



ST. JOSEPH'S HEALTH, INC.

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

ST. JOSEPH'S HEALTH, INC.

Table of Contents

| | Page |
|--|-------------|
| Independent Auditors' Report | 1 |
| Consolidated Financial Statements: | |
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Operations | 4 |
| Consolidated Statements of Changes in Net Assets | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 |
| Supplementary Information | |
| Consolidating Balance Sheet | 38 |
| Consolidating Statement of Operations | 40 |
| Consolidating Statement of Changes in Net Assets | 41 |



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

Independent Auditors' Report

The Board of Trustees
St. Joseph's Health, Inc.:

Opinion

We have audited the consolidated financial statements of St. Joseph's Health, Inc. (the System), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The accompanying consolidated financial statements of the System as of December 31, 2021 and for the year then ended were audited by other auditors whose report thereon dated May 26, 2022, expressed an unmodified opinion on those financial statements.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,



misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances⁵, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet at December 31, 2022, and the consolidating statements of operations and changes in net assets for the year then ended are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

New York, New York
May 30, 2023

ST. JOSEPH'S HEALTH, INC.

Consolidated Balance Sheets

December 31, 2022 and 2021

(In thousands)

| Assets | 2022 | 2021 |
|--|---------------------|------------------|
| Current assets: | | |
| Cash | \$ 4,535 | 32,517 |
| Investments | 329,821 | 412,210 |
| Current portion of assets whose use is limited | 24,468 | 24,527 |
| Patient accounts receivable, net | 92,835 | 80,210 |
| Contributions and pledges receivable | 1,156 | 1,521 |
| Prepaid expenses and other current assets | <u>65,155</u> | <u>52,755</u> |
| Total current assets | 517,970 | 603,740 |
| Assets whose use is limited – less current portion | 59,069 | 62,295 |
| Property and equipment – net | 374,636 | 372,904 |
| Operating lease right of use assets | 105,513 | 24,596 |
| Beneficial interest in perpetual trusts | 6,932 | 6,932 |
| Equity investments in joint ventures | 30,899 | 30,929 |
| Other noncurrent assets | <u>15,754</u> | <u>8,168</u> |
| Total assets | <u>\$ 1,110,773</u> | <u>1,109,564</u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 6,085 | 45,645 |
| Accounts payable and accrued expenses | 126,391 | 82,573 |
| Accrued salaries and expenses | 87,877 | 105,502 |
| Accrued interest payable | 5,867 | 6,772 |
| Deferred revenue | 12,401 | 28,416 |
| Current portion of estimated third-party payer settlements | 13,282 | 60,839 |
| Current portion of operating lease liability | <u>11,686</u> | <u>6,313</u> |
| Total current liabilities | 263,589 | 336,060 |
| Long-term debt – net of current portion | 337,226 | 304,182 |
| Estimated third-party payer settlements – net of current portion | 15,497 | 28,512 |
| Accrued pension liability | 10,307 | 45,495 |
| Estimated professional liability claims payable – net of current portion | 45,907 | 43,240 |
| Operating lease liability – net of current portion | 93,827 | 18,283 |
| Other liabilities | <u>14,229</u> | <u>10,040</u> |
| Total liabilities | <u>780,582</u> | <u>785,812</u> |
| Commitments and contingencies | | |
| Net assets: | | |
| Net assets without donor restrictions | 310,318 | 299,579 |
| Net assets with donor restrictions | <u>19,609</u> | <u>23,803</u> |
| Total St. Joseph's Health, Inc. net assets | 329,927 | 323,382 |
| Noncontrolling interest in joint venture | <u>264</u> | <u>370</u> |
| Total net assets, including noncontrolling interest | <u>330,191</u> | <u>323,752</u> |
| Total liabilities and net assets | <u>\$ 1,110,773</u> | <u>1,109,564</u> |

See accompanying notes to consolidated financial statements.

ST. JOSEPH'S HEALTH, INC.

Consolidated Statements of Operations

Years ended December 31, 2022 and 2021

(In thousands)

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| Operating revenues: | | |
| Net patient service revenue | \$ 810,390 | 775,785 |
| Other revenue | 125,455 | 161,002 |
| Net assets released from restrictions – operations | <u>6,201</u> | <u>4,302</u> |
| Total operating revenues | <u>942,046</u> | <u>941,089</u> |
| Operating expenses: | | |
| Salaries, wages, and other labor costs | 476,370 | 469,325 |
| Employee benefits | 91,112 | 87,553 |
| Physician fees | 24,373 | 19,960 |
| Supplies and other | 288,697 | 304,302 |
| Interest | 15,837 | 16,188 |
| Depreciation and amortization | <u>37,248</u> | <u>36,888</u> |
| Total operating expenses | <u>933,637</u> | <u>934,216</u> |
| Operating gain | 8,409 | 6,873 |
| Nonoperating gains and losses: | | |
| Investment return | 11,082 | 20,333 |
| Change in net unrealized gains and losses on equity investments | 13,690 | 11,694 |
| Net periodic pension benefit | <u>11,989</u> | <u>9,668</u> |
| Excess of revenues over expenses, before noncontrolling interest in joint venture | 45,170 | 48,568 |
| Less net gain attributable to noncontrolling interest in joint venture | <u>349</u> | <u>361</u> |
| Excess of revenues over expenses | 44,821 | 48,207 |
| Other changes in net assets without donor restrictions: | | |
| Change in net unrealized gains and losses on fixed income investments | (51,138) | (13,587) |
| Pension-related adjustments | 17,366 | 32,829 |
| Other | (566) | (622) |
| Net assets released from restrictions – capital acquisitions | 256 | 1,224 |
| Provider Relief Fund receipts for capital acquisitions | <u>—</u> | <u>2,915</u> |
| Increase in net assets without donor restrictions | \$ <u>10,739</u> | \$ <u>70,966</u> |

See accompanying notes to consolidated financial statements.

ST. JOSEPH'S HEALTH, INC.

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2022 and 2021

(In thousands)

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|----------------|
| Net assets without donor restrictions: | | |
| Increase in net assets without donor restrictions | \$ 10,739 | 70,966 |
| Net assets with donor restrictions: | | |
| Contributions, grants, investment income, and other support | 2,263 | 7,410 |
| Net assets released from restrictions – operations | (6,201) | (4,302) |
| Net assets released from restrictions – capital acquisitions | (256) | (1,224) |
| Change in net unrealized gains and losses on investments held in perpetual trusts | <u>—</u> | <u>342</u> |
| (Decrease) increase in net assets with donor restrictions | <u>(4,194)</u> | <u>2,226</u> |
| Increase in St. Joseph's Health, Inc. net assets | <u>6,545</u> | <u>73,192</u> |
| Noncontrolling interest in joint venture: | | |
| Net gain attributable to noncontrolling interest in joint venture | 356 | 361 |
| Distributions to noncontrolling interest in joint venture | <u>(462)</u> | <u>(622)</u> |
| Decrease in noncontrolling interest | <u>(106)</u> | <u>(261)</u> |
| Increase in net assets, including noncontrolling interest | 6,439 | 72,931 |
| Net assets at beginning of year | <u>323,752</u> | <u>250,821</u> |
| Net assets at end of year | <u>\$ 330,191</u> | <u>323,752</u> |

See accompanying notes to consolidated financial statements.

ST. JOSEPH'S HEALTH, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2022 and 2021

(In thousands)

| | <u>2022</u> | <u>2021</u> |
|---|------------------|------------------|
| Operating activities: | | |
| Increase in net assets, including noncontrolling interest | \$ 6,439 | 72,931 |
| Adjustments to reconcile increase in net assets, including noncontrolling interest, to net cash used in operating activities: | | |
| Depreciation and amortization | 37,310 | 36,888 |
| Change in net unrealized gains and losses on investments and perpetual trusts | 37,448 | 1,551 |
| Net realized gains and losses on sales of investments | 1,798 | (2,966) |
| Donor restricted contributions and other support for long-term purposes | (2,263) | (7,410) |
| Distributions to noncontrolling interest in joint venture | 462 | 622 |
| Equity in earnings of joint ventures | (4,865) | (4,776) |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable, net | (12,625) | (2,949) |
| Prepaid expenses and other assets | (15,188) | (10,246) |
| Accounts payable and accrued expenses, accrued salaries and expenses, and interest payable | 14,333 | 1,816 |
| Estimated third-party payer settlements | (60,572) | (22,437) |
| Accrued pension liability | (35,188) | (52,497) |
| Estimated professional liability claims payable and other liabilities | (9,159) | (22,795) |
| Net cash used in operating activities | <u>(42,070)</u> | <u>(12,268)</u> |
| Investing activities: | | |
| Acquisition of property and equipment | (27,977) | (29,627) |
| Sales of investments and assets whose use is limited, net | 49,923 | 41,923 |
| Net cash provided by investing activities | <u>21,946</u> | <u>12,296</u> |
| Financing activities: | | |
| Repayment of long-term debt | (45,645) | (4,843) |
| Issuance of long-term debt | 40,126 | — |
| Payments for deferred financing costs | (652) | — |
| Distributions paid to noncontrolling interest in joint venture | (462) | (622) |
| Donor restricted contributions and other support for long-term purposes | 2,263 | 7,410 |
| Net cash (used in) provided by financing activities | <u>(4,370)</u> | <u>1,945</u> |
| Net (decrease) increase in cash and cash equivalents and restricted cash and restricted cash equivalents | <u>(24,494)</u> | <u>1,973</u> |
| Cash and cash equivalents and restricted cash and restricted cash equivalents, beginning of year | <u>56,077</u> | <u>54,104</u> |
| Cash and cash equivalents and restricted cash and restricted cash equivalents, end of year | \$ <u>31,583</u> | \$ <u>56,077</u> |
| Reconciliation of cash and cash equivalents and restricted cash and restricted cash equivalents at end of year to the consolidated balance sheets: | | |
| Cash and cash equivalents | \$ 4,535 | 32,517 |
| Assets whose use is limited – cash and cash equivalents | <u>27,048</u> | <u>23,560</u> |
| Total cash and cash equivalents and restricted cash and restricted cash equivalents | \$ <u>31,583</u> | \$ <u>56,077</u> |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 16,743 | 16,291 |
| Property and equipment included within accounts payable and accrued expenses | \$ 11,049 | — |

See accompanying notes to consolidated financial statements.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The accompanying consolidated financial statements include the accounts of St. Joseph's Health, Inc. (SJH) and its affiliates (collectively, the System). SJH is a not-for-profit holding corporation with Seton Ministries, Inc. as its sole member. Seton Ministries, Inc. is a subsidiary of Sisters of Charity of Saint Elizabeth. Affiliated members of SJH include St. Joseph's University Medical Center, Inc. (SJUMC) and subsidiaries, St. Joseph's Hospital and Medical Center Foundation, Inc. (the Foundation), 200 Hospital Plaza Corporation (200 Hospital Plaza), and SJHS Insurance Limited (the Insurance Captive). SJUMC is the sole owner of St. Joseph's Health Partners, LLC, a single member limited liability corporation, which operates a clinically integrated network, and St. Joseph's Health Pharmacy, LLC (the Pharmacy), a single member limited liability corporation, which operates a community retail pharmacy; the Pharmacy began operations on May 18, 2020.

In September 2019, SJH entered into a clinical and strategic affiliation with Hackensack Meridian Health (HMH). HMH committed \$60 million for projects related to additional joint ventures for cancer centers in the Paterson, Totowa, and Wayne areas of New Jersey and for other projects yet to be determined. As part of this affiliation, SJH maintains its board and control structure.

SJUMC was founded in 1867 and is located in Paterson, New Jersey. It is an acute care hospital with 651 licensed beds and 30 newborn bassinets. SJUMC is a state-designated trauma center and provides a full range of healthcare services. Effective January 1, 2010, St. Joseph's Wayne Medical Center and subsidiary (Wayne Medical Center) was merged with SJUMC and, collectively, the entities are referred to herein as the "Medical Center." Wayne Medical Center, located in Wayne, New Jersey, is an acute care hospital with 229 licensed beds. Wayne Medical Center provides comprehensive medical and surgical care, and emergency and diagnostic services for its community.

The Medical Center also operates St. Joseph's Healthcare and Rehab Center, a 151 bed skilled nursing facility located in Cedar Grove, New Jersey. In addition, the Medical Center includes the following wholly owned subsidiaries:

- St. Joseph's Healthcare Physicians, Inc.; St. Joseph's Emergency Physicians, Inc.; St. Joseph's Faculty Physicians, Inc.; and St. Joseph's Physician's, Inc. manage the Medical Center's faculty staff billing services.
- Harbor House, Inc. and its subsidiaries, Harborside Apartments, Inc. and Harborview Apartments, Inc., provide housing and services to individuals with mental illnesses.

The Medical Center is also the majority member of St. Joseph's Surgery Management, LLC (Surgery Management). Surgery Management is a limited liability corporation established to manage the surgical services at SJUMC.

The Foundation is a public charity whose primary purpose is to raise funds for the Medical Center, its affiliated organizations, and other area charitable organizations.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

200 Hospital Plaza is a not-for-profit organization whose purpose is to further the operations of the Medical Center by owning, managing, and operating parking facilities and any other facilities that may be deemed useful or necessary for employees, patients, visitors, doctors, and other persons affiliated with the Medical Center.

The Insurance Captive, a wholly owned captive insurance company domiciled in Bermuda, was established in 2007 to provide the System with general liability and professional medical liability insurance.

In November 2021, SJUMC sold certain assets and business operations related to intensive medical and ambulatory rehabilitation services provided at the Wayne Medical Center to a newly formed contractual joint venture with HMH. The System realized a gain of approximately \$4.2 million on the sale, included in other revenue in the accompanying 2021 consolidated statement of operations. The System holds a 50% ownership interest in the joint venture.

(b) COVID-19 Pandemic, CARES Act Funding, and Economic Environment

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. Federal, state, and local government policies resulted in a substantial portion of the population to remain at home and forced the closure of certain businesses, which had an impact on the System's patient volumes and revenues for most services. Starting in mid-March 2020, the System deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the year ended December 31, 2020. The System's volume and operations were impacted to varying degrees throughout 2021, particularly as the pandemic entered waves two and three in early 2021 and in late 2021, respectively.

The System has also experienced significant price increases in, and utilization of, medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic and the current economic environment. These price increases are reflected in supplies and other expenses along with certain labor costs within salaries and wages that also experienced significant price increases.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. The CARES Act authorized funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund). Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for healthcare related expenses and/or lost revenues attributable to coronavirus and are not required to be repaid except where Provider Relief Funds received exceed the actual amounts of eligible healthcare related expenses and/or lost revenues as defined by the U.S. Department of Health and Human Services (HHS), provided the recipients attest to and comply with the terms and conditions. HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs) regarding the Provider Relief Fund distributions.

For the years ended December 31, 2022 and 2021, the System recognized operating revenue from CARES Provider Relief Funding of approximately \$2.4 million and \$52.1 million, which is included in other revenue for the years ended December 31, 2022 and 2021, respectively (note 12). In addition, \$2.9 million was recognized as Provider Relief Fund receipts for capital acquisitions during the year

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

ended December 31, 2021 (reported as a component of other changes in net assets without donor restrictions). Distributions from the Provider Relief Fund are available for specified service periods through December 31, 2022 with various required data submissions (data regarding activity for Provider Relief Fund receipts through June 30, 2020 and the use of such funds through June 30, 2021 was submitted to HHS on November 30, 2021; data for funds received from July 1, 2020 to December 31, 2020 and the use of such funds through December 31, 2021 was submitted to HHS on March 25, 2022). Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements.

To enhance liquidity, the System is a participant in the Centers for Medicare and Medicaid Services' (CMS) Accelerated and Advance Payment Program, designed to increase cash flow to Medicare providers impacted by COVID-19. This program allowed eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. During April 2020, the System received approximately \$82.5 million of expedited payments for future services under this program. These advances began to be recouped through the System's provision of Medicare services beginning 12 months from the receipt of the funds. The Medicare claims are offset by 25% in months 13–23 and by 50% in months 24–29 until the balance is fully repaid. The amount recouped in 2022 and 2021 was approximately \$46.8 million and \$26.2 million, respectively. The remaining balance of \$9.5 million, which is expected to be recouped during 2023, is recorded as a contract liability in estimated third-party payer settlements in the accompanying consolidated balance sheet at December 31, 2022.

Additional funding sources are available to pay providers for COVID-19 related treatment of uninsured patients under the CARES Act Uninsured Relief Fund and from CMS for certain Medicare patient diagnoses under which the System recognized net patient service revenue of approximately \$4.6 million and \$14.0 million for the years ended December 31, 2022 and 2021, respectively.

Under the CARES Act, the System has elected to defer the payment of the employer portion of social security taxes totaling approximately \$13.6 million that otherwise would have been due between March 27, 2020 and December 31, 2021. The CARES Act required that 50% of the total deferred amount be paid by December 31, 2021, with the remaining balance due by December 31, 2022. The System paid approximately \$10.7 million through December 2021 with the remaining balance recorded as accrued salaries and expenses in the accompanying consolidated balance sheet at December 31, 2021. The remaining amount was paid in 2022.

Under the CARES Act, the System is eligible to receive an employee retention credit, which is a credit against the employer portion of Social Security taxes for certain wages between March 13, 2020 and December 31, 2020. The CAA and subsequent legislation extended the employee retention credit through September 30, 2021, while also modifying the provisions of the credit. The System filed for the employee retention credit for 2020 during 2022, which has been recorded for approximately \$6.1 million and is included within other revenue for the year ended December 31, 2022. No amounts were recorded during 2021.

The System is also in the process of applying for reimbursement for qualifying expenses under the Federal Emergency Management Agency Disaster Relief Fund; no amounts were recorded through 2022. Subsequent to year-end, the System was formally awarded the grants for approximately \$21.4 million.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Due to the evolving nature of the COVID-19 pandemic and current economic environment the ultimate impact to the System's operating results, including costs that may be incurred in the future and the level of utilization of the System's services and resulting impact on net patient service revenue reported in the future, and its financial condition is presently unknown.

(c) Significant Accounting Policies

A summary of the System's significant accounting policies follows:

Principles of Consolidation: The consolidated financial statements include the accounts of SJH and its affiliates. SJH accounts for its interests in entities in which it has significant influence but not control using the equity method of accounting.

Investment in Consolidated Subsidiaries: The Medical Center is the majority member of Surgery Management and maintains a 63% and 57% interest at December 31, 2022 and 2021, respectively. The accounts of Surgery Management are consolidated with those of the Medical Center. The change in the noncontrolling interest is separately reported. All intercompany transactions and account balances have been eliminated in consolidation.

Basis of Accounting: The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification 954, *Health Care Entities*, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to healthcare organizations.

Use of Estimates: The preparation of consolidated financial statements in accordance with GAAP 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 consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates. Estimates include collections on patient accounts receivable, valuation of investments, estimated third-party payer settlements, accrued pension liability, estimated professional liability claims payable, and other self-insurance liabilities.

Cash and Cash Equivalents: Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. The carrying amount of cash and cash equivalents reported on the consolidated balance sheets approximates fair value. The System does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Investments and Investment Income: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Fair value is based on quoted market prices of the investment or similar investments. Investment return (including realized gains and losses on investments, interest, and dividends) and the change in net unrealized gains and losses on equity investments are included in the excess of revenues over expenses in the accompanying consolidated statements of operations, unless the income or loss is restricted by donor or law. The change in net unrealized gains and losses on other-than-trading fixed income investments (i.e., classified as available-for-sale) is reported as a separate component of the change in net assets without donor restrictions, except declines in fair value that are determined by management to be other

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

than temporary are reported as realized losses. No significant losses were recorded in 2022 or 2021. Donated investments are recorded at the fair value on the date of receipt.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Assets Whose Use is Limited: Assets whose use is limited include assets held by trustees under bond indenture agreements, investments held by the Insurance Captive, and donor-restricted assets. Amounts available to meet current liabilities of the System have been classified as current assets in the accompanying consolidated balance sheets.

Supplies: Supplies are stated at the lower of cost (first in, first out) or net realizable value. Supplies are used in the provision of patient care and are not held for sale.

Property and Equipment: Property and equipment acquisitions are recorded at cost, except donated assets, which are recorded at fair value at the date of donation. Depreciation expense is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations.

Estimated useful lives for the property and equipment are as follows:

| | |
|-----------------------------------|-------------|
| Land improvements | 15–20 years |
| Buildings and improvements | 5–60 years |
| Fixed and major movable equipment | 5–12 years |

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as an increase to net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects at the Medical Center and 200 Hospital Plaza. These costs are amortized over the remaining term of the applicable indebtedness using the effective-interest method.

Beneficial Interest in Perpetual Trusts: Perpetual trusts are arrangements in which a donor establishes and funds a perpetual trust administrated by a third party. The perpetual trusts consist of life estate gifts. Under the terms of the trusts, the Foundation has an irrevocable right to receive the income earned on the trust assets in perpetuity. Income earned is without donor restrictions and included in other revenue in the accompanying consolidated statements of operations. The Foundation does not control the assets held by the outside trusts. The Foundation recognizes its respective interests in the trusts within net assets with donor restrictions to be maintained in perpetuity based on the fair value of the trust assets. Changes in the fair value of the trusts are recorded as the change in net unrealized gains and losses on investments held in perpetual trusts in the accompanying consolidated statements of changes in net assets.

Equity Investments in Joint Ventures: The System's investments in joint ventures are accounted for using the equity method of accounting, except for joint ventures where the System holds a controlling interest.

Deferred Revenue: The System is the recipient of various awards and contracts from governmental agencies. Receipts for which applicable conditions and restrictions are not satisfied are recorded as deferred revenue in the accompanying consolidated balance sheets.

Other Assets: Other assets consist primarily of goodwill, investments held by trustee, security deposits and physician loan receivables.

Other Liabilities: Capital project obligations related to grant agreements with the State of New Jersey Department of Human Services, Division of Mental Health and Addiction Services, are included in other liabilities in the accompanying consolidated balance sheets.

Contributions, Grants, and Pledges Receivable: Unconditional promises to give are recorded at fair value based on the present value of their estimated future cash flows when received. Present value of such amounts is computed using a discount rate at the time of the pledge at December 31, 2022 and 2021.

Contributions and grants are considered conditional when the underlying agreement includes a performance barrier and a right of return or a right to release promised assets exists. Conditional promises to give are not recognized as revenue until the performance barrier and the right of return or release has been overcome.

Self-Insurance: The Medical Center offers medical insurance to its employees through a health maintenance organization and a preferred provider organization (PPO). The PPO provides third-party administrative services for employees, who are enrolled in the program. The Medical Center remains self-insured for the associated health claims. An estimated liability for employee medical benefits incurred but not reported is included within accrued salaries and expenses in the accompanying consolidated balance sheets.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The Medical Center offers workers' compensation through a high deductible structure with commercial insurance above specific amounts. The current portion of the estimated liability for worker's compensation of approximately \$3.6 million and \$11.2 million at December 31, 2022 and 2021, respectively, is included in accrued salaries and expenses, and approximately \$12.6 million and \$5.6 million at December 31, 2022 and 2021, respectively, is included as long-term in other liabilities in the accompanying consolidated balance sheets.

Estimated Professional Liability Claims Payable: The System's professional liability program is described in note 10. An estimated liability for medical malpractice costs related to reported claims and incurred claims that have not been reported is recorded in the accompanying consolidated balance sheets. The Insurance Captive maintains a self-insurance reserve trust as the funding vehicle for the captive insurance program and excess coverage through commercial carriers. The System recognizes a receivable for insurance recoveries at the time a liability is recorded and records a valuation allowance for uncollectible receivables, when applicable.

Accounting for Pension Plans: The System's retirement plans are described in note 9. The System recognizes the overfunded or underfunded status of the defined-benefit pension plan in the accompanying consolidated balance sheets. Changes in the funded status of the plan are reported in the year in which the changes occur as a change in net assets without donor restrictions presented after the excess of revenues over expenses in the accompanying consolidated statements of operations.

Performance Indicator: The consolidated statements of operations include the excess of revenues over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the performance indicator include pension-related adjustments, contributions and grants for capital acquisitions of long-lived assets, distributions to noncontrolling joint venture, and the change in net unrealized gains and losses on other-than-trading fixed income investments, except for declines in fair value that are determined by management to be other than temporary, which are reported within the performance indicator.

Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and operating expenses and are included in operating gain. Investment return and certain transactions of a peripheral or infrequent nature are excluded from operating gain.

Classification of Net Assets: The System separately accounts for and reports net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are not externally restricted for identified purposes by donors or grantors. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the System and an outside party other than a donor or grantor.

Net assets with donor restrictions are those whose use by the System has been limited by donors to a specific time period or purpose or have been restricted by donors as permanent endowments to be maintained in perpetuity. When the donors' intentions are met or a time restriction expires for net assets limited by donors to a specific time period or purpose, the net assets are reclassified to net assets without donor restriction and reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Donor-restricted contributions whose restrictions are met within the same year as received are reported within other revenue in the accompanying consolidated statements of operations. In the absence of donor specifications that income and gains on donated funds are restricted, such income and gains are reported as investment return in the accompanying consolidated statements of operations.

The System recognizes governmental grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other revenue (note 12), except for grants for capital acquisitions.

Tax Status: SJH and substantially all of its affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The not-for-profit affiliates of the System are also exempt from state income taxes. Surgery Management and Home Health and other limited liability corporations are treated as partnerships for income tax purposes and do not require a provision for income taxes. The Insurance Captive is exempt from taxes through March 2035.

Certain affiliates of the System are for-profit entities and, as such, are subject to federal and state income taxes. The provision for income taxes associated with these entities and for unrelated business income of tax-exempt entities is not material to the System's consolidated results of operations and is included in supplies and other expenses on the consolidated statements of operations.

Pending Accounting Pronouncements:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of ASU 2016-13 and related ASU updates is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in ASU 2016-13 are effective for the System for fiscal years beginning after December 15, 2022. The System has not completed the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other*. ASU 2017-04 will simplify the accounting for goodwill impairment and will remove Step 2 of the current goodwill impairment test, which requires a hypothetical purchase price allocation. Under ASU 2017-04, a goodwill impairment charge will be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for the System for annual periods beginning after December 15, 2022, with early adoption permitted for any impairment tests performed after January 1, 2017. The System has not completed the process of evaluating the impact of ASU 2017-04 on its consolidated financial statements.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(2) Uncompensated Care

Uncompensated care includes services provided to indigent persons who cannot afford healthcare due to inadequate resources and/or who are uninsured or underinsured. Uncompensated care is comprised of the costs of charity care for which state subsidies are not received (note 3), implicit price concessions, and the unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs.

The System provides charity care to patients who meet certain criteria defined by the New Jersey Department of Health (DOH) without charge or at amounts less than established rates. The System receives partial payment for the charity care it provides based upon the approved submission of patient claims once they are qualified for the program (note 3).

The estimated cost of charity care incurred by the System based on adjudicated claims was approximately \$70.6 million and \$54.1 million for years ended December 31, 2022 and 2021, respectively. The estimated cost of these charity care services was determined using a ratio of cost to standard charges and applying that ratio to the standard charges associated with providing care to charity patients for the period. Standard charges associated with providing care to charity patients include only the related charges for those patients who are financially unable to pay and qualify under the System's charity care policy and that do not otherwise qualify for payment from a governmental program. Because the collection of amounts determined to qualify as charity care is not pursued, it is not reported as revenue.

For uninsured patients who did not qualify for charity care, the expected uncollected amounts are classified as an implicit price concession, based on a published financial assistance policy, which reduced net patient service revenue by approximately \$91.2 million and \$60.7 million for the years ended December 31, 2022 and 2021, respectively.

(3) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and includes variable consideration (reductions to revenue) for retroactive revenue adjustments including adjustments due to settlement of ongoing and future audits, reviews, and investigations.

The System uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for inpatient and outpatient revenue. Based on historical collection trends and other analyses, the System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The System's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the System's standard charges. The System determines the transaction price associated with services provided to patients who have third-party payer coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payer payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the System's discount policies and historical experience. For uninsured patients

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

who do not qualify for charity care, the System determines the transaction price associated with services on the basis of charges reduced by implicit price concessions based on a published financial assistance policy. Implicit price concessions included in the estimate of the transaction price are based on the System's historical collection experience for applicable patient portfolios. Under the System's charity care policy, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount, which would be billed to a commercially insured patient.

Generally, the System bills patients and third-party payers several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The System believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the System's outpatient and ambulatory care centers. The System measures the performance obligation from admission or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

Substantially all of its performance obligations relate to contracts with a duration of less than one year. Unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the System's in-house patients occurs within days or weeks after the end of the reporting period.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended December 31, 2022, changes in the System's estimates of implicit price concessions, discounts, contractual adjustments, or other changes to expected payments for performance obligations satisfied in prior periods resulted in approximately \$19 million increase to net patient service revenue. Portfolio collection estimates are updated periodically based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2022 and 2021 was not significant.

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by payers and lines of business. Tables providing details of these factors are presented below.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Net patient service revenue for the years ended December 31, 2022 and 2021, by major payer sources, based on primary insurance designation, is as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|----------------|
| Medicare | \$ 309,073 | 284,859 |
| Medicaid | 216,538 | 202,737 |
| Commercial carriers and managed care organizations | 279,917 | 283,181 |
| Self-pay | <u>4,862</u> | <u>5,008</u> |
| | <u>\$ 810,390</u> | <u>775,785</u> |

Deductibles, copayments, and coinsurance under third-party payment programs, which are the patient's responsibility are included within the self-pay and commercial carriers categories above.

Net patient service revenue for the years ended December 31, 2022 and 2021, by line of business is as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|-------------------|----------------|
| Hospital | \$ 788,492 | 747,587 |
| Physician services | 13,246 | 14,963 |
| Skilled nursing long-term care | <u>8,652</u> | <u>13,235</u> |
| | <u>\$ 810,390</u> | <u>775,785</u> |

(a) Third-Party Payment Programs

The System provides care to patients under Medicare, Medicaid, and other third-party contractual arrangements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Medicare program pays for most services at predetermined rates. However, certain services and specified expenses are reimbursed on a reasonable-cost basis. The New Jersey Medicaid program pays the Medical Center at predetermined rates for inpatient services. New Jersey Medicaid outpatient services are reimbursed on a reasonable cost basis. The System recognizes patient service revenue associated with services provided to patients who have other third-party payer coverage on the basis of contractual rates for the services rendered. The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and PPOs. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

During 2022 and 2021, the System received additional Medicaid funding under the New Jersey County Option Hospital Fee Pilot Program. This program is administered through the New Jersey Department of Human Services-Division of Medical Assistance and Health Services and began in 2021 in certain counties in New Jersey. The program requires that participating hospitals pay quarterly assessed fees based on estimated Medicaid utilization data within the county, and such payments are then pooled with federal Medicaid matching funds and redistributed to the participating hospitals as State Directed

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Payments. The State Directed Payments are subject to annual settlement based on actual Medicaid utilization data and other factors. The program was in effect for the System's third and fourth quarters of 2021 and the full year of 2022, which resulted in fees paid by the System of approximately \$17.6 million and \$8.8 million (included within supplies and other expense) and Medicaid State Directed Payments of approximately \$47.4 million and \$23.7 million (included within net patient service revenue) for the years ended December 31, 2022 and 2021, respectively.

For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided or, if qualified, based on a discounted rate pursuant to the financial assistance policy.

Settlements with third-party payers for cost report filings and retroactive adjustments due to ongoing and future audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the System's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the System. These retroactive settlements are recorded in the consolidated financial statements in the year of the settlement or when amounts can be estimated. A portion of the accrual for estimated settlements with third-party payers has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, are not expected to be paid within one year. The estimated settlements recorded at December 31, 2022 and 2021 could differ from actual settlements based on the results of cost report audits. At December 31, 2022, Medicare cost reports for all years through 2020 have been audited and settled. Medicaid cost reports have been audited and settled through 2019. Net patient service revenue was increased by approximately \$2.1 million and \$0.2 million during 2022 and 2021, respectively, as a result of changes in estimates of prior-year settlements.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of or revisions to healthcare reform that has been or will be enacted by the federal or state governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the System.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. The System is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance in all material respects with applicable laws and regulations. In addition, certain contracts the System has with commercial payers also provide for retroactive audit and review of claims.

(b) State Subsidy Funds

The New Jersey Health Care Subsidy Fund was established for various purposes, including the distribution of charity care payments to hospitals statewide. The amount of the fund allocation is based on a formula using prior-year claim data for each hospital. Additionally, the State of New Jersey Delivery System Reform Incentive Payment Pool (the Pool) was available to certain hospitals that were able to establish performance improvement activities in one of eight specified clinical improvement areas. Amounts received from the Pool are subject to the satisfaction of certain performance criteria, with adjustments to the Pool allocations processed prospectively. The Pool concluded on June 30, 2020. The State implemented a transitional program effective July 1, 2020 through June 30, 2022. The System received approximately \$13.2 million and \$11.9 million in 2022 and 2021, respectively, under the transitional program succeeding the Pool.

The amounts of state subsidy and Pool funds included in net patient service revenue for the years ended December 31, 2022 and 2021 are as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|---------------|
| Charity care payments | \$ 41,486 | 43,363 |
| Pool and transitional program payments | <u>60,535</u> | <u>15,208</u> |
| | <u>\$ 102,021</u> | <u>58,571</u> |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(4) Investments, Assets Whose Use is Limited and Liquidity

Investments and assets whose use is limited, stated at fair value, as of December 31, 2022 and 2021, consist of the following (in thousands):

| | <u>2022</u> | <u>2021</u> |
|---|--------------------------|--------------------------|
| Investments | \$ 329,821 | 412,210 |
| Assets whose use is limited: | | |
| By bond indenture agreements | 16,889 | 16,221 |
| Assets held for captive insurance program | 52,105 | 52,686 |
| Donor restricted assets | <u>14,543</u> | <u>17,915</u> |
| Total assets whose use is limited | 83,537 | 86,822 |
| Less current assets whose use is limited | <u>24,468</u> | <u>24,527</u> |
| Noncurrent assets whose use is limited | <u>59,069</u> | <u>62,295</u> |
| Total investments and assets whose use is limited | \$ <u><u>413,358</u></u> | \$ <u><u>499,032</u></u> |

The composition of investments and assets whose use is limited as of December 31, 2022 and 2021 is as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|---|--------------------------|--------------------------|
| Cash and cash equivalents | \$ 27,048 | 23,560 |
| U.S. government securities and agency obligations | 24,373 | 24,479 |
| Corporate and foreign debt securities | 264,087 | 334,437 |
| Asset-backed and mortgage-backed securities | 5,736 | 6,965 |
| Marketable equity securities | 89,098 | 105,792 |
| Investments held by trustee | 1,578 | 1,578 |
| Municipal bonds | 1,434 | 2,219 |
| Mutual funds – fixed income | <u>4</u> | <u>2</u> |
| Total | \$ <u><u>413,358</u></u> | \$ <u><u>499,032</u></u> |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Return on investments for the years ended December 31, 2022 and 2021 is as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|---|---------------------------|----------------------|
| Return on investments: | | |
| Net assets without donor restrictions: | | |
| Investment return: | | |
| Interest and dividend income | \$ 12,880 | 17,367 |
| Net realized gains and losses on sales of investments | (1,798) | 2,966 |
| Net change in unrealized gains and losses on equity investments | <u>13,690</u> | <u>11,694</u> |
| | 24,772 | 32,027 |
| Change in net unrealized gains and losses on fixed income investments | <u>(51,138)</u> | <u>(13,587)</u> |
| | <u>(26,366)</u> | <u>18,440</u> |
| Net assets with donor restrictions: | | |
| Investment income | 16 | 15 |
| Net realized gains and losses on sales of investments | <u>373</u> | <u>48</u> |
| | 389 | 63 |
| Change in net unrealized gains and losses on investments held in perpetual trusts | <u>—</u> | <u>342</u> |
| | <u>389</u> | <u>405</u> |
| Total return on investments | \$ <u><u>(25,977)</u></u> | <u><u>18,845</u></u> |

(a) Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2022 and 2021 consist of the following:

| | <u>2022</u> | <u>2021</u> |
|------------------------------------|--------------------------|-----------------------|
| Cash and cash equivalents | \$ 4,535 | 32,517 |
| Investments | 329,821 | 412,210 |
| Patient accounts receivable, net | 92,835 | 80,210 |
| Physician services receivable, net | <u>899</u> | <u>5,567</u> |
| | \$ <u><u>428,090</u></u> | <u><u>530,504</u></u> |

The System has assets for donor-restricted purposes, held under bond indenture agreements and for the captive insurance program, which are not readily available for general expenditures.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The System also maintains a \$13.1 million liquidity access line, as described in note 8. As of December 31, 2022, there was \$0.2 million outstanding on the liquidity access line. As of December 31, 2022 and 2021, there was no balance outstanding on the line of credit.

As of December 31, 2022 and 2021, the System had a working capital surplus of \$254.4 million and \$267.7 million, respectively. The System's days cash and investments on hand as of December 31, 2022 and 2021 totaled 136 and 181, respectively (based on normal expenditures).

(5) Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy for fair value measurements exists based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In determining fair value, the System uses valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible and considers nonperformance risks in its assessment of fair value. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The following tables present the financial instruments carried at fair value by caption on the consolidated balance sheets based on the valuation hierarchy defined above:

| | December 31, 2022 | | | Total |
|---|-------------------|----------------|--------------|----------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments, assets whose use is limited and beneficial interest in perpetual trusts: | | | | |
| Cash and cash equivalents | \$ 27,048 | — | — | 27,048 |
| Marketable equity securities | 89,098 | — | — | 89,098 |
| U.S. government securities and agency obligations | — | 24,373 | — | 24,373 |
| Corporate and foreign debt securities | — | 264,087 | — | 264,087 |
| Asset-backed and mortgage-backed securities | — | 5,736 | — | 5,736 |
| Municipal bonds | — | 1,434 | — | 1,434 |
| Mutual funds – fixed income | — | 4 | — | 4 |
| Investments held by trustee | — | 1,578 | — | 1,578 |
| Beneficial interest in perpetual trusts | — | — | 6,932 | 6,932 |
| Total | <u>\$ 116,146</u> | <u>297,212</u> | <u>6,932</u> | <u>420,290</u> |
| Assets held in pension plan: | | | | |
| Cash and cash equivalents | \$ 4,541 | — | — | 4,541 |
| Marketable equity securities | 99,071 | — | — | 99,071 |
| U.S. government securities | — | 101,828 | — | 101,828 |
| Corporate bonds | — | 108,527 | — | 108,527 |
| Foreign obligations | — | 19,597 | — | 19,597 |
| Other debt securities | — | 55,978 | — | 55,978 |
| | <u>\$ 103,612</u> | <u>285,930</u> | <u>—</u> | <u>389,542</u> |
| Investments measured at net asset value: | | | | |
| Fund of funds | | | | 638 |
| | | | <u>\$</u> | <u>390,180</u> |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

| | December 31, 2021 | | | |
|--|--------------------------|----------------|----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments, assets whose use is limited and beneficial interest in perpetual trusts: | | | | |
| Cash and cash equivalents | \$ 23,560 | — | — | 23,560 |
| Marketable equity securities | 105,792 | — | — | 105,792 |
| U.S. government securities and agency obligations | — | 24,479 | — | 24,479 |
| Corporate and foreign debt securities | — | 334,437 | — | 334,437 |
| Asset-backed and mortgage-backed securities | — | 6,965 | — | 6,965 |
| Municipal bonds | — | 2,219 | — | 2,219 |
| Mutual funds – fixed income | — | 2 | — | 2 |
| Investments held by trustee | — | 1,578 | — | 1,578 |
| Beneficial interest in perpetual trusts | — | — | 6,932 | 6,932 |
| Total | <u>\$ 129,352</u> | <u>369,680</u> | <u>6,932</u> | <u>505,964</u> |
| Assets held in pension plan: | | | | |
| Cash and cash equivalents | \$ 4,654 | — | — | 4,654 |
| Marketable equity securities | 263,676 | — | — | 263,676 |
| U.S. government securities | — | 78,581 | — | 78,581 |
| Corporate bonds | — | 103,273 | — | 103,273 |
| Foreign obligations | — | 14,260 | — | 14,260 |
| Other debt securities | — | 32,722 | — | 32,722 |
| | <u>\$ 268,330</u> | <u>228,836</u> | <u>—</u> | <u>497,166</u> |
| Investments measured at net asset value: | | | | |
| Fund of funds | | | | <u>1,357</u> |
| | | | | <u>\$ 498,523</u> |

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is estimated based on quoted prices for similar instruments, pricing matrices, and other valuation considerations (e.g., credit quality and prevailing interest rates). Level 3 investments include the beneficial interest in perpetual trusts for which fair value is determined based upon information provided by the trustees. Such information is based on the pro rata interest in the net assets of the trusts.

There were no transfers between levels of the System's or the Plan's investments for the years ended December 31, 2022 and 2021.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(6) Property and Equipment

Property and equipment as of December 31, 2022 and 2021 consist of the following (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|------------------|
| Land | \$ 12,511 | 12,511 |
| Land improvements | 9,369 | 9,367 |
| Buildings and improvements | 522,719 | 519,216 |
| Fixed and major movable equipment | <u>412,688</u> | <u>405,158</u> |
| Total property and equipment | 957,287 | 946,252 |
| Less accumulated depreciation and amortization | <u>(626,900)</u> | <u>(589,995)</u> |
| | 330,387 | 356,257 |
| Construction in progress | <u>44,249</u> | <u>16,647</u> |
| Property and equipment – net | <u>\$ 374,636</u> | <u>372,904</u> |

Substantially, all property of the Medical Center serves as collateral under debt agreements (note 8).

(7) Equity Investments in Joint Ventures

The System's investments in unconsolidated entities accounted for under the equity method of accounting as of December 31, 2022 and 2021 consist of the following (in thousands):

| <u>Name of joint venture</u> | <u>Ownership percentage</u> | <u>2022</u> | | | | | |
|------------------------------|-----------------------------|---------------------|--------------------------|----------------------|-------------------|--------------------------|--------------------------|
| | | <u>Total assets</u> | <u>Total liabilities</u> | <u>Total revenue</u> | <u>Net income</u> | <u>Equity investment</u> | <u>Share of earnings</u> |
| Simeon Dialysis, LLC | 35 % | \$ 69,755 | 5,028 | 24,000 | 6,817 | 22,655 | 2,386 |
| Wayne Valley Imaging, LLC | 50 | 1,037 | 23 | 1,672 | 307 | 542 | 154 |
| VHSNJ at Home, LLC | 50 | 15,754 | 3,596 | 23,756 | 3,600 | 6,079 | 1,800 |
| Eufaula Dialysis, LLC | 20 | 6,478 | 2,487 | 11,910 | 3,392 | 798 | 678 |
| Kittery Dialysis, LLC | 20 | <u>6,082</u> | <u>1,910</u> | <u>31</u> | <u>(509)</u> | <u>825</u> | <u>(153)</u> |
| | | \$ <u>99,106</u> | <u>13,044</u> | <u>61,369</u> | <u>13,607</u> | <u>30,899</u> | <u>4,865</u> |

| <u>Name of joint venture</u> | <u>Ownership percentage</u> | <u>2021</u> | | | | | |
|------------------------------|-----------------------------|---------------------|--------------------------|----------------------|-------------------|--------------------------|--------------------------|
| | | <u>Total assets</u> | <u>Total liabilities</u> | <u>Total revenue</u> | <u>Net income</u> | <u>Equity investment</u> | <u>Share of earnings</u> |
| Simeon Dialysis, LLC | 35 % | \$ 70,440 | 5,944 | 24,375 | 6,780 | 22,321 | 2,373 |
| Wayne Valley Imaging, LLC | 50 | 1,140 | 33 | 1,706 | 391 | 589 | 196 |
| VHSNJ at Home, LLC | 50 | 15,715 | 4,157 | 23,567 | 2,750 | 5,779 | 1,375 |
| Eufaula Dialysis, LLC | 20 | <u>6,912</u> | <u>1,864</u> | <u>12,457</u> | <u>4,162</u> | <u>1,262</u> | <u>832</u> |
| | | \$ <u>94,207</u> | <u>11,998</u> | <u>62,105</u> | <u>14,083</u> | <u>29,951</u> | <u>4,776</u> |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(8) Long-Term Debt

Long-term debt as of December 31, 2022 and 2021 consists of the following (in thousands):

| | <u>2022</u> | <u>2021</u> |
|---|--------------------------|-----------------------|
| New Jersey Healthcare Facilities Financing Authority – \$246,845 St. Joseph's Healthcare System Obligated Group Issue, Series 2016 Revenue Bonds ^(a) | \$ 221,815 | 226,140 |
| St. Joseph's Hospital and Medical Center – \$81,200 St. Joseph's Healthcare System Obligated Group, Series 2017 Taxable Bonds ^(b) | 40,600 | 81,200 |
| Passaic Authority – \$24,650 200 Hospital Plaza Corporation Project, Series 2017 County Guaranteed Parking Revenue Bonds ^(c) | 23,095 | 23,815 |
| New Jersey Healthcare Facilities Financing Authority – \$37,880 St. Joseph's Healthcare System Obligated Group Issue, Series 2022 Revenue Bonds ^(d) | 37,880 | — |
| Total long-term debt | 323,390 | 331,155 |
| Original issue premium | 23,391 | 21,971 |
| Original issue discount | (1,349) | (1,669) |
| Net deferred financing costs | (2,121) | (1,630) |
| Current portion of long-term debt | <u>(6,085)</u> | <u>(45,645)</u> |
| Long-term debt – net of current portion of long-term debt | \$ <u>337,226</u> | <u>304,182</u> |

In connection with the issuance of the New Jersey Healthcare Facilities Financing Authority St. Joseph's Healthcare System Obligated Group Issue, Series 2016 Revenue Bonds in 2016, the System formed an "Obligated Group," which includes only the Medical Center. The Obligated Group also issued Series 2017 Taxable Bonds in September 2017.

- (a) The New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2016 Revenue Bonds (the Series 2016 Bonds) bear interest at rates ranging from 3.0% to 5.0%. The Series 2016 Bonds mature annually, commencing July 1, 2017 through July 1, 2048. The proceeds of the Series 2016 Bonds were used by the System to advance refund the outstanding principal balance of NJHCFFA Series 2008 Bonds and the (a) renovation of inpatient nursing care units; (b) renovation and equipment upgrades within ambulatory surgery and neuro-interventional suites; (c) build out of clinic facilities; and (d) upgrade and installation of information technology systems for clinical information systems, pharmaceutical dispensing technology, imaging, and other minor equipment.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

- (b) The St. Joseph's Hospital and Medical Center Series 2017 Taxable Bonds (the Series 2017 Bonds) were issued in September 2017 and consist of two term bonds of \$40.6 million, which bear interest at 3.926% and 4.584% and are due at July 1, 2022 and July 1, 2027, respectively. The proceeds of the Series 2017 Bonds were used to provide funding for additional contributions to the defined-benefit pension plan (note 9). The Series 2017 Bonds are secured by a Series 2017 Note, which was issued on a parity with other obligations under the Master Indenture for the Series 2016 Bonds.
- (c) The Passaic Authority Series 2017 County Guaranteed Parking Revenue Bonds (the PA Series 2017 Bonds) bear interest at rates ranging from 2.0% to 5.0%. The PA Series 2017 Bonds mature between 2018 and 2042. The proceeds of the PA Series 2017 Bonds were used by 200 Hospital Plaza to advance refund the Series 2010 County Guaranteed Parking Revenue Bonds and pay certain costs of issuance relating to the PA Series 2017 Bonds.
- (d) The New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2022 Revenue Bonds (the Series 2022 Bonds) bear interest at rates ranging from 4.0% to 5.0%. The Series 2022 Bonds mature annually, commencing July 1, 2023 through July 1, 2052. The proceeds of the Series 2022 Bonds will be used by the Hospital, to: (i) reimburse the Hospital for the costs of (a) the acquisition of land and a medical office building thereon located at 234 Hamburg Turnpike, Wayne, New Jersey, and four condominium units within a medical office building located at 220 Hamburg Turnpike, Wayne New Jersey, (b) the planning, development, construction, and/or renovation of facilities owned by the Hospital and operated by the Hospital and its subsidiaries and affiliates in Paterson, New Jersey and Wayne, New Jersey, (c) the acquisition and installation of various items of capital equipment at one or more locations, and vehicles, for use by the Hospital and its subsidiaries and affiliates, and pay all or a portion of the costs of the issuance and sale of the Series 2022 Bonds.

The Series 2016 Bonds and Series 2017 Bonds are secured by (i) amounts held in the revenue fund created under the Master Indenture Agreement, (ii) the gross receipts of the Obligated Group, and (iii) a first mortgage lien on various properties of SJUMC and Wayne Medical Center as defined in the Master Indenture Agreement. The Obligated Group is subject to various operating covenants under the Master Indenture Agreement and maintenance of certain financial ratios.

Required principal payments on long-term debt for the next five years and thereafter as of December 31, 2022 are as follows (in thousands):

| | | |
|---------------------------|----|-----------------------|
| Years ending December 31: | | |
| 2023 | \$ | 6,085 |
| 2024 | | 6,390 |
| 2025 | | 6,720 |
| 2026 | | 7,050 |
| 2027 | | 48,000 |
| Thereafter | | <u>249,145</u> |
| | \$ | <u><u>323,390</u></u> |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

At December 31, 2022, the System maintains a liquidity access line of \$13.1 million, of which \$7.2 million is for unused letters of credit with varying expiration dates. All unused letters of credit have been renewed in the first quarter of 2023. As of December 31, 2022, there is an outstanding advance of approximately \$0.2 million on the liquidity access line recorded in accounts payable and accrued expenses in the System's accompanying 2022 consolidated balance sheet.

(9) Retirement Plans

The Medical Center maintains a noncontributory defined-benefit pension plan (the Plan) covering substantially all of the employees of the Medical Center. The Plan provides benefits based on the participant's years of service and compensation. The Plan is operated as a church plan under the Code. Under church plan status, the Plan is not subject to the minimum funding or other requirements of the Employee Retirement Income Security Act of 1974. In addition, benefits under the Plan are not covered by the Pension Benefit Guaranty Corporation.

The System issued long-term debt in September 2017 (note 8) with net proceeds of approximately \$80.0 million, the purpose of which was to provide funding for additional contributions paid into the Plan. In addition to the 2017 funding into the Plan, management froze the Plan and closed it to new participants effective December 31, 2017, initiated a defined-contribution retirement program on January 1, 2018, and intends to continue annual funding to the Plan so that in conjunction with investment earnings thereon, the plan assets will exceed the projected benefit obligation by the year 2028.

The Medical Center contributed approximately \$5.8 million to the Plan in 2022 and expects to contribute approximately \$5.0 million to the Plan in 2023.

The defined-contribution plan established January 1, 2018 provides for annual contributions for eligible employees of between 2% and 5% of pay based on the employee's years of service with a matching contribution of 1% to 1.5%. Eligible employees begin to accrue benefits from their hire or rehire date. The System funds the defined-contribution expense on a current basis. The Medical Center contributed \$13.3 million and \$12.5 million to the defined-contribution plan for the years ended December 31, 2022 and 2021, respectively.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The funded status of the Plan as of December 31, 2022 and 2021 is set forth as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| Change in benefit obligation: | | |
| Projected benefit obligation – beginning of year | \$ 544,018 | 560,487 |
| Interest cost | 16,180 | 15,444 |
| Actuarial gain | (139,718) | (13,337) |
| Benefit payments and expected expenses | <u>(19,993)</u> | <u>(18,576)</u> |
| Projected benefit obligation – end of year | <u>400,487</u> | <u>544,018</u> |
| Change in Plan assets: | | |
| Fair value of Plan assets – beginning of year | 498,523 | 462,495 |
| Actual return on Plan assets | (94,184) | 44,604 |
| Employer contributions | 5,834 | 10,000 |
| Benefit payments and actual expenses | <u>(19,993)</u> | <u>(18,576)</u> |
| Fair value of Plan assets – end of year | <u>390,180</u> | <u>498,523</u> |
| Accrued pension liability | \$ <u>10,307</u> | \$ <u>45,495</u> |
| Accumulated benefit obligation | \$ 400,487 | 544,018 |

At December 31, 2022 and 2021, net assets without donor restrictions include unrecognized losses of \$75.4 million and \$92.8 million, respectively.

The actuarial gain amounts primarily resulted from increases in the discount rate assumption in 2022 and 2021. Additionally, the PRI-2012 Amount Weighted Mortality Tables with blue collar adjustments projected from 2012 with improvement scale MP-2021 was used at December 31, 2022 and 2021.

Weighted-average assumptions used in determining the benefit obligation as of December 31, 2022 and 2021 were as follows:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 5.48 % | 3.02 % |
| Rate of compensation increase | N/A | N/A |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The components of net periodic pension benefit for the years ended December 31, 2022 and 2021 are as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|--------------------|----------------|
| Interest cost | \$ 16,180 | 15,444 |
| Expected return on Plan assets | (29,594) | (27,593) |
| Amortization of net loss | 1,425 | 2,481 |
| Net periodic pension benefit | <u>—</u> | <u>—</u> |
| | \$ <u>(11,989)</u> | <u>(9,668)</u> |

Weighted-average assumptions used in determining the net periodic pension benefit for the years ended December 31, 2022 and 2021 were as follows:

| | <u>2022</u> | <u>2021</u> |
|--|-------------|-------------|
| Discount rate | 3.02 % | 2.79 % |
| Expected long-term return on Plan assets | 6.25 | 6.25 |
| Rate of compensation increase | N/A | N/A |

The discount rate was determined using the hypothetical bond portfolio method at December 31, 2022 and 2021.

To develop the expected long-term rate of return on Plan assets, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The date used to determine the Plan's measurements is December 31.

The Plan's weighted average asset allocation as of December 31, 2022 and 2021 by asset category is as follows:

| <u>Asset category</u> | <u>2022</u> | <u>2021</u> |
|-----------------------|----------------|----------------|
| Equity securities | 25.4 % | 53.1 % |
| Debt securities | 73.3 | 46.6 |
| Other investments | 1.3 | 0.3 |
| | <u>100.0 %</u> | <u>100.0 %</u> |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The Plan's investment policy includes the following asset allocation guidelines:

| <u>Asset category</u> | <u>Target</u> | <u>Range</u> |
|-----------------------|---------------|--------------|
| Domestic equity | 35.0 % | 6–36 % |
| International equity | 23.0 | 4–24 |
| Fixed income | 40.0 | 40–90 |
| Other investments | 2.0 | 0–5 |

The asset allocation policy was developed in consideration of the long-term financial objectives of the Plan, which include ensuring that there is an adequate level of assets to support benefit obligations and maintaining liquidity sufficient to cover current benefit obligations.

In addition to the broad asset allocation guidelines described above, the following policies apply to individual asset classes:

- Fixed income investments are oriented toward risk-adverse, investment-grade securities with an average quality of "A" or higher. Up to 10% of the portfolio may be invested in bonds rated below investment grade. With the exception of US government securities, fixed income investments are diversified among individual securities and sectors.
- Equity investments are diversified among industries and economic sectors. International equity holdings are also diversified by country. Limitations are placed on the overall allocation to any individual security.

Pension benefit payments, which reflect expected future service and salary, as appropriate, are expected to be paid as follows (in thousands):

| Years ending December 31: | |
|---------------------------|-----------|
| 2023 | \$ 22,371 |
| 2024 | 23,343 |
| 2025 | 24,420 |
| 2026 | 25,481 |
| 2027 | 26,260 |
| 2028–2032 | 138,672 |

(10) Professional Liability Insurance

Effective February 1, 2007, the Insurance Captive began providing SJUMC with claims-made professional and general liability insurance. The Insurance Captive policy provides coverage of \$1 million per occurrence and \$3 million annual aggregate for professional liability claims. Additionally, the Captive issues a buffer policy with limits of \$4 million per claim and \$17 million in the aggregate for professional liability. There is an additional limit of \$1 million per claim and \$1 million in the annual aggregate above the underlying layers for professional liability claims only. All of the professional liability coverage is on a claims made basis.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The Captive issues \$45 million of excess coverage that provides protection for underlying policies for professional liability and a separate tower for general liability. The \$45 million of excess coverage is reinsured by three separate companies, each having a \$15 million layer. That reinsurance protection responds to 100% of the risk in the excess program.

The Captive provides a separate coverage of \$1 million per occurrence and \$1 million aggregate for general liability claims on an occurrence basis. Additionally, the buffer layer provides general liability coverage of \$1 million per claim and \$1 million aggregate above the primary layer. The \$45 million excess coverage has an attachment at \$2 million for general liability.

The Insurance Captive is registered under the Bermuda Insurance Act of 1978 and the Related Regulations (the Insurance Act) and is obliged to comply with various provisions of the Insurance Act regarding solvency and liquidity. The minimum statutory capital and surplus at December 31, 2022 and 2021 was \$4.6 million and \$4.6 million, respectively, and the actual statutory capital and surplus was \$8.6 million and \$6.3 million, respectively. In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Insurance Act, must exceed 75% of relevant liabilities. As of December 31, 2022 and 2021, the liquidity ratio was met.

Prior to the inception of the Insurance Captive, SJUMC maintained its primary professional liability insurance coverage of \$1 million for individual claims and \$3 million in the aggregate on a claims-made basis with a commercial carrier. The first excess layer was on a claims-made basis with retentions of \$4 million for individual claims and \$7 million in the aggregate. A second excess layer of coverage was maintained with a commercial carrier.

Effective March 1, 2009, the Insurance Captive began providing Wayne Medical Center with claims-made professional and general liability insurance, and Wayne Medical Center began participating in the captive insurance program for a first excess layer above the primary layer. Prior to March 1, 2009, Wayne Medical Center maintained primary professional liability insurance coverage on a claims-made basis with a commercial carrier.

The estimated undiscounted professional liabilities for asserted claims and for incidents that have been incurred but not reported included in the accompanying consolidated balance sheets as of December 31, 2022 and 2021 are as follows (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--|------------------|---------------|
| Current portion of estimated professional liability claims payable, included in accrued salaries and expenses | \$ 13,547 | 13,698 |
| Noncurrent estimated professional liability claims payable | <u>45,907</u> | <u>43,240</u> |
| Total estimated professional liability claims payable | <u>\$ 59,454</u> | <u>56,938</u> |

The System's estimates for professional liability for asserted claims and for incidents that have been incurred but not reported are based upon complex actuarial calculations, which utilize factors such as historical claim experience for the System and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known.

(11) Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. Major concentrations of net accounts receivable from patients and third-party payers as of December 31, 2022 and 2021 are as follows:

| | <u>2022</u> | <u>2021</u> |
|---|--------------|--------------|
| Medicare | 17 % | 19 % |
| Medicaid | 16 | 9 |
| Horizon Blue Cross Blue Shield of New Jersey | 14 | 14 |
| Amerigroup | 4 | 5 |
| Aetna | 4 | 4 |
| Managed care organizations and other third-party payers | 40 | 45 |
| Self-pay patients | 5 | 4 |
| | <u>100 %</u> | <u>100 %</u> |

The System deposits cash with various financial institutions in which the amounts may exceed federally insured limits.

(12) Other Revenue

Other revenue at December 31, 2022 and 2021 consists of the following (in thousands):

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|----------------|
| Physician billing revenue | \$ 49,953 | 54,903 |
| Grant income | 23,624 | 18,522 |
| CARES Provider Relief Fund revenue | 2,392 | 52,089 |
| Employee Retention Credit | 6,111 | — |
| Equity in earnings of joint ventures | 4,865 | 4,776 |
| Gain on sale of rehabilitation joint venture | — | 4,178 |
| Rental income | 2,816 | 2,910 |
| Parking revenue | 3,066 | 2,738 |
| Contributions | 7,267 | 1,438 |
| Fundraising | 1,386 | 1,224 |
| Pharmacy 340b revenue | 3,444 | 3,491 |
| Retail pharmacy revenue | 8,408 | 5,472 |
| Other | 12,123 | 9,261 |
| | <u>\$ 125,455</u> | <u>161,002</u> |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(13) Leases

The System leases certain property and equipment under finance and operating leases. Leases are classified as either finance or operating leases based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, amongst other criteria. Finance leases would result in an accounting treatment similar to an acquisition of the asset, however, the System did not have any finance leases as of December 31, 2022 and 2021.

For leases with initial terms greater than a year, the System records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. The System's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities unless the System is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, the System has elected to use a risk-free discount rate determined using a period comparable with that of the lease term. The System has made an accounting policy election to separate lease components from nonlease components in contracts when determining its lease payments for its asset classes except for medical equipment. As such, the System does not account for the applicable nonlease components together with the related lease components when determining the right-of-use assets and liabilities, except for medical equipment.

The System has made an accounting policy election not to record leases with an initial term of less than one year as right-of-use assets and liabilities.

The following schedule summarizes information related to the lease assets and liabilities as of and for the years ended December 31, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|---|------------------|---------------|
| Lease cost: | | |
| Operating lease cost | \$ 8,908 | 6,641 |
| Short-term lease cost | <u>11,686</u> | <u>5,908</u> |
| Total lease cost | <u>\$ 20,594</u> | <u>12,549</u> |
| Right-of-use assets and liabilities: | | |
| Right-of-use assets – operating leases | \$ 105,513 | 24,596 |
| Lease liability – operating leases | 105,513 | 24,596 |
| Other information: | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 8,908 | 6,641 |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|-------------|-------------|
| Other information: | | |
| Right-of-use assets obtained in exchange for new operating lease liabilities | \$ — | — |
| Weighted average remaining lease term – operating leases | 11.4 years | 5.1 years |
| Weighted average discount rate – operating leases | 3.88 % | 1.72 % |

For operating leases, right-of-use assets are recorded in operating lease right of use assets and lease liabilities are recorded in operating lease liability, current, and noncurrent in the accompanying consolidated balance sheets.

The following table reconciles the undiscounted lease payments to the lease liabilities recorded in the accompanying consolidated balance sheet at December 31, 2022:

| | <u>Operating leases</u> |
|------------------------|-----------------------------|
| 2023 | \$ 12,161 |
| 2024 | 10,881 |
| 2025 | 10,437 |
| 2026 | 9,603 |
| 2027 | 9,412 |
| Thereafter | <u>89,206</u> |
| Total lease payments | 141,700 |
| Less imputed interest | <u>36,187</u> |
| Total lease obligation | 105,513 |
| Less current portion | <u>11,686</u> |
| Long-term portion | \$ <u><u>93,827</u></u> |

(14) Net Assets With Donor Restrictions

Net assets with donor restrictions, which are available for future periods or for specific purposes as of December 31, 2022 and 2021 are available for the following purposes (in thousands):

| | <u>2022</u> | <u>2021</u> |
|---------------------------------------|-------------------------|----------------------|
| Capital acquisitions and improvements | \$ 2,212 | 927 |
| Research | 281 | 187 |
| Other healthcare programs | <u>8,353</u> | <u>13,847</u> |
| | \$ <u><u>10,846</u></u> | <u><u>14,961</u></u> |

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

At December 31, 2022 and 2021, net assets with donor restrictions for permanent endowment in the amount of approximately \$8.8 million, consisting of endowment funds to be held in perpetuity, and the beneficial interest in perpetual trusts. The assets in the perpetual trusts are held and managed by an independent trustee. The income earned on the beneficial interest in the perpetual trusts does not have donor restrictions. The income from the endowment funds is expendable to support healthcare services.

The Board classifies donor-restricted assets based upon the explicit directions of the donor and the provisions of the New Jersey Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board has determined that, absent donor stipulations to the contrary, the provisions of New Jersey State law do not impose a donor restriction on the income or capital appreciation derived from the original gift.

(15) Functional Expenses

The System's functional expenses for the years ended December 31, 2022 and 2021 are as follows (in thousands):

| | 2022 | | |
|--|--|--|---------------------------|
| | Healthcare program expenses | General and administrative expenses | Total expenses |
| Salaries, wages, and other labor costs | \$ 407,172 | 69,198 | 476,370 |
| Employee benefits | 78,414 | 12,698 | 91,112 |
| Physician fees | 21,017 | 3,356 | 24,373 |
| Supplies and other | 288,697 | — | 288,697 |
| Interest | 13,812 | 2,025 | 15,837 |
| Depreciation and amortization | 32,200 | 5,048 | 37,248 |
| | <u>\$ 841,312</u> | <u>92,325</u> | <u>933,637</u> |
| | 2021 | | |
| | Healthcare program expenses | General and administrative expenses | Total expenses |
| Salaries, wages, and other labor costs | \$ 398,505 | 70,820 | 469,325 |
| Employee benefits | 74,359 | 13,194 | 87,553 |
| Physician fees | 16,952 | 3,008 | 19,960 |
| Supplies and other | 304,302 | — | 304,302 |
| Interest | 13,949 | 2,239 | 16,188 |
| Depreciation and amortization | 31,537 | 5,351 | 36,888 |
| | <u>\$ 839,604</u> | <u>94,612</u> | <u>934,216</u> |

The accompanying consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Costs not directly attributable to a function are allocated on a functional basis using internal records and estimates.

ST. JOSEPH'S HEALTH, INC.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(16) Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the System. Such lawsuits and claims are either specifically covered by insurance, provided for through estimated self-insurance liabilities, or are not material. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss, which may arise from these actions will not have a material adverse effect on the consolidated financial position or results of operations of the System.

(17) Subsequent Events

The System has evaluated subsequent events through May 30, 2023, which is the date the accompanying consolidated financial statements were issued.

SUPPLEMENTARY INFORMATION

ST. JOSEPH'S HEALTH, INC.

Consolidating Balance Sheet

December 31, 2022

(In thousands)

| Assets | St. Joseph's University Medical Center and Subsidiaries | St. Joseph's Hospital and Medical Center Foundation, Inc. | 200 Hospital Plaza Corp. | St. Joseph's Health, Inc. | SJHS Insurance Limited | Eliminations | Total |
|--|--|--|-------------------------------------|--------------------------------------|---------------------------------------|---------------------|--------------|
| Current assets: | | | | | | | |
| Cash | \$ 2,629 | 1,635 | 271 | — | — | — | 4,535 |
| Investments | 329,698 | 123 | — | — | — | — | 329,821 |
| Current portion of assets whose use is limited | 9,189 | — | 1,732 | — | 13,547 | — | 24,468 |
| Patient accounts receivable, net | 92,835 | — | — | — | — | — | 92,835 |
| Contributions and pledges receivable | — | 1,156 | — | — | — | — | 1,156 |
| Prepaid expenses and other current assets | 64,203 | 184 | 256 | — | 6,595 | (6,083) | 65,155 |
| Due from affiliates | 6,421 | — | — | — | — | (6,421) | — |
| Total current assets | 504,975 | 3,098 | 2,259 | — | 20,142 | (12,504) | 517,970 |
| Assets whose use is limited – less current portion | 10,298 | 5,896 | 4,317 | — | 38,558 | — | 59,069 |
| Property and equipment – net | 358,303 | — | 16,333 | — | — | — | 374,636 |
| Operating lease right of use assets | 105,513 | — | — | — | — | — | 105,513 |
| Beneficial interest in perpetual trusts | — | 6,932 | — | — | — | — | 6,932 |
| Equity investments in joint ventures | 30,899 | — | — | — | — | — | 30,899 |
| Other noncurrent assets | 46,849 | 3,977 | — | 3,178 | — | (38,250) | 15,754 |
| Total assets | \$ 1,056,837 | 19,903 | 22,909 | 3,178 | 58,700 | (50,754) | 1,110,773 |

ST. JOSEPH'S HEALTH, INC.

Consolidating Balance Sheet

December 31, 2022

(In thousands)

| Liabilities and Net Assets | St. Joseph's University Medical Center and Subsidiaries | St. Joseph's Hospital and Medical Center Foundation, Inc. | 200 Hospital Plaza Corp. | St. Joseph's Health, Inc. | SJHS Insurance Limited | Eliminations | Total |
|---|--|--|-------------------------------------|--------------------------------------|---------------------------------------|---------------------|------------------|
| Current liabilities: | | | | | | | |
| Current portion of long-term debt | \$ 5,330 | — | 755 | — | — | — | 6,085 |
| Accounts payable and accrued expenses | 128,500 | — | 188 | — | 3,786 | (6,083) | 126,391 |
| Accrued salaries and expenses | 74,322 | — | 8 | — | 13,547 | — | 87,877 |
| Accrued interest payable | 5,867 | — | — | — | — | — | 5,867 |
| Due to affiliates | 5,210 | 395 | 815 | — | — | (6,420) | — |
| Deferred revenue | 12,249 | 152 | — | — | — | — | 12,401 |
| Current portion of estimated third-party payer settlements | 13,282 | — | — | — | — | — | 13,282 |
| Current portion of operating lease liability | 11,686 | — | — | — | — | — | 11,686 |
| Total current liabilities | 256,446 | 547 | 1,766 | — | 17,333 | (12,503) | 263,589 |
| Long-term debt – net of current portion | 313,565 | — | 23,661 | — | — | — | 337,226 |
| Estimated third-party payer settlements – net of current portion | 15,497 | — | — | — | — | — | 15,497 |
| Accrued pension liability | 10,307 | — | — | — | — | — | 10,307 |
| Estimated professional liability claims payable – net of current portion | 29,029 | — | — | — | 32,706 | (15,828) | 45,907 |
| Operating lease liability – net of current portion | 93,827 | — | — | — | — | — | 93,827 |
| Other liabilities | 14,143 | 52 | 34 | — | — | — | 14,229 |
| Total liabilities | 732,814 | 599 | 25,461 | — | 50,039 | (28,331) | 780,582 |
| Commitments and contingencies | | | | | | | |
| Net assets: | | | | | | | |
| Net assets without donor restrictions | 304,209 | 4,698 | (2,552) | 3,178 | 8,661 | (7,876) | 310,318 |
| Net assets with donor restrictions | 19,550 | 14,606 | — | — | — | (14,547) | 19,609 |
| Total St. Joseph's Health, Inc. net assets | 323,759 | 19,304 | (2,552) | 3,178 | 8,661 | (22,423) | 329,927 |
| Noncontrolling interest in joint venture | 264 | — | — | — | — | — | 264 |
| Total net assets including noncontrolling interest | 324,023 | 19,304 | (2,552) | 3,178 | 8,661 | (22,423) | 330,191 |
| Total liabilities and net assets | \$ 1,056,837 | 19,903 | 22,909 | 3,178 | 58,700 | (50,754) | 1,110,773 |

See accompanying independent auditors' report.

ST. JOSEPH'S HEALTH, INC.

Consolidating Statement of Operations

Year ended December 31, 2022

(In thousands)

| | St. Joseph's University Medical Center and Subsidiaries | St. Joseph's Hospital and Medical Center Foundation, Inc. | 200 Hospital Plaza Corp. | St. Joseph's Health, Inc. | SJHS Insurance Limited | Eliminations | Total |
|--|--|--|-------------------------------------|--------------------------------------|---------------------------------------|---------------------|----------------|
| Operating revenues: | | | | | | | |
| Net patient service revenue | \$ 810,390 | — | — | — | — | — | 810,390 |
| Other revenue | 120,776 | 2,386 | 3,358 | — | 11,261 | (12,326) | 125,455 |
| Net assets released from restrictions – operations | — | 6,328 | — | — | — | (127) | 6,201 |
| Total operating revenues | <u>931,166</u> | <u>8,714</u> | <u>3,358</u> | <u>—</u> | <u>11,261</u> | <u>(12,453)</u> | <u>942,046</u> |
| Operating expenses: | | | | | | | |
| Salaries, wages, and other labor costs | 476,270 | 831 | 100 | — | — | (831) | 476,370 |
| Employee benefits | 91,112 | 200 | — | — | — | (200) | 91,112 |
| Physician fees | 24,373 | — | — | — | — | — | 24,373 |
| Supplies and other | 285,778 | 7,886 | 1,150 | — | 9,709 | (15,826) | 288,697 |
| Interest | 14,829 | — | 1,008 | — | — | — | 15,837 |
| Depreciation and amortization | 35,802 | — | 1,446 | — | — | — | 37,248 |
| Total operating expenses | <u>928,164</u> | <u>8,917</u> | <u>3,704</u> | <u>—</u> | <u>9,709</u> | <u>(16,857)</u> | <u>933,637</u> |
| Operating gain (loss) | 3,002 | (203) | (346) | — | 1,552 | 4,404 | 8,409 |
| Nonoperating gains and losses: | | | | | | | |
| Investment return | 11,406 | 362 | — | — | (686) | — | 11,082 |
| Change in net unrealized gains and losses on equity investments | 13,690 | — | — | — | — | — | 13,690 |
| Net periodic pension benefit | 11,989 | — | — | — | — | — | 11,989 |
| Excess (deficiency) of revenues over expenses before noncontrolling interest in joint venture | 40,087 | 159 | (346) | — | 866 | 4,404 | 45,170 |
| Less net gain attributable to noncontrolling interest in joint venture | 349 | — | — | — | — | — | 349 |
| Excess (deficiency) of revenues over expenses | <u>39,738</u> | <u>159</u> | <u>(346)</u> | <u>—</u> | <u>866</u> | <u>4,404</u> | <u>44,821</u> |
| Other changes in net assets without donor restrictions: | | | | | | | |
| Change in net unrealized gains and losses on fixed income investments | (45,075) | (1,075) | — | — | (4,993) | 5 | (51,138) |
| Pension-related adjustments | 17,366 | — | — | — | — | — | 17,366 |
| Other | (978) | — | — | — | 412 | — | (566) |
| Transfer (to) from affiliates | (1,919) | — | — | — | 6,450 | (4,531) | — |
| Net assets released from restrictions – capital acquisitions | 129 | — | — | — | — | 127 | 256 |
| Change in interest in net assets without donor restrictions of St. Joseph's Hospital and Medical Center Foundation, Inc. | (916) | — | — | — | — | 916 | — |
| Increase (decrease) in net assets without donor restrictions | <u>\$ 8,345</u> | <u>(916)</u> | <u>(346)</u> | <u>—</u> | <u>2,735</u> | <u>921</u> | <u>10,739</u> |

See accompanying independent auditors' report.

ST. JOSEPH'S HEALTH, INC.

Consolidating Statement of Changes in Net Assets

Year ended December 31, 2022

(In thousands)

| | St. Joseph's University Medical Center and Subsidiaries | St. Joseph's Hospital and Medical Center Foundation, Inc. | 200 Hospital Plaza Corp. | St. Joseph's Health, Inc. | SJHS Insurance Limited | Eliminations | Total |
|--|--|--|-------------------------------------|--------------------------------------|---------------------------------------|------------------------|-----------------------|
| Net assets without donor restrictions: | | | | | | | |
| Increase (decrease) in net assets without donor restrictions | \$ 8,345 | (916) | (346) | — | 2,735 | 921 | 10,739 |
| Net assets with donor restrictions: | | | | | | | |
| Contributions, grants, investment income, and other support | 945 | 1,330 | — | — | — | (12) | 2,263 |
| Changes in interest in restricted net assets of St. Joseph's Hospital and Medical Foundation, Inc. | (4,998) | — | — | — | — | 4,998 | — |
| Net assets released from restrictions – operations | — | (6,328) | — | — | — | 127 | (6,201) |
| Net assets released from restrictions – capital acquisitions | (122) | — | — | — | — | (134) | (256) |
| Change in net unrealized gains and losses on investments held in perpetual trusts | — | — | — | — | — | — | — |
| (Decrease) in net assets with donor restrictions | <u>(4,175)</u> | <u>(4,998)</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>4,979</u> | <u>(4,194)</u> |
| Increase (decrease) in St. Joseph's Health, Inc. net assets | <u>4,170</u> | <u>(5,914)</u> | <u>(346)</u> | <u>—</u> | <u>2,735</u> | <u>5,900</u> | <u>6,545</u> |
| Noncontrolling interest in joint venture: | | | | | | | |
| Net gain attributable to noncontrolling interest in joint venture | 356 | — | — | — | — | — | 356 |
| Distributions to noncontrolling interest in joint venture | (462) | — | — | — | — | — | (462) |
| Decrease in noncontrolling interest | <u>(106)</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>(106)</u> |
| Increase (decrease) in net assets, including noncontrolling interest | 4,064 | (5,914) | (346) | — | 2,735 | 5,900 | 6,439 |
| Net assets at beginning of year | <u>319,959</u> | <u>25,218</u> | <u>(2,206)</u> | <u>3,178</u> | <u>5,926</u> | <u>(28,323)</u> | <u>323,752</u> |
| Net assets at end of year | \$ <u><u>324,023</u></u> | <u><u>19,304</u></u> | <u><u>(2,552)</u></u> | <u><u>3,178</u></u> | <u><u>8,661</u></u> | <u><u>(22,423)</u></u> | <u><u>330,191</u></u> |

See accompanying independent auditors' report.