

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

The Cooper Health System
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP



The Cooper Health System
Consolidated Financial Statements
and Supplementary Information
Years Ended December 31, 2022 and 2021

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Ernst & Young LLP
99 Wood Avenue South
Metropark
P.O. Box 751
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

Report of Independent Auditors

Board of Trustees
The Cooper Health System

Opinion

We have audited the consolidated financial statements of The Cooper Health System (the Health System), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

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

Ernst + Young LLP

April 21, 2023

The Cooper Health System
Consolidated Balance Sheets
(In Thousands)

	December 31	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 657,542	\$ 678,370
Current portion of assets limited as to use	28,758	28,532
Patient accounts receivable, net	188,739	168,065
Prepaid expenses and other current assets	87,365	52,548
Total current assets	962,404	927,515
Assets limited as to use:		
Internally designated by Board of Trustees	363,060	297,735
Externally designated for donor purposes	62,446	72,913
Externally designated under debt agreements, net of current portion	–	3,875
Externally designated – escrow agreement	15,003	15,006
Externally designated – capital grant purposes	42,710	–
Designated under self-insurance programs, net of current portion	2,406	20,068
Assets limited as to use, net of current portion	485,625	409,597
Property, plant, and equipment, net	709,210	651,060
Operating lease assets, net	81,666	76,310
Other assets, net	26,918	15,729
Total assets	\$ 2,265,823	\$ 2,080,211

	December 31	
	2022	2021
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 68,583	\$ 57,692
Accrued expenses	204,595	190,294
Current portion of estimated settlements due to third-party payors	7,066	82,014
Current portion of self-insured reserves	33,529	34,629
Current portion of long-term debt	9,495	8,893
Current portion of operating lease liability	16,276	17,644
Line of credit advances	41,000	41,000
Total current liabilities	<u>380,544</u>	432,166
Estimated settlements due to third-party payors, net of current portion	39,334	19,847
Accrued retirement benefits	1,532	11,427
Self-insured reserves, net of current portion	104,255	85,982
Long-term debt, net of current portion	256,670	267,170
Operating lease liability, net of current portion	66,345	59,533
Deferred revenue and other liabilities	75,570	34,262
Total liabilities	<u>924,250</u>	910,387
Net assets:		
Without donor restrictions	1,290,453	1,120,685
With donor restrictions	51,120	49,139
Total net assets	<u>1,341,573</u>	1,169,824
Total liabilities and net assets	<u>\$ 2,265,823</u>	<u>\$ 2,080,211</u>

See accompanying notes.

The Cooper Health System

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

	Year Ended December 31	
	2022	2021
Net assets without donor restrictions		
Revenue:		
Net patient service revenue	\$ 1,843,537	\$ 1,686,083
Other revenue	133,732	119,430
Total revenue	1,977,269	1,805,513
Expenses:		
Salaries, wages, and fringe benefits	1,131,377	1,005,576
Supplies and other	606,769	555,590
Malpractice	35,503	15,509
Depreciation and amortization	61,249	56,909
Interest	12,780	12,376
Total expenses	1,847,678	1,645,960
Operating income	129,591	159,553
Nonoperating gains (losses):		
Investment income	14,666	36,668
Net change in unrealized gains and losses	(49,198)	(7,470)
Change in value of equity method investments	(238)	2,069
Gain on sale of interest in joint venture	20,000	-
Net periodic pension cost	(1,727)	(1,879)
Change in fair value of interest rate swap agreements	17,226	5,918
Other losses	(8,256)	-
Excess of revenue over expenses	122,064	194,859
Other changes in net assets without donor restrictions:		
Change in pension benefit obligation	1,921	4,700
Contributions received and expended for capital acquisitions	50,364	12,700
Net change in unrealized gains and losses on fixed-income other-than-trading securities	(4,581)	2,041
Increase in net assets without donor restrictions	169,768	214,300
Net assets with donor restrictions		
Contributions, gifts, and special events, net of fundraising expenses	4,408	3,988
Income from investments	497	454
Net realized and unrealized gains on investments	48	2,717
Net assets released from restrictions for operating purposes	(2,972)	(2,392)
Increase in net assets with donor restrictions	1,981	4,767
Increase in net assets	171,749	219,067
Net assets, at beginning of year	1,169,824	950,757
Net assets, at end of year	\$ 1,341,573	\$ 1,169,824

See accompanying notes.

The Cooper Health System

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2022	2021
Operating activities		
Increase in net assets	\$ 171,749	\$ 219,067
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in pension benefit obligation	(1,921)	(4,700)
Change in fair value of interest rate swap agreements	(17,226)	(5,918)
Depreciation and amortization	61,249	56,909
Net realized and unrealized gains and losses on investments	54,269	(26,114)
Change in value of equity method investments	238	(2,069)
Gain on sale of interest in joint venture	(20,000)	–
Contributions for capital acquisitions	(50,364)	(12,700)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(20,674)	(27,560)
Prepaid expenses and other assets	(46,156)	(915)
Accounts payable and accrued expenses	25,192	22,080
Self-insured reserves and accrued retirement benefits	9,199	(3,227)
Estimated settlements with third-party payors	(55,461)	(52,466)
Deferred revenue and other liabilities	58,534	11,421
Net cash provided by operating activities	<u>168,628</u>	<u>173,808</u>
Investing activities		
Purchases of assets limited as to use, net	(91,410)	4,817
Proceeds from sale of interest in joint venture	20,000	–
Capital expenditures, net	(120,333)	(86,918)
Net cash used in investing activities	<u>(191,743)</u>	<u>(82,101)</u>
Financing activities		
Repayments of long-term debt	(8,964)	(8,200)
Contributions for capital acquisitions	50,364	12,700
Net cash provided by financing activities	<u>41,400</u>	<u>4,500</u>
Net increase in cash and cash equivalents and restricted cash and restricted cash equivalents	18,285	96,207
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	<u>706,445</u>	<u>610,238</u>
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	<u>\$ 724,730</u>	<u>\$ 706,445</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 12,895</u>	<u>\$ 12,484</u>

See accompanying notes.

The Cooper Health System

Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2022

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, Inc. (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 2022 or 2021.

In March 2021, the Health System incorporated Cooper Apex Care PC (APEX). APEX was formed to provide "concierge medicine," continual personalized services provided to members based on a monthly fee that is not reimbursable by insurance carriers (governmental and non-governmental). Members will have access to a physician for questions and receive communications such as wellness bulletins and COVID-related news. There was insignificant activity for APEX during 2022 and 2021.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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 in Note 1. All intercompany balances and transactions have been eliminated in consolidation. Although these entities have been consolidated for financial statement reporting purposes, there may be limitations on the use of an entity's funds by another member of the group resulting from the charitable nature of some of the entities or other factors.

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 Coronavirus Aid, Relief and Economic Security Act Funding

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. The Health System has experienced significant price increases in, and utilization of, personnel costs and medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic. The impact of the pandemic continues to effect patient service patterns, revenue and the costs of providing health care services.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. The CARES Act authorized funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund). Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to COVID-19, and shall reimburse the recipient for health care related expenses and/or lost revenues attributable to COVID-19 and are not required to be repaid except where Provider Relief Funds received exceed the actual amounts of eligible health care related expenses and/or lost revenues as defined by the U.S. Department of Health and Human Services (HHS), provided the recipients attest to and comply with the terms and conditions. HHS distributions from the Provider Relief Fund include general distributions and targeted distributions, to support hospitals in high impact areas and rural providers.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 and clarifications to the administration of the Provider Relief Fund. Distributions from the Provider Relief Fund are available for specified service periods with various required data submissions. Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements. HHS has indicated that the public health emergency period will end on May 11, 2023.

The Health System recognized Provider Relief Fund grant revenue of approximately \$15,176 within other revenue in 2021 (none in 2022). The recognized revenue has been determined based on applicable accounting guidance, Post-Payment Notices of Reporting Requirements, and FAQs that the Health System has interpreted to be applicable to the accompanying consolidated financial statements. The Health System recognized revenue of approximately \$2,378 and \$3,500 during 2022 and 2021 under the CARES Act Coronavirus Relief Fund–Camden County Relief Fund grant (Camden County Relief Fund), respectively, which is included in other revenue in the accompanying consolidated statements 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 has applied for reimbursement for qualifying expenditures under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. For the years ended December 31, 2022 and 2021, the Health System received approximately \$41,695 and \$6,969, respectively, in FEMA reimbursement payments and recognized approximately \$25,635 and \$6,969, respectively, as other revenue for reimbursement of operating costs. FEMA reimbursement payments in excess of amounts recognized as other revenue have been reflected as deferred revenue and recorded within settlements due to third-party payors in the accompanying consolidated balance sheets as amounts are subject to finalization of certain requirements prior to recognition.

The Cooper Health System

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. During April 2020, the Health System received approximately \$118,889 of expedited payments for future services. At December 31, 2021, approximately \$75,048 of unrecovered advances under this program was reported as a contract liability in estimated settlements due to third-party payors in the accompanying 2021 consolidated balance sheet. The advance was fully recovered by Medicare during 2022.

Under the CARES Act, the Health System 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 required that 50% of the total deferred amount be paid by December 31, 2021, with the remaining balance due by December 31, 2022. The Health System paid the balances due of \$8,138 and \$10,499 in 2022 and 2021, respectively.

Under the CARES Act and subsequent legislation, 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 September 30, 2021. The Health System is currently evaluating the potential impact of the retention credit and accordingly no amounts were recorded in 2022 or 2021.

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

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) 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.

The following is a reconciliation of amounts reported on the consolidated balance sheets to the statements of cash flows as of and for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 657,542	\$ 678,370
Assets limited as to use: cash and cash equivalents	<u>67,188</u>	<u>28,075</u>
Total cash and cash equivalents and restricted cash and restricted cash equivalents	<u>\$ 724,730</u>	<u>\$ 706,445</u>

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 other assets, net at December 31, 2022 and deferred revenue and other liabilities at December 31, 2021. The net changes in the fair value of these swap agreements are recorded in nonoperating gains (losses) on the accompanying consolidated statements of operations and changes in net assets, and the net monthly cash exchanged under the contracts is reflected within interest expense.

Assets Limited as to Use and Investment Return

Assets limited as to use include internally designated assets set aside by the Board of Trustees (the Board), externally designated assets held in escrow 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 and capital grant

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

purposes. 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, is presented within nonoperating gains (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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

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 statements of operations and changes in net assets. 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, 2022 or 2021.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 accrues liabilities which include estimates of the ultimate costs for both reported claims and claims incurred but not reported for each of the risks.

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 2022 and 2021, the Health System incurred advertising expenses of \$8,225 and \$9,910, 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 the 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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 a donor or grantor.

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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

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

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 the 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 Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue (continued)

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 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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue (continued)

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.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2022 and 2021, changes in the 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, 2022 and 2021 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	
	2022	2021
Medicare	\$ 518,608	\$ 471,481
Medicaid	412,635	383,825
Commercial carriers and health maintenance organizations	770,039	699,113
State subsidies (<i>Note 4</i>)	26,605	37,020
Self-pay	37,975	54,695
Medicaid supplement: County Option Program	77,675	39,949
	\$ 1,843,537	\$ 1,686,083

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue (continued)

The Health System receives additional Medicaid funding under the New Jersey County Option Hospital Fee Program. This program is administered through the New Jersey Department of Human Services-Division of Medical Assistance and Health Services and began in 2021 in certain counties in New Jersey. The program requires that participating hospitals pay quarterly assessed fees based on estimated Medicaid utilization data within the county, and such payments are then pooled with federal Medicaid matching funds and redistributed to the participating hospitals as State Directed Payments. The State Directed Payments are subject to annual settlement based actual Medicaid utilization data and other factors. The program was in effect for all of 2022 and the Health System's third and fourth quarters of 2021 and resulted in fees paid by the Health System of \$20,923 and \$10,462, respectively, (included within supplies and other expense) and Medicaid State Directed Payments revenue of \$77,675 and \$39,949, respectively, (included within net patient service revenue) for the years ended December 31, 2022 and 2021.

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

	Year Ended December 31	
	2022	2021
Hospital	\$ 1,434,807	\$ 1,304,935
Physician services	390,222	372,435
Cooper Care Alliance	18,508	8,713
	\$ 1,843,537	\$ 1,686,083

Accounts receivable is comprised of the following components:

	December 31	
	2022	2021
Patient receivables	\$ 169,687	\$ 150,605
Contract assets	19,052	17,460
	\$ 188,739	\$ 168,065

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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue (continued)

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 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 report years 2016 and prior and 2018 have been settled by Medicare and the cost report for fiscal year 2021 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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue (continued)

During 2022 and 2021, 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 (decreasing) by approximately \$1,809 and \$(543) for the years ended December 31, 2022 and 2021, 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 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 Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue (continued)

The Health System's primary 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	
	2022	2021
Commercial	20%	19%
Health maintenance organizations	47	46
Medicare	9	11
Blue Cross	19	19
Self-pay (including accounts which may ultimately be charity care)	2	2
Medicaid	3	3
	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 \$21,894 and \$26,130 for the years ended December 31, 2022 and 2021, 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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Charity Care and State Subsidies (continued)

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. DSRIP concluded June 30, 2020 with final payments and revenue recognized in 2021. On July 1, 2020, the State implemented a transitional program in response to the COVID-19 pandemic in lieu of starting the Quality Improvement Program-New Jersey (QIP-NJ). The QIP-NJ program became effective July 1, 2021.

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

	Year Ended December 31	
	2022	2021
Charity Care Subsidy Fund	\$ 19,533	\$ 17,143
Delivery System Reform Incentive Payment Pool	–	5,875
Quality Improvement Program	7,072	14,002
	<u>\$ 26,605</u>	<u>\$ 37,020</u>

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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	
	2022	2021
Internally designated by Board of Trustees:		
Cash and cash equivalents	\$ 15,106	\$ 9,652
U.S. equity securities	43,686	103,610
U.S. Treasury securities	124,188	75,067
Mutual funds	46,822	7,930
Governmental asset-backed securities	1,034	–
Alternative investments, at equity method value	23,229	24,014
Corporate bonds	108,995	77,462
	\$ 363,060	\$ 297,735
Externally designated for donor purposes:		
Cash and cash equivalents	\$ 2,339	\$ 1,797
U.S. equity securities	18,954	45,646
U.S. Treasury securities	10,076	9,595
Mutual funds	18,189	–
Governmental asset-backed securities	960	2,240
Corporate bonds	11,928	13,635
	\$ 62,446	\$ 72,913

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

	December 31	
	2022	2021
Externally designated under debt agreements:		
Cash and cash equivalents	\$ 9,475	\$ 13,069
Less current portion	9,475	9,194
	\$ —	\$ 3,875
Assets held under debt agreements are maintained for the following purposes:		
Debt service interest funds	\$ 3,506	\$ 3,607
Debt service principal funds	5,969	5,587
Debt service reserve funds	—	265
Capital addition funds	—	3,610
	\$ 9,475	\$ 13,069
Externally designated – escrow agreement:		
Cash equivalents	\$ 15,003	\$ 15,006
Externally designated – capital grant purposes:		
Cash equivalents	\$ 42,710	\$ —
Designated under self-insurance programs:		
Cash and cash equivalents	\$ 358	\$ 837
U.S. Treasury securities	6,010	4,710
Governmental asset-backed securities	25	5,426
Mutual funds	7,530	11,241
Corporate bonds	7,766	17,192
	21,689	39,406
Less current portion	19,283	19,338
	\$ 2,406	\$ 20,068

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (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	
	2022	2021
Nonoperating gains and (losses):		
Interest and dividend income	\$ 15,204	\$ 7,842
Net realized (losses) gains on sales of securities	(538)	28,826
Investment income	14,666	36,668
Net change in unrealized gains and losses on equities and trading securities	(49,198)	(7,470)
Investment return included in non-operating gains and (losses)	(34,532)	29,198
Net change in unrealized gains and losses on other-than-trading fixed income securities	(4,581)	2,041
Total investment return	\$ (39,113)	\$ 31,239

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (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	
	2022	2021
Financial assets available as reported on the accompanying balance sheets:		
Cash and cash equivalents	\$ 657,542	\$ 678,370
Net patient accounts receivable	188,739	168,065
Current portion of assets limited to use	28,758	28,532
Assets limited as to use, net of current portion	485,625	409,597
Total financial assets available	1,360,664	1,284,564
Less amounts not available to be used within one year for general expenditures:		
Assets limited as to use:		
Externally designated for donor purposes	62,446	72,913
Externally designated under debt agreements	9,475	13,069
Externally designated – escrow agreement	15,003	15,006
Externally designated – capital grant purposes	42,710	–
Designated under self-insurance programs	21,689	39,406
Financial assets available and liquid to meet general expenditures within one year	\$ 1,209,341	\$ 1,144,170

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, escrow agreements and capital grants. 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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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, 2022 and 2021, there was \$41,000 outstanding on a line of credit.

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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (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 \$23,229 and \$24,014 at December 31, 2022 and 2021, respectively), and the mark-to-market position of interest rate swap arrangements:

	Total	Level 1	Level 2	Level 3
December 31, 2022				
<u>Assets</u>				
Cash and cash equivalents	\$ 742,533	\$ 742,533	\$ —	\$ —
U.S. equity securities	62,640	62,640	—	—
Mutual funds	72,541	72,541	—	—
U.S. Treasury securities	140,274	140,274	—	—
Governmental asset-backed securities	2,019	—	2,019	—
Corporate bonds	128,689	—	128,689	—
Interest rate swaps	11,872	—	11,872	—
Total assets measured at fair value	<u>\$ 1,160,568</u>	<u>\$ 1,017,988</u>	<u>\$ 142,580</u>	<u>\$ —</u>
December 31, 2021				
<u>Assets</u>				
Cash and cash equivalents	\$ 718,731	\$ 718,731	\$ —	\$ —
U.S. equity securities	149,256	149,256	—	—
Mutual funds	19,171	19,171	—	—
U.S. Treasury securities	89,372	89,372	—	—
Governmental asset-backed securities	7,666	—	7,666	—
Corporate bonds	108,289	—	108,289	—
Total assets measured at fair value	<u>\$ 1,092,485</u>	<u>\$ 976,530</u>	<u>\$ 115,955</u>	<u>\$ —</u>
<u>Liabilities</u>				
Interest rate swaps	\$ 5,354	\$ —	\$ 5,354	\$ —
Total liabilities measured at fair value	<u>\$ 5,354</u>	<u>\$ —</u>	<u>\$ 5,354</u>	<u>\$ —</u>

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

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

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.

6. Property, Plant, and Equipment

	December 31		Depreciable
	2022	2021	Life
Land	\$ 12,253	\$ 7,860	
Land improvements	1,327	1,327	5–25 years
Buildings and building improvements	737,221	712,221	10–40 years
Fixed equipment	84,590	82,310	10–20 years
Major movable equipment	559,830	522,380	5–20 years
	1,395,221	1,326,098	
Less accumulated depreciation	(827,226)	(765,498)	
	567,995	560,600	
Construction-in-progress	141,215	90,460	
	\$ 709,210	\$ 651,060	

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to \$62,183 and \$57,931, respectively. Property, plant, and equipment, net included \$1,770 and \$2,581 of assets held under finance leases at December 31, 2022 and 2021, respectively. During 2022 and 2021, the Health System wrote off approximately \$455 and \$8,788 of fully depreciated assets, respectively.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (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, 2022 and 2021:

	2022	2021
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	\$ 811	\$ 959
Interest on lease liabilities	1,316	1,470
Operating lease cost	20,832	18,552
Short-term lease cost	16,659	14,591
Total lease cost	\$ 39,618	\$ 35,572
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	\$ 1,770	\$ 2,581
Lease liability – finance leases	5,545	6,329
Right-of-use assets – operating leases	81,666	76,310
Lease liability – operating leases	82,621	77,177
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 1,316	\$ 1,470
Operating cash flows from operating leases	20,708	18,324
Financing cash flows from finance leases	784	631
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ –	\$ –
Right-of-use assets obtained in exchange for new operating lease liabilities	25,334	43,443
Weighted average remaining lease term – finance leases	7.00	8.00
Weighted average remaining lease term – operating leases	13.68	14.59
Weighted average discount rate – finance leases	1.53%	1.53%
Weighted average discount rate – operating leases	2.10%	1.91%

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (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, 2022:

	Finance Leases	Operating Leases
2023	\$ 2,101	\$ 19,080
2024	2,101	12,497
2025	1,112	10,267
2026	1,112	8,483
2027	1,112	5,291
Thereafter	2,225	43,665
Total lease payments	9,763	99,283
Less imputed interest	(4,218)	(16,662)
Total lease obligation	5,545	82,621
Less current portion	958	16,276
Long-term portion	\$ 4,587	\$ 66,345

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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Long-Term Debt and Lines of Credit

	December 31	
	2022	2021
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% (3.66% and 0.1% at December 31, 2022 and 2021, respectively)	\$ 50,000	\$ 50,000
2013A CCIA Revenue Bonds, including unamortized original issue discount of \$1,252 and \$1,318 at December 31, 2022 and 2021, 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	53,663	53,597
2014A CCIA Revenue Bonds, including unamortized original issue premium of \$7,641 and \$8,867 at December 31, 2022 and 2021, 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	111,546	118,867
Note payable due in monthly installments, including interest adjusted every five years per the agreement (5.75% at December 31, 2022 and 2021), maturity date of July 1, 2023, secured by the building and substantially all assets of CHCP	–	108
\$8,849 finance lease, with principal and interest payments due monthly through 2028. Remaining principal payments ranging from \$507 to \$990	5,545	6,329
NJEDA 20-year loan, with 2% interest	8,386	8,714

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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

	December 31	
	2022	2021
Equipment loan, ten years with 0% interest	\$ 1,517	\$ 1,717
Mortgage loan due in monthly installments of \$220, including interest at 3.04%, through October 1, 2041	37,703	39,158
	268,360	278,490
Less current portion	9,495	8,893
Less deferred financing costs	2,195	2,427
Long-term debt, net of current portion	\$ 256,670	\$ 267,170

Revenue Bonds

The Health System pays monthly debt service to the Bond Trustee to secure the 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, 2024, 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, 2022 and 2021, the Health System has complied with these financial covenants.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (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 on the accompanying consolidated balance sheets:

Notional amount at December 31, 2022	\$ 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, 2022	\$ 249	\$ 440	\$ 11,183
Fair value at December 31, 2021	\$ (2,755)	\$ (2,494)	\$ (105)
Change in fair value for the year ended December 31, 2022	\$ 3,004	\$ 2,934	\$ 11,288

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (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	Finance Leases and Other	Total
2023	\$ 7,956	\$ 1,539	\$ 9,495
2024	8,375	1,784	10,159
2025	8,866	993	9,859
2026	9,361	1,101	10,462
2027	9,917	1,235	11,152
Thereafter	202,048	8,796	210,844
	246,523	15,448	261,971
Unamortized original issue premium and discount, net	6,389	–	6,389
	\$ 252,912	\$ 15,448	\$ 268,360

Lines of Credit

The Health System has a revolving line of credit for \$5,000 with a bank at December 31, 2022 and 2021. 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 January 29, 2024 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, 2022 and 2021, there were no amounts outstanding under this line of credit.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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, 2022 and 2021. The agreement provides for interest at 1-Month LIBOR +70 basis points. The line of credit is currently being extended to have a two-year term ending in November 2024. 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, 2022 and 2021, there was \$41,000 drawn and outstanding on the line of credit.

9. 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 in the plan document. Costs of the defined contribution plan charged to expense were \$19,599 and \$18,584 for the years ended December 31, 2022 and 2021, 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.

The Health System has made a decision to terminate the Plan effective December 31, 2022. Assets are expected to be distributed in 2023. The information reflected in the following tables does not reflect the plan termination liabilities and assumptions, as permitted under U.S. GAAP; such amounts will be recognized in 2023.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. 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	
	2022	2021
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 131,634	\$ 137,936
Interest cost	3,653	3,300
Actuarial gain	(28,514)	(5,267)
Benefits paid	(5,419)	(4,335)
Projected benefit obligation, end of year	\$ 101,354	\$ 131,634
Accumulated benefit obligation	\$ 101,354	\$ 131,634
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 120,207	\$ 117,189
Actual return on plan assets, net of expenses	(24,666)	853
Employer contribution to plan	9,700	6,500
Benefits paid	(5,419)	(4,335)
Fair value of plan assets at end of year	\$ 99,822	\$ 120,207
Funded status at year-end – recognized on the consolidated balance sheets as accrued retirement benefits	\$ (1,532)	\$ (11,427)

The accumulated amounts recorded in net assets without donor restrictions consist of net unrecognized losses totaling approximately \$24,800 and \$26,800 at December 31, 2022 and 2021, respectively.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

	2022	2021
Components of net periodic benefit cost		
Net periodic benefit cost:		
Interest cost	\$ 3,653	\$ 3,300
Expected return on plan assets	(4,402)	(4,335)
Recognized actuarial loss	2,476	2,914
	\$ 1,727	\$ 1,879

Assumptions

Weighted average assumptions used to determine benefit obligations at December 31:

Discount rate	5.43%	2.81%
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	2.81%	2.43%
Expected long-term return on plan assets	4.60%	4.60%
Rate of compensation increase	N/A	N/A

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 4.60% long-term rate of return on assets assumption used in 2022 and 2021.

	Asset Allocation			December 31	
	Minimum	Target	Maximum	2022	2021
Plan assets					
Weighted average asset allocations, by asset category:					
Equity securities	30%	20%	10%	30%	24%
Debt securities	90	80	70	70	76
				100%	100%

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

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 4.6% annually over long-term periods.

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, 2022				
Money market funds	\$ 182	\$ 182	\$ —	\$ —
U.S. Treasury securities	30,115	30,115	—	—
Mutual funds	69,525	69,525	—	—
	\$ 99,822	\$ 99,822	\$ —	\$ —
 December 31, 2021				
Money market funds	\$ 171	\$ 171	\$ —	\$ —
U.S. Treasury securities	16,583	16,583	—	—
Mutual funds	103,453	103,453	—	—
	\$ 120,207	\$ 120,207	\$ —	\$ —

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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

Cash Flows

Contributions

Contributions expected to be made to the Plan during 2023 total \$8,700.

Estimated Future Benefit Payments

2023	\$	6,861
2024		7,273
2025		7,518
2026		7,764
2027		7,837
2028–2032		39,603

10. 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	
	2022	2021
Employee health benefits	\$ 5,230	\$ 5,886
Workers' compensation	8,754	8,184
Professional and general liability	123,800	106,541
	137,784	120,611
Less current portion of self-insured reserves	33,529	34,629
	\$ 104,255	\$ 85,982

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 Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Self-Insured Reserves (continued)

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, 2022, 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).

The estimated losses on self-insured malpractice claims are discounted at a rate of 1.5% at December 31, 2022 and 2021. 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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Commitments and Contingencies

At December 31, 2022, approximately 17% of the Health System's employees are covered by collective-bargaining agreements. The collective bargaining agreements are set to expire May 31, 2023 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 have not been accrued at December 31, 2022, 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.

12. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows:

	December 31	
	2022	2021
Purpose – various funds for the benefit of the departments, programs, or educational programs of the Health System	\$ 47,966	\$ 46,004
Time restricted – pledges	441	441
Permanent endowments – to be maintained in perpetuity	2,713	2,694
Total net assets with donor restrictions	<u>\$ 51,120</u>	<u>\$ 49,139</u>

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 GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. 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	
	2022	2021
Women’s Board	\$ 1,034	\$ 1,034
Radiology	501	501
Lummis Trust	286	267
Nursing education	171	171
Cleft Palate program	107	107
Lippincott	61	61
Nispel Estate	16	16
Physical teaching and excellence award	13	13
Other	524	524
Total endowments	\$ 2,713	\$ 2,694

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.

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. 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	
	2022	2021
Purpose:		
Various funds for the benefit of the departments, programs, or educational programs of the Health System	\$ 2,972	\$ 2,392
	\$ 2,972	\$ 2,392

13. Other Revenue

Other revenue consists of the following:

	Year Ended December 31	
	2022	2021
Provider Relief Fund grant	\$ —	\$ 15,176
Camden County Relief Fund grant	2,378	3,500
FEMA Disaster Relief Fund grant	25,635	6,969
Other grant revenue	21,669	23,606
Medical school support	7,670	9,309
Food services	6,810	4,976
Centers for population health	5,659	5,200
Retail pharmacy cost sharing	15,401	11,824
Physician services	21,965	15,470
Emergency/air transport	9,164	8,625
Net assets released from restrictions for operating purposes	2,972	2,392
Other	14,409	12,383
	\$ 133,732	\$ 119,430

The Cooper Health System

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

13. Other Revenue (continued)

The Health System received approximately \$54,676 and \$9,215 in government grants which include conditions and restrictions which were not satisfied as of December 31, 2022 and 2021, respectively, and such amounts are reported within deferred revenue on the accompanying consolidated balance sheets. Within the 2022 amount, \$42,710 relates to the New Jersey Emergency Preparedness Grant, a multiyear project for which the Health System is expected to receive an additional \$107,289 in funding for a total grant award of \$150,000.

14. 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, 2022				
Salaries, wage, and fringe benefits	\$ 422,269	\$ 504,957	\$ 204,151	\$ 1,131,377
Supplies and other	398,611	68,722	139,436	606,769
Malpractice	–	19,705	15,798	35,503
Depreciation and amortization	–	1,736	59,513	61,249
Interest	–	–	12,780	12,780
	\$ 820,880	\$ 595,120	\$ 431,678	\$ 1,847,678
Year ended December 31, 2021				
Salaries, wage, and fringe benefits	\$ 364,782	\$ 454,853	\$ 185,941	\$ 1,005,576
Supplies and other	366,009	57,831	131,750	555,590
Malpractice	–	12,905	2,604	15,509
Depreciation and amortization	–	1,386	55,523	56,909
Interest	–	–	12,376	12,376
	\$ 730,791	\$ 526,975	\$ 388,194	\$ 1,645,960

The Cooper Health System

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

15. Subsequent Events

The Health System has evaluated subsequent events through April 21, 2023, the date when the accompanying consolidated financial statements were issued. Except as disclosed below, no subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

In December 2022, the Health System and Cape Regional Health System (Cape Regional) executed a letter of intent wherein the Health System would become the sole member of Cape Regional. The signing of the letter of intent was the first step in a lengthy process. The Health System and Cape Regional are in the due diligence phase and working towards a definitive agreement. The proposed transaction is subject to approvals by both entities' governing bodies and various regulatory agencies. Management of the Health System anticipates that the process to finalize the transaction could be completed in late 2023 or during the first quarter of 2024.

Supplementary Information

The Cooper Health System
Consolidating Balance Sheet
(In Thousands)

December 31, 2022

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 Services, Inc.	Cooper Medical Services, Inc.	All Care Health Alliance, LLC	Eliminating Entries	The Cooper Health System Consolidated
Assets											
Current assets:											
Cash and cash equivalents	\$ 619,429	\$ -	\$ -	\$ 619,429	\$ 13,559	\$ -	\$ -	\$ 22,637	\$ 1,917	\$ -	\$ 657,542
Current portion of assets limited as to use	28,758	-	-	28,758	-	-	-	-	-	-	28,758
Patient accounts receivable, net	188,739	-	-	188,739	-	-	-	-	-	-	188,739
Prepaid expenses and other current assets	86,905	-	-	86,905	-	48	-	412	-	-	87,365
Due from affiliates	11,691	32,356	(32,356)	11,691	-	338	-	12,824	-	(24,853)	-
Total current assets	935,522	32,356	(32,356)	935,522	13,559	386	-	35,873	1,917	(24,853)	962,404
Assets limited as to use:											
Internally designated by Board of Trustees	363,060	-	-	363,060	-	-	-	-	-	-	363,060
Externally designated for donor purposes	-	-	-	-	62,446	-	-	-	-	-	62,446
Externally designated - escrow agreement	15,003	-	-	15,003	-	-	-	-	-	-	15,003
Externally designated - capital grant purposes	42,710	-	-	42,710	-	-	-	-	-	-	42,710
Designated under self-insurance programs, net of current portion	2,406	-	-	2,406	-	-	-	-	-	-	2,406
Assets limited as to use, net of current portion	423,179	-	-	423,179	62,446	-	-	-	-	-	485,625
Property, plant, and equipment, net	695,670	-	-	695,670	-	-	904	12,636	-	-	709,210
Operating lease assets, net	81,666	-	-	81,666	-	-	-	-	-	-	81,666
Other assets, net	12,776	-	-	12,776	418	22	13,073	629	-	-	26,918
Due from affiliates	-	-	-	-	-	-	-	31,422	-	(31,422)	-
Total assets	<u>\$ 2,148,813</u>	<u>\$ 32,356</u>	<u>\$ (32,356)</u>	<u>\$ 2,148,813</u>	<u>\$ 76,423</u>	<u>\$ 408</u>	<u>\$ 13,977</u>	<u>\$ 80,560</u>	<u>\$ 1,917</u>	<u>\$ (56,275)</u>	<u>\$ 2,265,823</u>
Liabilities and net assets											
Current liabilities:											
Accounts payable	\$ 68,583	\$ -	\$ -	\$ 68,583	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,583
Accrued expenses	203,909	-	-	203,909	-	-	-	686	-	-	204,595
Current portion of estimated settlements due to third-party payers	7,066	-	-	7,066	-	-	-	-	-	-	7,066
Current portion of self-insured reserves	33,529	-	-	33,529	-	-	-	-	-	-	33,529
Current portion of long-term debt	7,994	-	-	7,994	-	-	-	1,501	-	-	9,495
Current portion of operating lease liability	16,276	-	-	16,276	-	-	-	-	-	-	16,276
Line of credit advances	41,000	-	-	41,000	-	-	-	-	-	-	41,000
Due to affiliates	32,356	-	(32,356)	-	10,374	-	12,563	-	1,916	(24,853)	-
Total current liabilities	410,713	-	(32,356)	378,357	10,374	-	12,563	2,187	1,916	(24,853)	380,544
Estimated settlements due to third-party payers, net of current portion	39,334	-	-	39,334	-	-	-	-	-	-	39,334
Accrued retirement benefits	1,532	-	-	1,532	-	-	-	-	-	-	1,532
Self-insured reserves, net of current portion	104,255	-	-	104,255	-	-	-	-	-	-	104,255
Long-term debt, net of current portion	220,530	-	-	220,530	-	-	-	36,140	-	-	256,670
Operating lease liability, net of current portion	66,345	-	-	66,345	-	-	-	-	-	-	66,345
Deferred revenue and other liabilities	75,570	-	-	75,570	-	-	-	-	-	-	75,570
Due to affiliates	31,422	-	-	31,422	-	-	-	-	-	(31,422)	-
Total liabilities	949,701	-	(32,356)	917,345	10,374	-	12,563	38,327	1,916	(56,275)	924,250
Net assets:											
Without donor restrictions	1,198,673	32,356	-	1,231,029	15,368	408	1,414	42,233	1	-	1,290,453
With donor restrictions	439	-	-	439	50,681	-	-	-	-	-	51,120
Total net assets	<u>1,199,112</u>	<u>32,356</u>	<u>-</u>	<u>1,231,468</u>	<u>66,049</u>	<u>408</u>	<u>1,414</u>	<u>42,233</u>	<u>1</u>	<u>-</u>	<u>1,341,573</u>
Total liabilities and net assets	<u>\$ 2,148,813</u>	<u>\$ 32,356</u>	<u>\$ (32,356)</u>	<u>\$ 2,148,813</u>	<u>\$ 76,423</u>	<u>\$ 408</u>	<u>\$ 13,977</u>	<u>\$ 80,560</u>	<u>\$ 1,917</u>	<u>\$ (56,275)</u>	<u>\$ 2,265,823</u>

The Cooper Health System

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

Year Ended December 31, 2022

	The Cooper Health System Obligated Group										The Cooper Health System Consolidated
	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 Services, Inc.	Cooper Medical Services, Inc.	All Care Health Alliance, LLC	Eliminating Entries	
Net assets without donor restrictions											
Revenue:											
Net patient service revenue	\$ 1,843,537	\$ -	\$ -	\$ 1,843,537	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,843,537
Other revenue	131,423	-	-	131,423	4,265	-	346	7,439	1,916	(11,657)	133,732
Total revenue	1,974,960	-	-	1,974,960	4,265	-	346	7,439	1,916	(11,657)	1,977,269
Expenses:											
Salaries, wages, and fringe benefits	1,131,377	-	-	1,131,377	-	-	-	-	-	-	1,131,377
Supplies and other	606,855	-	-	606,855	4,550	6	235	4,864	1,916	(11,657)	606,769
Malpractice	35,503	-	-	35,503	-	-	-	-	-	-	35,503
Depreciation and amortization	60,450	-	-	60,450	-	-	40	759	-	-	61,249
Interest	11,590	-	-	11,590	-	-	4	1,186	-	-	12,780
Total expenses	1,845,775	-	-	1,845,775	4,550	6	279	6,809	1,916	(11,657)	1,847,678
Operating income (loss)	129,185	-	-	129,185	(285)	(6)	67	630	-	-	129,591
Nonoperating gains and (losses):											
Investment income	13,696	-	-	13,696	904	-	-	65	1	-	14,666
Net change in unrealized gains and losses	(37,299)	-	-	(37,299)	(11,899)	-	-	-	-	-	(49,198)
Change in value of equity method investments	-	-	-	-	-	-	(1,848)	1,610	-	-	(238)
Gain on sale of interest in joint venture	-	-	-	-	-	-	-	20,000	-	-	20,000
Net periodic pension cost	(1,727)	-	-	(1,727)	-	-	-	-	-	-	(1,727)
Change in fair value of interest rate swap agreements	17,226	-	-	17,226	-	-	-	-	-	-	17,226
Other losses	(8,256)	-	-	(8,256)	-	-	-	-	-	-	(8,256)
Excess (deficiency) of revenue over expenses	112,825	-	-	112,825	(11,280)	(6)	(1,781)	22,305	1	-	122,064
Other changes in net assets without donor restrictions:											
Change in pension benefit obligation	1,921	-	-	1,921	-	-	-	-	-	-	1,921
Contributions received and expended for capital acquisitions	50,364	-	-	50,364	-	-	-	-	-	-	50,364
Net change in unrealized gains and losses on fixed-income other-than-trading securities	(4,581)	-	-	(4,581)	-	-	-	-	-	-	(4,581)
Increase (decrease) in net assets without donor restrictions	160,529	-	-	160,529	(11,280)	(6)	(1,781)	22,305	1	-	169,768
Net assets with donor restrictions											
Contributions, gifts, and special events, net of fundraising expenses	-	-	-	-	4,408	-	-	-	-	-	4,408
Income from investments	-	-	-	-	497	-	-	-	-	-	497
Net realized and unrealized gains on investments	-	-	-	-	48	-	-	-	-	-	48
Net assets released from restrictions for operating purposes	-	-	-	-	(2,972)	-	-	-	-	-	(2,972)
Increase in net assets with donor restrictions	-	-	-	-	1,981	-	-	-	-	-	1,981
Increase (decrease) in net assets	160,529	-	-	160,529	(9,299)	(6)	(1,781)	22,305	1	-	171,749
Net assets, beginning of year	1,038,583	32,356	-	1,070,939	75,348	414	3,195	19,928	-	-	1,169,824
Net assets, end of year	\$ 1,199,112	\$ 32,356	\$ -	\$ 1,231,468	\$ 66,049	\$ 408	\$ 1,414	\$ 42,233	\$ 1	\$ -	\$ 1,341,573

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