795
Auxiliary sales and services	19,748	19,862
Other operating revenues	39,641	41,464
Total operating revenues	<u>1,402,580</u>	<u>1,384,244</u>
<b>Operating expenses</b>		
Instruction	184,648	184,564
Research	168,950	185,635
Public service	108,828	109,324
Academic and student support	30,662	29,771
Institutional and administrative support	114,348	113,626
Patient care services	666,070	646,897
Professional services and contracts	359,322	341,134
Operation and maintenance of plant	53,738	56,576
Depreciation	67,103	68,268
Insurance	10,891	5,351
Auxiliary enterprises and other	17,403	16,776
Total operating expenses	<u>1,781,963</u>	<u>1,757,922</u>
Operating loss	<u>(379,383)</u>	<u>(373,678)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations - operations	205,938	214,570
Fringe benefits paid by the State	204,649	183,906
Investment income	2,061	2,558
Unrealized appreciation on investments	131	2,110
Net interest expense	(38,570)	(39,171)
Other	1,066	4,049
Total nonoperating revenues, net	<u>375,275</u>	<u>368,022</u>
<b>Other revenues</b>		
Capital grant	4,826	6,124
<b>Increase in net assets</b>	718	468
Net assets - beginning of year	483,483	483,015
<b>Net assets - end of year</b>	<u>\$ 484,201</u>	<u>\$ 483,483</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>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 128,003	\$ 118,469
Research grants and contracts	311,203	304,496
Services to patients	508,029	515,782
Professional services and contracts	394,088	368,507
Other receipts	19,437	62,192
Loan repayments from students	4,354	4,198
Loans to students	(4,430)	(7,126)
Payments to employees	(1,056,792)	(1,041,163)
Payments to vendors	(451,558)	(463,091)
Net cash and cash equivalents used in operating activities	<u>(147,666)</u>	<u>(137,736)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	205,938	214,570
Other receipts, net	3,795	2,130
Net cash and cash equivalents provided by noncapital financing activities	<u>209,733</u>	<u>216,700</u>
<b>Cash flows from capital financing activities</b>		
Capital grant received	4,073	3,822
Proceeds from sale of capital assets	-	6,200
Purchases of capital assets	(31,583)	(33,899)
Principal payments on debt and capital lease obligations	(13,978)	(11,227)
Interest payments on debt and capital lease obligations	(38,771)	(39,226)
Net cash and cash equivalents used in capital financing activities	<u>(80,259)</u>	<u>(74,330)</u>
<b>Cash flows from investing activities</b>		
Deposits with assets held by trustees	(38,686)	(90,819)
Utilization of assets held by trustees	37,624	87,170
Proceeds from sale and maturity of investments	5,000	-
Interest on investments	2,105	2,746
Net cash and cash equivalents provided by (used in) investing activities	<u>6,043</u>	<u>(903)</u>
Net (decrease) increase in cash and cash equivalents	(12,149)	3,731
Cash and cash equivalents - beginning of year	196,577	192,846
<b>Cash and cash equivalents - end of year</b>	<u>\$ 184,428</u>	<u>\$ 196,577</u>
<b>Reconciliation of operating loss to net cash and cash equivalents used in operating activities</b>		
Operating loss	\$ (379,383)	\$ (373,678)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Fringe benefits paid by the State	204,649	183,906
Depreciation and amortization expense	67,913	69,078
Provision for bad debts	158,615	153,601
Medicaid settlement with State	(14,490)	-
Other	-	(1,096)
Changes in assets and liabilities		
Receivables, net of contractual allowances	(193,064)	(157,440)
Inventories and other assets	(5,132)	1,162
Loans to students, net	(9)	(2,854)
Accounts payable and accrued expenses	2,688	(6,429)
Deferred revenues	10,547	(3,986)
Net cash and cash equivalents used in operating activities	<u>\$ (147,666)</u>	<u>\$ (137,736)</u>

The accompanying notes are an integral part of these financial statements

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

	June 30, 2012				June 30, 2011			
	New Jersey Health Foundation, Inc.	Cancer Institute of New Jersey Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total	New Jersey Health Foundation, Inc.	Cancer Institute of New Jersey Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total
<b>Assets</b>								
Current assets								
Cash and cash equivalents	\$ 180	\$ 4,107	\$ 13,873	\$ 18,160	\$ 185	\$ 3,933	\$ 12,762	\$ 16,880
Cash and cash equivalents whose use is limited	-	-	3,663	3,663	-	-	1,875	1,875
Short term investments	29,933	4,589	11,568	46,090	29,371	3,340	11,572	44,283
Contributions receivable, net	13,774	706	-	14,480	7,735	2,086	-	9,821
Other assets	501	131	1,406	2,038	388	75	1,051	1,514
Total current assets	<u>44,388</u>	<u>9,533</u>	<u>30,510</u>	<u>84,431</u>	<u>37,679</u>	<u>9,434</u>	<u>27,260</u>	<u>74,373</u>
Noncurrent assets								
Cash equivalents restricted for long term purposes	-	196	-	196	-	3	-	3
Long term investments	145,966	35	327	146,328	156,114	2,600	287	159,001
Contributions receivable, net	4,827	61	-	4,888	12,519	139	-	12,658
Capital assets, net	2,192	3	55	2,250	2,204	1	67	2,272
Total noncurrent assets	<u>152,985</u>	<u>295</u>	<u>382</u>	<u>153,662</u>	<u>170,837</u>	<u>2,743</u>	<u>354</u>	<u>173,934</u>
Total assets	<u>197,373</u>	<u>9,828</u>	<u>30,892</u>	<u>238,093</u>	<u>208,516</u>	<u>12,177</u>	<u>27,614</u>	<u>248,307</u>
<b>Liabilities</b>								
Current liabilities								
Accounts payable and accrued expenses	1,044	268	478	1,790	1,038	153	461	1,652
Grants payable	19,687	-	-	19,687	20,960	-	-	20,960
Payable to NJMS dept funds	-	-	1,305	1,305	-	-	1,523	1,523
Payable to NJMS dean's funds	-	-	5,002	5,002	-	-	2,843	2,843
Payable to physician overhead funds	-	-	-	-	-	-	8	8
Payable to department participant fund	-	-	5,151	5,151	-	-	3,584	3,584
Funds held in custody for others	-	-	-	-	302	-	-	302
Total current liabilities	<u>20,731</u>	<u>268</u>	<u>11,936</u>	<u>32,935</u>	<u>22,300</u>	<u>153</u>	<u>8,419</u>	<u>30,872</u>
Noncurrent liabilities								
Payable to participant division fund	-	-	12,874	12,874	-	-	14,610	14,610
Total liabilities	<u>20,731</u>	<u>268</u>	<u>24,810</u>	<u>45,809</u>	<u>22,300</u>	<u>153</u>	<u>23,029</u>	<u>45,482</u>
<b>Net Assets</b>								
Restricted expendable - temporarily restricted	45,518	8,049	-	53,567	55,809	10,654	-	66,463
Restricted non expendable - permanently restricted	91,348	929	-	92,277	86,748	985	-	87,733
Board designated - unrestricted	39,776	582	6,082	46,440	43,659	385	4,585	48,629
Total net assets	<u>176,642</u>	<u>9,560</u>	<u>6,082</u>	<u>192,284</u>	<u>186,216</u>	<u>12,024</u>	<u>4,585</u>	<u>202,825</u>
Total liabilities and net assets	<u>\$ 197,373</u>	<u>\$ 9,828</u>	<u>\$ 30,892</u>	<u>\$ 238,093</u>	<u>\$ 208,516</u>	<u>\$ 12,177</u>	<u>\$ 27,614</u>	<u>\$ 248,307</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, 2012				Year Ended June 30, 2011			
	New Jersey Health Foundation, Inc.	Cancer Institute of New Jersey Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total	New Jersey Health Foundation, Inc.	Cancer Institute of New Jersey Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total
<b>Operating revenues</b>								
Contributions	\$ 20,724	\$ 3,897	\$ -	\$ 24,621	\$ 21,535	\$ 2,958	\$ -	\$ 24,493
Net physician billings	-	-	94,055	94,055	-	-	90,383	90,383
Other revenues, net	38	-	-	38	40	-	-	40
Total operating revenues	<u>20,762</u>	<u>3,897</u>	<u>94,055</u>	<u>118,714</u>	<u>21,575</u>	<u>2,958</u>	<u>90,383</u>	<u>114,916</u>
<b>Operating expenses</b>								
Grants	21,379	5,171	-	26,550	22,962	4,285	-	27,247
Distributable to UPA physicians	-	-	37,081	37,081	-	-	36,000	36,000
Distributable to NJMS department funds	-	-	8,980	8,980	-	-	8,620	8,620
Distributable to NJMS division funds	-	-	18,802	18,802	-	-	17,323	17,323
Distributable to NJMS dean's fund	-	-	7,386	7,386	-	-	6,148	6,148
Distributable to UMDNJ medical malpractice fund	-	-	2,753	2,753	-	-	2,648	2,648
Fund raising	2,647	414	-	3,061	2,635	462	-	3,097
General and administrative	(366)	746	17,596	17,976	(482)	840	17,475	17,833
Total operating expenses	<u>23,660</u>	<u>6,331</u>	<u>92,598</u>	<u>122,589</u>	<u>25,115</u>	<u>5,587</u>	<u>88,214</u>	<u>118,916</u>
Operating (loss) gain	<u>(2,898)</u>	<u>(2,434)</u>	<u>1,457</u>	<u>(3,875)</u>	<u>(3,540)</u>	<u>(2,629)</u>	<u>2,169</u>	<u>(4,000)</u>
<b>Nonoperating revenues (expenses)</b>								
Net unrealized and realized (losses) gains on investment:	(4,934)	(30)	40	(4,924)	28,929	160	49	29,138
Interest and dividend income	2,054	-	-	2,054	1,609	-	-	1,609
Investment management and cost recovery fees	(3,519)	-	-	(3,519)	(3,399)	-	-	(3,399)
Refunded to grantor	(39)	-	-	(39)	(3)	-	-	(3)
Provision for uncollectible pledges	(238)	-	-	(238)	(243)	-	-	(243)
Total nonoperating revenues (expenses), net	<u>(6,676)</u>	<u>(30)</u>	<u>40</u>	<u>(6,666)</u>	<u>26,893</u>	<u>160</u>	<u>49</u>	<u>27,102</u>
<b>(Decrease) increase in net assets</b>	<u>(9,574)</u>	<u>(2,464)</u>	<u>1,497</u>	<u>(10,541)</u>	<u>23,353</u>	<u>(2,469)</u>	<u>2,218</u>	<u>23,102</u>
Net assets - beginning of year	186,216	12,024	4,585	202,825	162,863	14,493	2,367	179,723
<b>Net assets - end of year</b>	<u>\$ 176,642</u>	<u>\$ 9,560</u>	<u>\$ 6,082</u>	<u>\$ 192,284</u>	<u>\$ 186,216</u>	<u>\$ 12,024</u>	<u>\$ 4,585</u>	<u>\$ 202,825</u>

The accompanying notes are an integral part of these financial statements



**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**  
**(In thousands of dollars)**

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**1. Organization**

The University of Medicine and Dentistry of New Jersey (the “University” or “UMDNJ”), 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 (“RWJMS”)
- UMDNJ-School of Osteopathic Medicine (“SOM”)
- UMDNJ-New Jersey Dental School
- UMDNJ-Graduate School of Biomedical Sciences
- UMDNJ-School of Health Related Professions
- UMDNJ-School of Nursing
- UMDNJ-School of Public Health

University Health Care Units:

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

Faculty Practice Plans:

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

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

(In thousands of dollars)

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Lease Holding Corporation:

- University Care Corporation

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

The financial results for the Foundation, CINJ Foundation and UPA 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 (see Note 3).

During 2012 and 2011, the Foundation distributed \$21,379 and \$22,962, respectively, to fund University programs and operations. Included in the Foundation’s financial statements are \$19,687 and \$20,960 of grants payable to the University as of June 30, 2012 and 2011, 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.

During 2012 and 2011, the CINJ Foundation distributed \$5,171 and \$4,285, respectively to fund CINJ programs and operations. Separate financial statements for CINJ Foundation can be obtained by writing to the Chief Operating Officer, Cancer Institute of New Jersey Foundation, Inc., 120 Albany Street, Tower II, Fifth Floor, New Brunswick, New Jersey 08901.

During 2012 and 2011, UPA distributed \$19,119 and \$17,416, respectively, to NJMS, which included contributions toward the medical malpractice fund. Included in UPA’s financial statements are \$8,181 and \$4,827 of distributions payable to the University as of June 30, 2012 and 2011, 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. UMDNJ Restructuring

On August 22, 2012, the Governor of New Jersey signed the New Jersey Medical and Health Sciences Restructuring Act (the “Act”), which integrates the University, except for UH and SOM, into Rutgers University (“Rutgers”). The Act indicates that UH will become a free standing institution of the State, while SOM is to be integrated into Rowan University (“Rowan”). All assets, liabilities and debt of the University will be transferred as part of the integration. A School of Biomedical and Health Sciences will be created at Rutgers that will include all the transferred units of the University.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

(In thousands of dollars)

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UH will remain the principal teaching hospital for the Newark based medical, dental and nursing schools and its community mission will be preserved, with a goal of establishing a long term public/private partnership to manage UH.

The Act shall take effect on July 1, 2013 and apply to the 2013-2014 academic year, but anticipatory administrative action may be taken in advance of the operative date as shall be necessary for the implementation of the legislation. The Act indicates that the State Treasurer shall establish a Transition Committee to advise him regarding all matters pursuant to the Act, including debt issues, the allocation of budgets, state appropriations and other matters. Upon advice of the Committee or its subcommittees, the State Treasurer shall be empowered to take all necessary administrative actions to implement the provisions of the Act.

The University, Rutgers and Rowan are working in a collaborative manner to accomplish the integration and have established teams to identify and address matters associated with the integration.

### 3. Summary of Significant Accounting Policies

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 in accordance with generally accepted accounting principles in the United States of America as prescribed by GASB. All significant intercompany balances are eliminated in consolidation.

#### **Basis of Accounting**

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

The Foundation and CINJ Foundation are nonprofit organizations that report under FASB guidance, including Accounting Standards Codification (ASC) No. 958 related to the financial reporting for not-for-profit organization.

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

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

(In thousands of dollars)

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### **Use of Estimates**

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

### **Cash and Cash Equivalents**

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

### **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, State of New Jersey Department of Corrections and amounts due from State and local municipalities and agencies for services rendered.

### **Grants Receivable**

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

### **Inventories**

Inventories consist primarily of hospital supplies, which are included in inventories and other assets, and are stated at the lower of cost, using the first-in, first-out method or market.

### **Endowment**

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

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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### **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. treasuries and agencies, commercial paper, repurchase agreements and money market funds (see Note 6).

### **Capital Assets, Net**

Capital assets are recorded at cost or in the case of donated assets at fair value at the date of acquisition. Major renewals and improvements are capitalized while maintenance repairs are expensed when incurred. Depreciation is provided on a straight-line basis over the shorter of the estimated useful lives of the related assets or lease terms, ranging from 2 to 40 years. Amortization of assets recorded under capital leases is included with depreciation expense in the financial statements. Gains and losses resulting from the retirement of capital assets are also included in the financial statements within nonoperating revenues.

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

The University reviews the realizability of long-lived assets and certain tangible assets whenever events and circumstances occur which indicate recorded costs may not be recoverable. No impairments of long-lived assets were recognized during 2012 or 2011.

### **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 \$7,827 and \$8,212, net of accumulated amortization of \$4,700 and \$4,315 as of June 30, 2012 and 2011, respectively.

In December 2006, the University acquired the intellectual property of Public Health Research Institute for approximately \$8,101. In June 2009, the University acquired various software licenses for \$2,000. These amounts are included in deferred financing costs and other and are being amortized over a ten year period.

### **Compensated Absences**

The University accrues liabilities for employees' annual leave benefits and adjustments to the accrual are recorded annually.

### **Deferred Revenues**

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

### **Accrued Claims Liability**

Accrued claims liability represents estimated amounts payable related to workers compensation claims (see Note 9).

### **Net Assets**

Net assets of the University are classified in four components. *Net assets invested in capital, net of related debt* consist of capital assets net of accumulated depreciation and are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, the State, or contributors external to the University, including amounts deposited with trustees as required by revenue bond indentures, as discussed in Note 9. *Restricted nonexpendable net assets* are those subject to externally imposed stipulations

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

(In thousands of dollars)

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

### **Revenues and Expenses**

The University's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare, education and research services which are the University's principal activities. Nonexchange revenues, including State appropriations, investment income, and capital grants are reported as nonoperating or other revenues. Operating expenses are all expenses incurred to provide healthcare, education and research services, other than financing costs. Nonoperating expenses are all expenses incurred related to financing, noncapital financing and investing activities.

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

Net patient service revenues are recorded on an accrual basis in the period in which the service is provided. Amounts recorded are net of allowances to give recognition to differences between charges and reimbursement rates from third party payors. Reimbursement from third party payors varies, depending upon the type and 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 5).

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

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

### **Auxiliary Sales and Services**

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

### **Capitalized Interest Costs**

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

### **New Authoritative Pronouncements**

In November 2010, the GASB issued Statement 61, *the Financial Reporting Entity: Omnibus*, which GASB Statement 61 provides amended guidance regarding the criteria governing which of a governmental entity's related parties should be formally incorporated into its financial statements with a focus on component units. GASB 61 is effective for the University's fiscal year 2013 financial statements. The guidance should be applied retroactively if practicable; otherwise, the cumulative effect should be reported as a restatement of beginning net assets for the earliest period presented.

# University of Medicine and Dentistry of New Jersey

## Notes to Consolidated Financial Statements

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In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement 62 extracts all relevant nonconflicting, noncontradictory provisions from pre-1989 private sector literature and issues them in the form of a GASB standard so that the private sector standards are no longer needed. Further, GASB Statement 62 eliminates the option, provided under GASB Statement 20 which the University currently applies, which allows the University to elect to apply nonconflicting, noncontradictory, post 1989 FASB standards. The provisions of this Statement are effective for the University's fiscal year 2013 financial statements.

In July 2011, the GASB issued Statement No. 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for the University's fiscal year 2013 financial statements.

The University is evaluating the impact of the GASB Statements 61, 62 and 63 on its consolidated financial statements and disclosures.

#### 4. Tuition and Fees, Net

Tuition and fees revenues are recorded on an accrual basis, net of allowances. Scholarship allowances are the estimated difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Scholarship allowances totaled \$5,581 and \$5,890 in 2012 and 2011, respectively.

#### 5. 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 or based on ambulatory payment classifications. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The University is reimbursed for certain items at a tentative rate with final settlement determined after submission of its annual cost report by the University and audits thereof by the Medicare fiscal intermediary. UH's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the University. UH's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2004 and UBHC has settled its cost reports through June 30, 2009.

**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**  
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- Medicaid – inpatient acute care and behavioral health 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 outpatient behavioral health services, including adult and child 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 and UBHC have settled their Medicaid cost reports with the Medicaid fiscal intermediary through June 30, 2010 and June 30, 2008, respectively.

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 of \$(4,351) in 2012 and \$932 in 2011 as a result of changes in estimated third party settlements.

The University has recorded liabilities related to UH's Medicaid cost reports totaling \$49,739 and \$71,676 as of June 30, 2012 and 2011, respectively, which are included in estimated third party payors settlements. These amounts reflect the impact of two settlement agreements with the State.

In January 2009, the University and the State entered into a settlement agreement regarding certain Medicaid liabilities totaling \$46,031. Under the agreement, the State forgave \$23,031 of these liabilities and established a long-term repayment plan for the remaining \$23,000. In June 2012, a second Medicaid settlement was executed with the State that provided for the long-term repayment of an additional \$51,679 of outstanding liabilities.

Under the agreements, the repayments are as follows: \$2,000 for the year commencing July 1, 2012; \$3,000 per year for each of the succeeding two years commencing July 1, 2013; \$4,000 per year for each of the succeeding two years commencing July 1, 2015; \$4,250 for the year commencing July 1, 2017; \$5,250 for each of the succeeding three years commencing July 1, 2018; \$26,179 in the year commencing July 1, 2021; \$1,500 per year for each of the succeeding three years commencing July 1, 2022; and \$2,000 per year for each of the succeeding four years commencing July 1, 2025. As a result of the repayment period, the University discounted the liabilities by \$13,200 and \$14,500, in 2009 and 2012 respectively, to their estimated present value. The discounts are being amortized over the repayment period. The agreements also require that UH use 50% of any surplus that is realized in a year, net of capital expenditures, as repayment of liabilities.



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

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 includes the amount of gross charges foregone for services and supplies furnished. Gross charges related to charity care totaled \$375,791 and \$407,423 in 2012 and 2011, for which UH received \$101,730 and \$100,016, respectively from the State's Charity Care Subsidy Fund. The University estimates that the cost of delivering this care was \$111,916 in 2012 and \$121,238 in 2011.

The components of net patient service revenues are as follows:

	<b>Year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Gross charges	<u>\$ 2,118,109</u>	<u>\$ 2,104,814</u>
Additions (deductions) from gross charges		
Health Care Subsidy Fund payments		
Charity care	101,730	100,016
Hospital relief	14,715	19,049
Contractual and other allowances	(1,587,148)	(1,574,295)
Provision for bad debts	(133,537)	(131,902)
Reduction of cost reports liabilities	14,490	-
Subtotal	<u>(1,589,750)</u>	<u>(1,587,132)</u>
Net patient service revenues	<u>\$ 528,359</u>	<u>\$ 517,682</u>

**University of Medicine and Dentistry of New Jersey**  
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**6. 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 \$77,949 and \$39,405 as of June 30, 2012 and 2011, respectively, and is partially insured by Federal Deposit Insurance Corporation in the amount of \$250 in each depository. Balances above the Federal Deposit Insurance Corporation amount are insured by the Government Unit Deposit Protection Act, which insures all New Jersey government units' deposits in excess of Federal Deposit Insurance Corporation maximums.

The University's cash equivalents balance includes \$114,468 and \$167,456 of funds as of June 30, 2012 and 2011, respectively, which are invested in the State's cash management fund, which is an investment trust fund that is managed by the State on behalf of various State divisions, agencies and employees.

Investments consist of the following:

	Cost	Fair Value	Unrealized Gains
<b>June 30, 2012</b>			
Common stock	\$ 807	\$ 21,121	\$ 20,314
Mutual funds	80	96	16
	<u>\$ 887</u>	<u>\$ 21,217</u>	<u>\$ 20,330</u>
<b>June 30, 2011</b>			
Common stock	\$ 807	\$ 20,900	\$ 20,093
Corporate bonds	5,000	5,100	100
Mutual funds	78	91	13
	<u>\$ 5,885</u>	<u>\$ 26,091</u>	<u>\$ 20,206</u>

Investment maturities consist of the following:

	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years
<b>June 30, 2012</b>				
Mutual funds	96	96	-	-
	<u>\$ 96</u>	<u>\$ 96</u>	<u>\$ -</u>	<u>\$ -</u>
<b>June 30, 2011</b>				
Corporate bonds	\$ 5,100	\$ 5,100	\$ -	\$ -
Mutual funds	91	91	-	-
	<u>\$ 5,191</u>	<u>\$ 5,191</u>	<u>\$ -</u>	<u>\$ -</u>

**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars)

Assets held by trustees consist of the following:

	<b>Cost</b>	<b>Fair Value</b>	<b>Unrealized Gains</b>
<b>June 30, 2012</b>			
U.S. treasuries	\$ 25,255	\$ 25,257	\$ 2
U.S. agencies	4,860	4,923	63
Repurchase agreements	19,843	19,843	-
Money market funds	28,325	28,325	-
Accrued interest	102	102	-
	<u>\$ 78,385</u>	<u>\$ 78,450</u>	<u>\$ 65</u>
<b>June 30, 2011</b>			
U.S. treasuries	\$ 25,318	\$ 25,344	\$ 26
Commercial paper	4,836	4,866	30
Repurchase agreements	19,843	19,843	-
Money market funds	27,190	27,190	-
Accrued interest	145	145	-
	<u>\$ 77,332</u>	<u>\$ 77,388</u>	<u>\$ 56</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, 2012</b>					
U.S. treasuries	\$ 25,257	\$ 25,257	\$ -	\$ -	\$ -
U.S. agencies	4,923	4,923	-	-	-
Repurchase agreements	19,843	-	-	-	19,843
Money market funds	28,325	28,325	-	-	-
Accrued interest	102	102	-	-	-
	<u>\$ 78,450</u>	<u>\$ 58,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,843</u>
<b>June 30, 2011</b>					
U.S. treasuries	\$ 25,344	\$ 25,344	\$ -	\$ -	\$ -
Commercial paper	4,866	4,866	-	-	-
Repurchase agreements	19,843	-	-	-	19,843
Money market funds	27,190	27,190	-	-	-
Accrued interest	145	145	-	-	-
	<u>\$ 77,388</u>	<u>\$ 57,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,843</u>

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

**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**  
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Investment income consists of the following:

	<b>Year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Interest income	\$ 1,339	\$ 1,847
Dividend income	722	682
Gain on sale of investment	-	29
	<u>\$ 2,061</u>	<u>\$ 2,558</u>

**Interest Rate Risk**

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

Interest rate yields on investments consist of the following:

	<b>Year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Corporate bonds	-	6.13%

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

	<b>Year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
U.S. agencies	4.63%	-
Commercial paper	-	3.63%
Repurchase agreements	4.71%	4.71%
Cash management funds	0.02%	0.09%

**Credit Risk**

The University's investment policy limits investments in corporate bonds to the top rating issued by nationally recognized statistical rating agencies. As of June 30, 2011 investments in corporate bonds were rated A1 by Standard and Poor's. 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.

**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**  
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**7. Capital Assets**

The historical cost of capital assets and capital assets activities for the years ended June 30, 2012 and 2011 are as follows:

	June 30, 2011	Additions	Retirements/ Capitalization	June 30, 2012
Depreciable assets				
Land improvements	\$ 8,180	\$ -	\$ -	\$ 8,180
Buildings and leasehold improvements	1,409,644	2,591	-	1,412,235
Equipment	524,144	29,926	(2,515)	551,555
Capital assets for investment in joint ventures	35,930	81	-	36,011
Capitalized interest	19,470	379	-	19,849
	<u>1,997,368</u>	<u>32,977</u>	<u>(2,515)</u>	<u>2,027,830</u>
Accumulated depreciation				
Land improvements	(5,345)	(309)	-	(5,654)
Buildings and leasehold improvements	(656,420)	(43,583)	-	(700,003)
Equipment	(437,712)	(22,428)	2,312	(457,828)
Capital assets for investment in joint ventures	(26,191)	(783)	-	(26,974)
	<u>(1,125,668)</u>	<u>(67,103)</u>	<u>2,312</u>	<u>(1,190,459)</u>
Accumulated amortization				
Capitalized interest	(2,699)	(934)	-	(3,633)
Non-depreciable assets				
Land	15,801	-	-	15,801
Construction in progress	10,735	24,865	(23,112)	12,488
	<u>\$ 895,537</u>	<u>\$ (10,195)</u>	<u>\$ (23,315)</u>	<u>\$ 862,027</u>

  

	June 30, 2010	Additions	Retirements/ Capitalization	June 30, 2011
Depreciable assets				
Land improvements	\$ 8,680	\$ -	\$ (500)	\$ 8,180
Buildings and leasehold improvements	1,413,276	887	(4,519)	1,409,644
Equipment	503,684	23,006	(2,546)	524,144
Capital assets for investment in joint ventures	35,394	545	(9)	35,930
Capitalized interest	19,018	452	-	19,470
	<u>1,980,052</u>	<u>24,890</u>	<u>(7,574)</u>	<u>1,997,368</u>
Accumulated depreciation				
Land improvements	(5,327)	(309)	291	(5,345)
Buildings and leasehold improvements	(614,226)	(44,218)	2,024	(656,420)
Equipment	(417,404)	(22,982)	2,674	(437,712)
Capital assets for investment in joint ventures	(25,433)	(759)	1	(26,191)
	<u>(1,062,390)</u>	<u>(68,268)</u>	<u>4,990</u>	<u>(1,125,668)</u>
Accumulated amortization				
Capitalized interest	(2,254)	(445)	-	(2,699)
Non-depreciable assets				
Land	16,116	-	(315)	15,801
Construction in progress	2,132	16,756	(8,153)	10,735
	<u>\$ 933,656</u>	<u>\$ (27,067)</u>	<u>\$ (11,052)</u>	<u>\$ 895,537</u>

**University of Medicine and Dentistry of New Jersey**  
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The University and Rutgers, 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 \$36,011 and \$35,930 as of June 30, 2012 and 2011, respectively. Total accumulated depreciation related to these assets was \$26,974 and \$26,191 as of June 30, 2012 and 2011, respectively.

Included in the University's capital asset balances are assets acquired under capital leases totaling \$115,493 and \$113,554 as of June 30, 2012 and 2011, respectively. Total accumulated amortization related to these assets was \$52,971 and \$49,835 as of June 30, 2012 and 2011, respectively.

Included in the University's capital asset balances are capitalized interest costs of \$379 and \$452 as of June 30, 2012 and 2011, respectively.

**8. Self-Insurance Reserve Fund**

The University administers a trust fund on behalf of the State known as the University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund (the "Fund"), which is used to pay malpractice claims, insurance premiums and claims related to auto and directors' and officers' liability. The University and the State approve the payment of claims and the University is required to collect contributions to the Fund from its affiliated hospitals and UPA. Monies in the fund, existing commercial excess liability insurance coverage and coverage provided by the State's Tort Claims Act are used to meet the cost of claims against the University, primarily UH and the faculty practice plans. The State has the ultimate liability for any claims in excess of the Fund's assets.

Payment of claims from the Fund totaled \$20,890 and \$21,112 in 2012 and 2011, respectively. Contributions to the Fund from the State totaled \$10,208 and \$15,542 in 2012 and 2011, respectively. Contributions to the Fund from the University's affiliates totaled \$8,186 and \$7,287 in 2012 and 2011, respectively, and are included in nonoperating revenues.

Net assets in the Fund amounted to (\$4,260) and (\$1,766) as of June 30, 2012 and 2011, respectively.

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**9. Long-Term Debt, Capital Lease Obligations and Other Accrued Liabilities**

As of June 30, 2012 and 2011, long-term debt, including bonds and capital lease obligations, consists of the following:

	2012	2011
2002 Series A Bonds, May 2002 issue in the amount of \$224,130. Serial bonds in the amount of \$77,455 bearing interest at rates of 4.2% to 5.5% are payable in installments of interest and principal through 2024; \$115,645 of 5.0%-5.5% term bonds are due through 2031. 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.	\$ 193,100	\$ 200,215
2009 Series B Revenue Refunding Bonds, April 2009 issue in the amount of \$258,075. Serial bonds in the amount of \$72,625 bearing interest rates at 5.25%-6.5% are payable in equal installments of interest and principal through 2020; \$185,450 of 6.0%-7.5% term bonds are due through 2032. The bonds are collateralized by any legally available funds, with no specific pledge of revenues other than the funds held under the Lockbox Agreement (1)	258,075	258,075
Certificates of Participation, Series 2003 (2)	50,670	52,070
Certificates of Participation, Series 2004 (3)	76,960	78,545
Capital building leases (4)	54,998	56,687
Capital improvement fund obligation (5)	18,299	19,839
Notes payable (6)	2,023	2,673
	<u>654,125</u>	<u>668,104</u>
Unamortized bond discount and loss on extinguishment of debt	<u>(5,347)</u>	<u>(5,636)</u>
Total long-term debt and capital lease obligations, net of discount	<u>\$ 648,778</u>	<u>\$ 662,468</u>

- (1) In April 2009, the University entered into a Loan Agreement (“Agreement”) with the New Jersey Educational Facilities Authority (“EFA”) whereby EFA issued Revenue Refunding Bonds, UMDNJ issue, Series 2009 B in the amount of \$258,075 with an average interest rate of 7.2%. The net proceeds of the 2009 B bonds were used to refund various revenue bonds and lease revenue certificates. The University is obligated to make loan and interest payments to EFA, which are payable from any legally available funds of the University.

The refunding was structured to convert the University's variable rate debt into fixed rate debt and provide the holders of 2009 B Bonds with comparable rights to holders of other University debt issues.

As additional security for the Bonds, the University entered into a Lockbox Agreement, whereby it directed the State to deposit the majority of its monthly state appropriations directly with the lockbox bank, until such time that the bank has sufficient funds for the upcoming semi-annual debt service payments for the 2009 Series B Bonds and 2002 Series A Bonds.

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If the University expected to transfer, sell or divest more than 15% of its total assets or total revenues, the Agreement includes a provision that requires the University to certify that its debt service coverage ratio as defined in the Agreement is expected to be at least 3.0 for the year after the transfer or sale. If a certification cannot be made, then the University is required to defease or retire an amount of debt necessary to achieve the 3.0 ratio.

- (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 \$17,680 bearing interest at rates of 4.0% - 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 \$24,995 bearing interest at rates of 3.5% - 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 funds and insurance proceeds obtained for repair and replacement of the facility.
- (4) In July 1998, the University entered into a capital lease purchase agreement on a building in New Brunswick 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 Newark. 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%.

- (5) In July 2000, the University participated in the Capital Improvement Fund Act, P.L. 1999, c.217 through a grant agreement with EFA to fund specific construction and renovation needs. The University's allocation was \$95,000, of which 33% (\$31,667), bearing interest at rates ranging from 5.0% to 5.75%, is the obligation of the University. The remaining 67% (\$63,333) was a contribution from the State as well as the State's obligation. Average annual payments of \$2,650 of equal installments of interest and principal are due through 2020.
- (6) In February 1998, the University entered into a capital funding agreement with the New Jersey Department of Human Services for \$450 to purchase various properties. Title to the properties rests with the University. The agreement terminates in June 2018, at which time the University can renew the agreement or repay the debt. In October 2005, the University increased the agreement to \$523 to renovate various collateralized properties.



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In December 2004, the University entered into an Enhanced Affiliation agreement with Robert Wood Johnson University Hospital, which provides for working capital requirements for RWJMS 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, 2012, \$4,000 was drawn on the promissory note and principal payments were made in the amount of \$2,500.

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

Long-term debt service requirements to maturity as of June 30, 2012 are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2013	\$ 16,494	\$ 34,934	\$ 51,428
2014	17,277	34,048	51,325
2015	18,136	33,145	51,281
2016	19,005	32,161	51,166
2017	19,705	31,120	50,825
2018-2022	114,681	137,093	251,774
2023-2027	140,085	101,103	241,188
2028-2032	192,165	53,153	245,318
2033-2036	61,580	5,083	66,663
	<u>599,128</u>	<u>461,840</u>	<u>1,060,968</u>
Less: Unamortized bond discount and loss on extinguishment of debt	<u>(5,347)</u>	<u>-</u>	<u>(5,347)</u>
	<u>\$593,781</u>	<u>\$461,840</u>	<u>\$ 1,055,621</u>

Capital lease payments as of June 30, 2012 are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2013	\$ 1,779	\$ 3,101	\$ 4,880
2014	1,945	3,003	4,948
2015	2,408	2,900	5,308
2016	2,539	2,769	5,308
2017	2,678	2,631	5,309
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>\$ 54,997</u>	<u>\$ 34,304</u>	<u>\$ 89,301</u>

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Long-term debt and capital lease obligations, estimated third party payors settlements and accrued claims liability activities for the years ended June 30, 2012 and 2011 are as follows:

	<b>June 30,</b>			<b>June 30,</b>	<b>Amounts</b>
	<b>2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>2012</b>	<b>Due Within</b>
					<b>One Year</b>
Bonds and notes payable					
Revenue bonds	\$478,130	\$ -	\$ (8,655)	\$469,475	\$ 13,004
Certificates of participation	130,615	-	(2,985)	127,630	3,090
Notes payable	2,673	-	(650)	2,023	400
Unamortized bond (discount)	(5,636)	-	289	(5,347)	-
	<u>605,782</u>	<u>-</u>	<u>(12,001)</u>	<u>593,781</u>	<u>16,494</u>
Capital lease obligations					
Building leases	56,686	-	(1,689)	54,997	1,779
	<u>56,686</u>	<u>-</u>	<u>(1,689)</u>	<u>54,997</u>	<u>1,779</u>
Estimated third party payors settlements	11,391	50,327	(14,490)	47,228	-
Accrued claims liability and other	32,647	12,890	(11,897)	33,640	-
	<u>\$706,506</u>	<u>\$ 63,217</u>	<u>\$ (40,077)</u>	<u>\$729,646</u>	<u>\$ 18,273</u>

	<b>June 30,</b>			<b>June 30,</b>	<b>Amounts</b>
	<b>2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>2011</b>	<b>Due Within</b>
					<b>One Year</b>
Bonds and notes payable					
Revenue bonds	\$485,336	\$ -	\$ (7,206)	\$478,130	\$ 8,655
Certificates of participation	133,475	-	(2,860)	130,615	2,985
Notes payable	3,073	-	(400)	2,673	650
Unamortized bond (discount)	(5,973)	-	337	(5,636)	-
	<u>615,911</u>	<u>-</u>	<u>(10,129)</u>	<u>605,782</u>	<u>12,290</u>
Capital lease obligations					
Building leases	58,292	-	(1,606)	56,686	1,689
	<u>58,292</u>	<u>-</u>	<u>(1,606)</u>	<u>56,686</u>	<u>1,689</u>
Estimated third party payors settlements	10,744	647	-	11,391	-
Accrued claims liability and other	30,455	13,239	(11,047)	32,647	-
	<u>\$715,402</u>	<u>\$ 13,886</u>	<u>\$ (22,782)</u>	<u>\$706,506</u>	<u>\$ 13,979</u>

The estimated third party payors settlements amount represents the discounted value of the \$74,710 of liabilities that are to be repaid during 2013-2029. Annual interest expense of \$2,088 will be recorded through 2029 and will increase this liability.

Based on an actuarial valuation, the University recorded an accrued liability for workers compensation claims of \$33,557 and \$32,557 at June 30, 2012 and 2011, respectively, on a discounted basis assuming an interest rate of 3.25% in 2012 and in 2011. Actual losses will vary due to the uncertainty inherent in the projections used in the actuarial valuation.

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**10. 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 by the State approximated \$56,894 in 2012 and \$54,789 in 2011 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 recorded in the consolidated financial statements.

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

Total payroll of the University’s plan participants was \$756,504 and \$759,450 for 2012 and 2011, 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>2012</b>	<b>2011</b>
Employee contributions	\$ 30,134	\$ 30,216
Employer contributions (paid by the State)	42,719	42,775
Basis for determining contributions - participating employee salaries	533,988	534,684

**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

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

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

*Contributions*—Covered University employees are required by PERS to contribute 6.5% and 5.5% of their annual compensation during 2012 and 2011, 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>2012</b>	<b>2011</b>
Employee contributions	\$ 14,335	\$ 12,728
Employer contributions (paid by the State)	14,175	12,014
Employer contributions as a percentage of salary expense	6%	5%
Basis for determining contributions - participating employee salaries	222,516	224,766

**11. 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, 2012 and 2011 are due from the following payors:

	<b>2012</b>	<b>2011</b>
Medicare and Medicaid	32%	32%
Other third-party payors	36%	31%
Self-pay patients	32%	37%
	<u>100%</u>	<u>100%</u>

**12. Fair Value of Financial Instruments**

The University estimates the fair value of its revenue bonds based upon quoted market prices. As of June 30, 2012, the carrying amount and fair value of the bonds were approximately \$617,920 and \$662,942, respectively. As of June 30, 2011 the carrying amount and fair value of the bonds were approximately \$628,820 and \$638,845, respectively.

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

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**13. Commitments and Contingencies**

The University has a contract with Ellucian Company LP, formerly SunGard Higher Education, for software and outsourcing services needed to maintain the University's integrated administrative computer system, which expires on July 31, 2013 at an annual cost of \$1,295.

In June 2009, the University entered into a lease agreement for telecommunications equipment that requires payments of \$1,400 per year through 2016.

The University has several major construction contracts in process for construction and renovation projects. As of June 30, 2012 and 2011, the remaining balance on these contracts was \$12,845 and \$7,358, 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,**

2013	\$ 5,385
2014	5,008
2015	3,569
2016	2,274
2017	1,888
2018-2022	9,252
2023-2027	7,591
2028-2032	4,421
2033-and thereafter	1,804
	<u>\$ 41,192</u>

Total rent expense for these operating leases were \$5,064 and \$5,087 in 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, \$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.

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**14. Legal Matters**

The University is a party in various legal proceedings arising in the ordinary course of its operations. In the opinion of management, the University has adequate insurance to cover the estimated potential liability for damages in those cases, or, to the extent such liability is not covered by insurance, any adverse decision would not have a material adverse effect on the University's financial position, results of operations, or cash flows.

In connection with the settlement of two cases that initially resulted in a Deferred Prosecution Agreement with the United States Attorney for the District of New Jersey, the University entered into a five year Corporate Integrity Agreement (“CIA”) with the Office of Inspector General of the Federal Department of Health and Human Services in September 2009. Under the terms of the CIA, the University agreed to adhere to requirements that will ensure regulatory and legal compliance with all Federal healthcare programs. Related liabilities have been estimated and recorded within the 2012 and 2011 financial statements, respectively.

From time to time, the University becomes aware of Federal and/or State inquiries and investigations and may receive subpoenas and other requests for information. The University cooperates with the agencies and provides the information and data requested. Although the ultimate outcome of any such inquiries may be unknown at this time, management believes they will not have a material effect on the University's financial position, operating results or cash flows.

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**15. 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, 2012</b>				
	<b>Salaries and Wages</b>	<b>Fringe Benefits</b>	<b>Supplies and Services</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 129,932	\$ 42,545	\$ 12,171	\$ -	\$ 184,648
Research	65,331	19,057	84,562	-	168,950
Public service	71,224	22,630	14,974	-	108,828
Academic and student support	17,893	4,987	7,782	-	30,662
Institutional and administrative support	60,941	37,914	15,493	-	114,348
Patient care services	365,771	104,137	196,162	-	666,070
Professional services and contracts	237,114	41,352	80,856	-	359,322
Operation and maintenance of plant	20,216	12,808	20,714	-	53,738
Depreciation	-	-	-	67,103	67,103
Insurance	575	208	10,108	-	10,891
Auxiliary enterprises and other	2,152	745	14,506	-	17,403
Total operating expenses	<u>\$ 971,149</u>	<u>\$286,383</u>	<u>\$457,328</u>	<u>\$ 67,103</u>	<u>\$1,781,963</u>

	<b>Year Ended June 30, 2011</b>				
	<b>Salaries and Wages</b>	<b>Fringe Benefits</b>	<b>Supplies and Services</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 132,717	\$ 39,890	\$ 11,957	\$ -	\$ 184,564
Research	70,158	19,573	95,904	-	185,635
Public service	73,557	17,735	18,032	-	109,324
Academic and student support	16,427	4,691	8,653	-	29,771
Institutional and administrative support	57,289	36,032	20,305	-	113,626
Patient care services	362,905	96,564	187,428	-	646,897
Professional services and contracts	228,113	38,445	74,576	-	341,134
Operation and maintenance of plant	22,029	12,344	22,203	-	56,576
Depreciation	-	-	-	68,268	68,268
Insurance	173	192	4,986	-	5,351
Auxiliary enterprises and other	2,236	678	13,862	-	16,776
Total operating expenses	<u>\$ 965,604</u>	<u>\$266,144</u>	<u>\$457,906</u>	<u>\$ 68,268</u>	<u>\$1,757,922</u>

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**16. Component Unit - New Jersey Health Foundation, Inc.**

The following information in note 16 has been taken from the Foundation's audited financial statements.

**Summary of Significant Accounting Policies**

**Contributions**

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 an appropriate 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.

**Grants Payable**

Grants are distributed in the areas of research, research training, educational enrichment, student assistance, university ventures, and community health. Grants payable are recorded at the time authorized by the board of trustees of the Foundation; an award letter is sent to the recipient and grants are expected to be paid within one year.

**Concentration of Credit Risk**

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

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



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### Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820, *Fair Value Measurements* (formerly referred to as SFAS No. 157), establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.
- Level 2: Investments in certain entities that calculate net asset value per share (or its equivalent) in which the Foundation has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at or near the measurement date. Level 2 also includes investments with observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quotes prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities.
- Level 3: Investments in certain entities that calculate net asset value per share in which the Foundation either will never have the ability to redeem its investment with the investee at net asset value per share (or its equivalent) or in which the Foundation cannot redeem its investment with the investee at net asset value per share (or its equivalent) at or near the measurement date but the investment may be redeemable with the investee at a future date. These investment prices are based on the respective net asset value reported by the administrator and/or management of the investment fund in which the Foundation invests. The inputs in the determination of fair value require significant management judgment or estimation. Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer.

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### Investments

#### Overall Investment Objective

The overall investment objective of the Foundation is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to allow for the annual appropriation under its spending policy, fund a portion of its annual operating activities and increase investment value after inflation. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Finance Committee, which oversees the Foundation's investment program in accordance with established guidelines.

#### Allocation of Investment Strategies

In addition to traditional stocks and fixed-income securities, the Foundation may also hold shares or units in institutional funds as well as in alternative investment funds involving hedged and private equity strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Private equity strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the Foundation's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

#### Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the Foundation and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The Foundation's interests in alternative investment funds are generally reported at the net asset value (NAV) provided by the fund managers, which is used as a practical expedient to estimate the fair value of the Foundation's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2012 and 2011, the Foundation had no plans or intentions to sell investments at amounts different from NAV.

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The following table summarizes the Organization's investment and other assets by major category in the fair value hierarchy as June 30, 2012 and 2011, as well as related strategy, liquidity and funding commitments:

	June 30, 2012				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Long-term investment strategies:						
Traditional fixed income funds	\$ 16,649	\$ -	\$ -	\$ 16,649	Daily	1
Domestic equities:					Daily Level 1/ Monthly Level	
Large-mid cap	41,512	5,035	-	46,547		2
Small cap value	4,897	-	-	4,897	Daily	1
Small cap	6,380	-	-	6,380	Daily	30
Total	52,789	5,035	-	57,824		
Global (excluding U.S.) equities:						
Developed markets	-	18,562	-	18,562	Monthly	5
Emerging markets	6,073	-	-	6,073	Daily	1
Total	6,073	18,562	-	24,635		
Hedged equity funds of funds:						
Long/short strategies	-	-	9,526	9,526	Locked-up (1)	60
Absolute return/multiple strategies	-	-	20,970	20,970	Locked-up (2)	100
Total	-	-	30,496	30,496		
Private equity and venture capital funds	-	-	7,254	7,254	Illiquid (3)	N/A
Other debt securities	6,203			6,203		
Other equity securities	2,905	-	-	2,905	Daily	1
Total long-term investments	84,619	23,597	37,750	145,966		
Cash equivalents – money market	29,933	-	-	29,933	Daily	1
Total	\$ 114,552	\$ 23,597	\$ 37,750	\$ 175,899		

(1) These funds are subject to lock-ups expiring in 2015.

(2) \$13 million of these funds are subject to a three year lock-up expiring December 2013; \$8 million of these funds are subject to a three year lock-up expiring December 2012.

(3) These funds are expected to liquidate within 10 years. Unfunded future commitments aggregate \$1.5 million.

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	June 30, 2011				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Long-term investment strategies:						
Traditional fixed income funds	\$ 18,636	\$ -	\$ -	\$ 18,636	Daily	1
Domestic equities:					Daily Level 1/ Monthly Level 2	
Large-mid cap	41,153	7,761	-	48,914		2
Small cap value	5,605	-	-	5,605	Daily	1
Small cap	6,195	-	-	6,195	Daily	30
Total	52,953	7,761	-	60,714		
Global (excluding U.S.) equities:						
Developed markets	-	23,799	-	23,799	Monthly	5
Emerging markets	7,718	-	-	7,718	Daily	1
Total	7,718	23,799	-	31,517		
Hedged equity funds of funds:						
Long/short strategies	-	-	9,444	9,444	Locked-up (1)	60
Absolute return/multiple strategies	-	-	24,208	24,208	Locked-up (2)	100
Total	-	-	33,652	33,652		
Private equity and venture capital funds	-	-	7,417	7,417	Illiquid (3)	N/A
Other debt securities	1,002			1,002		
Other equity securities	3,177	-	-	3,177	Daily	1
Total long-term investments	83,486	31,560	41,069	156,115		
Cash equivalents – money market funds	29,371	-	-	29,371	Daily	1
Total	\$ 112,857	\$ 31,560	\$ 41,069	\$ 185,486		

(1) Approximately one-half of these funds are subject to lock-up expiring in 2013 and one-half expiring in 2012.

(2) \$13 million of these funds are subject to a three year lock-up expiring December 2013; \$4 million of these funds are subject to a three year lock-up expiring December 2012; \$7 million of these funds are subject to a three year lock-up expiring December 2011.

(3) These funds are expected to liquidate within 10 years. Unfunded future commitments aggregate \$1.8 million.

Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each fund's reported NAV is used as a practical expedient to estimate the fair value of the Foundation's interest therein, the level in which a fund's fair value measurement is classified is based on the Foundation's ability to redeem its interest at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

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The following table presents the Organization's activities for the year ended June 30, 2012 and 2011 for investments classified in Level 3:

<u>Level 3 roll forward</u>	<b>2012</b>		<b>Total</b>
	<b>Hedged equity funds of funds</b>	<b>Private equity and venture capital funds</b>	
Beginning value as of July 1, 2011	\$ 33,651	\$ 7,418	\$ 41,069
Acquisitions	-	425	425
Redemptions	(3,139)	(462)	(3,601)
Net realized and unrealized gains	(16)	(127)	(143)
Fair value at June 30, 2012	<u>\$ 30,496</u>	<u>\$ 7,254</u>	<u>\$ 37,750</u>

<u>Level 3 roll forward</u>	<b>2011</b>		<b>Total</b>
	<b>Hedged equity funds of funds</b>	<b>Private equity and venture capital funds</b>	
Beginning value as of July 1, 2010	\$ 30,683	\$ 6,493	\$ 37,176
Acquisitions	-	680	680
Redemptions	(735)	(327)	(1,062)
Net realized and unrealized gains	3,703	571	4,274
Fair value at June 30, 2011	<u>\$ 33,651</u>	<u>\$ 7,417</u>	<u>\$ 41,068</u>

Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the Foundation may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.

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Certain hedge funds of funds contain "rolling" lock-up provisions. Under such provisions, tranches of the investment are available for redemption at calendar year-end once every two or three years, if the Foundation makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement.

Investment liquidity as of June 30, 2012 and 2011 is aggregated below based on redemption or sale period:

	<b>Investment fair values</b>	
	<b>2012</b>	<b>2011</b>
Investment redemption or sale period:		
Daily	\$ 114,552	\$ 112,856
Monthly	23,597	31,560
Subject to rolling lock-ups	30,496	33,651
Illiquid	7,254	7,417
	<u>\$ 175,899</u>	<u>\$ 185,484</u>

**Net Asset Balances**

**Temporarily Restricted Net Assets**

As of June 30, 2012 and 2011, temporarily restricted net assets are available for the following purposes:

	<b>2012</b>	<b>2011</b>
Construction of facilities	\$ 3,012	\$ 4,477
Research grants	13,696	18,465
Faculty chairs and support	5,046	9,035
Lectures and events	247	671
Continuing education program support	1,172	1,827
Scholarships and fellowships	5,750	4,978
Other designated program support	16,595	16,356
	<u>\$ 45,518</u>	<u>\$ 55,809</u>

**Permanently Restricted Net Assets**

As of June 30, 2012 and 2011, permanently restricted net assets consist of endowment contributions from donors with income to be used for specific or general purposes as follows:

	<b>2012</b>	<b>2011</b>
Faculty chairs	\$ 32,908	\$ 32,183
Research	25,473	24,003
Construction of facilities	12,210	12,061
Lectureships	1,091	1,038
Scholarships and fellowships	15,113	14,264
Other	4,553	3,199
	<u>\$ 91,348</u>	<u>\$ 86,748</u>

# University of Medicine and Dentistry of New Jersey

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The Foundation's endowment consists of 289 and 273 funds as of June 30, 2012 and 2011, respectively, that have been established by the Foundation to support faculty chairs, research, lectureships, scholarships, fellowships and other programs at the University. These funds are invested by the Foundation. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

### **Uniform Prudent Management of Institutional Funds Act (the Act)**

The Foundation has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the prudence standard prescribed by the Act. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation and the University
7. The investment policies of the Foundation

### **Spending and Investment Policies**

The Foundation has a policy of appropriating for distribution each year 5% of the lesser of (1) each of its eligible endowment fund's average fair value based on the twelve quarters preceding the beginning of the fiscal year end or (2) fair value at the beginning of the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

### **Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that exceed the net appreciation classified in temporarily restricted net assets are classified as board designated net assets. Future gains to restore the fair value of the donor-restricted endowment funds to the required level shall first be reported as increases in board designated net assets to the extent of the deficiency with excess reported as increases in temporarily restricted net assets. There are no deficiencies as of June 30, 2012 and 2011.

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**Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income and growth, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board designated funds. Under this policy, as approved by the Foundation's Finance Committee of the Board of Directors, the endowment assets are invested in a number of different asset classes and investment strategies to diversify the investments to provide a balance that will enhance the long-term total return of the overall investment portfolio while avoiding undue risk or concentration in any single asset class or investment category.

The following represents the net asset classes of the Foundation's board designated and donor-restricted endowment funds as of June 30, 2012 and 2011:

	<b>2012</b>			
	<b>Board designated</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Board designated endowment funds	\$ 37,173	\$ -	\$ -	\$ 37,173
Donor-restricted endowment funds	-	13,889	91,348	105,237
Total endowment funds	37,173	13,889	91,348	142,410
Other non-endowment funds	2,603	31,629	-	34,232
Total net assets	<u>\$ 39,776</u>	<u>\$ 45,518</u>	<u>\$ 91,348</u>	<u>\$ 176,642</u>

	<b>2011</b>			
	<b>Board designated</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Board designated endowment funds	\$ 41,717	\$ -	\$ -	\$ 41,717
Donor-restricted endowment funds	-	23,103	86,748	109,851
Total endowment funds	41,717	23,103	86,748	151,568
Other non-endowment funds	1,941	32,706	-	34,647
Total net assets	<u>\$ 43,658</u>	<u>\$ 55,809</u>	<u>\$ 86,748</u>	<u>\$ 186,215</u>



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The following table presents changes in endowments for the year ended June 30, 2012 and 2011:

	<u>Board designated</u>	<u>Temporarily restricted</u>	<u>Permanently</u>	<u>Total</u>
Endowment net assets at June 30, 2010	\$ 37,616	\$ 7,068	\$ 85,023	\$ 129,707
Investment income	502	1,078	-	1,580
Net appreciation (realized and unrealized)	8,696	20,107	-	28,803
Contributions	-	-	1,711	1,711
Appropriation of endowment assets for expenditure	(1,995)	(2,702)	-	(4,697)
Cost recovery and investment fees	(952)	(2,448)	-	(3,400)
Refunded to grantor	-	-	-	-
Board designated expenses	(2,150)	-	-	(2,150)
Transfers	-	-	14	14
Endowment net assets at June 30, 2011	<u>41,717</u>	<u>23,103</u>	<u>86,748</u>	<u>151,568</u>
Investment income	522	1,432	-	1,954
Net depreciation (realized and unrealized)	(1,123)	(3,653)	-	(4,776)
Contributions	-	-	4,598	4,598
Appropriation of endowment assets for expenditure	(14)	(4,495)	-	(4,509)
Cost recovery and investment fees	(961)	(2,498)	-	(3,459)
Write-off of contribution receivable	-	-	(50)	(50)
Board designated expenses	(2,969)	-	-	(2,969)
Transfers	-	-	53	53
Endowment net assets at June 30, 2012	<u>\$ 37,172</u>	<u>\$ 13,889</u>	<u>\$ 91,349</u>	<u>\$ 142,410</u>

**Contributions Receivable**

Contributions receivable consist of the following as of June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Unconditional promises to give, net	\$ 16,640	\$ 18,347
Receivable under charitable remainder trust agreements	<u>1,961</u>	<u>1,907</u>
	<u>\$ 18,601</u>	<u>\$ 20,254</u>

Contributions receivable are expected to be received subsequent to June 30, 2012 and 2011 as follows:

	<b>2012</b>	<b>2011</b>
Less than one year	\$ 13,774	\$ 7,735
One year to five years	4,597	12,454
Five years to ten years	1,978	1,927
Present value discount ranging from 1.5% to 6%	(1,523)	(1,634)
Allowance for uncollectible contributions receivable	<u>(225)</u>	<u>(228)</u>
	<u>\$ 18,601</u>	<u>\$ 20,254</u>

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**17. Component Unit - Cancer Institute of New Jersey Foundation, Inc.**

The following information in note 17 has been taken from the CINJ Foundation's audited financial statements.

**Investments**

As of June 30, 2012 and 2011 investments consist of the following:

Short-term investments:	<b>2012</b>	<b>2011</b>
Certificates of deposit - temporarily restricted	\$ 3,910	\$ 2,768
Certificates of deposit - permanently restricted	<u>679</u>	<u>572</u>
Total short-term investments	<u>4,589</u>	<u>3,340</u>
 Long-term investments:		
Corporate bonds - temporarily restricted	-	2,210
Exchange traded funds - permanently restricted	-	341
Fair value of \$4 million second-to-die universal Life Insurance Policy - permanently restricted	<u>35</u>	<u>49</u>
Total long-term investments	<u>35</u>	<u>2,600</u>
Total investments	<u>\$ 4,624</u>	<u>\$ 5,940</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended June 30, 2012:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net Interest and dividend income	\$ 24	\$ 36	\$ (7)	\$ 53
Unrealized (loss)	-	(25)	(43)	(68)
Net realized (loss)	<u>-</u>	<u>(8)</u>	<u>(7)</u>	<u>(15)</u>
Net earnings (loss) on investments	<u>\$ 24</u>	<u>\$ 3</u>	<u>\$ (57)</u>	<u>\$ (30)</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended June 30, 2011:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net Interest and dividend income	\$ 16	\$ 107	\$ 17	\$ 140
Unrealized (loss) gain	-	(36)	56	20
Net realized gain (loss)	<u>1</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Net earnings on investments	<u>\$ 17</u>	<u>\$ 70</u>	<u>\$ 73</u>	<u>\$ 160</u>

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**Fair Value Accounting**

The CINJ Foundation has adopted the accounting guidance related to Fair Value Measurements with respect to its financial assets and liabilities. Fair Value Measurements defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosure about fair value measurements. Fair value is defined under Fair Value Measurements as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in principal or most advantageous market for the asset or liability in an orderly transaction between market participations on the measurement date. Valuation techniques used to measure fair value under Fair Value Measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs (of which the first two are considered observable) and the last unobservable, that may be used to measure fair value and they are the following:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In accordance with Fair Value Measurements, the following table represents the CINJ Foundation's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and cash equivalents	\$ 4,107	\$ -	\$ -	\$ 4,107
Short-term investments:				
Certificates of deposit - financial services	4,589	-	-	4,589
Long-term investments:				
Life insurance	-	-	35	35
Cash equivalents restricted for long-term purposes	196	-	-	196
Total long-term investments	<u>196</u>	<u>-</u>	<u>35</u>	<u>231</u>
Total investments	<u>\$ 8,892</u>	<u>\$ -</u>	<u>\$ 35</u>	<u>\$ 8,927</u>

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In accordance with Fair Value Measurements, the following table represents the CINJ Foundation's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis of June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and cash equivalents	\$ 3,933	\$ -	\$ -	\$ 3,933
Short-term investments:				
Certificates of deposit - financial services	3,340	-	-	3,340
Long-term investments:				
Corporate bonds - financial services - AAA	-	2,210	-	2,210
Exchange traded fund - S&P500	341	-	-	341
Life insurance	-	-	49	49
Cash equivalents restricted for long-term purposes	3	-	-	3
Total long-term investments	<u>344</u>	<u>2,210</u>	<u>49</u>	<u>2,603</u>
Total investments	<u>\$ 7,617</u>	<u>\$ 2,210</u>	<u>\$ 49</u>	<u>\$ 9,876</u>

Money market funds, certificates of deposit, marketable securities and exchange traded funds are valued using quoted market prices in active markets for identical assets. Corporate bonds are valued at market price or market price for similar assets in active markets. In the event that quoted market prices in active markets and other observable measurement criteria are not available, CINJ Foundation will develop measurement criteria based upon the best information available. There have been no changes in the methodologies used for periods presented in these financial statements. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while CINJ Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following is a summary of activity for the year ended June 30, 2011 and June 30, 2012 for assets measured at fair value based upon unobservable measure criteria:

Balance, June 30, 2010	\$ 39
Change in cash surrender value of life insurance policy purchased	<u>10</u>
Balance, June 30, 2011	49
Change in cash surrender value of life insurance policy purchased	<u>(14)</u>
Balance, June 30, 2012	<u>\$ 35</u>

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**Contributions Receivable**

Contributions receivable include only unconditional promises to give and are expected to be received subsequent to June 30, 2012 and 2011 as follows:

	<b>2012</b>	<b>2011</b>
One year or less	\$ 706	\$ 2,087
One year to five years	<u>193</u>	<u>277</u>
	899	2,364
Allowance for uncollectible contributions	(113)	(52)
Present value discount at 3.5% for 2012 and 2011	<u>(20)</u>	<u>(86)</u>
	<u>\$ 766</u>	<u>\$ 2,226</u>

Contributions receivable are classified as follows as of June 30:

	<b>2012</b>	<b>2011</b>
Unrestricted	\$ 98	\$ 139
Temporarily Restricted	650	2,069
Permanently Restricted	<u>18</u>	<u>18</u>
	<u>\$ 766</u>	<u>\$ 2,226</u>

**Endowment Funds**

*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* provides guidance on the net asset classification of donor restricted endowment funds for not-for-profits subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and enhanced disclosures relating to endowment funds for all not-for-profits whether or not they are subject to UPMIFA. The State of New Jersey adopted UPMIFA on June 10, 2009.

The CINJ Foundation's endowment consists of four (4) individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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### **Interpretation of Relevant Law**

The Board of Trustees of the CINJ Foundation has interpreted state law as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the CINJ Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as permanently restricted net assets until those amounts are appropriated for expenditure by the CINJ Foundation in a manner consistent with the standard of prudence prescribed by state law. The CINJ Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the CINJ Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the CINJ Foundation
- The investment policies of the CINJ Foundation

### **Return Objectives and Risk Parameters**

The CINJ Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The primary purpose of endowment funds is to provide the CINJ Foundation with recurrent and growing financial support to be used in perpetuity to support the mission of the CINJ Foundation or to be used as required by restricted fund stipulations. A secondary objective is to provide the CINJ Foundation with financial support as required by the Board of Trustees in the event of a financial emergency and operating budget deficits.

The CINJ Foundation's investment objectives of Endowment Funds are to:

- Preserve and increase the capital value of the Fund, while providing an annual cash distribution if designated by the Investment Committee of the Board of Trustees.
- Maintain the purchasing power of current and future assets by producing positive inflation adjusted returns.
- Maximize returns within reasonable and prudent levels of risk in accordance within accepted fiduciary standards and maintain an appropriate policy of investment quality and diversification.

The CINJ Foundation continues to be cautious given the ongoing economic climate. The CINJ Foundation started a conservative, timed investment of the existing endowment funds during fiscal year 2010. Holdings associated with this investment plan were liquidated in fiscal year 2012 due to market volatility. All investments are constantly monitored and adjustments are made as considered necessary.

### **Strategies Employed for Achieving Objectives**

The CINJ Foundation had established a long-term endowment strategy at a point in time where the economic climate was quite different than that of today. The investment committee is re-visiting the CINJ Foundation's policies in light of the unpredictable volatility of the financial markets.

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**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The primary purpose of the Endowment Fund is to provide the CINJ Foundation with recurrent and growing financial support to be used in perpetuity to support the mission of the CINJ Foundation or to be used as required by restricted fund stipulations. Income from the endowed funds may be used to pay or reimburse the CINJ Foundation for overhead related to the administration of any endowed fund, with details of those payments to be worked out as the need arises in individual cases. A secondary spending objective is to provide the CINJ Foundation with financial support as required by the Board of Trustees in the event of a financial emergency and operating budget deficits.

The following table provides information regarding the change in endowment net assets for the years ended June 30, 2012 and 2011:

	<b>Permanently Restricted</b>	
	<b>2012</b>	<b>2011</b>
Endowment net assets, beginning	\$ 985	\$ 910
Investment return	(57)	73
Contribution (Net)	1	2
Administrative fee	-	-
Endowment net assets, ending - with purpose restrictions	<u>\$ 929</u>	<u>\$ 985</u>

**18. Component Unit - University Physicians Associates of New Jersey, Inc.**

The following information in note 18 has been taken from UPA's audited financial statements.

**Investments and Assets Whose Use is Limited**

**Long Term Investments**

Long term investments are stated at fair value and consisted of the following as of June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Marketable equity securities	<u>\$ 327</u>	<u>\$ 288</u>

**Assets Limited as to Use**

Assets limited as to use at June 30, 2012 and 2011 is set forth in the following table:

	<b>2012</b>	<b>2011</b>
Cash and cash equivalents whose use is limited	<u>\$ 3,663</u>	<u>\$ 1,875</u>

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**Current Investments**

The composition of current investments reported as trading securities at June 30, 2012 and 2011 is set forth in the following table:

	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 1,345	\$ 1,293
Marketable equity securities	6,598	6,792
U.S. government securities	2,574	934
Bonds	<u>1,051</u>	<u>2,553</u>
Total current investments	<u>\$ 11,568</u>	<u>\$ 11,572</u>

Investment income and net unrealized gains on long-term investments, cash and cash equivalents whose use is limited, and cash and cash equivalents for the years ended June 30, 2012 and 2011 consisted of the following:

	<b>2012</b>	<b>2011</b>
Interest income	\$ 43	\$ 1,416
Dividend income	3	3
Net unrealized gain	<u>40</u>	<u>49</u>
	<u>\$ 86</u>	<u>\$ 1,468</u>

The fair value of UPA's financial assets that are measured on a recurring basis at June 30, 2012 are as follows:

	<b>Valuation</b>	<b>Quoted</b>	<b>Significant Other</b>	<b>Significant</b>	<b>Total</b>
	<b>Techniques (1)</b>	<b>Prices in</b>	<b>Observable</b>	<b>Unobservable</b>	<b>Fair Value</b>
		<b>Active Markets</b>	<b>Inputs</b>	<b>Inputs</b>	
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets</b>					
Marketable equity securities	M	6,925	-	-	6,925
U.S. government securities	M	-	2,574	-	2,574
Bonds	M	-	<u>1,051</u>	-	<u>1,051</u>
Total assets		<u>\$ 6,925</u>	<u>\$ 3,625</u>	<u>\$ -</u>	<u>\$ 10,550</u>

(1) The three valuation techniques are market approach (M), cost approach (C) and income approach (I).



**University of Medicine and Dentistry of New Jersey**  
**Notes to Consolidated Financial Statements**  
(In thousands of dollars)

The fair value of UPA's financial assets that are measured on a recurring basis at June 30, 2011 are as follows:

	Valuation Techniques (1)	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
<b>Assets</b>					
Marketable equity securities	M	7,079	-	-	7,079
U.S. government securities	M		934	-	934
Bonds	M	-	2,553	-	2,553
Total assets		<u>\$ 7,079</u>	<u>\$ 3,487</u>	<u>\$ -</u>	<u>\$ 10,566</u>

(1) The three valuation techniques are market approach (M), cost approach (C) and income approach (I).

At June 30, 2012 and 2011, there was approximately \$1.3 million of cash and cash equivalents in investments within the combined statements of assets, liabilities and net assets that are excluded from the charts above as they are not considered recurring fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of assets:

Marketable Equity Securities - Fair value estimates for publicly traded equity securities, money market funds and U.S. government securities are based on quoted market prices are classified as Level 1. UPA does not adjust the quoted price for such assets.

U.S. Government Securities and Bonds - The estimated fair values are based on other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of debt securities that do not trade on a regular basis in active markets or priced using a model-based valuation are classified as Level 2.

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# **Supplementary Information**

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**University of Medicine and Dentistry of New Jersey**  
**Combining Statements of Net Assets – Piscataway and Newark Centers of University Behavioral HealthCare**  
(In thousands of dollars)

	June 30, 2012			June 30, 2011		
	Piscataway Center	Newark Center	Total	Piscataway Center	Newark Center	Total
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 8,034	\$ 4,418	\$ 12,452	\$ 12,201	\$ 1,516	\$ 13,717
Accounts receivable, net of allowance for doubtful accounts of \$2,286 in 2012 and \$2,985 in 2011	4,448	2,126	6,574	5,059	1,620	6,679
Other receivables, net of allowance for doubtful accounts of \$18 in 2012 and \$23 in 2011	2,002	219	2,221	1,251	5	1,256
Grants Receivable	6,409	1,718	8,127	1,985	638	2,623
Inventories and other assets	76		76	74	-	74
Total current assets	<u>20,969</u>	<u>8,481</u>	<u>29,450</u>	<u>20,570</u>	<u>3,779</u>	<u>24,349</u>
Noncurrent assets						
Capital assets, net	18,520	348	18,868	17,369	383	17,752
Total assets	<u>39,489</u>	<u>8,829</u>	<u>48,318</u>	<u>37,939</u>	<u>4,162</u>	<u>42,101</u>
<b>Liabilities</b>						
Current liabilities						
Accounts payable and accrued expenses	6,154	959	7,113	4,683	651	5,334
Estimated third party payors settlements	120	-	120	1,783	-	1,783
Accrued vacation	2,203	681	2,884	1,405	546	1,951
Due to other funds	439	-	439	472	-	472
Deferred revenue	3,029	1,781	4,810	25	-	25
Long-term debt and capital lease obligations-current	-	-	-	250	-	250
Total current liabilities	<u>11,945</u>	<u>3,421</u>	<u>15,366</u>	<u>8,618</u>	<u>1,197</u>	<u>9,815</u>
Noncurrent liabilities:						
Long-term debt and capital lease obligations	522	254	776	522	254	776
Total liabilities	<u>12,467</u>	<u>3,675</u>	<u>16,142</u>	<u>9,140</u>	<u>1,451</u>	<u>10,591</u>
<b>Net Assets</b>	<u>\$ 27,022</u>	<u>\$ 5,154</u>	<u>\$ 32,176</u>	<u>\$ 28,799</u>	<u>\$ 2,711</u>	<u>\$ 31,510</u>

**University of Medicine and Dentistry of New Jersey**  
**Combining Statements of Revenues, Expenses and Changes in Net Assets –**  
**Piscataway and Newark Centers of University Behavioral HealthCare**  
(In thousands of dollars)

	<u>Year ended June 30, 2012</u>			<u>Year ended June 30, 2011</u>		
	<u>Piscataway Center</u>	<u>Newark Center</u>	<u>Total</u>	<u>Piscataway Center</u>	<u>Newark Center</u>	<u>Total</u>
<b>Operating revenues</b>						
Government grants and contracts	\$ 18,250	\$ 3,647	\$ 21,897	\$ 16,246	\$ 3,967	\$ 20,213
Private grants and contracts	627	-	627	1,162	1	1,163
Net patient service revenues	16,116	7,219	23,335	19,562	7,143	26,705
Professional services and contracts	11,312	905	12,217	6,771	112	6,883
Other operating revenues	432	17	449	944	11	955
Total operating revenues	<u>46,737</u>	<u>11,788</u>	<u>58,525</u>	<u>44,685</u>	<u>11,234</u>	<u>55,919</u>
<b>Operating expenses</b>						
Research	539	-	539	891	-	891
Public service	21,586	4,633	26,219	16,498	3,968	20,466
Institutional & administrative support	1,689	380	2,069	(44)	(31)	(75)
Patient care services	48,345	15,515	63,860	44,253	14,904	59,157
Depreciation	1,453	60	1,513	1,823	77	1,900
Insurance and other	436	335	771	438	335	773
Total operating expenses	<u>74,048</u>	<u>20,923</u>	<u>94,971</u>	<u>63,859</u>	<u>19,253</u>	<u>83,112</u>
Operating loss	<u>(27,311)</u>	<u>(9,135)</u>	<u>(36,446)</u>	<u>(19,174)</u>	<u>(8,019)</u>	<u>(27,193)</u>
<b>Nonoperating revenues (expenses)</b>						
State appropriations - operations	13,205	7,612	20,817	10,880	7,825	18,705
Fringe benefits paid by the State	13,646	4,626	18,272	8,365	2,990	11,355
Other	(1,317)	(660)	(1,977)	555	(2,576)	(2,021)
Total nonoperating revenues, net	<u>25,534</u>	<u>11,578</u>	<u>37,112</u>	<u>19,800</u>	<u>8,239</u>	<u>28,039</u>
<b>(Decrease) increase in net assets</b>	(1,777)	2,443	666	626	220	846
Net assets - beginning of year	<u>28,799</u>	<u>2,711</u>	<u>31,510</u>	<u>28,173</u>	<u>2,491</u>	<u>30,664</u>
<b>Net assets - end of year</b>	<u>\$ 27,022</u>	<u>\$ 5,154</u>	<u>\$ 32,176</u>	<u>\$ 28,799</u>	<u>\$ 2,711</u>	<u>\$ 31,510</u>