Consolidated Financial Statements and Supplementary Information

Saint Peter's Healthcare System, Inc.
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Saint Peter’s Healthcare System, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2022 and 2021

Contents

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Report of Independent Auditors

The Board of Governors
Saint Peter's Healthcare System, Inc.

Opinion

We have audited the consolidated financial statements of Saint Peter's Healthcare System, Inc. (the System), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of the System at December 31, 2022 and 2021, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Risk Assurance Company of Saint Peter's University Hospital (RAC), a wholly owned subsidiary, which statements reflect total assets of $31,520,000 and $34,826,000, as of December 31, 2022 and 2021, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for RAC, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the 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 financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2022 and consolidating statement of operations and changes in net assets for the year then ended, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audits, the procedures performed as described above and the report of other auditors, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

April 13, 2023

Saint Peter's Healthcare System, Inc.

Consolidated Balance Sheets

(In Thousands)

	December 31	
	2022	**2021**
Assets		
Current assets:		
Cash and cash equivalents	**$ 35,552**	$ 73,010
Short-term investments	**33,871**	34,740
Patient accounts receivable, net	**56,876**	49,667
Assets whose use is limited, current portion	**182,540**	166,547
Supplies	**7,269**	8,563
Estimated third-party payor settlements, current portion	**14,922**	552
Other current assets	**22,220**	16,377
Total current assets	**353,250**	349,456
Assets whose use is limited, less current portion	**32,544**	52,191
Property, plant, equipment, and construction, net	**166,093**	166,898
Estimated third-party payor settlements, less current portion	**1,830**	–
Operating lease assets	**10,500**	7,732
Investments in joint ventures and other assets	**6,628**	5,514
	$ 570,845	$ 581,791
Liabilities and net assets		
Current liabilities:		
Long-term debt, current portion	**$ 9,868**	$ 8,893
Accounts payable	**34,633**	29,610
Accrued expenses and other liabilities	**45,054**	40,576
Accrued interest	**971**	3,646
Operating lease liability, current portion	**2,234**	1,694
Estimated third-party payor settlements, current portion	**15,029**	34,897
Total current liabilities	**107,789**	119,316
Long-term debt, less current portion	**102,544**	123,336
Operating lease liability, less current portion	**8,266**	6,038
Estimated third-party payor settlements, less current portion	**1,421**	1,139
Accrued pension liability	**70,110**	124,214
Other liabilities	**29,005**	30,740
Total liabilities	**319,135**	404,783
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	**240,091**	166,051
Net assets with donor restrictions	**11,619**	10,957
Total net assets	**251,710**	177,008
	$ 570,845	$ 581,791

See accompanying notes.

Saint Peter’s Healthcare System, Inc.

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended December 31	
	2022	2021
Revenue, gains, and other support:		
Net patient service revenue	**$ 551,790**	$ 499,557
Other operating revenue	**37,910**	87,657
Net assets released from restriction	**622**	899
Total revenue, gains, and other support	**590,322**	588,113
Expenses:		
Salaries and wages	**254,254**	250,854
Variable agency labor	**15,177**	5,977
Resident and physician fees	**12,006**	10,404
Employee benefits	**56,115**	57,697
Supplies and other	**149,539**	146,346
Governmental taxes, fees, and assessments	**19,500**	11,663
Interest	**7,360**	8,146
Depreciation and amortization	**26,527**	25,986
Total expenses	**540,478**	517,073
Income from operations	**49,844**	71,040
Equity in net earnings of joint ventures and other income	**933**	774
Loss on sale of property, plant, and equipment	**(8)**	(170)
Net change in unrealized gains and losses on equity investments	**(16,330)**	6,165
Non-operating net periodic pension credit (cost)	**881**	(1,223)
Loss on extinguishment of debt	**(1,483)**	–
Excess of revenue over expenses	**33,837**	76,586
Net change in unrealized gains and losses on fixed income investments	**(6,629)**	(2,496)
Change in pension liability to be recognized in future periods	**45,482**	32,971
Contributions for equipment and other	**1,350**	1,498
Increase in net assets without donor restrictions	**74,040**	108,559

Continued on next page.

Saint Peter’s Healthcare System, Inc.

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Year Ended December 31 2022	2021
Increase in net assets without donor restrictions	**$ 74,040**	$ 108,559
Net assets with donor restrictions:		
Restricted gifts and contributions and related items, net	**1,284**	1,498
Net assets released from restriction	**(622)**	(899)
Increase in net assets with donor restrictions	**662**	599
Increase in net assets	**74,702**	109,158
Net assets at beginning of year	**177,008**	67,850
Net assets at end of year	**$ 251,710**	$ 177,008

See accompanying notes.

Saint Peter's Healthcare System, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2022	**2021**
Operating activities		
Increase in net assets	**$ 74,702**	$ 109,158
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**26,527**	25,986
Net change in unrealized gains and losses on investments	**22,959**	(3,669)
Loss on extinguishment of debt	**1,483**	–
Equity in net earnings of joint ventures	**(933)**	(774)
Donated equipment	**(1,350)**	(1,498)
Loss on sale of equipment	**8**	170
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(7,209)**	(3,353)
Supplies and other assets	**(5,412)**	(2,921)
Accounts payable, accrued expenses, and other liabilities	**5,091**	4,298
Estimated third-party payor settlements, net	**(35,786)**	(48,788)
Accrued pension liability	**(54,104)**	(38,471)
Net cash provided by operating activities	**25,976**	40,138
Investing activities		
Cash received from joint ventures	**682**	726
Net purchases of short-term investments and assets whose use is limited	**(24,241)**	(69,342)
Purchases of property, plant, equipment, and construction, net	**(24,191)**	(16,286)
Net cash used in investing activities	**(47,750)**	(84,902)
Financing activities		
Proceeds from issuance of long-term debt	**104,550**	(15)
Principal payments on long-term debt and finance lease obligations	**(8,643)**	(9,080)
Payments to extinguish long-term debt	**(118,336)**	–
Deferred financing costs paid	**940**	–
Net cash used in financing activities	**(21,489)**	(9,095)
Net decrease in cash and cash equivalents and restricted cash and restricted cash equivalents	**(43,263)**	(53,859)
Cash and cash equivalents and restricted cash and restricted cash equivalents, beginning of year	**80,040**	133,899
Cash and cash equivalents and restricted cash and restricted cash equivalents, end of year	**$ 36,777**	$ 80,040
Reconciliation of cash and cash equivalents and restricted cash and restricted cash equivalents at end of year to the balance sheets		
Cash and cash equivalents	**$ 35,552**	$ 73,010
Restricted cash and cash equivalents – designated by donors	**247**	197
Restricted cash and cash equivalents – under bond indenture	**978**	6,833
Total cash and cash equivalents and restricted cash and restricted cash equivalents	**$ 36,777**	$ 80,040
Supplemental disclosure of non-cash investing and financing activities and cash flow information		
Assets acquired under finance lease obligations	**$ –**	$ 70
Cash paid for interest, net of amounts capitalized	**$ 10,035**	$ 8,293

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

Saint Peter's Healthcare System, Inc. (the System) is a nonprofit corporation. The Roman Catholic Diocese of Metuchen (the Diocese) is the sponsor of the System and, as provided in the System's bylaws, certain powers are reserved to the Bishop of the Diocese. The System's accompanying consolidated financial statements include the following entities: Saint Peter's University Hospital (the Hospital), an acute care 478 licensed bed teaching hospital located in New Brunswick, New Jersey; Saint Peter's Health & Management Services Corporation (Management Services); Saint Peter's Foundation (the Foundation); Margaret McLaughlin McCarrick Care Center (the Care Center) (the Care Center had no operations in 2022 or 2021); Saint Peter's Properties Corporation (Properties); Risk Assurance Company of Saint Peter's University Hospital (RAC); Saint Peter's Solar Energy Solutions, Inc. (Solar Energy Solutions); Saint Peter's Healthcare System Physician Associates, P.C. (Physician Associates PC); Saint Peter's Advanced Care, P.C. (Advanced Care); Saint Peter's Specialty Physicians, P.C. (Specialty Physicians); and Park Avenue Collections Corporation (Park Avenue) (Park Avenue had no operations in 2022 or 2021).

On September 10, 2020, the System, the Hospital, and RWJ Barnabas Health (RWJBH) entered into a Member Substitution and Merger Agreement (the Agreement). The Agreement provided, amongst other conditions, that at closing RWJBH would become the sole corporate member of the System and the Hospital. The Agreement was subject to regulatory review by the State of New Jersey and the Federal Trade Commission (FTC). On June 2, 2022, the FTC voted to block the transaction and the System and RWJBH mutually agreed to terminate the agreement on June 14, 2022. The Agreement specifies that RWJBH will reimburse the System for up to $25 million in capital expenditures regardless of outcome of the transaction. No reimbursements were received or recorded through December 31, 2022.

All intercompany balances and transactions have been eliminated in consolidation. Although these entities have been consolidated for financial statement reporting purposes, there may be limitations on the use of an entity's funds by another member of the group resulting from the charitable nature of some of the entities or other factors.

Other unconsolidated entities, for which the System records its interest or investment, include CARES Surgicenter, LLC (CARES); New Brunswick CK Leasing, LLC (Cyber Knife joint venture); New Brunswick Affiliated Hospitals (NBAH); and Redeemer Health.

1. Organization and Summary of Significant Accounting Policies (continued)

The System accounts for its investments in CARES on the equity method of accounting (see Note 5) because the System does not control the operations of the investees. The System accounts for its investments in Cyber Knife, Redeemer Health and NBAH primarily at cost, adjusted for impairments or observable price changes. The investment in NBAH is fully reserved.

Significant Accounting Policies

A summary of the significant accounting policies follows:

Use of Estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, such as estimates for collections on accounts receivable for services to patients, estimated settlements with third-party payors, medical malpractice insurance liabilities and pension benefit liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents: The System considers all highly liquid investments with a maturity of three months or less at date of purchase, other than amounts held in short-term and assets whose use is limited investment portfolios, to be cash equivalents. 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.

Receivables for Patient Care: Patient accounts receivable for which the System receives payment under cost reimbursement, prospective payment formulae, or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the System (see Note 3).

1. Organization and Summary of Significant Accounting Policies (continued)

Short-Term Investments and Assets Whose Use is Limited: Investments that are readily marketable and that are not classified as assets whose use is limited are considered short-term investments and are classified as current assets. Assets whose use is limited represent assets whose use is restricted for specific purposes through internal designation, by donors or under terms of bond indenture agreements or trust agreements, as well as investments held by RAC (see Note 4). Assets whose use is limited investments consist of marketable securities and alternative investments.

Marketable securities are recorded at fair value as determined by reference to quoted market prices. Alternative investments consist of interests in funds of funds investments structured as limited partnerships and commingled funds.

Alternative investment interests are reported based upon net asset values derived from the application of the equity method of accounting.

Short-term investments and assets whose use is limited are classified as other than trading securities. Unrealized gains and losses on fixed income securities, except for those unrealized losses which are deemed to be other than temporary impairments, are excluded from the excess of revenue over expenses on the accompanying consolidated statements of operations and changes in net assets. Unrealized gains and losses on equity investments are reported as a non-operating activity. Other investment income and realized gains and losses on assets without donor restrictions are recorded in other operating revenue. Investment income derived from investments related to assets with donor restrictions is also recorded as other operating revenue unless the income or gain or loss is restricted by donor or law. Investment return is reported net of investment expenses.

Supplies: Supplies are carried at the lower of cost or net realizable value determined using the first-in, first-out method, or market method. Supplies are used in the provision of patient care and are not held for sale.

Deferred Financing Costs: Deferred financing costs were incurred to obtain financing for various construction and renovation projects. Amortization of these costs is provided using the effective interest method extending over the remaining term of the applicable indebtedness.

1. Organization and Summary of Significant Accounting Policies (continued)

Property, Plant, Equipment, and Construction: Property, plant, equipment, and construction that were purchased by the System are carried at cost. Assets acquired under finance leases are recorded at the present value of the lease payments at the inception of the lease. Donated assets are recorded at fair market value at the date of donation. Annual provisions for depreciation and amortization of property, plant, and equipment are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the term of the related lease for equipment held under finance lease obligations.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of: The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset.

If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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. Resources arising from the results of operations or assets set aside by the System's Board are not considered to be donor restricted.

Net assets with donor restrictions are those whose use by the System has been limited by donors to a specific time frame or purpose or have been restricted by donors as permanent endowments to be maintained in perpetuity.

When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restriction.

1. Organization and Summary of Significant Accounting Policies (continued)

The System follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it relates to its permanent endowment contributions and net assets, as enacted by the State of New Jersey in 2009. The System annually expends the income distributed from the related assets according to donor stipulations.

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 (see Note 15).

Beneficial Interest in Remainderman Trust: The Foundation received a contribution under a remainderman trust. The Foundation recognized contribution revenue related to the remainderman trust based on the fair value of its beneficial interest in the trust as the Foundation became aware of the gift and received information supporting the valuation of the related assets. The Foundation does not receive the trust assets until the death of the beneficiary.

Subsequent changes in the fair value of the trust are recognized within the change in net assets with donor restrictions.

Excess of Revenue Over Expenses: The consolidated statements of operations and changes in net assets include excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses include the net change in unrealized gains and losses on fixed income investments, unless the unrealized losses are deemed to be other than temporary, donated equipment and other, and the change in pension liability to be recognized in future periods. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported within income from operations.

1. Organization and Summary of Significant Accounting Policies (continued)

Income Taxes: The System parent entity, the Hospital, the Care Center, Management Services, Physician Associates PC, and the Foundation are exempt from Federal income tax on related function income under Sections 501(a) and 501(c)(3) of the Internal Revenue Code (the Code), while Properties is exempt under Section 501(c)(2) of the Code, and also are exempt from New Jersey and local income taxes pursuant to the corresponding state exemption provisions. RAC is not subject to taxes on income or gains under the Cayman Islands tax concessions law except for a tax on dividends on domestic equities.

Solar Energy Solutions, Advanced Care, Specialty Physicians, and Park Avenue are for-profit entities and, as such, are subject to federal, state, and local income taxes. The provision for income taxes is not material to the System's consolidated financial statements.

Related-Party Transactions: The entities comprising the System provide various inter-entity services to their affiliated entities and the System parent company. The services consist of certain financial planning, information systems and telecommunications, general accounting, and other services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon method which reflects the approximate level of usage by each entity. Such inter-entity charges and all intercompany balances between the entities comprising the System eliminate in consolidation.

Recent Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 this ASU are effective for the System for fiscal years beginning after December 15, 2022. The System is in the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

2. Charity Care and Community Benefits

In accordance with its mission and philosophy, the System commits substantial resources to sponsor a broad range of services to both the indigent as well as the broader community.

The System provides 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. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System's records identify and monitor the level of charity care it provides and include the amount of charges forgone for services and supplies furnished. DOH allows retroactive application for charity care up to two years from the date of service.

For patients who were determined by the System to have the ability to pay but did not, the expected uncollected amounts are classified as an implicit price concession which reduces net patient service revenue ($29,991 and $16,238 in 2022 and 2021, respectively). Distinguishing between charity care and implicit price concessions is difficult, in part because services are often rendered prior to the System's full evaluation of the patient's ability to pay.

Community benefits provided to the indigent include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of: traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies, or staff time volunteered on behalf of the community.

Community benefits provided to the broader community include the costs of providing services to other populations who may not qualify as indigent but may need special services and support. This type of community benefit includes the costs of: services such as health promotion and education, health clinics, and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students, and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

(Dollars in Thousands)

2. Charity Care and Community Benefits (continued)

A summary of the estimated cost of community benefits provided to both the indigent and the broader community and related funding follows:

	Year Ended December 31	
	2022	**2021**
Community benefits provided to the indigent:		
Charity care provided	**$ 23,796**	$ 19,273
Unpaid cost of public programs, Medicaid (inclusive of managed Medicaid activity), and other indigent care programs	**59,089**	49,257
Community benefits provided to the broader community:		
Non-billed services for the community	**4,992**	5,020
Education and research provided for the community	**8,206**	4,889
Estimated cost of community benefits	**96,083**	78,439
Less: Funding recognized *(Note 3)*:		
New Jersey Charity Care subsidy	**21,704**	12,777
State-funded Graduate Medical Education	**7,053**	6,969
New Jersey County Option Hospital Fee Program, net	**33,592**	13,436
Estimated cost of community benefits, net of funding	**$ 33,734**	$ 45,257

The costs of charity care and other community benefit activities are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Hospital's ratio of cost to standard charges, which is then multiplied by the uncompensated charges associated with providing care to charity patients.

The estimated cost of community benefits was 18.0% and 15.4% of total Hospital operating expenses in 2022 and 2021, respectively, before consideration of charity care subsidies and other support (see Note 3).

The System receives payments from the New Jersey Health Care Subsidy Funds for charity care, and such amounts totaled approximately $21,704 and $12,777 for the years ended December 31, 2022 and 2021, respectively. Commencing July 1, 2021, the Hospital receives a higher charity subsidy in relation to costs as it was designated as a safety-net hospital. Recognized funding for the New Jersey County Fee Program above is net of the county tax assessed and paid by the System which was $15,411 and $7,705 in 2022 and 2021, respectively.

3. Net Patient Service Revenue

Accounts Receivable and 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 payors (including health insurers and government programs), and others and includes provisions for variable consideration (reductions to revenue) for retroactive revenue adjustments, including adjustments due to the 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 payor classes for inpatient revenue and major payor classes and types of services provided for 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 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 payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor 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 and under-insured patients 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.

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 policy for self-pay patients, 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.

3. Net Patient Service Revenue (continued)

Generally, the System bills patients and third-party payors 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 into the Hospital 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 service.

Substantially all of its performance obligations relate to contracts with a duration of less than one year. The 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 years ended December 31, 2022 and 2021, changes in the System's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated quarterly 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 the following factors: payors, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

Net patient service revenue by major payor source for the years ended December 31, 2022 and 2021, based on primary insurance designation, is as follows:

	2022	2021
Medicare and Uninsured Relief Fund	**$ 103,761**	$ 110,012
Medicaid and other state funded programs	**173,910**	122,961
Commercial carriers and managed care organizations	**270,499**	264,091
Self-pay	**3,620**	2,493
	$ 551,790	$ 499,557

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are not included within the self-pay category above.

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

	2022	2021
Hospital	**$ 511,305**	$ 461,370
Physician services	**40,485**	38,187
	$ 551,790	$ 499,557

At December 31, 2022 and 2021, patient accounts receivable is comprised of the following components:

	2022	2021
Patient receivables	**$ 51,042**	$ 44,725
Contract assets	**5,834**	4,942
	$ 56,876	$ 49,667

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the System may not have the right to bill.

3. Net Patient Service Revenue (continued)

Third-Party Payment Programs

The System has agreements with third-party payors that provide payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of the System have been audited and settled for years through 2015 and cost report year 2017 at December 31, 2022.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The System is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. Medicaid cost reports of the System for years through 2016 and cost report year 2019 have been audited and settled at December 31, 2022.

The System receives additional Medicaid funding under the New Jersey County Option Hospital Fee 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 taxes 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 Payments. The State Directed Payments are subject to annual settlement based actual Medicaid utilization data and other factors. The program resulted in taxes paid by the System in 2022 and 2021 of $15,411 and $7,705, respectively (included within governmental taxes, fees, and assessments) and Medicaid State Directed Payments revenue of $49,003 and $21,141 in 2022 and 2021, respectively (included within net patient service revenue).

3. Net Patient Service Revenue (continued)

Other Third-Party Payors: The System also has entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

Medicare and Medicaid cost reports, which serve as the basis for final settlement with these programs, were audited by the applicable fiscal intermediary and settled through years noted above, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for audit and settlements. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed, and additional information is obtained.

Settlements with third-party payors 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 payor, correspondence from the payor 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. For the years ended December 31, 2022 and 2021, there was no impact of the System's revisions to prior year settlement estimates impacting net patient service revenue.

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 health care reform that has been or will be enacted by the federal and state governments, cannot be determined presently. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the System. Additionally, certain payors' payment rates for various years have been appealed by the System for cost report years 2006 through 2022. If the appeals are successful, additional income applicable to those years could be realized.

3. Net Patient Service Revenue (continued)

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 health care 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 non-compliance 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 payors also provide for retroactive audit and review of claims.

State and Other Funding

To support continued population health improvement across New Jersey, DOH developed and implemented a hospital performance initiative called the Quality Improvement Program – New Jersey (QIP-NJ) effective July 1, 2020. The first year did not include quality-based measures and was a per diem add on for inpatient claims. These payments were distributed in March and October 2021 and totaled $4,123 for the System. The first measurement period (MY1) was July through December 2021 and the second measurement period (MY2) was January through December 2022. DOH performed MY1 reconciliations through the end of 2022 with a process date in early 2023. The System received $4,756 (recorded within net patient service revenue on the accompanying consolidated statements of operations and changes in net assets) related to MY1.

(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

The following state and other funding amounts have been included in the System's net patient service revenue:

	Year Ended December 31 2022	2021
State:		
Quality Improvement Program (QIP) payments	**$ 4,756**	$ 4,123
Charity Care *(Note 2)*	**21,704**	12,777
Graduate Medical Education	**7,053**	6,969
Federal:		
New Jersey County Option Hospital Fee Program *(Note 3)*	**49,003**	21,141
Graduate Medical Education	**4,702**	4,534
	$ 87,218	$ 49,544

In addition to direct Graduate Medical Education funding received from the federal and state Medicare and Medicaid programs, the System also receives a portion of its Medicare rate for indirect medical education costs.

(Dollars in Thousands)

4. Liquidity and Assets Whose Use is Limited

Liquidity and Availability

The System has a working capital surplus of $245,461 and $230,140 as of December 31, 2022 and 2021, respectively. The System's average days of cash on hand as of December 31, 2022 and 2021 was 181.1 and 202.3, respectively (based on normalized expenditures).

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

	2022	2021
Cash and cash equivalents	**$ 35,552**	$ 73,010
Short-term investments	**33,871**	34,740
Patient accounts receivable, net	**56,876**	49,667
Physician services receivable, net	**3,043**	2,806
Assets whose use is limited which are available for general expenditures:		
Board designated	**174,751**	153,036
Donor restricted – health care programs	**4,965**	3,656
	$ 309,058	$ 316,915

The System has certain board designated and donor-restricted assets which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the table above. The System has other financial assets for donor-restricted purposes, held under bond indenture and for the professional and general liability captive insurance program which are not readily available for general expenditures.

As part of the System's liquidity management plan, cash in excess of daily requirements is invested in short-term money market funds and short-term investments. The money market funds at December 31, 2022 and 2021 totaled $34,911 and $71,109, respectively. During 2022 and 2021, the System holds investments of $33,871 and $34,740, respectively in short-term fixed income investments that are liquid and consist of highly rated short-term corporate and governmental securities.

(Dollars in Thousands)

4. Liquidity and Assets Whose Use is Limited (continued)

Additionally, the System maintained lines of credit in 2022 and 2021 totaling $15,000 and $20,000, respectively, as described in Note 7. As of December 31, 2022 and 2021, there was no balance outstanding on the lines of credit.

As of December 31, 2022 and 2021, the System was in compliance with all financial covenants under outstanding debt obligations.

Assets Whose Use Is Limited

Assets whose use is limited, primarily at fair value, are maintained for the following purposes:

	December 31	
	2022	**2021**
Assets held as designated by the Board of Trustees of the Hospital	**$ 174,751**	$ 153,036
Assets held as designated by donors	**10,764**	11,455
Assets held under bond indenture	**978**	21,796
Assets held by RAC *(Note 10)*	**28,591**	32,451
Total assets whose use is limited	**215,084**	218,738
Less current portion	**182,540**	166,547
Non-current portion	**$ 32,544**	$ 52,191

(Dollars in Thousands)

4. Liquidity and Assets Whose Use is Limited (continued)

Assets held by a trustee under bond indenture agreements are maintained for the following purposes (see Note 7):

	December 31	
	2022	**2021**
Debt service interest fund	**$ 971**	$ 3,711
Debt service principal fund	**–**	3,084
Debt service reserve fund	**–**	15,001
Cost of issuance fund	**7**	–
	$ 978	$ 21,796

Investment income, included in other operating revenue, consists of the following:

	Year Ended December 31	
	2022	**2021**
Interest and dividend income	**$ 4,983**	$ 2,239
Realized gains and losses	**(1,676)**	3,006
Total investment income reported in other operating revenue *(Note 15)*	**$ 3,307**	$ 5,245

The System's gross unrealized losses and fair value of individual fixed income securities, which have been in a continuous unrealized loss position less than 12 months or greater than 12 months at December 31, 2022 and 2021 are not significant. At December 31, 2022 and 2021, management determined that the unrealized losses were temporary based on the extent and length of time the securities' fair value was below cost.

(Dollars in Thousands)

5. Other Assets

Included within investments in joint ventures and other assets on the accompanying consolidated balance sheets is the System’s joint venture investment in CARES which is an equity method investment (approximately $1,630 and $1,238 at December 31, 2022 and 2021, respectively). CARES leases and operates an ambulatory surgery center located in a building owned by the Hospital. In 2022 and 2021, the System collected distributions from the CARES joint venture of approximately $541 and $372, respectively, and recorded total equity method earnings of $933 and $774, respectively.

The following is a condensed summary of financial information of CARES:

	December 31	
	2022	**2021**
Total assets	**$ 5,832**	$ 5,323
Total liabilities	**659**	1,077
Total equity	**$ 5,173**	$ 4,246

In 2022 and 2021, the System collected distributions from the Cyber Knife joint venture of approximately $141 and $354, respectively.

(Dollars in Thousands)

6. Property, Plant, Equipment, and Construction

Property, plant, equipment, and construction consist of the following:

	December 31	
	2022	**2021**
Land	**$ 9,619**	$ 7,869
Buildings, building service equipment, and improvements	**353,197**	348,682
Fixed equipment	**9,071**	9,071
Major movable equipment	**269,131**	263,536
	641,018	629,158
Less accumulated depreciation and amortization	**486,949**	464,171
	154,069	164,987
Construction-in-progress	**12,024**	1,911
	$ 166,093	$ 166,898

Depreciation expense was $26,338 and $25,792 in 2022 and 2021, respectively. Useful lives of depreciable assets range from 3 to 40 years.

During 2022 and 2021, the System wrote off approximately $3,541 and $17 of fully depreciated assets, respectively.

(Dollars in Thousands)

7. Long-Term Debt and Lines of Credit

Long-term debt and lines of credit consist of the following:

	December 31 2022	December 31 2021
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2022A Revenue and Refunding Bonds, which bear interest at 5.00% due in varying maturities through July 1, 2037 (a)	**$ 105,925**	$ –
NJHCFFA Series 2011 Revenue and Refunding Bonds, which bore interest at rates between 5.00% and 6.25% were due in varying maturities through July 1, 2035 (a)	**–**	65,330
NJHCFFA Series 2007 Revenue Bonds, which bore interest at rates between 5.00% and 6.25% were due in varying maturities through July 1, 2037 (a)	**–**	57,060
Other loans (b)	**6,516**	8,274
Mortgages payable with interest between 4.75% and 5.25% payable in monthly installments of principal and interest through December 1, 2031	**1,579**	1,645
Finance lease obligations, with interest rates ranging from 1.53% to 4.50% and payments through 2025	**651**	1,544
	114,671	133,853
Less unamortized original issue discount	**1,087**	450
Less unamortized deferred financing costs	**1,172**	1,174
Less current portion	**9,868**	8,893
	$ 102,544	$ 123,336

The System maintains an Obligated Group for purposes of issuing debt instruments under a Master Trust Indenture (the Indenture). Under the terms of the Indenture, all obligations thereunder are joint and several obligations of the members and are collateralized by a pledge of the revenue of the Obligated Group. As of December 31, 2022 and 2021, the Hospital is the only member of the Obligated Group.

7. Long-Term Debt and Lines of Credit (continued)

Under the terms of the Indenture and other agreements with the NJHCFFA, the Obligated Group is required to maintain certain financial ratios and be in compliance with other covenants as described in the respective agreements. At December 31, 2022 and 2021, the Obligated Group was in compliance with such financial covenants.

(a) In October 2022, Obligated Group closed on the Series 2022A Revenue and Refunding Bonds (the Series 2022A Bonds) in the amount of $105,925 issued by the NJHCFFA on behalf of the Obligated Group. The proceeds of the Series 2022A Bonds were used for (i) the reimbursement of costs of the acquisition of certain real property; (ii) the refunding of all of the outstanding Series 2011 Revenue and Refunding Bonds and the Series 2007 Revenue Bonds; and (iii) the payment of the costs of issuance of the Series 2022A Bonds.

In August 2011, the Obligated Group, closed on the Series 2011 Revenue and Refunding Bonds (the Series 2011 Bonds) in the amount of $100,640 issued by the NJHCFFA on behalf of the Obligated Group. The proceeds of the Series 2011 Bonds were used for (i) the refunding of all of the outstanding Series F Revenue Bonds, Series 2000A Revenue Bonds, and Series 2000B Bonds; (ii) the payment or reimbursement of the costs of certain capital expenditures relating to the renovation of portions of the Hospital's facilities and the acquisition and installation of various equipment to be used by the Hospital at its facilities (approximately $5,500); (iii) the funding of the Debt Service Reserve Fund relating to the Series 2011 Bonds; and (iv) the payment of the costs of issuance of the Series 2011 Bonds.

In December 2007, the Obligated Group closed on the Series 2007 Revenue Bonds (the Series 2007 Bonds) with the NJHCFFA in the amount of $65,175, the proceeds of which were used to (i) refund a portion of the outstanding principal amount of the St. Peter's Medical Center Issue, Series F Revenue Bonds; (ii) pay or reimburse the costs of the construction and renovation of certain portions of the Hospital's facilities and the acquisition of various capital equipment; (iii) pay capitalized interest on a portion of the Series 2007 Bonds; (iv) fund the Debt Service Reserve Fund related to the Series 2007 Bonds; and (v) pay or reimburse the costs of issuance of the Series 2007 Bonds.

The proceeds of the Series 2022A bonds, together with amounts held in trust by bond indenture agreements at the time of the refunding, were used to refund $118,336 of outstanding obligations under the Series 2011 Bonds and Series 2007 Bonds. A loss on early extinguishment of debt of $1,483 resulted from this transaction.

7. Long-Term Debt and Lines of Credit (continued)

Prior to the issuance of the Series 2022A Bonds, the Obligated Group was required to maintain a Debt Service Reserve Fund in an amount equal to one year's principal and interest for the Series 2011 and Series 2007 Bonds. At December 31, 2021, the Obligated Group was in compliance with this requirement.

(b) At December 31, 2022 and 2021, the System has a loan to a utility company totaling $1,697 and $2,315, respectively, related to amounts borrowed for the installation of solar panels by Solar Energy Solutions. The loan is being repaid by tax credits that are purchased by the utility company. The tax credits are created when solar energy is produced.

The System participated in an energy resilient project through the New Jersey Economic Development Authority (EDA) using grant funding received from the U.S. Department of Housing and Urban Development, combined with a loan from the EDA of $2,531 paid over 20 years at a 2% interest rate. The loan was initially approved by the EDA in 2017; the loan repayment amount has been revised based on application of grant funding. The project was also funded by a $1,057 loan payable over 10 years to a utility company at zero interest.

The System has other loans with financial institutions maturing in 2024 with interest rates ranging from approximately 3.50% to 4.50% to finance the construction of interventional radiology and catheterization suites and the replacement of the System's power plant totaling $1,909 and $2,836 at December 31, 2022 and 2021, respectively.

The System renewed a $10,000 line of credit with a bank in 2019. Due to the uncertainty of the pandemic, the System obtained a second line of credit totaling $10,000 with the same bank in April 2020. During the second quarter of 2022, the System terminated its existing lines of credit and opened a single line of credit in the amount of $15,000. The line of credit has a draw period of one year and carries interest at the bank's prime plus 2%, only if amounts are drawn. There is no outstanding balance as of December 31, 2022.

(Dollars in Thousands)

7. Long-Term Debt and Lines of Credit (continued)

Scheduled principal payments on long-term debt and finance lease obligations, net of interest, for the next five years and thereafter are as follows:

	Series 2022A Bonds	Other Loans	Finance Lease Obligations	Total
2023	$ 7,760	$ 1,668	$ 440	$ 9,868
2024	6,480	1,665	196	8,341
2025	6,760	1,166	15	7,941
2026	7,060	304	–	7,364
2027	7,365	311	–	7,676
Thereafter	70,500	2,981	–	73,481
	$ 105,925	$ 8,095	$ 651	$ 114,671

8. Retirement Plans

The System sponsors a non-contributory defined benefit retirement plan (the Plan) covering all eligible employees of affiliated organizations of the System. Plan benefits are based on years of service and employee compensation as defined in the plan document of affiliated organizations of the System.

The Plan was amended such that effective July 1, 2010, any employee hired after June 30, 2010 is not eligible to participate in the Plan. Additionally, active participation in the Plan is frozen for any employee who terminated employment before July 1, 2010, and is rehired after such date, and active participation in the Plan is frozen for any employee who terminated employment on or after July 1, 2010, unless he/she is rehired before the first anniversary of their termination. The System maintains a defined contribution plan for employees hired as of and subsequent to July 1, 2010. All existing eligible employees as of June 30, 2010 remain as participants in the defined benefit plan and participate in the defined contribution plan. In February 2012, the System announced to participants of the Plan a plan freeze, effective December 31, 2012.

In 2019, the System froze the existing defined contribution plans and instituted a new 401(k) retirement plan effective April 2019. The System contributes 2% of the employee's pay for all plan participants with an employee match contribution up to 3%. The System funds the 401(k) plan on a current basis. Such expense totaled $9,550 and $9,868 in 2022 and 2021, respectively.

The System recognizes on its consolidated balance sheets an asset for the Plan's overfunded status or a liability for the Plan's underfunded status, measures the Plan's assets and obligations that determine its funded status as of the end of the System's fiscal year, and recognizes changes in the funded status of the Plan in changes in net assets without donor restrictions in the year in which the changes occur. Amounts that are recognized as a component of changes in net assets without donor restrictions will be subsequently recognized as net periodic pension cost in future periods.

(Dollars in Thousands)

8. Retirement Plans (continued)

The underfunded status of the Plan as recognized on the System's consolidated balance sheets is as follows:

	December 31 2022	December 31 2021
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 377,120**	$ 390,909
Interest cost	**11,464**	10,762
Benefits paid	**(12,983)**	(12,253)
Actuarial gain	**(96,201)**	(12,298)
Benefit obligation at end of year	**279,400**	377,120
Change in plan assets:		
Fair value of plan assets at beginning of year	**252,906**	228,224
Actual return on plan assets	**(38,414)**	30,251
Employer contributions	**8,000**	7,000
Benefits paid	**(12,983)**	(12,253)
Administrative expenses and other	**(219)**	(316)
Fair value of plan assets at end of year	**209,290**	252,906
Accrued pension liability	**$ (70,110)**	$ (124,214)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets are as follows:

	December 31 2022	December 31 2021
Projected benefit obligation	**$ 279,400**	$ 377,120
Accumulated benefit obligation	**279,400**	377,120
Fair value of plan assets	**209,290**	252,906

The actuarial gains of $96,201 and $12,298 in 2022 and 2021, respectively, primarily relate to changes in the discount rate assumption at December 31, 2022 and 2021.

(Dollars in Thousands)

8. Retirement Plans (continued)

The unrecognized actuarial loss included in other changes in net assets without donor restrictions at December 31, 2022 and 2021 is $82,912 and $128,394, respectively. The change in the pension liability to be recognized in future periods as reported on the accompanying consolidated statements of operations and changes in net assets totaled $45,482 in 2022 and represents the change in these amounts from December 31, 2022 to 2021.

The following table provides the components of net periodic pension (credit) cost:

	Year Ended December 31	
	2022	**2021**
Interest cost	**$ 11,464**	$ 10,762
Expected return on plan assets	**(16,243)**	(14,628)
Recognized actuarial loss and administrative expenses	**4,156**	5,366
Net periodic pension (credit) cost	**$ (623)**	$ 1,500

Administrative expenses totaled $258 and $277 in 2022 and 2021, respectively, and are reported within employee benefits expense; the remaining amounts above are reported as non-operating net periodic pension (credit) cost.

The following assumptions were used in determining the benefit obligations and net periodic pension costs:

	December 31	
	2022	**2021**
Weighted average assumptions used to determine benefit obligations at December 31:		
Discount rate	**5.59%**	3.07%
Weighted average assumptions used to determine net periodic benefit cost for the year ended December 31:		
Discount rate	**3.07**	2.79
Expected long-term rate of return on plan assets	**6.50**	6.50

(Dollars in Thousands)

8. Retirement Plans (continued)

To develop the expected long-term rate of return on assets assumption, 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. This resulted in the selection of the 6.50% expected long-term rate of return on assets assumption for the years ended December 31, 2022 and 2021.

The Plan's investment policy is designed to achieve return on assets to match or exceed the actuarial required rate of return. The asset allocation guidelines and permissible ranges by asset category are listed below.

	Target	**Permissible Range**
Equities	56%	45% – 65%
Debt	34	28% – 40%
Alternatives	10	6% – 14%

The Plan's asset allocations by asset category are as follows:

	December 31	
	2022	**2021**
Equities	**54%**	57%
Debt	**36**	32
Alternatives	**10**	11
	100%	100%

8. Retirement Plans (continued)

Assets invested in the Plan are carried at fair value. Marketable debt and equity securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments (non-traditional, not readily marketable holdings) include hedge funds. Alternative investment interests generally are structured such that the Plan holds a limited partnership interest or an interest in an investment management company. The Plan's ownership structure does not provide for control over the related investees and the Plan's financial risk is limited to the carrying amount reported for each investee. Fair value for alternative investments is determined by the Plan for each investment using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value.

Refer to Note 12 for the composition at fair value of the defined benefit pension plan assets at December 31, 2022 and 2021.

The System received a favorable ruling from the IRS dated August 14, 2013, to operate the Plan as a church plan, which exempts the System from the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and its funding requirements. In 2013, the System was sued by certain plan participants claiming the Plan did not qualify as a church plan. Management defended the lawsuit and in June 2017, the U.S. Supreme Court, in a unanimous decision, determined that the Plan could be a church plan. As of February 28, 2023, all litigation related to this matter have been resolved in favor of the System.

The accrued pension liability reported in the accompanying consolidated financial statements of \$70,110 and \$124,214 at December 31, 2022 and 2021, respectively, is actuarially determined in accordance with the accounting requirements for reporting in the financial statements of the plan sponsor, which differs from the determination of the accumulated plan benefits as reported in the Plan's financial statements.

During 2022 and 2021, the System contributed \$8,000 and \$7,000 to the Plan, respectively. The System plans to contribute \$9,000 to the Plan in 2023.

(Dollars in Thousands)

8. Retirement Plans (continued)

The following benefit payments under the Plan are expected to be paid:

2023	$ 15,871
2024	16,652
2025	17,458
2026	18,206
2027	18,813
2028–2032	100,243

9. Leases and Other Commitments and Contingencies

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 result in an accounting treatment similar to an acquisition of the asset.

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 uses a risk-free discount rate determined using a period comparable with that of the lease term. The System does not account for the non-lease components together with the related lease components when determining the right-of-use assets and liabilities, except for medical equipment.

The System does not record leases with an initial term of less than a year as right-of-use assets and liabilities.

(Dollars in Thousands)

9. Leases and Other Commitments and Contingencies (continued)

The following schedules summarize information related to the lease assets and liabilities as of and for the year ended December 31, 2022 and 2021:

	2022	2021
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	**$ 866**	$ 922
Interest on lease liabilities	**4**	38
Operating lease cost	**2,559**	2,705
Short-term lease cost	**3,876**	3,919
Variable lease cost	**117**	144
Sublease income	**(81)**	(96)
Total lease cost	**$ 7,341**	$ 7,632
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	**$ 1,097**	$ 1,963
Lease liability – finance leases	**651**	1,544
Right-of-use assets – operating leases	**10,500**	7,732
Lease liability – operating leases	**10,500**	7,732
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	**$ 4**	$ 38
Operating cash flows from operating leases	**2,566**	2,666
Financing cash flows from finance leases	**893**	1,169
Right-of-use assets obtained in exchange for new finance lease liabilities	**–**	70
Right-of-use assets obtained in exchange for new operating lease liabilities	**–**	–
Weighted-average remaining lease term – finance leases	**1.66**	2.48
Weighted-average remaining lease term – operating leases	**5.26**	5.79
Weighted-average discount rate – finance leases	**2.19%**	2.16%
Weighted-average discount rate – operating leases	**2.02%**	2.22%

(Dollars in Thousands)

9. Leases and Other Commitments and Contingencies (continued)

For finance leases, right-of-use assets are recorded in property, buildings and equipment and lease liabilities are recorded in long-term debt in the accompanying consolidated balance sheets. For operating leases, right-of-use assets are recorded in operating lease assets and lease liabilities are recorded in operating lease liability, current and non-current, in the accompanying consolidated balance sheets.

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

	Finance Leases	Operating Leases
2023	$ 442	$ 2,359
2024	197	2,383
2025	16	1,774
2026	–	1,043
2027	–	785
Thereafter	–	2,900
Total lease payments	655	11,244
Less imputed interest	4	744
Total lease obligation	651	10,500
Less current portion	440	2,234
Long-term portion	$ 211	$ 8,266

Other Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are on appeal against the System. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from the System's actions will not have a material adverse effect on the System's consolidated financial position or results of operations.

In relation to workers' compensation exposure, the System maintains a standby letter of credit in the amount of $775 and is part of the $15,000 line of credit in place to secure its self-insured workers' compensation program. There were no draws on the letter of credit in 2022 or 2021.

10. Medical Malpractice and General Liability Claims

As part of a structured and comprehensive risk management program, the System funds its risk of professional and general liability loss through RAC, a wholly-owned captive insurance company domiciled in the Cayman Islands.

RAC began accepting risk on January 1, 2004 and provides professional and general liability insurance protection for all entities within the System, including the Hospital, employed physicians and surgeons, the paramedical staff, and all affiliated corporations and divisions. Professional liability insurance is written as claims-made coverage while general liability is written on an occurrence basis. Prior to 2004, the Hospital purchased first-dollar primary and excess liability coverage in the commercial insurance market.

Currently, RAC issues policies with a maximum retention of $3,000 for each medical incident or occurrence. RAC further retains, under a first excess or buffer policy, another $2,000 for each medical incident with a $2,000 aggregate retention. In addition, RAC issues an excess liability policy which provides separate limits towers of $45,000 each. The first tower applies to professional liability claims; the second, to claims for all other liabilities. These excess limits are 100% reinsured by companies rated A or A+ by A.M. Best Company. The System has made, and will continue to make, adjustments to the structure, limits, and retentions of the captive program, as circumstances warrant.

Reserves for loss and loss adjustment expense are set based on management's best estimate of liability and damages. At December 31, 2022 and 2021, undiscounted reserve amounts were $18,127 and $18,868, respectively, and are included within other liabilities on the accompanying consolidated balance sheets. These reserves are estimates of the ultimate value of loss and loss adjustment expenses for all claims made during respective policy years and are subject to changes in amounts of settlements, verdicts, frequency of claims, or other economic or legal factors. These undiscounted reserves are not offset by estimates of reinsurance claims. While management believes the reserves for losses and loss adjustment expenses are adequate, it also recognizes the variability inherent in the data used in estimating these liabilities and that the ultimate value of losses and loss adjustment expense may vary significantly from the estimated amounts included in the accompanying consolidated financial statements. These estimates are continually reviewed and are adjusted, as necessary. Estimated receivables for reinsurance recoveries recorded by RAC total $2,929 and $2,375 at December 31, 2022 and 2021, respectively, and are included within other current assets on the accompanying consolidated balance sheets.

(Dollars in Thousands)

10. Medical Malpractice and General Liability Claims (continued)

In relation to claims insured through RAC, the Hospital recorded an estimated insurance recovery receivable and medical malpractice claim liability at December 31, 2022 and 2021 equal to RAC's liability estimates. Such amounts are recorded within other assets and other liabilities within the Hospital's balance sheets and eliminate in consolidation.

The System has estimated its liability for losses due to claims from medical incidents that have occurred subsequent to 2004 but have not yet been reported to be approximately $1,888 and $1,829 at December 31, 2022 and 2021, respectively, with such estimated liability discounted at a rate of 4% based on expected timing of future payments. These amounts are included within other liabilities on the accompanying consolidated balance sheets.

11. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Concentration of gross accounts receivable from patients and third-party payors are as follows:

	December 31	
	2022	**2021**
Medicare and Medicaid	**11%**	14%
Horizon	**26**	23
Patients	**1**	1
Commercial	**3**	5
Managed care	**57**	55
Other third-party payors	**2**	2
	100%	100%

12. Fair Value Measurements

The System utilizes various methods of calculating the fair value of its financial assets. 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. Fair value measurements are applied based on the unit of account from the System's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated). The fair value hierarchy is comprised of three levels based on the source of inputs 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.

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. In determining fair value, the System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers non-performance risk in its assessment of fair value.

(Dollars in Thousands)

12. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value, excluding assets invested in the System's defined benefit plan, as of December 31, 2022 and 2021, by caption on the consolidated balance sheets based upon the fair value hierarchy defined above:

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Cash and cash equivalents	$ 35,552	$ –	$ –	$ 35,552
Short-term investments:				
Cash and cash equivalents	587	–	–	587
Fixed income:				
U.S. Government bonds	5,235	–	–	5,235
U.S. Treasury bills	2,557	–	–	2,557
U.S. Treasury bonds	17,308	–	–	17,308
International bonds	4,413	–	–	4,413
Corporate bonds	–	3,771	–	3,771
Total short-term investments	30,100	3,771	–	33,871
Assets whose use is limited:				
Cash and cash equivalents	1,365	–	–	1,365
Fixed income:				
U.S. Treasury bills	9,483	–	–	9,483
Asset-backed securities	–	35,801	–	35,801
Corporate bonds	–	37,598	–	37,598
International fixed income	8,462	–	–	8,462
Mortgage-backed securities	7,480	–	–	7,480
Mutual funds:				
Domestic	37,673	–	–	37,673
International	17,625	–	–	17,625
Real estate	173	–	–	173
Commodities	825	–	–	825
Assets held by RAC:				
Cash and cash equivalents	2,244	–	–	2,244
Fixed income-asset fund	8,712	3,836	–	12,548
Equities	2,250	11,549	–	13,799
Beneficial interest in trust	–	3,953	–	3,953
Total assets whose use is limited	96,292	92,737	–	189,029
Total assets at fair value	$ 161,944	$ 96,508	$ –	$ 258,452

(Dollars in Thousands)

12. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Cash and cash equivalents	$ 73,010	$ –	$ –	$ 73,010
Short-term investments:				
Cash and cash equivalents	272	–	–	272
Fixed income:				
U.S. Government bonds	5,380	–	–	5,380
U.S. Treasury bonds	21,700	–	–	21,700
Corporate bonds	–	7,388	–	7,388
Total short-term investments	27,352	7,388	–	34,740
Assets whose use is limited:				
Cash and cash equivalents	7,164	–	–	7,164
Fixed income:				
U.S. Treasury bills	9,736	–	–	9,736
Asset-backed securities	–	28,070	–	28,070
Corporate bonds	–	32,691	–	32,691
Mortgage-backed securities	11,810	14,963	–	26,773
Mutual funds:				
Domestic	37,003	–	–	37,003
International	16,327	–	–	16,327
Real estate	267	–	–	267
Commodities	683	–	–	683
Assets held by RAC:				
Cash and cash equivalents	2,291	–	–	2,291
Fixed income-asset fund	9,102	3,928	–	13,030
Equities	3,045	14,085	–	17,130
Beneficial interest in trust	–	4,739	–	4,739
Total assets whose use is limited	97,428	98,476	–	195,904
Total assets at fair value	$ 197,790	$ 105,864	$ –	$ 303,654

The System's holdings of alternative investments and commingled funds within assets whose use is limited totaled approximately $26,055 and $22,834 at December 31, 2022 and 2021, respectively. These investments are measured based on the equity method of accounting as described in Note 1 and are therefore excluded from the tables above.

(Dollars in Thousands)

12. Fair Value Measurements (continued)

The following table presents the financial instruments of the defined benefit plan (see Note 8) as of December 31, 2022 and 2021, by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Cash and cash equivalents	**$ 2,735**	**$ –**	**$ –**	**$ 2,735**
Equity funds:				
Domestic	**51,924**	**–**	**–**	**51,924**
International	**22,587**	**–**	**–**	**22,587**
Fixed-income mutual fund	**57,603**	**–**	**–**	**57,603**
	$ 134,849	**$ –**	**$ –**	**$ 134,849**
Investments measured at net asset value:				
Equity alternatives				**46,796**
Fixed income alternatives				**27,132**
Total assets at fair value				**208,777**
Accrued income				**513**
Total plan assets				**$ 209,290**
December 31, 2021				
Cash and cash equivalents	$ 2,160	$ –	$ –	$ 2,160
Equity funds:				
Domestic	67,854	–	–	67,854
International	29,785	–	–	29,785
Fixed-income mutual fund	63,358	–	–	63,358
	$ 163,157	$ –	$ –	$ 163,157
Investments measured at net asset value:				
Equity alternatives				59,098
Fixed income alternatives				30,216
Total assets at fair value				252,471
Accrued income				435
Total plan assets				$ 252,906

Fair value for Level 1 assets is based upon quoted market prices.

Level 2 assets consist of certain fixed-income securities for which the fair value at each year-end is estimated based on quoted prices and other valuation considerations (e.g., credit quality and prevailing interest rates). The fair value of the beneficial interest in trust is reported within Level 2 and is based on the allocated fair value of the trust's holdings, which comprise marketable securities.

(Dollars in Thousands)

12. Fair Value Measurements (continued)

Equity and fixed income alternative financial instruments maintained by the Plan represent the Plan's investment in funds of funds and are valued as described in Note 8. Financial information used to evaluate the alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee and estimates that require varying degrees of judgment. The alternative investments may indirectly expose the Plan to securities lending, short sales of securities, and trading in futures and forwards contracts, options, and other derivative products. Alternative investments often have liquidity restrictions under which capital may be divested only at specified times. At December 31, 2022 and 2021, there were no commitments or liquidity restrictions.

13. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	December 31	
	2022	**2021**
Health care programs	**$ 4,965**	$ 3,656
Beneficial interest in trust	**3,953**	4,739
Children's fund	**1,456**	1,228
Health education	**1,188**	1,277
Purchase of equipment	**57**	57
	$ 11,619	$ 10,957

(Dollars in Thousands)

14. Functional Expenses

Operating expenses by function and natural classification are as follows:

	2022		
	Health Care Program Expenses	**General and Administrative Expenses**	**Total Expenses**
Salaries and wages	**$ 206,844**	**$ 47,410**	**$ 254,254**
Variable agency labor	**14,523**	**654**	**15,177**
Resident and physician fees	**10,658**	**1,348**	**12,006**
Employee benefits	**53,554**	**2,561**	**56,115**
Supplies and other	**97,632**	**51,907**	**149,539**
Governmental taxes, fees, and assessments	**19,285**	**215**	**19,500**
Interest	**7,086**	**274**	**7,360**
Depreciation and amortization	**26,109**	**418**	**26,527**
	$ 435,691	**$ 104,787**	**$ 540,478**

	2021		
	Health Care Program Expenses	**General and Administrative Expenses**	**Total Expenses**
Salaries and wages	$ 204,399	$ 46,455	$ 250,854
Variable agency labor	5,847	130	5,977
Resident and physician fees	8,797	1,607	10,404
Employee benefits	46,718	10,979	57,697
Supplies and other	92,250	54,096	146,346
Governmental taxes, fees, and assessments	11,504	159	11,663
Interest	7,805	341	8,146
Depreciation and amortization	25,571	415	25,986
	$ 402,891	$ 114,182	$ 517,073

(Dollars in Thousands)

14. Functional Expenses (continued)

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

15. Other Operating Revenue

Other operating revenue consists of the following:

	Year Ended December 31	
	2022	**2021**
Grant revenue	**$ 3,670**	$ 1,769
HHS Provider Relief Fund	**10,387**	44,525
Rental income	**2,399**	2,445
Investment income *(Note 4)*	**3,307**	5,245
Child Protection Center revenue	**2,679**	2,726
Retail pharmacy cost sharing	**2,461**	3,877
Nursing services	**1,782**	1,736
Food services	**1,393**	1,211
Physician leasing	**2,607**	2,508
Solar energy credits	**851**	797
Outreach laboratory fees	**229**	227
Research studies	**350**	494
Purchasing rebates and settlements	**1,347**	852
Joint venture distribution	**141**	354
Parking	**273**	204
Pay for performance initiatives	**1,274**	1,706
Contributions	**970**	1,632
Insurance settlement	**–**	12,250
FEMA Disaster Relief Fund	**–**	1,381
Other	**1,790**	1,718
	$ 37,910	$ 87,657

16. COVID-19 Pandemic and CARES Act Funding

The Coronavirus Disease 2019 (COVID-19) has materially adversely affected the state and national economies and, accordingly, negatively impacted the System's operations and financial results. The impact of COVID-19 continues to effect patient service patterns, revenue and the costs of providing health care services.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security Act (the 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 COVID-19, and shall reimburse the recipient for health care related expenses and/or lost revenues attributable to COVID-19 and are not required to be repaid except where Provider Relief Funds received exceed the actual amounts of eligible health care related expenses and/or lost revenue 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), most recently in January 2023, regarding the Provider Relief Fund distributions. HHS has indicated that the public health emergency period will end on May 11, 2023.

On December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. CAA appropriated additional funding for COVID-19 response and relief through the Provider Relief Fund and provided several changes to the administration of the Provider Relief Fund. CAA clarified the methods available to calculate lost revenue and indicated that for any payment, including both general and targeted distributions, received by an eligible health care provider that is a subsidiary of a parent organization, the parent organization may allocate all or any portion of the distribution among any other eligible subsidiaries.

For the years ended December 31, 2022 and 2021, the System received approximately $10,367 and $35 respectively, in funding and recognized revenue of $10,387 and $44,525, respectively, related to the Provider Relief Fund, which is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. The recognized revenue has been determined based on applicable accounting guidance, Post-Payment Notices of Reporting Requirements and FAQs that the System has interpreted as being applicable to the accompanying consolidated financial statements. Distributions from the Provider Relief Fund are available for specified service periods through June 30, 2023 with various required data submissions.

16. COVID-19 Pandemic and CARES Act Funding (continued)

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed eligible health care 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 health care providers. During April 2020, the System received approximately $36,459 of expedited payments for future services. This advance was paid back in full as of October 2022. As of December 31, 2021, $24,354 was included as a contract liability in the current portion of estimated third-party payor settlements in the accompanying consolidated balance sheet. The remaining balance was fully repaid in 2022.

The System applied for reimbursement for qualifying expenses under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. As of December 31, 2021, the System received $1,381 in FEMA reimbursement payments (none in 2022). The System has applied for additional FEMA reimbursements for costs incurred for contracted agency staffing associated with the pandemic.

Due to the evolving nature of the COVID-19 pandemic, 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. The System has also experienced significant price increases in personnel costs and medical supplies, as well as volatility in the interest rate and capital markets, due to the broader economic disruption caused by the pandemic.

17. Subsequent Events

Subsequent events have been evaluated through April 13, 2023, which is the date the accompanying consolidated financial statements were issued. Except as disclosed in Note 8, no subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Supplementary Information

Saint Peter’s Healthcare System, Inc.

Consolidating Balance Sheet

(In Thousands)

December 31, 2022

	Saint Peter’s University Hospital & Subsidiaries				Saint Peter’s Health & Management Services											
	Obligated Group Saint Peter’s University Hospital	RAC	Consolidating and Eliminating Entries	Total Saint Peter’s University Hospital & Subs	Properties	SP Solar Energy Solutions	SP Health & Mgmt Services	Consolidating and Eliminating Entries	Total Saint Peter’s Health & Management Services	Saint Peter’s Healthcare System, Inc	Saint Peter’s Foundation	SPHCS Physician Associates	Saint Peter’s Advanced Care	Saint Peter’s Speciality Physicians	Consolidating and Eliminating Entries	Total Saint Peter’s Health Care System
Assets																
Current assets:																
Cash and cash equivalents	$ 33,625	$ –	$ –	$ 33,625	$ 593	$ 18	$ –	$ –	$ 611	$ 499	$ 678	$ 136	$ –	$ 3	$ –	$ 35,552
Short-term investments	33,871	–	–	33,871	–	–	–	–	–	–	–	–	–	–	–	33,871
Patient accounts receivable, net	56,876	–	–	56,876	–	–	–	–	–	–	–	–	–	–	–	56,876
Assets whose use is limited, current portion	175,729	–	–	175,729	–	–	–	–	–	–	6,811	–	–	–	–	182,540
Supplies	7,269	–	–	7,269	–	–	–	–	–	–	–	–	–	–	–	7,269
Estimated third-party payor settlements, current portion	14,922	–	–	14,922	–	–	–	–	–	–	–	–	–	–	–	14,922
Due from related parties, current portion	7,909	–	–	7,909	49	–	–	–	49	110,415	–	1,496	–	–	(119,869)	–
Other current assets	15,049	2,929	–	17,978	–	2	–	–	2	3,254	709	275	–	2	–	22,220
Total current assets	345,250	2,929	–	348,179	642	20	–	–	662	114,168	8,198	1,907	–	5	(119,869)	353,250
Assets whose use is limited, less current portion	–	28,591	–	28,591	–	–	–	–	–	–	3,953	–	–	–	–	32,544
Property, plant, equipment and construction, net	156,371	–	–	156,371	2,702	6,008	–	–	8,710	–	–	1,012	–	–	–	166,093
Estimated third-party payor settlements, less current portion	1,830	–	–	1,830	–	–	–	–	–	–	–	–	–	–	–	1,830
Operating lease assets	6,310	–	–	6,310	–	–	–	–	–	7	–	4,183	–	–	–	10,500
Beneficial interest in Foundation	12,401	–	–	12,401	–	–	–	–	–	–	–	–	–	–	(12,401)	–
Due from related parties, less current portion	1,774	–	–	1,774	–	–	–	–	–	–	–	–	–	–	(1,774)	–
Investments in joint ventures and other assets	28,499	–	(24,027)	4,472	–	–	2,130	–	2,130	–	526	–	–	–	(500)	6,628
	$ 552,435	$ 31,520	$ (24,027)	$ 559,928	$ 3,344	$ 6,028	$ 2,130	$ –	$ 11,502	$ 114,175	$ 12,677	$ 7,102	$ –	$ 5	$ (134,544)	$ 570,845
Liabilities and net assets																
Current liabilities:																
Long-term debt, current portion	$ 9,286	$ –	$ –	$ 9,286	$ 70	$ 512	$ –	$ –	$ 582	$ –	$ –	$ -	$ –	$ –	$ –	$ 9,868
Accounts payable	30,153	506	–	30,659	–	–	–	–	–	3,245	–	729	–	–	–	34,633
Accrued expenses and other liabilities	38,947	–	–	38,947	8	–	–	–	8	4,881	175	946	–	96	1	45,054
Accrued interest	971	–	–	971	–	–	–	–	–	–	–	–	–	–	–	971
Operating lease liability, current portion	1,329	–	–	1,329	–	–	–	–	–	7	–	898	–	–	–	2,234
Estimated third-party payor settlements, current portion	15,029	–	–	15,029	–	–	–	–	–	–	–	–	–	–	–	15,029
Due to related parties	18,331	–	–	18,331	46	2,606	–	–	2,652	99,432	101	89,642	–	3,187	(213,345)	–
Total current liabilities	114,046	506	–	114,552	124	3,118	–	–	3,242	107,565	276	92,215	–	3,283	(213,344)	107,789
Long-term debt, less current portion	99,850	–	–	99,850	1,509	1,185	–	–	2,694	–	–	–	–	–	–	102,544
Operating lease liability, less current portion	4,981	–	–	4,981	–	–	–	–	–	–	–	3,285	–	–	–	8,266
Estimated third-party payor settlements, less current portion	1,421	–	–	1,421	–	–	–	–	–	–	–	–	–	–	–	1,421
Accrued pension liability	63,500	–	–	63,500	–	–	–	–	–	6,610	–	–	–	–	–	70,110
Other liabilities	29,005	18,127	(18,127)	29,005	–	–	–	–	–	–	–	–	–	–	–	29,005
Total liabilities	312,803	18,633	(18,127)	313,309	1,633	4,303	–	–	5,936	114,175	276	95,500	-	3,283	(213,344)	319,135
Commitments and contingencies																
Net assets:																
Net assets without donor restrictions	226,486	12,887	(5,900)	233,473	1,711	1,725	2,130	–	5,566	–	1,527	(88,398)	–	(3,278)	91,201	240,091
Net assets with donor restrictions	13,146	–	–	13,146	–	–	–	–	–	–	10,874	–	–	–	(12,401)	11,619
Total net assets	239,632	12,887	(5,900)	246,619	1,711	1,725	2,130	–	5,566	–	12,401	(88,398)	–	(3,278)	78,800	251,710
	$ 552,435	$ 31,520	$ (24,027)	$ 559,928	$ 3,344	$ 6,028	$ 2,130	$ –	$ 11,502	$ 114,175	$ 12,677	$ 7,102	$ –	$ 5	$ (134,544)	$ 570,845

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Saint Peter's Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets

(In Thousands)

Year Ended December 31, 2022

	Saint Peter's University Hospital & Subsidiaries				Saint Peter's Health & Management Services											
	Obligated Group Saint Peter's University Hospital	RAC	Consolidating and Eliminating Entries	Total Saint Peter's University Hospital & Subs	Properties	SP Solar Energy Solutions	SP Health & Mgmt Services	Consolidating and Eliminating Entries	Total Saint Peter's Health & Management Services	Saint Peter's Healthcare System, Inc	Saint Peter's Foundation	SPHCS Physician Associates	Saint Peter's Advanced Care	Saint Peter's Speciality Physicians	Consolidating and Eliminating Entries	Total Saint Peter's Health Care System
Revenue, gains and other support:																
Net patient service revenue	$ 543,006	$ –	$ –	$ 543,006	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 8,629	$ –	$ 155	$ –	$ 551,790
Other operating revenue	38,133	4,978	(4,425)	38,686	248	1,126	–	–	1,374	52,402	1,029	1,256	–	–	(56,837)	37,910
Net assets released from restriction	–	–	–	–	–	–	–	–	–	–	622	–	–	–	–	622
Total revenue, gains, and other support	581,139	4,978	(4,425)	581,692	248	1,126	–	–	1,374	52,402	1,651	9,885	–	155	(56,837)	590,322
Expenses:																
Salaries and wages	245,634	–	–	245,634	10	48	–	–	58	25,892	35	8,498	–	29	(25,892)	254,254
Variable agency labor	15,177	–	–	15,177	–	–	–	–	–	107	–	–	–	–	(107)	15,177
Resident and physician fees	13,133	–	–	13,133	–	–	–	–	–	43	–	2,631	–	128	(3,929)	12,006
Employee benefits	54,442	–	–	54,442	2	11	–	–	13	5,747	8	1,652	–	–	(5,747)	56,115
Supplies and other	151,854	3,780	(4,425)	151,209	13	106	–	–	119	20,789	1,941	3,803	–	26	(28,348)	149,539
Governmental taxes, fees, and assessments	19,490	–	–	19,490	10	–	–	–	10	–	–	–	–	–	–	19,500
Interest	7,005	–	–	7,005	80	275	–	–	355	–	–	–	–	–	–	7,360
Depreciation and amortization	25,747	–	–	25,747	75	418	–	–	493	–	–	287	–	–	–	26,527
Total expenses	532,482	3,780	(4,425)	531,837	190	858	–	–	1,048	52,578	1,984	16,871	–	183	(64,023)	540,478
Income (loss) from operations	48,657	1,198	–	49,855	58	268	–	–	326	(176)	(333)	(6,986)	–	(28)	7,186	49,844
Equity in net earnings of joint ventures and other income	541	–	–	541	–	–	933	–	933	–	–	–	–	–	(541)	933
Loss on sale of property, plant, and equipment	(8)	–	–	(8)	–	–	–	–	–	–	–	–	–	–	–	(8)
Net change in unrealized gains and losses on equity investments	(12,522)	(3,419)	–	(15,941)	–	–	–	–	–	–	(389)	–	–	–	–	(16,330)
Non-operating net periodic pension income	876	–	–	876	–	–	–	–	–	176	–	5	–	–	(176)	881
Loss on extinguishment of debt	(1,483)	–	–	(1,483)	–	–	–	–	–	–	–	–	–	–	–	(1,483)
Excess (deficiency) of revenue over expenses	36,061	(2,221)	–	33,840	58	268	933	–	1,259	–	(722)	(6,981)	–	(28)	6,469	33,837
Net change in unrealized gains and losses fixed income investments	(5,958)	(397)	–	(6,355)	–	–	–	–	–	–	(274)	–	–	–	–	(6,629)
Change in pension liability to be recognized in future periods	45,482	–	–	45,482	–	–	–	–	–	–	–	–	–	–	–	45,482
Forgiveness of debt	–	–	–	–	–	–	–	–	–	–	–	–	2,357	–	(2,357)	–
Equity transfer	–	–	–	–	–	–	(541)	–	(541)	–	–	–	–	–	541	–
Donated equipment and other	1,350	–	–	1,350	–	–	–	–	–	–	–	–	–	–	–	1,350
Increase (decrease) in net assets without donor restrictions	76,935	(2,618)	–	74,317	58	268	392	–	718	–	(996)	(6,981)	2,357	(28)	4,653	74,040
Net assets with donor restrictions:																
Restricted gifts and contributions and related items, net	(5)	–	–	(5)	–	–	–	–	–	–	1,289	–	–	–	–	1,284
Net change in beneficial interest in Foundation	(329)	–	–	(329)	–	–	–	–	–	–	–	–	–	–	329	–
Net assets released from restriction	–	–	–	–	–	–	–	–	–	–	(622)	–	–	–	–	(622)
Increase (decrease) in net assets with donor restrictions	(334)	–	–	(334)	–	–	–	–	–	–	667	–	–	–	329	662
Increase (decrease) in net assets	76,601	(2,618)	–	73,983	58	268	392	–	718	–	(329)	(6,981)	2,357	(28)	4,982	74,702
Net assets at beginning of year	163,031	15,505	(5,900)	172,636	1,653	1,457	1,738	–	4,848	–	12,730	(81,417)	(2,357)	(3,250)	73,818	177,008
Net assets at end of year	$ 239,632	$ 12,887	$ (5,900)	$ 246,619	$ 1,711	$ 1,725	$ 2,130	$ –	$ 5,566	$ –	$ 12,401	$ (88,398)	$ –	$ (3,278)	$ 78,800	$ 251,710

Note: The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

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