Consolidated Financial Statements and Supplementary Information

The Cooper Health System
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

The Cooper Health System

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2020 and 2019

Contents

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Report of Independent Auditors

Board of Trustees
The Cooper Health System

We have audited the accompanying consolidated financial statements of The Cooper Health System, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Cooper Health System at December 31, 2020 and 2019, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2020, 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

April 28, 2021

The Cooper Health System

Consolidated Balance Sheets

(In Thousands)

	December 31	
	2020	**2019**
Assets		
Current assets:		
Cash and cash equivalents	**$ 582,366**	$ 360,290
Current portion of assets limited as to use	**28,570**	28,374
Patient accounts receivable, net	**140,505**	146,719
Prepaid expenses and other current assets	**51,210**	49,882
Total current assets	**802,651**	585,265
Assets limited as to use:		
Internally designated by Board of Trustees	**275,629**	256,377
Externally designated for donor purposes	**62,619**	54,808
Externally designated under debt agreements, net of current portion	**3,874**	3,866
Externally designated – escrow agreement	**15,010**	15,011
Designated under self-insurance programs, net of current portion	**30,927**	25,790
Assets limited as to use, net of current portion	**388,059**	355,852
Property, plant, and equipment, net	**622,073**	600,228
Operating lease assets, net	**64,655**	56,513
Other assets, net	**14,083**	12,997
Total assets	**$ 1,891,521**	$ 1,610,855

	December 31	
	2020	**2019**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 42,259**	$ 56,092
Accrued expenses	**183,647**	143,770
Current portion of estimated settlements due to third-party payors	**45,342**	342
Current portion of self-insured reserves	**49,114**	26,363
Current portion of long-term debt	**8,220**	8,226
Current portion of operating lease liability	**19,559**	15,239
Line of credit advances	**41,000**	41,000
Total current liabilities	**389,141**	291,032
Estimated settlements due to third-party payors, net of current portion	**108,985**	11,145
Accrued retirement benefits	**20,747**	19,032
Self-insured reserves, net of current portion	**70,104**	62,303
Long-term debt, net of current portion	**277,065**	286,189
Operating lease liability, net of current portion	**46,209**	42,442
Deferred revenue and other liabilities	**28,513**	21,062
Total liabilities	**940,764**	733,205
Net assets:		
Without donor restrictions	**906,385**	829,493
With donor restrictions	**44,372**	48,157
Total net assets	**950,757**	877,650
Total liabilities and net assets	**$ 1,891,521**	$ 1,610,855

See accompanying notes.

The Cooper Health System

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

	Year Ended December 31	
	2020	**2019**
Net assets without donor restrictions		
Revenue:		
Net patient service revenue	**$ 1,372,538**	$ 1,355,977
Other revenue	**173,055**	83,435
Total revenue	**1,545,593**	1,439,412
Expenses:		
Salaries, wages, and fringe benefits	**882,072**	819,345
Supplies and other	**512,233**	474,674
Malpractice	**39,000**	30,410
Depreciation and amortization	**53,470**	55,797
Interest	**13,391**	13,622
Total expenses	**1,500,166**	1,393,848
Operating income	**45,427**	45,564
Nonoperating gains and (losses):		
Investment income	**13,034**	25,512
Net change in unrealized gains and losses	**17,160**	13,183
Gain on forgiveness of note payable	**–**	6,515
Change in value of equity method investments	**648**	998
Net periodic pension cost	**(1,738)**	(14,716)
Change in fair value of interest rate swap agreements	**(6,999)**	(1,526)
Other losses	**(2,535)**	(5,129)
Excess of revenue over expenses	**64,997**	70,401
Other changes in net assets without donor restrictions:		
Change in pension benefit obligation	**(4,977)**	11,439
Contributions received and expended for capital acquisitions	**14,815**	13,365
Net change in unrealized gains and losses on fixed-income other-than-trading securities	**2,057**	2,928
Increase in net assets without donor restrictions	**76,892**	98,133

The Cooper Health System

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

	Year Ended December 31 2020	2019
Net assets with donor restrictions		
Contributions, gifts, and special events, net of fundraising expenses	**$ 4,657**	$ 4,451
Income from investments	**542**	1,009
Net realized and unrealized gains on investments	**525**	1,844
Net assets released from restrictions for operating purposes	**(9,509)**	–
(Decrease) increase in net assets with donor restrictions	**(3,785)**	7,304
Increase in net assets	**73,107**	105,437
Net assets, at beginning of year	**877,650**	772,213
Net assets, at end of year	**$ 950,757**	$ 877,650

See accompanying notes.

The Cooper Health System

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31 2020	2019
Operating activities		
Increase in net assets	**$ 73,107**	$ 105,437
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in pension benefit obligation	**4,977**	(11,439)
Change in fair value of interest rate swap agreements	**6,999**	1,526
Depreciation and amortization	**53,470**	55,797
Net realized and unrealized gains and losses on investments	**(23,734)**	(30,690)
Change in value of equity method investments	**(648)**	(998)
Gain on forgiveness of note payable	**–**	(6,515)
Contributions for capital acquisitions	**(14,815)**	(13,365)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**6,214**	(7,859)
Prepaid expenses and other assets	**(1,821)**	(1,886)
Accounts payable and accrued expenses	**26,044**	40,422
Self-insured reserves and accrued retirement benefits	**27,290**	19,426
Estimated settlements with third-party payors	**142,840**	5,585
Deferred revenue and other liabilities	**452**	5,018
Net cash provided by operating activities	**300,375**	160,459
Investing activities		
Purchases of assets limited as to use	**(8,497)**	(11,570)
Capital expenditures, net	**(76,329)**	(122,773)
Net cash used in investing activities	**(84,826)**	(134,343)
Financing activities		
Repayments of long-term debt	**(8,116)**	(7,876)
Proceeds from long-term debt	**–**	3,866
Repayments of line of credit advances	**–**	(1,837)
Proceeds from line of credit advances	**–**	41,000
Contributions for capital acquisitions	**14,815**	13,365
Net cash provided by financing activities	**6,699**	48,518
Net increase in cash and cash equivalents and restricted cash and restricted cash equivalents	**222,248**	74,634
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	**387,990**	313,356
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	**$ 610,238**	$ 387,990
Supplemental disclosure of cash flow information		
Cash paid for interest	**$ 13,484**	$ 14,406

See accompanying notes.

1. Organization

The Cooper Health System (Health System) is a New Jersey not-for-profit organization. The Health System is comprised of three operating divisions: The Cooper University Hospital (CUH), Cooper University Physicians (UP) and Cooper Care Alliance (CCA). The CUH division includes the operations of Cooper Hospital/University Medical Center and The Children's Regional Hospital at Cooper, as well as programs focusing on ambulatory diagnostic and treatment services, wellness and prevention, and many other health services. The UP division consists primarily of the services provided by the employed medical staff and related physician practices. The CCA division consists primarily of the services provided by employed community-based medical professionals who do not have academic faculty appointments.

The Health System also controls certain other entities which are included in the accompanying consolidated financial statements. Such entities include The Cooper Cancer Center (CCC); Cooper HealthCare Services, Inc. (CHCS); Cooper Medical Services, Inc. (CMS); and The Cooper Foundation (the Foundation). CCC owns and operates the cancer building which is leased to CUH. CHCS is a holding company, which is the sole shareholder of Cooper HealthCare Properties, Inc. (CHCP) and C&H Collection Services (C&H). CHCP manages a number of medical office buildings for the Health System, and C&H provides collection services primarily to the Health System. CMS owns and manages a medical office building on the campus of the Health System. The Health System appoints all of the members of the Foundation's Board of Trustees and exercises certain control over the Foundation, which promotes the charitable, scientific, and educational programs and policies of the Health System.

In July 2016, the Health System entered into a service agreement with All Care Health Alliance, LLC (ACO), a New Jersey limited liability company participating in the Medicare Shared Saving Program, coordinated care, shared savings, bundled payment, and other similar programs or initiatives with or implemented by government payors. The Health System is the sole member of ACO. There was no activity for ACO during 2020 or 2019.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Health System and its controlled affiliates and subsidiaries as described above. All significant 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.

The entities comprising the Health System provide various inter-entity services to their affiliated entities and the Health System parent company. The services consist of certain financial planning, general accounting, and other management 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.

COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. Federal, state and local government policies resulted in a substantial portion of the population remaining at home and forced the closure of certain businesses, which had an impact on the Health System's patient volumes and revenues for most services. Effective March 27, 2020, a New Jersey executive order was issued to suspend all non-essential elective surgeries or invasive procedures, which resumed at different dates during the year ended December 31, 2020. During this time, the Health System has also experienced significant price increases in, and utilization of, medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic.

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 coronavirus, and shall reimburse the recipient for health care related expenses and/or lost revenues attributable to coronavirus and are not required to be repaid except where Provider Relief Funds received exceed the actual amounts of eligible health care related expenses and/or lost revenues as defined by the U.S. Department of Health and Human

2. Summary of Significant Accounting Policies (continued)

Services (HHS), provided the recipients attest to and comply with the terms and conditions. HHS distributions from the Provider Relief Fund include general distributions and targeted distributions, to support hospitals in high impact areas and rural providers, for service periods through December 31, 2020, and, if necessary, through June 30, 2021.

HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs) regarding the Provider Relief Fund distributions. Additionally, on December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The 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. The CAA clarified the methods available to calculate lost revenues 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.

Through December 31, 2020, the Health System received approximately $74,953 in funding and recognized revenue of $56,153 related to the Provider Relief Fund, which is included in other revenue in the accompanying 2020 consolidated statement of operations and changes in net assets. The Health System received approximately $14,037 in funding under the CARES Act Coronavirus Relief Fund–Camden County Relief Fund grant (Camden County Relief Fund) and recognized applicable revenue of approximately $10,537 which is included in other revenue in the accompanying 2020 consolidated statement of operations and changes in net assets. The Camden County Relief Fund is to be used for necessary expenditures incurred due to the public health emergency with respect to COVID-19. The Health System also received approximately $4,108 in funding under the CARES Act Coronavirus Relief Fund–Camden County Tent Reimbursement grant (Camden County Tent Reimbursement) and recognized applicable revenue of approximately $4,093 which is included in other revenue in the accompanying 2020 consolidated statement of operations and changes in net assets. The Camden County Tent Reimbursement was for the purchase of a temperature-controlled storage tent during the COVID-19 public health emergency. The recognized revenue has been determined based on applicable accounting guidance, Provider Relief Fund Post-Payment Notices of Reporting Requirements and FAQs that the Health System has interpreted as being applicable to the accompanying consolidated financial statements. Subsequent to December 31, 2020, a Post-Payment Notice of Reporting Requirements and additional FAQs have been released which have been considered in management's analysis. The unrecognized amount of the Health System's Provider Relief Fund receipts is reported in the

2. Summary of Significant Accounting Policies (continued)

current portion of estimated settlement due to third-party payors in the accompanying consolidated balance sheets at December 31, 2020. Management will continue to monitor communications from HHS and governmental agencies applicable to these programs and related reporting and data submission requirements.

The Health System has applied for reimbursement for qualifying expenditures under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. Through December 31, 2020, the Health System received approximately $7,503 in FEMA reimbursement payments which are recognized as other revenue for reimbursement of operating costs. The Health System is also applying for additional reimbursement for other amounts from FEMA and anticipates receiving $2,500 from FEMA for the initial submission as the federal cost share level was increased from 75% to 100% in February 2021.

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 Health System received approximately $118,889 of expedited payments for future services. The advance was initially scheduled to be recovered by Medicare commencing August 2020. On October 1, 2020, the terms of the CMS accelerated payment program were revised such that the recovery of advances will commence in April 2021 (25% of submitted claims will be withheld for 11 months) and extend through October 2022 (50% of submitted claims will be withheld for 6 months), with any remaining balance due at that time and subject to interest. CMS advances under this program are included as a contract liability in estimated settlements due to third-party payors, current ($45,000) and noncurrent ($73,889) at December 31, 2020 in the accompanying consolidated balance sheets.

Under the CARES Act, the Health System has elected to defer the payment of the employer portion of social security taxes totaling approximately $18,637 that otherwise would have been due between March 27, 2020 and December 31, 2020. The CARES Act requires that 50% of the total deferred amount be paid by December 31, 2021, with the remaining balance due by December 31, 2022. The amount expected to be paid in 2021 is recorded as accrued expenses and the remaining balance expected to be paid in 2022 is included in other noncurrent liabilities on the accompanying consolidated balance sheets at December 31, 2020.

2. Summary of Significant Accounting Policies (continued)

Under the CARES Act, the Health System is eligible to receive an employee retention credit, which is a credit against the employer portion of Social Security taxes for certain wages between March 13, 2020 and December 31, 2020. The CAA extended the employee retention credit through June 30, 2021, while also modifying the provisions of the credit. The Health System is currently evaluating the potential impact of the retention credit and accordingly no amounts were recorded in 2020.

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

Use of Estimates

The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles has required management to make estimates and assumptions that affect the reported amounts of assets, such as estimates affecting patient accounts receivable, and liabilities, such as estimated settlements due to third-party payors, self-insured reserves, and accrued retirement benefits, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenues and expenses reported during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include various checking and savings accounts and all short-term funds with initial maturity dates of three months or less, held on deposit with various lending institutions, excluding cash equivalents classified as assets limited as to use designated by the Board of Trustees, donors and for self-insurance programs as such holdings are within investment portfolios. The Health System does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

The following is a reconciliation of amounts reported on the consolidated balance sheets to the statement of cash flows as of and for the year ended December 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	**$ 582,366**	$ 360,290
Assets limited as to use: cash and cash equivalents	**27,872**	27,700
Total cash and cash equivalents and restricted cash and restricted cash equivalents	**$ 610,238**	$ 387,990

Patient Accounts Receivable

Patient accounts receivable for which the Health System receives payment under prospective payment formulae, negotiated rates, or cost reimbursement, which cover the majority of patient services, are stated at the estimated net amount receivable from such payors, which are generally less than the established billing rates of the Health System, inclusive of provisions for variable consideration such as contractual adjustments, discounts, implicit price concessions and other reductions to the Health System's standard charges. An allowance for doubtful accounts is recorded only from a delinquency of patient accounts that were considered collectible at the time patient care was provided.

Supplies

Supplies, used in the provision of patient care, are stated at the lower of cost or net realizable value, determined by the average cost valuation method and are included in prepaid expenses and other current assets on the consolidated balance sheets.

Derivative Financial Instruments

The Health System has entered into interest rate swap agreements with the intent of mitigating cash flow risk relating to changes in the variable interest rates for certain outstanding debt and prospective transactions. The swap agreements are recorded at fair value on the accompanying consolidated balance sheets within deferred revenue and other liabilities. The net changes in the fair value of these swap agreements are recorded in nonoperating gains and losses on the

2. Summary of Significant Accounting Policies (continued)

accompanying consolidated statements of operations and changes in net assets, and the net monthly cash exchange under the contract is reflected within interest expense.

Fair Value of Financial Instruments

Financial instruments consist of cash equivalents, patient accounts receivable, assets limited as to use, notes receivable, accounts payable and accrued expenses, interest rate swaps, notes payable, and long-term debt. The carrying amounts reported on the accompanying consolidated balance sheets for cash equivalents, patient accounts receivable, notes receivable, accounts payable and accrued expenses, and notes payable approximate fair value. Management's estimate of the fair value of other financial instruments is described elsewhere in the notes to the consolidated financial statements.

Assets Limited as to Use and Investment Income

Assets limited as to use include internally designated assets set aside by the Board of Trustees (the Board), externally designated assets held in escrow (see Note 12) or held by trustees under debt agreements (including debt service interest, principal, and reserve funds and funds for future capital expenditures), assets for self-insurance programs (workers' compensation and for medical professional and general liability), and funds related to donor restrictions. Amounts set aside by the Board are designated for operations, future capital improvements, and other contingencies, as needed. The Board retains control over the internally designated assets and may, at its discretion, subsequently use such assets for other purposes.

Amounts internally designated by the Board and externally designated by donors are classified as trading securities and all other assets limited as to use are deemed to be other than trading. Amounts required to meet current liabilities of the Health System have been classified as current assets in the consolidated financial statements.

Assets limited as to use consist of marketable securities and alternative investments. Marketable securities are carried at fair value based on quoted market prices. Alternative investments consist of interests in funds of funds, structured as limited partnerships. Investment return, net of amounts capitalized, from assets limited as to use, consisting of interest and dividend income, realized gains and losses, and the change in unrealized gains and losses on equities and trading securities, including equity in income on alternative investments, are presented as nonoperating gains and

2. Summary of Significant Accounting Policies (continued)

losses. Investment return is reported net of external and direct internal investment expenses, such as trustee fees and investment fund manager fees. The net change in unrealized gains and losses on investments which are classified as other-than-trading fixed income securities is reported as a separate component of the change in net assets without donor restrictions.

Alternative investments (nontraditional, not readily marketable asset classes), which are structured such that the Health System holds limited partnership interests, are reported on the accompanying consolidated balance sheets based upon net asset values derived from the application of the equity method of accounting. Generally, net asset value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. Individual investment holdings in alternative investments of the Health System may, in turn, include investments in both marketable and nonmarketable securities.

Valuations of these alternative investments and, therefore, the Health System's holdings, may be determined by the investment manager or general partner. Values may be based on historical cost appraisals or other estimates that require varying degrees of judgment. The Health System uses the latest available information to value these alternative investments. The alternative investments may indirectly expose the Health System to securities lending; short sales of securities; and trading in futures and forward contracts, options, and other derivative products. Alternative investments also have liquidity restrictions under which the Health System's capital may be divested only at specified times.

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 financial statements of the investees are audited annually by independent auditors. The Health System also retains the services of an independent investment consultant to provide specialized investment oversight. There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change by material amounts in the near term.

2. Summary of Significant Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment that were purchased are recorded at cost. Contributed assets are recorded at fair value at the date of donation. Depreciation is provided over the estimated useful lives of the assets of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest costs incurred on borrowed funds, net of related interest income during the period of construction of capital assets, is capitalized as a component of acquiring the assets.

Gifts or grants for the purchase of long-lived assets such as land, buildings, or equipment are excluded from the excess of revenue over expenses. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Health System continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Health System uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset, or determines the fair value of the long-lived asset in measuring whether the long-lived asset is recoverable. Management believes that no revision to the remaining useful lives or write-down of long-lived assets was required as of December 31, 2020 or 2019.

Self-Insured Reserves

The Health System is self-insured for the majority of its risks resulting from medical malpractice, employee health, general liability, and the first layer of workers' compensation. A portion of the losses are covered with high-deductible commercial insurance policies and through trust funds. The Health System accrued liabilities which include estimates of the ultimate costs for both reported claims and claims incurred but not reported for each of the risks.

2. Summary of Significant Accounting Policies (continued)

Charity Care

The Health System has a policy of providing charity care to patients who are unable to pay based on federal poverty income guidelines. All charity care patients are separately identified and related charges are reduced based on financial information obtained from the patient. Since management does not expect payment for charity care, the charges are excluded from net patient service revenue.

Advertising Costs

The Health System expenses advertising cost as incurred. In 2020 and 2019, the Health System incurred advertising expenses of $8,293 and $5,938, respectively, which are included in supplies and other expense on the consolidated statements of operations and changes in net assets.

Excess of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include the 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 net change in unrealized gains and losses on fixed income other-than-trading securities to the extent such losses are considered temporary, changes in pension benefit obligation, and contributions received and expended for capital acquisitions (including assets acquired using donor-restricted contributions or grant funds that were to be used for the purposes of acquiring such assets). Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses and included within operating income.

Classification of Net Assets

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

2. Summary of Significant Accounting Policies (continued)

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

The Health System recognizes government grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other revenue.

Income Taxes

The Health System, CCC, CMS, and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code and the laws of the state of New Jersey. CHCS is a for-profit entity and, as such, is subject to federal and state income taxes; however, CHCS's provision for income taxes is not material to the Health System's consolidated results of operations.

Recent Accounting Pronouncements

Adopted Changes

The Financial Accounting Standards Board (FASB) amended certain guidance related to various disclosures in Accounting Standards Update No. (ASU) 2018-13, *Technical Corrections and Improvements to Financial Instruments –Overall (Subtopic 825-10) –Recognition and Measurement of Financial Assets and Financial Liabilities,* which included several disclosure changes involving transfers between the fair value levels and other updates related to fair value Level 3 investments. ASU 2018-13 also requires entities that use the practical expedient to measure the fair value of certain investments at their net asset values to disclose (1) the timing of liquidation of an investee's assets and (2) the date when redemption restrictions will lapse, but only if the investee has communicated this information to the entity or announced it publicly. ASU 2018-13 became effective for the Health System for annual periods beginning after December 15, 2019. The adoption of ASU 2018-13 did not have a material impact on the Health System's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Pending Changes

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

The amendments in ASU 2016-13 are effective for the Health System for fiscal years beginning after December 15, 2022. The Health System is in the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

The FASB has amended certain guidance related to various disclosures in ASU 2018-14, *Compensation–Retirement Benefits –Defined Benefit Plans –General (Subtopic 715-20) – Disclosure Framework –Changes to the Disclosure Requirements for Defined Benefit Plans*. The guidance in ASU 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Among other changes, ASU 2018-14 eliminates the required disclosure for all sponsors of defined benefit plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. ASU 2018-14 has an effective date for fiscal years ending after December 15, 2021. The Health System has not completed the process of evaluating the impact of ASU 2018-14 on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this

2. Summary of Significant Accounting Policies (continued)

standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for the Health System for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. The Health System is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

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 Health 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 include provisions for variable consideration (reductions to revenue) for retroactive revenue adjustments including adjustments due to settlement of ongoing and future audits, reviews, and investigations.

The Health 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 outpatient revenue as well as high-balanced accounts regardless of payor class. Based on historical collection trends and other analyses, the Health 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 Health 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 Health System's standard charges. The Health

3. Net Patient Service Revenue (continued)

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 Health System's discount policies and historical experience. For uninsured and underinsured patients who do not qualify for charity care, the Health 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 Health System's historical collection experience for applicable patient portfolios. Under the Health System's charity care policy, a patient who has no insurance or is underinsured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of charges or the Medicaid diagnostic-related group for inpatient and (2) a discount from Medicaid fee-for-service rates for outpatient. Patients who meet the Health System's criteria for charity care are provided care without charge; such amounts are not reported as revenue.

Generally, the Health 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 Health System. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The Health 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 Health System's outpatient and ambulatory care centers. The Health 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 visit.

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

(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

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, 2020 and 2019, changes in the Health 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, 2020 and 2019 was not significant.

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

Net patient service revenue recognized in the period from these major payor sources, based on primary insurance designation, is as follows:

	Year Ended December 31	
	2020	**2019**
Medicare	**$ 398,940**	$ 425,258
Medicaid	**323,608**	299,974
Commercial carriers and health maintenance organizations	**586,809**	572,500
State subsidies *(Note 4)*	**19,318**	22,632
Self-pay	**43,863**	35,613
	$ 1,372,538	$ 1,355,977

(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

Net patient service revenue by line of business is as follows:

	Year Ended December 31 2020	2019
Hospital	**$ 1,064,990**	$ 1,041,043
Physician services	**307,044**	314,934
Cooper Care Alliance	**504**	–
	$ 1,372,538	$ 1,355,977

Accounts receivable is comprised of the following components:

	December 31 2020	2019
Patient receivables	**$ 124,271**	$ 132,439
Contract assets	**16,234**	14,280
	$ 140,505	$ 146,719

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 Health System may not have the right to bill.

Third-Party Payment Programs

The Health System has agreements with third-party payors that provide for payments at amounts different from established charges. The CUH's inpatient acute care services and the UP's professional services for Medicare and Medicaid program beneficiaries and the CUH's outpatient services for Medicare program beneficiaries are primarily paid at prospectively determined rates per discharge or visit or based upon fee schedules. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Health System is reimbursed for CUH cost reimbursable and other pass-through items, such as bad debts and paramedical education, from Medicare and CUH outpatient services for Medicaid at tentative rates with final settlements determined after submission of annual cost reports by the Health System

3. Net Patient Service Revenue (continued)

and audits thereof by the programs' fiscal intermediaries. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. The Health System's cost reports through fiscal year 2017 have been settled by Medicare and the cost report for fiscal year 2019 has been submitted. In the opinion of management, adequate provision has been made for any adjustment which may result from the final settlement of these reports, appeal items, or other retroactive changes.

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 Health 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.

During 2020 and 2019, the Health System revised estimates made in prior years to reflect the passage of time and the availability of more recent information, such as accounts receivable payor collection trends and cost report settlement activity, associated with the related revenue estimates. The net effect of the Health System's revisions to prior year estimates resulted in net patient service revenue increasing by approximately $3,519 and $1,690 for the years ended December 31, 2020 and 2019, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation, and noncompliance could subject the Health System to significant regulatory action, including fines and penalties. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Health System believes that it is in compliance with applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential noncompliance that could have a material adverse effect on the accompanying consolidated financial statements. Compliance

(Dollars in Thousands)

3. Net Patient Service Revenue (continued)

with such laws and regulations can be subject to future government review and interpretations as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Health System has a corporate compliance program to monitor compliance with Medicare and Medicaid laws and regulations.

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 presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Health System. Additionally, certain payors' payment rates for various years have been appealed by the Health System. If the appeals are successful, additional income applicable to those years might be realized.

The Health System has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge or visit, discounts from established charges, and prospectively determined daily rates. These agreements have retrospective audit clauses allowing the payor to review and adjust claims subsequent to initial payment.

The Health System's service area is southern New Jersey. The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net accounts receivable from patients and third-party payors was as follows:

	December 31	
	2020	**2019**
Commercial	**21%**	24%
Health maintenance organizations	**48**	43
Medicare	**10**	15
Blue Cross	**15**	13
Self-pay (including accounts which may ultimately be charity care)	**3**	3
Medicaid	**3**	2
	100%	100%

4. Charity Care and State Subsidies

The Health System provides care to those who meet the State of New Jersey Public Law 1992 (Chapter 160) charity care criteria. Charity care is provided without charge or at amounts less than its established charges. The Health System maintains records to identify and monitor the level of charity care it provides. The cost of services provided and supplies furnished under its charity care policy is estimated using internal cost data and is calculated based on the Health System's cost accounting system. The total direct and indirect amount of charity care provided, determined on the basis of cost, was $26,115 and $29,630 for the years ended December 31, 2020 and 2019, respectively.

The Health System's patient acceptance policy is based upon its mission statement and its charitable purposes. Accordingly, the Health System accepts all patients regardless of their ability to pay. This policy results in the Health System's assumption of significant patient receivable credit risks. For patients who were determined by the Health System to have the ability to pay but did not, the expected uncollected amounts are classified as an implicit price concession which directly reduces net patient service revenue. Distinguishing between charity care and implicit price concessions is difficult, in part because services are often rendered prior to the Health System's full evaluation of the patient's ability to pay.

Chapter 160 established the Charity Care Subsidy Fund to provide a mechanism and funding source to compensate certain hospitals for charity care and other services. These amounts are subject to change from year to year based on available state budget amounts and allocation methodologies.

Effective July 1, 2014, the State implemented the Delivery System Reform Incentive Payment Pool (DSRIP). DSRIP was available to certain hospitals that were able to establish performance improvement activities in one of eight specified clinical improvement areas. CUH qualified under the Diabetes Long-Term Complications Admission Rate metric. Following the initial project period, the subsidy can be adjusted positively or negatively depending on the performance during a fiscal period. Such adjustments are processed prospectively. DSRIP concluded June 30, 2020. The State implemented a transitional program effective July 1, 2020 through June 30, 2021; however, no amounts were received or recorded in 2020.

(Dollars in Thousands)

4. Charity Care and State Subsidies (continued)

The Health System recorded the following amounts from these sources as net patient service revenue:

	Year Ended December 31	
	2020	**2019**
Charity Care Subsidy Fund	**$ 17,115**	$ 14,668
Delivery System Reform Incentive Payment Pool	**2,203**	7,964
	$ 19,318	$ 22,632

The Health System expects to receive approximately $7,000 in 2021 for the first of two payments under the transitional program succeeding DSRIP based on utilization data for the period from July 1, 2020 to September 30, 2020; the second payment will be determined by the State based on utilization data for the period from October 1, 2020 to March 31, 2021.

5. Assets Limited as to Use, Investment Income, and Liquidity

The composition of assets limited as to use, primarily at fair value, is as follows:

	December 31	
	2020	**2019**
Internally designated by Board of Trustees:		
Cash and cash equivalents	**$ 6,546**	$ 6,572
U.S. equity securities	**81,649**	66,386
U.S. Treasury securities	**68,315**	6,735
Governmental asset-backed securities	**–**	16,922
Mutual funds	**7,247**	6,572
Alternative investments, at equity method value	**22,714**	21,478
Corporate bonds	**89,158**	131,712
	$ 275,629	$ 256,377

(Dollars in Thousands)

5. Assets Limited as to Use, Investment Income, and Liquidity (continued)

	December 31	
	2020	**2019**
Externally designated for donor purposes:		
Cash and cash equivalents	**$ 1,177**	$ 374
U.S. equity securities	**38,337**	33,095
U.S. Treasury securities	**6,466**	11,132
Governmental asset-backed securities	**216**	735
Corporate bonds	**16,423**	9,472
	$ 62,619	$ 54,808
Externally designated – under debt agreements:		
Cash and cash equivalents	**$ 12,862**	$ 12,689
Less current portion	**8,988**	8,823
	$ 3,874	$ 3,866
Assets held under debt agreements are maintained for the following purposes:		
Debt service interest funds	**$ 3,728**	$ 3,856
Debt service principal funds	**5,260**	4,966
Debt service reserve funds	**265**	264
Capital addition funds	**3,609**	3,603
	$ 12,862	$ 12,689
Externally designated – escrow agreement *(Note 12)*:		
Cash equivalents	**$ 15,010**	$ 15,011
Designated under self-insurance programs:		
Cash and cash equivalents	**$ 1,009**	$ 2,053
U.S. Treasury securities	**6,695**	5,186
Governmental asset-backed securities	**26**	740
Mutual funds	**11,048**	14,008
Corporate bonds	**31,731**	23,354
	50,509	45,341
Less current portion	**19,582**	19,551
	$ 30,927	$ 25,790

(Dollars in Thousands)

5. Assets Limited as to Use, Investment Income, and Liquidity (continued)

Investment return, net of amounts capitalized, and net change in unrealized gains and losses are comprised of the following:

	Year Ended December 31	
	2020	**2019**
Nonoperating gains and losses:		
Interest and dividend income	**$ 9,042**	$ 12,777
Net realized gains on sales of securities	**3,992**	12,735
Investment income	**13,034**	25,512
Net change in unrealized gains and losses on equities and trading securities	**17,160**	13,183
Investment return included in non-operating gains and (losses)	**30,194**	38,695
Net change in unrealized gains and losses on other-than-trading fixed income securities	**2,057**	2,928
Total investment return	**$ 32,251**	$ 41,623

(Dollars in Thousands)

5. Assets Limited as to Use, Investment Income, and Liquidity (continued)

Liquidity Resources

The table below presents financial assets and liquidity resources available for general expenditures within one year:

	December 31	
	2020	**2019**
Financial assets available as reported on the accompanying balance sheets:		
Cash and cash equivalents	**$ 582,366**	$ 360,290
Net patient accounts receivable	**140,505**	146,719
Current portion of assets limited to use	**28,570**	28,374
Assets limited as to use, net of current portion	**388,059**	355,852
Total financial assets available	**1,139,500**	891,235
Less amounts not available to be used within one year for general expenditures:		
Assets limited as to use:		
Externally designated for donor purposes	**62,619**	54,808
Externally designated under debt agreements	**12,862**	12,689
Externally designated – escrow agreement	**15,010**	15,011
Designated under self-insurance programs	**50,509**	45,341
Financial assets available and liquid to meet general expenditures within one year	**$ 998,500**	$ 763,386

The Health System has certain Board designated assets limited to use which are available for general expenditure. The Health System has other assets limited to use for donor-restricted purposes, debt agreements, self-insurance programs, and escrow agreements. As part of the Health System's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. Assets which are not available for general expenditure within one year in the normal course of operations are excluded from the total liquidity balance in the table above.

5. Assets Limited as to Use, Investment Income, and Liquidity (continued)

Additionally, the Health System maintains lines of credit totaling $130,000, as described in Note 8. As of December 31, 2020 and 2019, there was $41,000 outstanding on the line of credit.

As of December 31, 2020, the Health System was in compliance with debt covenants.

Fair Value

The fair value framework establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1 – defined as observable inputs such as quoted prices in active markets; Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 – defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

In determining fair value, the Health System uses the market approach. This approach utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Health System records its alternative investments held within assets limited as to use based upon the equity method of accounting and, accordingly, such assets are excluded from the fair value table below.

(Dollars in Thousands)

5. Assets Limited as to Use, Investment Income, and Liquidity (continued)

The following table presents the fair value hierarchy for the Health System's financial assets measured at fair value on a recurring basis which include cash and cash equivalents, assets limited as to use (excluding alternative investments of $22,714 and $21,478 at December 31, 2020 and 2019, respectively), and the mark-to-market position of interest rate swap arrangements:

	Total	Level 1	Level 2	Level 3
December 31, 2020				
Assets				
Cash and cash equivalents	$ 618,970	$ 618,970	$ –	$ –
U.S. equity securities	119,986	119,986	–	–
Mutual funds	18,295	18,295	–	–
U.S. Treasury securities	81,476	81,476	–	–
Governmental asset-backed securities	242	–	242	–
Corporate bonds	137,312	–	137,312	–
Total assets measured at fair value	$ 976,281	$ 838,727	$ 137,554	$ –
Liabilities				
Interest rate swaps	$ 11,272	$ –	$ 11,272	$ –
Total liabilities measured at fair value	$ 11,272	$ –	$ 11,272	$ –

(Dollars in Thousands)

5. Assets Limited as to Use, Investment Income, and Liquidity (continued)

	Total	Level 1	Level 2	Level 3
December 31, 2019				
Assets				
Cash and cash equivalents	$ 396,989	$ 396,989	$ –	$ –
U.S. equity securities	99,481	99,481		
Mutual funds	20,580	20,580	–	–
U.S. Treasury securities	23,053	23,053	–	–
Governmental asset-backed securities	18,397	–	18,397	–
Corporate bonds	164,538	–	164,538	–
Total assets measured at fair value	$ 723,038	$ 540,103	$ 182,935	$ –
Liabilities				
Interest rate swaps	$ 4,273	$ –	$ 4,273	$ –
Total liabilities measured at fair value	$ 4,273	$ –	$ 4,273	$ –

The Health System determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets in active markets.

The Health System determines the estimated fair value for its Level 2 securities using the following methods: quoted prices for similar assets/liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, noncurrent prices, high variability over time), inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves, default rates), and inputs that are derived principally from or corroborated by other observable market data.

(Dollars in Thousands)

6. Property, Plant, and Equipment

	December 31 2020	December 31 2019	Depreciable Life
Land	**$ 8,124**	$ 5,716	
Land improvements	**1,345**	1,320	5–25 years
Buildings and building improvements	**679,961**	585,093	10–40 years
Fixed equipment	**77,032**	90,417	10–20 years
Major movable equipment	**488,311**	449,361	5–20 years
	1,254,773	1,131,907	
Less accumulated depreciation	**(716,355)**	(673,152)	
	538,418	458,755	
Construction-in-progress	**83,655**	141,473	
	$ 622,073	$ 600,228	

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to $54,485 and $56,901, respectively. Property, plant, and equipment, net included $3,540 and $4,498 of assets held under finance leases at December 31, 2020 and 2019, respectively.

The Health System capitalized net interest expense of $679 for the year ended December 31, 2019 (none in 2020).

7. Leases

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

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

(Dollars in Thousands)

7. Leases (continued)

The following schedules summarize information related to the lease assets and liabilities as of and for the year ended December 31, 2020 and 2019:

	2020	2019
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	**$ 958**	$ 814
Interest on lease liabilities	**1,594**	1,693
Operating lease cost	**17,946**	16,330
Short-term lease cost	**15,475**	9,860
Total lease cost	**$ 35,973**	$ 28,697
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	**$ 3,540**	$ 4,498
Lease liability – finance leases	**6,960**	7,467
Right-of-use assets – operating leases	**64,655**	56,513
Lease liability – operating leases	**65,768**	57,681
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	**$ 1,594**	$ 1,693
Operating cash flows from operating leases	**17,895**	16,065
Financing cash flows from finance leases	**507**	408
Right-of-use assets obtained in exchange for new finance lease liabilities	**$ –**	$ –
Right-of-use assets obtained in exchange for new operating lease liabilities	**25,050**	3,679
Weighted average remaining lease term – finance leases	**9.00**	12.00
Weighted average remaining lease term – operating leases	**4.38**	4.72
Weighted average discount rate – finance leases	**1.65%**	3.04%
Weighted average discount rate – operating leases	**1.16%**	1.41%

(Dollars in Thousands)

7. Leases (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, net and lease liabilities are recorded in operating lease liability, current and noncurrent in the accompanying consolidated balance sheets.

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying consolidated balance sheet at December 31, 2020:

	Finance Leases	Operating Leases
2021	$ 2,101	$ 19,273
2022	2,101	17,726
2023	2,101	12,227
2024	2,101	7,983
2025	2,101	5,759
Thereafter	3,460	5,721
Total lease payments	13,965	68,689
Less imputed interest	(7,005)	(2,921)
Total lease obligation	6,960	65,768
Less current portion	(507)	(19,559)
Long-term portion	$ 6,453	$ 46,209

On April 12, 2006, the Health System executed an agreement to lease ground owned by the Health System to the Camden County Improvement Authority (CCIA), upon which a parking facility was constructed. The parking facility was financed and constructed and is operated by the CCIA. Upon completion of construction in 2007, the Health System leased from the CCIA approximately 57% of the total parking spaces in the facility pursuant to a parking license agreement that was also executed on April 12, 2006 (the right of use asset and liability are reflected in the amounts above). Under the ground lease, the Health System receives base rent of $100 annually over the term of the lease and may receive additional variable rent based upon the operations of the garage. During the initial term of 15 years, the Health System's parking license fee agreement increases annually 3% during the first 5 years and 1.5% annually thereafter.

(Dollars in Thousands)

8. Long-Term Debt and Lines of Credit

	December 31	
	2020	**2019**
2008A New Jersey Economic Development Authority (NJEDA) Variable Rate Demand Revenue Bonds, with principal payments ranging from $1,800 to $13,500 due annually beginning on November 1, 2033 through 2038, with monthly interest payments adjusted to a weekly rate determined by the remarketing agent, not to exceed 12% (0.1% and 1.05% at December 31, 2020 and 2019, respectively)	**$ 50,000**	$ 50,000
2009A CCIA Variable Rate Revenue Bonds, with principal payments ranging from $73 to $76 due monthly on March 15 through February 15, 2021, with monthly interest payments based on 67% of London Interbank Offered Rate (LIBOR), plus 168 basis points	**186**	1,278
2013A CCIA Revenue Bonds, including unamortized original issue discount of $1,383 and $1,448 at December 31, 2020 and 2019, respectively, with principal payments ranging from $595 to $15,200 due annually beginning on November 1, 2035 through 2042, with interest rates ranging from 5.00% to 5.25%, due February 15 and August 15 of each year	**53,532**	53,467
2014A CCIA Revenue Bonds, including unamortized original issue premium of $10,197 and $11,529 at December 31, 2020 and 2019, respectively, with principal payments ranging from $4,100 to $10,690 due annually through 2035, with an interest rate of 5.00%, due February 15 and August 15 of each year	**125,932**	132,654
Note payable due in monthly installments, including interest adjusted every five years per the agreement (5.75% at December 31, 2020 and 2019), maturity date of July 1, 2023, secured by the building and substantially all assets of CHCP	**165**	217
$8,849 finance lease, with principal and interest payments due monthly through 2028. Remaining principal payments ranging from $507 to $990	**6,960**	7,467
NJEDA 20-year loan, with 2% interest. Repayment schedule to be finalized upon co-generation project completion	**8,696**	8,114

(Dollars in Thousands)

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

	December 31 2020	December 31 2019
Equipment loan, ten years with 0% interest	**$ 1,917**	$ 2,203
Mortgage loan due in monthly installments of $220, including interest at 3.04%, through October 1, 2041	**40,570**	41,931
	287,958	297,331
Less current portion	**8,220**	8,226
Less deferred financing costs	**2,673**	2,916
Long-term debt, net of current portion	**$ 277,065**	$ 286,189

Revenue Bonds

The Health System pays monthly debt service to the Bond Trustee to secure the 2009A, 2013A, and 2014A CCIA Revenue Bonds. The 2008A Revenue Bonds are credit-enhanced by a letter of credit agreement from a bank, which expires on January 29, 2022, with renewal options as defined. Under a master trust indenture (MTI), the Health System granted to the Master Trustee a security interest in its gross receipts and a mortgage on the property of the Health System's main facility, as defined.

The Health System must comply with MTI covenants, including requirements as to the permitted level of indebtedness, restrictions on the sale of certain assets, mergers, and other significant transactions, including a requirement that the Health System generate funds available for debt service equivalent to at least 125% of maximum annual debt service (all terms as defined in the MTI). In addition, the 2008A Revenue Bonds Letter of Credit Agreement requires the Health System to maintain minimum days cash on-hand, as defined. As of December 31, 2020 and 2019, the Health System has complied with these financial covenants.

(Dollars in Thousands)

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

Interest Rate Swap Agreements

Under the swap agreements for the Series 2008A Bonds, the Health System pays interest at fixed rates and receives interest at variable rates. The swap agreement for the Series 2013A Bonds consists of a forward-starting SIFMA-based floating to fixed interest rate swap. The Health System pays interest at fixed rates and receives interest at variable rates. The following schedule outlines the terms and fair values of the interest rate swap agreements that are included in deferred revenue and other liabilities on the accompanying consolidated balance sheets:

Notional amount at December 31, 2020	$ 25,000	$ 25,000	$ 55,755
Effective date	March 23, 2009	March 9, 2009	November 27, 2019
Termination date	November 1, 2029	November 1, 2029	February 15, 2042
Fixed rate	2.577%	2.428%	1.627%
Variable rate basis	3-month USD-LIBOR-BBA	3-month USD-LIBOR-BBA	3-month USD-LIBOR-BBA
Fair value at December 31, 2020	$ (4,060)	$ (3,764)	$ (3,448)
Fair value at December 31, 2019	$ (2,747)	$ (2,428)	$ 902
Change in fair value for the year ended December 31, 2020	$ (1,313)	$ (1,336)	$ (4,350)

During 2020 and 2019, the fair value of the interest rate swaps exceeded the mark-to-market value set forth in the agreement requiring collateral to be posted. Collateral posted totaled $4,060 and $1,370 at December 31, 2020 and 2019, respectively. The collateral balance is included within prepaid expenses and other current assets on the consolidated balance sheets.

(Dollars in Thousands)

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

Future Payments

Scheduled payments on long-term debt for the next five years and thereafter are as follows:

	Revenue Bonds and Mortgage Loan	Capital Leases and Other	Note Payable	Total
2021	$ 7,332	$ 831	$ 57	$ 8,220
2022	7,550	984	62	8,596
2023	7,956	1,176	46	9,178
2024	8,375	1,413	–	9,788
2025	8,866	614	–	9,480
Thereafter	221,327	12,555	–	233,882
	261,406	17,573	165	279,144
Net unamortized original issue premium	8,814	–	–	8,814
	$ 270,220	$ 17,573	$ 165	$ 287,958

Lines of Credit

The Health System has a revolving line of credit for $5,000 with a bank at December 31, 2020 and 2019. The agreement provides for interest at 0.5% above the prime rate of interest per annum, but shall never be less than 5.5%. The current line of credit is available through December 31, 2021, and may be renewed for one-year extensions with the bank's consent. The line of credit contains a negative pledge of accounts receivable of the Health System, and requires the Health System to maintain a minimum debt service coverage ratio of 1.25, as defined in the agreement. At December 31, 2020 and 2019, there were no amounts outstanding under this line of credit.

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

The Health System has a revolving line of credit for $125,000 with a bank at December 31, 2020 and 2019. The agreement provides for interest at 1-Month LIBOR +70 basis points. The current line of credit has a three-year term ending in November 2022. The line of credit includes financial covenants requiring a debt service coverage ratio of at least 1.25, a current ratio of at least 1.50, and at least 60 days cash on hand. To secure the line of credit, the Health System is granting to the bank a parity pledge under the MTI secured by the parity gross receipts of the Health System, and a parity mortgage pledge on certain real property. At December 31, 2020 and 2019, there was $41,000 drawn and outstanding on the line of credit.

9. New Market Tax Credit Program

In October 2012, the Health System and CCC entered into transactions as part of the Federal New Market Tax Credit Program (the Program). Under the Program, a taxpayer may claim tax credits over a seven-year period with respect to a qualified equity investment in a qualified community development entity (CDE). An equity investment in a CDE is a qualified equity investment if substantially all of the cash provided is then used by the CDE to make qualified low-income community investments, which includes a loan to any qualified active low-income community business.

In conjunction with the Program, the Health System loaned $15,781 to an investment fund (the Fund) through a promissory note (the Note) to be used for qualified equity investments in several CDEs. Interest on the Note accrued at 1.54% per annum with interest payments received quarterly. Principal payments were scheduled to be received quarterly beginning December 2019. At the end of the seven-year compliance period for the new market tax credits, the Health System has the option to call the Note for a nominal amount. The Note was scheduled to mature on July 1, 2039.

Also in October 2012, CCC entered into promissory note agreements (the Agreements) totaling $22,296 with third-party CDEs as part of the Program. CCC was structured to meet the definition of a qualified active low-income community business under the provisions of the Program. Interest payments on the Agreements were made quarterly at a fixed interest rate of 1.1% per annum. Principal payments were scheduled to be made quarterly by CCC beginning December 2019 through September 2042. In October 2019, the seven-year compliance period for the new market tax credits ended. On October 30, 2019, the CDEs assigned their interest in the Agreements to the Fund and the Health System acquired 100% of the membership interest in the Fund. Approximately $6,515 of the outstanding balance of the Agreements was forgiven. The remaining $15,781 outstanding on the Agreements was offset by the Note owed to the Health System.

10. Retirement Plans

Defined Contribution Plan

The Health System sponsors a noncontributory defined contribution retirement plan covering all collective bargaining and non-bargaining employees. Employer contributions to the defined contribution plan are based on a formula as defined by the plan document. Costs of the defined contribution plan charged to expense were $16,342 and $16,680 for the years ended December 31, 2020 and 2019, respectively.

Defined Benefit Plan

The Health System has a frozen noncontributory defined benefit pension plan (the Plan), which covered all employees who met certain criteria. During 2019, the Health System amended plan documents to allow for two risk-reduction programs. A vested termination cash out offering provided a one-time opportunity for vested terminated participants to elect a lump sum distribution in lieu of future annuity payments from the plan. Approximately 30% of eligible participants accepted the one-time offer resulting in lump sum payments totaling $7,964. In addition, in 2019 the Health System implemented a retiree annuity buyout for small benefit retirees representing 1,016 retirees receiving benefits less than $800 a month. Annuities were purchased through a commercial insurer for the aforementioned group of retirees. A premium of $35,884 was paid and the commercial insurer retains the future benefit obligation of those retirees. The total settlement loss for these two programs was $10,157 in 2019 and is included as a component of net periodic benefit cost.

(Dollars in Thousands)

10. Retirement Plans (continued)

The Health System uses a December 31 measurement date for the Plan. The following tables summarize information about the defined benefit pension plan:

	December 31	
	2020	**2019**
Change in benefit obligation		
Projected benefit obligation at beginning of year	**$ 123,514**	$ 150,929
Interest cost	**4,055**	6,009
Plan settlements	**–**	(43,848)
Actuarial loss	**14,944**	17,418
Benefits paid	**(4,577)**	(6,994)
Projected benefit obligation, end of year	**$ 137,936**	$ 123,514
Accumulated benefit obligation	**$ 137,936**	$ 123,514
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 104,482**	$ 129,757
Actual return on plan assets, net of expenses	**12,284**	20,567
Employer contribution to plan	**5,000**	5,000
Plan settlements	–	(43,848)
Benefits paid	**(4,577)**	(6,994)
Fair value of plan assets at end of year	**$ 117,189**	$ 104,482
Funded status at year-end – recognized on the consolidated balance sheets as accrued retirement benefits	**$ (20,747)**	$ (19,032)

The accumulated amounts recorded in net assets without donor restrictions consist of net unrecognized losses totaling approximately $31,500 and $26,500 at December 31, 2020 and 2019, respectively.

(Dollars in Thousands)

10. Retirement Plans (continued)

The net unrecognized loss that will be amortized from other changes in net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $1,666.

	2020	2019
Components of net periodic benefit cost and other amounts recorded in other changes in net assets without donor restrictions		
Net periodic benefit cost:		
Interest cost	**$ 4,055**	$ 6,009
Expected return on plan assets	**(4,726)**	(4,837)
Recognized actuarial loss	**2,409**	3,387
Settlement loss	**–**	10,157
	$ 1,738	$ 14,716
Assumptions		
Weighted average assumptions used to determine benefit obligations at December 31:		
Discount rate	**2.43%**	3.31%
Rate of compensation increase	**N/A**	N/A
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	**3.31%**	4.34%
Expected long-term return on plan assets	**5.60%**	5.60%
Rate of compensation increase	**N/A**	N/A

Due to the plan settlements as previously described, remeasurements of the plan's benefit obligation were performed as of October 31, 2019 and November 30, 2019. The discount rates used in the remeasurements as of October 31, 2019 and November 30, 2019 were 3.20% and 3.19%, respectively.

(Dollars in Thousands)

10. Retirement Plans (continued)

To develop the expected long-term rate of return on assets assumption, the Health System considered the historical returns and the future expectations for returns for each asset class, as well as the target allocation of the pension portfolio. This resulted in the selection of the 5.60% long-term rate of return on assets assumption used in 2020 and 2019.

	Asset Allocation			December 31	
	Minimum	**Target**	**Maximum**	**2020**	**2019**
Plan assets					
Weighted average asset allocations, by asset category:					
Equity securities	30%	20%	10%	**20%**	20%
Debt securities	90	80	70	**80**	80
				100%	100%

The Health System has designed an investment strategy for plan assets such that asset returns are anticipated to track changes in plan liabilities. The objectives of the strategy are to provide an absolute total return on plan assets equal to or greater than 5.6% annually over long-term periods.

(Dollars in Thousands)

10. Retirement Plans (continued)

The fair values of each major category of plan assets, according to the level within the fair value hierarchy in which the fair value measurements fall in their entirety, are as follows:

	Total	Level 1	Level 2	Level 3
December 31, 2020				
Money market funds	**$ 184**	**$ 184**	$ –	$ –
U.S. Treasury securities	**16,178**	**16,178**	–	–
Mutual funds	**100,827**	**100,827**	–	–
	$ 117,189	**$ 117,189**	$ –	$ –
December 31, 2019				
Money market funds	$ 194	$ 194	$ –	$ –
U.S. Treasury securities	14,016	14,016	–	–
Mutual funds	90,272	90,272	–	–
	$ 104,482	$ 104,482	$ –	$ –

Mutual funds and U.S. Treasury securities are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end and are included in Level 1.

Cash Flows

Contributions

Contributions expected to be made to the Plan during 2021	$ 6,500

Estimated Future Benefit Payments

2021	$ 5,952
2022	6,506
2023	6,817
2024	7,140
2025	7,335
2026–2030	37,844

(Dollars in Thousands)

11. Self-Insured Reserves

The Health System self-insures the primary layer of its employee health benefits, professional malpractice, general, and workers' compensation liabilities. Recorded liabilities for the self-insured reserves are as follows:

	December 31	
	2020	**2019**
Employee health benefits	**$ 5,183**	$ 5,640
Workers' compensation	**6,934**	6,014
Professional and general liability	**107,101**	77,012
	119,218	88,666
Less current portion of self-insured reserves	**49,114**	26,363
	$ 70,104	$ 62,303

The employee health insurance program is administered through a commercial insurance company. The plan provides for covered expenses in any accredited hospital and by any licensed physician. The lifetime plan maximum per person is $1,000.

The Health System also provides coverage for all employees for work-related injuries and illnesses. This plan pays for medical expenses and reimburses 70% of lost wages up to the state-defined maximum. Stop-loss coverage is provided at various levels depending upon the circumstances surrounding the injury or illness.

For malpractice claims reported after January 1, 2005, the Health System is self-insured through a trust up to $6,500 per occurrence for hospital incidents and $5,500 per occurrence for physicians and $39,000 in the annual aggregate. Claims in excess of these retained amounts are covered by a commercial claims-made insurance policy to $50,000.

Claims prior to January 1, 2005, were covered by various programs combining self-insured captive insurance company and commercial claims-made insurance policies. The estimated liability for all unreported claims as of December 31, 2020, and retained uninsured risk for all prior years is included in the self-insured reserves and funded through the self-insured trust (see Note 5).

11. Self-Insured Reserves (continued)

The estimated losses on self-insured malpractice claims are discounted at a rate of 3.5%. Professional liabilities are discounted based on the expected timing of the actuarially estimated future payments under the program using an interest rate expected to be earned on related invested assets during such future periods. Such estimates are reviewed and updated on an annual basis.

The Health System is also self-insured for general liability coverage, up to $1,000 per occurrence with no annual aggregate, effective January 1, 2010, with a retroactive effective date of August 30, 1994. From January 1, 2003 until December 31, 2009, liability limits were $3,000 per occurrence and from September 1, 1994 until December 31, 2002, limits were $2,000 per occurrence, both with an unlimited annual aggregate.

The estimates for self-insured reserves are based upon complex actuarial calculations which utilize factors such as historical claim experience for the Health System and related industry factors, trending models, estimates for the payment and loss development patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

12. Commitments and Contingencies

At December 31, 2020, approximately 18% of the Health System’s employees are covered by collective-bargaining agreements. The collective bargaining agreements are set to expire May 31, 2021 and October 31, 2023.

Litigation Claims and Settlements

The Health System is involved in litigation and claims which are not considered unusual to the Health System’s business. The final outcome of any current or future litigation or governmental or internal investigations cannot be accurately predicted at this time, nor can the Health System predict any resulting penalties, fines, or other sanctions that may be imposed at the discretion of federal or state regulatory authorities. The Health System records accruals for such contingencies to the extent that it concludes it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. While management is not currently aware of any issues which

(Dollars in Thousands)

12. Commitments and Contingencies (continued)

have not been accrued at December 31, 2020, it is possible that the outcome of such matters could potentially have a material adverse impact on the Health System's future results of operations, financial position, and cash flows.

Additionally, during the third quarter of 2017, the Health System signed a letter of intent with an unrelated health care provider (the Seller) to acquire a controlling interest in three health care facilities. The Health System paid into escrow an initial deposit of $15,000 in connection with the planned transaction. After a period of due diligence, the Health System determined not to proceed with the transaction. The Health System records the escrow deposit within assets limited as to use as of December 31, 2020 and 2019. The Health System and the Seller are involved in pending litigation regarding the termination of the letter of intent and escrow funds. The outcome of the litigation is presently unknown.

13. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows:

	December 31	
	2020	**2019**
Purpose – various funds for benefit of the departments, programs, or educational programs of the Health System	**$ 41,256**	$ 45,133
Time restricted – pledges	**441**	439
Permanent endowments – to be maintained in perpetuity	**2,675**	2,585
Total net assets with donor restrictions	**$ 44,372**	$ 48,157

The Health System follows the requirements of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as they relate to its permanent endowments. The Health System's endowments consist of numerous individual funds established for a variety of purposes and consist solely of donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(Dollars in Thousands)

13. Net Assets With Donor Restrictions (continued)

The Health System has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The original value of such gifts and subsequent gifts are classified as net assets with donor restrictions – permanent endowment. Accumulated earnings of the permanent endowment are to be used in accordance with the direction of the applicable donor gift. The remaining portion of the endowment fund that is not required to be maintained in perpetuity is characterized as restricted for time or purpose until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowments to be maintained in perpetuity consist of the following:

	December 31	
	2020	**2019**
Women's Board	**$ 1,032**	$ 1,042
Radiology	**501**	501
Lummis Trust	**251**	235
Nursing education	**171**	171
Cleft Palate program	**107**	107
Lippincott	**61**	61
Nispel Estate	**16**	16
Physical teaching and excellence award	**13**	13
Other	**523**	439
Total endowments	**$ 2,675**	$ 2,585

The investment income earned on the above endowments is to be used to support patient care services, with the exception of the Nispel Estate, Lippincott and the Lummis Trust, for which the investment income is without restrictions.

The Health System has adopted investment policies for its endowment assets that are consistent with the policies and objectives of its overall investments. The assets are invested in a manner that is intended to produce a positive rate of return while assuming a low level of risk.

(Dollars in Thousands)

13. Net Assets With Donor Restrictions (continued)

Net assets with donor restrictions were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	Year Ended December 31 2020	2019
Purpose:		
Various funds for benefit of the departments, programs, or educational programs of the Health System	**$ 9,509**	$ –
	$ 9,509	$ –

14. Other Revenue

Other revenue consists of the following:

	Year Ended December 31 2020	2019
Provider Relief Fund grant	**$ 56,153**	$ –
Camden County Relief Fund grant	**10,537**	–
FEMA Disaster Relief Fund grant	**7,503**	–
Camden County Tent Reimbursement grant	**4,093**	–
Other grant revenue	**24,176**	19,525
Medical school support	**1,914**	7,663
Food services	**4,966**	6,916
Centers for population health	**2,776**	2,919
Retail pharmacy cost sharing	**10,952**	13,440
Physician services	**22,019**	16,121
Emergency/air transport	**6,482**	7,489
Net assets released from restrictions for operating purposes	**9,509**	–
Other	**11,975**	9,362
	$ 173,055	$ 83,435

(Dollars in Thousands)

14. Other Revenue (continued)

In addition to COVID-19 grants, the Health System received approximately $11,223 and $10,210 in government grants which include conditions and restrictions which were not satisfied as of December 31, 2020 and 2019, respectively, and such amounts are reported within accrued expenses on the accompanying consolidated balance sheets.

15. Functional Expenses

The Health System provides general health care services to residents within its service area. 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 the Health System's internal records and estimates. Expenses by function and natural classification are as follows:

	Health Care Services	Physician Services	General and Administrative	Total
Year ended December 31, 2020				
Salaries, wage, and fringe benefits	**$ 307,634**	**$ 402,097**	**$ 172,341**	**$ 882,072**
Supplies and other	**331,118**	**49,956**	**131,159**	**512,233**
Malpractice	–	**17,550**	**21,450**	**39,000**
Depreciation and amortization	–	**1,386**	**52,084**	**53,470**
Interest	–	–	**13,391**	**13,391**
	$ 638,752	**$ 470,989**	**$ 390,425**	**$ 1,500,166**
Year ended December 31, 2019				
Salaries, wage, and fringe benefits	$ 286,963	$ 380,695	$ 151,687	$ 819,345
Supplies and other	341,981	47,899	84,794	474,674
Malpractice	–	13,973	16,437	30,410
Depreciation and amortization	–	1,963	53,834	55,797
Interest	–	–	13,622	13,622
	$ 628,944	$ 444,530	$ 320,374	$ 1,393,848

16. Subsequent Events

The Health System has evaluated subsequent events through April 28, 2021, the date when the accompanying consolidated financial statements were issued. Except as disclosed in Note 2, no subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Supplementary Information

The Cooper Health System

Consolidating Balance Sheet

(In Thousands)

December 31, 2020

	The Cooper Health System Obligated Group									
	The Cooper Health System	The Cooper Cancer Center	Eliminating Entries	The Cooper Health System Obligated Group	The Cooper Foundation	C&H Collection Services	Cooper HealthCare Properties, Inc.	Cooper Medical Services, Inc.	Eliminating Entries	The Cooper Health System Consolidated
Assets										
Current assets:										
Cash and cash equivalents	$ 556,462	$ –	$ –	$ 556,462	$ 7,525	$ –	$ –	$ 18,379	$ –	$ 582,366
Current portion of assets limited as to use	28,570	–	–	28,570	–	–	–	–	–	28,570
Patient accounts receivable, net	140,505	–	–	140,505	–	–	–	–	–	140,505
Prepaid expenses and other current assets	50,740	–	–	50,740	19	48	–	403	–	51,210
Due from affiliates	20,215	32,356	(32,356)	20,215	–	409	–	–	(20,624)	–
Total current assets	796,492	32,356	(32,356)	796,492	7,544	457	–	18,782	(20,624)	802,651
Assets limited as to use:										
Internally designated by Board of Trustees	275,629	–	–	275,629	–	–	–	–	–	275,629
Externally designated for donor purposes	–	–	–	–	62,619	–	–	–	–	62,619
Externally designated under debt agreements, net of current portion	3,874	–	–	3,874	–	–	–	–	–	3,874
Externally designated – escrow agreement	15,010	–	–	15,010	–	–	–	–	–	15,010
Designated under self-insurance programs, net of current portion	30,927	–	–	30,927	–	–	–	–	–	30,927
Assets limited as to use, net of current portion	325,440	–	–	325,440	62,619	–	–	–	–	388,059
		–	–			–	–	–	–	
Property, plant, and equipment, net	607,043	–	–	607,043	–	–	872	14,158	–	622,073
Operating lease assets, net	64,655	–	–	64,655	–	–	–	–	–	64,655
Other assets, net	1,032	–	–	1,032	483	–	12,568	–	–	14,083
Due from affiliates	–	–	–	–	–	–	–	31,422	(31,422)	–
Total assets	$ 1,794,662	$ 32,356	$ (32,356)	$ 1,794,662	$ 70,646	$ 457	$ 13,440	$ 64,362	$ (52,046)	$ 1,891,521
Liabilities and net assets										
Current liabilities:										
Accounts payable	$ 42,259	$ –	$ –	$ 42,259	$ –	$ –	$ –	$ –	$ –	$ 42,259
Accrued expenses	183,483	–	–	183,483	–	(21)	–	185	–	183,647
Current portion of estimated settlements due to third-party payers	45,342	–	–	45,342	–	–	–	–	–	45,342
Current portion of self-insured reserves	49,114	–	–	49,114	–	–	–	–	–	49,114
Current portion of long-term debt	6,752	–	–	6,752	–	–	57	1,411	–	8,220
Current portion of operating lease liability	19,559	–	–	19,559	–	–	–	–	–	19,559
Line of credit advances	41,000	–	–	41,000	–	–	–	–	–	41,000
Due to affiliates	32,356	–	(32,356)	–	5,081	–	10,416	5,127	(20,624)	–
Total current liabilities	419,865	–	(32,356)	387,509	5,081	(21)	10,473	6,723	(20,624)	389,141
Estimated settlements due to third-party payers, net of current portion	108,985	–	–	108,985	–	–	–	–	–	108,985
Accrued retirement benefits	20,747	–	–	20,747	–	–	–	–	–	20,747
Self-insured reserves, net of current portion	70,104	–	–	70,104	–	–	–	–	–	70,104
Long-term debt, net of current portion	237,882	–	–	237,882	–	–	103	39,080	–	277,065
Operating lease liability, net of current portion	46,209	–	–	46,209	–	–	–	–	–	46,209
Deferred revenue and other liabilities	26,721	–	–	26,721	–	–	1	1,791	–	28,513
Due to affiliates	31,422	–	–	31,422	–	–	–	–	(31,422)	–
Total liabilities	961,935	–	(32,356)	929,579	5,081	(21)	10,577	47,594	(52,046)	940,764
Net assets:										
Without donor restrictions	832,288	32,356	–	864,644	21,632	478	2,863	16,768	–	906,385
With donor restrictions	439	–	–	439	43,933	–	–	–	–	44,372
Total net assets	832,727	32,356	-	865,083	65,565	478	2,863	16,768	–	950,757
Total liabilities and net assets	$ 1,794,662	$ 32,356	$ (32,356)	$ 1,794,662	$ 70,646	$ 457	$ 13,440	$ 64,362	$ (52,046)	$ 1,891,521

The Cooper Health System

Consolidating Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended December 31, 2020

	The Cooper Health System Obligated Group									
	The Cooper Health System	The Cooper Cancer Center	Eliminating Entries	The Cooper Health System Obligated Group	The Cooper Foundation	C&H Collection Services	Cooper HealthCare Properties, Inc.	Cooper Medical Services, Inc.	Eliminating Entries	The Cooper Health System Consolidated
Net assets without donor restrictions										
Revenue:										
Net patient service revenue	$ 1,372,538	$ –	$ –	$ 1,372,538	$ –	$ –	$ –	$ –	$ –	$ 1,372,538
Other revenue	163,063	–	–	163,063	10,985	–	420	7,986	(9,399)	173,055
Total revenue	1,535,601	–	–	1,535,601	10,985	–	420	7,986	(9,399)	1,545,593
Expenses:										
Salaries, wages, and fringe benefits	882,008	–	–	882,008	–	64	–	–	–	882,072
Supplies and other	508,946	–	–	508,946	8,812	6	642	3,226	(9,399)	512,233
Malpractice	39,000	–	–	39,000	–	–	–	–	–	39,000
Depreciation and amortization	52,664	–	–	52,664	–	–	47	759	–	53,470
Interest	12,102	–	–	12,102	–	–	12	1,277	–	13,391
Total expenses	1,494,720	–	–	1,494,720	8,812	70	701	5,262	(9,399)	1,500,166
Operating income (loss)	40,881	–	–	40,881	2,173	(70)	(281)	2,724	–	45,427
Nonoperating gains and losses:										
Investment return	11,937	–	–	11,937	1,097	–	–	–	–	13,034
Net change in unrealized gains and losses	11,420	–	–	11,420	5,740	–	–	–	–	17,160
Change in value of equity method investments	–	–	–	–	–	–	–	648	–	648
Net periodic pension cost	(1,738)	–	–	(1,738)	–	–	–	–	–	(1,738)
Change in fair value of interest rate swap agreements	(6,999)	–	–	(6,999)	–	–	–	–	–	(6,999)
Other losses	(2,535)	–	–	(2,535)	–	–	–	–	–	(2,535)
Excess (deficiency) of revenue over expenses	52,966	–	–	52,966	9,010	(70)	(281)	3,372	–	64,997
Other changes in net assets without donor restrictions:										
Change in pension benefit obligation	(4,977)	–	–	(4,977)	–	–	–	–	–	(4,977)
Contributions received and expended for capital acquisitions	14,815	–	–	14,815	–	–	–	–	–	14,815
Net change in unrealized gains and losses on other-than-trading securities	2,057	–	–	2,057	–	–	–	–	–	2,057
Increase (decrease) in net assets without donor restrictions	64,861	–	–	64,861	9,010	(70)	(281)	3,372	–	76,892
Net assets with donor restrictions										
Contributions, gifts, and special events, net of fundraising expenses	–	–	–	–	4,657	–	–	–	–	4,657
Income from investments	–	–	–	–	542	–	–	–	–	542
Net realized and unrealized gains on investments	–	–	–	–	525	–	–	–	–	525
Net assets released from restrictions for operating purposes	–	–	–	–	(9,509)	–	–	–	–	(9,509)
Decrease in net assets with donor restrictions	–	–	–	–	(3,785)	–	–	–	–	(3,785)
Increase (decrease) in net assets	64,861	–	–	64,861	5,225	(70)	(281)	3,372	–	73,107
Net assets, beginning of year	767,866	32,356	–	800,222	60,340	548	3,144	13,396	–	877,650
Net assets, end of year	$ 832,727	$ 32,356	$ –	$ 865,083	$ 65,565	$ 478	$ 2,863	$ 16,768	$ –	$ 950,757